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Folder Title: The President's Trip to Denver, Colorado for the Summit of the Eight, June 19-22, 1997 [1]				
Staff Office-Individual: Executive Secretary				
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Secretary of State Madeleine Albright to President William J. Clinton re: The Denver Summit of the Eight, June 20-22 (4 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
002. memo	Secretary of the Treasury Robert Rubin to President William J. Clinton re: Economic Issues at the Denver Summit (3 pages)	06/17/1997	P1/b(1) KBH 8/29/2019
003. paper	Meeting with Prime Minister Ryutaro Hashimoto (4 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
004. talking points	Points to be Made with Prime Minister Hashimoto of Japan (3 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
005. paper	Meeting with Italian Prime Minister Romano Prodi (3 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
006. talking points	Talking Points for Meeting with Italian Prime Minister Prodi (5 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
007. paper	Bilateral with Russian President Yeltsin (3 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
008. talking points	Points to be Made in Meeting with Russian President Yeltsin (4 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
009. paper	Meeting with French President Jacques Chirac (4 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
010. talking points	Points to be Made for Meeting with French President Chirac (3 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
011. paper	Background on Bosnia Peace Implementation (1 page)	06/00/1997	P1/b(1) KBH 8/29/2019
012. paper	Saturday Morning Session I. Discussion Paper. Ongoing Global Agenda (3 pages)	06/00/1997	P1/b(1) KBH 8/29/2019

COLLECTION:

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FOLDER TITLE:

The President's Trip to Denver, Colorado for the Summit of the Eight, June 19-22, 1997
 [1]

2016-0141-M
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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
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- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
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OF CLASSIFIED ATTACHMENTS

Initials: KRM Date: 3/6/2019

2016-0141-M



**THE PRESIDENT'S TRIP TO
DENVER, COLORADO
FOR THE SUMMIT OF THE EIGHT**

JUNE 19-22, 1997

Office of the Executive Secretary

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June

19-22,

1997

Denver

DENVER SUMMIT OF THE EIGHT
BRIEFING BOOK
JUNE 19-22, 1997

INTRODUCTION

Schedule of Key Events
Scope Memorandum
Memorandum from Secretary Albright
Memooranda from Secretary Rubin

SCENESETTER

BILATERAL MEETINGS

Meeting with Prime Minister Hashimoto
Meeting with Prime Minister Prodi
Meeting with President Yeltsin
Meeting with President Chirac
Meeting with Prime Minister Blair

FRIDAY WORKING DINNER -- OVERVIEW AND KEY POINTS

(Topics: Domestic and International Development Since Lyon,
Bosnia)

SATURDAY MORNING I -- OVERVIEW AND KEY POINTS

(Topics: Africa, Ongoing Global Agenda, Infectious Diseases)

SATURDAY MORNING II -- OVERVIEW AND KEY POINTS

(Topic: Environment)

SATURDAY LUNCH -- OVERVIEW AND KEY POINTS

(Topics: Globalization and Economic Growth, Aging)

SATURDAY AFTERNOON (G-7) -- OVERVIEW AND KEY POINTS

(Topics: Macroeconomic Prospects, Financial Stabilization and
Ukraine/Chornobyl)

SUNDAY MORNING -- OVERVIEW AND KEY POINTS

(Topics: Political Issues: Democracy, China/Hong Kong and
Middle East)

COMMUNIQUE

STATEMENT

CONTINGENCY POINTS

Prime Minister Chretien
Chancellor Kohl
EU Commission President Santer

BIOGRAPHIES

THE WHITE HOUSE

WASHINGTON

June 16, 1997

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL R. BERGER 
DANIEL K. TARULLO 

SUBJECT: Your Trip to Denver for the Summit of the Eight

OVERVIEW

You host the Summit from a position of strength. Compared to the last time the United States played host, in 1990 at Houston, or to your first attendance at a Summit, in 1993 at Tokyo, the U.S. economy has been immeasurably strengthened. In the last four years you have led the world in supporting reform in Russia and integrating it into the ongoing work of the community of democracies, symbolized this year by President Yeltsin's fuller participation in the Summit. Thus you are in a position to build on these accomplishments to address the economic and security challenges of the next century.

Since Lyon, the relative positions of the Eight have changed significantly. Six of our eight countries have held elections. The European countries in particular have evidenced a good deal of policy and political uncertainty, compounded by their intense focus on European Monetary Union and other intra-European questions. Even in the preparatory work for the Summit, we encountered extreme caution, bordering in some cases on paralysis, in moving ahead with new initiatives. The very weakness of some of the other leaders may cause them to try to score some points at home by leveling criticism at the United States on some areas of disagreement, such as climate change policy and United Nations arrears. There also is the possibility of some private disagreement on NATO (3 vs. 5), and Iran.

THE DENVER AGENDA

You arrive **midday Thursday** in Denver and deliver a economic speech before a large audience at a high-tech company that embodies the recent economic successes of Denver. **Thursday evening** you will attend a reception with the Host Committee for Summit.

Friday afternoon you have bilaterals with President Yeltsin, President Chirac, Prime Minister Prodi, [[Prime Minister Hashimoto]], and [[Prime Minister Blair]].

Friday evening begins with a reception for the Leaders and Ministers of the Eight, to which prominent Denver citizens have also been invited. Then the Summit proper begins with a Leaders dinner, for the first time including Yeltsin. The agenda for this first discussion includes a review of recent domestic and international developments, as well as Bosnia.

The **Saturday morning sessions** will focus on Africa, the ongoing global agenda (crime, drugs, terrorism, etc.), our initiative on infectious diseases and an AIDS vaccine, and the environment.

The **Saturday lunch** will address two big social and economic problems faced by our countries, structural reform in response to globalization and aging populations. The former will include some discussion of job growth in small and medium sized enterprises.

Saturday afternoon is the only G-7 session of the summit, and thus the only session that Yeltsin will not attend. The agenda will include macroeconomic issues, the financial stabilization agenda, and post-Chernobyl assistance for Ukraine.

Dinner and the entertainment on **Saturday evening** are social occasions, for which there is no Summit-related agenda.

Sunday morning is devoted to foreign policy issues. Principal attention will be given to promoting democracy, Hong Kong's reversion to China, and the Middle East peace process.

OBJECTIVES

Your first objective for the Summit is to highlight the change in our position from economic laggard to economic leader since the United States last hosted a summit, in Houston in 1990. When you first attended a summit, in Tokyo in 1993, the U.S. budget deficit was identified by your counterparts as a major threat to world growth. Our unemployment rate was over 7%. Under your leadership the deficit has been more than halved -- it will be less than 1% of GDP this year. Unemployment is under 5% for the first time in a generation, more than 12 million jobs have been created since you took office, and inflation is at a thirty-year low. Thus you have great credibility in urging Europe to adopt the structural reforms necessary for sustained growth and employment increases, and in urging Japan to promote domestic

demand-led growth as its engine for economic growth (rather than simply exports).

Your second objective is to smooth Yeltsin's expanded participation at the Summit. His presence from the outset is itself a reflection of the progress we have made in restructuring international economic and security relations in the last four years. To complete this transition, though, he should be encouraged to participate more as a full member involved in the give-and-take of all the leaders, and less an object of attention from the other seven as something of an outsider. The qualification here, of course, is that we have preserved the G-7, albeit in a truncated format at the Leaders' level. While there is some awkwardness in this arrangement, Russia is still in a fundamentally different position than the others with respect to exchange rate policies and is a debtor, rather than creditor, of the international financial institutions. Hashimoto will be particularly concerned that no further lines be crossed at this Summit toward Russia's membership in the G-7. Thus you should try to deflect any proposals in this direction by Yeltsin by offering ideas that give him a sense of an increased role without altering current arrangements (e.g., countering a proposal to host the Summit in Moscow in a few years with a proposal for a Ministerial there).

A third objective is to consolidate the global agenda of the Eight on the new security challenges. You have almost single-handedly thrust this agenda onto the world stage. In the Eight, we have moved from quarrels a few years ago as to whether this was an appropriate group to handle such issues to solid, ongoing efforts on crime, terrorism, and nuclear safety and security. We will launch an initiative on infectious diseases this year. The Eight is the right group to draw the blueprint for organizing the world to deal with these challenges in the coming years. Your discussion of these items with your counterparts has, in the past, trickled down into less bureaucratic resistance to our initiatives from the other governments. Now we have a chance to consolidate their commitment to continuing cooperation.

A fourth objective is to press for the other countries to agree to negotiate environmental guidelines for their export credit agencies. While some of the others have pressed us on grand, long-term commitments on climate change, they have been unwilling to make practical commitments to ensure that their government-funded exports are not contributing to environmentally destructive activities abroad. We successfully urged such

guidelines on the World Bank a few years ago, and our Ex-Im Bank has adopted a similar approach.

A fifth objective is to enlist financial support from the rest of the G-7 for funding a sarcophagus for the now decommissioned Chernobyl reactor in Ukraine. Japan and Canada have been reluctant to commit significant sums, and the Europeans have tried to play an accounting game to lessen their contributions under the formula used at Naples the last time we had to provide assistance. We aim for the G-7 to provide half the \$600 million that Ukraine will need in outside assistance. Of this \$300 million, we have already committed to provide \$65 million.

With respect to other foreign policy matters, you have several objectives. First, you will want to enlist the support of your counterparts for a joint statement in support of measures needed to create a self-sustaining peace in Bosnia. This focus will advance your efforts to concentrate less on when the United States military will leave Bosnia and more on what we should be doing now to create the conditions for a lasting peace.

Second, you should try to obtain the strongest possible consensus on the expectations of the Eight for adherence by China to its commitments upon the reversion of Hong Kong. This is important both as a domestic matter, with the House vote on China MFN slated for the week after the Summit, and as a foreign policy matter, in order to project a common set of expectations to China, and thereby increase the likelihood of a smooth transition.

Third, to the extent others (Chirac) raise it, you will want to reiterate the case for a smaller first wave enlargement of NATO.

Fourth, while recognizing the potential benefits of the election in Iran, you will want to bear in mind that the Khobar investigation is ongoing and that a concerted policy is needed.

DISTRACTIONS AND CHALLENGES

Within the Summit agenda itself, differences among the Eight are generally those of emphasis, rather than of fundamentals. An exception is on several environmental issues -- particularly climate change, a forest convention, and the export credit initiative mentioned above. With respect to climate change, the European countries and the European Union have been pressing for commitments for substantial, early reductions in emissions of greenhouse gasses. It is unclear whether the Europeans actually would want their position adopted, or whether they would all

comply with it. Some, such as the United Kingdom, clearly would. And it is clearly the case that we have done less to control greenhouse gas emissions than they have. However, with the United States so firmly exercising leadership on most economic and political matters, there may also be a search for an issue on which they can try to seize leadership from us.

You should emphasize your understanding of the magnitude of the global warming problem and your commitment to take action on it, but suggest that premature or unrealistic commitments to specific actions would actually harm the medium-term prospects for important U.S. contributions to resolving the problem. You can also reiterate what many of the others have trouble acknowledging -- that despite the historic role of the OECD countries in emitting greenhouse gasses, the developing countries will, in the next century, be both the greatest contributors to, and sufferers from, global warming.

A second problem area is a fairly minor item on the Summit agenda itself -- UN reform. However, as you know, the subject of our arrears has been a continuing source of complaints by other leaders. The recent action by the Foreign Relations Committee has produced a response among other countries, and the UN itself, that is at best ambivalent. While most welcome the prospect of \$800-900 million in arrears payments, they resent the unilateral imposition of conditions for us to pay what we already owe, and wonder aloud why we are not paying in full. You will want to emphasize the significance of what we achieved in obtaining agreement for this funding, suggest that the reform conditions are reasonable, and urge cooperation from your counterparts in reducing our share of UN funding. The alternative is long-term financial uncertainty for the UN.

DENVER SUMMIT OF THE EIGHT
JUNE 19-22, 1997

(SUMMARY SCHEDULE)

I. FRIDAY: WORKING DINNER (Eight)

Domestic and International Developments since Lyon (Yeltsin)
Bosnia (Chirac)

II. SATURDAY MORNING I

Africa
Economics (Chirac)
Political/Peacebuilding (Chretien)
Ongoing Global Agenda
Terrorism (Hashimoto)
Drugs (Chirac)
Crime (Prodi)
Nuclear Safety (Chretien)
UN Reform (Yeltsin)
Infectious Diseases (Your lead)

III. SATURDAY MORNING II

Environment (Kohl)
Climate (Hashimoto)

IV. SATURDAY LUNCH

Globalization and Economic Growth
Structural Reform (Blair)
Small and Medium Size Enterprise Job Creation (Prodi)
Aging (Hashimoto)

V. SATURDAY AFTERNOON (G-7)

Macroeconomic Prospects
European Monetary Union (Santer)
Financial Stabilization (Kohl)
Ukraine/Chornobyl (Your lead)

VI. SUNDAY MORNING

Democracy (Kok)
China/Hong Kong (Blair)
Middle East (Your lead)

Scope Memorandum

**Secretary Albright
Memorandum**

THE SECRETARY OF STATE
WASHINGTON

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DECL: 06/23/2007

DECLASSIFIED
PER E.O. 13526

2016-0141-M (1.01)
3/6/2019 KBH

MEMORANDUM FOR THE PRESIDENT

FROM: Madeleine K. Albright *MLK*

SUBJECT: The Denver Summit of the Eight, June 20-22

The Denver Summit is a high-visibility opportunity for you to demonstrate how the United States and its core democratic partners are harnessing forces of change and globalization in ways that are of direct and tangible advantage to our citizens. At Denver you and your colleagues can lay a strong foundation for our partnership in the 21st century by showing how the world's key democracies are preparing our people and our economies for the challenges of the global marketplace; meeting transnational threats to our security; and integrating new partners into the broader community of free market democracies. This message will be visibly and dramatically underscored by the participation of Boris Yeltsin. The Summit will also give you an opportunity to consult individually with key Summit partners on the eve of the turnover of Hong Kong and the NATO Madrid Summit July 8-9.

A major story in Denver will be Russia's expanded role. Only one leaders' session will be held "at Seven"; Yeltsin will participate in all others. Russia's role at future Summits remains undecided; the Japanese in particular believe full Russian membership is premature. The UK, host of next year's Summit, is leaning toward replicating this year's structure. You can reassure Hashimoto that while we support an expanded Russian role and want to give Yeltsin enough room to claim progress, we continue to believe core financial and economic issues and some questions of nuclear safety should remain at "Seven."

The Summit will launch two new U.S. initiatives. The first is a joint commitment by the Eight to strengthen democracy where it has taken hold and extend its reach where it has not by taking action in four priority areas: promoting

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Reason: E.O. 12958 1.5 (b) and (d)

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good governance and the rule of law, including anti-corruption efforts; strengthening civil society; expanding women's political participation; and boosting business and labor support for democracy and human rights. Looking to the 50th anniversary of the Universal Declaration of Human Rights next year, you can propose a U.S.-chaired Working Group that will set the stage for a number of high-profile events showcasing your leadership in this area over the coming year and that will report recommendations to the May 1998 Birmingham Summit.

Second, the Eight will unveil a joint strategy to reverse Africa's marginalization, promote its integration into the global economy, and strengthen indigenous African peacekeeping and conflict resolution capacities. While our partners are in broad agreement with the economic elements of the initiative, some shy away from conditioning aid or trade preferences on market reforms. You should press the Eight to take concrete steps to help those who are trying to help themselves. Differences also remain on the question whether the Eight should support creation of a UN forum on African peacekeeping, including a joint coordinating body. France and the UK have delayed final agreement pending consultations with the OAU and African leaders, and Germany believes such an initiative is premature. Our compromise proposal is to endorse the establishment of an African Peacekeeping Support Group at the UN and to urge interested countries to explore mechanisms for coordination of practical activities. In the end, you may need to press for agreement.

On the environment, you will need to manage expectations, particularly those of Chancellor Kohl, who wants to use his trip to the United States -- including Denver and the UN General Assembly Special Session on Environment and Development in New York -- to showcase to domestic German audiences his global environmental leadership. Kohl has asked to lead the discussion on environmental issues, and is likely to press for "deliverables" on climate change, forests, and creation of a new World Environmental Organization. We share the Chancellor's priorities but differ on tactics and modalities. On climate change, the Germans and the EU advocate an unrealistic goal of reducing greenhouse gas emissions fifteen percent from 1990 levels by the year 2020. You should urge them to leave the details to the climate change negotiations while Summit leaders advocate meaningful but realistic reduction targets. On forests, you should resist any German or EU push for an international convention, noting we and environmental NGOs believe it would end up a "lowest common denominator" document and of little value. And rather than create a new organization we believe it would be more effective and efficient to reform UNEP.

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We are proposing a strong separate statement on Bosnia, to be announced by you after Friday's dinner, that presses for significant acceleration of peace implementation efforts by all parties and reaffirms the willingness of the international community to assist as long as results are forthcoming. The Bosnia war criminal issue needs to be discussed on the margins. Rather than a meeting of the Five, as in Paris, it is less potentially risky and embarrassing to do it in bilaterals or on the margins. A clear statement of support for the Middle East Peace Process would also help at this sensitive moment. A concerted call for Iran to cease its dangerous and disruptive behavior would be useful, but Russia does not want to single out Iran in terms harsher than in the Lyon Communiqué, and some allies advocate a more conciliatory posture based on Iran's recent elections. We are trying to find bridging language that meets everyone's needs, including ours, but you may need to work to maintain pressure on Iran until its actions argue otherwise. On Hong Kong, you should seek a clear statement by the Eight holding China to its commitments to preserve Hong Kong's autonomy, way of life, fundamental freedoms and rule of law, and pressing for democratic elections as soon as possible.

Your bilateral meetings will also be critical, particularly to set the stage for the July 8-9 NATO Summit in Madrid. NATO will be an important topic with every Partner, even the Japanese, who have registered interest in the NATO-Russia Founding Act.

You should encourage Yeltsin to participate in an inaugural session of the NATO-Russia Permanent Joint Council on the second day of the Madrid Summit. You can praise him for tackling politically sensitive economic issues at home and for Russia's recent diplomatic breakthroughs with Ukraine, Moldova and others. You can reaffirm our intention to follow through on our Helsinki commitments and review Russia's progress toward fulfilling WTO and Paris Club accession requirements, and should press Yeltsin to follow through on the promises made in Helsinki and Paris on START II, CWC, and limiting military and nuclear cooperation with Iran. If he cites the importance of an early framework agreement on CFE, you should stress that Russian negotiators have not yet shown flexibility in Vienna.

Denver will be the place to build a decisive core of allies in favor of inviting three new members to join the Alliance at Madrid. Securing German, British, Dutch and Canadian agreement on three will be essential to your discussions with Prodi and especially Chirac. You will need

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to be firm on your own reasons to hold to three when Prodi and Chirac push for Slovenian and Romanian membership. At the same time, you can suggest that we work together, with France and Italy in the lead, on a joint strategy to reassure Romania and Slovenia, underscore our common interest in focusing greater Alliance attention on promoting long-term stability in southeastern Europe, and in particular encourage closer cooperation on Albania, where elections are set for June 29. Managing the political optics of the "who" decision is an important concern for our European allies, so even if you are able to secure agreement on three, you should not be surprised if Chirac, Prodi and Kohl fail to give such agreement public support -- yet.

You can remind Chirac that it would be most unfortunate to miss the historic opportunity before us at Madrid for deeper French involvement in a new NATO. But if, as we expect, he is not ready to deal with AFSOUTH, you should signal our readiness to go forward at Madrid with the many other aspects of NATO's internal adaptation to which we have already agreed. You will also want to reaffirm your desire to avoid a clash over investments in Iran, but note we will need to respond if the oil firm Total decides to invest there in violation of U.S. law.

With the Dutch and the EU you also should express your pleasure that Mutual Recognition Agreements (MRA) negotiations have been successfully completed.

You should emphasize to Chretien our intention to get salmon negotiations on track, the need for Ottawa to deal quickly with British Columbia on the Nanoose lease issue and, time permitting, the need for joint action on transnational telemarketing fraud. Discussions with Hashimoto are an opportunity to endorse the Defense Guidelines interim report and to press Japan to negotiate a liberal aviation agreement.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 17, 1997

**DECLASSIFIED
PER E.O. 13526**

2016-0141-M (1.02)
3/6/2019 KBH

MEMORANDUM FOR PRESIDENT CLINTON

FROM: Robert E. Rubin *R. E. R.*
SUBJECT: Economic Issues at the Denver Summit

This note highlights several key economic issues that will be discussed by Heads of State and Finance Ministers in Denver.

Macroeconomic Prospects in the G-7

The Denver Summit will provide another opportunity to highlight the U.S. economy's remarkable performance. The current economic expansion continues unabated, while inflation remains moderate. Unemployment is at its lowest rate in nearly 25 years and our budget deficit should fall below 1% of GDP this year.

The economic situation of our G-7 partners appears to have brightened somewhat, but significant downside risks remain.

- Europe appears to be in disarray as it attempts to finalize preparations for the planned start of monetary union (EMU) in 1999. The new French government has stated its opposition to new austerity measures given high levels of unemployment. The German government, which has in the past taken a hard line on the EMU membership criteria, now faces serious difficulties if it is to reduce its deficit to 3% of GDP. The political will to push forward with EMU remains strong, but it is unclear how the differing visions of France and Germany can be reconciled.
 - We are concerned that preparations for EMU not divert Europe's attention from critical issues such as structural reforms to promote jobs and EU enlargement.
- We remain concerned about the possibility of a significant increase in Japan's current account surplus. Japan's trading partners and the world trading system as a whole have a major stake in seeing Japan achieve strong domestic demand-led

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Classified by: Timothy Geithner, Senior Deputy Assistant Secretary,
International Affairs
Reason: 1.5 (d)
Declassify on: June 17, 2007

economic growth. While we recognize the need for fiscal consolidation in Japan, we believe that current plans for drastic deficit reduction pose unnecessary risks for domestic demand growth. We want Prime Minister Hashimoto to be prepared to take additional policy actions as necessary to insure sufficient domestic demand growth.

Foreign Exchange Markets

We do not expect foreign exchange issues to be a major focus of discussion in Denver. In general, the G-7 seem comfortable with recent developments in exchange markets.

- We will continue to cooperate with our G-7 partners to promote stability in foreign exchange markets.

Globalization

Globalization will once again be a major economic theme of the Summit. This year's discussion will concentrate on how we can best deal with the pressures posed by increasing integration and other structural changes. This discussion will be most fruitful if it focuses on the steps we can take to enable our economies to adapt to structural changes and become more dynamic.

- Both the Blair government and our Administration are focusing on the importance of education and job training to insure that all people possess the skills and training necessary to thrive in the global economy. The 1998 UK jobs conference will examine this issue carefully.

It is important that we avoid a narrow focus on the risks posed by globalization, as this could complicate our efforts to gain fast-track authority later this year:

Financial Stability

Given the increasingly integrated nature of global financial markets, financial stability requires international cooperation. The G-7 Heads and Finance Ministers have provided an important impetus for international efforts in this area, and we believe that continued progress will require our active support.

The report submitted by G-7 Finance Ministers lays out a comprehensive action plan for strengthening safeguards against risk in the international financial system. The most important features of this plan are:

- Continued international cooperation on the regulation and supervision of global financial institutions to ensure that our regulatory systems keep abreast of the rapid pace of change in international financial markets.

- An initiative that has helped to shape a global consensus on steps to strengthen the financial systems of emerging market economies. Attention will now focus on implementation of the report's recommendations.

Fostering Development

The Summit will also provide us with an opportunity to gain multilateral support for our efforts to promote development in Africa and other regions of the world.

- The Administration's *Partnership for Economic Growth and Opportunity with Africa* takes concrete steps to help integrate African nations in the global economy and to reorient America's economic relations with Africa from one based largely on aid to characterized by mutually beneficial trade and investment. Together with our Summit partners, and with the critical support of the international financial institutions (IFIs), we will ensure that African countries committed to reform have the resources and market access that they need to carry through with their efforts successfully.
- The Summit will provide us with an opportunity to encourage our G-7 partners to join us in taking strong measures to combat international corruption and promote good governance. Criminalizing and eliminating the tax deductibility of bribery abroad, together with improved procurement rules and increased anti-corruption efforts by the IFIs, will promote development and the growth of democratic institutions.

Integrating Russia in the Global Economy

We support efforts to integrate Russia in the global economy and welcome President Yeltsin's participation in the Summit.

- We have actively encouraged Russia to implement the measures necessary for it to become a member in the Paris Club and WTO.

We nevertheless believe that there are strong grounds for maintaining an ongoing and separate G-7 finance ministers process.

- As a major borrower of the IMF, Russia's interests in the international financial institutions (IFIs) are clearly different than those of the G-7. The G-7 remains a critical forum for the major industrialized nations to provide global leadership on the management of the IFIs.
- The highly integrated financial markets of the G-7 require close cooperation on issues related to financial stability and exchange rates. At present, Russia's level of financial development precludes its cooperation on these issues and could undermine our ability to reach consensus.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 17, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin *RE*

SUBJECT: G-7 Finance Ministers' Report to Heads of State
and Government on Promoting Financial Stability

I am pleased to convey that, in association with our G-7 partners and the international financial community, we have made considerable progress in the implementation of the Lyon Summit objectives on promoting financial stability. Attached is our report describing our achievements since Lyon and proposals to carry this process forward.

The most important results of this process so far are the following:

- We have developed a strategy to strengthen financial systems in emerging economies. This is important because weak financial systems, as we learned in Mexico, can precipitate and exacerbate economic crises. This strategy includes agreement on a single, universal set of guidelines and principles for strong financial regulation and a plan for mobilizing the World Bank, the IMF, and the international regulatory community to help countries put these standards in place.
- We have also reached agreement on a set of proposals for reducing risk in the major financial centers, through steps to establish a global network of supervisors and regulators to enhance oversight of the major global financial institutions and markets, and to improve transparency and disclosure.
- We have reached agreement on an important report on the international implications of electronic money, which outlines a consensus on a framework of principles for guiding national approaches to these emerging electronic payment technologies, based on a market-based approach which plays well to our strengths in financial services and information technology.

These efforts are part of an ongoing process to strengthen the global financial system which you initiated in Naples and Halifax. Looking forward, we will focus on implementation of these proposals, particularly in the area of strengthening standards in emerging markets and enhancing cooperation among supervisors in the major financial centers.

PROMOTING FINANCIAL STABILITY

Executive Summary

At the request of the Heads of State and Government in Lyon, the G-7 Ministers of Finance are pleased to report on the extensive progress that has been achieved in promoting the stability of the global financial markets in the four areas delineated in the Lyon Summit Communique¹:

International Regulatory Cooperation

- Supervisors¹ have developed a set of proposals for enhancing cooperation in the supervision of globally-active financial institutions on an on-going basis and in emergency situations.
- Supervisors have made substantial progress toward agreement on a framework of supervisory principles for globally-active financial institutions, including techniques to assess capital adequacy.

Risk Management and Market Transparency

- Supervisors have studied the organizational and management structures of selected globally-active financial conglomerates, developed supervisory tools to better understand their risk management processes, and are expanding guidance on sound risk management systems.
- Supervisors have taken steps to enhance disclosure practices by financial firms and to improve the information firms provide to supervisors and regulators.
- G-10 Central Banks have taken steps to reduce settlement risk in foreign exchange transactions and, together with IOSCO, in securities settlement systems.

Prudential Standards in Emerging Economies

- The Working Party on Financial Stability in Emerging Market Economies, comprised of representatives from the G-10 countries and emerging market economies, issued a report recommending a concerted international strategy to assist emerging economies in strengthening their financial systems based on a set of broad principles and practices. The working party proposes roles for international regulatory bodies, international financial institutions, and for providers of technical assistance, while emphasizing the ultimate responsibility of national authorities in emerging market economies, the need for sound macroeconomic policies, and the importance of open, competitive, and transparent

¹ The term "Supervisors" is meant to refer broadly to national supervisory and regulatory authorities, and, where applicable, to organizations of supervisors, including the Joint Forum on Financial Conglomerates, or its sponsoring bodies, the Basle Committee on Banking Supervision, the International Organization of Securities Commissions ("IOSCO") and the International Association of Insurance Supervisors ("IAIS").

markets.

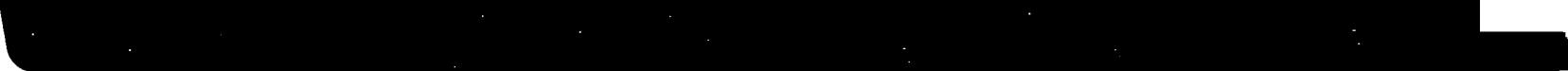
- The Basle Committee, in cooperation with 15 key emerging economies, developed a set of "Core Principles for Effective Banking Supervision," which will contribute significantly to the adoption of improved prudential standards worldwide, particularly in emerging markets.

Electronic Money

- The G-10 Working Party on Electronic Money reached agreement on a set of broad objectives and key considerations to help guide national approaches to emerging electronic payment technologies, including the need for transparency, financial integrity, technical security, and evaluations of vulnerabilities to criminal activity.

Looking Forward

Looking beyond the Denver Summit, G-7 Finance Ministers urge that efforts to strengthen the international financial system continue. We have identified two areas warranting particular effort. In the area of enhancing cooperation among supervisors of globally-active financial institutions, we have encouraged international regulatory bodies and national supervisors to reach agreement and implement their proposals for enhanced cooperation. We are also undertaking an assessment of the impediments to information sharing that have been identified. With respect to strengthening financial systems and prudential supervision in emerging economies, we have asked the G-10 Deputies, in collaboration with emerging market representatives, to review implementation of the strategy proposed by the working party. We have also called on the international regulatory bodies, the IMF and the World Bank to report to Finance Ministers next April on their contributions to this process.



SCENESETTER: DENVER

Situated on the high plains at the foot of the majestic Rocky Mountains, **the city of Denver** was born during the great "Pikes Peak or Bust Gold Rush" of 1859. In its first few years, saloons, gambling halls and wagon trails lined the mud-filled streets, and every outlaw, lawman and desperado in the West made a visit to the Mile High City. At the turn-of the century, the wealth of the mountains poured into parks, fountains, statues, tree-lined streets and elaborate mansions -- Denver became the "Queen City of the Plains."

Friday's Reception with Leaders will be held at the Governor's Mansion, a three-story, red, brick house built in 1908. Governor Romer and his wife, Bea, have lived at the mansion since January 1987. The main entrance hall reveals the elegance of the mansion's furnishings, which include works of art from France, Italy and China. A grand stairway leads to Governor Romer's private quarters on the mansion's upper floors.

The Phipps Mansion, where **Friday night's cocktails and dinner** will be held, is the former estate of Lawrence Phipps, a U.S. Senator who represented Colorado in the 1920s-30s. Set on over five acres of grounds designed by one of America's foremost landscape architects, the mansion features gardens, fountains and expansive lawn areas.

Summit working sessions will take place at the Denver Public Library, which offers a breathtaking view of the Denver skyline and the Rockies. From its distinct and colorful postmodern facade to its fossil embedded limestone floors, this recently renovated building has received critical worldwide acclaim. The Library houses a world renowned Western History Collection as well as Albert Bierstadt's famous 1877 oil painting "Estes Park."

Saturday's dinner will be held at the Fort Restaurant, along the front range of the Rockies and overlooking Denver and its suburbs. The restaurant is designed after Bent's Fort, the first trading post located in southeastern Colorado along the Santa Fe Trail. Opened as a restaurant in 1963, the Fort is known for its menu of game including buffalo, elk and rattlesnake.

Saturday evening entertainment will be held at the National Western Events Center, a state of the art facility that was built in 1994 as an addition to the National Western Complex.

**BILATERAL
MEETINGS**

**Prime Minister
Hashimoto Meeting**

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MEETING WITH PRIME MINISTER RYUTARO HASHIMOTO

KEY OBJECTIVES

Security Issues

- Welcome the positive reception by Japanese public of Defense Guidelines Interim Report; urge completion by fall.

Economic Issues

- Express concern about recent rise in Japan's current account surplus.
- Press for quick resolution of FedEx problem; reiterate commitment to open skies, but state willingness to consider transition agreement that results in open skies.

Regional/International Issues

- Listen to Hashimoto's concerns about Russian entry into G-7.
- Provide update on Korean peninsula situation.
- Update Hashimoto on our efforts to engage China; note Hashimoto's proposed trip to Beijing in September.

CONTEXT OF MEETING

From a Japanese perspective the G-7/Summit of the Eight offers the only opportunity for the Prime Minister to meet collectively with world leaders. As a consequence, the press reports every detail of Hashimoto's interaction with other leaders. Since there has been a Japan-U.S. bilateral at every G-7 summit, Tokyo feared the absence of a meeting would be portrayed by the press as a sign of a negative shift in relations.

Hashimoto's Objectives. Hashimoto continues to want to develop a special relationship with you. He was pleased with the April meeting, particularly the personal attention you gave him by inviting him to the residence. In addition to the political bounce he receives from his visible association with you, substantively he will want to discuss the Defense Guidelines Review and his concerns on Russia's integration into G-7.

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Japanese Domestic Politics. While the Defense Guidelines do not require Diet approval, Hashimoto needs to build a consensus among the political parties to secure Diet support for new legislation to implement Guidelines recommendations. One of the significant shortfalls of the 1978 Guidelines was the lack of implementing legislation to carry out agreed upon actions in the event of hostilities.

In your April meeting, you expressed concern that under current plans Japan's current account surplus would rise from \$66 billion in 1996 to a projected \$88 billion in 1997, and \$126 billion in 1998. This would bring Japan's surplus close to its level in 1993. Hashimoto rejected our projections and countered by noting that, in the long run, the surplus would balance out. In the two months since, the Japanese trade surplus has doubled from a year ago.

AGENDA

SECURITY ISSUES

Defense Guidelines Review. The April 1996 Joint Security Declaration committed both countries to revise our bilateral Defense Guidelines to allow greater military cooperation in Japan's defense and in response to regional contingencies such as Korean peninsula hostilities. On June 7, we jointly released the Defense Guidelines Review Interim Report.

The Interim Report outlines U.S.-Japan bilateral defense cooperation in three areas: peacetime cooperation (to shape the security environment), cooperation in the defense of Japan, and cooperation for regional contingencies. The Interim Report is designed to help shape Japan's domestic debate and build consensus for the necessary Japanese legislation that will flow from the final report.

ECONOMIC ISSUES

Japan's Surplus. We remain concerned that Japan's fiscal plans will contribute to a continuing rise in Japan's current account surplus and may lead to an increase in U.S.-Japan trade tensions.

You should remind Hashimoto that we agreed we share the common objective of promoting strong, domestic demand-led growth in Japan and avoiding a significant increase in the current account surplus. Japan recently released statistics showing its current account surplus doubled in April from the level a year ago.

You should reiterate that we do not oppose Hashimoto's desire to cut the deficit, but recent numbers are troubling, and if Japan's

trade surplus continues to increase as it has recently, the problem will take on a political dimension we want to avoid. You should suggest that he be prepared to consider taking appropriate steps should domestic demand falter and the current account surplus continue to rise significantly.

Trade Problems. You should once again underscore the importance of fully implementing trade agreements and of continuing to work together to address problems expeditiously.

Civil Aviation. Japan continues to refuse our carriers, including FedEx, "beyond rights" to other points in Asia, and our carriers are losing patience. Hashimoto continues to oppose an open-skies agreement; he favors only limited liberalization. As we resume talks, it is important to emphasize that we remain committed to an open skies agreement with Japan, but that we are willing to discuss a transitional agreement that results in open skies. You should confirm we are prepared to address the cargo (FedEx) problem in the context of a comprehensive cargo and passenger agreement, but that we cannot wait indefinitely.

Deregulation Dialogue. Hashimoto and you agreed to an enhanced deregulation dialogue under the Framework Agreement. We are close to agreement on the structure of the dialogue, but a few issues remain. We seek higher level representation from Japan and reporting of results. We hope to reach agreement by Denver. You should urge we begin soon a deregulation dialogue that will result in concrete changes, namely open markets and promotion of competition.

INTERNATIONAL ISSUES

Korea. During working level meetings over the past several weeks, we have reached a tentative agreement to announce the date and venue of four party preparatory talks, which China will attend. You should assure Hashimoto we will continue to brief Tokyo fully on the U.S.-South Korean talks with the DPRK and our own bilateral discussions with the North.

At a trilateral U.S.-Japan-South Korea meeting in Seoul June 9, Japan reiterated its reluctance to provide near-term food aid to the North. There is now some indication that Tokyo may be able to provide modest humanitarian aid. You should reiterate the importance we attach to Japan's participation in the international food appeals.

G-7. The Japanese continue to be concerned about maintaining a G-7 economic component. Hashimoto will want to explain his view that Russia is not ready to become a full member of G-7.

Prior to Helsinki, you asked Hashimoto to support to Yeltsin's inclusion in the Denver Summit. You undertook to urge Russia to deal in a more forthcoming manner with Japan, in particular on territorial issues. Recent reporting suggests Hashimoto may see some benefit to supporting Russia's entry into G-7 in exchange for Yeltsin's support to resolve the Northern Territory issue. Japan's Ministry of Foreign Affairs Russian experts see Hashimoto's support for your invitation to Yeltsin for an expanded Russian role as a plus for Japan-Russian relations. One senior Japanese official said that if Russia responds positively to Japan's overtures, Tokyo may reciprocate by leading the push for full Russian membership in G-7.

China. Hashimoto wants your reassurance on the United States engagement policy with China. He would welcome your perspectives on MFN renewal, Hong Kong reversion, Jiang Zemin's hold on power and our expectations for the October summit meeting. You should note that Hashimoto will visit China in September, the 25th anniversary of the establishment of diplomatic relations. You should urge him to press China on progress in WTO accession, market opening, human rights and non-proliferation.

2005 World Exposition. (If raised) Hashimoto asked you to support Japan's bid to host the 2005 World Exposition. Canada was the other competitor. On June 12, we voted to support Canada. Japan, however, overwhelmingly won the bid to host Expo 2005. You should tell Hashimoto it was difficult to choose between two friends and allies.

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POINTS TO BE MADE WITH
PRIME MINISTER HASHIMOTO OF JAPAN

SECURITY ISSUES

Defense Guidelines

- Pleased with reception of Interim Report (released June 7); product of the important agreement we reached together last year in Tokyo.
- We want to avoid regional concerns that our alliance targeted at any country. It is not; rather a force for stability. Maintaining transparency of the review process will be key to positive reception of final report.
- The revised Guidelines will have significant role in defining our bilateral security relationship and transition to the post-Cold War environment. Updated guidelines will help us coordinate in cases of regional threat.

ECONOMIC ISSUES

- Important to maintain progress on economic front. Pleased you agreed in April that we share common objective of promoting strong, domestic demand-led growth and avoiding significant increase in current account surplus.
- Concerned about recent rise in Japan's surplus. Hope you are prepared to take appropriate steps should Japan's surplus continue to rise.
- Also hope we soon can begin enhanced deregulation talks that will result in concrete changes that open markets and promote competition to benefit of both nations.
- Finally, important to fully implement agreements and address problems in timely manner.
 - On civil aviation, talks should resume soon. We are committed to achieving open skies in reasonable period. Willing to discuss transition agreement that will result in open skies. Very important that Federal Express problem be resolved soon.

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REGIONAL/INTERNATIONAL ISSUES

Korea

- Negotiators reached tentative agreement that will allow us to announce shortly the date and venue for a preparatory meeting which will involve China for the first time. This preparatory meeting is designed to establish the agenda, date and venue of the first meeting of the four party talks.
- Can't explain the North's reluctance to enter talks; offer has been on the table for 14 months. Four party talks are only viable means to reduce tension and create conditions to address the North's food shortages in a substantial way.
- You explained Japan's reluctance to provide food aid. The shortage is real and many, especially children, are suffering. We anticipate the UN World Food Program will issue another appeal for humanitarian aid, continuing to target children. Hope you can contribute.

G-7

- Appreciate your support for Yeltsin's participation in Summit of the Eight.
- Yeltsin pleased with Summit of Eight; symbol for him of Russia's integration with industrial democracies. Schedule arranged so Seven will discuss economic/financial matters, as well as Ukraine and Russia.

China

- Believe we will prevail with Congress and the American people on policy of engagement, including MFN renewal. Debate in United States on China reflects concerns that engagement is a one-way street, a genuine lack of confidence about preserving Hong Kong's future and a suspicion about China's future military intentions.
- Know you share belief China must be integrated into international regimes, must carry out fully commitments regarding Hong Kong and importance of providing China the confidence it needs to avoid embracing a narrow nationalism that could spur military's power.
- Important Japan and United States jointly lead effort to make China a stakeholder in international regimes; help preserve civil liberties in Hong Kong (including strong public

statements and carefully monitoring of the transition); and assure China our defense relationship not aimed at containment.

- Also, hope your September visit to Beijing reinforces need for China to improve its market access offers as part of the WTO accession process.

2005 World Exposition (if raised)

- Congratulations on Japan's selection as the site for Expo 2005; believe it will be a tremendous event. (Note: We voted for Canada; Japan, however, received 30 more votes and was selected to host the 2005 World Exposition.)

**Prime Minister Prodi
Meeting**

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MEETING WITH ITALIAN PRIME MINISTER ROMANO PRODI

KEY OBJECTIVES

- Press for close coordination of our approaches to Iran and the Middle East.
- Thank Prodi for his support on AFSOUTH and discuss next steps on NATO adaptation and enlargement.
- Recognize Italy's contribution to stability in Bosnia and in particular in Albania, and encourage close cooperation.

CONTEXT OF MEETING

You met Prodi briefly on the margins of the May 27 signing of the NATO-Russia Founding Act in Paris. Prodi hopes you will be able to offer him a date for an official working visit in the latter half of this year (you have tentatively agreed to a December visit, but we have not yet formally extended the invitation). His only previous meeting with you in Washington was on the margins of the U.S.-EU Summit in June 1996.

Prodi is focusing most of his time on the difficult economic and political steps needed to improve Italy's fiscal health. Germany and the EU Commission remain skeptical that the Italian reforms are deep enough to assure stability once the Economic and Monetary Union (EMU) is launched. The French election may make it even harder for Prodi to get Italy into EMU in the first tranche by making Italian labor less willing to tolerate deficit-cutting measures and steps to decrease labor market rigidities.

Prodi's government, just over a year old, has already lasted longer than most postwar Italian governments; but he is in a fragile coalition with the reformed Italian Communist Party and the unreformed Communist Renewal Party, and faces a tough balancing act to keep the government alive. He has had to play chicken with the parliament several times to get his budgets passed, surviving several no-confidence votes. It is unlikely his government will survive long if Italy fails to make the first round of EMU, to be decided around March of next year.

AGENDA

Having discussed the Balkans, including Albania, with you in Paris, Prodi will want to focus more on NATO and Iran. He will also want to discuss EMU briefly, to follow up on a conversation he had recently with Secretary Rubin (with whom he served on the

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board of Goldman Sachs). You should tell Prodi of your intention to nominate Congressman Foglietta to be ambassador to Rome.

Iran/Libya. Within the EU, the Italians have been among the most anxious to return to business as usual with Iran following the Mykonos verdict. Italian resistance to adopting a tougher line on Iran stems in large part from Italy's \$2 billion debt exposure with Iran. Italy is skeptical about efforts to reconcile U.S. and EU approaches on Iran.

On Libya, the Italians have called for a moderate approach, arguing that having Qadhafi at the helm is preferable to an unknown and possibly Islamist successor government. Italy is dependent on Libya for 30 percent of its oil. Like other EU members, Italy strongly opposes the Iran and Libya Sanctions Act of 1996.

Middle East Peace Process. Prodi wrote to you in March sharing his impressions from his visit to Syria and Lebanon. Aside from that, there has been a marked lack of activity on the Middle East peace process on the part of Foreign Minister Dini, in contrast to his efforts at the beginning of his tenure. Prodi nonetheless may be eager to share European and Italian ideas on resumption of meaningful Israeli-Palestinian dialogue and negotiations between Israel and Syria and ultimately between Israel and Lebanon.

NATO Adaptation and Enlargement. Prodi has been very supportive on U.S. retention of command of AFSOUTH, but is wary that we will give away too much to the French. On NATO enlargement, Italy has strongly suggested Slovenia and to a lesser degree Romania for inclusion in the first round, but is likely to be satisfied with a strong "open door" package that holds out the prospect of an early second round.

Albania. The stakes are high for Italy in Albania; one of its main goals is stanching the hemorrhage of Albanian refugees, over 16,000 to date. Rome also hopes to parlay success in Albania into greater weight for Italy in international affairs. From the beginning Italy has sought a military and diplomatic partnership with the United States in Albania. The current political equilibrium in Albania is fragile and security there is very shaky; we look to the Italian-led Multinational Protection Force (MPF) to provide a secure environment for elections on June 29, but the prognosis is doubtful.

Bosnia. Prodi is pessimistic about the prospects of keeping Bosnia together, citing the absence of economic activity and lack of cooperation among the parties. He reportedly has

already concluded that a sustained international military presence post SFOR will be required. Italy has deployed 2,600 SFOR troops, provides significant reconstruction assistance, and recently authorized 23 monitors for the International Police Task Force (IPTF). Prodi was not happy, however, with the selection of former Spanish Foreign Minister Westendorp for the position of High Representative for Bosnia, arguing the job required someone with greater political stature. (After Secretary Albright's intervention with Dini and a call from Chancellor Kohl to Prodi, the Italians lifted their veto of Westendorp.)

Silvia Baraldini (if raised). The GOI recently submitted its fifth request that Italian national Silvia Baraldini be transferred by the USG to an Italian prison, as permitted by the Convention on the Transfer of Sentenced Persons. Baraldini is serving a 43-year sentence for crimes committed in the United States by members of a domestic terrorist group, including murder. Justice rejected previous requests for Baraldini's transfer because of the serious nature of her crimes, her continued refusal to cooperate with U.S. authorities, and her failure to express remorse or repentance. Baraldini's case is seen as a humanitarian issue by the Italian public.

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TALKING POINTS FOR MEETING WITH
ITALIAN PRIME MINISTER PRODI

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Pool Spray Points

- Italy is good friend and NATO ally.
- First met Prime Minister Prodi at White House a year ago, have since continued very positive working relationship.
- Appreciate Italy in leadership role in Balkans -- including SFOR and reconstruction efforts. Italy's continued support is crucial to successful peace.
- Want to recognize Italy's leadership of Multinational Protection Force in Albania. Italy's coordination of international efforts has helped avert significantly worse humanitarian and political crisis.

Iran/Libya

- Victory of Khatami in Iran's May 23 presidential election is significant development in Iranian politics.
- However, we are still looking for clear changes in Iran's behavior -- its support of terrorism, pursuit of weapons of mass destruction, and efforts to derail Middle East peace process -- have always been willing to engage in authoritative change.
- Election underscores importance of bringing U.S. and EU positions closer together, so that we can send Khatami similar messages from outset of his presidency.
- Must send strong signal to Iran that we are unified in condemning Iran's objectionable behavior.
- On Libya, we should work together to ensure Qadhafi remains isolated until Libya complies fully with requirements of UNSC resolutions.

Middle East Peace Process

- Appreciate your thoughts and your commitment to work together in moving Middle East peace process forward.
- Know you share our objectives of reviving Israeli-Palestinian negotiations, accelerating movement on Interim Agreement issues, and laying groundwork for resumption of permanent status talks.
- In his recent trip to the region, Dennis Ross tried out a series of ideas, working to create a dynamic that would

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lead to resumption of Israeli-Palestinian negotiations and allow some movement toward broader Arab-Israeli reconciliation.

- From those talks, clear that both sides want to find way back to negotiating table.
- Highly value the efforts of President Mubarak; Egypt remains an important partner in helping get the negotiations restarted.

NATO Adaptation and Enlargement

- We have done enormous amount to remake NATO in way that is appropriate to today's circumstances. Madrid promises to be truly historic milestone.
- Hope Yeltsin will come to Madrid to inaugurate NATO-Russia Council, attend session of Euro-Atlantic Partnership Council. Would make clear Russia is part of new undivided Europe.
- Believe NATO has done a lot of work to fulfill goals set in Berlin last June to develop ESDI within NATO.
- Strongly committed to this goal: greater European role in NATO will strengthen support here for continued U.S. engagement.
- Particularly appreciate Italy's support for U.S. command at AFSOUTH. While we support increased European role in Alliance, including in southern region, our interests and size of our forces call for retaining AFSOUTH.
- In wake of French elections, doubtful Chirac will be able to reach compromise to allow France to reintegrate by Madrid, but will keep door open.
- On NATO enlargement, continue to believe we should limit first group to strongest candidates in order to maintain credibility and effectiveness of Alliance as it expands.
- Poland, Czech Republic, Hungary clearly strongest candidates.
- Agree Slovenia has made considerable progress toward military interoperability with NATO and instituted impressive political/economic reforms, lags behind others militarily and remains inward-looking.
- Also agree Romania has made great strides in recent months, but reform process is not nearly as far along there as in top three.

- NATO membership is irreversible. Romanians need to deepen and consolidate reforms.
- Although Romania and Slovenia need more time, convinced they will be strong candidates for second enlargement decision if present trends continue.
- This is one important reason why we support strong "open door" commitment at Madrid pledging NATO to future enlargement decisions. Would be combined with active dialogue process to help Romanians, Slovenians and others prepare for membership.
- Believe such an approach would keep them moving strongly in direction of reform.
- As you know, decision on NATO membership is one of most important decisions Alliance can take. Must reflect agreement of all NATO members.
- That consensus only exists for Poland, Czech Republic and Hungary. Urge you to join with us in forging united front as we move toward Madrid.

Future of European Integration

- United States not party in European debate on monetary union; however, European integration itself is important element to evolving transatlantic relationship. We very much want to see integration go forward and to succeed.
- NATO and EU enlargement are key elements in the new security framework we are building together in Europe.
- Hope EU enlargement will move forward rapidly as possible to encourage CEE countries to stay course of reforms.

Albania

- Appreciate Italian leadership in managing Albanian crisis. Must work together to help Albanians restore order and promote democratic process.
- Hope that Italy, as principal NATO ally at forefront of the Albania effort, will continue leadership role.
- Upcoming Albanian parliamentary elections vital to restoration of order and building of democratic institutions. Will be challenge to have these succeed under current circumstances there, but must keep trying.
- MPF should do as much as possible in providing logistical security assistance for election monitoring operation.

If Prodi raises U.S. training for Albanian police and military:

- We will be reviewing our total assistance program to Albania after elections and will evaluate any assistance proposals at that time.

Bosnia

- We have accomplished much since the 1995 peace agreement ended the fighting, but we need to inject new momentum into civilian implementation of Dayton accords, maximize pressure on all parties to fulfill their commitments.
- Leaders of Eight need to issue strong message to the parties that they will be held accountable: only those who support Dayton will get our support.
- Italy has made important contributions to police task force and reconstruction.
- Need to increase resources for training of local police and municipal elections, both key to long-term democratization of Bosnia.
- In this regard, Mrs. Agnelli has done good work raising funds to ensure successful municipal elections on September 13-14. Please convey my personal thanks for her outstanding efforts.
- Our European partners have been generous and crucial donors to Bosnia through the EU.
- To better coordinate our efforts at reconstruction, I ask that you work to speed up commitment of funds already pledged. First priority should be disbursements to Brcko, where implementation is bellwether for our broader efforts.

Congressman Foglietta

- I plan to nominate Congressman Foglietta to be our next ambassador to Italy. Know he will do great job in representing us in Rome. Want you to know he has my full confidence.

Prodi Visit (if raised)

- Look forward to your visit to Washington next fall; will suggest date as soon as possible.

Silvia Baraldini (if raised)

- Department of Justice will give Italy's latest transfer request every appropriate consideration, taking into account serious nature of Ms. Baraldini's offenses, her refusal to cooperate and lack of remorse.

PRESS QUESTIONS AND ANSWERS FOR
PRESS EVENT WITH ITALIAN PRIME MINISTER PRODI

Will the United States agree this time to the transfer of Italian national Silvia Baraldini to Italy?

- Department of Justice responsible for reviewing request. Have every confidence they will make an appropriate decision taking full account of the circumstances.

How does the United States view Italy's role in dealing with the Albania crisis?

- Grateful for PM Prodi's personal leadership and Italy's diplomatic and military efforts in helping to restore order and promote democratic process. Italy is principal NATO ally at forefront of Albania effort.

Do the United States and Italy have fundamental differences with regard to Iran and Libya?

- Seek common approach with our allies in dealing with threats from Iran. Hope and expect Iran to modify its behavior, which violates basic international norms.
- On Libya, the international community has spoken with one voice that Libya must comply fully with the requirements of UN Security Council resolutions 731, 748 and 883.

What has been the response to U.S. judicial rulings that Italian fishermen were violating bans on driftnet fishing?

- Working with Italian Government to end illegal driftnet fishing.
- In July 1996, concluded agreement to terminate large-scale, high seas driftnet fishing by Italian nationals. Otherwise, U.S. law would have required a trade embargo on imports of all Italian fish, fish products and sportfishing equipment into United States.
- Monitoring situation closely, applaud Italy's progress on this important environmental matter.

BACKGROUND: The U.S. Government was sued successfully by a coalition of environmental groups to have us identify Italy as a large-scale, high seas driftnet fishing nation under the 1992 High Seas Driftnet Fisheries Enforcement Act. Under the Act we would have had to impose trade sanctions unless Italy entered into an agreement with the United States to "effect the immediate termination" of driftnet fishing. The European Union and Italy have approved funding for a driftnet vessel conversion plan which will retire some fishermen and vessels from the fishery while converting others to alternative fishing methods. The plan is currently being implemented.

How do we view Italy's proposal for expanding the UN Security Council?

- Appreciate Italy's support on key issues in the UN Security Council, as well as its concerns and interest in reforming the UN and Security Council.
- Continue to support permanent seats for Germany and Japan; want to preserve the Council's effectiveness and believe all the world's regions should be fairly represented without making the Council unwieldy.


(Background: Italy vehemently opposes permanent seats for Germany and Japan, believing that it would be relegated to "second tier" status. Italy has proposed a rotational arrangement for new members on an expanded Security Council of at least 25; we oppose this since it would make the Council unwieldy and ineffective. There is no common EU opinion on UNSC expansion.)

Have Italian firms been put on a "black list" for violating the Helms-Burton Act?

- No black list exists. State Department has sent letters to firms with history of involvement in expropriated properties in Cuba, regarding potential liability under Helms-Burton Act.
- Such letters are advisory and do not constitute determinations under Title IV of the Act. Those determinations will be made later after a thorough review of all available information.

Why did the United States include Italy on the Special 301 Watch List?

- USTR placed Italy on Watch List to signal the seriousness with which we view intellectual property problems.
- Italian Government stepped-up enforcement efforts over the past year but losses due to copyright piracy remain high.
- We hope Italy moves quickly to adopt pending anti-piracy legislation that would significantly increase criminal penalties.



**President Yeltsin
Meeting**

BILATERAL WITH RUSSIAN PRESIDENT YELTSIN

KEY OBJECTIVES

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- Discuss Russia's evolving role in "the Eight."
- Preview Madrid; seek Yeltsin's decision on attending.
- Stress importance of START II ratification.
- Note risks posed to regional stability by arms and technology transfers to Iran; urge continued vigilance.
- Review progress on Helsinki economic agenda and Russia's efforts toward Paris Club, WTO accession.

CONTEXT OF MEETING

The "Eight." For Boris Yeltsin, the image at Denver is as important as the substance. He looks to his participation in what the Russians term the first "G-8" summit as acceptance by the Seven -- and as validation for his audience at home -- of Russia's world-power status.

New Pragmatism Abroad. Denver follows a period of active Russian diplomacy which began about the time of Helsinki and which evinces a desire to consolidate Russia's relations with its European neighbors. The signing of the NATO-Russia Founding Act and the Yeltsin visit to Kiev to sign a treaty of friendship and cooperation have been complemented by Russian efforts to spur progress in the Transdniester dispute in Moldova and a new Russian willingness to work cooperatively with us and the French on Nagorno-Karabakh.

Domestic Focus. Yeltsin wants a calm foreign policy agenda so his team can get on with restructuring the Russian economy. The new Russian government deserves high marks for politically difficult initiatives: it has curbed the power of natural monopolies, sent a long-awaited tax reform bill to the Duma, restarted privatization and begun a necessary reduction in budget-crushing housing and service subsidies. The issue now is whether Yeltsin can face down the Duma to pass tax legislation, a new budget, laws needed for investment in the oil and gas sectors and the Bilateral Investment Treaty. His presence "at the main table" in Denver strengthens his hand for these battles.

AGENDA

The Denver Summit. You should expect Yeltsin to press for a full G-8 and accelerated membership in the Paris Club and WTO. The other G-7 leaders see us as the lead advocate for Russian integration, but some (e.g., Japan) oppose a full G-8. The other Seven opposed our effort to set targets for WTO and Paris Club membership.

You might emphasize to Yeltsin the historic nature of his participation at Denver, noting that the schedule provides for only one low-key meeting at Seven as you and he agreed in Helsinki. Moreover, a trend has been set: Blair has indicated he will use the Denver model at Birmingham. You may nevertheless need to appeal to Yeltsin to focus on Russia's progress in joining "the Eight" rather than pressing for a full G-8 -- where a "no" will steal the spotlight from a good-news story for Russia.

Yeltsin, NATO and Madrid. You might express appreciation for Yeltsin's statesmanship which led to the NATO-Russia Founding Act. We should now guard against any letdown in implementing the Act and getting a working NATO-Russia relationship underway, especially since Yeltsin now appears determined to manage his internal opposition to NATO enlargement.

In Paris, you raised Yeltsin's participation in the second day at Madrid. He is interested in coming but must weigh his advisors' counsel that his attendance could be seen as "blessing" enlargement. If he attends, Madrid could provide an opportunity to come to a NATO-Russia Council at heads of state and government level. This will be a tough call, but we need an answer, which Yeltsin promised by Denver. You will want to be supportive whichever way he decides.

Arms Control. There has been no Russian push for START II ratification, and the Duma recesses the week after Denver. You will want to reiterate the importance of completing quickly the START II extension protocol and agreed statement on ABM/TMD demarcation, to help with ratification by the Duma.

In Paris, Yeltsin called for completing a CFE framework agreement by Denver. However, Russian negotiators' inflexibility in Vienna has stalled progress. While we are still prepared to come to closure by Madrid, we can do so only on the basis of the NATO proposal, which was designed to meet Russian concerns without crossing NATO red-lines.

Iran Arms and Technology Cooperation. In Paris, Yeltsin said that Russia would proceed cautiously on military and technical

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deals with Iran, while gauging its new president's policies. This follows his blanket assurance in Helsinki that there would be no cooperation with Iran inconsistent with the Russia's agreement to terminate arms transfers.

The Economic Agenda. You might ask Yeltsin to outline his strategy with the Duma on economic reform. You might suggest he has a unique opportunity at Denver to make a public case for Russian reform. With the world's financial press present, a clear message outlining a proactive agenda will receive wide, favorable coverage.

You might touch briefly on the targets you and Yeltsin set for Paris Club and WTO membership. There is an outside chance that the Paris Club will reach a deal with the Russians in a June 19 meeting in New York. If not, you should ask Yeltsin to join you in encouraging negotiators to work in good faith for an early agreement. On WTO, Russian negotiators have slipped on their targets; a personal push by Yeltsin will be necessary if Russia is to accede in 1998.

Yeltsin may raise Jackson-Vanik and Russia's classification as a non-market economy. After Paris, the Russians gave us a nonpaper indicating that a law does exist which allows Russia to delay emigration for ten years for people working in sensitive areas. The Russians claim this improves on a earlier law that allowed a five-year waiting period to be rolled over indefinitely. We are studying this; you can offer to keep Yeltsin apprised of our next steps.

The non-market economy issue raised by Yeltsin in Paris is legally complex. Our trade laws allow only for non-market and market economies; Congress rejected our 1994 proposal for economies in transition. Despite economic progress, there is so much barter in Russia that market prices often have little meaning. Yeltsin might confuse this issue with a recent Commerce preliminary determination that Russia is dumping steel plate. You should assure Yeltsin that trade designations are legally, not politically, driven. Also, Commerce is trying to work out a fair deal with the Russian steel industry. You can offer to have trade experts meet.

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POINTS TO BE MADE IN MEETING
WITH RUSSIAN PRESIDENT YELTSIN

Russia's Role Among "The Eight"

- Delighted Russia participating in Summit from start to finish. Historic moment, tribute to your leadership.
- Have vastly increased Russian participation since you came to Munich in 1992. Know Tony Blair wants to continue this trend, use Denver as model for Birmingham.
- As promised in Helsinki, you will be in all meetings except just one session as Seven, Saturday afternoon. One communiqué by Eight; Seven will issue statement, but in low-key way. Secretary Rubin ready to brief Chubays on Seven's work.
- Expect media to question future of Eight. Plan to stress historic nature of Denver; watershed in Russia's international integration; interest of Eight in deepening cooperation.
- Want to be frank about full G-8; still believe that Seven need to meet on certain issues. Hope that publicly you and I can underscore Russia's integration, not let question of whether there is full G-8 detract from good news story.

Madrid

- Discussed in Paris your possible participation in second day of Madrid Summit; interested in how your thinking evolved.
- Madrid scenario: first day just NATO members; invitations to new members, initiatives to create expanded role for European allies within NATO. United States supports three for membership.
- Second day includes meeting and luncheon for all Partners under auspices of Euro-Atlantic Partnership Council and signing of NATO-Ukraine Charter.
- If you attend, day two would be perfect occasion for inaugural meeting of NATO-Russia Permanent Joint Council.

- First Joint Council meeting -- with you, me, Helmut, Jacques and others around table -- will reinforce image we created in Paris: new Europe working together to address common concerns.
- Your participation in Euro-Atlantic Partnership Council would underscore active Russian role in new European security system with all members of Partnership for Peace -- counter your critics who claim Russia being pushed to sidelines.
- But as I said in Paris, understand you must weigh various factors. Whatever your decision, I will support it.

Arms Control

- Following up on Helsinki, experts have done good work on START II extension protocol. Now await response from your side.
- On ABM/TMD, understand negotiators continuing Geneva talks. I'm encouraged but think we should push hard for closure.
- With START II protocol and agreed statement on ABM/TMD done, it is critical that you work with Duma on START II ratification.

(If Yeltsin raises CFE adaptation)

- Agree "framework" agreement by Madrid summit desirable; but Russian negotiators in Vienna still pressing concepts allies cannot accept (e.g., collective ceiling on NATO).
- Time short; hope you'll encourage your delegation to show necessary flexibility so we can complete framework soon.

Russia-Iran Cooperation

- Want to reiterate that Iranian efforts to acquire destabilizing technology and arms still of grave concern.
- Welcomed your comment in Paris that Russia would refrain from military, technical aid until new Iranian president makes clear policy direction of his government.
- Also appreciated your assurances in Helsinki Russia would not provide technology to help Iran develop long-range missiles.

- But see signs some in Russia willing to provide Iran S-300 surface-to-air (SA-10) missiles and ballistic missile technology; such transfers would do real bilateral damage.
- We have given your government specific information on Russian entities assisting Iran's missile program -- contrary to your assurances and to Missile Technology Control Regime rules.
- Important that your people check this information out and get back to my experts.

(If Yeltsin responds that Iran poses no current threat)

- Any enhancement of Iran's nuclear and missile potential worrisome; threatens Russia, too. Action to prevent Iran's acquiring such capabilities most effective now.

Minsk Group/Nagorno-Karabakh

- Understand co-chairs' trip to region went well. Important that you, we and French stay together, keep up pressure on parties to respond positively to our ideas.

Economics Agenda

- Remain fully committed to back Russia and IMF as Russia implements reform program; will preserve gains on stabilization and start new wave of structural reforms. Will in turn help create attractive investment climate.
- Seems Duma still obstacle; prospects to pass key economic reform measures?
- Denver offers good venue for strong message from you on next steps in Russian reform, with world's financial press on hand.

(If agreement reached on Paris Club)

- Delighted Chubays reached agreement with Paris Club: big step in Russia's integration; benefits all Eight; complements work of Eight with developing countries committed to reform.

(If no agreement reached on Paris Club)

- Believe Russia, Paris Club close to agreement; benefits all parties for Russia to join. Should encourage negotiators to work hard; would complement work with developing countries.

- WTO next on road to integration: negotiators working hard, but U.S. team concerned schedule slipping; could we ask Chubays and Barshefsky to report on this at next GCC session?
- One issue related to tomorrow's environment issues: Russia is largest chlorofluorocarbon (CFC) producer, not in compliance with Montreal Protocol on ozone-depleting substances.
- World Bank has project and grant money to phase out CFC production in Russia, but additional donors needed. U.S. supports project and seeks other donors, but Russia needs to advocate World Bank project to potential donors as well.

(If raised -- Jackson-Vanik)

- Appreciated Russian paper explaining law that provides 10-year waiting period for emigration; our legal experts reviewing; will get back to you with ideas on next steps.

(If raised -- dumping case on steel)

- Commerce Department reached preliminary decision on dumping, but also trying to work out equitable deal with your steel industry. Not trying to raise unfair trade barriers.

(If raised -- non-market economy status)

- Trade status not question of politics -- driven by legal criteria. Fully recognize Russia's progress, but issue complicated by barter transactions and arrears in Russian economy. Willing to have trade experts meet on details.

(If raised -- Russian sponsorship of energy ministerial)

- Could showcase links between energy development and market reform, but others have reservations; expressed concern about ministerial-level meeting when Russia has not yet met nuclear safety commitments from 1996 Moscow Summit.
- Suggest your energy experts review this as next step.

President Chirac
Meeting

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MEETING WITH FRENCH PRESIDENT JACQUES CHIRAC

KEY OBJECTIVES

- Reach closure on group of three in first group of new NATO members together with strong "open door" package.
- Encourage Chirac to continue working toward French military reintegration into NATO despite elections setback.
- Press Chirac to agree to our plan for continuing to enforce no-fly zones in Iraq; warn that *Total's* deal in Iran could trigger ILSA sanctions.
- Discuss common approaches to problems in Democratic Republic of Congo and Congo-Brazzaville.

CONTEXT OF MEETING

Just after you met with him in Paris, Chirac sustained one of the biggest defeats of his political career. As he travels to Denver for this summit, Chirac will be looking to regain political stature at home, and rise above the recriminations and power struggles within France's center-right parties after their electoral loss.

It is far from clear what sort of cohabitation Chirac and Prime Minister Jospin will eventually work out. Greatly weakened, and with Jospin holding a fresh mandate to change the way France is governed, Chirac is not in a strong position to shape that relationship. Jospin may be willing to cede Chirac much of the French President's traditional (but not constitutionally explicit) prerogatives in setting foreign and defense policies if Chirac agrees to withdraw from most domestic policy making. However, on sensitive issues like France's reintegration into NATO and participation in the Economic and Monetary Union (EMU), Chirac will in any case have to consult and compromise.

AGENDA

Chirac reportedly wants to use your meeting in part to preview Summit issues. He will also focus on NATO adaptation and enlargement. You will want to discuss Iran/Iraq, as well as Africa and the Balkans, time permitting.

NATO Adaptation and Enlargement. The Socialists' victory has further dimmed prospects for reaching an agreement on French military integration into NATO; they may hold Chirac to a high "gaullist" standard of integration only on French terms --

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Reason: 1.5(b,d)
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although they too must face the reality that building a European Security and Defense Identity outside NATO is neither affordable nor acceptable to other Europeans. Chirac may suggest deferring this issue beyond the Madrid Summit, which we can agree to, although the Alliance intends to move forward with other already agreed aspects of ESDI. On enlargement, Chirac will want to make another attempt to convince you to accept five rather than three new members at Madrid. This provides you an opportunity to make a strong pitch on the open door. Finally, Chirac may want to discuss how to persuade Yeltsin to attend the Madrid Summit.

Future of European Integration. While most of the new Socialist team are committed Europeanists, the Communists are not, and the resulting tug of war in France and in the EU could have serious economic and political implications for us as well. At the Socialists' insistence, a resolution on creating jobs was adopted at the Amsterdam EU Summit, in return for which Jospin bought on to the "stability pact," which requires continued fiscal discipline after the launch of the single currency.

Minsk Group/Nagorno-Karabakh. U.S., French and Russian OSCE Minsk Group Co-Chairs (with Strobe Talbott as our Co-Chair) presented a draft peace agreement to Armenia and Azerbaijan at the end of May. Working level representatives met again with the parties June 13-14 and were encouraged by the parties willingness to remain seriously engaged with the peace process. A trilateral U.S.-French-Russian Presidential Declaration exhorting the parties to more serious efforts is planned for release in Denver following your bilaterals with Yeltsin and Chirac.

Iran. Indications are that French oil giant *Total* is about to sign a major new contract to develop Iran's South Pars oil and gas field. The contract could be worth as much as \$3.5 billion, and would almost surely require a U.S. response under the Iran and Libya Sanctions Act (ILSA). Our response might have very little impact on *Total*, which has taken measures to insulate itself from ILSA sanctions, but it would almost certainly force a major new confrontation between our two governments and between the United States and the EU, and jeopardize the agreement on the EU's WTO case negotiated in April by Stu Eizenstat. Chirac has said he will respond quickly and vigorously to any ILSA action against a French company.

Iraq. We have discussed with the French our idea for protecting the integrity of NFZs by requiring Saddam to provide advance notification of humanitarian flights. The French have so far been noncommittal. Though we are going to wait for another

provocation from Saddam before moving ahead, you may want to flag for Chirac the importance of standing together on this.

Democratic Republic of Congo. Generally, our cooperation with the French over the course of the Zaire crisis has been as good as could be expected, given their suspicions of our motives and reluctance to concede the inevitability of Mobutu's ouster. However, the French now deeply distrust Kabila. We want to keep the French actively and constructively engaged in the Democratic Republic of Congo to ensure their support for EU and international assistance to the new government. Such support is essential to our efforts to promote a transition to democracy, economic reform, respect for human rights and reconstruction.

Congo-Brazzaville. As fighting intensified in Brazzaville between Government forces and militia loyal to former President Sassou, the French agreed to provide security for the evacuation of U.S. citizens; this guarantee substantially reduced the risk to our people. (Similarly, we recently evacuated many French nationals from Sierra Leone.) The French have now decided to withdraw their troops from Brazzaville, which led us to suspend operations at our Embassy.

Bosnia. Chirac will lead the Friday dinner discussion on Bosnia and you should urge him to seek a strong collective commitment to reinvigorate our efforts in implementing Dayton; we have proposed that the leaders issue a short statement on Bosnia Friday night to put the spotlight on the issue. We also need greater European support for resource needs in training and equipping police to democratic standards and to enable the OSCE to successfully conduct the September municipal elections in Bosnia. France is contributing approximately 100 police monitors to the International Police Task Force, but has not made any financial contribution toward the approximately \$100-120 million needed for training and equipping the local police over the next 2-3 years. We will also need another round of OSCE assessments to finance an anticipated \$13-15 million shortfall in funding for Bosnia's upcoming municipal elections. Material for discussion of war criminals has been provided separately.

Albania. The Italian-led Multinational Protection Force will need to provide security and logistics support for the international election monitors covering the elections planned for June 29. France is the second largest contributor to the MPF (after Italy), with 970 troops on the ground, but the French have resisted any expansion of the role of the MPF beyond its original mission to facilitate the delivery of humanitarian assistance. Seeking to use Albania an example of a European defense capability, the French opposed the dispatch of a NATO

assessment team to evaluate the possibility of using PFP to help rebuild Albania's military, and they forced the removal of a U.S. liaison officer from the MPF command element.

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POINTS TO BE MADE FOR MEETING
WITH FRENCH PRESIDENT CHIRAC

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Pool Spray Points

- Always pleasure to meet with President Chirac. Have had number of opportunities to talk in recent weeks. Look forward to seeing him again in Madrid for NATO Summit.
- Privileged to be in Paris few weeks ago for historic signing of NATO-Russia Founding Act. That event highlighted vital role France plays in Europe and world. Confident France and President Chirac will continue to do so.
- Will be discussing NATO enlargement and adaptation as well as the major issues on Denver Summit agenda.
- Particularly look forward to building on accomplishments for last year's Lyon Summit -- combating new threats like terrorism and international crime.
- Cooperation in Africa, Bosnia demonstrate how important our relationship is.

NATO Adaptation and Enlargement

- As you pointed out in Paris when we signed NATO-Russia Founding Act, we have done enormous amount to remake NATO in way that is appropriate to today's circumstances. Madrid promises to be truly historic milestone.
- Hope we can persuade Yeltsin to come to Madrid to inaugurate NATO-Russia Council, attend session of Euro-Atlantic Partnership Council. Would make clear Russia is part of new undivided Europe.
- Believe NATO has done a lot of work to fulfill goals set in Berlin last June to develop ESDI within NATO.
- You know how strongly I am committed to this goal: greater European role in NATO will strengthen support here for continued U.S. engagement.
- Realize that new government will have many questions about French integration into NATO. Nevertheless, hope you will still consider integrating by time of Madrid.
- Please let me know how we can help. You know I cannot agree to relinquish command of AFSOUTH, but ready to have Berger reengage with Levitte to try to reach agreement along lines they were working on earlier.

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- On NATO enlargement, continue to believe we should limit first group to strongest candidates in order to maintain credibility and effectiveness of Alliance as it expands.
- Poland, Czech Republic, Hungary clearly strongest candidates.
- Appreciate your strong interest in Romania. Agree Romania has made great strides in recent months, but reform process is not nearly as far along there as in other three. After long debate, concluded that best approach is to let strongest candidates in now, provide clear path for future enlargement.
- I have been in touch with Romanian President Constantinescu, understand his disappointment but convinced they will stay on path of reform.
- NATO membership is irreversible. Romanians need to deepen and consolidate reforms.
- Although Romanians need more time, convinced they will be strong candidates for second enlargement decision if reform process continues.
- This is what I told Senate NATO Observer Group last week. Prepared to say so publicly as well.
- This is one important reason why we support strong "open door" commitment at Madrid pledging NATO to future enlargement decisions. Would be combined with active dialogue process to help Romanians and others prepare for membership.
- Would be prepared to review results of the dialogue process at the 1999 summit. Believe such an approach would keep Romania and others moving strongly in direction of reform.
- As you know, decision on NATO membership is one of most important decisions Alliance can take. Must reflect agreement of all NATO members.
- That consensus only exists for Poland, Czech Republic and Hungary. Urge you to join with us in forging united front as we move toward Madrid.
- We in turn will lend encouragement and support for Romania aspirations for membership in what we believe will be not too distant future.

Future of European Integration

- United States not party in European debate on monetary union; however, European integration itself is important element to

evolving transatlantic relationship. We very much want to see integration go forward and to succeed.

- NATO and EU enlargement are key elements in the new security framework we are building together in Europe.
- Hope process will move forward rapidly as possible to encourage CEE countries to stay course of reforms.

Minsk Group/Nagorno-Karabakh

- Understand Co-Chairs' trip to region at the end of May went well. Important that you, we and the Russians stay together, keep up pressure on parties to respond positively to our ideas. Our joint Presidential declaration on Nagorno-Karabakh being released here in Denver helps to underscore our seriousness in trying to resolve this issue.

Democratic Republic of the Congo

- Despite some differences in analysis, pleased United States and France were able to cooperate closely during civil war in former Zaire. Believe our mutual efforts and those of others played key role in avoiding much greater loss of life.
- Following relatively peaceful change in leadership in Kinshasa, still need to continue working together. Common goals remain: stability, democracy, economic reform, protection of human rights and refugees.
- Agree political process in Congo should be inclusive and electoral timetable respected.
- Believe it important for us to cooperate and engage early with new government to encourage it to govern effectively and act responsibly on human rights and refugees.

Congo-Brazzaville

- Grateful for French help in providing security for evacuation of U.S. citizens from Brazzaville. Pleased with mutual support we have provided each other in such crisis situations in Africa.

African Peacekeeping Effort (ACRF) [IF RAISED]

- Pleased with progress of our joint efforts with British to develop enhanced African peacekeeping capacity. Denver communique reflects our common efforts.

Bosnia

- This evening you will lead the discussion on Bosnia. Believe we should seek strong endorsement of the need to collectively reinvigorate each of our efforts in implementing the Dayton accords.
- We need to maximize pressure on the parties through the effective use of our collective leverage. Also, hope we can keep discussion focused on the job ahead and not what happens after June 1998. At the same time, pledge to work with you in advance of June to assure that we have solid planning for post-SFOR environment.
- Our European partners have been a generous and crucial donor to Bosnia through the EU.
- To better coordinate our efforts at reconstruction, I ask that you work to speed up commitment of EU funds already pledged. First priority should be disbursements to Brcko, where implementation is a model for our broader efforts.
- Hope France could also play greater national role in addition to EU contributions, particularly concerning police.
- Local police need an estimated \$100-120 million in assistance; United States currently is providing \$17 million; need help filling gap at June donors' conference.
- Also concerned about considerable shortfall in budget for Bosnia's municipal elections. OSCE Chairman-in-Office may soon have to assess all member-states one more time to cover it.

Iran

- Iranian election an interesting development which we are following closely. Have always said prepared to enter into authoritative dialogue with Iran. Appreciate steps EU has taken in wake of Mykonos. I hope you will make clear to Tehran that you expect concrete changes in their behavior before restoring ties to previous levels.
- Concerned about press reports that *Total* is about to sign a major new contract with Iran. Could trigger U.S. action under Iran and Libya Sanctions Act (ILSA).
- ILSA is intended to moderate Iranian behavior, not punish our Allies. We all have stake in trying to stop Iran from supporting terrorism and pursuing weapons of mass destruction.
- (If raised): In recent U.S.-EU understanding on Helms-Burton, we committed to working with EU toward meeting terms indicated in ILSA for granting waivers. Requires concrete steps on part

of EU. In meantime, law remains in effect and we will implement it.

**PRESS QUESTIONS FOR MEETING
WITH FRENCH PRESIDENT CHIRAC**

Do you think that cohabitation will affect your ability to reach agreement with France on issues such as NATO enlargement and adaptation?

- I wish both President Chirac and Prime Minister Jospin well in working together to tackle complex issues raised in recent election campaign.
- I also look forward to continuing to work closely with President Chirac to deal with the challenges our countries face together around the world today including our common commitment to build an undivided democratic Europe.

Do you think the results of the elections reduce the prospects that Europe will go forward with economic and monetary union (EMU)?

- Whether and how to go forward with EMU are decisions that have to be left to the members of the EU.
- I do believe that a more integrated, more closely cooperating Europe is a good thing for Europe and a good thing for the United States.

Are you going to discuss AFSOUTH? Will the results of the election make it harder to reach agreement on this issue?

- I have said many times that the United States is firmly committed to building a strong European security and defense identity within NATO.
- I also believe that French reintegration into NATO would be a good thing both for France and for NATO.
- I am hopeful that we can find a way to make this happen.

Why isn't the U.S. supporting Romania and Slovenia for inclusion in the first group to be invited to begin accession talks at Madrid, particularly given support of France and most other NATO allies for these two?

- Believe that first group invited to join should be limited to strongest candidates in order to maintain credibility and effectiveness of Alliance as it enlarges.
- On political, economic and military grounds, Poland, Czech Republic and Hungary are clearly strongest candidates.
- Romania and Slovenia, while on the right track, are not yet ready for membership compared to others.
- Romania needs time to consolidate recent impressive reforms, while Slovenia needs to become more politically active in region and further develop its military capabilities.

- Since NATO membership irreversible, need to make sure candidates fully qualified.
- Believe both countries could be strong candidates for second enlargement decision if current progress continues.
- This is why we support strong open door policy committing NATO to further enlargement and establishing continuing dialogue on membership issues between NATO and aspiring members.

How do you respond to press reports that the French oil company Total plans a major new investment in Iran? Wouldn't that run counter to the Iran and Libya Sanctions Act?

- Investment in Iran's petroleum industry provides regime with earnings which it can use to pursue its development of weapons of mass destruction and its support of terrorism. That is why we oppose to new investment in Iran's petroleum sector.
- We will fully enforce the law. If we find sanctionable activity to have taken place, we will take required steps.

Is the United States trying to supplant France in the Democratic Republic of Congo?

- Absolutely not. Continue to work very closely with France on many African issues, including Democratic Republic of Congo. Hope to work with France and EU to build a peaceful and stable Congo.
- Agree with France that political process in Congo should be inclusive and the electoral timetable respected. Also important to cooperate to promote needed political, economic, military and human rights reforms and address needs of refugees and displaced persons who remain in the country.

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**FRIDAY:
WORKING DINNER**

FRIDAY DINNER

(7:30 p.m. - 10:00 p.m.)

I. Domestic and International Developments since Lyon (Yeltsin)

II. Bosnia (Chirac)

FRIDAY WORKING DINNER
KEY POINTS

Session overview: You will begin with a toast, welcoming the group and speaking to the historic nature of the Eight's cooperation. This session has three broad objectives: review the agenda for the next two days' discussion; welcome President Yeltsin's deepened participation in the group's work; allow leaders to reflect upon the implications of political changes in their countries since your last meeting; and gain agreement on a cooperative effort to advance peace in Bosnia, as a symbol of the Eight's close cooperation.

Where others have the lead (as indicated), we have provided talking points for your use, either in introducing the topic/speaker or commenting after his presentation, depending upon your judgment about the situation.

Introduction

- Over the next two days, we will discuss an extraordinary range of issues -- addressing common global challenges, bringing developing world into the global economy, modernizing our economies, and building a more open and democratic world.
- As the world's leading open market democracies, we have a special responsibility to help the international community organize itself to meet the challenges of the 21st -- to tackle the opportunities and risks brought on by globalization and more open societies.
- Our work over the past four years has increasingly focused on the issues which no country can address on its own -- from building a more open and stable international financial system that will promote growth and opportunity -- to fighting terrorism, international crime and drugs, and damage to the environment.
- One of the most important parts of our work together has been to deepen the integration of new market democracies into the international system -- and nowhere has that effort reaped greater rewards than the deepening involvement of Russia in this group.

Welcome to Yeltsin:

- Boris, let me address you personally and on behalf of group.
- We welcome you today as a partner in our common enterprise of building a free and more prosperous world.
- This is an historic moment; democratic Russia can take pride that it is playing its appropriate role as a great international power, and we can take pride that our work together will create better future for our children.

Political Discussion: (Yeltsin lead)

- In the last year, many of us have faced national elections.
- Our own election was a choice between two visions of dealing with our economic future. I think the American people said clearly that they wanted a modern economy and the skills to compete in the world marketplace.
- Japan had an important election last October; we have all watched three elections in the last month alone; and of course Boris had a historic election last summer.
- Boris, maybe you could begin our discussion by sketching for us your vision of Russia's economic future and your observations on our deepening relations.

Bosnia Implementation (Chirac lead):

- We all have invested heavily in Bosnia's peace. Tonight we should recommit ourselves to helping ensure the parties meet their responsibilities to implement the peace agreement.
- Discussion of what happens after June 1998 cannot divert us from what we do now to change the dynamic in Bosnia; if we don't turn corner to self-sustaining peace, could stay forever and it would not change underlying fundamentals.
- We need to accelerate progress in key areas needed to create a self-sustaining peace:
 - re-structuring and retraining local police;
 - bringing war criminals to justice;
 - building military stability through arms control;

- creating effective and democratic joint institutions;
 - securing the safe return of refugees and displaced persons;
and
 - boosting economic reconstruction.
-
- Implementation efforts in Brcko on issues like freedom of movement and joint cooperation are particularly critical as a model for the rest of Bosnia. Must also remain firm with Serbia and Croatia and hold them to their responsibilities.
 - Need your help in securing resources for training and equipping local police to democratic standards and to ensuring successful municipal elections. Also need to make sure that donors disburse funds in Bosnia more quickly.
 - Need to make clear to the parties that our assistance and support is contingent upon demonstrated progress toward their implementation obligations. Our energies are better spent accelerating implementation than speculating on what happens at the end of the SFOR mandate.

FRIDAY WORKING DINNER
DISCUSSION PAPER ON OPENING SESSION

Introduction: You should try to use this opening session to frame the discussions over the next two days. Your opening remarks should address how the Eight can play a key role in helping the international community organize itself to meet the challenges of 21st century -- from ensuring economic opportunity for all citizens, to meeting new transnational threats to civilian security, to integrating new democracies into the international community, from Russia to Africa. These are the opportunities and dangers that come with increasing global integration.

Most of your colleagues will want to discuss the implications of recent domestic political developments and their impact on broader economic and political choices. You might usefully foreshadow your own view: that we need to embrace integration by modernizing our economies and by investing in our people so they can compete in the global market place.

Welcoming Yeltsin: The greatest symbol of how the group has transformed itself is Russia's deepened participation in its efforts. For Yeltsin, Denver marks an important further step in Russia's integration, following the blueprint you and he established in Helsinki. As much as Denver is a personal triumph, he sees it as part of his legacy: to a democratic Russia joining its rightful place in a more stable world. Yeltsin is also vying for the respect and recognition of world leaders. He needs Denver and the stage it offers to boost his standing as he goes back to difficult legislative battles with his parliament -- START II, NATO-Russia, ratification of the Ukraine agreements, tax reform and a new budget, among others. You should commend the pivotal nature of his accomplishments and ask him to share his vision for a twenty-first century Russia and its role as a global partner.

Political Shifts: Since last year's meeting, Russia, Britain, France, Canada, Japan and the United States have held national elections, with three of these taking place in the last month alone.

Recent elections in France, the UK and Canada can be interpreted, to a greater or lesser extent, in part as a repudiation of the budget-driven austerity policies of conservative governments. Blair pulled his Labor Party to center, leaving behind "Old Labor's" traditional policies. The centerpiece of Blair's platform is a program to train young workers for the challenges of the global economy. The June 2 election in Canada yielded significant gains for the labor-backed New Democratic Party.

Canada's labor unions believe that the election is a wake-up call, drawing attention to Canada's 9.3 percent unemployment rate and the dissatisfaction with cutbacks in unemployment insurance and health care programs. Most observers, however, believe the main message of the election was the increasing regionalization of Canadian politics; only Chretien's Liberals still have representatives in every province, and two-thirds of the Liberal MPs are from one province, Ontario.

The most dramatic ideological swing by an electorate seems to be in France. The surprisingly strong victory of the Socialist Party represents a clear rejection of Chirac's austerity policies which are held responsible for a 12.8 percent unemployment rate and (so far modest) cuts in the social benefits system. The Socialist platform proposes the creation of 700,000 new jobs, a reduction in the workweek to 35 hours and an increase in the minimum wage. It remains to be seen how this can be accomplished if France is even to come close to the budget target for entry into the single currency.

Bosnia Implementation: Russia's deepened inclusion as a member of the Eight symbolizes a new era of great power cooperation. That cooperative spirit has been most fully realized, in efforts to secure peace in Bosnia, where each of the Eight have contributed through the Bosnia Steering Board and, except for Japan, are participants in SFOR. Following up on your and Secretary Albright's Bosnia discussions last month, the Eight can build momentum by recommitting themselves to implementing Dayton through increased pressure on the parties, additional resources, and a heightened focus on the priority implementation areas needed to build a self-sustaining peace: public security, joint institutions, economic reconstruction, return of refugees and displaced persons and war criminals. The Eight should make clear that our assistance and support will be contingent upon the demonstrated commitment of those authorities to fulfill their obligations under the Peace Agreement. French President Jacques Chirac will lead the discussion. He is likely to paint an overly gloomy picture of implementation efforts to date and may imply that forces need to stay in Bosnia beyond June 1998. You should seek to focus discussion on the implementation challenges ahead, rather than post-SFOR speculation. We plan for the leaders to issue a statement coming out of the Dinner discussion outlining concrete plans for Dayton implementation.

BACKGROUND ON RUSSIA'S ECONOMIC REFORMS AND ACCESSION TO INTERNATIONAL ECONOMIC ORGANIZATIONS

President Yeltsin has delivered on a number of his Helsinki pledges, signing decrees in key areas such as monopolies, housing, alcohol production and sales, and corruption. Russia and the IMF have reached agreement on a program for 1997 designed to strengthen Russia's finances to preserve gains made to date on stabilization and initiate a new wave of structural reforms. **The Fund acted after Russia acted on fiscal and structural reform issues, including submission of the tax code to the Duma and a new 1997 spending plan to the Duma, began a crackdown on large tax debtors, and announced transparent privatization procedures.** It is crucial that Russia work closely with the IMF and World Bank to advance this new round of reforms.

Russian Accession to International Economic Organizations: The G-7 are in agreement on the importance of assisting Russia in its efforts to enter organizations such as Paris Club and WTO on normal terms as a means of binding it into the international economic system. However, the G-7 is not in agreement on the target dates established at Helsinki (Paris Club 1997, WTO 1998). There may be some continuing discussion of the value of setting targets to advance Russian accession efforts.

Russian Relations with IFIs: On May 16, the IMF Executive Board approved the 1997 program for Russia and released a \$700 million credit tranche. The IMF has disbursed \$4 billion under the 1996-99 Extended Financing Facility (EFF), for a total of \$14 billion to date. The World Bank has announced that it could disburse \$3 billion in loans to Russia per year in 1997 and 1998 if the Russian government actively engages on Bank programs; the Bank has previously disbursed \$7 billion.

Taxation of Assistance: Russia continues to tax some forms of development assistance, and there are problems with draft Russian legislation meant to address this issue. The Russians have been reminded of the urgency of the taxation-on-assistance problem and know the G-7 position on draft legislation. It is now up to government to revise the Duma draft and ensure that legislation is enacted that address legitimate concerns that assistance be used in its entirety for intended purposes.

Coordination of Assistance: G-7 representatives in Moscow have agreed that the secretariat of the Support Implementation Group (SIG), established at the 1993 Tokyo Summit to coordinate assistance to Russia, can be dissolved and its functions performed by the lead G-7 nation's embassy in Moscow. The United States supported by Germany and France, wants to transfer the SIG database of donor activities to the World Bank.

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BACKGROUND ON BOSNIA PEACE IMPLEMENTATION

The Denver Summit is an important opportunity to highlight a reinvigorated Bosnia policy, following up on your strong message to the Europeans on your trip last month. The successful Bosnia Peace Implementation Council Steering Board ministerial in Portugal (May 30) and Secretary Albright's high-profile trip to the region (May 30-June 1) marked an acceleration of our peace implementation efforts. The Denver Summit should build on this momentum by providing high-level international support for our policy.

Success in Bosnia is critical to stability in the Balkans, the strength of the NATO alliance and the security of Europe. We have already made an enormous investment, both in terms of resources and prestige, in the success of Dayton. We cannot allow our efforts to fail. A major effort, led by the U.S. and supported by our major allies, is needed to solidify the Bosnian peace before SFOR's mission ends in about one year. At Denver, we are looking for strong communiqué language that recommits the Eight to full Dayton implementation, emphasizes the international community's long-term engagement, and supports specific steps to enhance implementation of the Brcko arbitral decision.

We have achieved some major successes in the first eighteen months of Dayton implementation: stopping the fighting, separating the warring factions, holding successful national elections, creating joint institutions, making great strides in economic reconstruction, and steady improvements on freedom of movement and return of refugees and displaced persons. Just recently, we have reached important agreements on a central currency, on a national budget, and on the opening of the Bosnian and Croatian border. These successes have been achieved through intensive U.S. diplomacy and the mobilization of a large international effort.

Much, however, remains to be done. We must get a commitment from the Eight to pressure the parties on areas where progress has not been adequate -- return of refugees to minority areas, freedom of movement, apprehension of war criminals, effective functioning of joint institutions, and economic reintegration. We need to secure greater allied contributions of resources for our efforts to train and equip local police and to ensure successful municipal elections in September. A strong commitment to Dayton implementation at Denver will set the stage for a successful donors conference for Bosnia in late June and will set the tone for international cooperation in Bosnia during the crucial next year of peace implementation.

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**SATURDAY
MORNING: SESSION I**

SATURDAY MORNING: FIRST SESSION

(9:00 a.m. - 11:00 a.m.)

I. Introduction (5 minutes)

II. Africa (1 hour)

-- Introduction (you - 5 minutes)

-- Economics (Chirac - 30 minutes)

-- Political/Peacebuilding (Chretien - 25 minutes)

III. Ongoing Global Agenda

-- Introduction (you - 5 minutes)

-- Terrorism (Hashimoto - 5 minutes)

-- Drugs (Chirac - 5 minutes)

-- Crime (Prodi) - 5 minutes)

-- Nuclear Security and Safety (Chretien - 5 minutes)

-- UN Reform (Yeltsin - 5 minutes)

IV. Infectious Diseases (20 minutes)

-- Your lead

SATURDAY MORNING SESSION I:
KEY POINTS: AFRICA

Session Overview

President Chirac launched a "Partnership for Development" last year at Lyon, and will lead off the economic aspects of the discussion. While he will probably emphasize the need for continued aid to sub-Saharan Africa, and the limits to trade and reform, you should try to return the group to the more realistic focus on assuring that all countries should have the opportunity to benefit from globalization, that our strategy of integration must include less developed parts of the world, especially Africa, and the need to give particular support to African reformers. Some of the leaders may also have concerns about the implication that we will provide more support to reformers than other countries.

Prime Minister Chretien will lead the discussion of conflict management, though he may try to extend this to the broader concept of "peacebuilding" in the developing world. You should seek endorsement of building an African-based conflict management capacity (the concept behind your initiative to establish an African Crisis Response Force), without committing to an integrated "nation-building" approach in all cases.

Key Points:

Applaud new partnership to support reforming countries:

- Many Sub-Saharan African countries are demonstrating economic and democratic reform: e.g., South Africa, Ghana, Mali, Mozambique, Uganda.
- Sub-Saharan Africa's economic marginalization and the need to raise the region's growth demands that we make a special effort.
- Need to continue to urge IMF, World Bank, WTO to develop innovative ways to support reform and growth.

Accelerated growth only through reform and integration (Chirac lead)

- To catch up with rest of world, Sub-Saharan Africa must grow faster, by 8 percent or more per year for a number of years. Only way to achieve those rates is to open economies, and make them more attractive to private investors and traders.

- African governments need to create the right policy environment for growth, including sustainable financial policies, links to world markets, promotion of democratic governance and rule of law and investment in people.
- We should each do what we can to improve access to our markets and encourage more meaningful African participation in WTO.
- We are pushing legislation in our Congress to provide more trade benefits to least-developed African countries and even further benefits to those that are pursuing reform.
- Official development financing can help, but private sector-led trade and investment are key to rapid, sustained growth.
- The World Bank, IMF and African Development Bank have to be innovative in supporting reform.
- May be critical, for instance, to provide bridge financing for Africans that have opened their markets and lost tariff revenues.

Debt Relief

- HIPC (heavily indebted poor country) debt initiative is one of our best programs to provide support for needy countries undertaking economic reforms. IFIs are also providing debt relief for the first time.
- Let's work together to keep it on track and move ahead. I hope additional countries will benefit from this initiative soon.

Conditionality [if raised]:

- We want to focus our limited incentives and benefits on countries taking reform steps. Selectivity is really about assuring a commitment to reform. Want self-sufficiency, too.

Conflict Management (Chretien lead):

- Recent events make clear the urgent need to enhance Africa's peacekeeping and conflict resolution capacities.
- Of course, Africans must provide leadership, including OAU and subregional bodies. But we can help by strengthening partnerships linking Africans, donors and the UN.
- British and French have made important contribution by providing training for African battalions for peacekeeping. United States is doing the same.

- Need to work with Africans to help them establish fully-interoperable, rapidly deployable African peacekeeping capacity through increased training, joint exercises and a common peacekeeping doctrine.

If pressed on an integrated approach to peacebuilding:

- Bosnia and Haiti show that building peace is hard work. Involves combination of peacekeeping, rule of law, and economic reconstruction.
- Still, must be careful when we commit ourselves to a situation, we are clear on our goals and on limits of what we can do.
- Often, best we can do is give people a chance to build their own peace.

SATURDAY MORNING SESSION I:
KEY POINTS: ONGOING GLOBAL AGENDA

Session Overview: Over the last three years -- largely at your initiative -- the Eight have increasingly focused on strengthening international cooperation to address global problems. One of our aims at this year's Summit is to consolidate and highlight this agenda. We have called for Foreign Ministers to report to the Leaders on progress in the past year and concrete plans for the next year in major areas of cooperation such as crime and terrorism. Unlike just a few years ago, there is now broad agreement on the need for collective action among the Eight in these areas. **Your aim for this discussion should be to reinforce the commitment of the Leaders to deepen our cooperation and to agree that we should involve appropriate additional countries in our cooperative efforts.**

While there need not be an extended discussion on each topic, you should ask the designated individual leaders to offer a brief review of several areas. In general, we have achieved our objectives in the ongoing agenda. The one sensitive area is UN reform. You should follow Yeltsin's report with a request for support in reducing the U.S. assessment rate. **At the end of the session you should turn to our new initiative on infectious diseases and emphasize the importance of the U.S. proposal for cooperation in developing an AIDS vaccine.**

Your Introduction:

- Our expanding cooperation on global issues is providing the leadership necessary to help world organize itself for new brand of security challenges.
- We have made real progress together over the last three years on nuclear security, UN reform, fighting crime, drugs and terrorism.
- Need to recognize that these and similar problems will be with us for a good while, and respond accordingly.
- We have not done this by creating new bureaucracies. Instead we have established networks of key officials, and built effective cooperation through adopting concrete initiatives.
- In many of these areas, our next challenge is extending our cooperation to other states around the world.

Terrorism (Hashimoto lead):

- Cooperation among Eight since Lyon reflects our resolve to combat terrorism. Personally grateful for support at Lyon and for efforts to implement Paris Ministerial 25 recommendations.
- We have made real progress in key areas, including improved international standards for airport security, explosives detection and vehicle identification, and controls over explosives.
- International community looks to our leadership. Critical that we endorse additional specific measures to combat terrorism:
 - Our experts agreed in Ottawa and Paris on need for all states to become parties to international terrorism conventions by year 2000. Must intensify diplomatic efforts to ensure that all states join those conventions;
 - Should share information to detect and deter the use of materials of mass destruction in terrorist attacks, one of the greatest dangers facing our security;
 - Much work remains in protecting our electronic and computer infrastructures; strengthening maritime security; developing a common way to safeguard international special events.

If pressed on encryption

- New encryption technology threatens fight against terrorism. Should promote use of encryption that allows, when necessary, lawful government access to prevent and investigate acts of terrorism and other crimes.

Transnational Crime (Prodi lead):

- Our experts' following through on the Lyon 40 recommendations has been a major achievement. We should extend group's work.
- High-tech and computer-related crimes are difficult to successfully investigate and prosecute. We'll be sending out a proposal on how to tackle these problems together.

Drugs (Chirac lead):

- Drug consuming and producing countries must work together in overall effort. Our programs and policies seek to reduce demand at home and supply from abroad.
- Training and assistance to other governments -- especially in their judicial sectors -- is critical.
- We also have had great success with alternative economic development programs in Peru and Bolivia. Despite differences with Colombia's President Samper, we're still largest single contributor to Colombian counternarcotics programs.
- However, will only support alternative development if recipient countries are fully committed to fighting drug trafficking and not simply seeking additional foreign assistance.
- Strongly endorse pledge to advance information sharing on money laundering, chemical precursors and trafficking patterns. Our Crime Experts should follow-up in October.

If Pressed On Domestic Drug Control Policy

- Reducing drug use at home is a top national priority. We have reduced substantially the numbers of casual users over the past decade. We spend nearly \$5 billion annually on demand reduction -- roughly a third of entire federal drug control budget. Private and voluntary institutions and state and local governments spend millions to support such programs.

Nuclear Safety (Chretien lead):

- We need to redouble our efforts on joint nuclear reactor safety assistance to countries in Eastern and Central Europe and the New Independent States.
- We should act on another Moscow Summit commitment by adopting the Supplemental Funding Convention on nuclear liability at the diplomatic conference later this summer; and hope for signature in September.

If Russia seeks to join Nuclear Safety Working Group

- Boris, need your help in fulfilling Moscow Summit nuclear safety commitments. Need concrete signs of putting safety

first; implementing the EBRD grant agreement; and cooperating with our work to improve safety in Eastern and Central Europe and the New Independent States.

- Demonstrable action by Russia to meet Moscow Summit commitments would also open the door to its further integration in Nuclear Safety Working Group.

Nuclear Security:

- Cooperation in securing and safely managing nuclear materials is a great post-Cold War success.
- This is a major Moscow Summit achievement, but initial success must not lessen our drive to build long-term programs to address problems posed by surplus fissile material stockpiles.
- This issue in many ways is the next frontier of arms control. We are making sure that nuclear materials cannot be used in weapons, and preventing illicit trafficking in dangerous nuclear materials.
- As a result of our efforts to combat nuclear smuggling, our governments now share more information with each other and work together more closely and cooperatively than ever before.
- Pleased that our experts will report to us by next year's Summit on possible arrangements for implementing our plutonium management with others.
- Also pleased that later this year additional states in Central and Eastern Europe and in Central Asia will participate in our efforts to combat nuclear trafficking.

UN Reform (Yeltsin lead):

- I have reached agreement with the Senate authorizing committee to pay more than \$800 million in U.S. arrears to the UN system over the next three years. Though our budget process is not yet complete, this is a breakthrough.
- Package requires progress on several reforms, none of which is beyond UN's ability, and all would strengthen the system.
- But there are two elements that require support of member states, and I need your support on them:

- First, reduce the U.S. regular assessment rate for the coming biennium to no more than 22 percent for the next biennium and 20 percent thereafter; it was a major effort to keep Congress from insisting on a 20 percent cap this year.
- Second, approve moving the small percentage of those arrears that Congress has prohibited us from paying to a "contested account" that we would continue to discuss with the UN.
- In the past the UN has decided to allow countries to forego paying assessments they disputed. A contested arrears account will not prevent the UN from reimbursing peacekeeping troop contributor nations.
- (If asked for precedents:) The Soviet Union and France refused to pay their assessments for peacekeeping operations in the Congo and the UN eventually put aside those debts. In 1981, the UN allowed China to put aside its peacekeeping arrears.
- The agreement I have reached with the Senate marks a major commitment from the United States to support the UN, pay the vast bulk of our arrears and put the UN on a sound financial basis.

Infectious Diseases (You lead):

- This century has seen extraordinary progress in the fight against infectious diseases -- from eradication of smallpox to discovery of penicillin.
- The battle is not over. New threats such as HIV/AIDS and Ebola are emerging; old enemies like tuberculosis and pneumonia are reappearing in deadlier forms.
- At Lyon, we recognized that no single nation can stand alone in meeting these challenges, and pledged to address the threats these diseases pose together.
- This year, we can commit to move forward in three key areas: coordinating international outbreak response; developing a global surveillance network; and building capacity in public health, particularly in developing countries.
- We shouldn't try to displace efforts of the World Health Organization and other international organizations. But Eight is right group to think about how international community should organize itself to defeat these diseases.

AIDS Vaccine

- Safe and effective AIDS vaccine is a global public health imperative. Without effective vaccine, AIDS will soon overtake tuberculosis and malaria as the leading infectious cause of death in the world.
- More than 29 million people worldwide have been infected with HIV. More than 3 million infections in just the past year -- 95 percent of these occurred in poorest parts of the world.
- Effective preventive anti-HIV vaccine can limit and eventually eliminate the threat of AIDS.
- Last month, launched a national commitment to develop a vaccine within the next decade. Pleased that today we will take steps to make this a global commitment.
- UNAIDS a leader in global response to HIV/AIDS -- addressing legal and ethical issues related to vaccine research and developing international testing sites. Continued financial support critical to success of this collaborative endeavor.

Global Nonproliferation Regime (if raised):

- The international nonproliferation regime is one of the great security achievements of our time. Critical that we continue to support and promote its common arms control goals.
- Our work in achieving NPT, in bringing the Comprehensive Test Ban Treaty (CTBT) and Chemical Weapons Convention (CWC) into force, among others, has demonstrated the Eight's leadership in making the world safer and more secure.

Anti-personnel Landmines (if raised):

- The United States welcomes growing international support for a comprehensive global APL ban, and welcomes efforts underway to begin negotiations in Conference on Disarmament, and those Canada and others are pursuing through the "Ottawa Process."
- The United States looks forward to enhancing cooperation with the Eight toward resolving the humanitarian crisis caused by APL.

If disagreement on how to portray negotiations in communiqué

- We have different views on the process, tactics and timeline for concluding an APL ban. The communiqué should focus on our common goal -- the need to ban APL.

If pressed on U.S. support for the CD over the Ottawa Process

- The United States continues to believe that the CD and the Ottawa Process can and should be mutually reinforcing.
- The CD includes major historical APL producers and exporters, whose support is needed for an effective agreement. Some of these states have indicated they will not participate in Ottawa Process.

If asked about U.S. participation in Ottawa Process

- The United States will attend the Ottawa Process meeting in Brussels as an observer, and will consult with Canada and other Ottawa Process supporters on issues related to banning APL.

SATURDAY MORNING SESSION I:
DISCUSSION PAPER: AFRICA

The first half of this session follows through on the Lyon meeting, where the G-7 committed to undertake a "Partnership for Development" with a specific focus on Africa. **The Partnership supports Sub-Saharan African (SSA) governments undertaking and persevering with reforms needed to generate sustainable economic growth and promote democratic governance.** In addition to bilateral steps such as our own domestic trade and investment legislation, Summit partners are working with international institutions to develop programs to support SSA reform. **The Partnership also endorses U.S. and other developed country efforts to build African peacekeeping capacities.**

President Chirac should lead the economic discussion, having placed this initiative on last year's agenda. Both he and Prime Minister Hashimoto may argue for maintaining or even increasing direct assistance. Others may object to making access to our markets conditional on adopting reforms. **It is critical to focus the issue on what we can do to support courageous African leaders taking bold reforms, not the paucity of assistance resources.** President Yeltsin will participate, even though work with IFIs is largely coordinated by G-7 finance ministers. Prime Minister Chretien should begin the discussion of conflict resolution.

The Need for Sound Policies: The Partnership supports policies needed to build a dynamic private sector and promote global integration -- the only long-term ways to alleviate poverty and encourage sustainable development. **You should urge others to support African leaders who are taking the tough decisions to adopt sustainable financial policies, link SSA economies to world markets, promote democratic governance and the rule of law, and invest in people.**

Trade Liberalization: Trade liberalization is critical, both by developed countries providing a market for African exports, and by African nations seeking to integrate into the global economy. This is central to our own African trade initiative.

The Eight agree on the value of providing tariff-free treatment for Africa and many do so under their preferential tariff schemes for developing countries. Some of the Eight differ with us on explicitly linking tariff-free treatment to policy reforms. The Europeans believe they already provide much greater access for African exports under the Lome Convention than we do, and are concerned we may try to upstage them by highlighting our new market-opening moves. The UK would go further still, suggesting that the Summit call for tariff-free treatment for all products

from the least developed countries, a position that will be rejected by our industry and Congress. The Japanese share our more cautious approach. We should not let differences detract from a discussion of how we can send a strong message to investors of our political support for Africa's reformers. The Communiqué language on trade preferences for Africa is nuanced to account for differences and should not blunt our message about steps we will take to promote reform.

Development Assistance: Official development assistance (ODA) remains critical to many African governments. While we will continue to provide humanitarian assistance as needed, you may need to stress to your counterparts that World Bank and other studies show that, in the long run, development assistance can only raise African standards of living if linked to policies that stimulate private sector activities. Lyon endorsed this principle, and our emphasis on trade and investment reinforces the need to move away from notions of African "dependency."

Most Summit partners (except Germany), however, tend to see ODA as an entitlement for developing countries. They may be uneasy that we are leaning more toward rewarding only good performers. They prefer an approach which takes "individual circumstances" (i.e. relative need) into account. We should insist the focus remain on supporting countries doing the most to help themselves.

The Communiqué lists priority areas for concentrating assistance activities: democratic governance, public administration, legal and judicial reform, rural development, food security and health and education. We expect concrete initiatives in three key areas: promoting transparency and combating corruption in public procurement; improving African policy management skills; and promoting electronic information networks to help diffuse good policies, open new educational opportunities and create links with trade and investment partners. The United States and Canada are most enthusiastic about work in the latter area, which will build on our Leland Initiative to expand the internet in Africa.

Conflict Resolution: Summit Partners agree on the need to help strengthen African conflict resolution and peacekeeping capacities. We are seeking endorsement for an initiative based on our African Crisis Response Force. Canada has proposed a global and comprehensive emphasis on "peace-building" that integrates economic, political and peacekeeping efforts. We endorse discrete elements of this approach, but feel it is critical to discuss and implement the various elements separately. A more holistic approach also may be criticized as a new effort at nation-building.

SATURDAY MORNING SESSION I:
DISCUSSION PAPER: ONGOING GLOBAL AGENDA

The Eight's efforts to address global challenges have become an increasingly important part of the Eight's cooperation, largely through your leadership. Each country has made significant contributions, and several partners will take the lead in addressing various issues.

You should underscore that these problems need to be a more or less permanent part of our agenda. While we have made progress in acting on Lyon commitments, you will want to keep leaders focused on implementing recommendations on crime, terrorism, nuclear safety and security. This year, you also will want to forge cooperative efforts in establishing an infectious disease surveillance and response network and in working together to develop an AIDS vaccine.

Terrorism: The Eight's cooperation, which has focused on implementing last year's 25 recommendations, is now recognized worldwide as an authoritative framework for fighting terrorism.

Leaders may want to reflect on lessons learned from recent terrorist incidents. Hashimoto wants to discuss his experiences from the Peruvian crisis; Yeltsin may raise experiences from Chechnya and Tajikistan. If raised, you should note that the **denouement of recent crises underscores the need for international cooperation and a policy of no concessions to terrorists.** You may want to discuss the need for continued law enforcement cooperation and bomb detection advances.

Transnational Organized Crime: The Eight first focused on transnational organized crime at Halifax by creating the Senior Experts' Group. Building on the 40 recommendations to combat organized crime adopted at Lyon, this group has brought together justice, finance and foreign ministries to develop practical operational activities, promote law enforcement capabilities and cooperation between and among member states and suggest steps that all nations take to address international law enforcement issues.

You should use Denver to reaffirm support for our experts' ongoing efforts. The Europeans have been somewhat reluctant to get too far ahead of non-G7 EU counterparts; you should encourage them to continue their significant contributions in areas of extradition and legal assistance, illicit trafficking in firearms, alien smuggling and document fraud and the new challenge of high-tech and computer-related crime.

Drugs: Chirac will urge strengthened coordination in providing drug producing countries with assistance to promote alternative development strategies. You may want to note our success with alternative development in Peru, but stress that it is critical that recipient countries are fully committed to fighting drug trafficking and not simply seeking additional foreign assistance. You may also note our recent efforts to direct considerable resources to demand-side efforts.

UN: The UN Secretary General's recent reform measures track closely with the Lyon package of UN reform proposals, especially regarding merging UN Secretariat Departments, consolidating UN field activities and reprogramming some savings to development-related efforts. You will want to keep progress on reform going, particularly in economic, social and administrative reform. Japan will not likely raise its desire for a permanent UN Security Council seat in this setting, but has been persistent in asking for Communiqué language endorsing a greater attention to UN peacekeeping simply as a way of establishing a role for itself on political reform matters. Italy has opposed such language precisely because it does not want UNSC reform raised.

Your Summit partners may seek a firm commitment from you on U.S. payment of its UN arrears and fulfillment of future obligations. We have reached tentative agreement with the Senate Foreign Relations Committee on authorizing funds to pay our arrears. The agreement stipulates that the payments will be made over the course of three years, but only if the UN meets tough reform benchmarks and U.S. assessment rates are cut. These benchmarks are not popular with other UN members, most of whom believe U.S. arrears exceed the amount you have pledged to pay. You will need to push your Summit partners to support the reform benchmarks, and especially the assessment rate cut. You should emphasize that the changes Congress has demanded will ensure that the UN remains relevant in the twenty-first century and make it less dependent on any single country.

Non-proliferation: The Eight should highlight progress made since the Moscow and Lyon Summits. Cooperative efforts in fighting illicit nuclear trafficking and in building cooperation to dispose of growing stockpiles of plutonium from dismantled nuclear warheads are among our most significant accomplishments. The next challenge will be bringing other countries into these efforts.

Anti-personnel Landmines: At Lyon, the Eight called for a global ban on anti-personnel landmines (APL) but have disagreed over tactics, timelines and the best fora for negotiating such a ban. The United States supports the Conference on Disarmament (CD) as the only forum that can produce a global agreement, while Canada

favors its "Ottawa Process," which calls for focusing negotiations on self-selected interested states seeking agreement on an APL ban. Russia -- a producer and exporter of APL -- is prepared to engage in a "phased" negotiation in the CD, but will not support the Ottawa Process. We are trying to reach agreement in the CD on a mandate for negotiations, although we do not underestimate this challenge. Meanwhile, we have participated as observers in the Ottawa Process.

Infectious Diseases: You should obtain political commitments from the Eight to better coordinate efforts to reduce the threat of emerging infectious diseases and to obtain a global commitment, to match our domestic goal, to develop AIDS vaccines within the next decade. Common efforts in combating emerging infectious diseases focus on three critical areas: (1) coordinating international outbreak response; (2) developing a global surveillance network; and (3) building capacity in public health, particularly in developing countries. This will involve supporting and strengthening existing bilateral and multilateral organizations and mechanisms, particularly the World Health Organization (WHO). Also, you may want to urge that the Joint United Nations Program on HIV/AIDS (UNAIDS) gets the resources necessary to fulfill its global mandate in responding to this disease.

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- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Background Papers

BACKGROUND ON AFRICA: ECONOMICS AND TRADE

The Summit focus on Africa follows on the "Partnership for Development" agreed to at Lyon. The Lyon partnership spelled out general principles for development cooperation -- particularly the need for developing countries to adopt appropriate policies and donor support for these reform efforts. The Denver initiative seeks to make the Lyon principles more concrete, in part by concentrating resources on poor countries with growth-oriented economic policies and governments committed to their implementation. This initiative compliments our partnership for economic growth and opportunity in Africa.

Shift from Aid to Trade:

Development of Sub-Saharan Africa (SSA) is in the interest of the United States and its Summit partners. Our expenditures for refugees, disaster relief and peacekeeping are the same order of magnitude as our bilateral development assistance. SSA with 770 million people also represents a potentially large export market. As trade relations with Africa are increasingly based on market factors instead of historical ties, U.S. exports which hold only 7% of the African market can gain a greater share of this growing market. Our direct investment in SSA, mainly in the petroleum sector, has tripled since 1993 to \$4.5 billion and consistently generates high rates of return.

Selectivity:

Accelerating progress in countries further along the reform path can have an important demonstration effect. We must remain engaged with countries where progress lags, or be prepared to respond to yet more humanitarian crises. But assistance must not be used to postpone adjustment, rather, it should support efforts that clearly lead toward self-sustaining growth and development. The key remains performance-based allocation of resources.

Supporting reformers...

Several countries -- Ghana, Mali, Mozambique and Uganda -- have made impressive strides in political and economic reform. In general, greater progress has been made on macroeconomic stabilization than on structural reform, and SSA countries must liberalize their trade and investment regimes. Those willing to pursue growth-oriented reforms should benefit from enhanced support, primarily from a more performance-related allocation of IFI, UN and bilateral development resources, but also from enhanced access to Summit country markets.

... and encouraging footdraggers.

Some African countries -- Liberia, Sierra Leone, Burundi -- remain mired in conflicts that thwart economic growth. Others, such as Angola, Rwanda and the Democratic Republic of the Congo, are just emerging from such conflicts. Still others -- Nigeria, Cameroon, Djibouti, the Gambia -- are lagging in the reform process; our approach with this group must be to encourage them to embrace reform more vigorously.

Role of IFIs: Special programs and debt relief:

Progress achieved to date has been assisted by the efforts of the IMF, World Bank and bilateral donors. By end-1996, 24 countries had IMF programs, and 31 were participating in the World Bank-led Special Program of Assistance. Uganda is the first country to be approved for the Heavily Indebted Poor Countries debt initiative, in which Burkina Faso and Cote d'Ivoire are also expected to participate.

The Summit should urge UN agencies and the IFIs to take a more targeted and comprehensive approach to problems hindering the emergence of a dynamic private sector. Technical assistance to reform power and telecommunications regulations can open these sectors for much needed private investment. Assistance for judicial and commercial law reform can help create a more attractive investment climate for domestic and foreign investors.

BACKGROUND ON AFRICA: CONFLICT MANAGEMENT

As part of a joint strategy to reverse Africa's marginalization, most Summit partners support new efforts to strengthen Africa's peacekeeping capacity, through an initiative based on the U.S. African Crisis Response Force proposal. The United States is seeking agreement from the Eight to:

- endorse the goal of an interoperable, rapidly deployable African peacekeeping capacity;
- urge greater international coordination to enhance African peacekeeping capacity;
- highlight African leadership, with reference to the Organization for African Unity and subregional bodies;
- call for expanded donor support to the UN/OAU Special Envoy for the Great Lakes and the UN Trust Fund for African peacekeeping and conflict prevention.

The Eight have agreed to wait until immediately prior to the Denver Summit to decide whether to state explicitly that an objective is to establish "a UN forum open to all interested member countries, and on operational matters, a joint coordinating body." Before including this language, the UK and France want to be certain that adequate prior consultations have taken place with the OAU and other African leaders and that this initiative will not be perceived in Africa as an imposition by the Eight. The Germans would prefer not to reference the joint coordinating body in the Denver communiqué.

BACKGROUND PAPER ON RUSSIAN NUCLEAR SAFETY AND NUCLEAR LIABILITY

Russia

Russia's cooperation on civilian nuclear safety matters has been the most noteworthy disappointment of the Summit process and of the G-7's new relationship with Russia. Russian nuclear officials continue to deny that there are any safety problems meriting significant changes in current practices, in stark contrast to the open attitude of Russia's new economic team.

Russia has made virtually no progress on meeting safety commitments made at the April 1996 Moscow Nuclear Summit. Most critical are Russia's delays in implementing its 1995 European Bank for Reconstruction and Development (EBRD) grant agreement on nuclear safety, despite your having raised this in your April letter to President Yeltsin. Implementation of the grant agreement would result in substantive changes in Russian safety practices. Also of concern are Russia's actions to contravene rather than cooperate with G-7 safety efforts in third countries. Donors to the EBRD's Nuclear Safety Account are losing patience with Russian intransigence on implementation of the grant agreement terms and may suspend it this summer if Russia does not take immediate steps.

Despite the lack of progress on its safety obligations, Russia has requested admission to the G-7 Nuclear Safety Working Group (NSWG). There is unanimous agreement among the G-7 countries that unless and until Russia makes appropriate changes in its nuclear safety culture and practices, admission to the NSWG would be premature and damage the group's credibility. Summit leaders need to raise this with President Yeltsin. Pressure to improve safety in Russia needs to be sustained at the Head-of-State level through the Summit process, or we will lose the leverage that Russia's desire for integration into the Eight provides.

Nuclear Liability

At the Moscow Summit, the Eight committed to develop a Supplementary Funding Convention on nuclear liability, which has been negotiated at the International Atomic Energy Agency and is expected to be adopted later this summer. The United States has been the driving force behind this Convention, designed to be the first global nuclear liability regime. It would remove legal barriers to international nuclear safety cooperation and provide increased compensation to victims of any future nuclear incident. You need to give the Convention a plug to show that the United States is committed to joining it (the Senate's

ongoing delay in ratifying the Nuclear Safety Convention worries some) and to shore up support among the Eight. Germany has been particularly recalcitrant because it gains a commercial advantage by stalling the convention.

BACKGROUND ON UN REFORM

The Summit process has stimulated wide-ranging reform in the UN. The Secretary General incorporated some of the Lyon reform recommendations including consolidating UN development-related departments, field activities, into his March 17 reform package. We expect him to propose additional reforms in July. Our specific goals include enhancing ECOSOC's policy-setting and coordination roles; improving management of UN development and humanitarian programs; and encouraging continued reform of UNCTAD, the regional economic commissions, and the specialized agencies.

We have reached a tentative agreement with Chairman Helms to authorize more than \$900 million for U.S. arrears to the UN. The money would be paid over three years (FY98-00), provided that the UN meets specified reform targets. Two of those conditions can be met only with the cooperation of our Summit partners: reducing the U.S. assessment rate at the UN and its affiliated agencies (FAO, ILO, WHO) from 25 percent to 22 percent for the next biennium and 20 percent thereafter, and moving the arrears the Congress has prohibited us from paying to a "contested account" that we would continue to discuss with the UN.

Outcomes: The Communiqué calls for member states to support implementation of the Secretary General's reform measures. Although the Communiqué does not cite specific UN budget levels, it does call for the UN to be placed on a firm financial footing through a fairer distribution of financial burdens. We will continue to urge our partners to support steps in the UNGA Fifth Committee (budgetary matters) and financial committees of the UN specialized agencies to apply revised assessment rates.

Difficulties: Persuading UN member states to accept the Congressional reform benchmarks will require strong personal efforts at the highest level of the United States Government. Our Denver Summit partners see our failure to pay our obligations as the root of most UN financial problems, believe we owe more than \$1.3 billion to the UN, and object to the conditions the Congress has imposed on the payment of arrears. Many oppose reducing our UN assessments, which would increase their rates, without a firm commitment that the United States will pay its future assessments in full. Germany and Japan may try to tie any assessment rate changes to their being made permanent members of the UN Security Council. Congress unilaterally imposed a 25 percent cap on the U.S. peacekeeping assessment as of October 1, 1995. The SFRC legislation makes acceptance of this cap by the UN a sine qua non for the payment of arrears. At present the UN assesses the United States just under 31 percent for peacekeeping.

BACKGROUND PAPER ON INFECTIOUS DISEASES

Infectious diseases are the leading cause of death worldwide and have continued to increase over the past decade both in the U.S. and globally. In the U.S., the death rate from infectious diseases, excluding HIV/AIDS, rose by 22 percent between 1980 and 1992. Beyond the tragic loss of life, the diseases can have significant global economic and political consequences, as demonstrated by Britain's experience with "Mad Cow" disease, Japan's experience with *E. coli* 0157:H7, and the U.S. experience with contaminated fruits and berries from other countries. In the developing world, where the burden of infectious disease is the greatest, these diseases can have crippling effects on socioeconomic development.

Recognizing that the challenge of these diseases outstrips the means of any single nation, the Administration has been at the forefront of national and international efforts to combat these disease threats. On June 12, 1996, Presidential Decision Directive NSTC-7 initiated a coordinated national response to the growing threat of infectious diseases both at home and abroad.

The G-7 pledged to address infectious diseases both nationally and internationally at Lyon last year. This Denver initiative builds upon that pledge, as well as activities under a number of national and international fora, such as the U.S.-Japan Common Agenda, the U.S.-EU Trans Atlantic Alliance, APEC, the Gore-Chernomyrdin Commission, and the World Health Organization (WHO). The U.S. proposes that the Eight work in coordination with the WHO and in other fora on three key international activities: (1) coordinating international response to outbreaks; (2) developing a global surveillance network; and (3) building capacity. These are areas in which the Eight can add significant leadership to ongoing efforts.

France might raise the question of international standards for vaccines, drugs, and diagnostics. The WHO has addressed this issue through a unanimous resolution to use broad guidelines on the quality of biological products.

There is also some disagreement on the role of research in this initiative. While supporting research in general, we feel that the addition of language on enhancing research dilutes efforts targeted towards a defined number of operational areas to which the Eight can add value. Further, our commitment to disease research is evidenced with the HIV/AIDS vaccine initiative.

SATURDAY MORNING: SECOND SESSION

(11:30 a.m. - 1:00 p.m.)

I. Introduction (5 minutes)

II. Environment (Kohl - 20 minutes)

-- Climate Change (Hashimoto - 10 minutes)

SATURDAY MORNING SESSION II:
KEY POINTS ON ENVIRONMENT

Discussion Overview: Chancellor Kohl will lead the session, addressing issues to be discussed at the UN General Assembly Special Session in New York the following week. Kohl likely will seek agreement to negotiate a forest convention and stress the need to radically reform the UN's environmental institutions. **There is widespread opposition in the United States to a forest convention from business, state and local governments and environmental groups -- and you should resist a commitment to negotiate one.** Prime Minister Hashimoto will urge a successful completion of climate change negotiations scheduled to be wrapped up this December in Kyoto.

One or more of the European leaders may urge ambitious numerical targets for emissions reductions, and may implicitly or explicitly criticize us for not agreeing. The United States has proposed one of the most concrete initiatives for Denver -- pressing to develop environmental guidelines for export credit agencies. You should push partners to commit to this. **As chair, you should stress the need to demonstrate concrete action and to speak with a common voice at Denver, emphasizing that differences on issues such as forests or climate change should not impede our efforts to move forward.** Other leaders may raise issues of specific concern to them (freshwater, oceans, e.g.) over which there is less controversy.

Introduction:

- Focus on environmental issues a natural evolution of this group's work. Truly a global issue. What we say and do on this issue could be our greatest legacy.
- Rest of world looks to our leadership. Critical that we speak with one voice. On many issues, others will try to divide us. Let's forge consensus around concrete, practical actions.
- On hard issues like climate change, it can take time to build political consensus within our own nations. Let's work together to build public support.

UN Special Session:

- Global agreement that consideration of the environment integral to sustainable economic development.

- Official development assistance can provide only small part of the resources necessary to ensure economic development. Domestic resources, public and private, must also be mobilized to foster development.
- Important that developing countries put policies in place to ensure that limited resources are used wisely and well.
- Another reason why UN should undertake needed reforms, allowing it to shift its limited resources to development efforts.

Forests:

- Sustainable management of forests critical. Cannot, however, support negotiations for a forestry convention.
- Chances of negotiating successful, effective global convention is highly unlikely. Developing nations oppose standards as too onerous; environmentalists in all our countries oppose convention as too weak, as do United States businesses. Lengthy, unproductive negotiations would allow further forest loss.
- Key is to implement practical recommendations by Intergovernmental Panel on Forests, such as protected forest networks and targeted assistance for national capacity building, which would help deliver concrete results in better managing forests worldwide.

Institutions:

- Strong international environment and sustainable development institutions are critical to address complex challenges.
- Critical that we support recent reform efforts at UNEP and CSD, and work with G-77 governments and Kofi Annan to address environmental matters as part of overall reform efforts.
- World Environmental Organization (if raised): WEO would undermine UNEP reform efforts if the Eight called for major restructuring right now. United States also concerned about budgetary implications of a new structure.
- Object should be framework for policy actions that will have to be built on well into next century.

Climate [Hashimoto lead]:

- One of the most important challenges facing our generation. Great deal at stake, both in environmental and economic dimensions.
- Kyoto negotiations must succeed. Can only be effective if level and timing of reductions are realistic and achievable.
- Details must be worked out in negotiations. No reason to include target numbers in Summit Communiqué, especially if not realistic.
- Past targets which nations have adopted have not been agreed to. Targets of 15 percent will have significant economic consequences and costs which should be seriously considered. We have only begun to study what commitments would require.
- Let's use the next six months to develop realistic targets and implementation strategies. We will have no credibility if we agree to target levels that we cannot show a realistic plan for how we will reach.
- Flexible implementation, through emissions trading and joint implementation, key to realistic, achievable and cost-effective agreement.
- In absence of concrete implementation plan, no point in my agreeing to targets, especially if they could be economically devastating or politically infeasible at home. Would set back progress.
- Need to educate people in United States. I'll start next week in New York.
- Critical to engage developing countries to take appropriate steps. Private sector investment, innovation and application of technology to mitigate climate change also key.

Export Credit Agencies [U.S. proposal]:

- Need to forge coalitions among environmentalists, businesses, and different parts of our governments. Know that many of you are concerned about impact on business of our proposal for environmental guidelines for export credit agencies. Need to

work together to develop initiatives like this in a way that we can gain support.

- Feel very strongly that environmental guidelines for Export Credit Agencies are critical to broad support for sustainable development goals. As a group, we are key exporters of private development capital. Must finance environmentally sustainable projects.
- Need to move forcefully over two year period to establish guidelines and develop expertise. "OECD Participants Group" is appropriate place to negotiate guidelines that ensure common standards across all exporters of development financing.

Fresh Water [if raised]:

- Developing nations face critical safe water problems: waterborne diseases cause 80 percent of disease in these countries. More than 5 million children die each year from diarrhea alone. Problem is most severe in cities of developing world.
- Strong words can help educate public, but concrete action is needed to develop common goals and objectives.
- Key areas for our action: ensuring quality, promoting efficient water use and resolving transboundary water disputes. Construction of large water supply systems, such as dams and irrigation projects, is not the answer.

Children's Health:

- Growing scientific recognition that children require protection from environmental hazards. Our environment and health agencies should coordinate implementing the actions recently agreed to in the Miami Declaration on Children's Health.

Global Environment Facility (GEF) -- "if asked"

- Working with Congress on a three-year plan to clear our arrears with the GEF as part of the larger effort to clear arrears with all the multilateral development banks.
- Working with other GEF governors, and hope that agreement on a replenishment (GEF II) can be reached soon.

SATURDAY MORNING SESSION II:
DISCUSSION PAPER: ENVIRONMENT

Your discussion on environmental challenges will occur midway through a critical year on these issues, and on the eve of the UN General Assembly Special Session on Environment and Sustainable Development (UNGASS). Most of your colleagues will depart Denver to address the opening of UNGASS. You should use this meeting to advance a central theme for New York: promoting environmental protection and sustainable development also requires an integrated attention to economic growth strategies, democracy, human rights and good governance. In New York, the G-77 will press for commitments of additional Official Development Assistance, and you should urge the Eight to remain firm in keeping the focus on getting environmental and sustainable development policies right in the developing world. Your meeting can forge agreement on a few key issues for the Special Session, including on general principles for approaching forests, climate change, fresh water and reform of UN environmental institutions.

As chair, you should emphasize the need to demonstrate concrete action and to speak with a common voice at Denver, while not allowing differences on issues being negotiated in other fora, such as forests and climate change to define our collective environmental agenda. You can expect the following issues to be discussed:

Forests: Kohl and Chretien may seek a commitment to launch negotiations on a forest convention which sets minimal standards for protecting forests worldwide. The United States opposes, because developing nations will only support a convention that enshrines weak standards. In addition, time-consuming and uphill negotiations would provide cover for further destruction of forests. Supporting a convention would reverse U.S. policy, which opposes even starting negotiations on such a convention. A forest convention is strongly opposed by environmentalists, Congress, state governments, labor and the U.S. timber industry.

The Eight instead should focus on concrete steps to protect forests, in particular promoting national accountability. The UNGASS will address forests and we will need the Eight's support to establish practical mechanisms to promote such accountability. Japan, and perhaps UK, should support our position.

UN Institutional Reform: In recent years, institutions designed to support the development of international environmental and sustainable development policies have gone off track. The Nairobi-based UN Environment Program (UNEP) has suffered from unclear purpose, bureaucratic bloating and a crisis of leadership. The Eight have worked to clarify UNEP's mandate, and

should maintain high-level pressure for continued reform. The Eight also have worked to focus the UN's Commission on Sustainable Development (CSD) workplan during the next five years on a limited number of manageable issues.

Chancellor Kohl may use Denver and New York to push for creation of an umbrella World Environment Organization. **While radical reform may well be needed in the future, creating a new organization now could weaken the drive to implement reform efforts in UNEP, would raise major funding problems for the United States, and would be resisted by Africans who want to keep this function in Nairobi.**

The Europeans also are seeking a strong commitment to replenish the Global Environment Facility (GEF), and may express concern that the United States has only managed to fund 1/3 of its commitment. The GEF is an international organization that works with the UN and the World Bank to fund projects that aim to solve global environmental problems, including climate change, depletion of the ozone layer, biological diversity and international waters.

Climate Change: Negotiations to limit greenhouse gas emissions are expected to be concluded in Kyoto this December. The Europeans, especially the EU, want an explicit Eight commitment to reduce greenhouse gas emissions to 15 percent below 1990 levels by 2010, and want agreement to adopt harmonized policies and measures (e.g. energy taxes). **You should restate our support for meaningful emissions targets for developed countries but reiterate the need to be realistic about what we can achieve at both Denver and Kyoto.** We have urged that nations be given flexibility in meeting reduction goals and the need for emission trading schemes to lessen the economic impact. We have also stressed that U.S. industry and Congress will oppose U.S. signature of an agreement limiting our emissions if developing countries do not at least agree to accept binding commitments in the future. Canada, and to a lesser extent, Japan and Russia share our concerns.

The details should be worked out later in the course of the negotiations, not at the Summit. Denver should signal common willingness to address this issue seriously and send a clear message on the need for developing countries to participate in the effort to mitigate climate change now and in the future. The Japanese and Europeans, however, are concerned this may alienate developing countries.

Export Credit Agencies (ECA): Past Summits have helped initiate the adoption of environmental guidelines by multilateral development banks, and we have proposed that the Eight encourage OECD governments to adopt common environmental guidelines for ECAs (e.g. ExIm Bank) and develop the requisite expertise to implement them within the next two years. Others say they agree in principle, but Germany, France and to a lesser extent Japan are reluctant to commit to a firm date, arguing that ECAs themselves should discuss this issue. Unfortunately, ECAs lack authority to negotiate environmental guidelines, and will not develop requisite expertise unless guidelines are in place. There may be an underlying reluctance to move ahead with guidelines that could reduce exports by these countries. You should emphasize that guidelines are critical to promoting sustainable development in developing countries and in facilitating the transfer of environmental technologies.

Fresh Water: President Chirac will highlight fresh water at UNGASS. The Eight support efforts to address fresh water problems in developing countries to complement the work of the UN's Commission on Sustainable Development (CSD). The United States and Canada have proposed joint activities by the Eight, and we should urge partners to direct environment and development officials to work with the CSD on regional and country-specific actions.

Oceans: The UK, Japan and Russia insisted on mentioning oceans in the Communiqué though no concrete initiatives are envisioned. Hashimoto is particularly concerned about oil spill control in light of last winter's spill off Japan's western coast. Yeltsin will seek broader collaboration on earthquake and tsunami predictions and environmental monitoring in the North Pacific. We already work directly with the Russians on these issues through the Gore-Chernomyrdin Commission.

Children's Environmental Health: Carol Browner met with her counterparts in Miami last month and agreed to a 1997 Declaration on Children's Environmental Health. The agreement provides a framework for domestic, bilateral and international efforts, including incorporating children into risk assessments, reducing their exposure to lead and air pollution and improving access to microbiologically safe drinking water. You should acknowledge the importance of cooperation among the Eight to protect children which will be coordinated by the Environmental Protection Agency during the next year.

BACKGROUND ON UNGA SPECIAL SESSION

The UN General Assembly Special Session on Environment and Development, which meets June 23-27 in New York, will serve as a five-year review of the outcomes of the 1992 UN Conference on Environment and Development (the "Rio Earth Summit"), particularly with respect to implementation of Agenda 21, Rio's comprehensive "action plan" for sustainable development. All of the Eight's leaders will attend, with the exception of President Yeltsin. Prime Minister Chernomyrdin will represent Russia.

Your Denver discussion should focus the Eight on a few priority issues, while reaffirming the "Spirit of Rio" and the need for countries to pursue economic strategies that protect the environment and promote social equity.

- Priority Issues: We should emphasize the following during our discussion at Denver: realistic steps for limiting global greenhouse gas emissions that cause climate change; concrete efforts to stop forest destruction and promote sustainable management; highlighting principles to promote freshwater quality, especially in developing countries; protecting the world's oceans; and, implementing programs to reform and strengthen UN institutions dealing with the environment and sustainable development (especially the UN Environment Program and the UN Commission on Sustainable Development).
- Sustainable Development: Both Denver and the Special Session should recognize progress toward sustainable development, i.e., full integration of environmental, economic, and social policies. Some developing countries continue to pursue economic growth at the expense of emphasis to environmental protection, human rights, good governance and democracy. Developing countries also feel that financial aid from developed countries should have increased since Rio, and are upset that it has in fact declined significantly. Denver should clearly restate that developed countries strongly endorse private sector led growth, environmental protection, and social equity as mutually compatible goals.

UNSYG Annan on UNGASS: Secretary General Annan wrote to you on June 11, seeking a Denver Summit endorsement of the Special Session, with a particular focus on transportation, energy, water and forest issues. Summit partners have asked that you reply after Denver, reporting on your discussions. The Secretary General also asked for increased financial and technical assistance to the developing world from developed countries. Limited budgets at home and inefficient use of resources abroad argue instead for our working with developing countries to build legal and institutional capacity to address these issues.

BACKGROUND ON CLIMATE CHANGE

This year's round of climate change negotiations will include many important and difficult environmental decisions. The Eight can use Denver to communicate their recognition of the importance of the issue and commit to effective, flexible, equitable, and realistic targets to reduce greenhouse gas emissions as our countries prepare to conclude this round at Kyoto in December. We differ with our European colleagues, however, who want Denver to reach an agreement on specific emission reduction targets, while we have favored leaving specific targets to the Kyoto negotiations themselves, and instead using Denver to endorse key principles, including the need for developing countries to accept an appropriate role in the Kyoto process.

European nations want the Eight to endorse aggressive, binding target levels for greenhouse gas emissions. This approach reflects the less energy-intensive nature of European societies, Europe's general willingness to accept carbon/energy taxes, and a desire to appear forward-leaning to the developing world. Able to group their emissions under a single EU umbrella, Europe will benefit significantly from the relatively low emissions in former-East Germany, and stand to benefit even further should the Union expand to include other CEE countries. We do not consider their proposed targets to be realistic.

The United States seeks to limit emissions but with a more appropriate burden sharing between industrialized and developing countries. First, we favor multi-year emissions budgets rather than fixed-year targets. Second, Kyoto negotiations should begin to engage the developing world in recognizing that, while they currently are not the largest source of greenhouse gasses, they will soon surpass the industrialized world emissions if current growth rates are sustained. We should use Denver both to signal the importance of developing world participation in any future round of negotiations, and to endorse mechanisms such as joint-implementation and emissions trading, which allow countries to adopt market-mechanisms to meet target levels.

Russia's lack of commitment to eliminating CFC production and use may be raised by others. Russia continues to produce a major portion of the world's CFCs, in contravention of the Montreal protocol, and this has implications both for efforts to address climate change and ozone depletion. The World Bank has created a multilateral fund to help Russia phase out CFC production; the United States was the first contributor, but Germany and Japan have refused to sign a check because of Russia's lack of interest, and others are following their lead. Gaining Yeltsin's attention to this issue would help address a major Russian and global environmental problem.

BACKGROUND ON FORESTS

One of the most contentious issues at the Summit may be the German and Canadian push to have the Communiqué explicitly endorse launching negotiations toward a forest convention.

In particular, Chancellor Kohl is expected to engage you personally to convince you of the merits of a forest convention. He will argue that a legally binding convention will promote sustainable forest management, especially in the tropics, and will argue that not to call for such a convention will elicit negative press about the Summit.

We strongly oppose the idea of calling for negotiations on a Convention. Congress, U.S. Government agencies, state governments, industry, labor and the NGO community, all oppose a Convention at this time, largely because developing country opposition to any significant restrictions on their logging practices will result in a weak agreement. It makes little sense for the Eight to call for an agreement that LDCs oppose. Finally, protracted negotiations will divert attention from implementation of the recommendations developed by the Intergovernmental Panel on Forests (IPF) under the auspices of the UN Commission on Sustainable Development (CSD).

You should emphasize that the Eight should speak with one voice on this and stress concrete actions to promote sustainable forest management, rather than quarrel over the utility of a Convention. The IPF's 100-plus practical suggestions include using criteria and indicators for measuring progress in managing forest resources, targeting assistance to national and local capacity building, building democratic principles into forest programs at all levels, and forming a CSD forum for country reporting and accountability. These are excellent first steps to reach our common goals.

Japan opposes a convention, in part because of concerns that developed countries will need to provide substantial new resources to get the LDCs to agree to a convention. The UK also opposes, but would be inclined to fold if U.S. opposition were to waiver. Germany, Canada, and the EU will continue to press hard for a forest convention. Russia is interested but may not press hard.

BACKGROUND ON COMMON ENVIRONMENTAL GUIDELINES FOR EXPORT CREDIT AGENCIES

Previous G7 Summits have made expansive statements in favor of sustainable development, but often have failed to produce concrete action to advance these goals. We are proposing that Summit governments agree to encourage OECD governments to adopt common environmental guidelines within two years for plants and equipment that their export credit agencies (ECAs) finance to developing countries. Promoting environmental guidelines for ECAs is consistent with the commitments made by the leading exporting nations under the climate and biodiversity conventions and Agenda 21.

Our objective is to ensure that the projects supported by ECAs are environmentally acceptable or are upgraded to an acceptable level. In the absence of guidelines, ECAs finance projects in developing countries that can unnecessarily damage the environment. Common environmental guidelines would prevent competition among ECAs to compete on the basis of the least restrictive environmental guidelines.

ECAs have financed projects extremely harmful to the environment in the past, including sulfur dioxide emitting power plants in Turkey (financed by U.S. ExIm prior to its having adopted guidelines), a gas-fired plant in Argentina (financed by Japan's Export-Import Bank) and gold and copper mines in Asia funded by German, Canadian, Japanese and American ECAs. In all these cases, the exporting countries possessed the technology that could have mitigated environmental damage.

Pursuing negotiations through the OECD aims at including the ECAs of all industrialized countries. This would both expand the benefits of sustainable development, and reduce competitive concerns of Summit countries that other nations could have an unfair advantage by not requiring mitigating measures for projects that might cause environmental damage.

Despite rhetorical support made by some Summit leaders for protecting the environment, the initiative is meeting resistance from Germany, France, and to a lesser extent Japan, which have suggested that ECAs themselves come up with suggestions for developing common guidelines. However, U.S. Ex-Im's efforts to have ECAs address environmental issues have been blocked by the German and French ECAs over concerns that the associated costs will undermine their exporters' competitiveness. Other non-Summit OECD ECAs express similar concerns.

BACKGROUND ON UN ENVIRONMENT AND SUSTAINABLE DEVELOPMENT INSTITUTIONS

Five years after Rio, the need for effective UN institutions to address the environment and sustainable development is more critical than ever. At Lyon, the leaders called for greater effectiveness, in particular, of the UN Commission on Sustainable Development (CSD) and the UN Environment Program (UNEP). The current structure cannot adequately address the broad range of issues we face internationally. The CSD has spent much of the last five years rehashing debates from the Rio Earth Summit, and needs to shift its attention to stimulating implementation of sustainable development goals instead. UNEP has suffered from problems due to its Nairobi location and poor management, resulting in a loss of confidence and funding by governments last year. UNEP is critical to coordinating the work under various international conventions, such as biodiversity and climate change.

Desired Denver Outcome: Reform of UNEP and CSD have begun. Governments have agreed to narrow UNEP's mandate to: serve as a policy forum; promote implementation with international environmental agreements; and monitor the state of the global environment. A High-level Committee of Ministers and Officials will hold its first meeting during the UN Special Session to undertake reform of UNEP. However, the Eight need to work together to overcome the mistrust of the G-77 countries and bring them into the process. The Communiqué should endorse the emerging consensus on the roles of the CSD and the UNEP. The Summit should stress the CSD's leading role in promoting and stimulating sustainable development. Leader should also validate UNEP's role as the leading global authority on environmental issues within the UN system.

Potential Problems: The Germans have suggested a World Environment Organization that would create an umbrella structure (possibly to be located in Bonn) to take over UNEP's coordination role in the UN. UNEP and its problems would remain. UNEP is voluntarily funded, but the structure proposed is not. We are concerned that launching Germany's proposal now would undermine current reform plans in UNEP, and that developing countries would oppose it, especially the Africans. The Germans have backed off this idea slightly; they appear willing to hold out the prospect of a more complete overhaul if reform efforts fail. To further advance reform, we have proposed that improving coordination of environmental issues in the UN should be tackled by the Secretary General under reform efforts.

**SATURDAY:
WORKING LUNCH**

SATURDAY LUNCH

(1:30 p.m. - 2:45 p.m.)

I. Introduction (5 minutes)

II. Globalization and Economic Growth (40 minutes)

-- Structural Reform (Blair - 25 minutes)

-- Small and Medium Size Enterprise Job Creation
___ (Prodi - 15 minutes)

III. Aging (Hashimoto - 30 minutes)

SATURDAY WORKING LUNCH
KEY POINTS ON GLOBALIZATION, SMEs AND AGING

Session overview: Your conversation on economic and social issues comes as a critical debate is emerging in Europe in reaction to the structural reforms being made in the race to meet EMU criteria. With few true conservatives on the scene, Prime Minister Blair suggested to you that much of Europe looks to your lead, seeking to modernize its economies and focus on educational and welfare reforms. In addition to distinguishing themselves from conservatives, these reformers are pitted against traditional welfare-state advocates, who favor more social legislation to address increased unemployment. This is a particularly useful message for Yeltsin to hear, and you might speak to Russia's own reforms as a sign of the dramatic progress that can be made. **After your introductory remarks, you should ask Blair for his thoughts. At some point during this conversation, you should ask Prodi to comment on the role of small and medium sized enterprises in job creation.**

The discussion of [aging populations] and of small and medium enterprises should reinforce your approach -- that our economies and societies should shape global integration to their advantage by getting our fiscal houses in order and by promoting lifelong education and training and policies that promote job creation. Hashimoto proposed at Lyon that we include this subject as part of this year's agenda, and he should be the first speaker.

With input from the other countries, we prepared and distributed background papers on both small-and-medium enterprise job creation and aging populations, which each leader should have.

Globalization (Introductory remarks followed by Blair lead)

- Increasingly integrated nature of global economy requires nations to look outward to ensure growth and prosperity.
- Look forward to hearing how you are adapting your economies to globalization. Four years ago, this group gave strong advice to the United States to get deficit down. We combined this good advice with efforts to open markets and invest in people. Have had good results to date.
- Our challenge is to make sure globalization benefits all countries and all our citizens. All of our people should have the ability to thrive, not just survive, in information-intensive global economy.

- Cannot make globalization a scapegoat for domestic problems. Understand the difficulties of reconciling outward-oriented policies with the demands of our domestic constituencies.
- Acknowledge the challenges that globalization and fast-moving domestic economies pose for our societies, particularly most vulnerable segments.
- Creation of new jobs and reduction of unacceptably high unemployment essential if everyone to have opportunity to be productive members of society.
- In the United States we still need to improve education and availability of training.

Small and Medium-sized Enterprises (Prodi lead)

- Turbulence of small and medium-sized enterprises plays important role in productivity growth. From the perspective of the economy as a whole, creative destruction may be productive: without some failed experiments, we would not have successful enterprises.
- In pursuing job creation, emphasis should be on young small businesses. Suggest concentrating on efforts that make sure promising new businesses can grow.
- Rather than exempting small and medium-sized enterprises from important environmental, health or safety regulations, for example, should focus on making regulations more efficient and transparent, reducing cost of compliance for all firms.

Population Aging (Hashimoto lead)

- Thank Prime Minister Hashimoto for population aging being raised at this Summit. Share belief that leadership required to prepare for changes ahead.
- Agreement to support new paradigm that rejects stereotypes of seniors as dependent and promotes "active aging" -- the desire and ability of many older people to continue socially productive activities into later years.
- Challenge is to examine how programs and policies can promote active aging and advance the social and economic integration of older people into society according to their individual choices and circumstances.
- Need to make sure we are not encouraging people to retire early because of mistaken belief that jobs are limited.

- Glad our experts have agreed to undertake research and exchange information on relative effectiveness of different strategies for supporting productive activity among seniors and improving the sustainability and efficiency of public pension systems.
- Increasing prevalence of chronic diseases in old age will also result in growing demand for and rising expenditures on health and long-term care services. Try to learn more from each other about effective approaches to providing these services, including policies that help foster active aging and support family caregiving and volunteerism.

SATURDAY WORKING LUNCH
DISCUSSION PAPER ON GLOBALIZATION, SMEs AND AGING

OVERVIEW

This will be the first of two discussions on economic issues. The first session will focus on the effects of globalization on our economic policies and on the impact of aging populations. This will be the first economic discussion in which President Yeltsin will have participated at a Summit. The second session will be the G-7 discussion later in the afternoon. **Several other leaders have asked that talk of specific country macroeconomic and fiscal policy be reserved for the G-7 session.** Your leadership will be apparent in both sessions. The steps you have taken in the past four years, and the resulting extraordinary performance of the American economy, give you standing to encourage your counterparts to take the measures necessary to sustain economic growth in their own countries, and thus to strengthen the world economy.

Globalization/Structural Reform: You have followed a consistent three-part economic policy: (1) reduce our budget deficit, (2) open markets for increased trade, and (3) invest in our people. These policies built on the adaptability of the American economy and the structural adjustments of the preceding twenty years to produce the mix of low unemployment, low inflation, and sustained growth that is the envy of the world.

The discussion of globalization will have two themes, both of which will likely be identified by Prime Minister Blair in his introductory comments. The first is the inability of Continental Europe to make structural changes in their own economies, as underscored by the recent elections in France, Germany, and Italy are stuck at double-digit unemployment levels. Job creation is anemic, due to unsteady macroeconomic growth and structural rigidities in product and labor markets. For example, the high social insurance costs of each additional employee makes employers substantially less inclined to hire. The social welfare benefits to the unemployed appear to provide a significant disincentive for them to accept entry-level work.

As he did in your meetings in London, Blair will likely stress this theme. An additional, and probably unspoken, complexity will be that the Continental European leaders are not in a particularly strong position to initiate these changes even if they were to be convinced of the need to do so. Chirac's influence over domestic policy is obviously constrained by cohabitation. Kohl and Prodi are, for differing reasons, not in strong positions either.

The second theme in this discussion will be the imperative of creating the opportunity for all our citizens to prosper in today's economy -- the European theme of "inclusiveness" or "social cohesion." Here we all have more work to do. We know that investing in our people through education and training is essential, but there is less certainty about additional measures that will, for example, decrease wage inequality without reintroducing the very rigidities that afflict Europe. The jobs conference to be held by the Japanese in Kobe this fall and Prime Minister Blair's proposed Ministerial next year could, if well directed, begin to address these issues. **You may want to suggest that, in order to take these meetings the next step from the Detroit and Lille jobs conferences, business and labor leaders be invited to participate in the conferences, and that they be structured to produce some real interchange of ideas, rather than as a series of presentations.**

Small and Medium Enterprises: The discussion of SMEs provides an opportunity to reinforce the message that we all should work to build flexible, adaptable economies. You suggested at Lyon that we examine the role of SMEs in creating jobs. The OECD has produced a good study, and we prepared a discussion paper on this topic.

Italy is particularly enthusiastic about the role of small business and Prime Minister Prodi will launch this discussion, emphasizing the need to connect small and medium enterprises to technology and innovation in the global economy as well as the broader contribution SMEs make to society and democracy. The link between technology and job growth is important, but you will want to be careful not to make any commitments on preferential access to technology.

It will be critical to emphasize that the most important functions of these enterprises is their contribution to job creation. You should highlight the role that **younger** SMEs play in creating new jobs. On average, the younger the establishment, the faster the rate at which it creates jobs. There is a problematic flip side. SMEs lose jobs and go out of business in lagging sectors, even as they create jobs in growing sectors. While this "turbulence" can create hardship for individual workers, it is directly connected to the innovation often found in dynamic new enterprises that may be the real key to job growth.

Population Aging

As we move into the next century, population aging presents opportunities and challenges which vary among our countries. For many of your European colleagues, aging populations will strain

public pension systems; for Canada and the United States, the pressure will be more severe on our health and long-term care systems.

In response to Prime Minister Hashimoto's "Initiative for a Caring World," proposed at Lyon, the Leaders agreed to promote the concept of "active aging" as a way of encouraging elderly who can and want to continue work and socially productive activities into their later years. The Hashimoto "initiative" has not matured much in the last year, but we drew on the resources of HHS, the National Institute on Aging and our economic agencies to produce a background paper.

You should encourage your counterparts to rethink policies that try to move workers out of the labor force and ask them to work on identifying disincentives to continued work and what can be done to address them. Some European nations favor early retirements, based in part on the mistaken impression that a limited number of jobs exist and the resulting need to get younger people into the workforce.

France and Canada along with Japan are looking to the Summit to provide political cover for addressing this issue. Despite recent political shifts, the Summit and follow-up activities will allow countries to exchange information on the relative effectiveness of various strategies for improving the sustainability and efficiency of public pension systems.

Most countries will experience growing demand for health and long-term care because of the increasing prevalence of health problems related to old age, and public expenditures are likely to rise as a result. This rise may be offset by experiments with different approaches to financing and controlling health and long term care expenditures.

Developing cross-national data bases and comparative research to identify the best ways to prevent and treat chronic diseases are important to encouraging nations to learn from each others' experience about efficient and effective approaches to providing health and long-term care services. Family caregiving underpins the U.S. long-term care system, for example, and Prime Ministers Hashimoto and Blair may be interested in how to support informal caregiving. Caregiving and volunteer activities have increasingly become the domain of older retirees and improved understanding of their importance can help to foster the notion of active aging.

BACKGROUND ON GLOBALIZATION

The accelerating and deepening process of globalization will be one of the main factors shaping the structure and performance of the U.S. and other economies in the future. Globalization encompasses the expansion of cross-border flows of ideas and information, goods and services, technology and capital.

Increasing openness and global integration will continue to create opportunities for increased prosperity by allowing countries to specialize in those economic activities which they do best, while also promoting increased competition, efficiency, and the spread of technological innovations. Cross-border transactions in bonds and equities in the major industrial countries were less than 10% of the G-7's collective GDP in 1980, but well over 100% of GDP in 1995. The ratio of trade to output has doubled since 1950, rising significantly in the past decade.

As the global economy continues to integrate and become more interdependent, the problems of one country increasingly affect the fortunes of others. Collective international action is therefore becoming increasingly necessary if we are to advance the interests of our citizens effectively.

- The rapidly evolving nature of global capital markets shapes the environment in which policy-makers operate, enhancing the benefits from sound policies but also increasing the costs of economic distortions.
- It is essential that regulation of internationally-active financial institutions keeps pace with the changes in financial markets.

While globalization shapes, and at times constrains, the ability of policy makers to respond to problems, it is not the primary cause of many domestic problems with which our countries are currently grappling. Global integration is nevertheless an easy scapegoat, as protectionism seems to offer a simple remedy.

- Rising wage inequality in the U.S. and UK and persistently high unemployment in Europe have raised concerns about the impact of globalization on less-skilled workers. Most evidence suggests that technological change is the primary cause of increased inequality and unemployment, although globalization may have contributed to a lesser degree.

While simple protectionist prescriptions would ultimately threaten global prosperity, the Blair government has recently helped to refocus attention on the importance of insuring that all people have an opportunity to be productive members of society.

- Measures that expand the availability of education and training and increase labor market flexibility will aid the ability of our citizens to adjust to all types of structural changes.

Governments should also ensure that people face the proper set of incentives (i.e., welfare reform) and do whatever is possible in an era of limited resources to advance "cohesion" in society (i.e., avoiding polarization and the build-up of an underclass).

ACTIVE AGING: A SHIFT IN THE PARADIGM

BACKGROUND

The Denver Summit of the Eight provides an opportunity to foster a shift in our thinking about what it means to be "elderly," to focus on incentives for fostering active aging, and to identify potential areas of international collaboration for future research and information sharing. The Summit also provides an opportunity to discuss strategies for ensuring that our pension and health care systems can be sustained in the face of increased demands resulting from aging populations. In addition, the leaders may discuss ways to facilitate the transfer of information among developed and developing countries on aging-related issues. The results of the Summit could guide priorities for the ongoing OECD aging populations study.

MAJOR THEMES

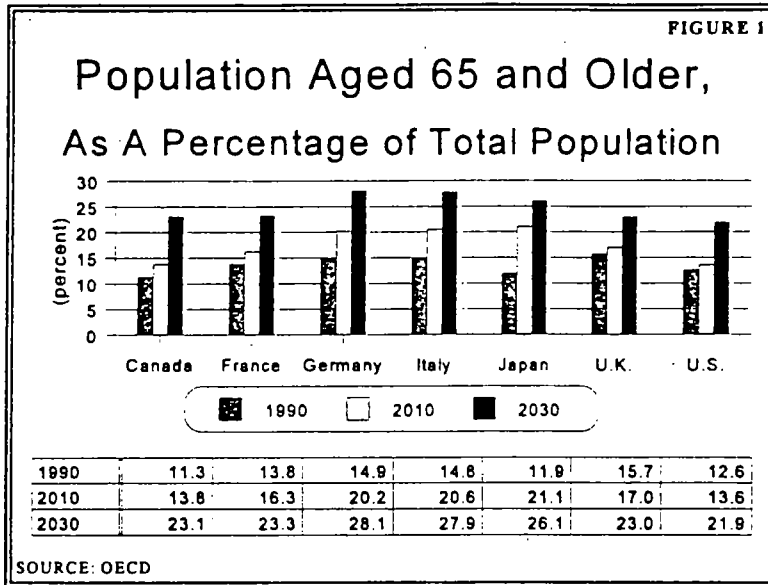
It is widely recognized that we live in an aging world. One of the major successes of the 20th century is increased longevity and improved health among older populations in both the industrialized nations and, increasingly, many parts of the developing world. Aging is less and less synonymous with dependency. Thus, although the risk of chronic illness and disability certainly increases with age, only one in five Americans aged 65 and older has any chronic functional disability. Many persons with chronic conditions and functional limitations retain other significant capabilities.

The current paradigm of aging as a "dependent" stage of life, and our attendant social welfare policies, do not match up either with current realities or with likely scenarios for the 21st century. It is an opportune time to consider new definitions of "aging," work, retirement, education and leisure, including rethinking today's chronological benchmarks for engaging in life's major activities. The Summit could foster a paradigm shift which emphasizes "**Active Aging**." It could also encourage collaborative and comparative research and information sharing to better understand trends in age-related disability and the dynamics of retirement.

Active aging reflects the desire and ability of many seniors to remain engaged in economically and socially productive activities. Stereotypes of seniors as unproductive and dependent are unfair and detrimental to the vitality of society as well as the dignity of individuals. Government policies and programs should promote active aging, including full social and economic integration into society of older people with due regard to individual choices and circumstances.

Active aging means more than simply encouraging paid employment among seniors. Rather it raises broader social and political issues. Our societies should foster socially important activities like volunteering, household and child care help, caregiving to the disabled elderly, and support for social service organizations. We have to recognize the value of the contributions of the elderly to society and not portray them only in terms of the financial burden they represent for younger generations.

Successful population aging policies and programs must reflect the dependence of all citizens' welfare on the overall strength of our economic, health and social systems. The well-being of healthy seniors is linked to that of seniors who are ill or have disabilities. The economic security of seniors is linked with that of younger adults and their families. Active aging has implications for decisions over the whole course of life, including education, work and leisure.



The following themes can contribute to the new "Active Aging" paradigm: (1) Improvements in Active Life Expectancy, (2) Employment Opportunities in an Aging Society, (3) Strengthened Pension Systems, (4) Planning for Age-Related Health and Long-Term Care Needs, (5) The Role of Caregiving and Volunteerism and (6) Cost-Effective Investments in Treating Chronic Disease. Advancing these themes will require systematic data gathering, cross-national research and enhanced information exchange.

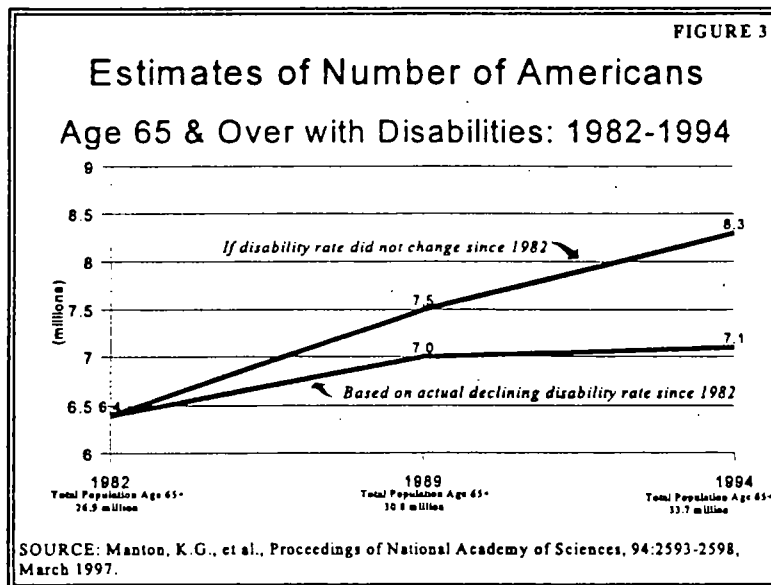
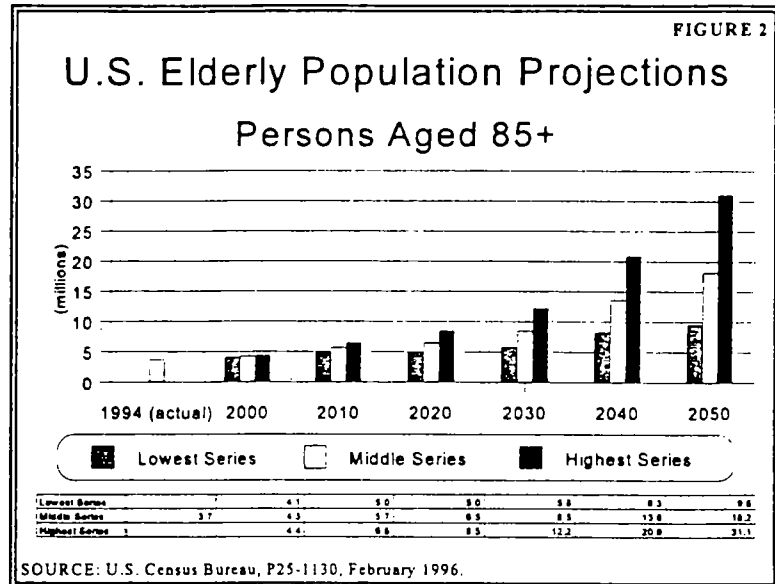
(1) Improvements in Active Life Expectancy.

The aging of the population is the result of a long-term decline in fertility rates and an enormous improvement in life expectancy. (See Figure 1.)

The very old (aged 85 and older) population is projected to be the fastest growing part of the senior population into the next century. In 1994, 3.7 million persons in the U.S. were aged 85 and older. Based on alternate assumptions about life expectancy, Bureau of the Census projections of the number of persons aged 85 and older in the year 2050 range from 9.6 million (lowest series) to 18.2 million (middle series) to 31.1 million (highest series). (See Figure 2.)

Other major industrialized nations are experiencing rapid growth in their very old populations. This is accompanied by falling fertility rates in many countries. In Italy, for example, where population aging is becoming more and more a public issue, the birth rate is 1.3 children per woman, among the lowest in Europe and far below the level of replacement.

There is some evidence that today's population aged 65 and older in the U.S. (and possibly in other advanced industrial countries) is less disabled than earlier cohorts. Based on data from the 1982, 1984, 1989 and 1994 National Long-Term Care Surveys, researchers at Duke University found that the disability rate among persons 65 and older declined by 1.3 percent per year between 1982 and 1994. This resulted in 1.2 million fewer seniors with disabilities in 1994 than if the disability rate had not declined. (See Figure 3.)



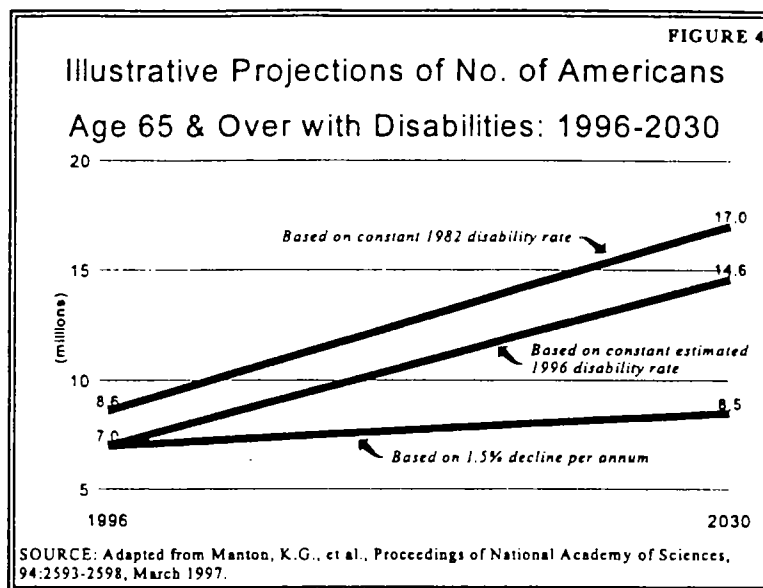
The United Kingdom conducted surveys of disability in 1985 and 1996. When the 1996 data are analyzed, it will be possible to compare the U.K.'s experience regarding disability rates with that of the United States.

Surveys in Canada have shown a decrease in the prevalence of functional disabilities among persons aged 65 and over from 40 percent in 1978 to 25 percent in 1991. Other Canadian data indicate that from 1986 to

1991, disability-free life expectancy at birth increased by 1.2 and 0.6 years for males and females, respectively.

France conducted surveys of disability in 1981 and 1991. They show that for persons aged 65, life expectancy without disability has increased by 1.3 years for males and 2.3 years for females. Moreover, for females, the increase in life expectancy without disability (2.3 years) is greater than the increase in life expectancy (1.8 years).

Compounded over long periods, relatively small changes in disability rates at older ages can have very significant implications for the number of seniors with disabilities and the costs of their long-term care services. For example, based on one illustrative projection, if the disability rate among Americans aged 65 and older could be decreased by 1.5 percent annually for the next 35 years, the increase in the number of seniors with disabilities would be relatively small. (See Figure 4.)

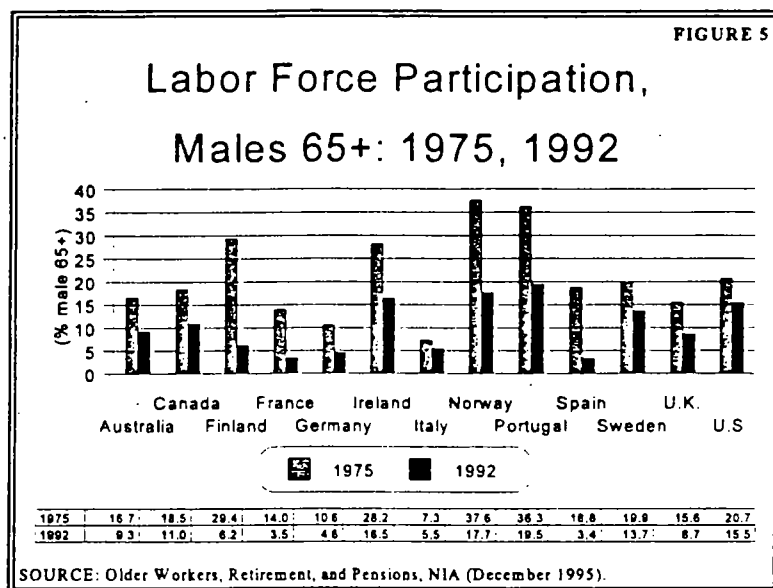


We do not fully understand the forces that have contributed to the decline in disability rates or whether these will continue. The observed decline may be due in part to the increasing wealth and education of seniors and to the dramatic improvements in medical technology and treatments (such as cataract lens and joint replacements, coronary bypass operations, and better control of hypertension), and reductions in smoking and other disability risk factors. In addition, the disability decline may be partially due to improved nutrition, increased use of assistive devices, and environmental modifications, such as curb cuts on streets and ramps instead of stairs.

Cross-national research could shed light on which public policies contribute most significantly to healthy aging. More generally, collaborative basic and applied biomedical and behavioral research could help contribute to a better understanding of the aging process, more effective prevention strategies and ways to foster better health and less disability at older ages.

Currently, the data needed to support collaborative research among the industrialized nations is underdeveloped. Many countries use aggregate data and models for making policy decisions. However, more longitudinal microdata on the characteristics and behaviors of older individuals and their families are needed to model and project

population and disability trends and the use of health and long-term care services. Surveys could provide standardized data on a wide range of age-related items such as health and disability status, economic status, kinship patterns and service use. These data could then be examined not just in the aggregate but on a subgroup basis, using such factors as age, gender, ethnicity and socioeconomic status.



European nations have population registers that can be used for comparative research on life expectancy at older ages. On the other hand, the U.S. has a relatively rich array of longitudinal panel surveys. Other countries may wish to consider developing standardized surveys analogous to the U.S. Health and Retirement Study or National Long-Term Care Survey. Such population based surveys will enable the industrialized nations to

simulate the behavioral responses of their citizens to changes in public and private pension and health policies and to compare population aging patterns across countries.

(2) *Employment Opportunities in an Aging Society.*

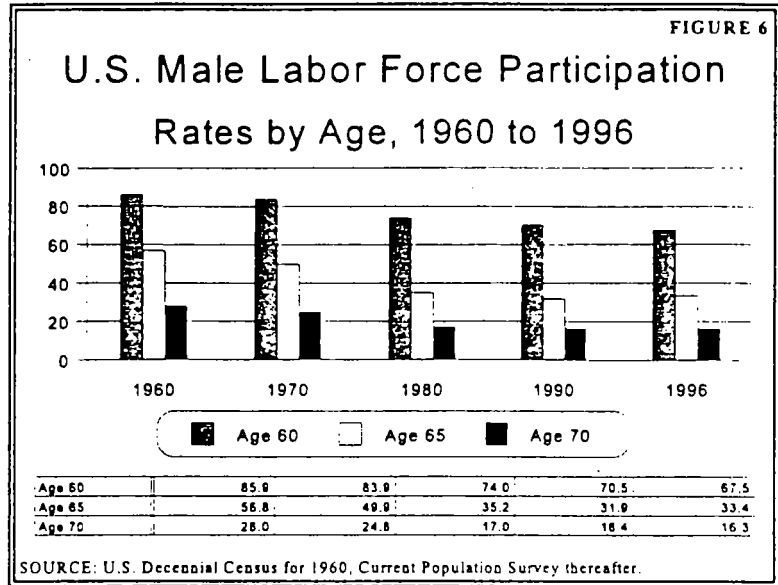
Although life expectancy has increased dramatically over recent decades, in most developed nations, labor force participation rates of men aged 65 or over have dropped significantly. (See Figure 5.) For example, in the United States 57 percent of men aged 65 were in the labor force in 1960, as compared to 33 percent in 1996. (See Figure 6.)

Western European nations have some of the world's lowest rates of labor force participation for older men and women. By contrast, in Japan, labor force participation rates for men and women in their 60s are higher than in the other members of the Eight. In the U.S. at least, labor force participation appears to have stabilized since the late 1980's albeit at a relatively low level. Also, as women's labor force participation increases, retirement is becoming more and more of a joint spousal decision.

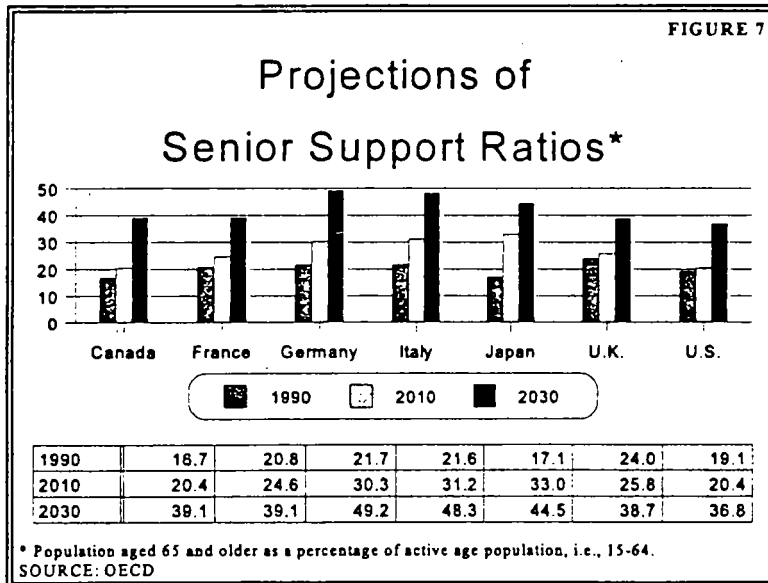
These shifts in labor force participation rates will reinforce rising senior support ratios as measured by the ratio of "retirement age" persons to the number of "working age" persons in coming decades. (See Figure 7.)

The majority of older workers in the U.S. retire on or before age 65. Some are no longer able to work, but many are responding to opportunities and incentives that favor withdrawal from the labor force independent of health or disability status (although, holding other factors constant, those in poor health continue to retire relatively early).

To a considerable extent, the declines in labor force participation probably result from the interaction of personal choice, cultural norms, business decisions, and government policies. Pension systems in many industrial countries, for example, "tax" work after a certain age, thereby creating disincentives to continued labor force participation.



Recent analyses of the Health and Retirement Study found that some current retirees would prefer to work. About a third of the respondents who had retired felt that they had been forced by circumstances to retire earlier than they wanted. For example, many said that while they would have preferred to ease into retirement through part-time work, they felt that their employers would not be receptive.



involuntarily. However, according to recent survey data, older workers are mixing paid work and retirement with much greater frequency than in the past.

Canadian analyses have focused on subgroups of older workers who lack the skills to continue working full-time or to mix part-time work with retirement. These subgroups are most likely to leave work involuntarily and then find that their incomes in retirement are inadequate.

The industrialized nations could identify the most important disincentives in public and private pension policies to continued work, as well as examine the effectiveness of incentives for prolonging productive activity. The widely prevalent idea that older people must retire in order to provide jobs for younger people also needs to be seriously reexamined. If people are able to work longer, society should not discourage them from doing so.

Indeed, progress has been made along these lines in some countries. The German federal government has introduced measures to make the transition to retirement more flexible, increase the effective pension age, reduce occupational health risks and stimulate the creation of new jobs adapted to the needs of older workers. In Canada, the work-to-retirement phase is less "binary" as people mix work, unemployment and other activities both before and after retirement.

When considering possible reforms, governments should take account of the interactions between government policies, population aging and the functioning of labor markets. This includes such considerations as fostering lifelong learning opportunities and flexible transition periods from employment to retirement (for example, through part-time employment). Employer attitudes about older workers may need to be transformed to enhance the employment opportunities of seniors.

The increased demand for aging-related services also has implications for employment. U.S. projections indicate that non- or semi-professional health service occupations (such as home health aide or personal care attendant) will be among the fastest growing areas of the labor market. Growth in these areas may help provide employment for relatively low-skilled workers, including those moving from welfare to work.

Rethinking the paradigm of aging and dependence will require the leaders of the industrialized nations to foster changes in the attitudes of public and private economic and social institutions as well as some individuals. Cross-national research and information sharing on retirement trends are needed to support such changes in attitudes.

In this connection, it may be noted that job opportunities in an aging society will be considered at the Job Conference to be held later this year in Kobe, Japan.

(3) *Strengthened Pension Systems*

In many industrialized countries, population aging is expected to put pressure on the ability of public pension systems to meet the needs of future retirees. Increasingly, more retired people must be supported in large part by a decreasing proportion of persons in the labor force. The populations of many European countries are aging much more rapidly than the United States and labor force participation of older workers is much lower.

While older workers are leaving the labor force at younger ages, younger workers are entering the labor force later because of more years of schooling. As a result, the amount of time spent in employment has declined and is now equal to or less than the time spent out of employment in most industrialized countries. Adding to the size of the near-term problem is the sheer number of baby boomers across the industrialized world who are aging and will increase the need for health and long-term care.

In recent years, several countries have begun to respond to these pressures with reforms to their government pension plans. In 1993, France introduced a pension system reform for private sector employees. Under the new rules, the number of contribution years required to obtain a full retirement benefit will be increased progressively from 37.5 years to 40 years. Moreover, the period of a worker's earnings history used for determining the initial pension benefit has been extended.

To cope with rising costs of pension systems, Germany intends to adjust the statutory benefit level. The federal government currently anticipates a medium- to long-range reduction in the level of government pensions from the current 70 percent to 64 percent of pre-retirement income for workers with average earnings and 45 years of covered employment in the system. Any such adjustment will be accompanied by the strengthening of occupational and private pension systems to avoid gaps in coverage. The German government has also introduced measures aimed at making the transition to retirement more flexible and increasing the effective pension age.

Similarly, Canada is taking steps to insure that its public pension system will remain affordable and sustainable. The growing costs of its earnings-related pension plan will be moderated, the plan will be more fully funded, and the funds will be invested at arm's length from the government in the best interests of plan members. Low-income seniors will continue to be fully protected under changes to the component of the system that guarantees a basic level of retirement income to all Canadians. Cost growth will be moderated by determining benefits based on the combined income of spouses.

While these reforms may provide models for other countries, each country will choose its policies based on its own circumstances. The Summit could advance this process by

providing a forum for exchanging ideas on broader macroeconomic policies intended to boost productivity growth and savings.

Policies to increase productivity growth might include efforts to boost human capital through such strategies as lifelong learning. On the national level, reductions in government deficits should stimulate investment and productivity. The Leaders could also share information about the effects of various policies on private savings behavior. Cross-national research and information sharing could help identify incentives that encourage and reward individuals and employers for taking measures aimed at increasing savings.

(4) *Planning for Age-related Health and Long-Term Care Needs.*

Since seniors are at greater risk of needing health and long-term care services than other population groups, spending on seniors for these purposes as a percentage of Gross Domestic Product is likely to grow. For example, Japan's health care costs for seniors aged 70 and above have grown tenfold over the past 20 years and have reached around 30 percent of total national health care expenditures. With the rapid aging of the population and changing family structure, Japanese caregiving responsibilities are increasingly shifting from families to the government and social service agencies.

Although population aging will undoubtedly lead to increased health and long-term care expenditures, public benefit expansions may be balanced in part by placing greater emphasis on private sector solutions. Private long-term care insurance financing is one example where the U.S. has some experience that may be of interest to other countries. It represents one strategy by which seniors and younger adults plan and save for their long-term care needs. Managed health care is another area where innovative efforts in the United States commercial health care market have helped to contain health care costs and may be of interest to other Summit nations.

The heads may be interested in exchanging information on recent government initiatives in long-term care. Germany is one of the first states worldwide to provide statutory long-term care insurance financed by compulsory contributions as a guarantee of basic long-term care protection. Canada is moving to provide better public coverage for long-term care needs, as well as giving priority to health promotion and disease-prevention strategies to promote positive health practices. Japan's Diet is also considering public long-term care insurance.

Because of the greater prevalence of chronic diseases associated with older ages, population aging will also entail adjustments in the recruitment, training and distribution of workers in the health care professions. It should also affect the development of new facilities, priorities in health-related research programs and the delivery of appropriate

and cost-effective health care services. For example, a significant proportion of health care expenditures are devoted to end-of-life care. Cross-national studies on the effects of different systems and approaches in caring for individuals at the end of life would be useful.

Many people with significant disabilities can participate in the labor force and engage in other socially beneficial activities, with appropriate supports to living and work environments. Redesigned work settings, retrofitting existing homes, new models of residential care, altered transportation systems, and a variety of assistive technologies can help overcome functional limitations and foster greater independence among older (and younger) persons with disabilities. In Germany a comprehensive rehabilitation infrastructure to help limit long-term care needs has been built up, funded mainly by the social security system.

In all these areas, countries could collaborate in research and data base development, identify success stories and best practices and establish forums for regular exchanges of information.

(5) *The Role of Caregiving and Volunteerism.*

Family caregiving is the key underpinning of the U.S. long-term care system and there appears to be growing interest in how to support informal caregiving in other countries. Healthy elders taking care of their disabled spouses and "young-old" children in their 60s looking after disabled parents 85 and older are able to keep many individuals at home who would otherwise require expensive institutional care.

U.S. research (based on the 1989 National Long-Term Care Survey) indicates that approximately half of the primary informal caregivers of the chronically disabled seniors are spouses who are themselves aged 65 or older. Caregiving and volunteer activities--traditionally "women's work" performed by housewives--have increasingly become the domain of older retirees, both male and female. Among older caregivers (aged 55 and over), over three-quarters indicate a high level of satisfaction and two-thirds report that they do not find caregiving burdensome.

Contrary to conventional wisdom, evidence from the National Long-Term Care Survey suggests that, for the most part, work responsibilities do not currently conflict with the ability of children and spouses to provide care to frail older relatives. For example, among younger adults, only about one-quarter are in the labor force. Most of the remaining three-quarters are early retirees or housewives aged 55 to 64. At present, these caregiver decisions to forego paid employment appear to be determined by factors unrelated to their elder care responsibilities.

Over half of older Americans (aged 55 and over) in a 1992 survey report that they provided unpaid household and child care help to children and/or grandchildren during the previous week. These inputs have been estimated at an economic value of \$48 billion per year. Clearly many grandparents and great-grandparents help employed family members avoid substantial out-of-pocket costs by providing regular or back-up child day care.

Caregiving may have negative as well as positive aspects. Nearly two-thirds of employed caregivers in the U.S. said that they experienced work and caregiving conflicts that required accommodations such as rearranging work schedules, working part-time or taking leave without pay. In Japan, about 60 percent of informal caregivers report that they find caregiving burdensome. The number of caregivers forced to quit their jobs to carry out their family responsibilities has been increasing. In part this may be explained by the extent to which heavy care, even 24 hour care in some cases, is provided by daughters-in-law, who must balance these demands with other responsibilities. A similar cautionary note is sounded in Canadian research. A 1991 survey reported that 13 percent of retired women had quit their jobs in order to care for someone in their immediate family. This suggests at least the possibility of significant conflict between work and caregiving activities.

Americans like to think of "volunteerism" as both an historical and an ongoing national trait. In 1992, one-fourth of Americans over 55 years of age participated in formal volunteer work of one sort or another--most often in connection with a church, a medical facility (e.g., hospital or nursing home), or service organization (such as the Rotary, Kiwanis, or Lions). These persons provided approximately 6.5 hours of volunteer activity per week.

The role of volunteerism and family caregiving varies across countries. Cross-national research and information sharing can help understand their role and effectiveness in fostering a climate of active aging. The capacity of older individuals to continue to carry out socially beneficial activities depends in part on better understanding of the reasons why people move out of the labor force in the first place and in part on how incentives for paid employment interact with opportunities for caregiving and volunteerism.

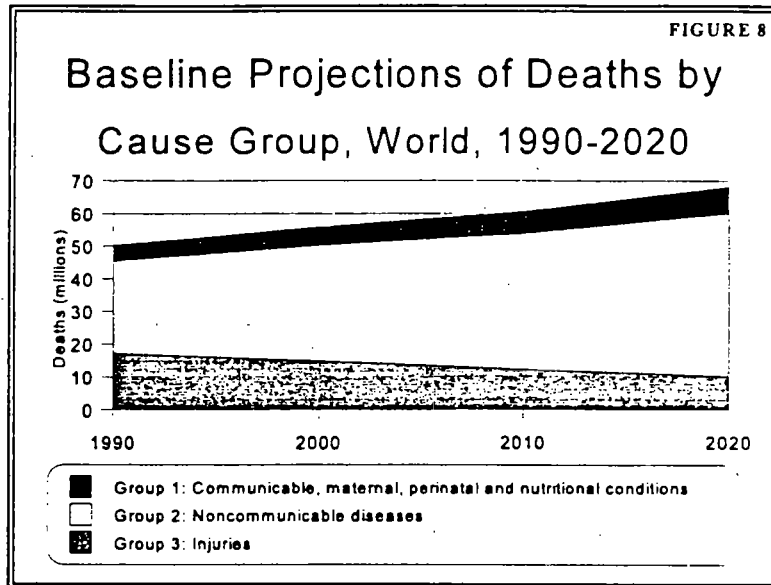
(6) *Cost-Effective Investments in Treating Chronic Disease.*

Non-communicable chronic diseases have replaced infectious diseases as the number one source of deaths in the world. (See Figure 8.) Options for addressing chronic illness are growing, from high-tech treatments such as coronary artery bypass surgery or angioplasty, to low-tech solutions such as home care and assistive devices. Advances in basic biomedical and behavioral research are leading to new treatments and delay in the onset of chronic diseases. As new effective medical technologies

become more widely disseminated, older populations may demand greater access to them.

Knowledge of the risk factors associated with chronic diseases that cause disability has increased. This information is leading to earlier interventions on musculoskeletal conditions (e.g., joint replacement), cataracts (e.g., lens replacement), and even dementia. Many such interventions are in their early stage of development and require further testing and refinement. If this occurs, further declines in old age-related disability rates may be possible.

Cross-national research on the effectiveness of different approaches to treating aging-related chronic diseases could provide important benefits. Creation of a comparative cross-national medical database that focused on highly prevalent chronic diseases (e.g., Alzheimer's, diabetes, cardiovascular disease) would facilitate analyses of the cost-effectiveness of various treatments. The allocation of different medical technologies for particular conditions should be investigated to assess the extent to which they achieve the desired outcomes.



Given the wide variation across advanced industrial countries in per capita spending on medical and related services for older persons, cross-national research can shed light on the cost-effectiveness of particular procedures, treatments and intervention strategies in reducing disability and fostering better health at older ages. There should also be comparative research on entire health care systems to evaluate their overall performance.

SUMMARY

The theme of Active Aging provides a framework for cross-national collaboration on the phenomenon of worldwide population aging. New cross-national data and better quantitative understanding of the issues are needed not only in the context of policy research but also in the context of practical policy development and consensus

building. Cross-national information-sharing, systematic data-gathering, research, and consensus-building could be directed at the following issues and topics. The OECD and other international organizations (e.g. World Health Organization, United Nations Population Division) could be the focal point for some activities; however, individual countries may also wish, in some cases, to interact or collaborate more directly. Some of the major issues are:

- (1) ***Improving the ability to forecast health status and disability at older ages, in order to make more accurate predictions of future health and long-term care costs.***

Relatively small changes in disability rates and active life expectancy at older ages can have very significant implications for financing health and long-term care services. Comparable longitudinal databases could be created which would allow the industrialized nations and the developing world to make cross-national comparisons of population aging and behavioral responses to changes in pension and health policies. Basic biomedical and behavioral research is needed to identify the causes of chronic diseases, related disabilities and cost-effective treatments.

- (2) ***Understanding the disincentives to higher labor force participation rates among older persons and the effectiveness of incentives for encouraging socially productive activity.***

Although life expectancy has increased dramatically over recent decades, the labor force participation of older workers has declined. Research and new longitudinal microdata are needed to identify the most important disincentives to continued work at older ages. They are needed as well to determine the effectiveness of incentives for reducing early retirement and increasing socially productive activity at older ages.

- (3) ***Improving the sustainability of government pension plans.***

Population aging is putting pressure on public pension systems in almost all industrialized countries. Cross-national research and information sharing on approaches to pension reform could help build support for needed changes.

- (4) ***Planning for health and long-term care needs.***

Population aging will also increase the need for health and long-term care services. Cross-national research and information sharing can help to shape public attitudes toward the appropriate balance between government roles and personal responsibility for meeting health and long-term care needs, including

the role of informal caregiving and private financing strategies. Countries could collaborate in research and data base development, identify success stories and best practices, and establish forums for regular exchanges of information.

(5) *Understanding the relationship between expenditures on medical and long-term care and beneficial outcomes for individuals with chronic diseases.*

Population aging could cause expenditures on medical and related long-term care to consume ever greater percentages of Gross Domestic Product. Comparative research across the industrialized countries could improve the cost-benefit evaluation of new medical technologies and treatments for chronic diseases, as well as the effectiveness of prevention-oriented strategies.

Small Businesses, Job Creation and Growth: Facts, Obstacles and Best Practices

Historically large enterprises were viewed as the most important source of jobs, research and development, and growth. In recent years policymakers, economists, and business leaders have increasingly recognized the contributions that small and medium-sized enterprises make to these objectives.

There is a deep, interconnected relationship between economic growth and economic change. Economic growth occurs not just because of broad improvement in technology, productivity, the resources provided to the economy, and other such factors, but because some firms improve their technology, management, or other sources of innovation, become more productive, and displace firms that cannot keep up. As this ongoing change and displacement occurs, more or better jobs are created than the ones lost and the overall level of productivity rises, and our standard of living rises with it.

The object of policy, therefore, is not to retard this process of change and displacement, but to give a growing number of firms the tools to realize their full competitive potential and, therefore, participate in the process. This is particularly true for small and medium size enterprises, since they often lack the access to finances, information, skills, and other advantages of scale that their larger counterparts may have. Pro-competitive policies that help small and medium-sized enterprises overcome the obstacles to their success can help not only the entrepreneurs who own and manage these companies, the workers they employ, and the customers they serve, but also further the ongoing cycle of innovation, competition, and growth. These policies should be designed to facilitate entry and competition, not favor one sector of the economy over another.

This concept paper has three parts. The first part outlines evidence on the current role of small and medium-sized enterprises in the G7, and particularly their role in job creation. The second part identifies some of the major obstacles to the expansion of small and medium-sized enterprises. Finally, the third part discusses some "best practice" policies pursued in different G7 countries.

I. THE CURRENT ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES

(1) Small businesses represent a large, diverse, and important part of the economy.

Small and medium-sized enterprises represent a large share of the economy

- More than 99 percent of enterprises in the G7 employ fewer than 500 employees, the conventional definition of small and medium-sized enterprises (see Table 1).

- The share of employment in these firms ranges from about 50 percent of total employment in the United States to around 80 percent in Italy and Japan.
- The proportions of gross domestic product produced by small and medium-sized enterprises are somewhat lower than their share of employment. This indicates that small and medium-sized enterprises tend to be more labor-intensive than large firms.

Small and medium-sized enterprises are very diverse

- Small and medium-sized enterprises are important in every sector of the economy. In the European Union, for example, small and medium-sized enterprises represent 63 percent of employment in manufacturing and 76 percent of employment in services (see Table 2).
- Small and medium-sized enterprises include both growing and contracting firms, global and purely domestic firms, and innovative and traditional firms.
- A small but important group of highly innovative small and medium-sized enterprises are responsible for most of the research and development activities in that sector. In Canada, for example, less than one percent of small and medium-sized enterprises undertake formal research and development activities. These few firms, however, represent almost 70 percent of all firms in the economy engaged in research and development.

(2) Small and medium-sized enterprises are an important source of job creation. Although the evidence on whether small and medium-sized enterprises create a *disproportionate* number of jobs is inconclusive, the data clearly show that small and medium-sized enterprises are responsible for a large fraction of job turnover.

Small and medium-sized enterprises are an important source of job creation

- Evidence on the evolution of the share of employment in small and medium-sized enterprises is limited, but the little data we have suggest that small and medium-sized enterprises may have expanded their employment shares slightly in recent years.
- The OECD estimates that 70 percent of the (net) new jobs in the OECD economies are created by small and medium-sized enterprises. This is slightly higher than the share of employment in small and medium-sized enterprises in G7 countries, indicating that small enterprises create jobs at a slightly faster rate than larger enterprises.
- For example, between 1987 and 1996 small and medium-sized enterprises created about two million new jobs in western Germany. This contrasts with a 500,000 drop in employment in large companies.

Young businesses may be more important for job creation than small businesses

- Analysis of jobs in U.S. manufacturing suggests that young establishments, rather than small establishments, may be the real key to job growth.
- On average, the younger the establishment, the faster the rate at which it creates jobs. Small and medium-sized young establishments (defined in this case as establishments less than 10 years old) contributed more to job growth in U.S. manufacturing than small and medium-sized old establishments.
- When the age of the business is taken into account, the relationship between net job creation and size disappears (see Chart 1).
- It is too soon to know whether this pattern holds over different time periods, for the U.S. economy as a whole, or for other countries. Still, the limited evidence suggests that policymakers need to focus as much on supporting promising new businesses as on supporting businesses simply by virtue of their small size.

Small and medium-sized enterprises are very turbulent

- The relative constancy of share of employment in small and medium-sized enterprises conceals the large turbulence within this sector of the economy. In all G7 countries the rates of job creation and job destruction of small and medium-sized enterprises are substantially higher than those of larger firms.
- In any given year, failed or shrinking small and medium establishments in the typical G7 country shed 10 percent or more of the total jobs in the sector; at the same time new or expanding small and medium establishments create a similar number of jobs (Chart 2 shows this for Canada). This is more than twice the rate of job creation and job destruction seen in large enterprises.
- In any given year around 80 percent of all (gross) job gains are in small and medium-sized enterprises. Small and medium-sized enterprises, however, account for a disproportionate share of job losses as well (see Chart 3).
- The most important source of job gains and job losses in small and medium-sized enterprises is when new establishments open or when old establishments close. In contrast, employment changes originating in large enterprises are primarily due to the expansion and contraction of existing establishments.

This turbulence may be responsible for a large share of productivity growth

- This massive turbulence -- the creation of jobs in thriving parts of the economy and their destruction in other sectors -- can create hardship for individual workers. All other

factors being equal, as the proportion of small businesses in the economy grows, so will the amount of worker dislocation.

- From the perspective of productivity and growth, however, this turbulence plays a positive role. Recent research from the United States shows that shifting employment from less productive firms to more productive firms is vital to overall productivity growth.
- The process of economic change inevitably involves a certain amount of creative destruction. The birth or expansion of more productive firms and the corresponding death or contraction of less productive firms is an essential component of productivity growth. This selection process is especially important among highly innovative, pathbreaking small and medium-sized enterprises.

(3) Jobs in small and medium-sized enterprises typically differ in quality from jobs in large enterprises. Some evidence suggests that the quality of jobs in small and medium-sized enterprises is improving relative to jobs in large enterprises.

Small and medium-sized enterprises tend to pay lower wages

- On average, wages paid by small and medium-sized enterprises in the G7 are 10 to 40 percent lower than wages paid by large enterprises (see Table 3).
- The gap in the benefits provided by large and small firms is even larger than the gap in wages.
- Much of the premium for working in a large enterprise is due to the fact that workers at large enterprises are in higher wage occupations, tend to be more experienced, and are more likely to be members of unions. Even after adjusting for these factors in the United States -- by comparing compensation for workers with similar occupations and characteristics -- a roughly 10 percent premium for working in large firms still remains.
- Some evidence exists that the wage gap between large and small enterprises is narrowing.

Jobs in small and medium-sized enterprises are less secure than jobs in larger enterprises

- A job created in a small business is less likely to still be present two or three years in the future than a similar job created in a large enterprise.
- The average tenure of workers is also higher in large firms than in small.

(4) Like larger enterprises, small and medium-sized enterprises are increasingly being affected by the opportunities and challenges posed by the globalization of the world economy. Small and medium-sized enterprises, however, have had varying experience with globalization.

Small and medium-sized enterprises are an important source of exports, although their exports are small compared to their overall size in the economy

- The export shares of small and medium-sized enterprises vary greatly across countries. In general, small and medium-sized enterprises are responsible for between 15 and 50 percent of exports from G7 countries. Although this is not commensurate with their share of employment or of output, it is still very high when one takes into account the many difficulties that small organizations have in the world marketplace.
- Most small and medium-sized enterprises do not export their products. In some G7 countries as few as 10 percent of small and medium-sized enterprises are engaged in exporting.
- The evidence suggests that small and medium-sized enterprises have been expanding their export share recently. In France, for example, small and medium-sized enterprises increased their share of exports from 22 percent in 1985 to 26 percent in 1990.

An even larger fraction of small and medium-sized enterprises are affected by globalization through, for example, import competition and international partnerships

- The OECD estimates that 60 percent of small and medium-sized enterprises in member countries are directly affected by the globalization of the economy. The OECD expects this fraction to rise to around 80 percent in coming years.

II. OBSTACLES TO THE EXPANSION OF SMALL AND MEDIUM-SIZED ENTERPRISES

(1) Small and medium-sized enterprises can face great difficulties in raising the capital to fund their productive investments and innovations. These obstacles can be especially large for potential start-ups and young firms.

Smaller and younger businesses may lack well-established credit histories, evaluations, or collateral

- To the extent that these differences represent legitimate sources of risk to lenders, they will be reflected in higher interest rates and more restrictive terms on loans to smaller and younger firms. Reasonable market valuations like these should be respected by policymakers.

Imperfections in capital markets can make it even more difficult to obtain capital than is justified by the potential of small and young firms

- This may be the case because regulations or tax provisions discourage the creation of “venture capital” markets or other institutions that can lead to investment in this segment of the market.
- Also, it may reflect capital market structures that are anti-competitive by virtue of concentrating lending in a relatively small number of sources.
- Finally, capital market regulation may have failed to create the kinds of standardized information about prospective lending opportunities that allow all classes of borrowers to compete efficiently and that lower transactions costs for all.

In some countries markets have emerged that partially overcome these difficulties

- The U.S. venture capital market is a good example of a system that provides these resources. Even in this case, however, there are research results noting that the potential for even greater lending exists.

(2) All firms must pay costs in order to comply with regulations and reporting requirements. For some small firms these burdens can represent the difference between the success or failure of the entire enterprise. They can also add substantially to the cost of starting a new business.

Regulation may inhibit small and medium-sized enterprises from competing in certain sectors

- Many regulations that are designed to protect large public and private monopolies can stifle the inception and growth of small and medium-sized enterprises. For example, the telecommunications sector in many G7 countries is dominated by a few large enterprises. The rapid and far reaching regulatory reform of telecommunications in the United Kingdom, however, has given small and medium-sized enterprises the opportunity to prosper both as producers as well as purchasers of telecommunications services.
- Many regulations deliver compelling benefits but fail to provide them in the most efficient way. These regulations can stifle the ability of firms of any size or age to innovate and expand. As regulations are crafted to achieve important purposes, their effects on dynamic smaller firms should be considered in their design.

(3) Globalization is becoming increasingly important for the survival and expansion of small and medium-sized enterprises. Many smaller firms have particular difficulties globalizing.

A recent OECD study identified some factors that can impede the globalization of small and medium-sized enterprises

- Small and medium-sized enterprises may lack management resources -- including time, specific skills, and knowledge of, for example, foreign languages.
- Small and medium-sized enterprises may lack access to reliable and timely information about markets, opportunities, regulations, available forms of assistance, and the processes involved in dealing with foreign customers and bureaucracies.

Export assistance can lead to higher growth for small and medium-sized enterprises

- Export assistance can help small and medium-sized enterprises to find their specializations in world markets and achieve scale more rapidly. Programs that deliver information to prospective small and medium-sized enterprise exports about global market opportunities can have a positive effect on long-term growth.
- These programs, however, must be contrasted with the kind of export subsidies prohibited under the World Trading Organization, which do not further specialization in small and medium-sized enterprises and would not increase the economy's long-term potential.

(4) Small and medium-sized enterprises may have special difficulty in adapting existing technology or otherwise incorporating "best practices" into their planning and management. This can be a special problem in the increasingly technological- and information-oriented economy.

Although many small and medium-sized enterprises are highly innovative, research shows that they can face difficulties in adapting existing technology

- A recent analysis of Japan suggests that sources of existing research and technological advances are not always available to manufacturing small and medium-sized enterprises.
- Universities are more likely to have relationships with large firms than with smaller firms.
- It can be difficult for small and medium-sized enterprises to maintain an ongoing awareness of best technological and managerial practices given the high cost of doing so relative to their scale. Management consultants often bring this type of information to

larger firms, but smaller firms will often not have the wherewithal to enter into these relationships.

III. BEST PRACTICE POLICIES FOR SMALL AND MEDIUM-SIZED ENTERPRISES

All of the G7 countries, in some fashion, have policies that address the four major obstacles to the establishment and growth of small and medium-sized enterprises.

Government policies can help small firms and start-ups gain access to capital

- In France, the BDPME (Banque de Development des PME) was created in 1996 to offer small and medium-sized enterprises a very broad range of financing tools, including credits, equity, quasi-equity guarantees and funding for government orders. The BDPME exclusively co-finances projects with private banks. In other words, its approach is based on partnership and minimizes distortions to competition.
- In the United States, venture capital and an active secondary market (NASDAQ) help ensure that startups and small firms can receive the capital they need to grow. These markets are supported by rules allowing pension funds to hold a fraction of their assets in highly risky assets.

Governments have taken steps to reduce the regulatory burden on small and medium-sized enterprises, while protecting the important environmental, health, and safety objectives that many regulations seek to achieve

- In 1994, Canada established a Forum where small business representatives work with the federal government to find solutions to ease the paper burden on small business. Federal departments have been acting on the Forum's recommendations, with a number of results. These include a simplified Record of Employment process for departing employees, reduction in contact with Statistics Canada, and less frequent filing of payroll tax deductions.
- In the United Kingdom, the Government's policy is to minimize the impact of regulations on business. In a number of areas it has been successful in improving the quality of regulation by increasing its transparency, simplicity, and subjecting it to rigorous cost-benefit tests. The Enterprise and Deregulation Unit has been especially successful in eliminating much unnecessary legislation.

Government policies can help new and small firms take advantage of the opportunities created by globalization

- The German government supports corporate decisions on foreign exporting and investing through the Hermes export credit insurance program, capital investment guarantees, and bilateral agreements on protecting investment, which should eventually be replaced by an OECD/WTO multilateral investment agreement. In addition, information and advice is provided by embassies, the bilateral chambers of commerce, and the Federal Office of Foreign Trade Information.
- In order to ensure the smooth establishment of small and medium-sized enterprise operations overseas, Japanese government puts together seminars and information magazines, and also provides company heads both at home and abroad with information and guidance. For example, the government maintains a list of approximately 350 registered foreign investment advisors to provide guidance throughout Japan.

Although some small and medium-sized enterprises can very innovative, government policies are often needed to ensure that new technologies get diffused more broadly to smaller firms

- Industrial districts in Italy provide geographically concentrated zones of service and productive initiatives. They offer competitive advantages to firms through the availability of skilled workers, the diffusion of technical information through informal channels, and the creation of financial and productive synergies. In addition, Italy's system of "networked production" in various regions (e.g. the textile and apparel industry in the Emilia Romagna region) allows young firms to be "mentored" by existing counterparts.
- In Germany, over 100 research establishments are affiliated with the Federation of Industrial Research Associations (Arbeitsgemeinschaft industrieller Forschungsvereinigungen). The research projects are concentrated on the development of production processes which are particularly appropriate for use in small and medium-sized enterprises. Furthermore, Germany's Fraunhofer Society promotes technology development mainly through demand-led contract research projects between firms and the research institutes.
- Business Links in England (and similar, but separate, initiatives in Scotland and Wales) provides high quality business support. Business Links are a network of independent local business information and advice centers offering a wide range of services, tailored to local business characteristics and individual firm requirements.
- The Manufacturing Extension Program in the United States brings smaller companies in touch with recent advances in technology. It builds on existing local, state, and national resources by providing links and referrals to other public institutions such as federal laboratories, the Environmental Protection Agency, and the Small Business Administration. Quality control is ensured by using merit-based competition and ongoing external performance reviews.

TABLE 1			
The Role of Small and Medium-sized Enterprises in National Economies			
Percentages			
	Number of Firms	Employment	GDP
Canada	99.8	66.0	57.2
France	99.9	69.0	61.8
Germany	99.7	65.7	34.9
Italy	99.7	49.0	40.5
Japan	99.5	73.8	57.0
United Kingdom	99.9	67.2	30.3
United States	99.7	53.7	48.0

Source: OECD (1996) *Globalization and Small and Medium-sized enterprises*. Data are not fully comparable across countries because of differences in definitions and coverage.

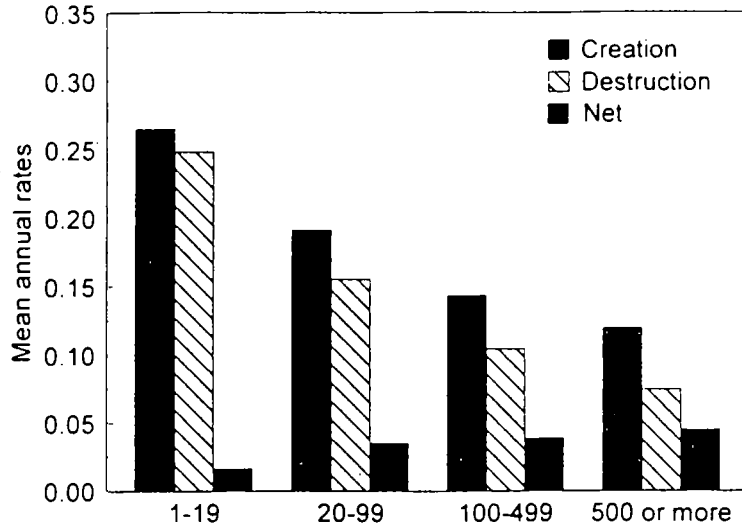
TABLE 2	
Employment Shares in Small and Medium-sized Enterprises by Sector in the European Union	
Sector	Employment Share
Manufacturing	63
Construction	90
Wholesale trade	91
Retail distribution	86
Transport/communications	44
Producer services	63
Personal services	85

Source: OECD (1996) *Globalization and Small and Medium-sized enterprises*.

TABLE 3		
Wages in Small and Medium-sized Enterprises as a Fraction of Large Enterprise Wages		
	Number of employees	
	10-99	100-499
France	0.83	0.86
Germany	0.90	0.92
Italy	0.85	0.93
Japan	0.65	0.83
United States	0.57	0.74

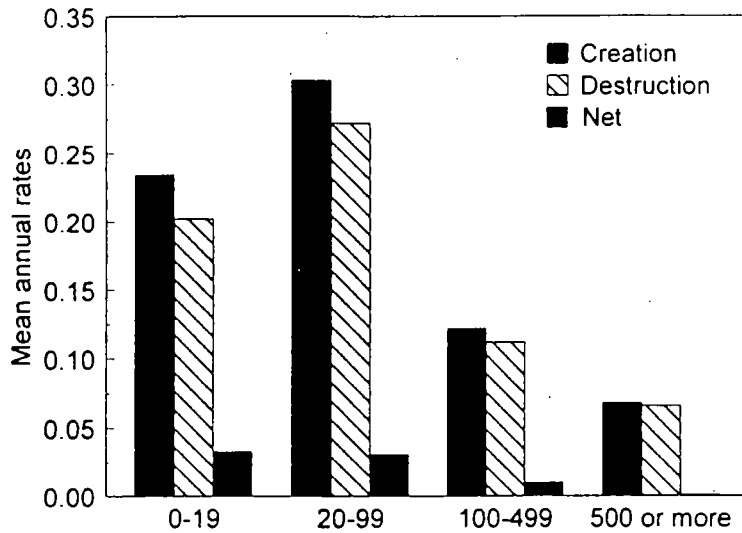
Source: OECD (1996) *Technology, Productivity and Job Creation*. Data are not fully comparable across countries because of differences in definitions and coverage.

Chart 1: Job Flows in Young U.S. Plants



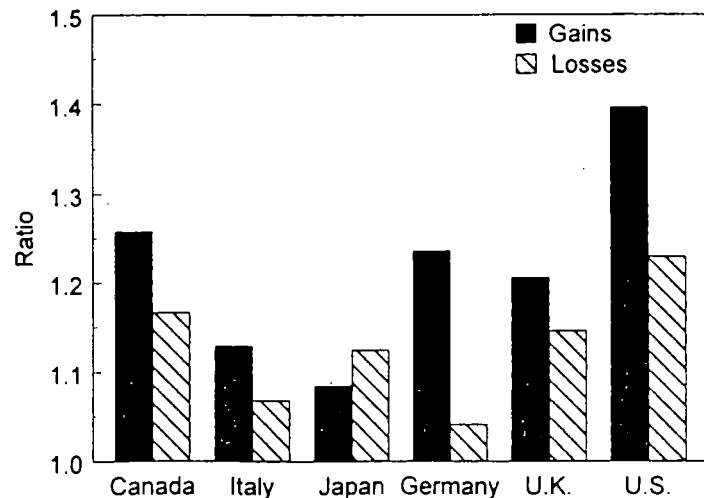
Source: Haltiwanger (1997) "Small Business & Job Creation in the United States"

Chart 2: Job Flows in Canada



Source: Schreyer (1996) "SMEs and Employment Creation"

Chart 3: Ratio of SME Job Gains/Losses to Employment



Source: OECD (1994) *Employment Outlook*

SATURDAY AFTERNOON SESSION AT SEVEN

(3:00 PM - 4:00 PM)

I. **Introduction** (5 minutes)

II. **Macroeconomic Issues** (30 minutes)

-- Economic Prospects (10 minutes)

-- European Monetary Union (Santer - 10 minutes)

-- Financial Stabilization (Kohl - 10 minutes)

III. **Ukraine/ Chornobyl** (Your lead)

SATURDAY AFTERNOON G-7 SESSION
KEY POINTS: MACROECONOMICS, FINANCIAL STABILITY
AND UKRAINE/NUCLEAR SAFETY

Session overview: This, the only meeting of the Seven, should focus on three core economic issues. First, you will want to use this opportunity to urge your European colleagues to focus on fundamentals and to raise a caution flag to any attempt by Japan to "export its way out" of economic underperformance. You should ask European Commission President Santer to briefly discuss EMU, and you should reinforce your message of keeping a focus on sound economic policies. Two other action items are on your agenda: gaining endorsement of the next steps in our financial stability plan (which Kohl will discuss) and securing adequate funding to help Ukraine build a sarcophagus for the remains of the Chernobyl reactor.

You should be aware that several leaders, principally Prime Minister Hashimoto, may express concern about the erosion of the G-7 as an institution. In accordance with your suggestion, we have asked Hashimoto to lead off the macroeconomic discussion, which will give him an opportunity to express his concerns. You should argue for the value of including Russia in conversations such as the lunch session on modernizing our economies, while still retaining an ongoing G-7 process to maintain the capacity to deal with financial crises and for continued cooperation to promote financial market stability and growth.

MACROECONOMIC PROSPECTS (Hashimoto lead)

- Overall assessment is that the global macroeconomic situations has been improving.
- G-7 economies are either continuing to expand or showing signs of firm upturns; inflation has been low; developing countries and the transition economies are moving forward.
- In the United States, able to achieve sustained growth and very strong job creation -- far more than most thought possible -- without the reemergence of inflationary pressures. While so far no signs that inflation is accelerating, we are nevertheless watching the situation carefully.
- We've all made a lot of progress in getting our fiscal houses in order. Am pleased that U.S. budget deficit will be less than one percent of GDP this year.

- At the same time there are some concerns.
- Employment situation in Continental Europe is discouraging. Recognize that most of this is related to structural factors and that you are all seeking ways to put the necessary reforms in place to promote job growth. What can the G-7 do as a group to make reforms more politically acceptable?
- Encouraged to hear that Japan is attaining stronger growth, with domestic demand on the upswing last year. Keeping domestic demand growing strongly -- despite the major fiscal tightening now being undertaken -- remains important, so that there will be no significant increase in Japan's trade and current account surpluses. Appreciate Japanese commitment to achieving this objective.

EMU (Santer lead)

- U.S. interests lie in a successful EMU, based on sound policies, that will promote growth, create jobs, and provide stability.
- While decisions on the EMU are for Europeans to make, these choices are important to whole world economy, and we all want a satisfactory outcome.
- Hope Europe does not allow preparations for EMU to divert attention from critical issues such as structural reforms to reduce unemployment.

Financial Stability (Kohl lead)

- Key area in which we have to act together in order to protect stability of world economy.
- Since Halifax we have taken steps each year to keep the international regulatory system abreast of the rapid pace of change without stifling innovation and capital flows. World financial system stronger today than three years ago.

[**Note:** Prime Minister Blair may propose designating a lead regulator for internationally active financial firms, with more formal responsibilities instead of a more flexible approach. **If needed:**

- We recognize that proposals to enhance international regulatory cooperation need further development. [Want maximum progress, but should recognize that the complexity of this endeavor requires a careful and deliberate approach.]

Ukraine/Nuclear Safety (You lead)

- Have made progress under the 1995 Memorandum of Understanding with Ukraine. Commend Ukraine for its difficult decision to close one of the operating Chernobyl reactors last year and encourage them to pursue the energy sector reforms they have pledged to implement.
- Acknowledge President Kuchma's commitment to pledge resources to fix the aging Chernobyl sarcophagus, an enormous undertaking which Ukraine cannot accomplish without our help.
- Given progress, can now prepare to pledge \$300 million to fix the aging Chernobyl sarcophagus. United States will do its part by committing \$65 million for this effort.
- Call on other governments and public and private sector donors to join pledging conference this fall to fully fund this critical mission.

If other leaders question need to pledge \$300 million now:

- Must meet the challenge of committing \$300 million now and making the cash available as soon as possible to start addressing the dangers of the Chernobyl legacy this year and meet scheduled finish by 2005.
- Cannot ask other donors to commit more to this important effort than G-7 willing to commit. Failure here dooms the sarcophagus project to fail in its first years for lack of funds.
- Initial funding is based on proposal following proportionate commitments made at Naples. United States is prepared to commit \$65 million, increasing its contribution from 19 percent to 21 percent. Acted judiciously then and believe the suggested levels of commitment are judicious now.
- [If needed] Proposal that United States, Japan and Canada pay 43 percent of total not appropriate, since EU did not participate in Naples pledging. If EU's 1994 contributions are factored in, then appropriate percentage for all European Summit partners rises to 71 percent.

If other G-7 raise status of Rivne/Khmelnitsky reactor project:

- We await EBRD deliberations on the feasibility of completing two new reactors. If the EBRD cannot fund two reactors there are other options which the Bank might consider.
- Cannot support any project which does not meet the EBRD's nuclear lending policy criteria.

SATURDAY AFTERNOON SESSION
DISCUSSION PAPER ON G-7 ISSUES

OVERVIEW

This will be the only meeting of the Seven. You will want to note that you still consider this group and the work of our Finance Ministers to be important for taking coordinated actions in international economics and financial issues. Critical to continued economic growth will be sound policies in the developing world, and you should formally endorse the status report on the financial stability agenda for developing markets. You also will need to lead a frank discussion of Ukraine's energy sector problems and to seek agreement among the group to agree on financing plans for the costs of a new enclosure for the Chernobyl nuclear power plant.

Macroeconomic Prospects: The U.S. economy's strength has helped establish solid global macroeconomic fundamentals despite sluggish growth in Japan and Continental Europe. The IMF projects global growth of near 4-1/2 percent this year and next. It is critical that you reassure your partners that the difficult but important adjustments we have made at their urging have resulted in stronger growth among the G-7 as well as in Latin America and the countries in transition. Inflation has come down for the G-7 as well as for developing and transition countries and there are no signs that upward global price pressures will reemerge in the near future.

You should continue to urge our G-7 partners to persevere in making the reforms necessary to put their economies on a more sound footing. For some this will be useful encouragement as their economies have begun to show signs of recovery; for others it will provide political cover to make the reforms they know are needed. All G-7 countries have made considerable progress in reducing their budget deficits, but more work must be done over the medium term.

Europeans generally are finding further fiscal tightening politically difficult. Enthusiasm for structural adjustments has declined as these countries race to meet the Maastricht criteria for EMU by the end of this year. French President Chirac's ill-fated attempt to gain a free hand during the run-up to EMU qualification, and Germany's gold revaluation plan designed to reach the 3 percent maximum budget deficit criterion without further tax increases, reflect a combination of a strong desire to meet the EMU qualifying criteria and awareness of severe political pressures against the necessary steps to do so. Canada and the United States are closest to achieving budget balance and Italy has made the greatest gains recently.

In Japan, the authorities are resolutely engaged in budget cutting that could slow growth. In the context of the need for all countries to make reforms, you should send a strong warning that countries should not attempt to "export their way out" of economic underperformance. Japanese will need continued reminders that, while we understand their need for fiscal restraint over the long run they should ensure that domestic demand remains strong and a significant increase in external surpluses is avoided.

European Monetary Union: Jacques Santer is likely to say something briefly about EMU plans, but will likely want to avoid an extensive discussion -- particularly in light of recent speculation about whether the fiscal criteria for EMU will be weakened and/or whether there will be a delay in startup. It is important that the United States not be seen as taking a position on intra-European debates about EMU. Nonetheless, EMU will have important implications for the international economic system. Unsound underlying policies could make the Euro a weak currency once it is established. A poorly handled transition could cause uncertainty in financial and foreign exchange markets. You can note that it is important to focus on appropriate economic policies, reassuring your colleagues that we do not oppose the Euro as a rival currency, but want to make sure that its implementation does not divert attention from economic reforms needed to bring down unemployment.

Financial Stability: In Lyon, this group called for the implementation of improved practical measures to deal with risks relating to the operation of global financial markets. You should endorse the Finance Ministers' report, which outlines a series of steps taken by financial market regulators and banking supervisors since Lyon. More reforms are on the way. The prepared Statement calls for further actions, and a report at Birmingham on ensuring regulatory cooperation and improvements. Leaders should make continuing progress a priority.

Ukraine/Nuclear Safety: A key objective for Denver is to lead the G-7 in pledging \$300 million to fix the "sarcophagus" over the destroyed Chornobyl-4 reactor, as this structure could collapse within ten years. G-7 involvement is based upon the December 1995 Memorandum of Understanding (MOU) with Ukraine on closing Chornobyl by the year 2000.

The sarcophagus project has a price tag of some \$750 million. Ukraine will not be able to contribute more than \$150 million to the sarcophagus over the 8-10 year project life. The G-7 has previously agreed to pledge \$300 million toward the project, and we want to use the Denver Summit to generate substantial

publicity to attract international donors to the pledging conference later this year to make up the remaining \$300 million.

There are still differences on the proportion each country should contribute. We originally proposed using roughly the same ratios agreed to when a first tranche of funds were pledged at the 1994 Naples Summit, though we have since increased our contribution from 19 percent to 21 percent of the total. The Europeans have countered that they would agree to the Naples split of 57 percent paid by Europe and 43 percent paid by Canada, Japan and the United States, even though they feel that this puts a disproportionate amount of the burden on them relative to GDP. We have rejected this, since the EU did not contribute at Naples. Should the G-7 fail to reach consensus on contributions or reduce the size of the pledge at Denver, it will be difficult to sustain international support for this project.

The G-7 Statement will also urge Ukraine to continue implementing the energy sector reforms to which it committed in the MOU and will reaffirm commitment to help Ukraine mobilize resources to meet power needs for 2000 and beyond. In this connection, other countries could raise the possibility of new nuclear power plants to compensate for the closure of Chernobyl. Ukraine has threatened to make this a trade-off for shutting down Chernobyl and is looking to the EBRD for financing. We should support economic, financial, environmental and safety tests; to do otherwise is bad policy and could lead to a battle with the environmental community. The IFIs and G-7 have already approved over \$1 billion in other projects under the MOU.

BACKGROUND ON INTERNATIONAL MACROECONOMIC PROSPECTS

The global macroeconomic situation is the best in years. The IMF projects global growth of approximately 4-1/2% this year and next, with stronger growth not only in the industrial countries but in Latin America and the countries in transition. Among the latter, Russia is expected to see positive growth for the first time since the collapse of the Soviet Union. Inflation has come down. For the G-7 countries, inflation rates are at the lowest levels since the early 1960s. But inflation has also fallen sharply in developing and transition countries as well, and nothing on the horizon suggests that upward price pressures will emerge in the near future.

Some short-run macroeconomic policy concerns remain. Japan has the objective of achieving strong domestic-demand-led growth and avoiding a significant increase in its trade and current account surpluses. The United States and United Kingdom particularly need to remain vigilant against a resurgence of inflation pressures as strong growth continues.

Currently, the most important policy objectives have a medium-term focus. The Denver Summit can help to build support for the difficult domestic policy actions needed to get results. With the United States doing so well relative to the others, our goal should be to help the others take effective actions at home using the Summit for political cover. France, Germany and Italy have a particular need for structural reforms in their labor and product markets, in order to restore job creation and bring down their persistently high unemployment rates - all currently in double digits. Canada also has a way to go, despite significant job creation, to get unemployment down.

Restoring sound long-run fiscal positions is important in all the G-7 countries. Progress is evident in all, but some still need to take substantial additional action. The IMF estimates that budget deficits for the government sector as a whole (federal, state and local) this year will range from close to zero in Canada and about 1.5% in the United States, up to the 3% range for the other G-7 countries.

Other areas for measures - already underway - to achieve medium-term objectives are the reforms in regulation and in policies of the International Financial Institutions (IFIs), to enhance global financial system stability and more generally to improve the work of the IFIs.

BACKGROUND ON FINANCIAL STABILITY

The Heads of State and Government in Lyon called for the implementation of improved practical measures to deal with risks relating to the operation of the global financial markets and asked for maximum progress in:

- enhancing cooperation among authorities responsible for the supervision of internationally-active financial institutions;
- encouraging stronger risk management and improved transparency in financial markets;
- encouraging the adoption of strong prudential standards in emerging economies and increasing cooperation with their supervisory authorities; and
- studying the international implications of developments in electronic money systems.

The Heads requested that the G-7 Finance Ministers report at the Denver Summit on these issues.

The Report submitted by Finance Ministers describes accomplishments since Lyon in each of the four areas above and recommends a set of objectives and proposals to carry this process forward. Key accomplishments are:

- Supervisors have developed a set of proposals for:
 - enhancing cooperation in the supervision of internationally active financial firms;
 - improving reporting and disclosure practices;
 - providing guidance to firms on risk management systems; and
 - reducing settlement risk in foreign exchange transactions.
- A working party comprised of financial authorities from a number of G-10 and emerging economies, together with representatives of international regulatory groups and international financial institutions, issued a report recommending a concerted international strategy for strengthening financial systems in emerging economies.

Negotiated language in the Statement at Seven (1) urges our national supervisors to develop further proposals to enhance international regulatory cooperation; (2) calls on the international financial institutions and international regulatory bodies to fulfill their roles in implementing the strategy to strengthen financial systems in emerging economies; and (3) asks Finance Ministers to report prior to the next Summit in Birmingham on progress in implementing these initiatives.

Potential Problems

The United Kingdom is interested in designating a lead regulator for internationally active financial firms, with formal responsibilities, instead of the more flexible approach now under development. U.S. regulatory agencies are vehemently opposed to this approach.

BACKGROUND ON INTERNATIONAL FINANCIAL INSTITUTIONS

In Halifax and Lyon, the G-7 reached a consensus on reforming and adapting the IMF and multilateral development banks to meet the challenges of the 21st century. Strong G-7 statements at Denver can help accelerate implementation of these changes throughout these institutions. However, continued arrears to the MDBs have compromised our leadership position. The others will want to hear your personal assurance that U.S. will pay its debts to the MDBs. Some, especially Chirac, may seek your agreement to stronger language on increasing resources for the IMF and may criticize U.S. for not carrying a fair share of the IFIs burden.

International Monetary Fund (IMF): The G-7 Statement supports further changes in IMF policies (including a specific role in promoting capital market liberalization) and ensuring adequate resources for Fund activity. The latter is contentious because of U.S. unwillingness to agree on a relatively large IMF quota increase. Most other G-7 countries, particularly France, support the IMF Managing Director's desire for agreement on increasing quotas (the IMF's basic resources) by the September IMF/IBRD Annual Meetings in Hong Kong. They also support calling for agreement by then on an amendment to the IMF Articles of Agreement to permit a one-time "special" allocation of Special Drawing Rights which would permit newer members (e.g., Russia) that were not able to benefit from earlier allocations to participate fully and equitably in the SDR system, a principle supported by the previous three Summits.

The United States needs budget authorization and appropriations (but not outlays) for transactions with the IMF. We are opposed to setting a deadline on the quota issue until there is an acceptable agreement on the appropriate size of the quota increase -- which should be considerably less than the 55 percent the Managing Director is proposing (about \$111 billion). As negotiations are continuing, we have indicated to Congress that if we can negotiate a satisfactory agreement for a justifiable increase, then we will propose that Congress authorize an increase in the U.S. quota.

On the SDR allocation, we want a slightly lower amount than the Managing Director's proposal (about \$31 billion) in order to keep the increase in cumulative allocations below 100 percent; and in the absence of strong pressure to close quickly on this matter, we would prefer to defer the SDR decision until the quota issue is settled.

If we are unable to reach an acceptable agreement on these issues by Denver, the G-7 Statement should call only for progress reports on both by the time of the Annual Meetings.

Multilateral Development Banks (MDBs): The Lyon Summit endorsed recommendations by the Development Committee (the ministerial-level group that governs the World Bank) on steps that MDBs can take to use their shrinking pot of resources more efficiently, be more open and responsive to communities affected by projects, and take on new development issues, like governance and corruption. It also asks the MDBs to harmonize some of their practices. Most of the banks have developed new reform programs, but progress has been slow (as GAO and others have publicized).

The G-7 Statement is meant to spur implementation. It explicitly supports the World Bank's "Strategic Compact," which we hope will bolster Jim Wolfensohn's efforts to tackle the problems at the Bank -- although we have had some misgivings about the plan's cost (which has since been scaled back). An implementation plan for all the banks will be presented at the September meetings.

Progress could be overshadowed by the large U.S. arrears to MDBs, which currently stand at \$860 million. Our FY98 budget seeks \$1.516 billion for the MDBs: \$1.2 billion to fulfill current commitments to avoid falling further into arrears; \$234 million to clear arrears to IDA; and an additional \$80 million to begin a three year process of clearing other arrears. We have successfully negotiated down our commitments to MDBs in the latest replenishment agreements (by roughly 40% compared to previous replenishments).

The United States has been the largest contributor to IFIs for a longer period than any other nation. We have led every major trade round, have arguably the most open trade and capital markets, and pay a widely disproportionate share of cost for other countries' security.

Multilateral Investment Guarantee Agency (MIGA) Capital Increase: Japan has sought to use Denver Statement as a vehicle for G-7 agreement on a capital increase for the Multilateral Investment Guarantee Agency (domestic equivalent is OPIC). The Statement acknowledges the need to find ways to meet growing demand for MIGA guarantees. We believe this need can be met by some short term adjustments, with a capital increase in two to three years time.

BACKGROUND ON UKRAINIAN NUCLEAR SAFETY

A key objective for Denver is to lead the G-7 (Russia is not involved in Ukraine nuclear safety issues) in pledging \$300 million to fix the "sarcophagus" over the destroyed Chornobyl-4 reactor, as this structure could collapse within ten years. G-7 work on this project is based upon the December 1995 Memorandum of Understanding (MOU) with Ukraine on Closing Chornobyl by the year 2000.

Funding Issues: The sarcophagus project has a price tag of some \$750 million over eight years. At least \$20 million must become available this year, and \$120 million next year, to fund urgent safety fixes and maintain the project's ambitious schedule. Ukraine may be able to contribute about \$150 million in in-kind costs.

The G-7 has agreed to pledge \$300 million toward the project, and will try to use the Denver Summit to generate substantial publicity to attract international donors to a fall pledging conference to make up the remaining \$300 million. The Vice President has agreed with President Kuchma to serve as honorary chairs of the conference.

Among the G-7 there are still differences on the proportion of the \$300 million each should contribute. We have proposed using a modified version of the ratios used when Chornobyl was first addressed at the 1994 Naples Summit -- the changes reflect EU contributions in addition to G-7 bilateral commitments. The Europeans believe this puts a disproportionate amount of the burden on them; in reality, the U.S. share would increase, and relative contributions from France, Germany, Italy and the UK would decrease or stay about even. Should the G-7 back away publicly from a \$300 million pledge -- the same amount needed from other donors -- it will be very difficult to sustain international support for this project.

Other Energy Needs: The G-7 will also use the summit to urge Ukraine to continue implementing the critical energy sector reforms to which it committed in the MOU and to reaffirm our commitment to help them mobilize resources to meet power needs in 2000 and beyond. In this connection, other G-7 countries could raise the question of EBRD financing to complete two nuclear reactors as "compensating power" for the closure of Chornobyl. Ukraine has threatened to make completion of these reactors a requirement for Chornobyl's closure. Our position has been that we should support financing for these reactors only if they meet the necessary economic, financial, environmental and safety tests; to do otherwise is bad policy and would result in a major battle with the environmental community. We can also point out that the IFIs and G-7 have already approved over \$1 billion in other projects under the MOU.

BACKGROUND ON DEBT RELIEF FOR THE POOREST COUNTRIES
(THE HIPC DEBT INITIATIVE)

At the 1996 Lyon Summit, the G-7 welcomed the implementation of up to 67% debt reduction for poorest countries through the Paris Club of creditor governments under "Naples Terms." However, the G7 also acknowledged the need for additional action for some heavily indebted poorest countries, in particular, to reduce debts owed to multilateral institutions. They endorsed the general framework for such assistance that had been proposed by the International Monetary Fund (IMF) and the World Bank, and expressed the hope that a concrete solution could be agreed by the fall of 1996.

In September 1996, agreement was reached on a comprehensive, coordinated approach by all creditors to assist the heavily indebted poorest countries (HIPCs). The HIPC Debt Initiative, for the first time, will provide debt relief on obligations to the international financial institutions (including the IMF, the World Bank, and regional development banks and financial institutions). Relief will be provided on a case-by-case basis for those HIPCs which, though having undertaken three years of sustained economic reforms, have nevertheless not attained sustainable debt levels despite previous official and commercial bank debt reduction.

The key multilateral institutions are committed to participate in this initiative. The World Bank and the IMF have transferred initial resources into special trust funds, which will be used to prepay or service a portion of debt payments coming due on behalf of the eligible debtor nation. The African Development Bank and Fund have determined the initial sources of funding for their participation and the Inter-American Development Bank is focusing on potential funding mechanisms. Other multilateral institutions are moving ahead with similar decisions. The Paris Club has also announced that it is ready to go beyond "Naples Terms" in providing debt reduction of up to 80 percent for eligible countries. Action will be coordinated among the various creditors to assure that sustainable debt burdens can be achieved.

In April 1997, Uganda became the first country to be determined eligible to benefit from this initiative. We expect decisions on three additional countries (Burkina Faso, Bolivia, and Cote d'Ivoire) this summer. Initial debt sustainability reviews are also underway for further countries.

It is important at Denver to reiterate strong support for this key initiative. Non-governmental organizations (NGOs) have been questioning the commitment of the G-7 and the IMF to deep relief, and have been pressing for broader eligibility and earlier relief. The United States is providing for a call by the Summit leaders for the multilateral institutions to provide interim relief under

this initiative -- from the time a country is determined eligible until its final relief is delivered, normally three years later. Key issues on eligibility guidelines have been sorted out which permit eligibility for Cote d'Ivoire (a major French concern), while limiting IFI expenses (a German concern). Consideration of interim relief mechanisms is still at an early stage, and has run into some resistance relative to the IMF. The Japanese and French may emphasize the need for the World Bank to pick up some of the African Bank's expenses under the initiative.

BACKGROUND ON CORRUPTION AND GOOD GOVERNANCE

Since the United States enacted the Foreign Corrupt Practices Act in 1977, we have encouraged other countries to follow our example. Efforts in recent years have produced an increased awareness of the adverse effects of corruption on economic growth and development, democratic institutions, and nascent market economies. Last year, the G-7 resolved in Lyon to combat corruption. In addition, the UN adopted a declaration condemning corruption; the OAS approved an inter-American convention against corruption; the World Bank improved its procurement rules; and the WTO established a working group to study transparency in procurement.

We have made substantial progress in the OECD, where in May 1997 the member countries agreed to urge implementation of a previous recommendation to eliminate tax deductibility of bribes paid to foreign officials and agreed to negotiate by the end of the year a binding convention, based on an agreed high standard, to criminalize such bribery and to bring the convention into force by the end of 1998. A number of OECD countries, led by France and Germany, insist that the convention is a necessary prerequisite for legislative action.

The World Bank, recognizing the importance of anti-corruption efforts to sound, market-oriented economic development, has assisted countries to adopt legal reforms, improve judicial and civil service systems, and strengthen public sector financial management. Led by President Wolfensohn, the World Bank also has developed strong procurement rules, including anti-corruption requirements. The regional banks need to work with the World Bank to adopt uniform development bank procurement rules, standardized to the highest level. All the multilateral development banks need to formulate concrete measures to promote good governance and to fight corruption. The Asian Development Bank is the first to adopt a Board-approved good governance policy.

In September, IMF Managing Director Camdessus asserted the Fund's commitment to an Interim Committee declaration, which called for "promoting good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper." Fund staff is developing comprehensive guidance to promote good governance through regular surveillance and program activities.

The increased attention of the OECD and the international financial institutions to good governance and anti-corruption has

the support of most of the G-7. The Denver statement reflects this support, recognizing that each institution's contribution is essential to the overall effort to combat corruption. However, France and Germany have often resisted strong measures in the OECD, many developing countries oppose anti-corruption efforts in the international financial bodies, and some of the senior management of the World Bank and the IMF are less enthusiastic. Our leadership is necessary to help these institutions expand their efforts and encourage others to join the fight against corruption.

SUNDAY SESSION

SUNDAY MORNING SESSION

(10:15 a.m. - 12 NOON)

I. Introduction (5 minutes)

II. Democracy (Kok 10 minutes)

III. China/Hong Kong (Blair - 5 minutes)

IV. Middle East (Your lead - 5 minutes)

SUNDAY MORNING SESSION:
KEY POINTS: POLITICAL ISSUES

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Discussion Overview: This year's discussion can advance your core strategy for how the world's leading democracies will shape international relations in the twenty-first century. You should use your introductory remarks to comment on the remarkable and historic consensus that exists among this group, and discuss how the Eight can build on our common values and institutions to deepen political integration worldwide. You should also urge a united front against nations that reject the basic principles of peace and cooperation.

A more focused discussion of a few key regional situations should follow, with Prime Minister Blair leading on Hong Kong/China and you leading on the Middle East. You may also want to seek support for our efforts in Haiti and solidify our efforts to oppose disruptive actions by Iran, Iraq and Libya. Others may raise situations of particular concern; we have listed the most likely candidates in alphabetical order.

Introduction:

- We have forged a remarkable and historic consensus on norms and principles that underlie international cooperation.
- Twenty-first century will differ significantly from other periods of great power cooperation, most notably by our shared commitment to open markets and open societies.
- Commitment to democratic values and institutions is the cornerstone to our common strategy of political integration.
- Must take effective measures to address threats to peace and security, and effective action against states that undermine norms and principles of international cooperation.

Democracy and Human Rights Initiative (Kok and Yeltsin leads):

- Wave of democracy that has swept the world is strong, but young democracies are fragile. We have special responsibility and unique opportunity to strengthen democratic values where they have taken hold and extend reach where they have not.
- Much is being done in this area by each of us. 50th Anniversary of Universal Declaration of Human Rights is a critical milestone for our efforts.

- Let's have our experts work to review and assess our pro-democracy activities and make recommendations for better coordination at next year's Birmingham Summit.
- Four priority goals are key: promoting good governance and rule of law; strengthening civil society; expanding women's political participation; and boosting business and labor support for democracy and human rights.
- Also should address non-democracies. While we do not intend this as a crusade, cannot ignore such governments. Might start by engaging non-democracies in areas in which they themselves have indicated an interest; for instance, efforts to promote the rule of law.

If human rights emphasis is raised:

- Greater respect for human rights is essential to each priority area and will be given particular attention.
- [On China]: False choice between engagement and human rights. Over long term, we expect engagement to have liberalizing effect, but still important to speak out on behalf of universal values and those who are punished for advocating them.

If link to other international organizations is raised:

- Our officials should partner with Development Assistance Committee of the OECD and non-governmental organizations.

Hong Kong/China (Blair lead):

- Share a common goal in protecting our interests in Hong Kong after reversion.
- Eight should convey a consistent message that we expect the Chinese Government to fulfill its commitments in the 1984 Sino-British Joint Declaration, and preserve Hong Kong's autonomy, way of life and freedoms.
- China must preserve Hong Kong's free enterprise system, transparent legal system, low level of corruption and regulation and fiscal autonomy -- the ingredients of Hong Kong's economic "miracle" -- but also its civil liberties and political institutions such as elected Legislature. The economic and political elements are inseparable.

- We agree with other Summit partners on maintaining a constructive relationship with China. By deepening China's international integration, the industrialized democracies can encourage its development as a strong, responsible member of the international community.
- Cannot let the attractiveness of China's economy divide the Eight. We should consult intensively on our bilateral and multilateral efforts to encourage China to seize opportunities for integration, while adhering to international norms, particularly in non-proliferation, trade and human rights.

If MFN for China is raised:

- Congress is debating my decision to renew MFN unconditionally for China. This may be harder this year, due to our growing trade deficit with China, the reversion of Hong Kong to Chinese sovereignty, and increased persecution of non-sanctioned religious groups in China. We are confident, however, that Congress will support unconditional MFN renewal.

Middle East Peace Process:

- Need to continue to work to restore confidence between Israelis and Palestinians. Egyptians are playing a constructive role; we've stayed in close touch with them.
- All of us will need to work together to help the parties succeed. Their ability to negotiate constructively is not high right now.
- Have to keep pressure on Arafat on the security side. Without it, process just will not work.
- Both parties must be prepared to take actions that will restore confidence needed for negotiations to resume.
- We are committed to stay in this for the long haul. Comprehensive peace, including Syria and Lebanon, remains the objective.
- Working together, we have all done a lot to sustain progress in the peace process through our assistance programs. With the Palestinian track faltering, King Hussein is under considerable pressure.
- We're re-directing a substantial amount of aid to Jordan. Need others to do so as well in order to have an impact well before November parliamentary elections.

- We must stand united against those that threaten peace in the region, particularly through support for terrorism.

U.S. ISSUES

Haiti:

- Haiti's fragile democracy requires our continuing support.
- A post-July international security presence, with appropriate UN authorization, is vital to help Haiti make the transition from a full UN peacekeeping mission to greater self-reliance. It will also signal strong international support for the Haitian government's attempts to develop lasting democratic institutions and a society based upon the rule of law.
- The international community has made a significant investment in Haitian democracy and our investment has borne positive and promising results. Rather than run the very real risk of squandering this investment, the international community should ensure a careful and prudent transition.
- The Denver Summit is a good opportunity for the Eight to express unanimity on the necessity of a UN Security Council mandate for a post-July UN peacekeeping mission at least through November.
- Russian arguments that Haitian stability is primarily a Haitian, not an international community issue, are belied by the presence of issue on Denver agenda.
- Progress is being made on economic reform as privatization picks up speed. However, no quick fixes can offset years of neglect. Increased donor coordination will be needed.

Iran:

- Denver must send a strong signal to Iran that the Eight are unified in seeking change in Iran's objectionable behavior.
- Reflecting the Mykonos verdict, we need to send an even stronger signal than we did at Lyon.
- By sustaining our criticism of the objectionable policies pursued by the current regime, we support the broad majority in Iran that voted for change last month.

- (If asked) ILSA is designed to reduce Iranian and Libyan capabilities to pursue objectionable policies by deterring new investment in their petroleum sectors. While it is not intended to harm our friends, we will apply the law's provisions fully and fairly.

Iraq:

- The Denver participants should agree on strong language stating that Iraq still has not satisfied its international obligations by complying with UN resolutions.
- We need to emphasize that Iraqi efforts to split the coalition through economic incentives to individual states will not be allowed to succeed.
- We should also seek stronger language than at Lyon, emphasizing that sanctions on Iraq will not be lifted until it demonstrates "peaceful intentions" by complying with UNSC resolutions.

Libya:

- Emphasize that Libya must remain diplomatically isolated until it complies fully with the provisions of UN Security Council resolutions 731, 748 and 883.
- Reaching out to engage Libya diplomatically and commercially is a mistake which only encourages Qadhafi to believe he need not change.
- We believe it is clear under UNSCR 883 that the proceeds from any investments of Libyan oil revenues must be frozen and cannot be made available to Libya.

OTHER COUNTRIES' ISSUES

Afghanistan:

- All hope for same outcome in Afghanistan: end to fighting and formation of broadly representative central government that protects human rights of all Afghans and abides by Afghanistan's international obligations.

- Support continued role of UN Special Mission on Afghanistan to engage the major Afghan parties in serious negotiations aimed at a political settlement.
- At present we do not believe the Taliban have designs on Central Asia and repeatedly urged them to reassure their Central Asian neighbors that they pose no threat to them.

If recognition of Afghanistan is raised:

- We do not recognize the Taliban government and we have no plans to do so. We recognize states, not governments. We have no intention of breaking relations with Afghanistan.

If Afghanistan's credentials at UN are raised:

- The UN may be taking up the issue of Afghanistan's credentials. We have not made a decision on this.

Albania:

- Commend Italy for demonstrating significant leadership. The international community must present a united front on upcoming Albanian elections.
- We strongly support the OSCE mission and its representative, Dr. Vranitzky, who has done an extraordinary job in bringing the election process along.
- The international community must do its utmost to provide adequate assistance and monitoring. We should act urgently to provide personnel and other resources to assure the success of the OSCE-led monitoring effort.
- The success of the upcoming elections is key to our continued stabilization efforts in Albania.
- We look forward to working to provide assistance to help restore stability to Albania.

Bosnia:

- We have made a massive investment in Bosnia's peace. We should redouble our efforts to accelerate the peace process.
- We intend to push ahead vigorously on all implementation issues -- including joint institutions, refugee returns, public security, economic reconstruction and war crimes -- to

assure that the peace process is firmly on track when SFOR's mandate ends in summer 1998.

- We should use this Summit to reiterate strong international support for full Dayton implementation, as was agreed at the Peace Implementation Council (PIC) ministerial in Portugal last month.
- Our focus should be on accelerating peace implementation rather than speculating about what will happen after the end of the SFOR mandate.
- All parties and signatories must fully comply with their obligations under Dayton, especially as regards freedom of movement and residence, establishment of Dayton's institutional framework and cooperation with the International Criminal Tribunal for the Former Yugoslavia.
- We should also renew our commitment to support international implementation of the Brcko arbitral decision whose success will be central to the Bosnian peace effort and can provide a positive model for the rest of Bosnia.
- To achieve stability in the Balkans, there must also be progress toward democracy and protection of human rights in Serbia and Croatia. We must be firm and united in sending this message to the local leaderships.

Myanmar/Burma:

- Our common interests in Myanmar center on promoting democracy and human rights and on limiting the production and export of narcotics.
- The key short-term goal we want to see is a constructive dialogue about the political future of the country among the SLORC, Aung San Suu Kyi and the National League for Democracy and leaders of the ethnic minorities.
- We have sent strong signals to the SLORC that it cannot continue doing business as usual with the international community if it continues to engage in widespread repression and to oppose dialogue with the opposition.
- Recent SLORC arrests and refusal to allow gatherings at the residence of Aung San Suu Kyi are further proof of the oppressive nature of the regime.

- We appreciate actions by your governments to put increased pressure on the SLORC and encourage you to look for other ways to do so -- especially in the lead-up to ASEAN meetings in Kuala Lumpur in July.
- The Eight should make a strong statement of our common concerns in Burma.

If asked about ASEAN membership:

- We expressed our concerns to ASEAN about Burma's membership. Now, we will urge ASEAN to continue pressing the SLORC to begin dialogue with Aung San Suu Kyi and to take effective steps against narcotics trafficking.

If asked about state selective purchasing laws

- Understand that Massachusetts state legislature passed law imposing sanctions on firms that invested in Burma.
- We take your concerns with respect to sub-federal sanctions very seriously.
- We appreciate that all parties have given us an opportunity to address the issue of sub-federal trade sanctions domestically, rather than moving to WTO dispute settlement on the case.
- The issue is a politically sensitive one, but we are working hard to resolve it.

Cambodia:

- Concerned about potential for violence and instability as parties jockey for position before 1998 elections.
- Secretary Albright will underscore our concerns during her June 28-29 visit and urge speedy progress on election preparations.
- UN and Paris Accord parties will continue to support the democratic process in Cambodia, but the real responsibility to resolve political differences rests with Cambodians themselves.
- The United States does not support reopening the Paris Peace Accords or having the UN conduct Cambodian elections in 1998.
- The United States will not endorse any political party or coalition in Cambodia. We will work hard to ensure free and

fair elections, in cooperation with the Cambodians and the international community.

Congo:

- Strongly encourage DROC to establish broadly based, inclusive transitional government leading to a democratic constitution and a stable, prosperous market-oriented economy. We welcome elections planned for April 1999.
- A smaller multiethnic, professional military would contribute to regional stability and we are willing to consider ways in which we could assist in this regard.
- The Summit partners should aid the new DROC authorities in meeting life-sustaining humanitarian needs, reconstruction, electoral support, society building and the repatriation of the remaining Rwandan refugees in eastern Congo.
- We insist that DROC authorities assure access for international investigations into alleged massacres and other human rights violations, allow legal action against culprits and establish general policies supporting human rights.
- We expect the new government to achieve certain benchmarks in the areas of democratization and human rights in order for us to consider establishing an assistance program.
- Early action may enable Summit partners to convince the transitional government to make the right, crucial policy choices on democratization and economic reform.

Cyprus:

- Given the importance of upcoming UN-sponsored talks on Cyprus, we should make a brief reference to Cyprus in the Summit communiqué.
- The communiqué should support the UN's mediation efforts and a call on the two Cypriot leaders to engage seriously.
- The UN would welcome this gesture of the Eight's support. Reminding the Cypriots that the international community holds them accountable for progress in the talks would also be useful.

If pressed to expand statement

- We should confine the Cyprus language to these two basic points.
- Any reference to issues in dispute or being negotiated by the parties will complicate the UN's efforts and undercut our message.

North Korea:

- North Korea's worsening food problem and economic situation magnifies the threat of instability within the DPRK, on the peninsula and in the region. The economy has been in steep decline for years.
- We appreciate your help in minimizing this threat through support for diplomacy and contributions to the humanitarian food effort.
- The North's food problem is serious and will worsen until the harvest begins in late summer. Even with this harvest shortages are likely to continue.
- Nevertheless, Kim Jong Il still appears to be in firm political control, relying on the legacy of his father, the military and the state security apparatus.
- Substantial progress in implementing the Agreed Framework continues: canning of spent nuclear fuel is more than 80 percent complete and LWR groundbreaking will begin next month.
- We are grateful for Japan's continued strong support for KEDO and for the EU's decision to join KEDO and contribute \$29 million. However, KEDO still faces severe financial difficulties and we look to others for bilateral contributions to help KEDO meet its Agreed Framework commitments.
- The North Koreans have accepted the Four Party peace proposal "in principle," and we are working hard to obtain their agreement for a schedule to begin negotiations.
- We appreciate your support for the proposal.
- The United States and ROK are responding positively to international humanitarian appeals regarding the North's food crisis.

- We urge other nations to consider contributing to the international appeal.
- We have attached "no strings" to humanitarian food relief. South Korea has made it clear that large-scale food and technical assistance in reforming the North's failing agricultural economy is conditional on North Korea's entering peace negotiations.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	Sunday Morning Session: Discussion Paper: Political Issues (4 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
002. paper	Background on China/Hong Kong (2 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
003. talking points	Points to be Made for Meeting with Canadian Prime Minister Chretien (2 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
004. talking points	Points to be Made for Meeting with Chancellor Kohl (2 pages)	06/00/1997	P1/b(1) KBH 8/29/2019
005. talking points	Points to be Made with EU Commission President Jacques Santer (1 page)	06/00/1997	P1/b(1) KBH 8/29/2019
006. report	Biography (2 pages)	06/11/1997	P1/b(1)
007. report	Biography (2 pages)	06/11/1997	P1/b(1)
008. report	Biography (2 pages)	06/09/1997	P1/b(1)
009. report	Biography (2 pages)	06/10/1997	P1/b(1)
010. report	Biography (2 pages)	06/10/1997	P1/b(1)
011. report	Biography (2 pages)	06/09/1997	P1/b(1)
012. report	Biography (2 pages)	06/12/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
 National Security Council
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The President's Trip to Denver, Colorado for the Summit of the Eight, June 19-22, 1997
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2016-0141-M
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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
013. report	Biography (2 pages)	06/09/1997	P1/b(1)

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National Security Council
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SUNDAY MORNING SESSION:
DISCUSSION PAPER: POLITICAL ISSUES

Session Overview: You should use this last session to advance the political strategy of integration that the Eight have begun to forge. Unlike past years, where political discussions have focused exclusively on regional situations or conflicts, the Eight this year will also launch an important effort to prevent future conflict by establishing a new process for coordinating their international democracy and human rights efforts.

Democracy and Human Rights: The United States is asking the Eight to begin a one-year joint review of policies and programs for strengthening democracy around the world, leading to a set of recommendations to be presented next year at Birmingham. The Eight form the "core group" of leading industrial democracies and have an interest in encouraging the success of democracies worldwide.

The Working Group will focus on four areas: good governance and the rule of law; women's political participation; civic education and civil society; and business and labor support for democracy and human rights. Although the main thrust is on supporting new and fragile democracies, the Group has also agreed to consider common efforts to promote democracy in non-democratic states. The initiative integrates human rights concerns through each of the sub-topics, particularly appropriate since next year will celebrate the 50th anniversary of the Universal Declaration of Human Rights.

U.S. efforts are already substantial, including some \$400 million per year in AID democracy assistance programs and more than \$40 million for the NED and other quasi-governmental groups. Our programs include training and exchange programs for civilian, law enforcement and military leaders, as well as support for election monitoring, independent media, judicial training and assistance and non-governmental watchdog organizations.

Several countries have cautioned that the initiative not become a "crusade," and have expressed reluctance at undertaking common programmatic activities. You should reassure them that this year's priority should be on reviewing efforts to help states that recently have chosen the path of democracy and that we do not want the Eight to gang up on any one country. But also urge them to keep an open mind to future coordination of our programs and make sure we not consider any country "off-limits."

Hong Kong/China: Hong Kong's reversion to China will follow the Summit by one week. The Communiqué has been crafted to convey a consistent message that we expect the Chinese Government to

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fulfill its commitments in the 1984 Sino-British Joint Declaration and to preserve Hong Kong's autonomy, way of life and freedoms and seek early, free and fair elections of a new legislative council. You should underscore our interest in Hong Kong's future and indicate that we view China's fulfillment of its commitments as an important signal of how it views its international role and responsibilities in the next century.

Middle East Peace Process: The Eight will look to you for an update. Several of your colleagues are openly critical of Israel's positions on peace process issues and will warn of the potential for a further deterioration. You should seek to reaffirm the central role of the United States in the peace process while acknowledging the role of the EU, Canada, Russia and Japan. You can also note the United States and Egypt are making progress encouraging Israel to take steps that will enable the Palestinians to restart talks.

OTHER COUNTRIES

Afghanistan: Russia may raise this item. They are concerned about the impact of a Taliban victory in spreading fundamentalism along Russia's southern border and expressed concern over alleged U.S. assistance to Taliban. You should reassure the Russians that we are following events in South Asia closely and favor a UN mediational process leading to an end to the fighting in Afghanistan, an inclusive political state with respect for human rights and cooperation on combating terrorism, narcotics and other international concerns.

Albania: Italy will raise this issue and has pushed to include Albania in the Communiqué. Italy leads the UN-sanctioned Multilateral Protection Force in Albania (France is the co-chair). The success of the upcoming June 29 elections is critical to continued stabilization efforts in Albania but the prospects are clouded by continued violence and political infighting. You should underscore the need to work together to assure that President Berisha does not repeat the fraudulent practices which gave his Democratic Party a tainted victory in May 1996 parliamentary elections.

Bosnia: We anticipate that you will have addressed this issue on Friday evening, seeking high-level international support for accelerating Bosnia peace implementation.

Burma: Japan may raise Burma. Our common interests in Burma center on promoting democracy and human rights and limiting the production and export of narcotics. You have recently imposed a ban on new U.S. investment in Burma due to large-scale repression in that country. If the Communiqué addresses Burma, we should

seek a strong statement expressing our sentiments on human rights, democracy and counternarcotics.

Cambodia: Japan also may raise Cambodia, having led the 1993 international force that oversaw elections. The Eight share common concerns about the potential for political violence in the run-up to next year's local and national elections. You can underscore the need for Cambodia's leaders to resolve their differences peacefully and through legal means, a message Secretary Albright will deliver when she visits next week on her way to Hong Kong.

Congo (Democratic Republic of): The Eight should take a common line on pressing Kabila to move toward democracy, bolstered human rights, economic recovery and a smaller and more professional military. We expect the new government to achieve certain benchmarks in the areas of democratization and human rights in connection with an international assistance program. France may be hesitant to be drawn out on future ties with the DROC given that policy toward the former Zaire was a contentious campaign issue in the recent elections.

Cyprus: The British have raised the issue and seek a reference in the Communiqué. Though objections are not anticipated, Russia might try to expand the statement to take up controversial substantive issues, such as demilitarization of the island. We oppose this given the importance of avoiding comment on matters now under negotiation by the Cypriots. You will want to reiterate the importance we place on a peaceful, bicomunal solution to the problem, and mention that you have asked Ambassador Holbrooke to lead our Cyprus team.

Haiti: Our objective is to ensure UN Security Council authorization of an international security presence through at least November 1997. We seek a small UN-funded headquarters element supporting a voluntarily funded Canadian and Pakistani force totaling about 1200. This force is essential to maintaining a secure and stable environment while training of the new Haitian police force goes forward. Russia has been hesitant to agree to a UN mandate for this military force and the Summit can be useful in helping move them toward our position.

Iran/Iraq/Libya: There will be considerable interest in the implications of Khatemi's election. Most of your counterparts will be inclined to see this as an occasion to re-engage with Iran, notwithstanding the Mykonos verdict. We should continue to urge the Eight to insist on concrete change in Iran's behavior, while reiterating our own willingness to engage in an authentic dialogue with Iran. The Iran and Libya Sanctions Act is a source of friction with all our allies, but especially with the French,

British and Canadians. Russia has close ties with Iran and will be hesitant to harshly single it out.

On Iraq, sanctions fatigue is growing within the Eight, particularly in Moscow, Paris and Rome. The Eight still agree that sanctions should remain in place at least until UNSCOM verifies that Iraq has abandoned its weapons of mass destruction programs, but few agree with our position that Iraq must demonstrate full compliance with all UNSC resolutions in order for sanctions to be lifted. We should continue to emphasize that Iraq's recent actions in thwarting UNSCOM inspections demonstrates that it has not met even the minimum standards set by Resolution 687 regarding its WMD programs. Concerning Libya, the Italians have recently become a leading voice calling for moderation in our approach, arguing that Qadhafi is preferable to an unknown and possibly Islamist successor. We need to continue to emphasize that Libya must remain diplomatically isolated until it complies fully with the provisions of UN Security Council Resolutions 731, 748 and 883.

Korean Peninsula: The Japanese have introduced this regional issue into Summit deliberations. We share similar concerns with the Eight over Korea. If we agree to include this in the Communiqué, we should seek backing for the Agreed Framework (addressed in the non-proliferation section) and the Four Party Peace Proposal.

BACKGROUND ON DEMOCRACY AND HUMAN RIGHTS AND HUMAN RIGHTS INITIATIVE

At the suggestion of the United States, the Eight will launch their first joint initiative to strengthen young democracies and encourage the evolution of non-democracies. This initiative is especially timely, given the forthcoming 50th anniversary of the 1948 Universal Declaration of Human Rights.

The Eight have agreed to establish a Working Group on Democracy and Human Rights to review existing programs aimed at promoting democratic values and human rights, share best practices and coordinate respective efforts. It also will consider new initiatives in four priority areas: promoting good governance and the rule of law; strengthening civil society; expanding women's political participation; and boosting business and labor support for democracy and human rights.

Operating in partnership with multilateral and regional organizations and non-governmental organizations, the Working Group's focus will be on young democracies but will also address non-democracies and societies in conflict. It will report its recommendations at the next Summit in Birmingham. While other countries have responded positively to our proposal, there are three potential areas of controversy.

- Some may want to focus less on democracy and more on human rights. Our position is that both must go hand in hand and we, have integrated human rights into each of the four priority areas.
- Countries may be concerned about new and costly initiatives - or conversely claim there is nothing new in this initiative. The Working Group builds on activities already underway rather than build new bureaucratic structures. At the same time, it will consider new approaches such as creation of a volunteer corps of international justice advisors; development of "G.I. Bills" to assist in demobilizing armies in emerging democracies; Business Alliances for Democracy; and women's civic and voter education programs.

It may appear overly confrontational if the Working Group addresses non-democracies, but the initiative will only be credible if we maintain public pressure on these countries, engaging them in areas, such as the rule of law, in which they themselves have an interest.

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BACKGROUND ON CHINA/HONG KONG

At Denver, we would like to encourage China to adhere to international norms in nonproliferation, trade, and human rights, and support Hong Kong's future autonomy.

Hong Kong: Discussion on the Eight's interests in Hong Kong should focus on expressing clearly our common stake in Hong Kong's continued freedoms, prosperity and way of life. The Eight should convey the importance attached to the PRC honoring its commitments contained in the 1984 UK-PRC Joint Declaration and the 1990 PRC Basic Law.

The Eight should urge that the provisional legislature perform a limited role and that free and fair elections for a new legislature be held as quickly as possible. China's leaders have given general reassurances about maintaining Hong Kong's stability, way of life, and freedoms, and many preparations for the transition have gone smoothly. Other statements by PRC leaders about freedom of expression and efforts to change some civil rights laws, however, raise concerns about Chinese understanding of Hong Kong and the ingredients of its success.

China: The Eight will discuss developments in China and how to ensure China's integration into the international community, but no consensus exists on how to pursue this objective. We have four "core" issues on the U.S.-China agenda: nonproliferation, Taiwan, trade, and human rights. Nonproliferation concerns are not widely shared; the British, French and Germans have conducted sporadic discussions with China about its behavior. Taiwan is a significant problem only for the U.S.

The Eight have an active interest in China's trade policies and all support China's accession to WTO. We have had a common front with the EU and Japan (the other two major players) on the need for China to make meaningful commitments before accession. However, Japan may want to complete its WTO talks with China before PM Hashimoto's September visit to Beijing. The EU also might try to close out its China negotiations quickly, if they think we are about to do so. This would leave us isolated as the sole major hold-out against China's accession. At Denver, we should emphasize the importance of maintaining a united front in the talks.

The Eight all claim to include human rights in their agendas with China, but diverge on how to approach the issue. This was evidenced dramatically by the French refusal (followed

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by the Germans, Japanese, Italians, and Canadians) to co-sponsor a China resolution at the UN Human Rights Commission. We should explore areas of overlap, working to coordinate our approaches where possible.



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COMMUNIQUE DENVER SUMMIT OF THE EIGHT

3

INTRODUCTION

- 4 1. We, the participants in the Denver Summit of the Eight, as major industrialized democracies,
5 have discussed the steps necessary, both internationally and domestically, to shape the forces
6 of integration to ensure prosperity and peace for our citizens and the entire world as we
7 approach the twenty-first century. We have agreed to work closely with all willing partners in
8 fostering global partnership for peace, security, and sustainable development that includes
9 strengthening democracy, and human rights, and helping prevent and resolve conflicts.
- 10 2. Continuing the important steps we have taken, the Denver Summit of the Eight marks a new
11 and deeper participation by Russia in our efforts. Russia has taken bold measures to complete
12 its historic transformation into a market democracy. We are committed to continue the trend
13 of increased Russian participation in the work of our officials between summits. Cooperation
14 to integrate Russia's economy into the global economic system represents one of our most
15 important priorities. [We endorsed Russia's commitment to fully implement its EFF program
16 with the IMF.] We will work together to reach agreement on the conditions of Russia's early
17 participation as a creditor in the Paris Club, and support the goal of early Russian accession to
18 the WTO on the basis of [commercial] conditions generally applicable to newly acceding
19 members. We also look forward to continued Russian progress toward accession to the
20 OECD.

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22

ECONOMIC AND SOCIAL ISSUES

- 23 3. The process of globalization, a major factor underlying the growth of world prosperity in the
24 last fifty years, is now advancing rapidly and broadly. Globalization encompasses the
25 expansion of cross-border flows of ideas and information, goods and services, technology and
26 capital. More openness and integration across the global economy create opportunities for
27 increased prosperity as countries specialize in those economic activities which they do best,
28 while also promoting increased competition and efficiency, and the rapid spread of
29 technological innovations. Our task, as we enter the 21st Century, is to make the most of
30 these opportunities.
- 31 4. At the same time, globalization may create new challenges. The increasing openness and
32 interdependence of our economies, with deep trade linkages and ever greater flows of private
33 capital, means that problems in one country can spill over more easily to affect the rest. We
34 must cooperate to maintain global economic and financial stability. We must also ensure that
35 all segments of society, and indeed all countries across the globe, have the opportunity to
36 share in the prosperity made possible by global integration and technological innovations. It is
37 particularly important that young adults see the path to a successful life, and be adequately
38 prepared to follow that path.

1 5. Rapid technological change and demographic shifts are also having an important impact on the
2 global economy. We must take advantage of the possibilities for growth to address
3 unemployment and economic insecurity. Sound economic policies and the structural reforms
4 necessary to allow markets to function properly are essential if we are to meet the many
5 domestic and international challenges we all face. Measures that expand the availability of
6 high quality education and training and increase the responsiveness of labor markets to
7 economic conditions will aid the ability of our people to adjust to all types of structural
8 changes. We look forward to the high-level conference on employment that takes place this
9 fall in Japan, which is expected to contribute to the discussion on responses to structural
10 changes. We also welcome the proposal by the United Kingdom to host a conference of
11 Finance and Social Affairs Ministers early next year on growth, employability, and inclusion,
12 to prepare for further discussion of these vital issues at our meeting next year.

13 **The Opportunities and Challenges of Aging Populations**

14 6. Increased life expectancy and improved health among our elderly are two major achievements
15 of this century. In the next century, these successes will present us with both opportunities
16 and challenges, as longer life expectancies and lower birth rates significantly raise the
17 proportion of seniors in our countries' populations. Prime Minister Hashimoto's "Initiative
18 for a Caring World" has provided us the opportunity to focus on the implications of these
19 developments.

20 7. We discussed the idea of "active aging" -- the desire and ability of many older people to
21 continue work or other socially productive activities well into their later years, and agreed
22 that old stereotypes of seniors as dependent should be abandoned. We considered new
23 evidence suggesting that disability rates among seniors have declined in some countries while
24 recognizing the wide variation in the health of older people. We discussed how our nations
25 can promote active aging of our older citizens with due regard to their individual choices and
26 circumstances, including removing disincentives to labor force participation and lowering
27 barriers to flexible and part-time employment that exist in some countries. In addition, we
28 discussed the transition from work to retirement, life-long learning and ways to encourage
29 volunteerism and to support family care-giving.

30 8. We examined the differing implications of population aging for our nations' pension, health
31 and long-term care systems in the next century. Active aging strategies can be a useful way to
32 advance structural reforms in the areas of health and social welfare. Some of our countries
33 face major challenges in sustaining their public pension systems and would benefit from early
34 action to restore balance. Different ways were suggested to address this issue, including
35 increasing the labor force participation of seniors, particularly those in their fifties and early
36 sixties, and raising national savings rates. Investing in human capital, including maximizing
37 opportunities for life-long learning were mentioned as ways to facilitate the continued work
38 preparedness of mature adults. Some countries will be more affected by the demands of
39 health care financing for seniors. We concluded that efficient and effective management of this
40 challenge should help us to meet the needs of an aging society without overburdening
41 younger generations.

- 1 9. We agreed that it is important to learn from one another how our policies and programs can
2 promote active aging and advance structural reforms to preserve and strengthen our pension,
3 health and long-term care systems. Our governments will work together, within the OECD
4 and with other international organizations, to promote active aging through information
5 exchanges and cross-national research. We encourage collaborative biomedical and
6 behavioral research to improve active life expectancy and reduce disability, and have directed
7 our officials to identify gaps in our knowledge and explore developing comparable data in our
8 nations to improve our capacity to address the challenges of population aging into the 21st
9 century.

10 **Small and Medium Enterprises**

- 11 10. The contributions of small and medium-sized enterprises to employment and economic
12 dynamism in our societies are widely recognized. Fostering a business setting conducive to
13 the growth of dynamic young enterprises is a key to job creation. In our discussion, we
14 surveyed the obstacles to such growth, including the unavailability of debt or equity capital at
15 critical stages of a firm's growth, unnecessary regulation, difficulties adopting existing
16 innovative technologies, and the problems of smaller businesses in entering global markets.
17 We stress the need to remove these obstacles. We also examined some exemplary practices
18 within our countries to promote the growth of small and medium-sized companies, as well as
19 vocational training and education within these companies, and considered how we might
20 benefit from these successes. Best practices in our countries could also be useful examples for
21 developing and transition-market economies, as development of small and medium-sized
22 enterprises favors creation of jobs and social stability, disseminates entrepreneurial capacities
3 and helps to promote and diversify exports.

24 **GLOBAL ISSUES**

- 25 11. Even as global integration and rapid advances in communications and transportation have
26 spurred economic growth, these same trends have exposed us to complex problems that defy
27 unilateral solutions. In recent years our Summits have devoted increasing attention to our
28 cooperative efforts to confront these problems.

29 **Environment**

- 30 12. This is a pivotal year for efforts to promote sustainable development and protect the
31 environment. We are determined to address the environmental challenges that will affect the
32 quality of life of future generations and to enhance public awareness, especially among our
33 youth, of the importance of advancing sustainable development goals.

34 **UN General Assembly Special Session**

- 35 13. We discussed the progress that has been made since the 1992 Rio Earth Summit in defining
36 and promoting sustainable development, and we commit ourselves to taking action in areas
37 critical to advancing this agenda. Sustainable development demands the full integration of
38 environment, economic and social policies; should be based upon democratic governance and
39 respect for human rights; and should have poverty eradication as one of its ultimate objectives.
0 In this connection, we reaffirm the vital contribution of civil society. We urge the United

1 Nations General Assembly, at its Spécial Session to be held next week, to reaffirm and give
2 impetus to the Rio commitments, to take stock of implementation since Rio, and, most
3 importantly, to develop a manageable list of priority issues to address in future work on
4 sustainable development.

5 Climate Change

6 14. We are determined to take the lead and show seriousness of purpose in strengthening
7 international efforts to confront climate change. We must forge at the Third Conference of
8 Parties to the UN Framework Convention on Climate Change in Kyoto, a strong agreement
9 that fully meets the remit of the Berlin mandate, and that contains legally binding emission
10 limitation and reduction targets. We support an agreement that will advance us toward the
11 ultimate goal of stabilizing atmospheric concentrations of greenhouse gasses at an acceptable
12 level in an efficient and cost-effective way[, and that allows Signatories appropriate flexibility
13 in the manner in which they meet the targets]. We are committed to achieve emissions targets
14 that

15 [are meaningful, realistic and equitable and which maintain accountability and transparency.]

16 [are meaningful, realistic and equitable, that maintain accountability and transparency, and are
17 effective in limiting and reducing green-house gas emissions in the post-2000 era.]

18 [substantially reduce greenhouse gas emissions below 1990 levels for the years 2005, 2010
19 and 2020. Developed countries should, individually or jointly, reduce emissions levels by the
20 year 2010 by 15% with respect to 1990. They should also commit themselves to common and
21 coordinated policies and measures that would help us avoid competitive distortions and
22 achieve ambitious targets.]

23 [reduce greenhouse gas emissions significantly below 1990 levels by 2005 and 2010, with
24 coordinated policies and measures.]

25 [significantly reduce greenhouse gas emissions below 1990 levels by 2005 and 2010.]

26 15. Action by developed countries alone will not be sufficient to meet this goal. Measurable steps
27 will also be needed by developing countries, and their obligations will increase as their
28 economies grow. We agree to work in partnership with them to that effect. In this context,
29 we resolve to facilitate the development of environmental technology and its diffusion to
30 developing countries. We also will work with developing countries to build environmental
31 capacity and to promote environmental education.

32 16. We stress the importance of setting up an appropriate mechanism for monitoring and ensuring
33 compliance among Parties. We also agreed to work together to enhance international efforts
34 to further develop global systems for monitoring climate change and other environmental
35 trends.

36 Forests

37 17. Forests continue to be destroyed and degraded at alarming rates in many parts of the world.
38 To reverse this trend, we call on all countries to work with us to begin implementation of the
39 proposals for action put forward by the UNCSD Inter-governmental Panel on Forests and to
40 develop constructive programs, inter alia, to implement national forest programs for
1 sustainable forest management, establish networks of protected areas, assess the state of each

1 nation's forests using agreed criteria and indicators, harness responsible private sector
2 investment in forests and eliminate illegal logging. We welcome the progress made in
3 implementing the Brazilian Pilot Program initiated in Houston. We urge the Special Session
4 of the United Nations

5 [to establish an Intergovernmental Negotiating Committee to develop an international
6 convention to ensure the conservation and sustainable management of the world's forests.
7 This negotiation should be completed by the year 2000.]

8 [to launch an intergovernmental initiative for coordinated action to promote national
9 transparency and accountability and to build further consensus on global issues, including on
10 the advisability of initiating a global forest convention.]

11 Freshwater

12 18. Many people throughout the world do not have access to safe water. Increased human,
13 industrial and agricultural wastes can diminish water quality, with adverse effects for
14 ecosystems and human health and safety, particularly for children. The Special Session of the
15 UN General Assembly should encourage the CSD to develop a practical plan of action to
16 address freshwater-related issues, including promotion of efficient water use, improvement of
17 water quality and sanitation, technological development and capacity building, public
18 awareness and institutional improvements. To achieve these objectives, we have also agreed
19 to promote bilateral and regional cooperation on freshwater concerns, and to enhance
20 coordination of our efforts in this area.

21 Oceans

2 19. We must strengthen our efforts to protect the world's oceans. We will work to ensure an
23 effective and integrated effort to deal with key concerns, including sustainable fishing,
24 shipping, marine pollution from land-based and off-shore activities, and oil spill prevention
25 and emergency response. In this connection, we will also enhance cooperation in monitoring
26 the ecology in the Northern Pacific, as well as in forecasting earthquakes and tsunamis in this
27 region.

28 Environmental Standards for Export Credit Agencies

29 20. Private sector financial flows supported by official export credit agencies (ECAs) of the
30 industrial nations have a significant impact on sustainable development worldwide.
31 Governments can help promote sustainable practices by taking environmental factors into
32 account when providing export credits and/or credit insurance for investments in
33 infrastructure [and equipment]. We encourage the OECD [Participants Group] to develop
34 common environmental guidelines for all export credit agencies as expeditiously as possible[,
35 with the aim of implementing the guidelines by the May 1999 OECD ministerial]. In the
36 interim, we encourage ECAs to exchange information and develop the necessary technical
37 expertise on environmental matters.

38 Children's Environmental Health

39 21. Protecting the health of our children is a shared fundamental value. Children throughout the
40 world face significant threats to their health from an array of environmental hazards, and we
41 recognize particular vulnerabilities of children to environmental threats. Our governments will

1 explicitly incorporate children into environmental risk assessments and standard setting and
2 together will work to strengthen information exchange, provide for microbiologically safe
3 drinking water, and reduce children's exposure to lead, environmental tobacco smoke and
4 other air pollutants.

5 Institutions

6 22. Strong international institutions are essential to coordinating global efforts to protect the
7 environment and to achieve sustainable development.

8 23. The UNGA Special Session should confirm the role of the UN Commission on Sustainable
9 Development (CSD) as the strategic forum for integrating the social, environmental and
10 economic aspects of sustainable development. The CSD should develop action plans with
11 concrete objectives and timetables to guide its work in the four agreed priority areas:
12 freshwater; oceans; land resources, including forests; and sustainable energy use.

13 24. To ensure an effective response to urgent global environmental problems, we have supported
14 the refocused mandate for the United Nations Environment Program (UNEP), the leading
15 global environmental authority, as affirmed by the UNEP Governing Council in Nairobi this
16 year. UNEP should promote the coherent implementation of environmental protection
17 within the UN system and serve as an authoritative advocate for the global environment. The
18 newly formed High-level Committee of Environment Ministers and Officials should consider
19 the international environmental agenda and elaborate upon and advance the reforms needed to
20 ensure UNEP's effectiveness, with a particular emphasis on greater policy, program and
21 financial accountability. We look forward to a revitalized UNEP being able to attract the
22 resources needed for its tasks.

23 25. In the medium term, further efforts may be necessary to ensure the long-term coherence and
24 efficiency of the UN's work on the environment. We encourage the Secretary General to
25 review the handling of environmental matters within the UN system and to explore possible
26 means and structures to improve further the coordination among, and effectiveness of, the
27 concerned institutions.

28 26. We reaffirm the importance of the Global Environmental Facility as the leading multilateral
29 funding mechanism for the global environment. We will work to strengthen its finances and
30 enhance its effectiveness. In this regard, we will each do our part to contribute to a successful
31 replenishment of the Facility.

32 Infectious Diseases

33 27. Infectious diseases, including childhood pneumonia, diarrhea, tuberculosis, malaria, and
34 HIV/AIDS are responsible for a third of all deaths in the world. They pose significant
35 challenges to the health, security and financial resources of the global community. In many
36 parts of the world, infectious diseases and deaths from infectious disease have risen sharply in
37 the last decade for a variety of reasons, including the emergence of drug-resistant microbes
38 and the increased movement of people and products.

39 28. In the coming year, our governments will promote more effective coordination of international
40 responses to outbreaks; promote development of a global surveillance network, building upon

1 existing national and regional surveillance systems; and help to build public health capacity to
2 prevent, detect and control infectious diseases globally. Central to this work will be
3 strengthening and linking existing activities in and among each of our countries, and in other
4 fora, especially the World Health Organization. [We support the efforts of the WHO and
5 endorse the recent World Health Assembly resolutions regarding the quality of biological and
6 pharmaceutical products.]

7 29. Preventing the transmission of HIV infection and the development of AIDS is an urgent global
8 public health imperative. While other prevention and treatment methods must be pursued, in
9 the long term the development of safe and effective vaccines against AIDS holds the best
10 chance of limiting, and eventually eliminating, the threat of this disease. We will work to
11 provide the resources necessary to accelerate AIDS vaccine research, and together will
12 enhance international scientific cooperation and collaboration. Cooperation among scientists
13 and governments in the developed and developing world and international agencies will be
14 critical. We call on other states to join us in this endeavor.

15 30. The Joint United Nations Program on HIV/AIDS (UNAIDS) must help expand the scale and
16 quality of the response to HIV/AIDS. As a group and with others, we will work to assure that
17 it has resources adequate to fulfill its mandate.

18 Nuclear Safety

19 31. We reaffirm our commitments from the 1996 Moscow Summit on Nuclear Safety and
20 Security to give an absolute priority to safety in the use of nuclear energy. We note that
21 further substantial progress is still required in the countries of Central and Eastern Europe and
22 in the Newly Independent States, especially by strengthening regulatory authorities, enhancing
23 reactor safety and improving safety culture. We consider further joint efforts to this end a
24 major priority. In this regard, we attach the greatest importance to the full implementation of
25 the Nuclear Safety Account agreements.

26 32. We note with satisfaction the entry into force by the Nuclear Safety Convention and the
27 preparations now underway for the first review meeting to be held in April 1999. We applaud
28 the rapid progress made in developing the Joint Convention on the Safety of Spent Fuel
29 Management and the Safety of Radioactive Waste Management and encourage finalization.
30 We welcome the forthcoming adoption of the Protocol to amend the Vienna Convention on
31 civil liability for nuclear damage and of a new Supplementary Funding Convention as called
32 for at the Moscow Nuclear Summit. [Each of our governments will give early consideration
33 to joining these new conventions.] These conventions will facilitate international safety
34 cooperation and provide for increased compensation for victims in the event of a nuclear
35 accident.

36 Global Energy Issues

37 33. Market-oriented energy policies can promote sustainable energy use, energy investment and
38 trade. We request that our officials prepare a concept paper to set the agenda for a proposed
39 Ministerial in Moscow dealing with our shared interests in deregulation, privatization, pipeline
40 transit issues, nuclear safety, and links between energy and the environment.

Transnational Organized Crime

34. We remain committed to combating transnational organized crime, and have worked actively to implement the forty recommendations agreed upon at Lyon. We have taken action within our own borders and with one another, and strengthened cooperation bilaterally, multilaterally, and with other nations and groups to bring criminals to justice through mutual legal assistance and extradition, to promote cooperation among our law enforcement agencies, to strengthen document security and improve strategies to combat alien smuggling, and to prevent illegal trafficking in firearms. In the coming year, we will continue our efforts with a special focus on high-tech crimes such as those involving computer and telecommunications technology and, as appropriate, other new trends in transnational organized criminal activity.

Illicit Drugs

35. We are determined to intensify our efforts to combat the production, trafficking and use of illicit drugs, which represent a global threat to the safety of our citizens, and the well-being of our societies and institutions. Reaffirming the common responsibility of all concerned States, we recognize that a successful strategy to combat illicit drugs requires effective action against both the supply and the demand for such drugs. We stress the importance of demand reduction. Together with strict law enforcement against use of drugs, programs aimed at treatment and rehabilitation, education and prevention are of major importance in our fight against drugs.

36. We have asked our appropriate government agencies to build on their established patterns of cooperation to address this common threat. In particular, we will study mechanisms that would assist in the development of healthy, drug-free economies in all States; support further efforts to share relevant information on money-laundering, chemical precursors, new synthetic drugs, trafficking patterns and methods, and other data; and will work together to strengthen the capabilities of law enforcement institutions to combat illicit drugs. Our governments will work together to develop the agenda for the UN General Assembly Special Session on Drugs in June 1998.

Terrorism

37. We reaffirm our determination to combat terrorism in all forms, irrespective of motive. We oppose concessions to terrorist demands and are determined to deny hostage-takers any benefits from their acts. We welcome the growing consensus on adopting effective and legitimate means of countering terrorism.

38. Last year, our Ministers adopted twenty-five recommendations to combat terrorism. We have received a positive response worldwide, in particular in the UN General Assembly. Together we have made substantial progress on many of these recommendations, including: drafting and negotiating a UN convention on terrorist bombing; promoting improved international standards for airport security, explosives detection, and vehicle identification; promoting stronger laws and export controls on the manufacture, trade and transport of explosives; initiating a directory of counter-terrorism competencies; inviting all States to promote the use

1 of encryption which may allow, consistent with OECD guidelines, lawful government access
2 to combat terrorism.

3 39. We have asked our Ministers to intensify diplomatic efforts to ensure that by the year 2000 all
4 States join the international counterterrorism conventions specified in the 1996 UN resolution
5 on measures to counter terrorism. We have instructed our officials to take additional steps:
6 to strengthen the capability of hostage negotiation experts and counterterrorism response
7 units; to exchange information on technologies to detect and deter the use of materials of
8 mass destruction in terrorist attacks; to develop means to deter terrorist attacks on electronic
9 and computer infrastructure; to strengthen maritime security; to exchange information on
10 security practices for international special events; and to strengthen international cooperation
11 and consultation.

12 **Human Cloning**

13 40. We have taken note of recent scientific experiments which could open the way to creating a
14 child by cloning an existing person. While recognizing the considerable benefits for basic
15 research, agriculture and human health from cloning technology, we agree on the need for
16 appropriate domestic legislation and close international cooperation to prohibit the use of
17 somatic cell nuclear transfer to create a child, while countries explore ethical and scientific
18 implications in greater depth. We are encouraged by the reflections underway within national
19 ethics committees, as well as in various regional and international fora, which will enable a
20 measured approach in deciding which uses of this technique are, and which are not
21 unacceptable. We are determined to give a strong impetus to their work with a view to
2 arriving as soon as possible at an appropriate universal moratorium.

23 **Space Station**

24 41. We [welcome][look forward to] the signing of the Agreement to establishing an international
25 space station. This is an excellent example of international cooperation in carrying out large
26 and promising projects in the field of exploration and peaceful uses of outer space.]

27 **United Nations Reform**

28 42. We reaffirm the crucial role of the United Nations in maintaining international peace and
29 security and in fostering global partnership and sustainable development. To this end, we
30 support thorough-going reform and welcome progress that has occurred since our meetings in
31 Halifax and Lyon. We welcome Secretary General Kofi Annan's recent reform proposals and
32 support their rapid implementation; we also look forward to the Secretary-General's more
33 extensive proposals next month. We remain committed to working with all UN members to
34 realize these reforms.

35 43. In order for the UN to cope with the challenges of the 21st century, financial reform should
36 proceed together with necessary reform measures in other areas. The UN system must be
37 placed on a firm financial footing through full and timely payment of obligations, and
38 development of a more logical and equitable scale of assessments. Budgets throughout the
39 UN system should be scrutinized with emphasis on prioritization and maximum operating
40 efficiency. We look forward to the Secretary General's specific proposals for reinvesting

1 savings from improved cost-effectiveness in high priority development programs. Robust
2 oversight mechanisms and sound personnel policies are essential for success.

3 44. The urgent challenges of economic and social development require the UN to coordinate more
4 effectively the policies and activities of its various bodies including the specialized agencies.
5 To this end, the UN's Economic and Social Council (ECOSOC), supported by the Under
6 Secretary General for economic and social issues, should strengthen its policy and
7 coordination role, in particular through streamlining its subsidiary bodies and improving its
8 working relationship with international financial institutions and the WTO. We welcome the
9 recent reforms in the governance of the funds and programs as well as in the various UN
10 bodies, in particular at UNCTAD and in the regional commissions; these efforts should be
11 sustained and expanded.

12 45. We call for a thorough and urgent review of the UN's funds and programs, as well as a
13 system-wide review of the roles and mandates of specialized agencies and commissions. We
14 welcome the Secretary General's recommendations for strengthened integration at the country
15 level and better coordination at headquarters. In this context, we recommend the UN
16 undertake performance evaluations of the coordination of its development activities in a range
17 of representative countries. We expect the least developed countries to be the principal
18 beneficiaries of improved efficiency in the UN's development work.

19 46. We reaffirm that the UN must further improve its ability to act quickly and effectively to
20 address threats to international peace and security including by reforming its institutions. We
21 will continue to help develop the capacities of the UN in preventing and resolving conflicts.
22 We support steps taken recently by the UN to strengthen its capacity for rapid reaction from
23 the early warning stage to the stage of rapid deployment of new, approved, peace keeping
24 operations and urge continued improvements in these areas.

25 **AFRICA: PARTNERSHIP FOR DEVELOPMENT**

26 47. At Lyon, we initiated a New Global Partnership for Development, noting both that developing
27 countries have a fundamental responsibility for promoting their own development, and that
28 developed countries must support these efforts. We paid particular attention to the problems
29 of Sub-Saharan African countries, many of which continue to face unusually severe
30 challenges. This year, we aim to translate the principles of that Partnership into new concrete
31 action to support the efforts of African countries to participate fully in the expansion of global
32 prosperity and to spread the benefits throughout their societies. Our objective is not only to
33 facilitate the progressive integration of African countries into the world economy, but also to
34 foster the integration of poor populations into economic, social and political life of their
35 countries.

36 48. We are encouraged by positive developments, including the adoption of democratic and
37 economic reforms in many Sub-Saharan African countries. Since 1990, more than twenty
38 African nations have held free and fair elections. Democratic governance and the rule of law,
39 in Africa as elsewhere, lay the foundation for human rights, including the rights of women, and
40 sustainable development. We commend those African countries that have set an example by
41 undertaking democratic reforms, improving rule of law and administration of justice, avoiding
42 unproductive expenditures (including excessive military expenditures), and strengthening

- 1 public institutions and civil society. We will support African efforts to promote democracy
2 and good governance, improve the integrity of public institutions, enhance the transparency
3 of government spending, in particular of procurement, and develop national anti-bribery
4 regulations.
- 5 49. Increased prosperity ultimately depends upon creating an environment for domestic capital
6 formation, private sector-led growth and successful integration into global markets. We are
7 encouraged by the increasing number of Sub-Saharan countries that have made progress
8 toward financial sustainability through fiscal and financial practices and have adopted growth
9 and market oriented economic policies, including trade liberalization and investment climate
10 improvement. These initiatives have produced a welcome acceleration of growth since 1994.
11 We expect the international financial institutions to play an important role in supporting
12 reform in Sub-Saharan African countries. Their support should help to promote productive
13 foreign direct investment and domestic capital formation. We look forward to the IFIs
14 reporting on their efforts by the time of the Hong Kong World Bank/IMF meetings.
- 15 50. Trade policy is key to development for Sub-Saharan Africa. Trade liberalization by African
16 countries will promote more efficient utilization of resources. At the same time, access to our
17 markets is a crucial tool for fostering economic growth in Sub-Saharan Africa. We each will
18 continue to improve, through various means, access to our markets for African exports. We
19 support the further integration of the least developed countries into the world trading system.
20 In this regard, African countries will be major beneficiaries of efforts in the WTO on a plan of
21 action to provide, inter alia, predictable and favorable market access conditions for least
22 developed countries. We are committed to the effective implementation of this plan and
23 intend to participate actively in the high-level WTO/UNCTAD/International Trade Center
24 meeting later this year. We welcome African initiatives for regional trade liberalization and
25 economic cooperation.
- 26 51. Consistent with WTO obligations, we will consider ways to enhance opportunities for the
27 Sub-Saharan African countries that need them most and are undertaking effective reform
28 measures. We will review our own bilateral aid and trade promotion programs to ensure that
29 they support climates conducive to economic growth and private investment, including by
30 strengthening capacity.
- 31 52. Substantial flows of official development assistance will continue to play an essential role in
32 building the capacity of Sub-Saharan African countries to achieve their development
33 objectives. We are committed to a results-oriented approach to development policy,
34 particularly in alleviating poverty. But development assistance alone cannot overcome
35 inappropriate policies. We will work with African countries to ensure adequate and well-
36 targeted assistance for those countries which have the greatest need and carry out the
37 necessary broad-based reforms. This assistance will include support for democratic
38 governance, respect for human rights, sound public administration, efficient legal and judicial
39 systems, infrastructure development, rural development, food security, environmental
40 protection and human resource development, including health and education of their people.
41 In this regard, we will work to strengthen cooperation among concerned institutes to facilitate
42 and coordinate capacity building efforts.

- 1 53. To maximize the effectiveness of our efforts, we will deepen the dialogue with African
2 partners, work for greater local ownership of development strategies and encourage the
3 participation of non-governmental actors. We will also strengthen donor coordination,
4 including with emerging donors. We welcome and fully support the emerging trend of intra-
5 regional and inter-regional cooperation to further African development.
- 6 54. The United Nations plays a major role in development in Africa, and African countries will be
7 major beneficiaries of reform of the UN economic and social development activities. We
8 encourage the UN's development funds and programs and specialized agencies, to emphasize
9 work in the field in Africa and to fully integrate and coordinate their efforts, both at the
10 headquarters and at the country level. We are encouraged by the Economic Commission on
11 Africa's efforts to energize and focus its activities. The UN Development Program's decision
12 to allocate a portion of its resources based on program quality is a useful approach to assuring
13 effectiveness, and we urge that it be adopted more broadly in the UN's work.
- 14 55. A number of African countries are making impressive efforts to harness the information
15 revolution in support of democracy and sustainable development. We welcome the Africa
16 Information Society Initiative. We support their efforts to establish information networks to
17 link African countries with each other and to the rest of the world. In this regard, we
18 welcome the Toronto Global Knowledge '97 Conference.
- 19 56. We applaud African leadership in developing effective local capacities in conflict prevention,
20 peacekeeping and post-conflict reconciliation and recovery. We will support African peace-
21 building initiatives at the regional, sub-regional and national levels, in particular by the
22 Organization of African Unity (OAU), taking into account the recent OECD Guidelines on
23 Conflict, Peace, and Development Cooperation, and we will help to forge active partnerships
24 with the United Nations and other donors. We encourage the UN Secretary General, as part
25 of his reform efforts, to identify ways the international community can further strengthen
26 Africa's initiatives. We also call for the expanded utilization of the existing UN Trust Fund
27 for African peacekeeping and conflict prevention, as well as other relevant UN funds; and
28 broader and substantial donor commitments to the OAU and to subregional bodies with
29 specialized mechanisms for conflict mediation, as well as to the UN/OAU Special Envoy to
30 the Great Lakes.
- 31 57. We reaffirm our support for long-term efforts to promote rapidly deployable African
32 peacekeeping capacities. We welcome closer coordination among African troop-contributing
33 countries, regional organizations, donors, and the UN in the development of training, joint
34 exercises, common peacekeeping doctrine, and other efforts to ensure inter-operability. [We
35 also look forward to the establishment of an African Peacekeeping Support Group at the UN,
36 and we urge interested countries to actively explore mechanisms for coordination of practical
37 activities.]
- 38 58. We express our grave concern at the recent attacks against refugees as well as against
39 personnel of refugee and humanitarian organizations. We emphasize that host States must
40 prevent such acts and prosecute the perpetrators.

1 59. We have requested that our officials report to us prior to next year's Summit in Birmingham
2 about the efforts they have undertaken together to implement all aspects of this partnership.

3 **IV. POLITICAL ISSUES**

4 60. Together, we are pursuing a strategy of global integration to create a more secure and stable
5 international community. Already, we have used our political cooperation to broaden and
6 deepen the community of open markets and open societies, and in the next year we will work
7 together to build on these efforts. Our Partnership for Development is designed explicitly to
8 support the economic and political development of nations which run the risk of being
9 marginalized from the process of integration. We will focus our energies on strengthening
10 adherence to the norms and principles of international cooperation, and will work together to
11 take effective measures against those who threaten those objectives. We recognize our
12 common interest and responsibility in helping bring an end to conflicts that threaten to disturb
13 international peace and to undermine our deepened cooperation.

14 **Democracy and Human Rights**

15 61. Recent years have seen an unprecedented growth of democracy worldwide. Yet young
16 democratic states can be fragile and short-lived. We have a responsibility and opportunity to
17 further strengthen democratic values and fundamental freedoms where they have taken hold
18 and extend their reach where they have not.

19 62. Human rights are at the heart of our concerns. Ensuring accountability for violations of
20 human rights and international humanitarian law is essential to promote conflict resolution and
21 peace. The new UN High Commissioner for Human Rights will have a crucial role to play.
22 We will continue to give full support to the International Tribunals for the former Yugoslavia
23 and Rwanda, and work to ensure that the international community and States concerned bring
24 to justice through due process persons responsible for violations of human rights and
25 international humanitarian law.

26 63. Recognizing that strengthening democracy is essential to strengthening peace and human
27 rights, and looking to the 50th anniversary of the Universal Declaration of Human Rights in
28 1998, we will work together in the coming year to build on our governments' most effective
29 democratic development, peacebuilding and human rights programs. Our efforts will focus on
30 promoting good governance and the rule of law, strengthening civil society, expanding
31 women's political participation, and boosting business and labor support for democracy,
32 particularly in young democracies and societies in conflict. The protection of the most
33 underrepresented or vulnerable is critical to broaden participation in the democratic process
34 and prevent societal conflict. We will work to ensure adoption and ratification of international
35 instruments designed to provide protection to these groups, in particular the speedy adoption
36 of an International Labor Organization Convention on the eradication of intolerable forms of
37 child labor. We will work through multilateral and regional organizations, particularly with
38 the Development Assistance Committee of the OECD as well as in partnership with non-
39 governmental organizations and young democracies. We also will consider common efforts to
40 promote democracy where it is not now established.

1 64. We have asked our Ministers to form a Working Group to coordinate these efforts and to
2 make recommendations for consideration at our next Summit.

3 65. Democracy, economic growth and development cannot reach their full potential without good
4 governance, in particular the accountability of political leaders and public servants, especially
5 for corruption. We will actively work to eliminate corruption in aid-funded procurement and
6 the cross-border payment of bribes to government officials. We will take immediate steps to
7 criminalize the bribery of foreign public officials in commercial transactions and to eliminate
8 the tax-deductibility of such bribes, and we call upon all other countries to do the same.

9 **Non-proliferation, Arms Control and Disarmament**

10 66. Since the Moscow Summit on Nuclear Safety and Security, we have taken important steps to
11 implement the agreed "Programme for Preventing and Combating Illicit Trafficking in Nuclear
12 Materials." We will expand participation in this program to include countries in Central and
13 Eastern Europe, and in Central Asia. Further regarding the safe and effective management of
14 fissile material, with respect to such materials no longer required for defense purposes, we will
15 continue our cooperation through concrete initiatives, in particular the French-German-
16 Russian project to build a pilot plant in Russia to produce MOX fuel from weapons
17 plutonium, which is open to additional states, and the related U.S.-Russian cooperation on the
18 conversion of weapons plutonium.

19 67. We have worked together to advance our common non-proliferation, arms control, and
20 disarmament goals. The Comprehensive Test Ban Treaty is an historic milestone, and we call
1 upon all States to sign and ratify it rapidly to ensure its early entry into force. We welcome
2 the entry into force of the Chemical Weapons Convention. We advocate its full and effective
3 implementation, and look forward to the early ratification of the Convention by the States that
4 have not yet done so. Recognizing that enhancing confidence in compliance would reinforce
5 the Biological and Toxin Weapons Convention, we reaffirm our determination to develop a
6 legally binding instrument to ensure its effective implementation.

27 68. We reaffirm our unwavering commitment to full implementation of the objectives set forth in
28 the Non-Proliferation Treaty. To that end, we welcome the IAEA's recent adoption of a
29 program on strengthening the effectiveness and improving the efficiency of the safeguards
30 system. We urge all States to conclude additional protocols with the IAEA at the earliest
31 possible date. We reaffirm our commitment to the immediate commencement and early
32 conclusion of a convention banning the production of fissile material for nuclear weapons or
33 other nuclear explosive devices.

34 69. We welcome the progress on strategic arms control made at Helsinki in March, and look
35 forward to the early entry-into-force of the START II agreement and the initiation of START
36 III negotiations. We reaffirm the key role of the Conventional Forces in Europe Treaty in
37 strengthening European security, and welcome the decision to conclude its adaptation as
38 expeditiously as possible. We welcome the recent agreement among Russia, Kazakstan,
39 Kyrgystan, Tajikistan, and China on reduction of military forces along their borders and
40 consider it an important contribution to the region's security.

- 1 70. We endorse unequivocally efforts by the UN Special Commission and the IAEA to eliminate
2 weapons of mass destruction capabilities in Iraq and to monitor compliance. We reaffirm the
3 importance of implementing the U.S.-DPRK Agreed Framework and full compliance by North
4 Korea with its non-proliferation obligations. We therefore place great value on the continuing
5 role of the IAEA in monitoring the freeze on North Korea's nuclear program, implementing
6 safeguards, and helping preserve all information relating to the DPRK's past activity. We
7 welcome the conclusion of negotiations for the EU to participate in the Korean Peninsula
8 Energy Development Organization (KEDO) and call for further international support for
9 KEDO, including the provision of funds, as well as the necessity of North-South dialogue.
10 We call on North Korea to halt its development, deployment and export of ballistic missiles.
- 11 71. We welcome the emerging high-level dialogue between India and Pakistan. We encourage
12 both countries to bring their activities into conformity with international non-proliferation
13 norms. Consistent with our support for the CTBT's early entry into force, we encourage both
14 countries to adhere to that treaty.
- 15 72. We recognize that global security and stability are strengthened by promoting international
16 responsibility in the transfer of arms and sensitive technologies, and to that end reaffirm our
17 support for the Wassenaar Arrangement. We welcome the steady achievements under the UN
18 Register of Conventional Arms in promoting transparency in armaments. We encourage the
19 work of the UN Panel of Governmental Experts on Small Arms to identify the ways and
20 means to prevent and reduce the excessive and destabilizing transfer of small arms and light
21 weapons and we will continue to work together to curb illegal trafficking in firearms.

2 Export Control Regimes

- 23 73. We underline our support for the arrangements that make up the international export control
24 regimes. The Zangger Committee and the Nuclear Suppliers Group, the Missile Technology
25 Control Regime, and, for those who are members, the Australia Group export control regime,
26 all contribute critically to the global application and enforcement of international export
27 control norms.

28 Anti-personnel Landmines

- 29 74. Last year we committed ourselves to spare no effort in securing a global ban on anti-personnel
30 landmines. To this end, we support the effective and complementary efforts in a variety of
31 fora, including at the Conference on Disarmament and in formal negotiations to take place in
32 Oslo in September through the Ottawa Process with the goal of achieving such a ban [as soon
33 as possible][before the end of the year]. We welcome the restrictions on anti-personnel
34 landmines unilaterally declared by States, including by the members of the EU. We reaffirm
35 the UN General Assembly resolution, approved overwhelmingly, calling for concluding an
36 effective, legally-binding international agreement to ban anti-personnel landmines as soon as
37 possible. All States should adhere to the strengthened Protocol on Mines, Booby Traps and
38 Other Devices. We encourage the international community to develop technological solutions
39 to mine detection and clearance, and to strengthen its support for humanitarian demining and
40 assistance to mine victims.

1 **Political Situations**

2 **Hong Kong**

3 75. We recognize the historic nature of China's imminent resumption of sovereignty over Hong
4 Kong. Considering our durable interests in this financial and economic center, we welcome
5 and place weight on China's commitments, contained in the 1984 UK-PRC Joint Declaration
6 and in the 1990 PRC Basic Law. These include ensuring Hong Kong's continued stability and
7 prosperity and preserving its way of life, its high degree of autonomy -- including an
8 independent monetary and economic system -- its fundamental freedoms and the rule of law.
9 These will provide the essential underpinnings for Hong Kong's future economic success. We
10 look forward to democratic elections in Hong Kong for a new legislature as soon as possible.
11 We take serious note of China's assurances in the Joint Declaration and Basic Law that the
12 provisions of the International Covenant of Civil and Political Rights and the International
13 Covenant on Economic, Social and Cultural Rights will continue to apply in Hong Kong.

14 **Democratic Republic of the Congo**

15 76. The momentous changes in the Democratic Republic of the Congo highlight the importance of
16 peaceful democratic transition and the establishment of a broadly-based interim administration.
17 We believe it is important to assist the new authorities in the transition to an elected
18 government, promote respect for human rights, address urgent humanitarian needs, and
19 facilitate economic renewal. We look forward to close cooperation with other donor
20 countries, the United Nations, OAU, international financial institutions, and regional leaders in
21 these efforts. The willingness of our governments to assist in the rebuilding of national
22 institutions will depend on the new authorities' demonstrating their commitment to democratic
23 reform, including elections, sound economic policies, public accountability and respect for
24 human rights.

25 **Haiti**

26 77. The progress accomplished in Haiti as a result of the United Nations Support Mission in Haiti,
27 underlines the necessity of continued international assistance to maintain stability and promote
28 democratization, and economic development. We will take positive note of the Secretary
29 General's new recommendations on the nature of the international presence in Haiti
30 subsequent to the termination of the current UNSMIMH mandate. We urge that Haiti press
31 forward with implementing its economic modernization program.

32 **Middle East Peace Process**

33 78. The Peace Process faces a crisis, and we are determined to reinject momentum into it.
34 Restoring the sense of security and confidence among Israelis and Palestinians is essential.
35 We shall do our utmost to reinvigorate implementation of the Oslo Accords and to uphold the
36 principles of Madrid, including the exchange of land for peace. All the problems need to be
37 addressed peacefully through serious and credible negotiations. Both sides must refrain from
38 actions that impede the peace process by preempting permanent status negotiations. We
39 believe strongly in the importance of working with Israel, Syria and Lebanon to resume direct

1 talks in order to achieve a comprehensive settlement in the region. We welcome the
2 important role the Monitoring Group has played in strengthening the Understanding of April
3 26, 1996 and in reducing risks to civilians in southern Lebanon and in Israel. We affirm the
4 importance of the activities within the multilateral framework of the peace process.

5 79. Economic growth and prosperity are critical to peace. We urge regional parties to pursue
6 economic cooperation among themselves and integration into the global economy. We
7 welcome all efforts to promote the region's development, including assistance to the
8 Palestinians, and urge donors to fulfill pledges made.

9 Iran, Iraq, Libya

10 80. [We have noted with interest the results of the recent elections in Iran and renew our call upon
11 the Government of Iran to play a constructive role in regional and world affairs. In this
12 regard, while noting the role Iran played in inter-Tajik talks in conjunction with the United
13 Nations and other regional parties, we call upon the Government of Iran to desist from
14 material and political support for extremist groups that are seeking to destroy the Middle East
15 peace process and to destabilize the region. We further call upon the Iranian Government to
16 reject the use of terrorism, including against Iranian citizens living abroad, and, in that
17 connection, to desist from endorsing the continued threat to the life of Mr. Salman Rushdie
18 and other people associated with his work. We call on all States to avoid any cooperation
19 with Iran that might contribute to efforts to acquire nuclear weapons capabilities, or to
20 enhance chemical, biological, or missile capabilities in violation of international conventions or
21 arrangements.]

22 81. We confirm our determination to obtain full compliance with all UN Security Council
23 resolutions related to Iraq and Libya. Only full compliance with these resolutions could result
24 in the lifting of sanctions. We are pleased to note that the distribution of food and medicine
25 under UNSCR 986 is providing some humanitarian relief to the Iraqi people.

26 Bosnia and Herzegovina

27 82. [In redraft.]

28 Cyprus

29 83. The Cyprus dispute has remained unresolved for far too long. We fully support the mission of
30 good offices of the United Nations Secretary General on Cyprus aimed at engaging the two
31 Cypriot communities in negotiations to achieve a comprehensive settlement in accordance
32 with relevant UN Resolutions and high-level agreements. We strongly endorse the Secretary
33 General's recent invitation to the leaders of both communities and call on them to approach
34 negotiations constructively and in good faith.

35 Albania

36 84. Noting the situation in Albania and its implications for regional stability, we express our
37 appreciation to those organizations and institutions, acting within the coordinating framework

1 of the OSCE under the strong leadership of Franz Vranitzky - - especially the EU as well as
2 the WEU, UNHCR and Red Cross -- that are working with the Government of National
3 Reconciliation to restore normalcy in the country. We also applaud the deployment of the
4 Multinational Protection Force under Italian leadership and the authority of the UN Security
5 Council. We underscore the importance that the upcoming elections in Albania restore
6 democratic legitimacy and urge that all parties work together to restore political order, resume
7 economic reforms, create a sound financial system and reestablish public safety.

8 Afghanistan

9 85. Noting the recent developments in Afghanistan, we call on all Afghan parties to stop the
10 fighting and to work together towards the formation of a broadly representative central
11 government that will protect the rights of all Afghans and abide by Afghanistan's international
12 obligations. Taking into account risks of regional destabilization, peace and stability can best
13 be attained through political negotiations under UN auspices with the active and coordinated
14 assistance of all countries concerned and provided that all external interference ceases. All
15 Afghan parties and concerned countries should abide by the provisions of recent resolutions
16 on Afghanistan adopted by the UN Security Council and General Assembly.

17 Korean Peninsula

18 86. We welcome the recent developments concerning the Four Party meeting proposal aimed at
19 achieving permanent peace on the Korean Peninsula, and we call upon the DPRK to agree to
20 convene those talks without delay, as well as to engage seriously in North-South dialogue.

1 Cambodia

22 87. The recent political instability in Cambodia threatened to set back peace as well as the
23 democratization process which Cambodian people established under the auspices of the UN in
24 1993. We strongly appeal to all Cambodian leaders to bring about political stability, civil
25 order, and economic reconstruction through national reconciliation and good governance as
26 well as through a free and fair election.

27 Myanmar

28 88. [We are concerned by the current situation in Myanmar and call on the government to make
29 further efforts for democratization on the occasion of that nation's accession to ASEAN,
30 particularly to enter into a meaningful political dialogue with leaders of the democratic
31 opposition and ethnic minorities aimed at achieving a solution to the current situation.]
32 [Concerned by the continuing widespread repression in Myanmar and the large-scale
33 violations of human rights by the regime, we call on the SLORC to enter into a meaningful
34 political dialogue with leaders of the democratic opposition and ethnic minorities aimed at
35 achieving a solution to the current situation. We note the recent decision of the Association
36 of Southeast Asian Nations to admit Myanmar as a member of the organization in July and
37 express the hope that the members of ASEAN will use their influence to encourage an early
38 return to democracy in Myanmar.]

1 Next Summit

2 89. We have accepted the invitation of the Prime Minister of the United Kingdom to meet in
3 Birmingham on 15-17 May next year.

STATEMENT

1 **CONFRONTING GLOBAL ECONOMIC AND FINANCIAL CHALLENGES**
2 **DENVER SUMMIT STATEMENT BY SEVEN**

3 **INTRODUCTION**

4 1. We, the Heads of State and Government of seven major industrial democracies, and the
5 Representatives of the European Union, have met in Denver to discuss the challenges which we
6 face in economic, financial and other areas as we approach the 21st Century.

7 2. We remain committed to sustaining growth with low inflation and contributing to world
8 prosperity. The increasing globalization of markets is an important engine of world growth that
9 provides opportunities to all countries. Our goal is to realize the full benefits of globalization for
10 all while meeting the challenges it presents.

11 3. To achieve this goal, we must:

- 12 • Implement policies to promote sustainable, non-inflationary growth; create jobs; restore sound
13 public finances; and meet the challenge of the aging of our populations.
- 14 • Work together with other countries to promote open markets for trade and investment and to
15 support global financial stability, crucial underpinnings of economic growth and prosperity.
- 16 • Promote the successful integration of the transition and developing countries of all regions of
17 the world into the global economy.

18 **PROMOTING GROWTH**

19 4. Since we met in Lyon, we have been encouraged by the many positive indicators in our
20 economies: inflation remains low, growth continues at a solid yet sustainable pace or is increasing,
21 and fiscal actions are reducing budget deficits. We welcome the impressive gains of the emerging
22 economies, which have contributed significantly to global growth. We also welcome the progress
23 of the transition economies toward creating stable macroeconomic conditions and implementing
24 structural reforms. We call on those countries to work with us to ensure the efficient functioning
25 of the international monetary and trade system.

26 5. But we still have work to do in our own economies. More must be done to restore sound
27 long-term fiscal positions and, in some countries, to ensure the soundness of the financial system.
28 We are concerned about the high level of unemployment in some countries, which has serious
29 consequences for growth, public finances and social cohesion. Some of our countries have
30 registered strong economic growth and rising employment; in others, the recovery in job growth
31 has not been satisfactory. More needs to be done -- especially in the latter cases -- to increase
32 labor and product market efficiency through structural reform. We face the challenge of ensuring
33 that all, particularly our young people, can participate in growth and benefit from it. In this
34 respect, we encourage the work of the OECD on regulatory reform.

1 6. One of the most important challenges we face is responding to the economic, financial and
2 social implications of the changing demographics in our aging societies. It could significantly
3 affect our pension and health care costs; reduce public and private savings, and affect global flows
4 of capital. We therefore pledge to undertake structural reforms that will address these issues. We
5 have asked our Finance and Economic Ministers to examine, coordination with other competent
6 national authorities, the economic and fiscal implications of aging, including within the OECD and
7 other relevant international organizations.

8 7. Our countries' circumstances and priorities differ.

9 • In the United States, with a long recovery and successful job creation, it is important to
10 remain vigilant against a resurgence of inflation, to achieve the full promise of the agreement
11 to balance the federal budget, and to promote savings. Canada, with very low inflation and
12 impressive success in cutting budget deficits, recorded increasing growth in the second half of
13 1996. The continuing upswing should lead to further job creation.

14 • Japan has the objective of achieving strong domestic demand-led growth and avoiding a
15 significant increase in its external surplus. Further structural reforms, including broader
16 deregulation initiatives and appropriate structural reforms in the fiscal area, are important over
17 the medium term to revitalize the Japanese economy further.

18 • France, Germany and Italy share the challenging task of restoring strong employment growth.
19 While pursuing efforts toward restoring sound long-term fiscal positions, they will need to
20 deepen structural reforms to reduce barriers to job creation and reshape government's role in
21 their economies, including through reforms of the tax and social security systems. The United
22 Kingdom must keep inflation pressures under control and maintain budget deficit reduction
23 while strengthening the economy's long-term growth potential, particularly through education
24 and welfare reform.

25 8. We discussed EMU, including its international implications. We welcome the efforts of
26 European Union countries to achieve a successful introduction of the Euro and a well-functioning
27 EMU, underpinned by sound macroeconomic and structural policies, that would contribute to the
28 stability of the international monetary system.

29 9. We reiterate our commitment to promoting international monetary stability. We have asked
30 our Finance Ministers to continue to cooperate closely on economic policy and in the exchange
31 markets.

32 **STRENGTHENING THE STABILITY OF THE GLOBAL FINANCIAL SYSTEM**

33 10. International financial markets are becoming increasingly global and complex. This presents
34 new opportunities that can lead to increased efficiencies in the functioning of the international
35 financial system, thereby facilitating growth and prosperity. At the same time, these changes
36 present new challenges. Beginning in Halifax and continuing through Lyon, we have encouraged
37 financial regulators and the international financial institutions to take measures to deal effectively
38 with possible systemic or contagion risks and foster financial stability, without stifling innovation

1 or undermining the benefits of globalization, liberalization and competition. We welcome the
2 concerted effort to strengthen the international financial system and endorse our Finance
3 Ministers' report, which outlines the progress achieved in the key areas we identified in Lyon.

4 11. National supervisors and international regulatory bodies have put in place a network of
5 cooperative arrangements and developed proposals to enhance the supervision of internationally-
6 active financial institutions, on both an on-going basis and in emergency situations. These efforts
7 should help the regulatory framework better reflect market developments. Moreover, Finance
8 Ministers have agreed to consider what changes may be needed in their domestic laws and
9 regulations, as appropriate, to facilitate information exchange. Steps have been taken to
10 strengthen risk assessment, reduce foreign exchange settlement risk, and improve market
11 transparency to help our consumers, investors, and regulators better identify, manage, and control
12 risks. In addition, the G-10 Working Party on Electronic Money identified a set of broad
13 objectives and key considerations to help guide national approaches to emerging electronic
14 payment technologies.

15 12. The Working Party on Financial Stability in Emerging Market Economies has outlined a
16 concrete strategy to assist emerging economies in strengthening their financial systems, and the
17 Basle Committee on Banking Supervision has developed a set of "Core Principles" which will
18 contribute significantly to the adoption of improved prudential standards worldwide. We urge the
19 dissemination and endorsement of these reports and implementation of their recommendations.

0 13. These efforts to promote financial stability and mitigate possible financial crises are part of
21 an important ongoing process to which we attach great importance. We urge our national
22 supervisors to develop further and implement proposals to enhance international regulatory
23 cooperation. We call on the international financial institutions and the international regulatory
24 bodies to fulfill their roles in assisting emerging market economies in strengthening their financial
25 systems and prudential standards. Our Finance Ministers will consult with the relevant
26 supervisory and international regulatory bodies and international organizations to develop
27 approaches for further actions, and report prior to the next Summit on progress in implementing
28 these initiatives.

29 **BUILDING AN INTEGRATED GLOBAL ECONOMY**

30 **The International Financial Institutions in a Changing World**

31 14. The rapid growth of global trade and private capital flows requires continuing adaptation
32 and reform of the international financial institutions (IFIs). We therefore reaffirm our support for
33 the ambitious program of IFI reforms underway following Halifax, and our conviction that their
34 comprehensive implementation will substantially strengthen the effectiveness of the international
35 monetary system. We pledge to work collaboratively with the institutions as they pursue these
36 efforts, and to cooperate among ourselves and with others having a stake in the international
37 monetary system to provide them the resources and multilateral support needed for success.

38 15. We value the IMF's surveillance of the international monetary system. We place particular
9 importance on the IMF helping countries build long-term potential through trade and investment

1 liberalization. By the time of the World Bank/IMF annual meetings in Hong Kong, we seek
2 substantial agreement on key elements of an amendment to the IMF Articles to give the IMF the
3 specific mandate to promote capital account liberalization to meet the new challenges in global
4 capital markets. We welcome the IMF's progress in strengthening surveillance and promoting
5 improved transparency. Increased attention to financial sector problems that could have
6 significant macroeconomic implications, and to promoting good governance and transparency,
7 will help prevent financial crises. Equally important is appropriate transparency in the Fund's
8 activities with member countries. We welcome the IMF's progress and plans in these areas. We
9 seek substantial agreement toward a proposed amendment of the IMF Articles to provide for an
10 "equity" allocation of Special Drawing Rights, and ask the IMF to [complete] [report on] this
11 work by the time of the Hong Kong World Bank/IMF meetings in September.

12 16. The World Bank's Strategic Compact represents a welcome commitment to a new direction,
13 emphasizing greater Bank impact on poverty reduction, strong new partnerships with the private
14 sector, and a concentration of operations on countries genuinely committed to sound policies and
15 the welfare of all their citizens. We fully endorse the Bank's commitment to a stronger focus on
16 building institutional capacity, especially in the poorest countries, and its recognition of the central
17 importance of transparency, accountability, and good governance in this effort. We look forward
18 to full and timely implementation of these commitments. We urge the regional development
19 banks to participate fully in meeting these same challenges. We welcome the World Bank
20 Group's initiative to present at the Hong Kong meetings innovative ways to support private
21 sector infrastructure investment in developing countries.

22 17. Transparent, accountable, and responsive public institutions are essential to achieving
23 sustained economic development and healthy democracies. In this regard, we welcome the long-
24 standing efforts of the World Bank to promote good governance and adoption by the Asian
25 Development Bank of a good governance policy. We urge the IMF and the World Bank to
26 finalize governance policies, consisting of principles and guidelines on best governance practices
27 which would be disseminated to the international community and serve as benchmarks for
28 evaluation of performance. We request that Ministers report back to us in Birmingham on the
29 IMF's and World Bank's progress in promoting good governance and helping countries to
30 combat corruption, which adversely affects economic policy formulation and execution, resource
31 allocation and economic growth.

32 18. It is incumbent on us to help ensure that the IFIs have the multilateral support and financial
33 resources needed to succeed with their ambitious and important reforms. For the multilateral
34 banks, this means meeting our financial commitments in full, particularly with respect to vital
35 concessional lending operations such as IDA. We also agree that the Multilateral Investment
36 Guarantee Agency (MIGA) needs sufficient resources to continue to support, in close
37 cooperation with other members of the World Bank Group, private sector investment in
38 developing countries. Recognizing the importance of ensuring that the IMF continues to have
39 adequate resources to fulfill its systemic responsibilities, we urge the IMF Board to [complete]
40 [report on progress of its work on] the Eleventh General Review of quotas by the time of the
41 Hong Kong World Bank/IMF meetings in September. Continuation of the ESAF with adequate

1 resources is needed to maintain a full role for the IMF in promoting growth and development in
2 the poorest countries.

3 19. [Our governments welcome the new round of Russian economic reform launched this year
4 to promote sustainable growth. Russia's plan for fundamental tax reform is essential to put that
5 country's fiscal situation on a sound footing. We fully agree with Russia's intention to pursue
6 vigorously structural reforms to improve the investment environment, promote competition, fight
7 crime and corruption, and strengthen the social sector. In this context, full implementation of
8 Russia's EFF program with the IMF is critical. Successful implementation will help Russia to
9 attract higher flows of private investment. In addition, a deepening and expansion of Russia's
10 relations with the World Bank and the EBRD, through both increased lending and guarantees, will
11 support this ambitious structural reform agenda.]

12 **Global Partnership for Development**

13 20. We reiterate our commitment to sustainable and widely-shared economic growth and
14 development, and reaffirm our full partnership with developing countries and the multilateral
15 institutions, as agreed in Lyon. We remain committed, through this partnership and our bilateral
16 efforts, to meeting the interrelated challenges of eradicating deep-seated poverty, investing in
17 human potential and promoting dignity, and building on the clear lessons and major achievements
18 of the past decade. We recognize and welcome the complementary and increasingly important
19 role of the private sector in meeting these challenges.

20 21. This partnership is based on shared responsibilities and shared interests. For our part, we
21 are committed to a sound global financial system, open trade and investment regimes, and
22 consistent and sustainable growth in the advanced economies. We must ensure that adequate
23 development assistance is available, and that it be concentrated primarily where it will have
24 greatest impact, on the poorest countries in danger of being left further behind, and on the priority
25 human resource investments that are the ultimate source of sustainable development. For their
26 part, recipient countries must pursue sound macroeconomic policies; make fiscal choices that
27 genuinely promote development and minimize unproductive expenditures, especially military
28 expenditures; ensure the best possible use of our support; and respect the basic rights of
29 individuals. We will reinforce these efforts with our active support. We reaffirm the Lyon
30 commitment to support the IFIs' efforts to curtail unproductive expenditure in developing
31 countries through our aid and credits.

32 22. Our partnership with the developing countries, particularly in Sub-Saharan Africa, where
33 problems associated with poverty and marginalization are acute, can deepen and take on an
34 additional, more market-oriented dimension as they implement comprehensive, outward looking
35 and effective economic reform measures to promote financial and fiscal stability, trade and
36 investment liberalization, sustainable development, and growth. We urge the IFIs to reinforce
37 their efforts to support reforming Sub-Saharan African countries in particular to identify priority
38 problems and reinforce steps toward openness, regional integration, and deeper participation in
39 the world economy. Such actions should assist productive foreign investment and domestic social
40 formation. We call on the IFIs to report on their efforts by the time of the Hong Kong World

1 Bank/IMF meetings. In addition, we welcome an increased focus on microenterprise
2 development strategies in developing countries to broaden participation, and will work to
3 promote best practices in microfinance through bilateral and multilateral assistance.

4 **Debt Relief for the Poorest Countries**

5 23. We welcome the substantial progress that has been made in implementing the new debt
6 initiative launched in Lyon to help heavily indebted poor countries (the HIPC initiative) implement
7 the bold reforms needed for debt relief to lead to sustainable financial positions and stronger
8 growth. The IMF and World Bank have established specific mechanisms to provide effective
9 multilateral debt reduction for countries qualifying under the HIPC initiative, and have made
10 available initial funds for this purpose. The Paris Club has also shown its readiness to fully
11 participate in the initiative, on the basis of fair burden sharing.

12 24. We look forward to further implementation of the agreed framework for this initiative in the
13 coming year and expect additional countries to qualify for relief in the months ahead. The IMF
14 and World Bank should fulfill their roles, including the provision of interim relief. They should
15 also continue to coordinate closely with other multilateral institutions to assure their participation,
16 taking into account the particular needs of the African Development Bank. The success of the
17 new initiative relies on a combination of strong debtor reform programs and effective debt relief.
18 We welcome that some countries have already substantially reduced bilateral concessional debt.
19 Other countries should reinforce efforts to reduce or, where possible, extinguish such debt for the
20 poorest reforming countries.

21 **Combating Corruption and Financial Crimes**

22 25. We urge the IMF and the multilateral development banks to strengthen their activities to
23 help countries fight corruption, including measures to ensure the rule of law, improve the
24 efficiency and accountability of the public sector, and increase institutional capacity and efficiency,
25 all of which help remove economic and financial incentives and opportunities for corrupt
26 practices. We support and encourage the IFIs in their efforts to promote good governance in
27 their respective areas of competence and responsibility.

28 26. In addition to its closer focus on broad governance issues, the World Bank has taken
29 concrete steps against corruption by raising public sector procurement standards worldwide
30 through greater transparency and rigor in the standards it applies to Bank-funded contracts. We
31 urge the regional development banks to collaborate fully in this effort, including by establishing
32 procurement standards that meet the highest standard.

33 27. We note with satisfaction the decision by the OECD Ministers in May urging
34 implementation of their previous recommendation to eliminate tax deductibility of bribes paid to
35 foreign public officials in international business transactions. We are resolved in our commitment
36 to submit criminalization proposals to our legislative bodies by April 1, 1998, and to seek their
37 enactment by the end of 1998. Also, we are resolved, to that end, promptly to open negotiations
38 of a convention to be completed by the end of this year with a view to its entry into force as soon
39 as possible within 1998.

1 28. We reiterate our commitment to improve international cooperation between law
2 enforcement agencies and financial regulators on cases involving serious financial crimes and
3 regulatory abuse. We ask our experts to report and make recommendations at Birmingham.

4 29. Money laundering poses a continuing threat to the democratic values and financial integrity
5 of all of our countries. The Financial Action Task Force (FATF) is leading the international fight
6 against money laundering, and we believe that the FATF should continue its important work. The
7 key challenge will be to spread the anti-money laundering message to all regions of the globe.
8 FATF should consider expanding its membership to include a select group of non-member
9 countries committed to the Forty FATF Recommendations which can play a significant role in
10 their regions. FATF should seek stronger cooperation with regional organizations, the support of
11 the international financial institutions and the cooperation of the international financial services
12 industry. Over the next year, we urge the FATF to review ways to advance its essential work and
13 look forward to receiving its conclusions in Birmingham as we consider renewal of its mandate
14 for an additional five-year period.

15 **Supporting Growing Global Trade and Investment**

16 30. Trade and investment are essential to increased prosperity, sustainable economic growth and
17 job creation. We attach high priority to full and effective implementation of the Uruguay Round
18 agreements to support the goals of further trade liberalization to spread the benefits of
19 globalization. Globalization will only be sustainable if everyone enjoys the benefits of the
20 resulting economic gains. We welcome the WTO's first Ministerial Conference in Singapore in
21 December, and the important trade agreements covering \$1 trillion in information technology
22 goods and telecommunications services achieved earlier this year and look forward to its
23 expansion. We believe that it will be in the interests of all WTO members to secure a financial
24 services agreement by the end of this year, on a full MFN basis, that contains significantly
25 improved market access and national treatment commitments from a broader range of countries.
26 We shall negotiate constructively to achieve such a result and urge our partners to join us in this
27 effort. Similarly, we look forward to a successful completion in 1998 of the OECD negotiations
28 on the Multilateral Agreement on Investment.

29 31. We restate the primacy of an open, multilateral, trading system based on the WTO. Next
30 year's 50th anniversary of the GATT provides an occasion to reflect on what we have achieved
31 and an opportunity to look to the future. We endorse the program of work and timetable for
32 further trade liberalization built into the Uruguay Round agreements and elaborated by Trade
33 Ministers at Singapore. We are committed to building the widest possible support for this
34 process. We agreed to explore further market opening initiatives, taking into account
35 developments in the world economy, the widening membership of the multilateral system, and
36 important traditional trade barriers that remain. We renew our commitment to the observance of
37 internationally recognized core labor standards.

38 32. We attach a high priority to expanding the membership of the WTO, on the basis of
39 commitments to adhere to WTO rules and to provide commercially meaningful market access. As
40 agreed at Singapore, we also support the further integration of the least-developed countries in

1 the trading system, through a plan of action, including, for example, providing predictable and
2 favorable duty-free market access conditions for their products to help foster the expansion and
3 diversification of their exports. We look to the WTO-UNCTAD-ITC Conference to enhance
4 their capacity to benefit from increased trade and investment. We each will continue to improve,
5 through various means, access to our markets for least-developed countries.

6 33. The development of electronic commerce has the potential to yield great benefits to all our
7 citizens and enterprises. To do so, it must be able to grow in a predictable and stable
8 environment. We have directed our officials to work with the OECD, WTO, other appropriate
9 international organizations, and the private sector to identify opportunities to facilitate global
10 electronic commerce, as well as the challenges it poses to ensure preservation of national security
11 interests, consumer protections, effective tax administration and the ability to deal with criminal
12 activities, including money laundering.

13 34. In Lyon we initiated an effort to standardize and simplify customs procedures. We urge our
14 customs experts to complete their work in the next year and report prior to our next meeting on
15 their efforts to standardize both the data required by customs and other related administrations to
16 carry out their responsibilities and the form in which data are to be reported electronically, and to
17 reduce data requirements to a minimum consistent with effective administration of customs
18 responsibilities.

19 35. The globalization of national economies has increased the challenge of harmful tax
0 competition. As stated in the Lyon communiqué, tax schemes aimed at attracting financial and
21 other geographically mobile activities can create harmful tax competition between states, carrying
22 risks of distorting trade and investment, and could lead to the erosion of national tax bases.
23 Harmful tax competition also undermines the fairness and neutrality of the tax system. Hence we
24 attach great importance to the work undertaken by the OECD. We hope that the OECD can
25 produce its conclusions and recommendations on this subject in time for our consideration at next
26 year's Summit.

27 **NUCLEAR SAFETY**

28 36. We have made significant progress in implementing the 1995 Memorandum of
29 Understanding (MOU) with Ukraine on Chernobyl Closure. We reaffirm our commitment to
30 assist Ukraine, within the context of the MOU, in mobilizing funds for energy projects to help
31 meet its power needs in 2000 and beyond after Chernobyl's closure. To date, projects have been
32 agreed totaling over \$1 billion. We call upon Ukraine to continue to undertake the reforms
33 necessary for sustainable growth, particularly in its energy sector.

34 **Chernobyl Sarcophagus**

35 37. We agreed on the importance of securing the environmental safety of the sarcophagus
36 covering the remains of the destroyed Chernobyl reactor. This task is inevitably beyond the
37 resources of Ukraine alone. This is a major challenge for the international community. We
38 endorse the setting up of a multilateral funding mechanism and have agreed that the G7 will
9 contribute \$[x] over the lifetime of the project. We call upon concerned governments and other

- 1 donors to join us at a special pledging conference this fall to ensure full implementation of this
- 2 project.

**CONTINGENCY
TALKERS**

POINTS TO BE MADE FOR MEETING WITH
CANADIAN PRIME MINISTER CHRETIEN

Pacific Salmon

Background: During the parliamentary election campaign, under pressure from British Columbia Premier Clark, Canadian Government walked out of salmon talks and began to require U.S. fishing vessels to put into port for safety checks. The Canadians have now apparently stopped detaining boats and talks resume June 18. However, during the campaign, Clark gave notice of his intent to terminate the lease for our torpedo testing facility at Nanoose Bay.

- Pleased that our negotiators have resumed talks. Frustrating issue, but we are making slow progress. (TO BE UPDATED 6/19)
- Pleased that seizures of U.S. vessels, which were heightening tensions in area, appear to have ceased.
- Industry stakeholders need to be brought along in process. Hope you understand we will have to secure stakeholder support for any agreement we conclude. Our negotiator has already made great progress with our fishing interests and tribes.
- Hope you can make clear to (British Columbia Premier) Clark that his threats (including cancellation of Nanoose lease) are undermining both salmon talks and his province's larger interests.

Telemarketing Fraud

Background: During Chretien's April visit to Washington, we reached agreement with the Canadians on enhanced cooperation to combat telemarketing con artists based in Canada who largely prey on elderly Americans. However, Canadian law enforcement officials have been reluctant to devote necessary resources to this project.

- Last April we agreed to ask our law enforcement officials to enhance cooperation against cross-border telemarketing fraud and to report back to us in October on progress.
- Want to point to that report in October to assure our most vulnerable citizens and their families that we are taking effective measures against these multi-billion dollar crimes.

- Problem is getting worse. Now criminals located in Canada are actually using agreement you and I reached against telemarketing fraud as basis for new scam directed against elderly Americans, referring to it to give credibility to their pitch.
- Know this requires your federal officials to devote resources to working with your provincial and local officials, but believe we are setting model for this kind of cooperation.

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POINTS TO BE MADE FOR
MEETING WITH CHANCELLOR KOHL

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- Enjoyed chance to talk June 4. Looking forward to hosting President Herzog for lunch July 24.
- Want to congratulate you on outcome of Amsterdam summit. Know how important it is to you to keep momentum going toward EMU. Believe you did masterful job in circumstances.

NATO Adaptation and Enlargement

- On NATO enlargement, believe we should use meetings here in Denver to try to forge a consensus as we head toward Madrid.
- You are already well aware of my position on the "who."
- We believe first group should be limited to strongest candidates in order to maintain credibility and effectiveness of Alliance as it enlarges, while making clear door open for future admissions.
- Poland, Czech Republic and Hungary clearly ahead of Romania and Slovenia both in terms of depth and magnitude of reforms and ability to contribute politically and militarily to Alliance.
- At same time, want to make clear we agree with French and others that Romania and Slovenia have made considerable progress toward meeting NATO standards.
- Although they are not ready now, believe if progress continues they will be very strong candidates for second enlargement decision. Argued this point strongly to our Senate NATO Observer Group last week.
- That is why strong "open door" commitment at Madrid is just as important as decision on first group.
- Open door will help reassure Romania, Slovenia and others they are not being relegated to "gray zone" and keep them motivated to continue with reforms.
- Know Jacques remains committed to including Romania in first group. Regret I cannot agree with him on this, but believe strong "open door" package could help meet many of his concerns.
- Hope I can get his agreement to this kind of approach at Denver, but see signs French may choose to fight this down to wire in Madrid.

~~CONFIDENTIAL~~

Reason: 1.5(b,d)

Declassify on: 6/17/07

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- Romanians told us French turned aside their request that Paris avoid fight with us in run-up to Madrid and instead seek compromise.
- We agree messy fight would do Romanians no good but could be very damaging to Alliance.
- Need to move forward now to develop strong consensus around three countries all allies can support combined with strong signal that there will be second enlargement decision before too long.
- Although you discussed issue with Jacques in Amsterdam, ask that you raise it with him again, urging him to avoid damaging fight and seek compromise based on "open door" approach.
- Also hope you can assure him -- as I will when we meet -- that we would still like to find way for France to rejoin NATO military structure.

Future of European Integration

- United States not party in European debate on monetary union; however, European integration itself is important element to evolving transatlantic relationship. We very much want to see integration go forward and to succeed. Admire your leadership on this.
- NATO and EU enlargement are key elements in new security framework we are building together in Europe.
- Hope process will move forward rapidly as possible to encourage CEE countries to stay course of reforms.

Environment

- Considered your proposal for World Environment Organization; concerned about budgetary implications of creating a new organization.
- Need to incorporate environmental concepts throughout UN system. UNEP is too weak to do this on its own and needs leadership from top and support from its members.

~~CONFIDENTIAL~~

Reason: 1.5(b,d)

Declassify on: 6/17/07

~~CONFIDENTIAL~~

DECLASSIFIED
PER E.O. 13526

2016-0141-M (1.18)

3/6/2019 KBH

POINTS TO BE MADE WITH
EU COMMISSION PRESIDENT JACQUES SANTER

- U.S.-EU Summit in The Hague was substantive, useful for keeping our officials focused on broadening areas of cooperation for challenges of next century.
- Very pleased agreement reached on MRAs; will bring huge benefits to our publics and industries, keeps credibility with business community, shows our joint leadership in trade area.
- EU has been generous and crucial donor to Bosnia. However, concerned that EU Commission has not been able to commit funds it has pledged in timely fashion. Know you are aware of this problem.
- Unless international assistance is translated quickly into real projects on ground, parties will not develop a stake in success of Dayton accords.
- Hope you will be able to speed up commitment of funds already pledged so that they can be disbursed in Bosnia in matter of weeks, not months. First priority should be disbursements to Brcko, where implementation is bellwether for our broader efforts.

~~CONFIDENTIAL~~

Reason: 1.5(b,d)

Declassify on: 6/17/07

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006. report	Biography (2 pages)	06/11/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2589

FOLDER TITLE:

The President's Trip to Denver, Colorado for the Summit of the Eight, June 19-22, 1997
[3]

2016-0141-M
kh1821

RESTRICTION CODES

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C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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National Security Council
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National Security Council
Executive Secretary
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National Security Council
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~~SECRET~~

UNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ATTACHMENTS

Initials: KBH Date: 3/4/2019

2016-0141-M

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