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Folder Title:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [1]

Staff Office-Individual:

Executive Secretary

Original OA/ID Number:

2588

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35	2	10	3	V

Withdrawal/Redaction Sheet

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Samuel Berger to President William J. Clinton re: Your Trip to Germany, the G-8 Birmingham Summit and the U.S. EU Summit, May 12-18, 1998 (4 pages)	05/11/1998	P1/b(1) KBM 4/30/2020
002. memo	Madeleine Albright to President William J. Clinton re: Your Trip to Germany (2 pages)	05/06/1998	P1/b(1) KBM 4/30/2020
003. memo	Secretary of State Madeleine Albright to President William J. Clinton re: Your Participation in the U.S. EU Summit with EU President/British Prime Minister Tony Blair and Commission President Jacques Santer (2 pages)	05/06/1998	P1/b(1) KBM 4/30/2020
004. paper	Restricted Meeting and Working Lunch with Chancellor Helmut Kohl (7 pages)	05/00/1998	P1/b(1) KBM 4/30/2020
005. talking points	Summary Points for Meeting with Helmut Kohl (1 page)	05/00/1998	P1/b(1) KBM 4/30/2020
006. talking points	Points to be Made for Meeting and Lunch with Chancellor Kohl (4 pages)	05/00/1998	P1/b(1) KBM 4/30/2020
007. report	Biography (2 pages)	03/31/1998	P1/b(1)
008. paper	Bilateral Meeting with SPD Chancellor Candidate Gerhard Schroeder (3 pages)	05/00/1998	P1/b(1) KBM 4/30/2020
009. talking points	Summary Points for Meeting with Gerhard Schroeder (1 page)	05/00/1998	P1/b(1) KBM 4/30/2020
010. talking points	Points to be Made for Meeting with Gerhard Schroeder (1 page)	05/00/1998	P1/b(1) KBM 4/30/2020

COLLECTION:

Clinton Presidential Records
 National Security Council
 Executive Secretary
 OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [1]

2016-0142-M

kh1827

RESTRICTION CODES

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

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

- 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]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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.

Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
011. report	Biography (2 pages)	03/02/1998	P1/b(1)
012. paper	Informal Greeting with Federal President Roman Herzog (2 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
013. talking points	Summary Points for Informal Greeting with Roman (1 page)	05/00/1998	P1/b(1) KBH 4/30/2020
014. talking points	Points to be Made for Meeting with Federal President Roman Herzog (1 page)	05/00/1998	P1/b(1) KBH 4/30/2020
015. report	Biography (2 pages)	04/24/1998	P1/b(1)
016. paper	Meeting with Prime Minister Ryutaro Hashimoto (5 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
017. talking points	Summary Points for Meeting with Prime Minister Hashimoto of Japan (2 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
018. talking points	Points to be Made with Prime Minister Hashimoto of Japan (4 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
019. report	Biography (2 pages)	04/15/1998	P1/b(1)

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UNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ATTACHMENTS
Initials: KRM Date: 1/29/2020

2014-0142-M



**THE PRESIDENT'S
TRIP TO
GERMANY AND THE UNITED KINGDOM**

MAY 12-19, 1998

Office of the Executive Secretary

~~SECRET~~

The President's Trip to Germany and the United Kingdom, May 12-19, 1998

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Scenesetter

**SCHEDULE OF KEY
EVENTS/MAPS**

SCHEDULE OF KEY EVENTSTuesday, May 12

1:00 p.m. Depart for Berlin, Germany
TBD Foreign Trip Briefing on Air Force One

Wednesday, May 13

2:40 a.m. Arrive Berlin, Germany
11:15 - 11:30 a.m. Briefing
12:30 - 12:40 p.m. Arrival Ceremony
12:55 - 1:40 p.m. Restricted Bilateral Meeting
with Chancellor Kohl
1:50 - 2:50 p.m. Working Lunch with Chancellor Kohl
3:40 - 4:10 p.m. Joint Statement
4:15 - 4:25 p.m. Visit Gravesite of Frederick the Great
5:30 - 6:45 p.m. Berlin Speech
7:05 - 7:20 p.m. Meeting with Opposition Leader Schroeder
9:00 - 9:20 p.m. Informal Greet with President Herzog
9:35 - 11:50 p.m. Official Dinner Hosted by President
Herzog
RON Berlin, Germany

Thursday, May 14

9:30 - 10:00 a.m. Briefing/Speech Prep
10:30 a.m. - 12:00 a.m. Berlin Airlift Commemoration Event
2:55 - 3:15 p.m. Visit General Motors Opel Plant

3:20 - 4:10 p.m.	Roundtable Discussion
4:35 - 5:35 p.m.	Remarks to the People of Eisenach
5:40 - 5:45 p.m.	Group Photo with the German-American Youth Parliamentary Exchange Program
7:10 - 8:30 p.m.	Visit Wartburg Castle
10:00 p.m.	Depart Frankfurt, Germany for Birmingham, United Kingdom
10:20 p.m.	Arrive Birmingham, United Kingdom
RON	Birmingham, United Kingdom

Friday, May 15

10:00 - 10:30 a.m.	Briefing
10:35 - 11:35 a.m.	Bilateral Meeting with Prime Minister Hashimoto of Japan
1:30 - 1:55 p.m.	Briefing
2:00 - 3:10 p.m.	Bilateral Lunch with President Chirac of France
3:30 - 5:30 p.m.	Summit Session One
6:30 - 7:00 p.m.	Opening Reception
7:30 - 9:00 p.m.	Leaders Dinner
RON	Birmingham, United Kingdom

Saturday, May 16

8:45 - 9:00 a.m.	Briefing
10:25 - 10:30 a.m.	Leaders Group Photo
10:25 a.m. - 12:35 p.m.	Morning Session
1:00 - 2:30 p.m.	Working Lunch

3:00 - 4:00 p.m.	Afternoon Session
7:00 - 7:30 p.m.	Summit Reception
7:40 - 9:00 p.m.	Summit Dinner
9:30 - 10:40 p.m.	Summit Entertainment
10:45 - 11:00 p.m.	Greet Entertainers
RON	Birmingham, United Kingdom

Sunday, May 17

8:15 - 8:45 a.m.	Briefing
9:00 - 10:30 a.m.	Summit Closing Session
11:00 - 11:20 a.m.	Joint Communique Presentation
11:30 a.m. - 12:00 p.m.	Briefing
12:05 - 1:05 p.m.	Bilateral Meeting with President Yeltsin of Russia
6:00 - 9:00 p.m.	Dinner/Chequers Sessions
RON	Chequers, London

Monday, May 18

9:30 - 10:00 a.m.	Briefing
10:00 - 10:45 a.m.	U.S.-EU Summit Restricted Session
11:00 - 11:45 a.m.	U.S.-EU Summit Plenary Session
11:50 a.m. - 12:50 p.m.	Briefing
1:00 - 1:50 p.m.	U.S.-EU Summit Press Conference
2:00 - 2:30 p.m.	U.S.-EU Summit Photographs
3:30 p.m.	Depart en route AAFB

SCOPE MEMORANDUM

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THE WHITE HOUSE

WASHINGTON

May 11, 1998

DECLASSIFIED
PER E.O. 13526

2016-0142-m (1.01)
KBH 4/29/2020

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL BERGER ⁽¹⁾

SUBJECT: Your Trip to Germany, the G-8 Birmingham Summit
and the U.S.-EU Summit, May 12-18, 1998

I. OVERVIEW

Your visit to Europe consists of three elements: a visit to Germany; the G-8 Birmingham Summit; and the U.S.-EU Summit in London. The dominant theme cross-cutting the three is the common effort to build the institutions that will allow us to deepen global integration in the 21st Century.

The visits to Berlin and Eisenach, Germany, as well as the U.S.-EU Summit, provide an opportunity to advance the vision first articulated by you in Brussels in 1994, of an undivided and democratic continent. Tremendous progress has been achieved. Poland, Hungary and the Czech Republic are poised to enter the NATO Alliance at the same time that NATO's partnerships with both Russia and Ukraine have been established and begun to grow. The European Union has launched its own process of enlargement and is on the threshold of an 11-nation monetary union. Historic steps toward lasting peace have been taken in Bosnia and northern Ireland.

Despite these extraordinary achievements, many in Europe are dispirited by the slow pace of reform, persistent high levels of unemployment and a sense of diminished stature in contrast to the United States. There is both respect and envy for our economic dynamism and undisputed role as the single superpower. Europeans perceive a tendency toward unilateralism, manifested in legislation such as ILSA and Helms-Burton, which the Europeans see as explicit and unacceptable attempts to regulate their policies.

One of the key objectives of your visit will be to rekindle the sense of partnership between Europe and America, to challenge

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Reason: 1.5(d)

Declassify on: 4/30/08

the Europeans to complete the integration of the continent with an integral role for a democratic Russia and to ensure that the advances within the Euro-Atlantic community are used to improve the lives of all our people.

Your initial stop in Germany will set the tone for the rest of the visit. Both your speech at the Schauspielhaus and the Berlin airlift memorial will allow you to commemorate our shared history and project forward with a vision of our common future. Your visit to the eastern German city of Eisenach and the ultra high-tech GM/Opel plant will highlight the forward-looking themes of employability and technology's role in society. Your visit to 11th Century Wartburg Castle where Martin Luther worked will recall the primacy of human rights and core human values.

The ongoing federal election will be a constant backdrop to your discussions and source of press interest and context. It is essential to convey a balanced stance and to use your meeting with opposition candidate Gerhard Schroeder to underscore that our partnership with Germany transcends who is in power in either country. Your closeness to Kohl is admirable and palpable; its expression during the campaign season visit needs to be expressed in ways that do not leave scars, regardless of who wins.

In Birmingham, you and your G-8 counterparts will continue your effort to secure the benefits of global integration both within our societies and for the countries who have not yet been fully integrated into global political and economic structures (e.g., eastern Europe, Africa). In the wake of the Asia financial crisis, it is important to send the message that global integration has fueled worldwide economic growth and that, rather than retreat from integration, we must strengthen our ability to prevent crisis and take advantage of the opportunities. You will also focus on two of the darker consequences of integration -- international crime and climate change.

In London, you are meeting the European Union's leaders fresh from their historic if rambunctious May 2 special meeting where they made the final decisions to launch their single currency for Europe January 1. EMU is a bold step in the political as well as economic direction for European integration. You will emphasize our continuing commitment to support the European project and stress the need to enhance U.S.-European cooperation in parallel. The likely centerpieces of the U.S.-EU Summit are (a) a decision to launch an initiative with 3-4 separable

elements to eliminate many remaining obstacles to transatlantic commerce, and (b) announcing agreement on cooperation to deal with states that defy international rules before either side reacts unilaterally (e.g., Helms-Burton). This latter goal, in addition to the announcement of 50 civil society awards and joint efforts in Ukraine and northwest Russia, will demonstrate the growing range of global efforts undertaken by the Euro-Atlantic partnership.

II. SCHEDULE

You will leave Washington May 12, arriving very late in Berlin. On May 13, you will have a restricted session with Helmut Kohl followed by a slightly expanded working lunch, conduct a joint press availability, deliver a major policy speech and attend an official dinner hosted by President Roman Herzog. You will also have a brief meeting with Schroeder, the leading opposition candidate running against Kohl. On May 14, you will participate in a commemorative event at Tempelhof airport in honor of the 50th anniversary of the Berlin airlift and then travel to the eastern city of Eisenach, where you offer brief remarks in the Town Square. On the outskirts of Eisenach, you will visit the modern GM/Opel plant and tour the Wartburg fortress where Luther translated the Bible.

At Birmingham, the subject of a separate scope memo, you will conduct bilateral meetings with Japanese Prime Minister Hashimoto and have lunch with Jacques Chirac on May 15. The G-7 session starts in mid-afternoon, followed by the official opening of the Group of Eight summit at a reception and a dinner. On May 16, Saturday, you will attend the retreat outside of Birmingham intended to return the intimacy of early Summits. That night, the leaders and spouses gather for dinner and entertainment in Birmingham.

On May 17, you will participate in the G-8 closing session and have a bilateral immediately after with Boris Yeltsin. You will have a free afternoon for travel through the English countryside to Chequers, Tony Blair's official country residence. That evening, you will participate in a policy seminar dinner at Chequers.

On May 18, you will helicopter in from Chequers to No. 10 Downing Street for the U.S.-EU Summit. You will start with a restricted session with Blair and Santer, followed by an expanded plenary. (There will have been a ladder of preliminary meetings that morning preparing the ground for your discussions

in the plenary on trade.) Before the joint press conference, you, Blair and Santer will meet for a photo op with six representatives of the 50 Civil Society Awards for democracy building in the former Soviet Union and Eastern Europe. (TBC - After the press conference you will briefly participate in a pre-luncheon reception for the U.S. and British parliamentarians and business leaders involved in the summit.)

**SECRETARY OF
STATE MEMO**

THE SECRETARY OF STATE

WASHINGTON

DECLASSIFIED
PER E.O. 135262016-0142-m (1.02)
KBH 1/29/2020

May 6, 1998

~~CONFIDENTIAL~~

DECL: 04/20/18

MEMORANDUM FOR: THE PRESIDENT

FROM: Madeleine K. Albright *MKA*

SUBJECT: Your Trip to Germany

Your trip to Germany - with the Berlin speech as centerpiece - is a chance to set forth your vision of an inclusive, outward-looking transatlantic partnership for the 21st century. Your visit to eastern Germany - the first by a U.S. President - can be a powerful personal statement that Americans empathize with the changes engulfing east German society and believe the German people - East and West - can master these changes together.

The mood in Germany is sober, however. Averse to change, Germans confront serious economic and social challenges, and stand on the brink of enormously important generational change. You can project confidence in the ability of the German and American peoples to harness the forces of integration and change to our advantage, just as our earlier, Cold War partnership managed a constant threat. Moreover, you can explore ways in which we can carry a strong, evolving German-American partnership into the new millennium.

Your personal relationship with Germany's current and future leaders will be central to that optimistic message. And your task here is not as simple as it has been. The trip comes at a critical juncture for Helmut Kohl. After nearly 16 years in office, and with national elections just four months off, Kohl is fighting for his political life - a fight he now appears likely to lose. He hopes your visit will produce some political coattails, underscoring his role as world statesman and guarantor of a vibrant German-American relationship. It is also his chance to showcase the enormous progress in the former East Germany - changes that would not have been possible without his vision and our support. Kohl, the big picture "Euro-visionary," remains determined to make German unification, his legacy,

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Classified by EUR A/S Marc Grossman
E.O. 12958, Reason 1.6x6

palatable to Germany's neighbors by thoroughly embedding Germany in the EU.

The contrast with SPD Chancellor candidate Gerhard Schroeder is stark. Governor of the state of Lower Saxony, Schroeder is younger, populist, relatively uninterested in foreign affairs, and focused on domestic anxieties about the economy and the coming Euro. His mantra is "It's the economy, stupid" - one of the more obvious ways he has sought to draw analogies to you and Tony Blair. The SPD as a whole, mired in old-think, has failed to refashion itself in the mold of New Labour. Nonetheless, the SPD's message is that it's time for a change. You will meet with Schroeder, and it will be important to start the relationship off right. In the Kohl camp, however, sensitivities will be running high. You may want to let Kohl know that your relationship with him sets the standard.

Our relationship is a work in progress on both sides of the Atlantic. We need to continue to talk to the Germans, to talk often, and not always with an explicit agenda. Conscious of history and sensitive to criticism from their neighbors, German leaders remain reluctant to get out in front. The search for consensus often becomes as important as the policy goal itself. Germans are simultaneously gaining confidence but still unwilling to stand out in (or lead) the crowd and sometimes resentful at being "bullied" by us. Germany remains pivotal to U.S. aims within Europe, across the Atlantic, and in the wider world. Germans care deeply about Russia, European integration and stability, NATO, and the care and feeding of the Transatlantic relationship. Our goals are remarkably consonant; our differences most often are over how to get things done. Germans must come to understand that they cannot always mediate; that they will need to stand up and be counted. Personal relationships - such as you enjoy with Kohl and should begin to cultivate with Schroeder - will be essential to moving this agenda forward.

You have other materials to detail the issues you will raise on the visit - the yawning performance gap between east and west, Germany's corporate restructuring in the face of public fears over economic stagnation, and Germany's slow movement toward collegial leadership between central and western Europe. Our agenda with them will always be full. Whatever the topics, we will need a now-hesitant Germany to pull with us. The trust its leaders put in you personally will be essential to making Germany feel comfortable in its rightful place within Europe, but in the front rank of Europe.

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PER E.O. 13526

2016-0142-m (1.03)

KSH 1/29/2020

THE SECRETARY OF STATE

WASHINGTON

9807924

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DECL: 04/30/08

May 6, 1998

MEMORANDUM FOR: THE PRESIDENT

FROM: The Secretary *WGA*

SUBJECT: Your Participation in the U.S.-EU Summit with EU President/British Prime Minister Tony Blair and Commission President Jacques Santer

Following your visionary Berlin speech and G-8 Summit, your meeting with the British EU Presidency and the Commission can serve as a springboard for taking the transatlantic partnership to a new level. Our relationship with the EU is a drivewheel of progress on world-scale issues when we agree, and the brake when we do not. Your discussions with Prime Minister Blair and President Santer will cover issues on both ends of this spectrum.

First the brake - the most contentious issues in recent U.S.-EU relations have revolved around differences over the use of economic sanctions against states that threaten our vital interests. Strongly felt EU opposition to the secondary boycott aspects of the Iran and Libya Sanctions Act (ILSA) and the Libertad Act (Helms-Burton) have complicated efforts to build support for our Iran and Cuba policies and created barriers to our positive agenda with the EU.

If, as we hope, we succeed in turning the corner on these disputes by the Summit, the resolution will include EU commitment to bolstered cooperation in combating terrorism and proliferation of weapons of mass destruction, in promoting Caspian energy development, in supporting democracy and human rights in Cuba, and agreement on handling confiscated properties in Cuba. The U.S. and EU will also have committed to closer cooperation on dealing with rogue regimes and the situations under which either partner might use sanctions. Putting these contentious

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Classified by Strobe Talbott, Acting Secretary

E.O. 12958, Reason 1.5 (B) and (D)

issues behind us is essential for pursuing a more ambitious agenda on trade, foreign policy, and global concerns.

Now the drivewheel - under the New Transatlantic Agenda (NTA), which you and EU leaders inaugurated at your December 1995 Summit, we have steadily advanced a positive cooperative agenda. At the Summit, you will be highlighting a number of tangible NTA achievements including a program of joint actions in Ukraine to promote reform and accelerate shut down of the Chornobyl reactors, a joint initiative to help the Russian Government address the enormous environmental problem of nuclear waste in Northwest Russia, a joint information campaign to combat trafficking of women in Ukraine and Poland, signing of our Mutual Recognition Agreement concluded last year, and the announcement of 50 U.S.-EU awards to groups promoting democracy and civil society in Central Europe and the NIS.

However, if realized, the crowning achievement will be agreement to embark on a major new U.S.-EU trade liberalization initiative. This initiative would move us beyond piecemeal measures to an ongoing process to build the Transatlantic Marketplace, and would take the U.S.-EU relationship to a new level of partnership. This achievement will have been hard won. The French have doggedly inhibited progress, fearing the fingerprint of U.S. (or "anglo-saxon") hegemony in our trade liberalization push and wanting a clear waiver on ILSA. The EU itself is increasingly occupied with its enlargement process and the transition to Economic and Monetary Union on January 1, 1999.

Having the UK in the EU Presidency chair has made the difference. The British have artfully walked the fine line between their Atlantic and European loyalties, but in almost every crunch, the "special relationship" and your close personal ties with PM Blair have prevailed.

With our trade liberalization initiative we are taking an important step toward realizing the vision we have outlined for the new millennium. Still to take the U.S.-EU partnership to the full potential you foresaw with the NTA, we need to build a stronger, more effective transatlantic diplomatic partnership and a more concerted partnership on global issues such as transnational crime, and environmental and health hazards.



Germany

- International boundary
- State (*Land*) boundary
- National capital
- State (*Land*) capital
- Railroad
- Autobahn
- Other road

0 50 100 Kilometers

0 50 100 Miles



Europe



Serbia and Montenegro have asserted the formation of a joint independent state, but this entity has not been formally recognized as a state by the United States.
 F.Y.R.O.M. - The Former Yugoslav Republic of Macedonia

GERMANY

ARRIVAL CEREMONY

SCENESETTER: POTSDAM/SANS SOUCI

Your arrival ceremony, restricted meeting and working lunch with Helmut Kohl will take place on the outskirts of the city of Potsdam, at Sans Souci Palace.

Potsdam. Potsdam was the military headquarters of the Hohenzollern dynasty that ruled Prussia from the early 18th century until the end of World War I. Its history reflects the conflicting strains of the Enlightenment's cultural tolerance and Prussian military imperialism. In modern times, Potsdam was home to Babelsberg Studios, Germany's prewar answer to Hollywood, where filmmakers like Erich von Stroheim, Marlene Dietrich and Billy Wilder began their careers. Later, the Nazis churned out propaganda films in Babelsberg. Albert Einstein studied and taught in Potsdam, making some early astrological observations there. Potsdam was also the location of the 1945 four-power Conference that settled the division of Germany and Europe. It was here that President Truman issued the order to bomb Hiroshima and Nagasaki. The Glienicke Bridge that joins Potsdam to Berlin was the site of Cold War spy swaps, including Soviet dissident Anatoly Scharansky.

Sans Souci. The palace named "without a care" in French began as Frederick I's hunting preserve. His son, Frederick the Great, built the palace as you see it today, with grand steps descending through his father's vineyard. The palace itself is a testimonial to Frederick the Great's admiration for French and Italian culture and the ideals of the Enlightenment.

Helmut Kohl is a great admirer of Frederick the Great, and sees him as a national symbol of German unity. Following unification, the Chancellor arranged for Frederick the Great's remains to be removed from their burial site on Hohenzollern family property in the rural Black Forest and, in a subdued nighttime ceremony, returned to their intended resting place at Sans Souci.

**MTG WITH
CHANCELLOR KOHL**

RESTRICTED MEETING AND WORKING LUNCH
WITH CHANCELLOR HELMUT KOHL

KEY OBJECTIVES

- Preview key theme of Berlin speech: completing the work of Euro-Atlantic integration through a strong partnership for 21st century. Emphasize Germany's pivotal role in realizing forward-looking policy agenda.
- Frame cooperation on Bosnia/Kosovo, Iran/ILSA, Russia/Ukraine and Turkey/Cyprus in this future-oriented context. Urge German leadership on these issues within EU.
- Underscore U.S. support for "completion of Europe" through NATO enlargement, EU expansion and single European currency.

CONTEXT OF MEETING

This meeting and working lunch with Helmut Kohl will be your primary opportunity for substantive discussion during the Germany visit. Kohl will be looking to emphasize a broad and serious agenda to offset suggestions that he is using your presence to advance his standing in the ongoing election.

Kohl has suffered a series of setbacks in the campaign and is now running almost 20 points behind opposition candidate Gerhard Schroeder. His primary handicap is a national unemployment rate that has soared over 12 percent, with large pockets of eastern Germany registering over 20 percent. Kohl also has been hurt by open squabbling and disarray within his Christian Democratic party and its coalition with the Free Democratic Party and Christian Social Union. Having served as Chancellor for almost 16 years, he is now widely perceived as being out of touch with the concerns of most average Germans. Recent elections in the eastern state of Saxony-Anhalt showed Kohl's CDU party slumping down to 23 percent and an unexpected surge of the extreme far-right People's Union party up to 11 percent. Eastern Germany had been a strong base of support for Kohl since his masterful handling of unification in 1989-90, but many have suggested that he will be unable to recover from this loss of regional support. Kohl himself is said to be convinced that he can repeat his performance of the 1994 elections, when he managed a narrow win after months of trailing behind his then-opponent Rudolf Sharping. Smart money has learned not to count out Kohl, who

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Reason: 1.5(d)

Declassify on: 4/30/08

likes the underdog role, but a generalized German desire for change after 16 years is making this election a Sisyphean challenge for Kohl.

Kohl's difficulties are compounded by the fact that Gerhard Schroeder is running one of the best opposition campaigns in years. A moderate social democrat, Schroeder has profiled himself as a centrist who understands the concerns of average Germans. He comes from a modest background (after his father's death in the war, his mother worked as a maid to support her four children) and despite his thirty plus years in the party he is not beloved by the more ideological SPD insiders. He is oriented more to domestic than foreign policy issues, more to economics than security policy.

Schroeder is impressed by American dynamism and has expressed enthusiasm about getting to know you. He also has suggested parallels between his own thinking and Tony Blair's new labor philosophy.

AGENDA

RESTRICTED SESSION

You should use your restricted session with Kohl to solicit his active support for completing the work of European unification and democracy. German support will be vital to building broader consensus throughout Europe. You should also use this more intimate setting to raise Turkey and Cyprus, to urge Kohl's support for a more forward-leaning EU approach.

Euro-Atlantic Partnership for 21st Century. Four years ago, you offered a simple but powerful vision: the integration of all Europe into a broader, democratic and peaceful Atlantic community. Your speech in Berlin will challenge Europe and America to take the next steps in developing this 21st century partnership. This partnership goes beyond a common alliance against territorial threats to enhance our broad-ranging cooperation through a number of institutions. This will include adapting NATO as we develop a new strategic concept for the 1999 Washington Summit, but also deepen political cooperation through other institutions, including the U.S.-EU and the OSCE. While allaying suspicions that we seek to turn NATO into a "global alliance", you should discuss how the United States and European allies can strengthen our cooperation on new challenges, such as proliferation, crime and the environment.

EU-Turkey and Cyprus. Our efforts to break the logjam on Cyprus hinge in large part on rescuing the EU-Turkey relationship from its current low. Germany views itself as one of Turkey's strongest supporters in Europe and shares our view of Turkey's strategic priority. But they refuse to see Turkey as a serious candidate for EU membership because of worries about unrestricted immigration and, more deeply, concerns about cultural and religious differences.

We need to convince Kohl that a Cyprus settlement is in Germany's interest and that reaching out to Turkey is the only way to achieve that. The Germans rightly fear that failure to resolve the Cyprus dispute will threaten the EU's eastward enlargement. They can do something about this by taking a more open approach on EU-Turkey relations now, even while recognizing that actual Turkish membership is a long way down the road.

Dick Holbrooke hit a serious roadblock in his efforts to get Turkish Cypriot leader Denktash and Greek Cypriot leader Clerides to jump-start UN-sponsored settlement negotiations under U.S. auspices. Clerides is willing, but Denktash is resisting, and it is clear that only Ankara can overcome Denktash's reluctance to deal. The prospect of an improved EU-Turkey relationship -- specifically a clear accession strategy for Turkey, spelled out at the mid-June EU Summit in Cardiff, and better public statements in support of Turkey's place in Europe -- could entice Ankara to lean on Denktash.

WORKING LUNCH

Discussion of our agenda for future partnership will set the stage for a frank but constructive "high-road" discussion of priority issues on which we need more German support and leadership within the EU: Bosnia/Kosovo; Iran/ILSA; and Russia/Ukraine.

Bosnia and Kosovo. Germany is a major player in the Contact Group, but we have had differences over responses to the Kosovo crisis, including deference to the Russians, and reluctance to support new sanctions against Belgrade. If a Contact Group political process on Kosovo is to succeed in heading off a dangerous regional conflict, we need strong German support for a tough message to Belgrade: open a dialogue with the Kosovars or face additional international sanctions.

Since war broke out in former Yugoslavia in 1991, Germany has been the primary haven for refugees from the area, with almost

400,000. The high cost of Germany's generous social welfare benefits to refugees and concern that they are contributing to already-high unemployment have become political issues in the election. In 1997, German authorities began to repatriate a few hundred Bosnian refugees against their will. They also are seeking involuntary return of Kosovar Albanians in Germany who fail to obtain political asylum. While respecting Germany's right to repatriate those refugees who can go home, we have cautioned against steps that jeopardize the safety and human rights of the refugees or the peace process more broadly. We are helping ease Germany's burden somewhat by taking 10,000 refugees for resettlement in the United States in 1998. Germany must take into account that in Bosnia, SFOR can only support "phased and orderly" returns. In Kosovo, many of those forced to return face real dangers from authorities; others will simply join the fighters, making the situation even more volatile.

Iran and ILSA. Managing differences over Iran policy remains one of the most difficult aspects of our relationship with Germany and the EU. We share common concerns about Iran's support for terrorism and its efforts to develop weapons of mass destruction (WMD) but disagree over the use of economic pressure as a means to change Iranian behavior, particularly ILSA.

You will want to use this occasion to discuss our strategies with Kohl -- enhanced cooperation on WMD and terrorism that could permit a sanctions waiver under ILSA. This is closely related to our efforts to gain Russian acceptance to halt missile technology transfer to Iran (see below).

(Watch Out For) Kohl is very troubled by the recent Iranian death sentence imposed against a German businessman for "improper relations" with an Iranian woman. However, he continues to believe in the value of dialogue over isolation and has criticized our policy as overly harsh. In a separate issue, the Germans have been waiting nearly three years for our approval of an export license to Lufthansa Airlines for U.S.-origin spare parts to service Iran Air planes. They argue this delay threatens air safety. Though we are sympathetic to the safety issue, Congress is likely to object strongly to any decision to approve a license.

Russia. You will want to raise three issues: Yeltsin's health, missile cooperation with Iran and prospects for reform under the Kiriyenko government. On health, Kohl will share your concern over Yeltsin's ability to get through the Birmingham schedule. You should ask his insights, noting our own assessment that

Yeltsin's ability to focus has deteriorated (although once again he has bested his opponents by gaining approval of arguably the most reformist Russian government yet).

Russian technological assistance to the Iranian military program has become a combustible issue, with implications beyond our aid to Russia. Kohl already has raised this with Yeltsin; you should ask him to reinforce that message. Improved Russian efforts are essential to our overall effort to resolve the ILSA problem, and Kohl can provide real help.

Kohl shares your views on Russian reform. The top four members of the new Russian government (Kiriyenko and the three deputy prime ministers) are all young and reform-oriented, although they lack a strong political base. Their success depends on whether they can earn the Duma's respect and their ability to get Yeltsin to engage on their behalf. German banks are exposed for more than \$30 billion in Russia, so Kohl has a direct interest. Yeltsin needs to hear from Kohl and others that his political engagement is key to any prospects to break insider ties between government and business, stabilize revenues, pass a new tax code, privatize land and pass Start II.

Ukraine. Kohl shares our distress over the slow pace of reform and the implications for presidential elections in October 1998. The left won about 40 percent of the seats in Ukraine's March parliamentary elections -- by no means the kind of leftist sweep the press originally portrayed. That said, centrist parties are sharply divided. The course of reform, and Kuchma's political future, depend on his ability to unite the center around an economic strategy that will boost investment and growth.

The Vice President has pressed Kuchma to move quickly. Reform will only get harder when the winter cold hits, and Kuchma must act now to get a bounce from the economy next year. You should encourage Kohl to take a similar line with Kuchma, stressing the need for leadership and decisive action. Kohl may argue that we need to be more lenient. You should be understanding of Ukraine's constraints, but also stress that Ukraine could face a financial crisis if it takes too soft a line. Ukraine has survived this year through \$1 billion in very pricey Eurobond sales, a risky and unsustainable strategy.

NATO Enlargement. Germany ratified NATO enlargement in April with an overwhelming majority in the Bundestag and a unanimous vote in the Bundesrat. Getting the Czechs and Poles into NATO was a key strategic priority, but the Germans have shown little

enthusiasm for action on future invitations. Focus on EMU and the elections has pushed NATO enlargement, along with most other issues, onto the back burner. However, Kohl will be sympathetic to Chirac's political demands, as he was prior to Madrid, and is likely to become increasingly supportive of Romania and Slovenia as we approach the Washington summit.

We need to encourage Kohl to continue our current strong commitment to the Open Door while preserving our flexibility to think through carefully the pace of expansion that makes the most sense for us in terms of Congress, cost and managing the Russian relationship. We want to work closely with the Germans over the coming months to reach consensus on the right outcome for the Washington Summit and will need to make a careful effort to avoid public debates with Paris.

EU Enlargement, EMU and the New Transatlantic Marketplace Initiative. Germany will assume the EU Presidency January 1, simultaneous with the launch of the Euro. Eleven of the fifteen EU members, including Germany, will participate from the start. Germany's role in ensuring early stability of EMU and the continued liberalization of EU trade policy will be a crucial factor in our own efforts to keep momentum in transatlantic economic relations.

One of the EU's most pressing issues is enlargement. In December 1997 the EU endorsed 11 countries for future membership: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovenia, and in March began formal negotiations with six: Cyprus, the Czech Republic, Hungary, Estonia, Poland and Slovenia. EU enlargement complements many of the same goals for stability and reform that we have for NATO enlargement. But we are also seeking to ensure that the EU enlargement process does not disadvantage U.S. trade interests.

On the economic front, the United States and European Commission have been exploring an initiative to reduce trade barriers for a wide range of goods and services. Initial discussions revealed broad convergence of views, including reduction of regulatory and technical trade barriers, reduction of industrial tariffs, establishment of free trade in a broad range of services and inclusion of labor and environment mechanisms. France was strongly opposed to the original Leon Brittan initiative, succeeding on April 27 to bury it, while signaling readiness to consider a UK presidency proposal. Our goal for the May 18 U.S.-EU Summit is to issue a political statement laying out the

contours of an agreement and instructing trade officials to finish work to get a negotiating mandate.

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SUMMARY POINTS FOR
MEETING WITH HELMUT KOHL

- Speech later today, rest of visit to focus on future agenda, completing undivided, democratic Europe, strengthening Euro-Atlantic partnership for next century.
- Must end violence in Kosovo, impose tougher sanctions unless Belgrade complies. Must ensure "phased and orderly" return of refugees, especially of Kosovar Albanians to Serbia.
- Pleased with EU cooperation on Iranian WMD acquisition and terrorism as a win-win way to defuse ILSA, but need the most robust package possible to sustain any waiver with the Congress.
- Yeltsin's health troubling, but must engage to push reform. Appreciate your message to Boris on Russian WMD technology to Iran -- need to keep pressing.
- Vital that Kuchma move now on reform. Despite constraints, real risk of financial crisis if he does not act decisively.
- Need to reestablish EU-Turkey relations, key to managing Aegean/Greece-Turkey relations, open the door for progress on Cyprus. Although accession will be long process, Germany should foster EU strategy that does not single out Turkey.
- Next year's NATO summit will be major milestone in charting future course, adapting NATO to meet new challenges.
- Hope Germany will support New Transatlantic Marketplace Initiative; want to reach agreement at U.S.-EU summit.

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KBM 1/29/2020

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POINTS TO BE MADE FOR
MEETING AND LUNCH WITH CHANCELLOR KOHL

RESTRICTED MEETING

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PER E.O. 13526
2016-0142-M (1.06)
KBH 1/29/2020

Euro-Atlantic Agenda for 21st Century

- Need to begin a dialogue on roadmap for Transatlantic relationship for next century; landscape changing rapidly: NATO and EU enlargement, EMU, growing integration. Germany as lynchpin is one unchanging element.
- Look forward to working on this future agenda together. You laid groundwork with German unification and, with EMU, as Chancellor of European unification.
- Partnership should build on existing institutions (NATO, EU, and OSCE) but with renewed vitality, sense of purpose, and practical means to achieve concrete goals.
- Believe America and Europe need to strengthen our cooperation on new challenges of the 21st Century -- not just military threats, but problems from growing interdependence -- proliferation, terrorism, crime, drugs, environment.
- Looking to future, must also prepare successor generations. Know you share my commitment to youth exchanges. Want to announce strengthening of our side of Congress-Bundestag Youth Exchange Program and call for public-private partnership to sustain over coming years.

EU-Turkey and Cyprus

- Worried about downturn in EU-Turkish relations; Turkey's negative rhetoric does not help; made clear to Yilmaz last December that Turkey must do more to help itself with EU.
- But EU needs to do its part; Turkey needs pre-accession strategy as close as possible to other EU aspirants; does not mean Turkey will join the EU anytime soon.
- Re-establishing EU-Turkey relations on a more positive footing will bring great benefits: on Cyprus, chance for real

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Reason: 1.5(d)

Declassify on: 4/30/08

progress. Important for EU to avoid decision to admit a divided island.

- Progress on Cyprus will also lessen Greek-Turkish tensions -- another EU priority.
- Urge you to work within EU to reach out to Turkey; we will focus Ankara on what it needs to do.

WORKING LUNCH

Bosnia/Kosovo

- Need German support for efforts to end violence in Kosovo. Cycle of crackdown and protest leading to radicalization. Real Danger.
- Belgrade must face tougher sanctions unless it opens no-precondition dialogue with Kosovars and avoid violence.
- Also worried about some German states' stepped-up involuntary return of refugees to Kosovo and tense areas of Bosnia.
- Respect Germany's right to repatriate refugees who can go home, but SFOR can support only "phased and orderly" returns. Process must not jeopardize safety of refugees or SFOR.
- Especially acute in case of Kosovar Albanians to Serbia where situation is deteriorating rapidly.
- Working closely with Germany to help with burden; willing to admit at least 10,000 Bosnians from Germany this year.

Iran/ILSA

- Pleased with EU cooperation to counter efforts to develop and acquire WMD materials by Iran.
- Especially appreciate your efforts with Yeltsin.
- More could be done on non-proliferation and counterterrorism; economic measures, such as restrictions on export credits, would also be helpful.
- Hope FRG will take positive approach to useful package of measures UK Presidency is advancing. Need your support with other members as well.

- (If raised) Aware of Lufthansa's long wait for answer on license to fulfill contract with Iran Air. Complicated, sensitive political and legal issue but hope decision can be reached in near future.

Russia and Ukraine

- Watched Boris carefully as he put together new team. Impressed with young reformers. Any news on his health? Birmingham schedule will be tough.
- How do you see reform prospects? Top four in new government (Kiriyenko, 3 deputies) are reform-oriented but lack political base.
- Important we emphasize to Boris that his own political engagement key to success on reform issues that define his legacy: private land, a tax code, avoiding crony capitalism, getting Russia on a track of economic growth.
- Appreciate you reiterating message to Russia on stopping flow of WMD and missile technology to Iran. G-7 agree on this. Must continue to press hard.
- Share concern over slow pace of reform in Ukraine. Reform, and Kuchma's presidential chances, depend on ability to unite the center around economic strategy to encourage investment and growth.
- (If raised - need to be lenient on Kuchma) Understand constraints, but risk of financial crisis very real if Ukraine takes too soft a line. Ukraine needs comprehensive program with IMF.

NATO

- 1999 NATO Summit historic opportunity to chart strategic course of alliance into next century.
- Know Jacques has concerns about need for UN or OSCE mandate to authorize non-Article V missions such as peacekeeping. SFOR never would have been created.

- UN, OSCE mandate may be appropriate in some cases, but not in others. Understand your constitutional need for mandate when German forces go outside NATO area.
- Blanket requirement for alliance would tie our hands, give Security Council veto over NAC decisions. Could make NATO ineffective in crises.
- Must all send strong message that Open Door remains open. Also need to avoid controversy about future invitations, work closely over coming months to ensure right summit result.

EU Enlargement, EMU and New Transatlantic Marketplace

- Look forward to Germany's EU Presidency; Chairman of G-8 in 1999.
- Welcome EU enlargement and encourage accession of Central European and Baltic applicants. Hope U.S. business will be treated fairly.
- Continuing to review idea of a new U.S.-EU trade initiative. Recent U.S.-EU talks on New Transatlantic Marketplace Initiative (NTM) reveal broad agreement on what should be included, although sensitive sectors remain unresolved.
- Well-balanced NTM would benefit United States, German and other EU businesses and consumers. Aware France opposes and other members have reservations about certain aspects.
- Urge you to support NTM within EU so we can issue a statement of support at U.S.-EU summit.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
007. report	Biography (2 pages)	03/31/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [1]

2016-0142-M
kh1827

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]
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- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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)]

- b(1) National security classified information [(b)(1) of the FOIA]
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JOINT STATEMENT

**JOINT STATEMENT
TO BE PROVIDED**

**PRESS Q' S AND A' S
TO BE PROVIDED**

BERLIN SPEECH

SCENESETTER: SCHAUSPIELHAUS

You will deliver a major foreign policy address at the historic Schauspielhaus theater and conduct a short meeting with Opposition Leader Schroeder. The audience will include Chancellor Kohl and members of the German Parliament and the Berlin Senat.

Schauspielhaus. The neoclassical theater has dominated the Gendarmenmarkt Square throughout its 177-year history. The building was severely damaged in an April 1945 bombing campaign, and stood in ruins until reconstruction began in 1979, and was completed in 1984.

The original Schauspielhaus was built between 1818 and 1821. Designed by Prussia's most famous architect, Karl Friedrich Schinkel, it was the third theatre on this site. It opened its doors on May 26, 1821, with a production of Goethe's "Iphigenia on Tauris," and later on June 18, 1821, Carl Maria von Weber conducted the premiere of his opera "Die Freischuetz."

Gendarmenmarkt. The Schauspielhaus is the focal point of Gendarmenmarkt Square, which was developed from 1688 onwards by Frederick I and his successors. The square gained its familiar name from the stables belonging to the Cuirassier Regiment "Gens d'Armes" -- hence "Gendarmenmarkt." On either side of the theatre stand classic baroque Protestant cathedrals, one French and one German. The French cathedral was completed in 1705 and the German, in 1708. Frederick III, who had invited French Huguenots fleeing persecution to Berlin, had the French cathedral built as a visible and practical sign of the religious tolerance that existed in the Prussian capital.

**SPEECH
TO BE PROVIDED**

**MTG WITH OPP.
LEADER SCHROEDER**

BILATERAL MEETING WITH
SPD CHANCELLOR CANDIDATE
GERHARD SCHROEDER

DECLASSIFIED
PER E.O. 13526

2014-0142-M (1.02)
KBH 1/29/2020

KEY OBJECTIVES

- Get to know primary opposition candidate in the ongoing federal election.
- Draw Schroeder out on foreign and domestic policy issues.

CONTEXT OF MEETING

Gerhard Schroeder has the best chance of any individual in years of unseating the long-serving Helmut Kohl. He is over 20 points ahead in the polls and is running a highly effective campaign. At 54, he is seen by many Germans as a dynamic and forward-looking contrast to the 68 year old Kohl.

Schroeder is profiling himself as a centrist candidate with a focus on domestic issues. With an eye to Germany's 12.4 percent unemployment rate, he has centered his candidacy on the need for economic growth and job creation. Schroeder has attempted to highlight his similarities with Tony Blair and the dynamic approach of new Labor. However, while Schroeder is telegenic and not of the traditional Social Democratic Party (SPD) mold, he has yet to articulate a visionary platform and there has been no internal rethinking within the SPD to back him up.

Schroeder has traveled only infrequently to the United States; foreign policy is not his strong suit. He has said that foreign policy under an SPD-led government would largely mirror that of Chancellor Kohl's government.

AGENDA

Personal Background. Schroeder, a self-styled "middle of the road" social democrat, has emerged as the SPD's best hope to bring the party in out of the opposition wilderness. He joined the SPD in 1963, became head of the Young Socialists in 1976 and was elected to the Bundestag in 1980. Despite his long tenure in the party, he is not beloved by the more ideological party insiders.

Schroeder has been Minister-President of the state of Lower Saxony since 1990. As Minister-President, he has maintained good relations with his state's business community, receiving generally good marks for his pragmatic, non-interventionist approach to business issues. He is also the President of the Bundesrat, which in protocol terms, makes him the fourth ranking official in the country.

Domestic Policy. Schroeder's campaign to date has explicitly targeted voters in the "new center". He stresses the importance of broad social consensus and cooperation between business and work force, with government as the facilitator. Schroeder's campaign theme has been "modernization and social responsibility", combining free-market advocacy with structural economic reform to meet the challenges of globalization in the information age and the (traditionally socialist) goal of guaranteeing a decent standard of living for everyone.

Schroeder is nothing, however, if not a savvy politician with a good sense of the political winds. Just before the March 1 election, Lower Saxony bought out a steel company that was about to be sold to an Austrian firm in order to safeguard the jobs of the company's approximately 13,000 Lower Saxony workers.

Foreign Policy. Thus far, Schroeder has shown little interest in foreign or security policy. If anything, his view is Euro-centric. He has suggested that the Franco-German friendship -- the motor of European integration -- be broadened to make room for a larger British role. Schroeder and Tony Blair have met twice, discussing principally economic policy and lessons to be learned from new Labour. Schroeder and SPD Chairman Lafontaine have also met with French Prime Minister Jospin. With respect to European Monetary Union (EMU) and introduction of the Euro, Schroeder was initially skeptical, but hopped on the EMU bandwagon some months ago. In contrast to Kohl, however, Schroeder continues to call attention to possible economic repercussions of EMU and remains wary. Schroeder's only foreign travel since becoming SPD Chancellor candidate was to Israel.

Schroeder has told U.S. officials that he anticipates no significant change in U.S.-German relations should he win in September. His party's views on NATO and European security, he said, do not differ from those of the Kohl government.

Schroeder first visited the United States in 1981 on a USIS program. When he led a Lower Saxony trade delegation to the United States in June 1997, he was immensely impressed by the

dynamism and spirit of innovation in U.S. society and particularly in the U.S. economy. It was, however, his first trip to the United States in years. He speaks a little English but prefers an interpreter for meetings.

Coalition Options. Should Schroeder claim victory in the September 27 election, he would have several coalition options. He could opt to form a coalition with the Greens. In their March party convention, however, the Greens reiterated their stance on eventual abolition of NATO and called for an eco-tax that would raise the price of gasoline to the equivalent of \$11/gallon over ten years. Both moves met with scathing public criticism, including from Schroeder, who has made it clear that an SPD-Green coalition would be run solely on the SPD's terms. Other options include forming a "grand coalition" with Kohl's CDU (Kohl has said he would not head the party for a grand coalition); adopting the Free Democrats (in government for an astounding 29 years) as junior coalition partner; or forming a minority government with tolerance from other parties in the Bundestag (which Schroeder claims he will not do).

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SUMMARY POINTS FOR
MEETING WITH GERHARD SCHROEDER

- Congratulations on nomination; dynamic debate in election.
- Share many domestic problems/concerns. Your views on unemployment, job creation?
- Know EMU major focus. How do you see implementation?
- U.S.-German cooperation at the heart of transatlantic relationship. I intend to sustain that.

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PER E.O. 13526

2016-0142-M (1.09)

KBN 1/29/2020

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Reason: 1.5 (d)

Declassify on: 5/01/08

POINTS TO BE MADE FOR
MEETING WITH GERHARD SCHROEDER

- Congratulations on nomination as SPD Chancellor candidate; looks to be dynamic debate, healthy run.
- Germany and United States facing many similar issues on domestic front. Interested in hearing your views of way forward.
- How do you see unemployment, approach to job creation?
- Will visit eastern German city of Eisenach tomorrow. How do you see economic performance in new states, country-wide impact?
- Know EMU is dominant concern for many in Europe. What is your perspective on timing of introduction, stability of initial phases?
- Would also welcome your thoughts on European integration more broadly, ways to keep Euro-Atlantic link solid.
- U.S.-German bond has always transcended partners in both countries. Know that we will want to sustain that.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
011. report	Biography (2 pages)	03/02/1998	P1/b(1)

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**INFORMAL GREETING
WITH PRES. HERZOG**

INFORMAL GREETING WITH
FEDERAL PRESIDENT ROMAN HERZOG

DECLASSIFIED
PER E.O. 13526

2016-0142-M (1-12)
KBH 1/29/2020

KEY OBJECTIVES

- Reaffirm commitment to collaboration, bilateral partnership.
- Explore Herzog's views on adaptation of German social, economic structures to meet challenges of next century.
- Compare impressions from recent Africa trips.

CONTEXT OF MEETING

As head of state, Herzog stands above the political fray. Like his predecessors, he has successfully used his office as a bully pulpit to challenge Germans to confront the fundamental social and moral problems of the day. Herzog has publicly called his fellow citizens to task for inflexibility, risk avoidance and clinging to vested interests. Rather than dampening enthusiasm for his Presidency, his willingness to take on tough issues has caused his popularity to soar. Recurring themes in his speeches include strengthening the relationship between Germany and the United States and reforming socio-economic structures to prepare for the future. He has urged Germans to put aside their fears of globalization and concerns with the challenges of EU expansion. He has also made it clear that he will not run for re-election when his term expires in 1999.

AGENDA

Reaffirm U.S.-German ties. Post-war Germany has viewed its central role in the construction of Europe and its transatlantic link as the key priorities. Many Germans view our economic system as insufficiently compassionate to the disadvantaged, and our foreign policy as unilateralist, but they deeply value partnership with the United States and fear we might one day walk away from Europe. Germans also are increasingly dissatisfied with European rigidities and over-reliance on consensus building. They seek respect for their (still relatively new) sovereignty and assurances that America will lead without dictating.

Reforms for the next century. Unchallenged as Europe's economic powerhouse, Germany nevertheless faces a postwar high in its unemployment rate (12.4 percent) and desperately needs to create

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jobs, especially in the former East Germany (where unemployment regionally is over 20 percent). The transformation in the East from socialism to a globalized market economy has been more difficult than most foresaw. The challenges in the West are also great; Germany's labor markets, pensions, and state financing are designed for an industrial economy, not a post-industrial service economy, and there is resistance in the labor market to moving into service sector jobs.

Exchange views on Africa. Herzog visited South Africa and Namibia in early March. The South Africa portion was considered one of the most successful of his sixty overseas journeys as President. Many of the themes he voiced there complement those of the U.S. "Partnership with Africa," including promoting trade and investment, supporting open societies, and seizing the opportunities ushered in by the end of the bipolar world. His visit to Namibia was marred by controversy over the continued use of German language instruction (and the associated legacy of German colonialism there) but was also well received. Germany, a major investor in Nigeria, is one of the key countries we would like to have join a multilateral coalition to pressure the government of Nigeria to put the transition process back on a democratic track. It would be useful to raise our concerns about the failing transition.

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SUMMARY POINTS FOR
INFORMAL GREETING WITH ROMAN HERZOG

- As told you last summer, deeply committed to people-people links between our two countries. Strengthened youth exchange particularly important.
- You have challenged German people to change society, meet new realities, find ways of thinking to prepare for future. Believe essential, tried to do same with my race initiative, approach to millennium.
- Know you also visited Africa recently. Convinced more multinational cooperation necessary to improve situation.

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POINTS TO BE MADE FOR
MEETING WITH FEDERAL PRESIDENT ROMAN HERZOG

German-American Relationship

- Understand Germans grappling with new questions -- about place in Europe/world, own personal futures. Americans, too, struggling with this.
- Committed to increasing people-to-people ties. Appreciate constancy (\$3.6 million per year) of German support for Congress-Bundestag Exchange Program. Asking Congress for increase in funding to \$2.8 million in FY 2000, and continue steady at this level to permit program to reach optimal level of 400 participants on each side.
- Know of your interest in young people and patronage of Concordia Language Villages in Minnesota, where Chelsea learned German.
- Such initiatives, together with the Aspen Institute Berlin and the American Academy, are vital elements of relations between our societies.

German Reforms for the Next Century

- You have called on German people to be more flexible; prepare for 21st century through lifelong training. Honest, tough messages. Getting reactions you hoped for?

Africa

- Understand you recently visited Africa. During recent trip, I announced initiatives, on trade promotion and investment, reduction of preventable diseases, debt relief, strengthening African peacekeeping capacity and promoting women's rights. How will Germany engage with Africa in future; what can we do together?
- Concerned Nigerian transition is gravely flawed and on road to failure. Also concerned about due process as regards to recent death sentences and long prison terms handed down to military and civilian personnel. Hope international community can collectively press Nigerian government to put program back on track.

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- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

**DINNER HOSTED
BY PRES. HERZOG**

SCENESETTER: ADLON HOTEL DINNER

You will be the guest of German Federal President Roman Herzog at a May 13 state dinner at the Adlon Hotel. The approximately 250 guests are being invited by the German side. There will be a receiving line, after which you will be seated between President Herzog and Chancellor Kohl. After dinner, you will move to an adjacent wintergarden to view fireworks over the Brandenburg Gate.

The Adlon Hotel

The Hotel Adlon was first built in 1907 to provide lodging for the guests of Kaiser Wilhelm II. It was the last of the grand hotels operating in Berlin until the end of WWII when it was destroyed by fire. Guests included many American notables such as J.P. Morgan, Randolph Hearst, Presidents Taft and Teddy Roosevelt, and others such as Einstein and Charlie Chaplin.

Situated within minutes of the Reichstag, the Adlon was a favorite haunt of the Gestapo, and Goebbels' Ministry of Propaganda used it for regular international press briefings. Nazi sympathizer Charles Lindbergh was a guest as was Soviet Foreign Minister Molotov. Eva Braun was resident there before moving to Hitler's bunker.

The original hotel building was burned in the last days of World War II. The new Adlon was rebuilt after unification and opened in 1997, and is now considered one of the most elegant hotels in Germany.

**TOAST
TO BE PROVIDED**

**BERLIN AIRLIFT
EVENT**

SCENESETTER: TEMPELHOF

Tempelhof airport will be the site of your remarks commemorating the Berlin airlift, followed by a brief ceremony to name a USAF C-17 transport aircraft as "The Spirit of Berlin." The audience of 8,000 will include students from the John F. Kennedy High School, members of German-American organizations and Germans who benefited from the Airlift as well as U.S. Air Force personnel from Ramstein.

Background: Tempelhof was the main operating base for the USAF during the Berlin Airlift in 1948-49 and is the site of the Berlin Airlift Monument. The Wright brothers used the area to demonstrate their aircraft in 1908, and Tempelhof became Berlin's main civilian airport in 1923 and remained so until 1974, when the larger Tegel airport was opened.

The Berlin Blockade. As the Iron Curtain descended in Europe, the Soviet Union became an increasingly uncooperative partner in the joint administration of occupied Berlin. The Western powers initiated a currency reform on June 20, 1948 to which the Soviets responded by banning all travel to and from their occupation zone. On June 24, they blocked off land and sea routes of communication to the United States, UK, and French sectors of Berlin. The Allies responded with the Berlin Airlift, which operated from June 25, 1948 to September 30, 1949. During this period the Allies flew 278,228 flights into Berlin -- 68 percent of which were American -- with over 1.8 million tons of food, fuel and medical supplies. Australian, New Zealand and South African crews complemented the British effort. At the peak, aircraft were landing every 90 seconds, day and night, with a turnaround time of six minutes.

The primary USAF aircraft used in the Airlift was the C-54. When then-1st Lieutenant Gail Halvorsen started the practice of dropping candy with handkerchief parachutes to the children watching the landings, the aircraft quickly gained the nickname of Rosinenbomber (candy bombers). This aircraft is pictured on a U.S. Postal stamp to be issued in Berlin on June 26, 1998.

The Monument to the Berlin Airlift. The Monument at Tempelhof was built in 1951, with a duplicate at the other end of the "air-bridge" at Rhein-Main air base in Frankfurt. It has a plaque honoring the 31 Americans, 39 British and 9 German civilians who lost their lives during the Airlift. The three prongs symbolize the three Western Allies -- the United States, United Kingdom and France -- and the three air corridors used to supply the city.

**REMARKS
TO BE PROVIDED**

**GENERAL MOTORS
OPEL PLANT**

SCENESETTER: OPEL EISENACH

Your tour of the Opel plant will include a visit to the assembly line and roundtable discussion with plant workers and managers in an outdoor tent.

Overview. General Motors opened its Opel Eisenach facility in 1992. A key U.S. investment of over \$600 million in an area of the former East Germany with unemployment over 20 percent, this plant has created over 2,000 jobs. Outstanding quality of workmanship and extremely high productivity have been the hallmarks of the Eisenach operation, all the more remarkable given the extreme inefficiency of former GDR industrial complexes. In 1995, the Eisenach facility was recognized as the most productive auto plant in Europe. Personnel in Eisenach routinely complete production in less than 60 percent of the time it takes other European auto manufacturers to perform the same work. Opel Eisenach produced 166,000 cars in 1997, and has a target of 176,000 for 1998.

Innovation. In the east German state of Thuringia, Opel has for the first time realized lean-production methodology in all assembly areas. Many of these production techniques are adapted from Japanese practices, now widely used in the United States. One key to Opel Eisenach's success is its "just-in-time" delivery strategy, which obviates the warehousing of component parts, instead bringing them on-site only when needed. Teamwork is also essential. Standard operating procedures are written by the assembly teams, who are not only responsible for the outcome but also empowered to decide how to get there. Every worker is responsible for quality control, and anyone on the team can stop production if he believes quality or safety objectives are not being met. Opel rewards its employees with bonuses based on their degree of flexibility (a novel concept in Germany) and also encourages employee suggestions with an awards program. To underscore the importance of each employee to the company's overall goals, everyone -- from the CEO to the assembly-worker -- wears the same uniform, eats in the same cafeteria and parks in the same lot.

Training. As a result of these innovations, Opel Eisenach is used as a worldwide training facility for employees from the Americas to Southeast Asia. While a portion of the training involves classroom instruction, the majority of time is spent observing Eisenach's innovative management and production principles in action on the assembly floor.

**ROUNDTABLE
DISCUSSION**

ROUNDTABLE AT OPEL EISENACH

Key Objectives

- Show support for U.S. investors, companies and products in Germany.
- Highlight the role played by U.S. companies in rebuilding the shattered economy of the former East Germany.
- Stress the active role that ordinary people play in the transformation of German and Europe to meet a new, modern era.

Context

The United States is the largest foreign investor in the former East Germany. In a win-win situation for Americans seeking to develop emerging markets and for Germans looking for productive employment, U.S. companies have invested over 7.26 billion dollars in the region. General Motors was one of the first investors to offer eastern Germans secure jobs after the collapse of the East's outdated, inefficient and environmentally-disastrous industries pushed unemployment over twenty percent. General Motors opened the Opel facility in 1992, investing more than 500 million dollars. The plant now provides over 2,000 jobs and produced 166,000 cars in 1997.

Opel Eisenach is a model of a successful transformation from a make-work command economy into a competitive, increasingly global market economy. This plant used to produce the Trabant or "Trabi," the car widely seen as a symbol of communist East Germany and the object of many derisive jokes.

Opel is a 100-percent owned subsidiary of General Motors. It contributes to General Motors' profits by increasing the company's presence in the central European market. The cars are not built for the American market and Opel's primary competitor is Volkswagen.

Watch Out For

Auto manufacturing has occurred in Eisenach since the late 1920's, primarily under the ownership of BMW. During WWII, the two BMW plants in Eisenach contributed to the German war effort through the production of aircraft engines as well as cars. These BMW plants also used prison labor from Buchenwald and

other camps. One of these plants was completely destroyed by the Russians in 1945, the other is a ruin, with only the gate and a few empty warehouses remaining.

There is no connection -- physical or historical -- between the GM/Opel site and the wartime BMW plants in Eisenach. The GM/Opel site was an unoccupied field until 1980, when East Germany's state-owned AWE (Automobile Werk Eisenach) built a factory hall. After reunification in 1989-90, GM/Opel formed a joint venture with AWE to obtain the factory hall and surrounding land. GM/Opel built a new plant on the site, which began production in 1992. No building in the plant pre-dates 1980.

**REMARKS TO PEOPLE
OF EISENACH**

SCENESETTER: REMARKS TO THE PEOPLE OF EISENACH

You will deliver remarks to the people of Eisenach in the market square. Following your remarks, you have the option to visit Bach's childhood home. You will also have a group photo with the students participating in the German-American Youth Parliamentary Exchange Program.

Background. This town of 45,000 (large by German standards) lies 20 miles from the former inter-German border, in the so-called "Fulda Gap," which was the front line of the Cold War and the focus of Allied military strategy to counter a Soviet invasion from the east. Today a huge expressway bridge spans the former "no man's land" and has become a major artery connecting the West to Leipzig, Dresden, Krakow and Moscow, effectively ending Eisenach's isolation.

Marktplatz. The historic Market Square is bordered by the 17th-century Town Hall (Rathaus), the Rococo City Castle (Stadtschloss) and the Church of St. George, originally built in the late 12th century, but remodeled several times since. Luther preached there in 1521, and the church was the focal point of Eisenach's candle-lit demonstrations during the "peaceful revolution" of 1989. Inside the town hall hangs a quilt sewn and presented to the City of Eisenach by the women of Waverly, Iowa, Eisenach's sister-city. The facade of the Town Hall bears the original marker used to measure cloth sold in the Market Square in the 17th century.

Bachhaus. The composer Johann Sebastian Bach spent the first ten years of his life in Eisenach, and his house has been a museum since 1907. Although the roof was destroyed by Allied bombing in World War II, one of the first acts of the American liberators was to grant permission for its repair. The main room of the ground floor of the house is devoted to the museum's priceless musical instrument collection, including a number of keyboard instruments owned and played by Bach.

**REMARKS
TO BE PROVIDED**

WARTBURG CASTLE

SCENESETTER: WARTBURG CASTLE

Following your remarks in Market Square, you will be hosted by Helmut Kohl for a brief tour of the Wartburg Castle, one of the most important historical sites in Germany.

Background. The Wartburg Castle, perched on a rock 1200 feet above the town of Eisenach, dates from 1067. During the Middle Ages, the castle served as an important cultural center for the rulers of Thuringia. The famous minstrel contest, held here in 1207, was the subject of Richard Wagner's opera "Tannhaeuser," which the composer began while staying at the Wartburg.

The Wartburg is closely associated with Martin Luther, who spent nearly a year in hiding there from 1521 to 1522, during which time he translated the New Testament from Greek into German. His translation is the foundation of the modern German language. Luther is rumored to have thrown an inkpot at the wall when he saw a vision of the devil; the ink stain has long since been scraped away by souvenir-mongers.

In 1817, the Wartburg was a rallying point for those seeking a free and democratic German nation. The Wartburg Festival was the first national meeting of German student societies, which led to the revolution of 1848 in Germany.

Architecture and Decoration. The Wartburg Castle is the best preserved Romanesque secular building north of the Alps. Most of its original decoration has vanished over the centuries, but frescoes are visible in the chapel, and a number of original carved capitals remain. "Medievalized" in the 19th century, extensive frescoes were added by the German artist Moritz von Schwind.

UNITED KINGDOM

**MTG WITH
PM HASHIMOTO**

MEETING WITH PRIME MINISTER
RYUTARO HASHIMOTO

DECLASSIFIED
PER E.O. 13526

2016-0142-m (1-16)
KBN 1/29/2020

KEY OBJECTIVES

- **Economic Issues.** Welcome Hashimoto's recent stimulus package. Note that economic recovery requires further deregulation, banking reform and continued macroeconomic management. Review results of our deregulation dialogue and welcome the conclusion of our aviation agreement.
- **Security Issues.** Thank Hashimoto for his hard work on implementing the Defense Guidelines and reaffirm our close cooperation on Okinawa issues.
- **Regional Issues.** Reassure Hashimoto our improving relations with China will not displace Japan's central role in our Asia policy. Review Hashimoto's efforts to improve relations with Moscow and the situation on the Korean Peninsula.
- **Invitation to Washington.** Invite Hashimoto to pay an official visit (Oval Office meeting, state dinner) to Washington in the fall; agree to immediate announcement of your invitation.

CONTEXT OF MEETING

Since your last meeting in Vancouver, Hashimoto has been plagued by criticism of his economic policies and accusations he has allowed Japan to be displaced by China in U.S. strategic policy. His personal approval ratings have plummeted to the low 20's. Through this meeting, Hashimoto wants to demonstrate to the Japanese press and public in advance of the July Diet Upper House election that he enjoys your confidence and continues to consult closely with you on important bilateral and regional issues. The Japanese, and Hashimoto, are anxious about the U.S.-Japan relationship, feeling that nothing they do on the economic front satisfies us and that they are being displaced by China as the centerpiece of our Asia strategy. This obviously is compounded by their own economic and political problems. Hashimoto seeks your approval of his efforts to stimulate Japan's economy and steadily implement practical aspects of our defense cooperation.

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ECONOMIC ISSUES

Reinvigorating the economy. Japan is in the throes of its worst economic downturn in a quarter century. Business and consumer confidence this year have hit their lowest levels since the bursting of the equity and land value bubble in the early 1990's. Hashimoto's tight fiscal policy choked an economy already beset by serious banking system problems and structural rigidities. The Asia financial crisis, of which they are part victim and cause, further reduced growth. Domestic and foreign pressure to change course prompted Hashimoto to announce a series of fiscal and deregulation policy initiatives since last Fall, none of which restored consumer or market confidence. We, our G-7 partners, several Asian countries and a growing portion of the Japanese polity called for additional fiscal stimulus.

Facing recession, Hashimoto announced on April 24 a stimulus package which includes 12 trillion yen (2.4 percent of GDP) in "real water" -- that is, new and meaningful stimulus, including ¥4 trillion (\$31 billion) in temporary, not permanent, tax cuts. He also proposed extending by two years (to FY 2005) the target year for meeting final deficit reduction goals. This announcement was unquestionably a positive and politically difficult step. However, market analysts and your economic advisers are skeptical that it will produce a decisive upturn in Japan's economy. If implemented quickly and effectively, it should help avoid a more serious decline.

You should welcome the package, acknowledge the political risk Hashimoto has taken, encourage early and full implementation and suggest that a return to fiscal consolidation over the longer term must be done gradually and only after resumption of satisfactory growth. You should also indicate that further actions are needed, particularly with respect to strengthening the financial system and opening and deregulating its market, to provide a long-term basis for domestic demand led growth.

Deregulation. Fundamental structural reforms, including strengthening of the banking system and deregulation and market opening, must accompany fiscal stimulus if Japan's economy is to flourish over the medium and longer terms. Japan's March deregulation action plan (covering over 600 measures), the April "big bang" financial sector reforms and other related steps are welcome moves toward opening the economy, but much more is needed. The deregulation dialogue you inaugurated with Hashimoto in Denver has examined several industry sectors (housing, financial services, telecommunications, medical

devices and pharmaceuticals) and structural areas (distribution, transparency, legal services and competition policy). Some progress has been made. We are pressing for more by Birmingham. The report to you and the Prime Minister summarizes areas of progress and calls for continuation of the dialogue, which you will want to endorse.

Civil Aviation Agreement. The four-year civil aviation agreement concluded in January is a tremendous win-win deal: it will dramatically increase air service, expanding a \$10 billion market that carries nearly 12 million passengers and 1 billion pounds of cargo each year. It will allow more U.S. cities to have direct service to Japan, and give U.S. airlines extensive new rights to fly into and beyond Japan. It will allow airlines of both countries to form code-sharing alliances (e.g., American-JAL, United-ANA, N.W.-Continental). The agreement will produce greater competition, more choices and lower prices. You should thank Hashimoto for his personal efforts to help resolve this issue which has been an irritant in our relations for nearly five years.

SECURITY ISSUES

Defense Guidelines Review. The new Guidelines for U.S.-Japan Defense Cooperation, issued in September 1997, provide for enhanced cooperation between our forces during peacetime, in regional contingencies and in the defense of Japan. Through Hashimoto's personal involvement, a package of domestic legislation needed for Japan to meet its Guidelines commitments has been introduced to the Diet. While Madeleine recently was in Tokyo, she signed an amendment to our Acquisition and Cross Servicing Agreement (ACSA) expanding our reciprocal logistical support commitment to cover responses to regional military contingencies. You should thank Hashimoto for his leadership and underscore the importance we attach to full implementation of the Guidelines, which are the underpinning for our continued ability to maintain our forward-deployed forces and respond to regional crises.

Okinawa Base Issues. In the Special Action Committee on Okinawa (SACO) report, both governments agreed to reduce the burden U.S. forces place on the people of Okinawa. We agreed to adjust our operational and administrative procedures and to return approximately twenty-one percent of the land used by U.S. forces. Local opposition to the relocation of Futenma Marine Corps Air Station and to the construction of an offshore heliport has complicated our and Hashimoto's ability to follow

through on the SACO recommendations. Hashimoto wants your assurance of our continued willingness to treat Okinawa issues with sensitivity.

REGIONAL ISSUES

China. Japan-China relations are improving rapidly after a troubled period in 1996, but that has not eliminated Japanese concerns that we are "by-passing" Tokyo to embrace Beijing. Hashimoto will appreciate a full discussion of our policy toward China, Japan's most important economic partner after the United States and a strategic rival. Japanese officials are concerned by the appearance of not visiting Tokyo as part of your China trip. To counteract the appearance problem, you will want to offer to send a senior official to brief Hashimoto on the results of the June summit and to invite Hashimoto to pay an official visit to Washington sometime in the fall to showcase the continuing strength of our relations. (You should mention this publicly in the pool spray if Hashimoto agrees.)

Russia. Last year, Hashimoto announced he would try to spur cooperation with Russia through a policy based on "trust, mutual benefit, and a long-term perspective." The new approach would focus on improving economic cooperation to create a political environment conducive to settling the Northern Territories dispute. Hashimoto and Yeltsin met in Krasnoyarsk, Siberia last November and held a second, informal "no necktie" summit April 18-19 at the Kawana seaside resort in Japan. Hashimoto wants to brief you on the results of his meetings.

Korean Peninsula. Japan views North Korea as its most immediate short-term security threat and is concerned by North Korea's missile program, suspected DPRK stockpiling of chemical weapons and the longer-term consequences for Japan should North Korea implode or launch a last desperate act. Hashimoto will appreciate an assessment of the North Korean situation and the status of the four-party talks.

The second round of four-party talks ended inconclusively in Geneva in March, followed a few weeks later by an equally inconclusive, but mildly encouraging week-long meeting between the North and South in Beijing. To date, our pledge of 200,000 tons of food aid and South Korea's pledge of 50,000 tons are the only contributions to the WFP's appeal for 650,000 tons of food for North Korea. We will accelerate our deliveries to meet the most critical period of need. Japan is withholding any donation until bilateral progress is made in its relations with North

Korea. You should encourage Hashimoto to respond to the WFP appeal on a humanitarian basis.

Although Japan has confirmed its \$1 billion pledge for KEDO's light water reactor project, it has refused to help us pay off KEDO's heavy fuel oil (HFO) debt. We want Tokyo to convert a \$19 million collateral fund that it provided to KEDO into an outright grant for debt relief. Along with the U.S. and EU contributions, this Japanese action will allow KEDO to meet its HFO commitments to North Korea this year. (North Korea has already suspended spent fuel clean up operations to protest delays in HFO deliveries.) Attempts by Madeleine and Tom Pickering have been unsuccessful. You will want to stress that KEDO faces a funding crisis that Japan can help address in our common security interests.

POOL SPRAY POINTS
WITH PRIME MINISTER HASHIMOTO OF JAPAN

- Overall U.S.-Japan relationship is very close; Security relationship best ever.
- Prime Minister a close friend; value his views and advice.
 - Hope Prime Minister Hashimoto will be able to visit Washington later this year.
- Expect to discuss Asia financial crisis and Prime Minister's efforts to stimulate Japan's economy.
 - The substantial stimulus package the Prime Minister announced in April is very positive. It will be important to put these measures into place quickly and effectively.
- Want to consult on developing relations between Russia and Japan and U.S. and China.

SUMMARY POINTS FOR MEETING WITH
PRIME MINISTER HASHIMOTO OF JAPAN

ECONOMIC ISSUES

- Welcome and appreciate your important steps to stimulate Japan's economy. Took courage. Healthy domestic demand in Japan is critical to Asia's recovery and avoiding protectionism in United States.
- Important to put these measures into place quickly and effectively; need to move forward to strengthen Japan's financial system and to open and deregulate Japan's economy.

SECURITY ISSUES

- Pleased with the current healthy state of security relationship; appreciate hard work to implement Guidelines.
- Recognize political difficulties in Okinawa. Need to work closely for successful resolution of Futenma relocation issue.

REGIONAL ISSUES

China

- Trip an opportunity to accelerate China's movement toward acceptance of international standards. This will benefit both Japan and the U.S. as well as the Asia-Pacific region. Hope to get China to update commitments on nonproliferation and move further toward international mainstream on human rights.
- Not clear whether political will exists in Beijing to conclude WTO accession package on market access before June summit.
- Will send someone from my Administration to Tokyo to brief you when visit concludes.

Japan-Russia

- Interested in your efforts to improve Japan-Russia relations. Understand that you might visit Moscow in September.

Korean Peninsula

- The situation in North Korea remains bleak; food shortage is serious, but international relief making a difference. KEDO in financial crisis; must appeal to you directly.

INVITATION TO VISIT WASHINGTON

- Would like to invite you to visit Washington this Fall; U.S.-Japan relationship extremely important; want to showcase the closeness of our relationship.

POINTS TO BE MADE WITH
PRIME MINISTER HASHIMOTO OF JAPAN

ECONOMIC ISSUES

- Welcome the important and courageous steps you have taken to stimulate Japan's economy. Hope these produce results we both seek and that you will consider additional measures as needed.
- Healthy domestic demand in Japan critical to Asia's recovery and to avoiding protectionist pressures in the United States.
- Know that you will want to put these measures into place quickly and effectively; take actions to further strengthen Japan's financial system and to open and deregulate Japan's economy to establish a sound basis for long-lasting domestic demand-led growth.
- Appreciate your plan to deregulate economy. Have made substantial progress in the deregulation dialogue you and I announced last year in Denver. Steps agreed to will lower prices, increase choice, spur innovation and broaden market access. We should continue our work.
- Appreciate Japan's contributions to Asian countries affected by financial crisis. Your leadership in persuading President Soeharto to implement IMF program very helpful.
- Grateful for your support in concluding the historic civil aviation agreement earlier this year -- will benefit industries and consumers in both our countries.

SECURITY ISSUES

- Pleased with the current healthy state of security relationship. Sound U.S.-Japan security relationship vital to peace and stability of Asia-Pacific region.
- Appreciate hard work to implement Defense Guidelines and your leadership in crafting package of Guidelines legislation. New Acquisition and Cross Servicing Agreement, provides flexibility to respond to contingencies.

- Recognize political difficulties in Okinawa. Need to work together closely for successful resolution of Futenma relocation issue, which is crucial to security relationship.

REGIONAL ISSUES

China

- Want to continue to consult closely as we both improve relations with China. No mistake: U.S.-Japan relationship cornerstone of our ties to Asia. But both have opportunity to accelerate China's movement toward acceptance of international standards in nonproliferation, trade, human rights and energy/environment.
- Appreciate your work on parallel track, as our closet ally in Asia, to influence new leadership in Beijing in this direction. Vital to our mutual long-term interests and stability of Asia-Pacific region.
- For June summit hope to get China to update commitments on nonproliferation, and move further toward international mainstream on human rights. Not clear yet whether will exist to conclude WTO accession package on market access before June summit. Vice President is leading effort to expand cooperation on Energy and Environment.
- Would appreciate your views on Jiang's objectives and personal agenda. Zhu Rongji has impressed us. Needs to guide Chinese economy through tough challenges; wants our support.
- Trip will give Americans good look at contemporary China. Americans must better understand China, including picture of citizens' lives in village. Hope also to give Chinese an impression of Americans' hopes and ideals.

Japan-Russia

- Interested in your efforts to improve Japan-Russia relations, especially after your second informal meeting with Yeltsin last month. Japan can influence the Russian reform process. Also, let's encourage an active Russian role in APEC.
- Understand you might visit Moscow in the Fall and Yeltsin could make visit to Japan early in 1999.

Korean Peninsula

- In dealing with North Korea, important we and South Korea show leadership and solidarity in our policies.

Conditions in North Korea

- Situation in North Korea still bleak. Economy in a tailspin since 1990 and has nearly ground to a halt. Interested if you have similar views.
- Kim Jong-il appears in firm control -- albeit relying on the military -- but has yet to assume the title of head of state and to meet others, including the Chinese.
- Past year, international relief efforts have made a difference; children appear healthier. However, food shortage still serious; international response to this year's World Food Program appeal inadequate; hope Japan will contribute. This is a humanitarian issue, but could also become a security issue for the region.

Korean Peninsula Energy Development Organization (KEDO)

- Despite best efforts, KEDO is in financial crisis. Absent new money, we will be unable to provide much more than 20 percent of promised heavy fuel oil (HFO) deliveries in 1998. Compounding this, LWR project slower than North expected.
- Failure to fund KEDO could precipitate a new nuclear crisis. North Korea has already halted cleanup operations at nuclear reactor.
- Must appeal to you directly: preserving KEDO is a part of our joint security effort. I ask that Japan make a contribution to heavy fuel oil funding this year. (If pressed for an amount: ask you to consider converting your \$19 million KEDO loan to a grant.)

North-South Talks and Four-Party Talks

- Strongly support President Kim Dae-jung and his efforts at direct North-South dialogue. Recent Beijing talks ended without concrete results, but direct contact is encouraging.

- Believe Four-Party process and North-South dialogue are complementary.

Invitation to Visit Washington

- Would like to invite you to visit Washington this Fall; U.S.-Japan relationship extremely important; want to showcase it.
- If you agree, think it important we announce your visit as soon as possible, but certainly before my trip to China.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
019. report	Biography (2 pages)	04/15/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [1]

2016-0142-M
kh1827

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]
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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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MIR MARKER

This is not a textual record. This is used as an administrative marker by the Clinton Presidential Library Staff.

Folder Title: The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]				
Staff Office-Individual: Executive Secretary				
Original OA/ID Number: 2588				
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Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	Meeting with French President Jacques Chirac (4 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
002. talking points	Summary Points for Meeting with Jacques Chirac (1 page)	05/00/1998	P1/b(1) KBH 4/30/2020
003. talking points	Points to be Made for Meeting with French President Chirac (5 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
004. report	Biography (2 pages)	04/23/1998	P1/b(1)
005. paper	Meeting with Russian President Yeltsin (4 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
006. talking points	Summary Points for Meeting with Russian President Yeltsin (1 page)	05/00/1998	P1/b(1) KBH 4/30/2020
007. talking points	Points to be Made for Meeting with Russian President Yeltsin (5 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
008. report	Biography (2 pages)	04/24/1998	P1/b(1)
009. paper	U.S.-EU Summit (4 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
010. talking points	Summary Points for U.S.-EU Summit (1 page)	05/00/1998	P1/b(1) KBH 4/30/2020
011. talking points	Talking Points to be Made for U.S.-EU Summit (4 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
012. report	Biography (2 pages)	04/15/1998	P1/b(1)

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013. report	Biography (2 pages)	04/13/1998	P1/b(1)
014. report	Biography (2 pages)	03/06/1998	P1/b(1)
015. report	Biography (2 pages)	04/23/1998	P1/b(1)
016. report	Biography (2 pages)	04/27/1998	P1/b(1)
017. report	Biography (2 pages)	04/23/1998	P1/b(1)
018. report	Biography (1 page)	04/21/1998	P1/b(1)
019. report	Biography (1 page)	04/07/1998	P1/b(1)
020. report	Biography (2 pages)	04/28/1998	P1/b(1)
021. report	Biography (1 page)	04/21/1998	P1/b(1)
022. report	Biography (1 page)	04/17/1998	P1/b(1)
023. report	Biography (1 page)	04/21/1998	P1/b(1)
024. report	Biography (1 page)	04/10/1998	P1/b(1)
025. report	Biography (2 pages)	04/14/1998	P1/b(1)

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
026. report	Biography (2 pages)	01/09/1998	P1/b(1)
027. report	Biography (2 pages)	04/14/1998	P1/b(1)
028. report	Biography (2 pages)	11/21/1997	P1/b(1)
029. report	Biography (2 pages)	11/21/1997	P1/b(1)
030. report	Biography (1 page)	11/19/1997	P1/b(1)
031. report	Biography (1 page)	01/07/1998	P1/b(1)
032. report	Biography (2 pages)	11/24/1997	P1/b(1)
033. report	Biography (2 pages)	09/29/1997	P1/b(1)

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**LUNCH WITH
PRESIDENT CHIRAC**

MEETING WITH
FRENCH PRESIDENT JACQUES CHIRAC

KEY OBJECTIVES

- Engage Chirac on closer cooperation in Africa.
- Urge French agreement to proposed U.S.-EU trade initiative.
- Launch dialogue on 1999 NATO summit, stress need for NATO to address new challenges, defend common interests.
- Enlist Chirac's support for a cooperative resolution of our ILSA dispute.
- Probe Chirac's thinking on the next steps in Kosovo.
- Brief him on our Middle East peace process approach.

CONTEXT OF MEETING

This is your first meeting with Chirac since Denver in June 1997. He places great importance on his personal friendship with you and will want assurances that your relationship has not been strained by our policy differences. He is eager to follow-up recent conversations by Madeleine, Sandy and others with their French counterparts, in which we have conveyed our disappointment over the failure to lift our relationship out of a cycle of dissatisfaction and public recriminations. We have stressed the need for an intensified dialogue and a concerted effort across our substantive agenda. Though the French have played down current strains, they recognize a more collaborative approach is necessary. Chirac is likely to raise this with you and to use this meeting to show that your personal link can transcend our policy disputes.

AGENDA

Africa. When you spoke to Chirac by telephone during the Africa trip, you both agreed that Africa should feature prominently in this meeting. The French were pleased with your trip and Chirac and others publicly praised it. They welcome closer cooperation with us in Africa. Chirac is particularly interested in working together on fighting AIDS and malaria. But we still have differences on several issues, particularly on the degree to

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which assistance, debt relief, and trade benefits should be tied to reform efforts. Coordination of efforts to enhance African crisis response capabilities -- our Africa Crisis Response Initiative and France's Reinforcement des Capacities Africaines de Maintien de la Paix, or RECAMP -- is going well. The French welcomed our decision to support a UN peacekeeping operation in the Central African Republic.

The French strongly support debt relief for African countries, but they argue that since some of the poorest countries are also those with the worst reform records, keeping the criteria for debt relief eligibility too tight will push these countries even deeper into poverty. We would like to see them support jargon aid for the Least Developed Countries (LLDCs), and we need to signal to them that we support the "principle" of untying aid to the LLDCs because it promotes stakeholder involvement in aid programs and procurement regimes. Chirac also may seek your support for setting up a therapeutic fund for AIDS to facilitate access in the developing world, including Africa, to the most recent antiviral HIV treatments. We support the French goals but would prefer to work through existing programs, such as UNAIDS.

You should discuss the need for movement toward democracy in Nigeria and elsewhere, in the context of the discussion you will lead on Africa at the Birmingham Summit. We will also want to work together with the French at the Summit to promote greater African integration into the global economy through market-based trade and investment and technical assistance.

U.S.-EU Trade Initiative. France's reaction to Leon Brittan's proposal for a new U.S.-EU trade initiative was brutally negative, without any forewarning to us. Chirac himself spoke out publicly against it March 12 and April 16, threatening to invoke a French "national interests" veto in the EU. The French have since then sought to assure us they do not oppose improving transatlantic trade relations but reject what they saw as Brittan's self-serving tactics in launching this. At the same time, they also have asserted that a new U.S.-EU trade initiative would conflict with multilateral trade liberalization efforts in the WTO. Additionally, the French have explicitly linked resolution of our sanctions legislation disputes (ILSA, Helms-Burton) to the start of trade talks. An April 27 EU Council effectively buried Brittan's proposal and directed the UK presidency to develop a new one. Your objective with Chirac is to secure his support for issuing a positive political statement at the U.S.-EU Summit that builds momentum for an

initiative and lays out the contours of agreement so we can begin negotiations in the near future.

NATO Strategic Concept. France is one of our most globally active allies, but is reserved about using NATO beyond defense of members' territory. The French have also argued that any future non-Article V missions, such as peacekeeping, should only be performed under a UN or OSCE mandate. (Unlikely SFOR would have been created under this regime.) Their objective is principally to prevent NATO from defining its own missions. They also continue to focus on the need to "rebalance" the transatlantic relationship with a bigger voice for Europe. As a result, we anticipate that agreeing on a new Strategic Concept for NATO will be a major challenge in the lead-up to next year's NATO summit in Washington.

You should engage Chirac on the need to prepare NATO to play an appropriate role for the new challenges of WMD proliferation, regional instability and rogue states, stressing the importance of boosting NATO's flexibility. You should explain that we cannot accept a blanket requirement for a UN or OSCE mandate for NATO peacekeeping, as we already have the legal basis to act under the Washington Treaty and the UN Charter (Article 51), and we cannot allow the Russians and Chinese on the UNSC to exercise a veto over peacekeeping operations that NATO decides by consensus to undertake and NATO acts only by consensus.

If Chirac raises French military reintegration, you should note that we accept his decision not to move forward, but still hold the return of French forces into NATO as an important objective. You should also reaffirm our support for developing a European security and defense identity (ESDI) within NATO and say we are prepared to work with Paris to make further progress.

Turkey-EU Relations. You should praise Chirac's support of Turkey's EU aspirations, and encourage him to work within EU to a) improve Luxembourg summit results, and b) use Cyprus accession process as leverage to pressure Clerides/Greeks.

Iran/ILSA. You should raise Iran/ILSA to seek Chirac's support for what is a difficult decision for us. The French continue to reject adamantly any applicability of ILSA sanctions to French companies and extraterritoriality in general. They have warned publicly that they will retaliate against any decision that the sanctions are applicable to Total's South Pars investment. You should reassure Chirac that we have listened carefully to European concerns and are working hard to manage this issue in

ways that take them into account. At the same time, you should caution that it would be particularly unhelpful for any additional French investments in Iran's petroleum sector to go forward at this time -- we continue to see press reports that Elf is close to finalizing its Doroud investment.

Kosovo. On the way back from his trip to Bosnia in April, Chirac told his advisors he wants France and the United States to remain "perfectly united" on Kosovo. In practice, this policy is often undermined by sub-Cabinet officials. The French support the Contact Group position urging an unconditional dialogue and recognize Milosevic's responses as inadequate. They criticize the Kosovar Albanians for not coming up with positive initiatives, however, and have frequently resisted strong sanctions against Belgrade. Nonetheless, French support helped assure a satisfactory outcome at the London and Rome Contact Group meetings. You will want to welcome French cooperation. You may also want to review for Chirac the grave situation we see developing and seek his views on how to go forward.

Iraq. We have fundamental differences in our approach to Saddam. Chirac needs to hear from you that we still insist the burden is on Iraq to answer UNSCOM's questions about its WMD programs and to satisfy UNSCOM fully about the past, present and future of its programs before files are destroyed and we transition to long-term monitoring. The French generally believe UNSCOM is the problem, not Saddam.

Middle East Peace Process. Chirac has been one of the strongest voices arguing for an enhanced, formal role for the EU in the peace process. He certainly will rehearse for you the line that the EU wants to be "players, not just payers." If our initiative is not moving forward at the time, he will want to push some kind of EU proposal for breaking the deadlock. The main obstacle is that the EU is not acceptable to Israel as a broker, and its collective decision-making is ill-suited to the delicate diplomacy the process requires. Given its ties to Lebanon, France is intrigued but skeptical about Israel's conditional offer to withdraw from southern Lebanon. We have been consulting with them concerning the delicate process of moving this forward.

SUMMARY POINTS FOR MEETING WITH JACQUES CHIRAC

- Want partnership with France that is as strong and positive as our personal relationship. With active leadership and commitment on both sides, confident we can master 21st century Euro-Atlantic and global agenda.
- Want to reinforce cooperation in Africa, build further basis for common action: peacekeeping, malaria and aids, expanded trade and investment. On debt relief initiative, must focus both on need and on sustaining economic reform.
- At U.S.-EU summit, hope we can reach agreement on Transatlantic Marketplace initiative. Agree WTO should remain central; much can be done outside but consistent with WTO agenda.
- Must work closely on 99 NATO summit, to prepare alliance for new challenges, defense of common interests. Understand your desire for UN mandates for peacekeeping, but blanket requirement not needed or useful.
- Grateful for France's leading efforts on Turkey-EU; improved EU accession offer that does not singularize or stigmatize Turkish key to moving away from potential crisis over Aegean/Greece-Turkey relations. Will also open way for progress on Cyprus.
- Still examining South Pars case. Essential to build strong package of measures on proliferation, counterterrorism, will give greater flexibility under law and with Congress.
- Good cooperation on Kosovo, but situation increasingly worrisome. In absence of political process, conflict will escalate; need to keep pressure on Milosevic.

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2016-0142-M (1.21)
KBM 1/29/2020

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POOL SPRAY POINTS FOR
MEETING WITH PRESIDENT CHIRAC

- Am delighted to see my good friend Jacques Chirac again. Looking forward to our luncheon discussion.
- Will review number of issues on G-8 agenda, and also spend some time talking about bilateral cooperation, ways to make our partnership even stronger.
- Eager to review issues relating to Africa, discuss the results of my recent trip. Believe there is great potential for us to cooperate in addressing many pressing concerns of this region.
- Hillary thoroughly enjoyed her recent visit to Paris and south of France, with gracious hospitality of President and Mrs. Chirac.

POINTS TO BE MADE FOR MEETING WITH
FRENCH PRESIDENT CHIRAC

2016-0142-m (1.22)
KRM 1/29/2020

Bilateral Relationship

- Want partnership with France that is as strong and positive as our personal friendship.
- With active leadership and commitment on both sides, confident we can master 21st century Euro-Atlantic and global agenda.

Africa

- Look forward to enhancing U.S.-French cooperation in Africa on a range of issues in the areas of crisis management, combating infectious diseases, and addressing African debt.
- Agreeing on terms for MINURCA (United Nations Mission in the Central African Republic) also important step; now need to provide diplomatic support to MINURCA.
- Should work together to ensure debt relief applied effectively, especially in post-conflict countries, such as Mozambique.
- Should also stress substantial debt relief we already are providing, including Naples terms for debt relief in Paris Club. Hope to reach agreement to untie aid for LLDC's.
- Need movement toward democracy in Nigeria. Cannot stand by as largest country in Africa deteriorates. Hope to work with you, to move Nigeria to reform path.
- (If raised) Support further exploration of access to new AIDS therapies, other treatments through UNAIDS.

U.S.-EU Economic Relations

- Congratulations on final step towards single currency. Hope European economy reaps benefits as it did from single market.
- Followed carefully your objections to Commission's ideas for U.S.-EU trade initiative; good exchanges with your senior officials.
- Ample space for well-crafted joint effort by United States, EU that benefits economic partnership, supports multilateral trading system.
- Agree that progress in WTO should remain key U.S.- EU priority. This initiative can enhance these efforts, not compete with them, and yield immediate results for us.

NATO

- Need to ensure Euro-Atlantic partnership into next century.
- Need to strengthen relations through variety of institutions - - NATO, U.S.-EU, OSCE -- to promote our shared initiatives in Europe and beyond.
- Understand you have concerns about need for UN or OSCE mandate to authorize non-Article V missions such as peacekeeping.
- Blanket requirement for mandate would tie hands, give Security Council veto over NAC decisions; make NATO ineffective in crises. Need to work closely, work for a common result.
- Also want to work closely on next steps for enlargement. Must proceed thoughtfully.
- (If raised) Accept your decision not to go forward with reintegration into NATO military structures at this time, though disappointed couldn't come to agreement.
- Ready to work with you on practical cooperation, further progress in building ESDI within NATO.

Turkey-EU Relations

- Admire France's leading role on Turkey.
- Progress on Cyprus would contribute to Greek-Turkish accord, create better prospects for EU-Turkey. Failure to resolve could harm EU enlargement.
- Key for Turkey: defining clear roadmap to accession. Know cannot enter for many years, but offering roadmap will help lift post-Luxembourg frost.

Iran/ILSA

- Khatami clearly trying to bring change but does not have control of WMD programs or machinery of terrorism.
- Must acknowledge positive statements and actions but also work together to constrain objectionable Iranian activities.
- Need to strengthen U.S.-EU cooperation on Iran. Cooperation on nonproliferation, counterterrorism, economic measures will give greater flexibility under law and with Congress.
- Still examining facts of South Pars case to determine whether covered under ILSA. Nearing decision.
- Any new French investments in Iran's petroleum sector at this time would be unhelpful. In particular, strongly hope Elf will not proceed with planned investment in Doroud oil field.
- Have listened carefully to French concerns, seek to manage in ways that take them into account. Hope you will help me manage.
- Public threats to respond negatively to ILSA determination also counterproductive; inflame Congress I am trying to move; should manage differences in private.

Kosovo

- Have cooperated well on Kosovo; want to continue.
- Situation increasingly worrisome. Milosevic has rejected international community's urgent efforts at dialogue.

- In absence of political process, conflict will escalate. Outflow of refugees, inflow of arms and fighters assures that conflict will soon spill over, drawing in neighboring governments, risking regional stability.
- NATO needs to begin thinking on a contingency basis about how to respond, if violence, escalation and conflict threaten to spread. For now, essential to raise pressure on Milosevic.

Middle East Peace Process [If raised]

- Have put forward proposal for second redeployment by Israel and specific security steps by Palestinians. Hope Netanyahu eventually will accept, allow move to permanent status talks.
- If so, can revitalize related fields: multilateral process and Middle East economic conference process. Both Arabs and Israelis need concrete benefits to peace.
- On southern Lebanon: convinced we must explore Israeli offer. Will only work if Syrian track restarted. Israeli initiative may open doors to do that.
- Too many public declarations by Israel, Lebanon and Syria, not enough quiet contacts. Only work if we move carefully, probably with help of Kofi Annan. Want close consultation, so you, we and UN move together.
- (IF HE RAISES AN EU INITIATIVE ON INTERIM ISSUES): Have tried to keep Bibi focused on critical moment for the process: if he's not ready to do the necessary on redeployment, there is little chance for success in the permanent status talks before the interim period expires May 4, 1999. Don't want him to be able to escape responsibility as a result of confusion arising out of multiple initiatives.
- (IF HE SEEKS AN EU ROLE IN THE INTERIM STATUS ISSUES): Have no objection; could be helpful. But you have to be able to convince the Israelis that it would be helpful, and Blair and Moratinos.

Iraq [If raised]

- Sanctions review just right: some recognition of Iraq's tardy cooperation, but realization UNSCOM has more work.

- IAEA's work on nuclear file has been good, pushed that file near point where we can move to monitoring. If few remaining questions answered, can accept transition in matter of months.
- Continue to review result of last challenge. We will want to talk when finished. Want to cement French-U.S. cooperation.

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**MTG WITH
PRESIDENT YELTSIN**

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MEETING WITH
RUSSIAN PRESIDENT YELTSIN

DECLASSIFIED
PER E.O. 13526

2016-0142-M (1.24)
KSH 1/29/2020

KEY OBJECTIVES

- Reaffirm personal relations with Yeltsin, express support for new government and for reform and global integration goals.
- Express candidly our concern on Russian aid to Iran and Iraq, and reiterate need to work together to solve these problems.
- Note that START II ratification will make possible summit that looks to future and next phase in bilateral relationship, with further nuclear reductions and closer Russian ties to West.
- Seek common ground on Kosovo.

CONTEXT OF THE MEETING

Boris Yeltsin's performance has been uneven since you met last June in Denver. However, over the last month, he has reasserted his political authority and again prevailed as arbiter among Russia's competing interest groups. While presidential electoral politics may have played a role in his firing Chernomyrdin, the change also reflects Yeltsin's impatience over Russia's lagging economic reform and his concern for his legacy as leader of a stable and prosperous Russia. Although Yeltsin prevailed in his month-long confrontation with the Duma to confirm Kiriyenko, the battle was far tougher than he expected.

We are entering another crucial period in our relationship with Russia. As a result of the summit last year in Helsinki, you successfully launched a strategy that allowed us to pursue simultaneously our NATO enlargement policy while deepening our engagement with Russia through the NATO-Russia Partnership Council, a game plan for START II ratification and strengthened bilateral and multilateral economic ties.

This year we face a similar challenge in connection with Russian technology transfers to Iran's ballistic missile program. If we succeed in demonstrating our ability to handle this problem cooperatively and effectively, we have an opportunity to restore positive momentum to the relationship. Conversely, if Russia does not convincingly demonstrate that its export controls are being implemented, Congress is likely to impose sanctions and

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the ensuing ill-feeling will seriously exacerbate tensions in other areas (Iraq, Kosovo, etc).

Thus the principal challenge of the meeting will be to persuade Yeltsin to take the steps that will lead to real action. In Denver, as you will recall, Yeltsin personally intervened to instruct his team to act, and a similar personal commitment will be needed in now. In return, you can offer Yeltsin a perspective on positive areas of cooperation that can follow if we solve this problem. The positive dimension will be particularly promising if Yeltsin is able to secure ratification of START II in time for a summit in the near future.

The Birmingham summit is designed to play up the "G-8" nature of the meeting, while leaving space for the G-7 to discuss IFI reform in the wake of the Asia financial crisis. Yeltsin will undoubtedly push for a commitment that by next year, a full G-8 will be realized.

AGENDA

Iran/Nonproliferation. Despite Yeltsin's commitment to you beginning in early 1997 that Russian support for the Iranian ballistic missile program would stop, the record, at best, is mixed. Assistance from Russian entities continues. It is unclear whether this is largely initiatives by Russian entities out of control or reflects laxity in enforcement of Yeltsin's policy by the security apparatus. Kiriyenko told Sandy in Moscow last week that they would make a serious and urgent effort to get control of the situation. But time is short to see results: both a decision on ILSA and the Senate vote (May 20-22, 82 co-sponsors) are imminent.

Moscow Summit/START II. This year's summit should aim to define and initiate the next phase of our post-Cold War agenda, including further reductions in nuclear arsenals and greater Russian integration with the West. We have made clear that we must first take care of old business, however. You should press Yeltsin to continue serious lobbying for Duma approval of START II and express hope that ratification can occur before the June parliamentary recess (which would not only clear the decks for setting a summit date but also improve prospects for CTBT approval in our Senate). Although the government lately has made a better case and ratification prospects have improved, some rumblings from Moscow hint that Duma unhappiness over the prime ministerial fight could imperil early approval.

You should be prepared to stress the importance of completing START II *in advance* should Yeltsin propose setting a summit date at Birmingham. We understand the new government's immediate priority with the Duma will be economic legislation and that if this goes well, the government will push for START II approval in the summer, prior to the Duma's June recess; if not, the START II push may be delayed until fall. In that event, we will have to reassess our summit START II linkage.

New Government. While Kiriyenko is untested, Yeltsin likely hopes his young prime minister's lack of ties to the financial empires and political parties will let Kiriyenko accelerate the reform process. The top four in the new Russian government (Kiriyenko and his three deputy prime ministers) have common traits; they are young, reform-oriented outsiders to Moscow, but they lack a strong political base. The latter, coupled with inevitable opposition in a disgruntled Duma and from predatory financiers, will severely test the new government.

For the foreseeable future, the government's success and even survival will depend primarily on Yeltsin's ability to stay engaged in support of the government's agenda. Yeltsin is not the right interlocutor on economic details, but he needs to hear the importance of his political engagement on reform. His backing is key to any prospects to break insider ties between government and business, stabilize revenues, pass a new tax code and privatize land.

Integration and Reform. At Helsinki, you and President Yeltsin agreed that Russia's integration into the global economy was vital to institutionalize Russian reform. Russia joined the Paris Club in September 1997 and, with your active support, was invited to join APEC in November. However, Russia has moved slowly toward WTO accession and will miss the Helsinki target of accession by the end of 1998.

The big prize to Yeltsin was to become part of a full G-8, a process you launched at Denver; only a few (mostly financial) topics still are discussed at 7. The G-7 Heads meeting will be low-key, brief, and held before the Birmingham Summit formally begins. The Russians are pleased that the Moscow G-8 Energy Ministerial in April went well, though Russian nuclear reactor safety remains an issue.

Civil Society. At Denver, Yeltsin suggested we think ahead to the twenty-first century at the next summit. You could return to this theme in closing the meeting on a positive and forward-

looking note, highlighting the development of civil society and people-to-people contacts. Recent frictions in the bilateral relationship underscore the value of more non-governmental ties among communities, universities, businesses and nongovernmental groups. Such grassroots ties build a broad-based understanding in both countries for the benefits of engagement, despite inevitable policy differences. This idea also plays to Yeltsin's call in his February State of the Federation speech to strengthen civil society. There is resonance on the Hill for more non-governmental programs. You might suggest to Yeltsin that at the next Summit we showcase the benefits of engagement between our peoples, an engagement that can bolster public support for a stronger relationship in the twenty-first century.

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SUMMARY POINTS FOR MEETING WITH
RUSSIAN PRESIDENT YELTSIN

- Pleased new government in place; you've made your agenda clear, we share your view of priorities -- to press ahead with economic, legal reforms; Kiriyenko seems to be good manager.
- Understand economy has shown some improvement; we know investment potential there and encourage American companies, but next steps on reform crucial -- what are prospects for parliamentary action on tax, legal, land reform this session?
- As always your political leadership crucial to success of reform -- and you can count on me to stand with you.
- As we look toward summit, a primary goal will be to expand trade and investment, extend economic opportunities.
- Know you are pushing for early START II ratification. Want to get this behind us so we can launch START III at next summit in Moscow. How are prospects for finishing process before Duma adjournment?
- Still face tough proliferation issues, especially since Iran continues to try to acquire WMD/ballistic missile technology; by working together, we've made progress, but there's still more to do.
- Your executive order was key action; however, still not being universally enforced and Congress about to enact sanctions. Iran with missiles that can reach Moscow not in your interest. Need your firmest hand on the break pedal.
- My Berlin speech expressed my vision of new U.S.-European partnership, including Russia as equal, genuine partner.
- Also see new facet of bilateral partnership emerging, as citizens of our two countries, in universities, businesses, NGOs -- strengthen ties among themselves -- often independent of government; complements your and my vision for new century.

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**POOL SPRAY POINTS
TO BE PROVIDED**

POINTS TO BE MADE FOR MEETING WITH
RUSSIAN PRESIDENT YELTSIN

- Pleased you've got new government in place. Kiriyenko has big job ahead, but seems to be decisive, reformist manager. Our people have been impressed by him.
- Know he and Al agreed to continue fine work of our bilateral commission. Assure you this has my full support.
- You and I always able to work together well, tackle tough issues and find common path forward - hallmark of relations.

Reform/Economic Integration

- You made clear your agenda for new team in your February State of the Federation speech - share your view of priorities.
- See new team already working hard with IMF, setting the stage for next tranche of \$670 million; support strong IMF, World Bank role in Russia; last year they disbursed \$5 billion.
- Efforts paying off; see signs economy has begun to improve; your reform leadership and sound central bank policies enabled Russia to come through Asian financial crisis.
- As promised at Helsinki, worked hard to encourage investment in Russia; American companies see great potential. Next steps on reform crucial: how are prospects to get tax code, land reform through Duma this year?
- Space cooperation remains real asset in our relations; have learned valuable lessons from Mir; look forward to moving ahead on international space station.
- Believe new government team has skills to manage reform. But success ultimately hinges on your political backing, and on reformers cooperating to build consensus for reform.
- You have carried tremendous load, as leader who brought freedom to Russia; next two years offer chance for even more - for you to assure Russia's political and economic transformation. Want you to know we stand with you.

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- Also will continue to support you on international front. Proud of work to create G-8, get Russia into APEC and Paris Club, as we agreed in Helsinki.
- New economic team has opportunity to make sure Russia doesn't suffer same weaknesses that led to Asian crisis: murky ties between government and business, over-exposed banks. You set a good tone by appointing young outsiders to head government.
- Experts tell me your WTO timetable slipped, that Russia will not be ready this year. Reiterate what I have said before: I'm prepared to go as fast as Russia can.

Moscow Summit/START II

- Welcome this chance to talk about plans for our next summit - hope we can meet in Moscow this year. Very important to keep momentum in relationship.
- We both want this to be a forward-looking event, that will set agenda and tone for our relations into the next century.
- A primary summit goals should be to find ways to expand trade and investment, the real engine of growth for our partnership, and launch START III negotiations.
- Understand you are pushing for START II ratification; what are prospects for finishing this before Duma adjournment in June?
- We will be ready to begin formal negotiations on START III once START II is ratified. My experts are working on serious proposals for you to consider. Can use summit to give impetus to process.

If Yeltsin questions START II ratification-Summit linkage:

- As we've discussed, would be politically difficult for me not to have START II ratified before our next summit meeting - we've both invested so much effort in making this process come out right for Russia - and for the United States - believe to switch signals now would be unhelpful, could send wrong message about firmness of your and my intentions, actions.

Non-Proliferation

- We've still got tough problems, especially since Iran continues efforts to acquire WMD and missile technology. Working together, we've made progress since you first told me in Denver last June that assistance by Russian entities to the Iranian ballistic missile program would stop. But, Boris, I must tell you that it hasn't stopped.
- Your executive order, with its "catch all" provision, was an important step. But despite good work by Koptev and his American counterparts, enforcement has been uneven.
- I think you and I agree that Iranian ballistic missiles or WMD are a threat to your security and the entire region's. All other countries in the G-8 strictly control such transfers, even though their general policy on Iran is different than ours.
- Now, this problem threatens our relationship because Congress is about to enact, overwhelmingly, sanctions legislation against Russia for its support of the Iranian missile program. I would hate to stop this legislation but I must be able to demonstrate that your assistance has stopped.
- Berger and Talbott went to Moscow last week to discuss with Koshohin and Kiriyenko. Both said that would work to solve problem, but time is running out. Need your help.

Civil Society

- Boris, in Denver, you said we need to think about our relations for the twenty-first century. I agree and hope we can make this a theme for our summit.
- A big success story in the Russian-American relationship -- one that often is not told -- is the understanding emerging between people of our two countries.
- Non-governmental ties among communities, universities, businesses and non-governmental groups are bedrock of our relationship and will sustain momentum for engagement.

- Suggest we showcase at summit the benefits of engagement between citizens. Can also endorse plan to deepen and broaden these ties, to take us into the twenty-first century.
- I envisage a program where businesses, universities, foundations match our government contributions to support thousands of grassroots partnerships all across our countries. If you agree, let's ask our experts to get started.

If Raised - Jackson Vanik

- Stand behind Helsinki commitment to create conditions in both our countries to remove Russia from Jackson-Vanik.
- I have already determined that Russia complies with legal requirements under Jackson-Vanik and have given Russia MFN status. Jackson-Vanik does not affect our trade relations.
- But real issue behind Jackson-Vanik is religious freedom; frankly, new religion law set back efforts at removal.
- Willing to renew efforts to remove Russia from Jackson-Vanik but need help from your side to avoid incidents related to religion law.

If Raised - Market Economy Status

- Market economy trade status is matter of U.S. law, not political issue. Al Gore gave Chernomyrdin a paper on how the law works and how to request market economy designation.
- If Russia submits the request, will consider it seriously, but cannot make guarantees in advance of actually getting request.

If Raised - Latvia

- Urged President Ulmanis to work toward implementation of OSCE recommendations, including expedited naturalization procedures.
- Latvian government recently proposed changes in citizenship laws, and other steps, to implement OSCE recommendations.

- Hope you can agree that direct dialogue between Russia and Latvia, rather than rhetoric and sanctions threats, will be soundest basis for resolving your differences.

If Raised - Kosovo

- Situation in Kosovo is grave; absent serious political process, conflict will escalate, threaten regional stability.
- Contact Group has applied pressure on Belgrade, but also laid out clear, achievable path towards normalizing Belgrade's relations with the rest of the world.
- Milosevic has power to initiate a dialogue with international facilitation. Vital to begin talks before Kosovars are so radicalized that there is no one left to talk to.
- Believe incentives should remain on the table, but must also be prepared to continue adding sanctions if Belgrade blocks necessary and reasonable steps toward dialogue.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
008. report	Biography (2 pages)	04/24/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

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]

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)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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DINNER/CHEQUERS

THE WHITE HOUSE
WASHINGTON

May 8, 1998

MEMORANDUM TO THE PRESIDENT

FROM: SIDNEY BLUMENTHAL *SB*

SUBJECT: Agenda for Chequers II

The discussion on Sunday night, May 17, at Chequers will raise specific policy issues within the framework of general questions. They are in order of discussion:

1. The Progressive Agenda and Strategy. Reassuring the public, while essential, is insufficient for an incumbent progressive government. Our coalitions require that we maintain a strong sense of direction. This is partly about continued dominance of our policy initiatives, but it is also about our opponents. How can we be clear about why we are engaged against certain interests? How do we explain drawing sharp lines?
2. The politics of values. We are advocates of one nation politics. We believe that diverse peoples can forge a common national identity. We believe in creating civil society, social cohesion, by simultaneously promoting social justice and economic efficiency. We are not on the center-left out of isolated economics motives; nor are we mere pragmatists. Our values are the source of our purpose. How do we discuss salient issues in terms of our values, so that they are not perceived as disconnected from a larger perspective, or as the latest iteration of tax-and-spend, or as an abstract and divisive form of identity politics? How do we gain and hold the high ground on values against a moralizing right? How do we preempt, coopt and blunt the right's "wedge" issues while marginalizing them as extreme?
3. The third way and the new economy. How do we define opportunity for the middle class? What are the middle class necessities and anxieties in a new economy? What's our offer to the middle class? We must do more than establish our competence on the economic issue. We need to grasp economic stress and how it can be turned politically either for or against us. How do we avoid triumphalism, acknowledge insecurities in the global economy, without frightening the public yet convincing them that the right's approach would pose a risk?

4. Internationalism in a new world. After the Cold War, how can we promote and maintain support for an internationalist position? The old enemy has evaporated and the new threats are not monolithic. There remains unease about the projection of force where national interests are not immediately obvious. Within our parties, even in good economic times, there is residual opposition to free trade. How do we square free trade with labor and environmental concerns? On the right, xenophobes and isolationists have risen as they have not since before World War II. How do we shape the debate, then, on the necessity of a new internationalist position?

Finally, of course, there is the question of the future of the third way movement in international politics, which we will discuss at the end of the session.

SCENESETTER: U.S.-EU SUMMIT MEETING
AT 10 DOWNING STREET

You will attend the U.S.-EU Summit at No. 10 Downing Street. The meeting will begin with a 60-minute restricted session including you, Blair and EC President Santer. The focus will be discussion of the most sensitive issues on the table -- trade and sanctions legislation. While you are in this session, other ranking Cabinet officials will meet their counterparts to prepare for the 45-minute plenary.

BACKGROUND

The modest address of the Prime Minister's official residence, No. 10 Downing Street, comprises two houses. The front one was built by George Downing, one of the first Harvard graduates who was Cromwell's chief of intelligence but also managed to switch sides after the Restoration.

The Prime Minister's official residence, once was part of Whitehall Palace. In 1732, George II offered the house to his Principal Minister, Sir Robert Walpole, who accepted it for the Government on condition that it be attached to the office of First Lord of the Treasury. It is as First Lord of the Treasury that the Prime Minister lives at No. 10.

Since Walpole's time the building has had many piecemeal repairs and alterations. The last general restoration was carried out in 1960-63 and included improvements in the living accommodations on the upper floors. Prime Minister Blair and his family chose to occupy the more spacious living quarters next door at No. 11, the official residence of the Chancellor of the Exchequer. Since you were last here, Humphrey, the No. 10 cat, has been moved to other quarters.

U.S.-EU SUMMIT

DECLASSIFIED
PER E.O. 13526

2016-0142-m (1.28)
KBM 1/29/2020

KEY OBJECTIVES

- Gain agreement to move forward with negotiations for trade liberalization under the New Transatlantic Agenda.
- Secure consensus on bolstering cooperation on Iran and Cuba in order to address tensions over ILSA and Helms-Burton.
- Encourage closer diplomatic cooperation on Turkey/Cyprus issues, the Middle East Peace Process and Ukraine.

CONTEXT OF MEETING

Your meeting with Prime Minister Tony Blair, currently President of the European Council, and European Commission President Jacques Santer marks a continuation of an effort to expand U.S.-EU cooperation through the New Transatlantic Agenda (NTA) launched at Madrid in 1995.

The biannual summits offer an opportunity to make progress across a broad agenda. The NTA is also a long-term process that engages us with the EU during an important period of its transition to include new members and deepen integration. Our goal is to deliver practical results now to demonstrate the importance of this relationship to our publics.

Simmering tensions over U.S. sanctions legislation (ILSA and Helms-Burton), contentious bilateral trade disputes and EU frustration over the Middle East Peace Process have complicated progress in a number of key areas. At stake is not only the prospects for further trade liberalization between the United States and EU in this trillion dollar transatlantic relationship but also our ability to harness EU energy to cooperate on our regional and global agenda.

You will handle the sensitive sanctions legislation and rogue states issues in the smaller group in order to smooth agreement in the larger group on the trade initiative, where you will also discuss Ukraine and Turkey/Cyprus.

There are other areas on the EU's agenda but time will not allow for much discussion: agricultural trade issues, the Middle East Peace Process, law enforcement cooperation and Latvia's accession to the World Trade Organization. Two NTA deliverables

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that will be highlighted at the Summit involve cooperation on nuclear waste clean-up and civil society promotion. We are launching a joint initiative to assist with waste clean up from nuclear submarines and outdated reactors in Northwest Russia. Also, you will participate in the traditional photo op with the TABD business leaders, as well as with the six persons representing the 40 selectees from 26 Central and Eastern Europe and the Newly Independent States to receive the U.S.-EU Democracy and Civil Society Award program launched last May.

AGENDA

RESTRICTED SESSION

Iran/ILSA. The EU is linking a new trade liberalization initiative to resolution of U.S.-EU tensions over Helms-Burton and the Iran and Libya Sanctions Act (ILSA). On ILSA, the British are working toward issuing joint statements at the summit that highlight our cooperation on Iran -- on nonproliferation, counterterrorism and Caspian energy. We, in turn, are approaching a decision whether to waive ILSA sanctions in whole or in part. If the issue is not resolved by the time of the summit, the restricted session may provide an opportunity to reach agreement on the way forward.

Cuba/Helms-Burton. On Helms-Burton, we are negotiating with the EU on two tracks: 1) for a set of disciplines to deter investments in expropriated property, and 2) for a joint statement pledging cooperation on dealing with rogue regimes and an understanding concerning future unilateral sanctions. In exchange for expropriated property disciplines, we would indicate our intention to seek from Congress Presidential waiver authority for Title IV of the Act (denial of visas to those who invest in confiscated property). Congressional approval will hinge on whether the disciplines are effective in deterring investment in property confiscated from U.S. nationals in Cuba. Another factor will be the extent to which the EU actively promotes democracy and human rights in Cuba.

EXPANDED SESSION

After your restricted session and the cabinet delegations' session on technical trade and diplomacy issues, you will all meet together in a plenary session. Your main focus for the plenary is to complete work on the transatlantic trade initiative.

Trade Initiative. Assuming the sanctions issues have been deflected, the key outcome of the meeting will be a new trade liberalization initiative. Leon Brittan's original ambitious proposal, which you heard last December, was opposed by the French from the outset and was killed at an April 27 EU meeting. The UK Presidency is now seeking to repackage a set of ideas for negotiators that could substantially reduce barriers to trade and could feed into the next multilateral trade round. A likely package would include initiatives to reduce regulatory and technical barriers, lower industrial tariffs multilaterally and remove barriers in a range of service sectors. Agriculture and audio-visual services are political dynamite for the Europeans, but very important for us to include. With respect to agriculture, we will likely reach agreement to address only regulatory barriers, leaving subsidies and tariffs to the next round of WTO talks beginning in 2000. This is acceptable to U.S. agricultural interests. Finding a solution on audiovisual will be much more difficult. USTR would prefer to remain silent on the issue for now (neither explicitly in or out) leaving resolution to subsequent negotiation. Each of the parts of the initiative are to be launched simultaneously, but will be harvested as each becomes ready. **Your objective is to gain support for a political statement of intent to start work on launching negotiations in the near future.**

Ukraine. A focus of our cooperation under the British EU Presidency has been the development of a joint strategy to promote reform in Ukraine. Following up on the joint statement we issued at the December Summit, we agreed to step up cooperation in the areas of trade and investment obstacles, civil society development, energy sector reform and nuclear safety. The United States and EU agree on the importance of closing Chernobyl by 2000, but President Kuchma has threatened to keep it open until two new reactors are completed. The EU wants us to press the EBRD to co-finance these reactors. However, we understand EBRD reluctance to co-finance the project until Ukraine takes steps to ensure it can repay the loan -- most notably by implementing key power sector reforms. This issue may be discussed at the G-7 session on Friday as well. We are also working together with the EU through the EBRD to repair the crumbling Chernobyl sarcophagus. The EU has pledged approximately \$110 million and we have pledged \$78 million.

Turkey/Cyprus. It is critical that the EU use its Cardiff Summit in June to address Turkey's disappointment over the December 1997 Luxembourg decisions. Since then, EU-Turkey

relations have taken a dive and led Turkey to block progress on Cyprus. While we can't tell the EU what to do, failing to treat Turkey as a serious candidate for membership has implications for stability in the Eastern Mediterranean and beyond. Our view -- shared in varying degrees by France, UK, Italy and the Netherlands -- is that Turkey deserves the same shot at membership that Central European applicants now have, although it may not qualify for many years.

SUMMARY POINTS FOR
U.S.-EU SUMMIT

DECLASSIFIED
PER E.O. 13526
2014-0172-M (1.29)
KBH 1/29/2020

- **Iran/ILSA.** Important we speak with one voice to change Iranian behavior. Would like to be able to waive in a way that is consistent with legal requirements and does not provoke tougher new law. Need your help. Let's work together, support multiple pipelines in Caspian, press for end to Iran's support of terrorism and pursuit of WMD.
- **Cuba/Helms-Burton.** EU can do more on human rights, keep pressure on Castro for reform. This, along with Understanding on expropriated properties and Statement on political cooperation, will enable me to seek Title IV waiver and support suspensions of Title III.
- **Trade Initiative.** Want to elevate trading relationship to new level, advancing multilateral system. Recognize differences exist but vital to find ways to benefit both sides and expand economic relationship. Will show our firms and citizens that progress directly benefits them -- the very reason we meet every six months.
- **Ukraine.** Need to encourage strong leadership in Ukraine to build internal consensus for economic reform. U.S.-EU cooperation very important, focusing on trade and investment obstacles, civil society development, energy sector reform and nuclear safety. Want to resolve concerns about co-financing Rivne [REEV - ney] and Khmel'nitsky [khemel - NIT - ski] reactors and Chernobyl sarcophagus.
- **Turkey/Cyprus.** Improved EU-Turkey relationship crucial to shared objectives. No movement on Cyprus possible now without better package for Turkey at Cardiff. Urge you to give Turkey same shot at membership that Bulgaria and Slovakia have and free up Customs Union funds.

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TALKING POINTS TO BE MADE
FOR U.S.-EU SUMMIT

DECLASSIFIED
PER E.O. 13526

2014-0142-M (1.30)
KBH 1/29/2020

RESTRICTED SESSION

Iran/ILSA

- Appreciate EU efforts to cooperate on countering threats posed by Iran's support for terrorism and pursuit of weapons of mass destruction. Important to speak with one voice to persuade Iran to change behavior.
- See indications Iranian government is seeking to change its relationship with West, but Iran has continued support for terrorist groups and assassinations of dissidents abroad.
- Understand EU concerns about Iran and Libya Sanctions Act; have taken these into account in our consideration of ILSA waivers.
- Recognize EU's desire to resolve once and for all through 4(c) country waivers. Can't do that consistent with law. Project waiver with precedential effect on similar future investments possible with strong EU package.
- Urge EU to hold off on new investments in Iran while we seek ways to manage differences and address each other's concerns.
- Hope we can put differences on Iran aside to accelerate Caspian energy development and East-West transit corridor to diminish dependence on Persian Gulf as transit route.

Cuba/Helms-Burton

- Important to see real democratic change and respect for human rights in Cuba. There is more EU can do consistent with your policy of engagement, particularly holding Cuba to strict human rights standards. Important to maintain conditionality of common position (i.e., any upgrade of economic relations depends on movement towards democracy) and to keep pressure on Castro for reform.

- Must move quickly to conclude deal on disciplines on expropriated properties; further delay risks losing Congressional support for amendments.
- Our statement on enhancing political cooperation can help us respond to threats from countries whose behavior goes against international norms and avoid future conflicts.
- However, cannot make a commitment in this statement to "actively resist" sanctions at all costs, or to forego options if needed to protect U.S. national security interests.

EXPANDED SESSION

New Transatlantic Marketplace

- Initiative is important evolution in our vibrant economic relationship; Europe and America, and global system, will benefit from more open Transatlantic Marketplace.
- We must show leadership on new ways to protect health and safety of citizens while lowering barriers to trade; inclusion of labor and environment are forward-looking elements.
- Fears that initiative detracts from WTO role are wrong; firmly believe any initiative must advance multilateral trading system as we prepare to launch new WTO negotiations in year 2000.
- Recognize differences within EU on how to proceed. From our vantage point, important we find ways that benefit both sides and expand our economic relationship.
- Important that we make a political statement today and move quickly to launch negotiations on balanced package that advances our mutual trade agenda and addresses interest of our business communities and citizens.

Ukraine

- U.S.-EU cooperation on Ukraine very important for our mutual interests. Pleased with joint statement at our last summit and efforts to implement initiatives we identified.

- Agree with our experts that we should focus on trade and investment obstacles, civil society development, energy sector reform and nuclear safety.
- Want to work with EU to resolve concerns about EBRD's co-financing of Rivne and Khmelnytsky reactors. However, continue to believe that Ukraine Government must meet criteria for project financing, most notably by speeding up energy sector reform. Should jointly urge Ukraine to make rapid progress if we want to move towards completion of new reactors.
- Issue now is whether Ukraine can repay loan; important that all of us encourage Ukraine to implement its financial recovery plan for electricity sector so that Ukraine becomes creditworthy.
- Share EU concerns about Chernobyl sarcophagus. To permit work on sarcophagus to proceed, we are front-loading our contribution to Chernobyl shelter fund and have already transferred \$63.8 million of our \$78 million pledge to EBRD. Encourage you to do same.
- (If raised) Agree EBRD should offer sufficient financing for reactors to make projects viable -- if financial criteria are met.

Turkey/Cyprus

- Very concerned about downturn in EU-Turkey relations. Healthy EU-Turkey relationship crucial to shared objectives in region.
- Luxembourg decisions have made progress on Cyprus extremely difficult right now. We remain available to help find solution, but right now ball in EU court.
- Essential Turkey sees Cardiff as improvement over Luxembourg.
- If EU can improve package for Turkey -- and give it same shot at membership that Bulgaria and Slovakia have -- we may have another chance on Cyprus. Peace settlement would eliminate EU dilemma whether to admit a divided island.
- Pleased EU planning to hold Association Council meeting with Turkey May 25 to reinvigorate dialogue. Opportunity to

prepare concrete package for Cardiff and secure release of Customs Union funds blocked by Greece.

- In absence of settlement talks, Greek Cypriot President Clerides determined to deploy Russian S-300 missiles this summer. Urge you to step up pressure to cancel or face risk of confrontation between Turkey and Greece.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
012. report	Biography (2 pages)	04/15/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

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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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)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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Withdrawal/Redaction Marker

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
013. report	Biography (2 pages)	04/13/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

RESTRICTION CODES

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Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
014. report	Biography (2 pages)	03/06/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M

kh1828

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

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
015. report	Biography (2 pages)	04/23/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
016. report	Biography (2 pages)	04/27/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

RESTRICTION CODES

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017. report	Biography (2 pages)	04/23/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

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Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
018. report	Biography (1 page)	04/21/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M

kh1828

RESTRICTION CODES

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Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
019. report	Biography (1 page)	04/07/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

RESTRICTION CODES

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Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
020. report	Biography (2 pages)	04/28/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

RESTRICTION CODES

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
021. report	Biography (1 page)	04/21/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
022. report	Biography (1 page)	04/17/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

RESTRICTION CODES

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UNITED KINGDOM

Emyr JONES PARRY

Director (for Europe), Foreign and Commonwealth Office (FCO)
(since 1997)

Addressed as: Mr. Jones Parry

Professional History

1973	Joined diplomatic service.
1974-79	Second (later first) secretary, Embassy, Ottawa.
1979-82	First secretary, FCO.
1982-86	First secretary, Office of the UK Permanent Representative to the European Community, Brussels.
1987-89	Deputy head, Office of the President of the European Parliament.
1989-93	Director, EC Department (External), FCO.
1993-96	Minister (Deputy Head of Mission), Embassy, Madrid.
1996-97	Deputy Political Director, FCO.

Education

Holds bachelor's degree from University College, Cardiff and a doctorate from the University of Cambridge (St. Catharine's College).

Personal Data

Born 21 September 1947; became a Companion of the Order of St. Michael and St. George (CMG) in 1992; enjoys gardening, reading, theater, and sports; married Lynn Noble in 1971; two sons.

UNITED KINGDOM

Richard STAGG

**Head, European Union Department (External),
Foreign and Commonwealth Office (FCO)
(since at least December 1996)**

Addressed as: Mr. Stagg

Professional History

1977	Joined FCO.
1979-81	Third (later second) secretary, Embassy, Sofia.
1982-84	Second secretary, Embassy, The Hague.
1985-86	First secretary, FCO.
1987-88	First secretary, Office of the UK Permanent Representative to the European Community, Brussels.
1988-90	First secretary, FCO.
1991-93	First secretary (information), Office of the UK Permanent Representative to the European Community, Brussels.
1993	Returns to FCO.

Personal Data

Born Charles Richard Vernon Stagg on 27 September 1955; married to Clare Faber since 1982; has three sons and a daughter.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
023. report	Biography (1 page)	04/21/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

RESTRICTION CODES

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
024. report	Biography (1 page)	04/10/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

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

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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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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
025. report	Biography (2 pages)	04/14/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
026. report	Biography (2 pages)	01/09/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
028. report	Biography (2 pages)	11/21/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

RESTRICTION CODES

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030. report	Biography (1 page)	11/19/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

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2016-0142-M
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
031. report	Biography (1 page)	01/07/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
032. report	Biography (2 pages)	11/24/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

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2016-0142-M
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
033. report	Biography (2 pages)	09/29/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to Germany and the United Kingdom, May 12-19, 1998 [2]

2016-0142-M
kh1828

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**U.S.-EU SUMMIT
PRESS CONFERENCE**

**REMARKS
TO BE PROVIDED**

PRESS QUESTIONS AND ANSWERS

ECONOMIC ISSUES

The New U.S.-EU Trade Initiative

(need to update this closer to the Summit) Did the United States and EU leaders agree to launch a New U.S.-EU Trade Initiative?

- The President, Prime Minister Blair, and President Santer announced their commitment to strengthen the New Transatlantic Marketplace, a concept and framework for removing barriers to trade and investment that was launched at the December 1995 U.S.-EU Summit in Madrid. The United States and the European Union will work intensively on the terms of reference for negotiations aimed at lowering barriers and increasing growth in a wide range of sectors. This initiative will benefit industries on both sides of the Atlantic, while providing U.S. and EU citizens with the highest standards of health, safety and environmental standards.

Is this a Free Trade Agreement? Won't it interfere with future WTO negotiations?

- The United States and the European Union are not talking about a Free Trade Agreement, but we do believe the initiative under way should be seen as a step toward a larger vision of free and open transatlantic commerce with world-class health, safety and environmental standards. Both parties remain committed to working towards global economic liberalization in the WTO and in other regional agreements and believe agreements between us can act as a precedent for multilateral liberalization. This initiative will complement and enhance our global efforts, not compete with them.

(If raised) Foreign Sales Corporations

How do you respond to EU claims that the U.S. Foreign Sales Corporations (FSCs) are inconsistent with U.S. obligations under the General Agreement on Tariffs and Trade (GATT)?

- We have held two rounds of bilateral consultations with the European Union regarding this issue, most recently in April. We have fully explained that the FSCs are GATT-consistent and were specifically created with an eye towards meeting our GATT obligations.

Trade Disputes

Did the United States and EU make any progress on resolving our major trade disputes (e.g., GMOs, WTO cases on beef hormones and bananas)?

- We again raised our concern over sales of U.S. corn derived from biotechnology (GMOs). The EU pointed out that it had formally approved three U.S. corn products on April 20. We hope these products will be approved for marketing within the EU without further delay.
- We also stressed that the EU must implement the World Trade Organization (WTO) findings on hormone-treated beef and bananas. Failure to do so threatens to weaken the WTO's ability to resolve disputes and raises the risk that countries will take unilateral measures to redress trade problems. We will continue to consult with the EU about these issues in the coming weeks.

Latvia and WTO Accession

Did the United States and EU bridge their differences over Latvia's accession to the World Trade Organization (WTO)?

- The United States and the European Union agree that the accession of Latvia and the other Baltic states to the WTO is a key priority. We disagree on a small number of components in Latvia's application, however. The United States has presented a reasonable compromise to the European Union that we believe addresses both sides' concerns. We hope the European Union will soon provide a flexible response to this proposal.

Mutual Recognition Agreement (MRAs) Implementation

What is the status of the implementation of the U.S.-EU Mutual Recognition Agreements (MRAs), which was announced at The Hague Summit?

- We are very pleased that the United States and the European Union will begin implementing our six Mutual Recognition Agreements. These accords will reduce costs to industry and

consumers caused by duplicative inspection, testing or other procedures on both sides of the Atlantic.

- The MRA package includes agreements on telecommunications and information equipment, electrical safety, electromagnetic capability, medical devices, pharmaceutical good manufacturing practices and pleasure boats, amounting to about \$50 billion in transatlantic trade. Industry estimates savings of one billion dollars per year, once products can be tested either in the United States or the European Union, rather than both.

Transatlantic Business Dialogue (TABD)

What is the status of the TABD recommendations on trade? How successful has the Administration been in meeting the expectations of the transatlantic business community?

- The TABD has emerged over the past three years as a key forum for promoting business-government cooperation on U.S.-European trade issues. The TABD developed detailed recommendations to eliminate trade and investment barriers during its November 1997 meeting in Rome. The Department of Commerce has established a senior-level interagency group to study these recommendations and determine how best to follow up. The U.S. Government has already implemented one-fifth of the recommendations that the TABD made, and both the United States and EU governments discussed our progress in implementing the other recommendations with the TABD members on April 23 and 24 in Brussels. We will continue to work with the TABD in seeking to create a barrier-free transatlantic marketplace.

Economic and Monetary Union (EMU)

What are U.S. views on EMU? Will the "Euro" undermine the dollar's role as the principal international reserve currency?

- I congratulated my European colleagues on taking the last step earlier this month towards creating a single currency. The United States has consistently supported the post-War European integration process. We recognize that EMU is an historic step in that process and a logical one in EU efforts to complete the European Single Market. There is every reason to believe that the single currency will be launched in 11 of the 15 member states on January 1, 1999, as scheduled. We believe in the benefits of a successful euro, underpinned by sound macroeconomic and structural policies. We do not see a negative impact on the dollar as the principal international

reserve currency. In short, if EMU works for our European partners, it will work for the United States.

Positive Comity Agreement

What is the significance of the Positive Comity Agreement with the EU?

- The agreement will create a more effective tool for curbing anti-competitive behavior and will reduce friction over alleged extraterritorial enforcement of antitrust laws.
- Department of Justice, Federal Trade Commission and European Commission officials have agreed on the text of a new agreement on "positive comity" -- a process whereby a party harmed by anti-competitive conduct occurring principally in the other party's territory may request that the latter party take action under its antitrust laws.
- The new agreement will add to positive comity provisions in the existing 1991 U.S.-EU Antitrust Cooperation Agreement a presumption that positive comity would be used in certain situations and will provide further details about each party's responsibilities.
- The Positive Comity Agreement is going through its final stages of approval, and we hope to sign it in Washington in June.

DIPLOMATIC COOPERATION

Iran/ILSA

(need to update closer to the Summit) Did the President agree not to sanction Total's investment in South Pars to placate Europe?

- No. We are still evaluating the Total-Gazprom-Petronas investment in Iran's South Pars gasfield to determine if it is covered by ILSA. We have made no decisions yet in this case. If the deal is covered, the options under ILSA are (1) to impose sanctions, (2) exercise one of two waiver authorities, or (3) delay the imposition of sanctions for up to 90 days to consult with the relevant governments.

- We are aware of reports that other EU firms are interested in pursuing contracts in Iran's energy sector and we oppose them. If any deals are signed, we will review all the information for possible implications under ILSA and, based on our findings, will take whatever action is appropriate under the Act. ILSA is the law and we will implement it.

Background: Section 9(c) national interest waivers are case specific and apply only to the firms involved in that case, while section 4(c) country-wide waivers "immunize" all firms in a specific country from the application of ILSA.

Has the United States changed its policy on extraterritorial sanctions on European firms? Was there a narrowing of U.S.-EU differences over Iran policy and our assessment of Khatami?

- The United States and Europe are shifting our attention to addressing our shared concerns about the need to change Iran's unacceptable policies. The summit showed that we are working together to constrain Iran's WMD and terrorism policies. A joint statement on nonproliferation highlights our common interest in preventing the proliferation of weapons of mass destruction and their missile delivery systems. Equally, a joint statement on counterterrorism underlines our shared objectives and policy cooperation, reflecting a long-standing record of good cooperation.
- We have stressed the need to coordinate a multilateral approach toward Iran and will continue explore with the EU further ways to work together on policy toward Iran.

[Note: This is a contingency guidance based on the likelihood of reaching agreement by the May 18 Summit on joint statements dealing with nonproliferation and counterterrorism.]

The Libertad Act (Helms-Burton)

Does the Administration intend to press Congress to amend the Libertad Act (Helms-Burton) to give the President Waiver authority?

- The President already has waiver authority for Title III of the Act that authorizes U.S. citizens to sue in U.S. courts companies and individuals trafficking in confiscated property in Cuba. The President has several times suspended for six-month periods this right to file suit. He certified that

these suspensions were necessary to the national interest and will expedite a transition to democracy in Cuba.

- There is currently no Presidential waiver authority for Title IV of the Act that requires denial of visas or entry to those determined to be trafficking in U.S.-claimed confiscated property in Cuba. In the April 11, 1997 U.S.-EU Understanding, the United States and EU agreed to develop disciplines on confiscated property and principles related to secondary boycotts and, in the event we reached agreement, the Administration agreed to consult Congress about providing Presidential waiver authority for Title IV. We believe the confiscated property disciplines that we have agreed to not only can do more to deter investment in Cuba than Title IV, they also can protect U.S. investors from illegal confiscation around the world. For these reasons, the Administration intends to work with Congress to obtain a waiver of Title IV.

What is the effect of the disciplines on confiscated properties? Has the United States convinced the EU to ban investments in Cuba?

- As part of the April 11, 1997 Understanding, the United States and EU have developed a set of disciplines on confiscated properties. These disciplines would go far in protecting the right of U.S. citizens who invest in property overseas. While the disciplines do not require a ban on all investment in Cuba, they will deter investment in illegally confiscated properties through other means, for example, by restricting access to government commercial assistance.

What is the meaning of the statement of principles of enhanced political cooperation in dealing with third countries of concern?

- The statement of principles is an attempt to intensify U.S.-EU consultations in responding to countries whose behavior goes against international norms or threatens international stability and security. We have negotiated these principles to ensure that our approaches to such countries are as effective as possible and complement one another. We hope that through these principles, we will avoid differences that distract us from our common goals in dealing with countries of concern.

NATO/EU Enlargement

Given that the United States still seems to be carrying a disproportionate share of the burden, why isn't the EU doing more to help with NATO enlargement?

- The EU, through its own enlargement process, is making important contributions to the stability and security of Europe by undertaking to bring eleven Central and Eastern European countries and Cyprus into the European Union starting early in the 21st century. EU enlargement complements many of our goals in NATO enlargement.
- EU enlargement will be a costly process for its members. To help prepare the eleven new applicants for membership, the European Commission has opened negotiations and recommended that current members approve an assistance package of approximately \$83 billion for the period 2000-2006. This comes on top of the \$44 billion in loans, grants and technical assistance that the EU committed for these countries for the period 1991-1994 and a similar amount committed for 1995-1999. These figures do not include assistance to Russia, Ukraine and the other New Independent States (NIS) to promote economic development, market reforms and democratic institution building. In 1991-94, the EU (both Commission and member states) committed \$75 billion for these programs in the NIS.

Turkey/Cyprus/Aegean

Why isn't the EU treating Turkey better? Does the United States support EU membership for Turkey?

The United States supports Turkey's aspirations for EU membership but recognizes that this is a decision for the EU to make. At their December 1997 Summit, EU leaders reaffirmed Turkey's eligibility for EU membership, in accordance with the same objective criteria applied to other accession candidates. We strongly support the development of closer ties between the EU and Turkey.

Why is the United States interfering in EU affairs by insisting the EU admit Turkey as a member?

- The United States recognizes that decisions on EU membership are for the EU to make. We also recognize that Turkey must undertake serious and ambitious reforms to meet the criteria for EU membership. Nonetheless, we remain convinced that

Turkey is more likely to make the right choices about its future if the EU makes clear that it is holding a place for Turkey when it is ready.

Does the United States support EU membership for a divided Cyprus?

- Membership questions are for the EU to decide. The United States supports Cyprus' accession aspirations and believes that the prospect of EU membership can help spur progress to find a solution to end the division of the island. Absent a settlement, EU members will have tough choices to make on how to handle a divided Cyprus in the accession process.

Middle East Peace Process

Is the EU cooperating in efforts to seek a peace settlement in the Middle East or interfering in U.S. efforts?

- We greatly appreciate EU support for the Middle East Peace Process. The ideas proposed by the United States are not an end in themselves but are designed to move the parties towards final status negotiations. Given the difficulty of the issues being addressed, including security and further redeployment, any parallel proposal by another outside party could easily distract the parties and divert them from making the hard decisions required of them. EU support has therefore been extremely helpful in keeping the parties focused on the very important issues and decisions before them.

Why isn't the United States willing to accord the EU a political role in the peace process commensurate with the EU's substantial economic role?

- The parties themselves have requested that the United States remain engaged as a facilitator in their negotiations. We have not forced ourselves upon them. As a result, the United States has spent months engaged with both parties at very senior levels to prepare the ground for progress on the Israeli-Palestinian negotiating track.
- The EU does have an important role to play in using its relations with both parties, in particular with the Palestinians. The EU also has a role with the broader Arab world to convince all sides that there is no alternative to making the hard decisions and carrying out the difficult actions needed to achieve progress.

Kosovo

Are the United States and the EU in agreement on a common approach to the crisis in Kosovo?

- We and the Europeans agree on the fundamental points to a solution as reflected in the Contact Group.
 - The parties have to negotiate between themselves.
 - There should be no preconditions for the talks.
 - Both sides need to avoid violence. We urge maximum restraint.

GLOBAL ISSUESU.S.-EU Negotiations on Climate Change

Have the United States and EU resolved their differences over the Kyoto Climate Change Protocol?

- The two sides continue discussions. The Kyoto Protocol represents the first step on a long road to addressing fully the issue of climate change. It has taken years of industrial activity to build up concentrations of greenhouse gases in the atmosphere. It will also take sustained effort to get global greenhouse emissions down to levels that do not threaten our future prosperity and well-being.
- The United States had three major objectives at Kyoto and we achieved the first two -- timetables for reducing greenhouse gas emissions among the developed nations and the use of flexible, market-based mechanisms to achieve those targets. The third objective, securing the meaningful participation of developing countries in the global response to climate change, remains a high priority for the United States.

In Kyoto, the United States advocated and succeeded in getting provisions on international emissions trading included in the Kyoto Protocol. Isn't this simply a way to get out of taking domestic actions to address climate change?

- The United States believes that aggressive domestic action by all industrialized parties is necessary to reduce emissions.

Already, the U.S. Administration has committed to an ambitious \$6.3 billion domestic initiative to stimulate the development and diffusion of energy-efficient and renewable energy technologies. We have also proposed a plan to restructure the U.S. electricity sector that includes provisions to reduce greenhouse gas emissions.

- These efforts begin to lay the groundwork for future implementation of the Kyoto Protocol and demonstrate that we are serious about addressing climate change. We do not consider emissions trading to be a substitute for aggressive domestic action.

Given some of the continuing policy differences between the United States and the EU, what progress can be made in the run-up to the November Climate Conference in Buenos Aires?

- Both the EU and the United States have a strong mutual interest in implementing fully the Kyoto Protocol. The United States plans to continue our dialogue with the EU at all levels to accomplish as much as possible before the next climate convention in Buenos Aires.
- A top priority for the United States is to flesh out rules and guidelines for the use of market-based mechanisms. We consider it vital to achieve maximum flexibility in implementation. We are therefore working toward a transparent, efficient system that will provide lasting environmental benefits. Our ongoing high-level discussions with the EC and individual member states has clarified our differences and we now are looking for possible ways to bridge them.
- We must also work together to secure the meaningful participation of developing countries, whose greenhouse gas emissions are rapidly growing, in our efforts to mitigate climate change.

Given its importance to U.S. policy, what efforts are the United States and EU making to bring in developing countries, and what are expectations for common action?

- The United States and the EU share the view that developing countries need to join the developed world in taking steps to mitigate climate change. We are mounting efforts to share our concerns with these nations in all diplomatic venues, and with

regard to certain key countries, to indicate to them the necessity of assuming binding commitments to limit their greenhouse gas emissions.

When will the United States sign the Kyoto Protocol?

- The United States anticipates signing the Protocol within the one-year period provided for in the agreement, which runs from March 1998 to March 1999. We will sign at a time that makes the most sense to us in terms of the overall diplomatic situation.

PEOPLE-TO-PEOPLE (4th CHAPTER) ACTIVITIES

Democracy and Civil Society Awards

What is the significance of the Democracy and Civil Society Awards?

- The United States and EU share the goal of promoting democratic values and civil society in the new democracies of Europe. In honor of the 50th anniversary of the Marshall Plan and the 40th anniversary of the Treaty of Rome, the United States and EU agreed at our May 1997 Summit to create a \$1,000,000 award program to promote peace, prosperity, democracy, human rights and open market-oriented economies in Central and Eastern Europe and the New Independent States. At this Summit we will announce the first 50 winners of the awards -- 25 from the Central and Eastern European countries and 25 from the New Independent States -- valued at \$20,000 each. We hope the achievements of these award winners will stimulate further activity in these important areas.

Participation of Labor, Consumers in New Transatlantic Agenda

Why have the United States and EU only encouraged business participation in the New Transatlantic Agenda and these Summits? What about labor and consumer groups?

- The AFL-CIO and the European Trade Union Confederation (ETUC) are engaged in an ongoing dialogue on labor issues -- such as international labor standards and the impact of globalization on the workforce -- in the transatlantic context. The United States and EU fully support this effort and we welcome its input to the transatlantic policy debate.

- Cooperation on consumer-related issues is another U.S.-EU priority that we expect to receive increased attention in the year ahead. The United States is working with the EU, consumer organizations and industry to develop an ongoing dialogue on consumer issues. This dialogue will help increase -- on both sides of the Atlantic -- understanding of our respective regulatory systems and address inconsistencies in approach before they adversely affect consumers or industry. This dialogue will provide greater opportunities for transatlantic interaction between consumer organizations. It will also serve as a mechanism for bringing issues to the attention of government and industry.

**U.S.-EU TABD
PHOTO OP**

SCENESETTER: U.S.-EU RECEPTION/PHOTO OP
AT THE FCO'S LOCARNO SUITE

UK Prime Minister Blair and you will join your cabinet members for a brief photo opportunity with the Transatlantic Business Dialogue co-chairs, and six U.S.-EU Democracy and Civil Society award winners and representatives of the Philadelphia Jobs Initiative and Worktrain, a Northern Ireland "welfare-to-work" initiative.

Civil Society Awards. In honor of the Marshall Plan and the Treaty of Rome, we agreed at the May 1997 U.S.-EU Summit to create a \$1,000,000 awards program for communities, individuals and non-governmental organizations who promote peace, prosperity, democracy, human rights and open, market-oriented economies in Central and Eastern Europe, the NIS and Mongolia. U.S. Embassies and EU Missions in 28 countries submitted nominations; 50 award winners were selected, each to get \$20,000, an award certificate and a copy of a signed letter from the U.S.-EU leaders.

TABD. Formed three years ago as a forum for the private sector to discuss obstacles to transatlantic free trade and investment and develop recommendations for eliminating these barriers. The U.S. Chair is Warner-Lambert President and Chief Operating Officer Lodewijk de Vink, and the European Co-Chair is Daimler-Benz Chairman Jurgen E. Schrempp. Last November at its annual meeting in Rome, the TABD made 130 recommendations for trade liberalization, and the USG and European Commission have implemented approximately a fifth of these.

Philadelphia Job Initiative. USIA is helping the collaboration of the Philadelphia Jobs Initiative with Worktrain, a Northern Ireland "welfare-to-work" initiative. USIA supported the initial visit to Ballymena and Belfast. The partners are seeking to identify best practices and share information on innovative programs for training and support for job seekers.

BACKGROUND ON THE LOCARNO SUITE

The building now housing the Foreign and Commonwealth Office (FCO) was originally four separate buildings constructed to house the Foreign, Indian, Colonial and Home offices between 1868 and 1875. George Gilbert Scott, the architect of all four, built them to form a rectangle, each with its own

ministerial offices and reception rooms. The Foreign Office's main entrance, central staircase and three-room Reception Suite (now the Locarno Suite) were especially lavish.

During WWI, the Reception Suite was taken over by war-related offices and became rather dingy. In 1925, the Government decided use it for the signing the treaties negotiated at Locarno, Switzerland intended to reduce the risks of war in Europe. To save time, the peeling walls were covered with silk. The now-renamed Locarno Suite served as the site for official entertainment at the Foreign Office during the inter-war years. In 1940, the press of war again led to the Suite being taken over. The whole space was sub-divided and used until the 1980s.

By then, the Home Office had moved out and the India and Colonial Offices had been absorbed into the FCO. As the whole complex of buildings was in poor condition, the Government announced plans to demolish it. This touched off a public debate that led to its restoration. Restorers set out to bring back Scott's original masterpiece. All three rooms of the Locarno Suite -- the Grand Reception Room, the Locarno Dining Room and the Larger Conference Room -- were completely restored and opened for use in 1992. Today they are used by the Foreign Secretary for receptions and official dinners.

~~SECRET~~

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Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	Friday Working Dinner Session Overview: Asia, Kosovo and Middle East (3 pages)	05/00/1998	P1/b(1) KBH 4/30/2020
002. paper	Background Paper: Ukraine's Financial Situation (1 page)	05/00/1998	P1/b(1) KBH 4/30/2020

COLLECTION:

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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]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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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]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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**THE PRESIDENT'S
TRIP TO
THE UNITED KINGDOM
FOR THE
G-8 BIRMINGHAM SUMMIT**

MAY 15-17, 1998

Office of the Executive Secretary

SECRET

The President's Trip to the United Kingdom for the G-8 Birmingham Summit, May 15-17, 1998

**BIRMINGHAM SUMMIT OF THE EIGHT
BRIEFING BOOK
MAY 15-17, 1998**

SCHEDULE OF KEY EVENTS

SCOPE MEMORANDUM

MEMORANDUM FROM SECRETARY RUBIN

SCENESETTER

FRIDAY AFTERNOON (G-7)

Topics: World Economy
Financial Architecture
Ukraine

FRIDAY WORKING DINNER

Topics: Political Consequences of the Asian Crisis
Kosovo
Middle East

SATURDAY MORNING: SESSION I

Topic: Crime and Drugs

SATURDAY MORNING: SESSION II

Topics: Economic Issues:
• Africa
• Other Development
• Trade
• Energy
• Environment

SATURDAY LUNCH

Topics: Continuation of Economic Issues

SATURDAY AFTERNOON

Topic: Employability

**SCHEDULE OF KEY
EVENTS**

SCHEDULE OF KEY EVENTS

Friday, May 15

3:30 - 5:30 p.m. Afternoon Session: G-7 Economics
6:00 - 10:00 p.m. Opening Reception/G-8 Working Dinner

Saturday, May 16

10:00 a.m. - 12:30 p.m. Morning Session:
Topic 1: Crime and Drugs
Topic 2: Economic Issues
1:00 - 2:30 p.m. Working Lunch: Topic 2 on Economic
Issues (continued)
2:30 - 4:30 p.m. Afternoon Session: Employability
7:00 - 10:30 p.m. Reception/Social Dinner/Entertainment

Sunday, May 17

9:00 - 10:30 a.m. Closing Session
11:00 - 11:20 a.m. Joint Communique Presentation

SCOPE MEMORANDUM

THE WHITE HOUSE

WASHINGTON

May 11, 1998

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL BERGER ^①
GENE SPERLING ^⑤

SUBJECT: Birmingham G-8 Summit

Tony Blair has put his personal stamp on this year's G-8 Summit. As a result, his agenda is not only compatible with U.S. goals, but is an outgrowth of our own efforts to use the G-8 to secure the benefits of global integration and make sure that they are shared more widely both within our societies and among all peoples in all regions. In contrast to recent Summits, Blair has insisted on keeping Birmingham "small." Foreign and Finance Ministers will already have met the weekend before, leaders will conduct their Saturday meeting at an informal retreat, and the agenda will be limited to three topics -- adapting global economic institutions, combating international crime and strengthening the employability of our workforces -- with a focus on how the G-8 can provide concrete benefits for our people.

Much of the world will watch Birmingham carefully for how you and your counterparts respond to the Asia financial crisis. This discussion is certain to be difficult for Hashimoto -- whose recently announced fiscal package has not gained traction, despite its significant size. At the pre-summit G-7 meeting, leaders will announce new measures to modernize the international financial architecture building on the efforts launched at Halifax in the wake of the Mexican crisis. In addition to the formal agenda for the G-8, leaders will likely want to discuss the deteriorating political and human rights situation in Indonesia. Both issues hold considerable interest back home in the context of Congressional consideration of IMF funding. Kosovo and the Middle East peace process are also likely to figure prominently.

cc: Vice President
Chief of Staff

Blair hopes to use the discussion on employability to prod the Continental Europeans to adopt flexible labor market policies, which have demonstrated their worth in both the UK and the United States, and which will be more important than ever in the context of EMU. In particular, Blair will want to highlight his welfare-to-work initiative, the New Deal, and there is likely to be considerable interest in the Earned Income Tax Credit and other tax-based incentive programs. More broadly, the Birmingham agenda will build on and advance long-standing G-8 cooperation on combating crime and drugs and will review other global topics such as continued attention to expanding economic opportunities for developing nations (particularly Africa), promoting development of our energy sectors in the context of market restructuring, and making progress in addressing climate change.

THE BIRMINGHAM AGENDA

You arrive late in the evening on Thursday and go directly to your hotel.

On **Friday morning** you have a bilateral with Prime Minister Hashimoto, followed by a **working lunch** with President Chirac.

Friday afternoon is the only G-7 session of the summit and will take place before the formal arrival ceremony. You will lead a discussion on the world economy (including a review of individual nations' economic situations), followed by the key discussions on the Asia Financial Crisis, international financial architecture and Ukraine's economic situation. A Chairman's Statement will be released that evening.

Friday evening begins with the formal G-8 arrival ceremony at the Birmingham Town Hall, followed by an opening reception attended by business and civic leaders. Also in attendance will be representatives to the G-8 Cities' Summit and Youth Summit. Birmingham's U.S. "Sister City", Chicago, will be represented by its Environment Commissioner and by two students from a local high school. We are arranging for you to meet with them for a photo op.

Friday dinner will be the first working G-8 session and will cover regional political issues, particularly Asia's political response to the financial crises, Indonesia, Kosovo and the Middle East Peace Process. You and Tony Blair will co-lead the Middle East discussion.

On **Saturday morning** you and the other leaders will meet at Weston park, a country retreat. The morning session will focus on transnational crime. You also will begin to discuss broad global economic themes. You will lead a discussion on Africa. Other development issues, trade, energy (including a readout from Yeltsin on the Moscow G-8 Energy Ministerial), and the environment (especially climate change) also will be discussed. This discussion will run into the **Saturday lunch** session.

On **Saturday afternoon**, the agenda will focus on employability, allowing each leader to review the steps their nations have taken in the last year to promote wider job opportunities.

Saturday evening begins with a formal reception and then a social dinner with spouses. This will be followed by entertainment at the Birmingham Concert Hall.

Sunday morning will be devoted to wrapups and to reviewing the Communique. Prime Minister Blair will hold a solo press conference to announce the Communique.

OBJECTIVES

Your first objective is to demonstrate the resolve of the leading financial powers to adapt the international financial institutions to make them more effective at preventing crises and responding effectively when crises do occur. The ongoing crisis in Asia highlights the importance of enhancing investors' ability to assess market risks through improved information flows, making IMF conditions and decisions more open to public scrutiny, strengthening supervision of national financial systems through multilateral surveillance and ensuring the private sector bears the consequences of its investment decisions through burden sharing. The public -- and Congress -- will be looking for progress on these issues. In addition, you should emphasize that each member of the G-7 has a responsibility to contribute toward stability in Asia, especially Japan, where it is critical to reinvigorate domestic demand-led growth.

Your second objective is to consolidate a common G-8 strategy for making sure that the benefits of global integration are shared among all regions and people. You should use discussions on Africa and development to advance our approach to supporting the efforts of aggressive reformers to link themselves to the global economy. Among other things, this will require providing greater access for these economies to our markets, and using

limited assistance resources to support local efforts at good governance reform, poverty alleviation, progress in education and fighting infectious diseases.

A third objective is to convince your counterparts that the structural reforms needed to generate growth in our economies do not need to come at the expense of our workers. The strength of the U.S. economy in providing new jobs will speak largely for itself, but there are specific programs, such as the EITC and welfare-to-work, that can be illustrative for the G-8. Blair will look for your support as he pushes Europe to reduce labor market rigidities and he promotes Labour's New Deal.

A fourth objective will be to demonstrate the effectiveness of G-8 cooperation in fighting transnational crime and to advance that cooperation to a new level. Over the last two years, the G-8 has led in designing tools needed to combat transnational crime. The United States spearheaded this effort, shaping the development of the Lyons Group's 40 Recommendations on Transnational Crime and using our presidency to drive forward on implementing those recommendations. Major areas of cooperation include bringing criminals (especially those hiding in safe havens) to justice, combating money laundering, seizing the assets of convicted criminals, countering cyber-crime, stopping the illegal trafficking of firearms and drugs and addressing alien smuggling. You will need to convince your partners that for these efforts to succeed in the long term, nations will need to adopt domestic tools that can fully empower their law enforcement agencies to keep pace with organized crime. It will also be important for you to voice your support for UNDCP (the UN's worldwide drug program), which you will underscore by announcing your plans to attend the June UNGA Special Session on International Drug Control.

A fifth objective will be to demonstrate that we are prepared to take concrete action to protect the global environment. Other leaders used last year's meeting to criticize the United States on climate change. With the Kyoto agreement, the United States has shown its willingness to tackle this problem. The key for this summit is to lock in a common approach on the "steps needed to ratify the Protocol and make Kyoto a reality": taking domestic action to reduce greenhouse gas emissions, establishing rules for market-based mechanisms and forging a strategy for securing the participation of key developing nations. You also should push leaders to join the United States in applying environmental standards to the lending programs of their export credit agencies. Such standards could make an enormous

difference in protecting the global environment. Chancellor Kohl may raise forests; if he does, you should urge leaders to take concrete steps through the G-8 Forests Action Program as the most productive path forward.

**SECRETARY OF THE
TREASURY MEMO**



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 11, 1998

98 MAY 11 AM 1:25

MEMORANDUM FOR THE PRESIDENT

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

This note highlights several key economic issues that will be discussed in Birmingham. Our G-7 Finance Ministers' discussions this past weekend, reinforced for me Treasury's view that there are more serious potential problems in most of these areas than is generally thought, and that expressing unrealistically positive views can come back to bite in many ways in the months to come.

Economic Issues for the G-8 Countries

You will be discussing the world economy from a position of remarkable strength for the United States economy. The United States' non-inflationary, high employment expansion continues to be on track. You may be questioned on the possibility of a U.S. asset price bubble; in my view the best answer is to discuss the positive outlook for our economy, and to finesse the market since whatever you say might be repeated. While you will want to avoid triumphalism about the economy, you can point out that our flexible labor and capital markets, entitlement reforms, fiscal restraint, and steady monetary policy have been central to our sustained growth and strong financial markets, and at the same time, point to our problems in public school education, the inner cities, etc. to provide balance.

The economic situation of our G-7 partners is mixed: we remain very concerned about Japan's economy and financial sector, a concern almost universally shared (witness the decline of the Nikkei), while Europe on the eve of EMU is experiencing a gradual recovery, although it will be important that European countries tackle needed structural reforms to make the EMU a success.

Japan

Even with full implementation of the latest fiscal stimulus package, Japan's economy is likely to achieve little growth this calendar year, and less than 1% growth in 1999. The financial system is widely viewed as very vulnerable, with a substantial number of the major banks quite weak. Many market participants continue to perceive a risk that the yen could weaken significantly further against the dollar due to their weak economy, with serious adverse impact on our trade balances. In any case, Japan's surplus with the United States is projected to expand substantially from last year's level, which could lead toward a build up of protectionist pressure. The

stimulus package announced on April 24, with temporary tax cuts and spending measures, should reduce the risk of recession and produce some growth later this year. This package by itself will be insufficient to promote a lasting recovery, and we think that the most immediate issues are to restructure the financial sector in an effective manner and to commit to long-lasting fiscal measures. There is still significant risk of a serious economic and financial crisis that, among other things, could undermine recovery in Asia and put pressure on the Chinese to devalue, which could then set off problems around the world. We are sending you a separate note with more details on Japan's policy options.

Prime Minister Hashimoto will seek reassurances from G-7 Heads for Japanese economic policies in the hope that markets will turn in his favor. In fact, market participants will judge what Japan does and will not be influenced by positive views expressed by the leaders. While you should welcome progress, you should note the importance of progress on reforming the banking system and deregulation, and of promoting long-lasting domestic-demand-led growth. You should emphasize that markets will adjust for fundamental change rather than simply to public comments. Also, in my view, unrealistic comments could be used against you in our country in the months ahead as the trade balance worsens, especially if economic conditions in Japan, and the yen/dollar rate, deteriorate substantially.

EMU

Continental European economies are in the early stages of a moderate recovery, which has smoothed the way for a more inclusive 11-country EMU. However, particularly in Germany, this has been mainly export led. We think that a successful EMU, with dynamic European growth based on open markets and sound economic structural policies, will benefit the United States. It is in our national interest (and in that of world growth) for Europe to succeed in achieving domestic demand-led growth with low inflation, and a deep and efficient financial market.

We are not concerned that the euro will drastically reduce the dollar's role in the world economy. Any reduction in the dollar's role, if it occurs, will take place gradually.

The Europeans still face daunting challenges of structural reform of their labor, product, and capital markets, and their success in these areas will be critical to the success of EMU. Moreover, as noted in the fight over the Presidency of the European Central Bank (ECB), policy making among 11 disparate countries can be contentious as these countries conform to single monetary policy, especially when the business cycles in the various countries become out of sync. It will be important that monetary integration not distract from the politically difficult task of broadening the EU, which is important as a corollary to NATO expansion.

Russia and Ukraine

President Yeltsin will be looking for a vote of confidence in your public comments for his new government's commitment and ability to push through economic reforms. Russia remains

vulnerable due to financial market contagion and fiscal weakness, especially since compliance with IMF program targets is now once again in doubt. Deputy Secretary Summers will be in Russia immediately prior to the Summit to consult on a near-term strategy for weathering the current period of financial vulnerability, and on the prospects for fundamental fiscal and other reforms this year.

The situation in Ukraine is dire. Under Secretary Lipton is there now, but the political situation may well preclude effective action.

Asia

With the notable exception of Indonesia, we have seen some signs of a fragile stability in Asia. But the situation remains very tenuous, great difficulties remain for Thailand and Korea, and Indonesia's situation is again deteriorating.

- Thailand has made the most progress in taking the necessary steps to strengthen its macroeconomic policies and restructure its financial sector. However, the full impact of the financial crisis has not yet hit the real economy, the banking system, and the citizens, and many very difficult problems still need to be resolved.
- Korea's financial picture has improved due to the sound macroeconomic policy course being set by the Kim Dae Jung Government. External reserves have recovered faster than expected, diminishing Korea's need for "second-line" financing from the U.S. and other bilateral creditors. However, as in Thailand, the real economy will get worse before it get better, and President Kim has many difficult remaining tasks including dealing with labor unrest, rising unemployment, high private sector debt levels, and continuing pressure for the government to loosen policies prematurely.
- Indonesia's situation is precarious. Progress in getting macroeconomic policy back on track is being overwhelmed by political unrest. Indonesia has complied with the monetary program targets and is making significant, albeit not complete, progress on structural reform measures. The violent eruption of student protests last week and the potential for a harsh military crackdown, however, have impacted markets substantially. Human rights concerns could weaken international support, and there is great concern in the markets and amongst the G-7 Finance Ministers about the political situation in Indonesia.

Financial Architecture

The finance ministers will provide you and the other Heads with a report on proposals to strengthen the international financial architecture. At Birmingham you can impart momentum to our work, including the working groups created at the Special Finance Ministers meeting of 22 nations that you called and that was chaired by the United States. Treasury and the Federal

Reserve have been engaged in an intensive effort to explore all sensible ideas for reform. We have identified three key areas and created a working group from the 22 nations for each:

- **Better Information**: Strengthening market discipline through transparency and disclosure to expand the types of economic and financial data made available by governments; exploring ways to provide more qualitative descriptive information on financial sectors- especially banks; increasing the transparency of the IMF; enhancing the incentives for countries to disclose information; and exploring ways to induce creditors and investors to make use of available information and undertake more rigorous risk analysis.
- **Building strong national financial sectors**: establish a new institutional mechanism to fill the need for more systematic surveillance of national financial, regulatory and supervisory systems; and establish appropriate incentives for countries to meet international standards in these areas.
- **Moral Hazard**: Creating mechanisms so that creditors and investors more fully bear the consequences of their decisions, and, as a corollary, minimizing repayment with IMF and other resources to the greatest extent possible consistent with restoring financial stability. Mechanisms could include: strengthening national bankruptcy laws; more flexible forms of debt agreements and indentures; and lending into arrears by the IMF.

Development and Africa

Debt Reduction

You will find that there is support for making debt-relief programs work effectively. The international community has provided deep debt reduction totaling \$35-40 billion for the poorest countries over the past decade; an additional \$40 billion in relief is expected under current mechanisms, which includes the Heavily Indebted Poor Countries initiative (HIPC). Thus, total reduction would be roughly \$80 billion out of the total debt of \$125 billion for the poorest countries. We believe these programs are sufficient in amount and appropriately targeted to achieve manageable debt burdens for the poorest countries.

Unfortunately, the full extent of debt relief for the poorest is not widely understood. The UK expects religious and other groups to form a "human chain" around the Birmingham Summit to press for deeper and faster debt reduction for a broader range of countries. In addition, President Chirac may also press for extending current "Lyons" terms (up to 80% debt reduction) to all poor countries irrespective of whether the countries have sustainable debt burdens or not. President Chirac is partially motivated by ensuring that France's client states, which may not need extra relief, are included in HIPC. On the other hand, Germany will press strongly to contain the cost of the HIPC initiative. It is worth noting that excessive debt relief could backfire, by making creditors wary of these nations' commitments to paying debts. This could then limit these countries' access to needed capital.

Given the limited resources, our position is to:

- Assign priority to poor countries with unmanageable debt burdens as opposed to countries with high but manageable debt;
- Urge that all of the international financial institutions (IFIs) provide interim debt-service relief during the three year period in which countries establish their track record of economic reform for final debt relief under HIPC (which we led in developing and advocating); and
- Enhance these programs by encouraging governments to provide new assistance to the poorest countries in the form of grants and forgiving outstanding bi-lateral concessional debt (ODA) -- debt at below market interest rates (USAID has provided foreign assistance in the form of grants since the mid-1980s, whereas France, Germany, and Japan have continued to provide concessional debt). The UK and Japan support our position on forgiving ODA debt, but Germany and France may resist.

Debt relief should be absolutely contingent on reform, otherwise not much is likely to be accomplished by the debt relief.

Post-Conflict Countries

We (and the United Kingdom) have taken the initiative to press for special measures for post-conflict countries, building on the increased interest in this area following your trip to Africa. We hope to have a coordinated multi-year approach to restoring stability, democracy, and economic growth. That effort should involve bilateral donors and multilateral institutions acting to reintegrate these countries into the world economy. The most pressing issue is mobilizing resources for economic and humanitarian priorities, rather than using them for debt payments. Measures to defer immediate debt service to both bilateral and multilateral creditors are important. Therefore, for those countries with exceptionally large arrears to the IFI's, a solution to their arrears problems needs to be devised to allow for both new lending and reduction of outstanding debt to a sustainable level.

Africa

Debt reduction, of course, is not an end in itself but a means to helping provide an environment for financial stability and greater economic growth. Recent economic developments in Africa provide reason to be encouraged, but the road ahead will be long and difficult to achieve even minimally decent standards of living. The World Bank now projects 4% annual growth in Africa through 2006. If the population of Africa increases at 2-1/2%, the per capita GDP increase would be 1-1/2%, and at that rate, today's average GDP per capita would take roughly 50 years to double. At 6% GDP growth per annum -- a very ambitious target -- doubling per capita GDP would take roughly 20 years.

As macroeconomic stability has emerged in Africa, we think it is necessary to promote Africa's integration into the global trading and investment system. Some key areas that we think could be highlighted are to: ensure liberal access to developed nations markets for Africa's exports (in Europe, the main constraints are to Africa's agricultural exports, in the US, its textiles); provide more effective support, primarily via the IFIs, for regional integration, improvement of investment climates, and accelerated liberalization of trade and investment regimes; and support good economic governance and effective anti-corruption efforts. Recent research demonstrates that aid to countries not reforming is wasted, but is very important for countries doing the most to reform themselves. This is why we want to ensure special support is made available to those countries that are doing the most to make tough economic and political reforms, so that, at least, a few African success stories can emerge for other to emulate.

SCENESETTER: BIRMINGHAM SUMMIT

Birmingham is at the center of the West Midlands, 118 miles northwest of London. It is Britain's third largest city, with a population of 1 million, and 6 million live within a 50 mile radius. Known as the "city of a thousand trades," Birmingham is the home of Britain's motor vehicle industry and has a close "sister city" relationship to Chicago. In many ways the Industrial Revolution began in Birmingham when James Watt (who lived there from 1775 to 1819) patented his steam engine. His firm, Boulton and Watt, sold the steam engine throughout the world. George Cadbury also first began making chocolate on a commercial scale in Birmingham in 1824.

Friday's G-8 arrival will be at the entrance to **the Council House**, followed by a welcome reception given by the City in the banqueting rooms upstairs (there will be 400 invited guests, including local notables and participants in the Youth Summit). Construction of the Council House (1874-79) was the first manifestation of the rise of local government in Britain and was seen as a symbol of Birmingham's industrial might. City father Joseph Chamberlain was Mayor at the time (there is an exhibit on the "Chamberlains of Birmingham" - a family which included former Prime Minister Sir Neville Chamberlain -- in the museum corridor on the way to the dinner).

Friday's G-8 working dinner will be held in **the Birmingham Museum and Art Gallery**. It will begin with a Heads-only reception in the "round room" (Leaders can depart the Birmingham Council House reception as soon as they wish for the Round Room reception). The high-Victorian style museum was designed by the same architect as the adjacent Council House and opened in 1885. The dinner will be held in the two story high Museum Cafe, and some of the museum's best pre-Raphaelite paintings and other exhibits will be specially displayed around the room.

Saturday's retreat will be held at **Weston Park**, 35 miles northwest of Birmingham in Staffordshire County (note: the retreat venue has not/not been announced publicly by HMG, and it is hoped it will remain confidential until it takes place). The house is the ancestral home of the Earls of Bradford, and the property is mentioned in the Domesday Book. It was largely rebuilt in Palladian style in the 17th century, with many of the furnishings and extraordinary tapestries brought from

France. "Capability" Brown designed parts of the gardens and 1000 acre park. The retreat's working sessions will be held in the glass-roofed **Orangerie**. The luncheon will be in the dining room, dominated by Robert E. Pine's "Homage to Handel" (Pine was an 18th Century British painter who made his reputation in the U.S., painting George Washington several times). There are also two portraits (of Sir Thomas Killigrew and the Countess of Sunderland) by van Dyck.

Saturday's social dinner for leaders and spouses will be held at the **Birmingham Botanical Gardens**. Designed by John Claudius Loudon, a leading 19th Century landscape architect and journalist, the Botanical Gardens were opened in 1832. The Glasshouses were added in the late 19th century and the Botanical Gardens today are much used by civic and school groups from the Midlands region. Weather permitting, Leaders will have drinks on the terrace overlooking the gardens and have dinner in the adjacent **Pavillion** room.

Following the dinner, a concert to showcase contemporary British music will be held in the 2000 seat **Symphony Hall**, part of the strikingly contemporary **International Convention Center** (ICC) complex completed in 1991. The concert will be televised live to a parallel outside event in a Birmingham park (where 35,000 are expected). The interior of the Symphony Hall was designed by Artec Consultants of New York and features "tunable" acoustic elements (the stage roof can be raised and lowered, baffles opened and closed, etc.) that are among the world's most sophisticated.

Sunday's concluding G-8 working session (and Friday's G-7 meeting) also will be held at the ICC, in a purpose-built meeting room constructed within Hall 4. Prime Minister Blair's closing press conference will take place in the ICC Theatre.

FRIDAY AFTERNOON G-7 SESSION

This session will focus on financial and economic issues where cooperation among the G-7 is central, namely on economic coordination, reform of the international financial system and nuclear safety issues related to Ukraine. Following the session, the UK will release a G-7 Statement reviewing developments in the G-7 economies and highlighting key commitments on modernizing the financial architecture. You will be asked to lead off the discussion on the world economy.

[Need overview points]

Global Economy

Japan. You will want to praise Hashimoto for the fiscal plan he announced, note the importance of banking reform and deregulation, and sound a note of caution about continued market unease and growth in the current account surplus.

Assuming that the recently announced fiscal program is carried out promptly, there should be a significant favorable impact on the Japanese economy in 1998: perhaps adding as much as 1.1 percentage points to growth. Even so, Japan's economy is expected to achieve little or no growth (0.1 percent rise in GDP) this calendar year, and only a weak upturn (0.9 percent growth) in 1999. In effect, the program should move Japan's economy out of recession to slow-to-flat growth and, most importantly, stop the macroeconomic situation from unraveling further. Whether this program is enough to put Japan firmly on an upward path by restoring business and consumer confidence remains to be seen, but the markets are clearly skeptical. Sustained growth will also require measures to repair the banking system and open and deregulate the economy. In addition, we are concerned about a likely sizeable rise in Japan's current account surplus this year (to about \$125 billion, or over 3% of GDP, up significantly from \$95 billion in 1997).

Europe. On EMU, you will want to make clear that the United States welcomes this historic move towards closer integration (while recognizing the legitimacy of the UK's decision not to join), but express concerns about stagnant job growth.

The Continental Europeans will be in a self-congratulatory mood, having just put inaugural plans for EMU in place, with 11

founding members, and agreed on a new head of the European Central Bank, following a heated debate. However, Europeans still feel the problem of stagnant job growth. Only 59 percent of the working age population was employed in the EMU-11 in 1996, compared with 75 percent in the United States. We expect domestic demand to strengthen somewhat this year in France, Germany and Italy, but lingering structural problems and self-inflicted wounds (such as the planned reduction in the workweek) in France and Italy, cast doubt on the prospects for strong investment-led recovery.

United States. *America's record of job creation, sustained growth and low inflation remain a source of envy (some Europeans thought there was too much "triumphalism" around Denver) -- and reassurance -- around the world. Hashimoto may voice concerns about a possible bubble in the U.S. stock market; you can note that we are watching the situation closely but the underlying strength of the U.S. economy provides little grounds for concern.*

Economic growth was very strong in 1997, with real GDP posting its largest gain in ten years. With 1998 first quarter growth at 4.2 percent, the economy has now been growing at a rate of more than 3 percent for six consecutive quarters. Rapid increases in consumer spending and housing and equipment investment in the first quarter more than offset the deterioration in the trade balance associated with declining exports to Asia. Employment gains have been strong, with 15 million new jobs added to the economy since 1993 and the unemployment rate around 4.7 percent. (Growth in manufacturing jobs slowed recently, possibly reflecting the impact of the Asian crisis.) Wages have started to accelerate, rising by 4.0 percent over the twelve months ending in March. Nonetheless, so far, there are few signs of inflationary pressures. Core consumer prices were up only 2.2 percent through the twelve months of 1997, the lowest since the mid-1960s. The federal deficit was cut from an all-time high of \$290 billion in FY92 (4.7 percent of GDP) to \$22 billion in FY97 (0.3 percent of GDP), and the budget is likely to show a surplus this year -- for the first time in three decades.

Asian Financial Crisis. *You should note that Asian markets have stabilized but caution that the situation is still fragile and stress the importance of continued G-7 solidarity -- especially on Indonesia, where the deteriorating political and human rights situation is provoking growing concerns.*

Discussion is likely to focus on Indonesia, where macroeconomic policy is back on track but implementation of structural measures has been uneven. The intensification of student protests, human rights violations and the potential for a harsh military crackdown are major sources of concern, which will be discussed at dinner. On Korea, implementation of reforms remains strong. The Korean government has expressed interest in disbursement of our "second line" funds; Treasury has tried to discourage this request on the grounds that it would send the wrong message to markets.

Financial Architecture

You will want to highlight the importance of modernizing the international financial architecture, endorse the recommendations on transparency and policy surveillance, and urge finance ministers to intensify work, particularly on private sector burden sharing.

The 1994 Naples G-7 Summit initiated a review of the international financial institutions that culminated in a set of recommendations at the 1995 Halifax Summit, shaped in large part by the 1995 Mexican financial crisis. The Halifax reforms include the creation of a set of guidelines for the dissemination of economic data, the Special Data Dissemination Standard (SDDS), the establishment of accelerated IMF procedures for emergency financing and the creation of the New Arrangements to Borrow (NAB) to expand the financial resources available to the IMF in times of crisis. The Asian crisis and Congressional consideration of IMF and NAB funding have again heightened the urgency of modernizing the international financial architecture. Although there has been progress on the Halifax recommendations, in retrospect it is clear that implementation efforts were inadequate and the recommendations did not go far enough, especially on making the IMF more open to public scrutiny and on private sector burden sharing.

The United States has taken the lead in advancing dialogue on this issue. Secretary Rubin and Chairman Greenspan convened a meeting of twenty-two finance ministers and central bank governors to follow up on your Vancouver pledge to Singapore Prime Minister Goh. Within the G-7, the finance ministers have developed a report on "Strengthening the Global Financial Architecture," which will be released following the G-7 Heads Session. It covers four broad areas:

Transparency. There is consensus on the need for greater transparency by both national governments (economic and financial data) and the IMF (decision-making, policies, and country review). Finance ministers have agreed that published data should be expanded to include both public and private sector liabilities and countries should be encouraged to release their IMF reviews. However, we would like to see further improvements, for instance requiring IMF borrowers to disseminate credible, comprehensive financial data and making the release of IMF country reviews mandatory. In addition, there is intense disagreement on whether the IMF should issue public warnings on potential crises, with the United States isolated in opposition. Treasury is concerned that the market should not be encouraged to rely on the IMF for warnings, since they inevitably would be subject to error and this could lead to unwarranted and unsound complacency on the part of investors.

Liberalizing Capital Markets. There is broad agreement on the need for capital market opening to be supported by appropriate domestic policy reforms. Although Treasury has traditionally been a strong advocate of amending the IMF articles to subject a country's restrictions on international financial transactions to IMF review, they have recently toned down their advocacy in response to concerns from Gephardt, Bonior, Frank and others that such an amendment has the appearance of a "backdoor Multilateral Agreement on Investment" that could undermine national labor and environmental protections. Separately, there is a chance that others may propose "Tobin taxes" or capital controls (for instance on short-term investments, as in Chile) in order to limit volatility. Treasury continues to oppose such measures on the grounds that they discourage productive investment and are easily circumvented.

Strengthening National Financial Systems. There is broad agreement on the need for a new multilateral system for surveillance of domestic financial sector supervision. However, following substantial disagreement on the specific institutional arrangement (with the UK and Canada advocating new institutions and the United States preferring cooperation between existing institutions), finance ministers agreed to defer a decision. There is consensus on the need for wider adoption of the international standards for banking supervision (the "Basle Core Principles") that were endorsed at Halifax (and embraced at the Summit of the Americas) and development of standards in areas such as accounting, loan classification and corporate governance.

Private Sector Burdensharing. Most of the G-7 -- with the partial exception of Japan -- agree on the importance of developing mechanisms to ensure the private sector shares the burden of managing crises, recognizing that official finance is unlikely to be adequate. Most also agree that the IMF should be allowed to continue lending to countries that are in arrears on private sector debt, in circumstances where this facilitates an "orderly workout" with other creditors (as was done in the case of Korea and Indonesia). However, there is little agreement beyond that. Germany advocates that the IMF be permitted to sanction "standstills" or suspension of a country's external payments under certain circumstances; we are wary of going down this path because it raises a host of complicated legal issues (most basically, there is no international bankruptcy court to prioritize claims). We have suggested as a more modest step that bond contracts include clauses to institute orderly workout procedures in the event of default (for instance, by requiring that all bondholders must participate and designate a common negotiating representative).

Ukraine

The Ukrainian government has consistently failed to act on promised economic reforms, bringing the country to the brink of a financial crisis. In the run up to the March 29 parliamentary elections, the government spent freely, leading the IMF to suspend Ukraine's program. Ukraine financed its spending by issuing two Eurobonds to raise \$1 billion at the highest rates ever for Europe. Kuchma recently ordered his economic team to renew negotiations with the IMF; they have now agreed on a solid multiyear program that will go to the IMF board once Ukraine completes a number of prior actions. The key unknown is whether Kuchma has the political will to move legislation through parliament. The left won about 40 percent of the seats in the March 29 parliamentary elections - by no means the leftist sweep the press originally portrayed. That said, centrist parties are sharply divided. The course of reform, and Kuchma's presidential chances, depend on his ability to unite the center around an economic strategy to encourage investment and growth.

The Heads are not currently scheduled to discuss nuclear safety in Ukraine, but European partners may raise some potentially contentious issues concerning proposed European Bank for Reconstruction and Development (EBRD) co-financing for the Rivne-4/Khmelnitsky-2 (R4/K2) reactors in Ukraine. President Kuchma recently made a strong statement linking completion of R4/K2 to fulfilling Ukraine's commitment to close Chornobyl by

2000 under the 1995 G-7/Ukraine Memorandum of Understanding on Chernobyl Closure. There are two issues: 1) Ukraine must implement a Financial Recovery Plan for the electricity sector to develop a financially viable sector and satisfy EBRD due diligence requirements; 2) the EBRD has to offer a significant level of financing for R4/K2 that will permit the project to go forward. We are working the issue at various levels to ensure that the EBRD comes forward with an adequate contribution.

SUMMARY POINTS FOR BIRMINGHAM SUMMIT:
FRIDAY AFTERNOON G-7 SESSION

- **Global Economy:** United States working to sustain non-inflationary growth. Given crisis in Asia, more determined than ever to maintain growth and openness in United States, but cannot act a world's growth locomotive alone. *(I asked) Given size and strength of U.S. economy, unlikely that stock correction would do real economic harm.*
- **EU:** Welcome EMU announcement. European integration and successful EMU in everyone's interest, but should not distract from important tasks of structural reform to enable sustained growth in domestic demand.
- **Japan:** All have interest in strong domestic recovery. Welcome fiscal measures. Hashimoto deserves praise, but must implement quickly, strengthen financial system, open and deregulate economy.
- **Asia Financial Crisis:** Real hardships just starting to be felt, but must implement sound adjustment policies to restore confidence. G-7 should encourage domestic demand-led growth, keep our economies strong and support market openness, doing what we can to alleviate burdens on the poor.
- **International Financial Architecture:** Must modernize the international financial system to make as modern as markets. Interrelation between governance issues and financial stabilization: endorse recommendations on transparency and policy surveillance, and urge ministers to intensify work, particularly on private sector burden sharing and ways to promote orderly creditor workouts while not creating moral hazards.
- **Ukraine: Economic reform.** Kuchma must **quickly** build consensus for economic strategy encouraging investment and growth. First step: implement prior actions to launch new IMF program. **Nuclear safety.** Maintain G-7 consensus to support EBRD financing for R4/K2 only if they meet economic, financial, safety and environmental criteria: major obstacle is insolvency of electricity sector. G-7 never accepted Kuchma's view that **Chornobyl** cannot close without building R4/K2 reactors. Restarting Chornobyl not urgent -- electricity supply currently satisfies demand.

FRIDAY AFTERNOON G-7 SESSION

KEY POINTS

World Economic Outlook (your lead)

United States

- Economic news at home extremely positive. Some have suggested this might herald a new paradigm, that business cycle is dead. Business cycle has not been repealed, but has been altered -- in all of our countries. Integration of new technologies, regulatory liberalization and globalization of production are leading to profound changes in organization of workplace, how we do business, structure of industries.
- Whether or not business cycle is dead, must act responsibly on the assumption that it remains in effect. I am determined to remain vigilant -- for any signs of imbalances. Need to be watchful to make sure we continue virtuous cycle of declining government imbalances, low interest rate and strong private investment and employment, rather than returning to vicious cycle of 1980s.
- That is why I have been insistent that any fiscal surplus must be directed first at strengthening social security trust fund and on directing tax incentives at investments in education and training.
- Also determined to move forward aggressively on market opening. U.S. economy has benefited tremendously from dynamic trade sector over past five years. Challenging to sustain public support; that is why it is so important to give workers tools they need to compete in international economy and to strengthen labor standards around the world.
- Given ongoing crisis in Asia, more determined than ever to maintain growth and openness in United States. Still, United States cannot act as world's growth locomotive alone.
- (If asked) Difficult to assess whether stock prices are too high. Nonetheless, Alan Greenspan and Bob Rubin are watching situation closely. Given strength of the U.S. economy, doubt that even a sizeable correction in stock prices would do significant damage to the economy.

Europe

- Welcome announcement that 11 European countries have decided to establish Economic and Monetary Union (EMU). This is historic development. European integration and successful EMU are in America's interest.
- At this important time, critical that Europe be a source of growth in the world economy. EMU must not distract Europe from very important task of structural reform to enable sustained and robust growth in domestic demand.

Japan

- World and Asia in particular have strong interest in seeing Japan generate strong domestic recovery. Welcome fiscal measures announced last month by Japan. Prime Minister Hashimoto deserves praise for taking positive steps in difficult environment.
- Important to put these measures into place quickly and to move forward with steps to strengthen financial system and open and deregulate economy. Together, can help establish basis for sustained, domestic demand-led growth.

Asia Crisis

- Asia crisis shows that the key to restoring confidence is implementation of sound adjustment policies, not amount of official financial support.
- While financial situation is stabilizing in most countries in the region, pain and hardship from the crisis are just beginning to unfold as economic restructuring takes hold.
- G-7 must continue to emphasize importance of implementing reforms, while doing what we can to alleviate the burden on the poor.
- Most important contribution our countries can make is to encourage domestic demand-led growth, keep our economies strong and support market openness.

New International Financial Architecture (Hashimoto lead)

- Asia crisis shows we must do more to make international financial system as modern as the markets. Must carry forward work begun at Halifax to improve capacity of financial system to prevent and respond to crises.
- Must also examine interrelation of governance issues with sustainability of financial stabilization efforts. In both

Korea and Thailand, democratic legitimacy of governments has clearly strengthened stabilization efforts. In contrast, Indonesia situation troubling.

- Critical lesson from the Asian crises is that more and better information must be provided -- and used well in evaluating risk. Endorse finance ministers' recommendations to improve availability of data, for instance in the IMF and the Bank for International Settlements (BIS).
- Critical that the IMF itself be more open, including publication of program lending conditions. Should make public its concerns about countries' policy making and vulnerabilities through release of regular reviews.
- Wary of asking IMF to provide public warnings of crisis. IMF could often be wrong and even contribute to instability. Don't want to provide private sector with false sense of complacency.

Capital Controls/Taxes (if raised)

- Controls intended to limit capital flows can create opportunities for corruption and can often be circumvented. Instead should consider financial regulation to reduce reliance on "hot" money (short-term lending).
- Tax on international capital transactions ("Tobin tax") not an effective way to limit volatility. Could hamper productive investment, and likely to be circumvented, by investors moving assets to offshore, if not imposed globally.

Strengthening National Financial Systems

- Critical that the process of liberalizing capital markets is supported by sound macroeconomic and supervisory/regulatory policies.
- Multilateral effort is needed to monitor and assess national financial supervision and regulation. Filling this gap can induce national authorities to bring practices to international levels and help reduce financial risk.
- Do not yet have firm view on how to structure such arrangement, but do not favor creation of another agency. Prefer structured cooperation between World Bank, IMF and appropriate international regulatory groups.
- Need to encourage wider compliance with existing standards (such as "Basle principles" on effective banking supervision) and to develop a more complete range of international standards to guide national efforts to strengthen regulation.

Private Sector Burdensharing

- Won't always be successful in preventing crises from happening. When they do occur, important that international community -- through the IMF -- steps in to provide breathing room.
- Should not do this in a way that suggests that there will inevitably be a "bailout" or that the private sector will not bear consequences of decisions. Need to find more effective mechanisms for sharing burden with private sector; there simply may not be enough official finance for future crises.
- Complicated area, but a high priority; ask finance ministers to focus efforts here.
- Clearly, first step is permitting IMF to continue lending even when borrower is in arrears -- in circumstances where this will encourage orderly workouts with other creditors. Should also explore ways to make bond contracts more conducive to orderly workouts.
- Issue of standstill (allowing country to suspend international payments) is complex; need to understand better how this would work.

IMF Funding (if raised)

- Committed to securing funding for NAB and IMF quota increase. Successful vote in Senate (86-14). Right now caught up in unrelated political issue in House, but hoping to get a vote this summer. Deteriorating human rights situation in Indonesia will make this more difficult.

Ukraine (Kohl lead)

- Believe we share similar concern over slow pace of reform in Ukraine. Left won 40 percent of seats in March parliamentary election; by no means a leftist sweep; but centrist parties sharply divided.
- Course of reform, and Kuchma's presidential chances, depend on his ability to unite the center around an economic strategy that will encourage investment and growth.
- Vital to move quickly. Kuchma must act now to get a bounce from the economy next year. Reform will only get harder when the winter cold hits.

- Important that we stress to Kuchma the need for leadership and decisive action. First step is to implement prior actions to launch new IMF program.
- Reform not just bad news; slashing regulations, cracking down on corruption, reducing bureaucracy can be politically popular and encourage jobs in small business sector.
- *(If raised - need to be lenient)* Understand constraints, but risk of financial crisis very real if Ukraine takes too soft a line. Ukraine needs comprehensive program with IMF.

Ukraine -- Nuclear Safety

- We have never accepted President Kuchma's formulation that Chornobyl cannot close without Rivne/Khmelnitsky (R4/K2) reactors. Our position on reactors has not changed -- we have always stated that the basis for closing Chornobyl should be that electricity supply satisfies demand.
- Ukraine has the generating capacity to meet electricity demand; its problems are financing to purchase fuel and to replace older plants. If Ukraine sticks with an IMF program, the donor financing plan addresses Ukraine's fuel import needs to generate electricity.
- Continue to support G-7 agreed policy to support EBRD financing for the Rivne/Khmelnitsky (R4/K2) reactors if they meet the Bank's due diligence criteria. Appears likely that the least-cost, environmental and safety due diligence requirements will be met.
- Major obstacle to EBRD financing is insolvency of Ukraine's electricity sector. Ukraine must implement the financial recovery plan for the electricity sector developed with international institutions in order to demonstrate it can repay a loan for R4/K2.
- *(If asked)* If Ukraine does what it needs to do, we should send a unified message to the EBRD that G-7 consider significant EBRD participation in R4/K2 to have a very high priority relative to other possible projects in Ukraine.
- On the Chornobyl Shelter Implementation Plan (SIP), we have identified roughly \$400 million to fund the \$760 million sarcophagus project and have all necessary financing for work in 1998-99. Now need to work hard to raise private funding.

**FRIDAY WORKING
DINNER**

FRIDAY WORKING DINNER

SESSION OVERVIEW: ASIA, KOSOVO & MIDDLE EAST

Although there is no formal agenda for the meeting, this session offers an opportunity to discuss "foreign policy" topics not otherwise covered at the summit. Asia (particularly Indonesia), Kosovo/Bosnia and the Middle East are the most likely subjects.

Asia. This session will be critical for keeping other leaders focused on the political reforms needed to respond to the Asian crisis -- particularly in support of transparency and accountability. Japan has tried to keep the focus off of political causes and effects of the crisis. Nevertheless, Japanese officials are closely monitoring Indonesia -- an important target of Japanese direct investment -- and South Korea, where Japanese banks have heavy exposure.

We have been coordinating closely within the G-7 on the Indonesia situation, particularly on the economic and financial side. The dinner discussion offers an opportunity to seek closer cooperation on the political issues, particularly in trying to gain support for discrete but clear messages to Soeharto on the need for restraint in dealing with demonstrations and the need to broaden public support for his government. Many of the G-7 leaders (particularly Japan and Germany) are reluctant to speak even privately to Soeharto, for fear that he will accuse them of meddling. But the situation is sufficiently volatile that "advice from friends" remains critical, just as it was in getting Soeharto to back off the idea of a currency board.

European leaders also should be encouraged to promote the reform agenda. Prime Minister Blair hosted an up-beat Asia-Europe Summit in early April, though Blair has reason for concern about extensive British investments in the region, as well as the impact of the crisis on Japanese and Korean investment in Britain. Germany, France and Italy all appear optimistic about an Asian recovery, and while they are keeping a close eye on financial developments, may not be as inclined to promote the message of political reform. Chirac has been pushing closer ties to Asia, particularly China and Japan -- he just returned from his forty-second personal trip to Japan.

It will be important to engage President Yeltsin, who may feel sensitive about having been left out of the afternoon's G-7

meeting. One year after having welcomed Yeltsin as a member of this group, you and other leaders will now need to assure him that you highly value his continued partnership. It will be critical to convey to him your hope and continued support for Russia's economy to catch up with other G-8 nations. He may be willing to discuss the message of political reform, having dramatically reshuffled his government in favor of young, reform-minded leaders such as Kiriyenko. He may also want to discuss Asia more directly. Russia's economy had been showing the early signs of recovery last year, but the stock market shocks spread quickly to Russia, slowing the confidence that had begun to build.

Kosovo. Much of the discussion will focus on Kosovo, especially on the search for a negotiated settlement. At the G-8 Foreign Ministers meeting Saturday in London, all but Russia (and to a lesser extent, Japan) joined in a strong statement criticizing Milosevic for failure to agree to negotiations and deciding to move ahead with the ban on investments. By the time of the dinner, we will have some sense whether the Gelbard/Holbrooke mission has produced any movement on negotiations; if not, there will be an opportunity to discuss next steps. Our goals are to rally support for a tough stance on Belgrade to negotiate a solution to the Kosovo crisis and avoid an escalation of violence. The debate may also touch on options for a follow-on to the current UNPREDEP mission on the Serbian/Macedonian border. Russia will insist that any mission be under UN auspices; we do not exclude the possibility of a NATO-led mission. We should forcefully review grave dangers posed by the parties' hardening views, the marginalization of moderates, the vacuum in Albania, and efforts of outside forces such as Iran. We anticipate that the leaders will want to issue a short statement on Kosovo following the dinner.

The discussion may briefly address Bosnia. All present will probably share the view that the new Bosnian Serb government has allowed significant progress in civilian implementation since the beginning of 1998 but that more progress is needed on the Federation side, especially regarding minority returns and dismantling of parallel institutions (old "Republic", "Herceg-Bosna"). Russia may criticize the assertive role of the High Representative whose powers were increased at the December 1997 Peace Implementation Council summit in Bonn, and may also object to SFOR action to arrest war crimes suspects. Russia will also try to increase the UN role in Dayton implementation, an initiative we oppose as unnecessary and unwise. Nevertheless, establishing G-8 consensus on the principles of Dayton

implementation should be unproblematic. We should emphasize the need to support democratization measures, especially for the upcoming general elections in September.

(NOTE: THIS PAPER WILL NEED TO BE UPDATED)

Middle East. Most of your colleagues have publicly and privately welcomed our efforts to move the peace process forward and will urge you to stay the course you are following. They are deeply concerned about the weakening of Arafat's position and will want to show tangible signs of support for the Palestinians. They will likely urge increased pressure on Israel. If there is no positive movement by the time of the meeting, Chirac may well push for an enhanced EU role and possibly an international conference (a second Madrid) to supplant our efforts. You will want to preempt these efforts early by laying out our strategy in your opening comments; Blair can be helpful, although in the presence of his EU colleagues, he will be under pressure to support a more independent EU role. Chirac may also press for a separate statement on the Middle East. Such a statement is likely to produce more mischief than benefit (particularly with France and Russia in the room) and you should resist it. (We will prepare a short contingency statement for you to offer if the momentum for a statement becomes irresistible.)

Regarding the Communiqué. France insisted that the FM's G-8 communiqué include reference to "settlement building and incitement to violence" as examples of unhelpful unilateral actions that both sides should refrain from undertaking. We strongly oppose singling out any specific actions, as this inevitably creates an unhelpful hierarchy of unilateral actions. Furthermore, including "incitement to violence" as a unilateral action from which the Palestinian Authority should refrain implies, entirely incorrectly, that the PA is being accused of inciting violence.

SUMMARY POINTS FOR BIRMINGHAM SUMMIT:
FRIDAY G-8 WORKING DINNER: REGIONAL ISSUES

- **Asia Crisis:** Financial crisis could undermine positive political and economic transformation underway, threaten evolution of more open, democratic societies. Must address causes of crisis: greater transparency and accountability of governments and private sector; attention to environment, core labor standards and human rights.
- **Indonesia:** Some real progress on implementing agreed reforms, but still considerable resistance on "structural" elements, such as ending clove monopoly. Indonesia's economic team seems to be committed to the program. Price rises causing unrest, although subsidy cuts in new package smaller and less focused on basic necessities than earlier IMF programs. Need to sustain humanitarian support/social safety net efforts as the worst social/economic effects are still to come. Important that we all quietly but unmistakably give Soeharto a message of restraint and the importance of broadening public support for his policies.
- **Kosovo:** Crisis sharpened greatly in last two months. Milosevic's repression of Kosovar Albanians shows contempt for international norms, and for efforts to initiate dialogue. Cannot allow conflict to escalate, spill over, and endanger regional stability. Lesson from Bosnia: need resolute and timely collective action **before** fighting gets out of hand. Must all push parties to adopt framework for dialogue and stabilization package endorsed by Contact Group. Welcome other ideas. Hope Russia can join its partners on this. **(To be updated after Galbard/Holbrooke meetings.)**
- **Middle East Peace Process: (To be updated)** Slow pace of efforts to jump-start negotiations is frustrating. Difficult decisions needed from both sides to move process forward. Hope to see progress on interim agreement issues, such as the airport and Gaza Industrial Estate. G-8 support very helpful in keeping parties focused. Public and private Arab state support for Arafat will help chances for further progress. [If France pushes "settlement building and incitement to violence" in the Communiqué]: Attention to some unilateral actions and not others creates a counterproductive hierarchy.

FRIDAY DINNER
ASIA FINANCIAL CRISIS, KOSOVO, BOSNIA,
MIDDLE EAST PEACE PROCESS

KEY POINTS

Political Consequences of Asia Financial Crisis (Hashimoto leads)

- The ramifications of the current difficulties in East Asia go beyond strictly financial considerations: economic instability and political turmoil in Asia can pose a direct threat to our values and way of life.
- Peace and prosperity in East Asia are closely intertwined. In the same way, world peace and prosperity are intimately linked to East Asia's economic vitality and progress. It is in our interest that these countries prosper and remain secure.
- The financial crisis could undermine positive political and economic transformation underway in Asia. Prolonged economic downturn in the region would threaten things that we all favor -- evolution of open, more democratic societies, marked by respect for human rights and rule of law, coupled with open, more competitive markets.
- Greater transparency and accountability of governments and the private sector will stabilize markets, secure sustainable growth, improve the quality of life for people in the region and help to avoid similar crises in the future. Attention to the environment, core labor standards and human rights will also further these goals.
- It is important that the international community support programs to address and remedy causes of crisis. Every country must do its part to support global prosperity.
- On Indonesia, real progress on implementing reforms, but resistance on "structural" elements; price increases causing unrest, although better than earlier IMF packages.
- Need to sustain humanitarian support/social safety nets as worst effects on Indonesia economy and society are still to come. All need to give Soeharto message of restraint and broadening public support for his policies.

Kosovo (Prodi leads)

- The crisis in Kosovo has sharpened greatly in the last two months. Serbian police and armed Kosovars skirmish daily. The Army clashes regularly with those smuggling arms and fighters across the Albanian border.
- The brutal repression of Kosovar Albanians demonstrates Milosevic's contempt for norms of international behavior, and for the international community's urgent efforts to initiate dialogue. Belgrade already charges that fighters are taking refuge in Albania. Tirana says FRY military has violated its territory and has requested NATO presence on its border with FRY. Albania has little capacity to control or defend its border with Serbia.
- In absence of effective political process, this conflict will escalate. The outflow of refugees and inflow of arms and fighters assures that conflict will soon spill over, drawing neighboring governments into conflict, putting regional stability at risk. Ultimately, it could threaten fledgling democracies in neighboring countries and jeopardize our investment in Bosnia.
- Bosnia taught us much about dealing with conflict in this region, especially the need for resolute and timely collective action. We are winning in Bosnia today because we devised ways to work together. It is crucial that we show same unity and determination in face of Kosovo situation, this time **before** fighting gets out of hand.
- As a first step, we must push parties to adopt the framework for dialogue and a stabilization package endorsed by the Contact Group in Rome. Both Belgrade and the Kosovar Albanian leadership must deliver.
- We should make clear that we are not interested in punishing the Serb people nor are we supporting Kosovo's independence or continuing violence by Kosovo-extremists. We have offered Belgrade handsome incentives if the Serbian government complies. But we must consider tough measures if Belgrade continues to defy international community's demands.

IF RAISED: Bosnia and Herzegovina:

- The U.S. and G-8 partners walk in step on Bosnia. Dayton implementation is a model of close international cooperation in the Peace Implementation Council, the Contact Group, and other international bodies.
- In Bosnia, the election of pro-Dayton Republika Srpska government has been an important step forward. It is important now to press both Bosniaks and Bosnian Croats to cooperate to implement Dayton fully, particularly on the issue of refugee returns and free media.
- A condition for stable peace is democratization. We should explore ways of supporting multi-ethnic, democratic forces while reducing hard-liners' influence.
- The upcoming elections in September are a premier opportunity to reduce the influence of hard-liners and strengthen moderate forces. As in 1996 and 1997, the international community needs to lend our full, joint support to the Bosnian election process.

Middle East Peace Process (Blair and you lead)

- Share frustration of our allies with slow pace of efforts to get Palestinian-Israeli negotiations back on track.
- Both parties are taking very seriously ideas we have proposed and are working with us to close gaps between them.
- The decisions that are required of both parties in order to move the process forward are very difficult and we should not underestimate this.
- We also hope to see progress on the interim agreement issues, such as the airport and Gaza Industrial Estate.
- The support of our friends and allies has been very helpful in keeping the parties focused on the issues they must address if we are to see any significant progress.
- We must also make sure that our Arab friends recognize the impact their reactions will have on any significant agreement that is reached by the parties.
- Public and private support of the Arab states for Arafat -- if he accepts our ideas or if the parties come to

agreement -- will create a positive atmosphere in which further progress will be more likely. On the other hand, their holding back while the Palestinians and Israelis come to an agreement would instill further mistrust, insecurity and pessimism among both parties.

(If France supports reference to "settlement building and incitement to violence") in the communiqué language:

- Selecting and drawing attention to certain unilateral actions and not others creates a hierarchy that is profoundly unhelpful and counterproductive.
- The Palestinian Authority is not being accused of "incitement to violence." Citing "incitement to violence" as the example of actions the PA should refrain from is, therefore, entirely misleading.

SATURDAY A.M.:
CRIME

SATURDAY MORNING

SESSION OVERVIEW: CRIME AND DRUGS

Chancellor Kohl will lead the discussion on crime, and President Chirac will have the lead on drugs. You will want to use this discussion to dramatically advance two years of successful G-8 cooperation. The Lyons 40 Recommendations (1996) led by recognizing that transnational crime has moved far beyond the law enforcement capacity of any single nation. Last year, the U.S. presidency forged deeper working relationships between law enforcement systems and established a framework for cooperation well into the next century.

This year's discussion should summarize the progress made on these activities, and move forward on several key areas. The discussion will begin with a video presentation that sets out how transnational criminal organizations have benefited from global integration, and outlines the steps G-8 nations are taking to address these crimes. This presentation will also be made available to the press to help engage our publics in the steps our governments are taking. The crime portion of the Communique will be released separately on Saturday to give additional premium to the Leaders' discussion. We will also be issuing a pamphlet outlining progress in implementing the Lyons recommendations.

The biggest challenge ahead will be for nations to overcome parochial concerns and adopt the domestic and international law enforcement tools necessary to keep pace with 21st century criminals. You will be in a strong position to lead in this effort, having just announced our own International Crime Control Strategy.

You should seek commitments by all Eight leaders to act firmly against transnational organized crime and lend political support to the work of our experts in the Lyons Group. Now that the group has developed a framework on the major areas of transnational crime, several nations seem less enthusiastic to take the domestic steps necessary to make this framework into a reality. In addition, you will want to work with President Chirac to urge the G-8 to give a boost to the upcoming UNGA Special Session on drugs.

No Safe Havens. The Lyons Group has worked hard to streamline extradition, seizure of criminal assets, prosecution in lieu of

extradition, temporary transfer for prosecution and related measures. Of all these efforts, the need for **effective mutual legal assistance** remains paramount, but also faces the toughest opposition since this often requires additional legislative action. You may need to **press for additional communique language on the importance of removing obstacles to sharing of evidence and of the rapid return or prosecution of international fugitives**. You also could usefully urge expanded use of video and other communications technology in gathering and sharing evidence.

Convention on Transnational Organized Crime. The G-8 has led in forging a consensus on appropriate tools, activities and principles to fight transnational crime. This year's Communique will be the culmination of those efforts by calling for a **comprehensive and effective Framework Convention** to be negotiated by the year 2000.

High Tech Crime. Last December, Janet Reno hosted a meeting of G-8 Justice Ministers, which produced an action plan, establishing principles and practices for tracing and trapping cross-border telecommunications, computer and other high-tech crime activities. You will need to **stress the importance of working with industry in implementing this plan and on establishing international agreements for preserving and sharing evidence of cyber-crime**.

Money Laundering and Asset Forfeiture. The G-7 has led the fight against money laundering, launching the Financial Action Task Force (FATF) -- the model by which most OECD nations attack financial crimes. This year, the FATF will be reauthorized for an additional five-year term and will begin to consider new candidates for membership (including Russia). **We can support Russia's effort to host a high-level meeting on money laundering**, though we should not support Russia's proposal to extend this to financial crime until they have become a member of the FATF.

Domestically, seizing criminal assets has become one of our most effective law enforcement tools. The Lyons Group has developed the principles for international cooperation in seizing assets. You should convince your partners that for these efforts to be fully successful, national law enforcement agencies will need to share seized assets with one another to provide incentives for cross-border cooperation.

Border Security: Firearm Trafficking; Immigrant Smuggling. The G-8 are now better equipped to combat border crimes such as alien smuggling through closer cooperation on control, distribution and integrity of travel documents, and the development of electronic systems to help detect false documents. **You should make sure that the G-8 agrees to move forward on both these issues by calling for Protocols for each in a UN Convention.** (The Firearms Protocol is particularly important in light of press reports on problems with EU countries re-exporting firearms to countries of concern.) In addition, both Germany and Italy consider immigrant smuggling a priority, and you should agree to have our countries take on joint projects on these issues in the coming year. You can also highlight our work on trafficking in women and children.

Joint Projects. The G-8 is poised to launch concerted joint law-enforcement operations to demonstrate that leading democracies will no longer tolerate criminals' steering between our jurisdictions and operational abilities. Targets include Eurasian and African criminal organizations; Caribbean drug traffickers; European and Asian stolen car rings; and various high-tech crime and currency smuggling activities. **Such operations have shown promise -- though have not advanced as quickly as we would have liked. They should be strongly encouraged.**

Drug Control. G-8 efforts on drugs have largely supported other preexisting international cooperative efforts. Following up on Denver, the G-8 has sought to shape this summer's UNGA Special Session on Drugs, including improving states' compliance with existing UN drug conventions, taking steps to reduce drug demand and endorsing the goal of eliminating or substantially reducing illicit coca and poppy cultivation by 2008. **You should call attention to our own efforts at demand reduction and seek a strong endorsement of the UN Drug Control Program's goal. You should also announce your intention to attend the UNGA Special Session.**

Future Areas of Cooperation. You could usefully touch on two new trends in law enforcement cooperation. The G-8 should consider extending Lyons Group cooperation to two emerging threats of **environmental crime** and of **intellectual property theft.**

SUMMARY POINTS FOR BIRMINGHAM SUMMIT:
SATURDAY MORNING: CRIME AND DRUGS

- **Overview:** Transnational crime a key 21st century challenge. G-8 has led since Halifax and Lyons, but need to highlight concrete progress. Need strong political direction for cooperation and for right domestic legal frameworks. U.S. strategy includes seeking legislative approval for such laws.
- **No Safe Havens:** Denver G-8 pledged to make sure criminals had nowhere to hide. Must agree that when we cannot extradite nationals, we will effectively prosecute those who have committed crimes abroad. Video links can be of enormous help.
- **UN Convention on Transnational Organized Crime:** Need an effective convention by 2000 for UN's Tenth Crime Congress.
- **High-Tech Crime:** Must implement our Justice Ministers high-tech crime principles and action plan. Our law enforcement agencies must quickly share evidence. Also must work with industry to develop ways to do so while protecting privacy.
- **Money Laundering & Asset Confiscation:** Must endorse strengthened laws on domestic asset forfeiture and money laundering laws. Sharing confiscated assets is critical.
- **Border Security:** Need to better trace illegally shipped guns; UN Convention should include a firearms Protocol. Should also include a protocol on smuggling of human beings.
- **Joint G-8 projects:** Are the concrete manifestation of our cooperation on transnational crimes; should give them our clear support.
- **UNGA Special Session on Drugs:** Must send strong message on drug trafficking, reducing demand, supporting UNDCP's global approach. I will attend UNGASS, invite all to come to New York.

CRIME AND DRUGS

KEY POINTS

Thanks for Cooperation under the U.S. Presidency:

- Our experts have accomplished quite a lot in the last year. We thank the French for getting us off to a good start with the Lyons 40 Recommendations and the UK for continuing this good work through the Summit.
- This is a critical problem, where demonstrating progress is critical to combating transnational criminals. These crimes have a real impact on the lives of our people. They can also threaten the stability and prosperity of nations, especially fragile new democracies.

Need for Appropriate Legal Tools and Cooperative Frameworks:

- Progress requires continued strong political support for leaders.
- Domestic action is vital to international action. We all need effective laws to fight money laundering, to block and confiscate criminals' assets, to expand our cooperation in bringing criminals to justice, ensuring that criminals are either prosecuted or extradited and do not find safe havens.
- This week, I announced our first-ever comprehensive international crime control strategy that includes seeking legislative approval for many of these tools and legal frameworks.

No Safe Havens:

- Tools are particularly important in denying criminals safe havens. Last year, we pledged at Denver to make sure that criminals have nowhere to hide. This year, our governments need to agree that, where they are unable to extradite nationals, they will conduct effective domestic prosecution of those who have committed crimes abroad.
- We need to ensure that our domestic processes for extradition work well and that we smooth out bottlenecks. We also can use modern telecommunications equipment to more quickly interrogate suspects and transmit testimony and depositions.

UN Convention on Transnational Organized Crime:

- As I said at the UNGA's 50th Anniversary, transnational crime will be one of the key security challenges of the next century. We should encourage our experts to craft an effective international convention in time for the UN's Tenth Crime Congress in 2000.
- I envision this as a framework convention with protocols on various issues, such as firearms and alien smuggling; our experts generally agree with this approach.

High-Tech Crime:

- We should endorse the high-tech crime principles and action plan our Justice/Interior Ministers agreed to in December. This kind of crime threatens the growing industries that depend on modern telecommunications system, and we must act early to head off possible threats to the system.
- Criminals can flee the scene of an internet crime by simply turning off their computer or hanging up their modem. If we are going to catch these criminals, it is critical that our law enforcement agencies can quickly share evidence of high-tech crimes and that our governments work with industry to develop ways to do so while protecting privacy.
- An agreement by us today to share evidence will send a strong signal that we will track down criminals quickly. We want to see strong language on this in the communique.

Money Laundering & Asset Confiscation:

- Financial networks are aggressively exploited by transnational criminals. Seizing the proceeds of criminal activity is an effective way to fight transnational organized crime. Our experts have called for strengthening of domestic asset forfeiture and money laundering laws and for sharing of confiscated assets.
- Asset sharing is critical to promoting international law enforcement cooperation. Sharing of seized assets provides law enforcement officials with a powerful incentive to work across borders with their colleagues. We should endorse this.
- The Financial Action Task Force (FATF) has been very effective and should be reauthorized, with its membership expanded to nations that are pivotal in key regions. We should also begin to develop principles for sharing financial crime information between law enforcement and regulatory agencies.
- **[If raised by Russia]:** We think money laundering [but not financial crime] is an area that is ripe for great progress in G-8 cooperation.

Border Security:

- Border security issues speak directly to why our cooperation is essential. We should seek to enshrine the principles and key practices to guide this cooperation into a UN Framework Convention.
- Firearm trafficking is a particularly tough problem. Smuggled guns not only strengthen criminals, but they fuel conflicts worldwide. We need to trace these guns, so that we can know who is responsible for their illegal sale and transport. We should include a Protocol for this in the UN Convention.
- Our experts agree that there should be a protocol dealing with smuggling of human beings to the proposed UN Convention. We should support this.

Joint G-8 Projects:

- We have taken our efforts to a new level of cooperation. Our experts in the Lyons Group have agreed on five "active" projects and have three more in the developmental stage.
- We should endorse more joint operations and cooperation targeting specific criminal activities.
- Our experts have agreed that we could conduct joint operations targeting specific locations through which organized crime smuggles illegal migrants. They also agreed to approach countries that have, so far, refused to take back their nationals, including criminals, who have been smuggled abroad. We should support these projects.

UN Special Session on Drugs:

- I am glad that we will send a strong message to the UNGASS.
- We should go on record as cooperating against trafficking in narcotics and chemical precursors, reducing demand in our countries, and supporting the UNDCP's global approach to significantly reducing illicit drug crops through eradication and alternative development programs.
- I will attend UNGASS, and invite all of you to join me in New York for this important event.

Future Cooperation:

- Two disturbing "new" areas of organized crime are intellectual property crimes and international environmental crimes.
- Increased trafficking in counterfeit patented and trademarked products, as well as in copyrighted works, by organized crime group require new strategies for law enforcement officials.
- We also need to deal with organized crime efforts to smuggle endangered species or environmentally dangerous substances.

SATURDAY A.M.:
ECONOMICS

SUMMARY POINTS FOR BIRMINGHAM SUMMIT:
SATURDAY MORNING AND LUNCH: ECONOMIC ISSUES

- **Africa.** African economic integration a key indicator of globalization for all people. My trip emphasized principles of partnership, reform, links to global market place. Grounds for hope -- improved economies, progress on reducing poverty, better living standards. Must support those making tough reforms, renew commitment to trade and aid. U.S. Partnership for Economic Growth and Opportunity to offer more market access, debt relief, investment support and assistance.
- **Debt Relief.** Progress since Denver implementing HIPC, six countries eligible, two more expected. Give HIPC more time to work. Focus on grants not loans to poorest countries, bilateral ODA forgiveness programs, encouraging IFI's on immediate interim relief as a reward, promoting investment.
- **Infectious Diseases.** U.S. committed \$13 million for development assistance, \$30 million for research, including \$1.5 million to malaria-endemic countries. Insecticide-treated bednets to 15-20 million people over next 5 years, saving up to 100,000 children from malaria. G-8 strategy must develop new tools and an affordable, effective vaccine. G-8 must also keep supporting UNAIDS, explore French proposal.
- **Trade.** Need to sustain momentum for open trade and investment regimes while supporting core labor rights and environmental protection. G-8 should seek more transparency in the WTO.

SUMMARY POINTS FOR BIRMINGHAM SUMMIT:
SATURDAY MORNING AND LUNCH: ECONOMIC ISSUES

- **Energy - G-8 Ministerial.** Must build open and competitive energy markets, encourage investment and efficiency, open access to energy transport networks, commitment to environment and nuclear safety. Restructuring of electricity and gas markets, including privatization of utilities, helps. We expect annual benefits to consumers of nearly \$20 billion.
- **Nuclear Safety.** G-8 must continue to put safety first. Hope we can work together on safety of Russia's Kursk 1 reactor.
- **Climate Change.** U.S. steps to reduce GhG emissions: \$6.3 billion in tax cuts and R&D investments, restructuring electricity industry, reducing federal government emissions. Must all encourage developing countries to participate. Clean energy in their interest: protects local environment, can take advantage of emissions trading and CDM to attract investment. Trading a success in United States. If designed right, trading reduces more emissions more cheaply.
- **Standards for Export Credit Agencies.** Need strong political push to establish common environmental guidelines. Test of our seriousness in promoting clean development.
- **Forests (if asked).** Welcome release of G-8 Forest Action Program. Intend to give the Program utmost attention, hope all G-8 will. Working with Indonesia, Brazil and Philippines to deal with the fire crises. [*If raised: global forest convention or framework agreement*] Try to establish sustainable practices first; framework agreement NOT yet best use of energies.

SATURDAY MORNING/LUNCH

SESSION OVERVIEW: ECONOMIC ISSUES

This discussion will build on your G-7 discussion of the world economy and the implications of the Asian financial crises from Friday -- which have focused attention of transparency, sound regulation and good governance -- but will have a much wider-ranging agenda including Africa and development issues, trade, energy and the environment. There will be a break, with discussion of the latter issues to resume over lunch.

Prime Minister Blair will likely introduce the economic issues with an overview of his vision of the global economy. Blair will likely return to the benefits and challenges presented by increased globalization and integration of national economies. This morning's discussion will turn from the implications of the Asian crises to Africa and development topics.

Africa. You will lead the discussion of Africa, which builds on two year's effort within the G-8 to promote greater development and integration. At Lyons, President Chirac forcefully called for a New Partnership for Development, referencing the "serious challenges" facing the continent. You built on this last year in Denver by announcing just prior to the Summit the Administration's Partnership for Economic Growth and Opportunity in Africa, which focuses on how to support Africa's reformers, particularly in their efforts to build linkages to global markets.

Your recent trip to Africa, in combination with the historic ties that many of your European partners have, will raise the profile of this discussion in Birmingham. It will be important to establish the sense that the Eight share a common approach to Africa today and are prepared to take actions in pursuit of the common goal of strengthening partnerships with African reformers. This could lead to specific steps that the G-8 could take to encourage economic integration, investments in human resources, conflict prevention, support for post-conflict countries and the easing of debt burdens.

It will be important to focus the thrust of G-8 efforts on supporting Africa's successes and linking them to the global economy. Your message of encouraging Africa's political and economic reformers is gaining support, but you will need to continue to press the point. Your efforts to promote

transparency, democracy and good governance, and your support for bringing African nations into a rules-based multilateral trading system, can have powerful impact.

Development. The UK has made clear that debt relief will be an important focus of the discussions. You should welcome recent progress under the HIPC debt initiative for heavily indebted poor countries and urge the G-8 to provide new assistance for these countries primarily as grants, to seek to extinguish concessional bilateral aid debts for poorest countries undertaking strong reforms and to press the international financial institutions to provide interim relief under HIPC.

Chirac, with Blair's support, may try to win new concrete commitments on assistance. Your own statements in Africa underscore that the United States has not walked away on aid, but it will be important to seek to develop a common approach on making aid more effective -- for example, through greater involvement with regional organizations as well as facilitating Africans' ability to attract investment.

Another area of focus should be the post-conflict African countries that require special assistance to recover from their devastation. You should urge the G-8 to develop a concerted strategy, including emergency humanitarian and reconstruction funds, new flows of economic aid from the IFIs, technical assistance for governance and economic reforms, as well as treating debt payments in a flexible manner leading to deeper debt relief where appropriate. This will require G-8 consensus on generating more World Bank income and on its appropriate use.

It is important that you engage Chirac and Blair in your discussion of Africa given their level of involvement there as well their interest in development and debt issues generally. In addition to the debt issue, which will certainly expose some differences in views, the discussion may turn to other development issues in which the Eight have differences.

For example, the UK wants Leaders to endorse the OECD's target of halving poverty by 2015, a goal which is by all analysis unachievable under plausible scenarios. A commitment to this target requires massive and sustained growth increases and could result in the G-8 being held accountable for resources and results largely out of our control. We prefer to focus on taking practical steps to achieve measurable results in areas key to reducing poverty (education, basic health) and improving living standards although we are prepared to refer in more general terms to OECD goals.

Chirac has proposed the establishment of an International Therapeutic Solidarity Fund to facilitate access to the most recent antiviral HIV treatments for persons living in developing countries, including in Africa. Though we support the goals of the French initiative, funding is problematic and the entire effort may be duplicative of UNAIDS. Our experts should explore various funding options as we await results of an UNAIDS pilot project to make these drugs available in four African countries. Leaders should use this opportunity to reaffirm support for research on an AIDS vaccine and for UNAIDS.

In reaffirming Denver commitments, you can propose a new effort to reduce the death toll from malaria and other parasitic diseases. Blair will call for concerted action to reduce the death toll from malaria, particularly in Africa; Hashimoto will emphasize the need to control all parasitic diseases, including malaria. You should endorse these positions while offering several specific steps that can be taken to reduce malaria.

Blair has proposed that the G-8 pledge to reduce the death rate in half by 2010; our medical and public health experts believe this an unrealistic and unachievable goal. Should he press this during the session, you can counter with a series of steps which the United States can undertake, along and together with others. These specific steps could enable actually attaining a (more realistic) target of reducing deaths from malaria 25 percent by 2010, with an another 25 percent reduction by 2015.

Trade & Investment. EU President Santer will open discussion of the trade agenda item on Saturday morning, focusing on the EU's view that the negotiations to be launched in 1999 should be a "comprehensive" round. We see the need to be open to alternative approaches that would accommodate a more ongoing, or rolling, type of negotiation that ensures political balance as agreements are reached and reaches agreement in a more timely manner. Canada supports the consideration of such alternatives, while the EU and Japan remain wedded to a traditional, comprehensive negotiating "round" where nothing is agreed until everything is agreed. It is important that we remain flexible and leave ourselves room on this issue as we prepare for 1999 and the agreed Communique language is consistent with our objectives. As you know, we believe the domestic reaction to a premature announcement of a round would be dangerous to our trade agenda.

Quad ministers agreed to explore establishing a WTO consultative mechanism with outside stakeholders and to push for more public access to documentation. However, there was strong disagreement on dispute settlement: while the other Quad parties agreed that panel reports need to be made more quickly available to the public, they remain very wary of opening up panel proceedings to outside observers (though in the long term may be willing to live with panels accepting *amicus* briefs from such parties). This is critical to the environmental community. We have agreed to very general language on WTO transparency in the Communique.

There may be a call for a no-protectionism pledge on the part of the G-8. You should resist this in favor of a broader pledge for action on all our parts. Calls for maintaining open markets and resisting protectionism must be accompanied by commitments, especially by Japan, to genuine deregulation and regulatory reform.

We are hoping to achieve agreement in May on a commitment to preserve the current practice of not imposing duties on electronic transmissions and to establish a work program to address all aspects of electronic commerce in time for the 1999 WTO ministerial.

Energy and Nuclear Safety. G-8 heads will endorse the principles agreed to at the April 1998 Energy Ministerial in Moscow. These include support for open and competitive energy markets, government policies that encourage investment and efficiency, access to energy transport networks and commitment to international environmental objectives and the highest standards of nuclear safety. In direct support of these objectives, the United States Government is 1) liberalizing and restructuring its wholesale and retail electricity and gas markets, 2) seeking a \$6.3 billion package of tax incentives and R&D investments to stimulate development and dissemination of energy efficiency and greenhouse-gas reducing technologies, 3) working with U.S. companies and Caspian countries to expand oil and gas production and develop multiple new transportation routes.

You may need to counter several claims. European countries and Russia see the Energy Charter Treaty as the primary framework for energy cooperation, but the United States is not a signatory and favors a variety of bilateral and multilateral fora. Russia frequently interprets U.S. policy in the Caspian region as excluding Russia despite our efforts to promote commercial activities with Russia. The Russians also seek inclusion into

the G-7 Nuclear Safety Working Group but has resisted taking the steps necessary to warrant inclusion.

Russia has not kept its commitments to the Nuclear Safety Account administered by the EBRD. Specifically, Russia has restarted a high-risk Chernobyl-type reactor at Kursk without conducting an in-depth safety assessment and is actively working to extend the life of these kinds of reactors without completing needed safety and economic analyses. We have sought Russian compliance with its grant agreement or alternative solutions, but have not met a favorable response. In the absence of a breakthrough prior to the Summit, the G-7 favor pressing for actions which demonstrate a high-level political commitment to pursue high safety standards and set an example with the G-7 on nuclear safety.

Environment - Climate Change. The United States has used the preparatory meetings to forge a common G-8 approach on climate change, earning G-8 support for the broad diplomatic steps we need to move forward on ratifying the Kyoto Protocol: advancing developing country participation and establishing effective, market-based international flexibility mechanisms.

You should emphasize two topics in this session: your domestic climate change program and the importance of engaging developing countries. Few countries have moved as quickly as the United States to shape domestic programs. Emphasizing your domestic program, and your personal commitment to it, is important because Europeans wrongly see our free-market defense of unrestricted international trading as a stratagem to escape making significant greenhouse gas reductions at home. Increasingly, our G-8 partners accept the importance of engaging developing countries in efforts to address climate change, although this is still seen as a U.S. priority.

The topic of emissions trading has been quite contentious, dividing the G-8. European environment officials have sought to limit our ability to trade, and are particularly anxious that we will purchase Russian "hot air" (i.e., the surplus emissions credits that Russia is expected to be able to sell for the 2008-2012 compliance period owing to the fact that its economy is only now showing growth, and is not likely to even return to the Russian target -- 1990 levels). We have taken the position that these mechanisms allow for the most cost-effective way to reduce emissions. For a trading system to be most effective, it should remain unrestricted. To avoid a contentious discussion among heads on this, we also have argued that the technical issues

involved are best worked out by experts and have encouraged European finance ministries to become more engaged.

On developing countries, the meeting is an opportunity to develop a common approach to achieving meaningful participation by developing countries in connection with this fall's Conference of Parties in Buenos Aires. You can highlight our strategy of trying to persuade developing countries that through the use of technology transfer under the Clean Development Mechanisms and other tools, they need not choose between a healthy environment and a healthy economy.

To this end, we reached agreement to create a G-8 Climate Change Working Group, in part to help prepare for the Buenos Aires meeting in November. We are especially hopeful that this working group will help engage foreign and finance ministries in other G-8 governments.

Environment - Export Credit Agencies. Export credit agencies participate in most of the billions of dollars in foreign investment in developing countries each year. Environmental standards for these agencies would be one of the most powerful tools available to protect the global environment. However, the U.S. Export Import Bank (Ex-Im) is the only G-7 export credit agency (ECA) that applies environmental standards to projects it finances.

Since 1994, the United States has attempted to work with other OECD countries to develop common environmental standards. However, the "green rhetoric" that heavily influences European positions under the climate treaty has not led the Europeans to adopt pro-environment policies on this important issue. At the Denver Summit, we pressed for progress on this issue, but opposition -- principally from Germany, France and Italy -- forced us to accept weakened language. A strong Summit statement urging OECD ECAs to develop common environmental standards, including a commitment to some specific milestone by the next Summit, would be a significant achievement for the global environment and U.S. business but once again is likely to be resisted by your colleagues.

Environment - Forests. While we do not expect this to be a major discussion topic among heads, the Communique contains a brief (and carefully crafted) paragraph on forests. Recent fires in southeast Asia and the Amazon have focused the world's attention on forest, but the G-8 remains divided on how to proceed. Germany and Canada, in particular, have urged

negotiation of a global forest treaty. The United States -- along with our businesses and environmental groups -- have opposed such a treaty, since it has been consistently opposed by developing nations and would likely lead to the establishment of unacceptably low standards.

Instead, we have favored concrete actions, and worked to develop consensus around a G-8 Action Program, released last week by our foreign ministers. Our experts have compiled a solid plan for moving forward -- whose outcomes are likely to win strong backing from our NGOs -- despite repeated attempts by Canada, France, Germany and Italy to water it down. If the topic is raised, you should urge other leaders to move forward in implementing the Action Program as a way of demonstrating leadership and practical efforts.

SATURDAY MORNING/LUNCH ECONOMIC SESSION

KEY POINTS

Africa (Your lead)

- Africa's integration into the global economy is a key test of whether we can make globalization work for all people.
- During my trip, sought to advance the principles of our work at Lyons and Denver: partnership, economic and political reform, linking Africa to the global market place, enhanced and targeted trade and assistance. Saw great reasons for hope.
- Africa's economic performance has improved. Since Lyons and Denver, sound, growth-oriented policies have led thirteen Sub-Saharan African countries to annual inflation rates of less than four percent in 1997, and the World Bank now projects four percent annual growth in Africa through 2006.
- Such growth helps dramatically to reduce poverty and improve living standards. As Africa's partners, should redouble efforts to ensure that special support is made available to those countries that are doing the most to make tough economic and political reforms.
- Before Denver last year, launched a new U.S. Partnership for Economic Growth and Opportunity in Africa. Supporting legislation passed the House of Representatives in March and will soon be considered by the Senate.
- U.S. Partnership provides greater market access, debt relief, investment support and foreign assistance for policy reforms to countries that are pursuing aggressive growth-oriented policies. It seeks to provide incentives to countries that are helping themselves by boldly liberalizing their trade and investment regimes and lessening dependence on foreign assistance.
- Saw first hand that building a prosperous Africa will require a renewed commitment to trade and aid. While in Botswana and South Africa, pledged to support restoration of U.S. development assistance levels for Africa to their historic high of \$817 million -- an increase of about \$100 million per year.

- To support African efforts to build human capacity through education, we unveiled an Education for Development and Democracy Initiative funded at \$120 million over two years to assist African youth, especially girls.
- To support African efforts to promote democracy and good governance, while in Entebbe, I participated in a summit with regional leaders which endorsed core principles of the rule of law, respect for human rights, the equality of men and women and the right of citizens to regularly elect their leaders freely. We also pledged to work together to prevent and resolve conflicts in the region.
- To strengthen the capacity of African militaries to carry out peacekeeping and humanitarian relief operations, we pledged support for the establishment of an African Center for Security Studies (ACSS). We will continue to coordinate closely with our partners on peacekeeping training through our Africa Crisis Response Initiative (ACRI).
- There is more the G-8 can do. We should continue to open our markets to nations willing to take bold reforms. Should welcome efforts by the World Bank, IMF and other IFIs to provide more assistance to countries pursuing aggressive growth-oriented policies and political reform. Must respond to the exceptional needs of post-conflict countries, including through debt relief, in an appropriate way as they rebuild their economic and social systems.
- G-8 countries should support African efforts to enhance transparency and fight corruption, endorse the UN Secretary General's recent call for the OAU to develop an African anti-corruption convention.

Development - Debt Relief and Assistance

- We have made a lot of progress in implementing the HIPC debt initiative since we met in Denver a year ago.
- Six countries (four in Africa) have been declared eligible, with two more expected to follow soon. Note that Uganda qualified in April for final HIPC debt relief.

- Must remember that debt reduction without sufficient economic reform cannot achieve sustainable growth and development: so far, less than half of the countries potentially eligible for HIPC have demonstrated the sustained track record needed to be declared eligible for HIPC debt relief.
- We need to give the initiative some time to work. But going forward, we believe we can do more, particularly for African nations in the following areas:
 - Encourage all donors to provide new assistance to the poorest countries primarily in the form of grants, rather than loans which further increase debt burdens.
 - The United States and Great Britain have already announced bilateral programs of ODA forgiveness. We urge others to do so as well.
 - All of the IFIs should advance a portion of their final HIPC relief to deliver immediate interim relief as a reward for reforms to date, rather than delaying all relief to a future point.
 - This interim relief should be accompanied by additional bilateral and multilateral aid to assist in consolidating political and economic reforms.
 - It should also be accompanied by expanded efforts to promote investment in these reforming countries, including through the expansion of the Multilateral Investment Guarantee Authority (MIGA) into areas of Africa in which it is not currently guaranteeing investments.
 - Further interim support should go to reforming African countries emerging from conflict in order to help them sustain their political and economic reform programs and accelerate post-war reconstruction. Support untied aid to the least developed countries and we should reach a multilateral consensus on how we move forward on this issue.
 - (If pressed) Support the goals of measurable results in key development areas to ensure that our efforts are effectively benefiting the people most in need.

Development - Infectious Diseases

- My Administration is dedicated to the global fight against malaria is one of the leading killers of children worldwide. This year [FY 98], we have committed \$13 million of new development assistance money and nearly \$30 million for research, including \$1.5 million to strengthen research capacity in malaria-endemic African countries.
- The United States will make available effective prevention tools, such as insecticide-treated bednets, which can prevent five deaths for every 1,000 children protected. Over the next five years, USAID will establish self-sustaining programs in five countries to make bednets available to 15-20 million people: this means that as many as 100,000 children's lives will be spared.
- In partnerships with the G-8 and other donors, we can extend these programs to more malaria-endemic countries -- and protect more lives from this terrible scourge. A comprehensive strategy must include research to develop new tools in the fight against malaria, including an affordable, effective vaccine. We have already taken the first steps in this effort; urge you all to expand activities and join in this effort.

(If Blair presses to halve the death rate by 2010)

- We can pledge to reduce deaths due to malaria by 25 percent by 2010 in target countries, and by another 25 percent by 2015. This translates into saving between 200,000 and 250,000 lives -- most of them children -- by 2010.

(If Chirac presses for International Therapeutic Fund)

- We should review the results of the UNAIDS project and further explore potential funding sources, rather than establishing a new fund. At this point, we should reaffirm our commitment to accelerate research to develop an AIDS vaccine and support the Joint United Nations Program on AIDS (UNAIDS).

Trade

- Liberalization itself does not cause economic or financial instability, but it requires that economic structures and institutions be effectively modernized.

- We need to sustain momentum for open trade and investment regimes in ways that are mutually supportive of our efforts on core labor rights and environmental protection.
- We seek increased transparency in the WTO in order to make it more accessible to the public, particularly the dispute settlement process and document distribution, and to increase the credibility of and confidence in the WTO.

Nigeria

- Deeply disturbed by events -- sham political process, oppression of political opponents. Important we show a common front, consider common steps to take if no change is forthcoming.

Energy - G-8 Ministerial (Yeltsin lead)

- In Moscow, our energy ministers stressed their support for open and competitive energy markets, government policies that encourage investment and efficiency, open access to energy transport networks and strong commitment to the environment and nuclear safety.
- One major element in meeting these objectives is the liberalization and restructuring of electricity and gas markets. Privatization of utility ownership can lead to greater efficiencies, and retail competition promises a broader array of consumer products and services.
- In the United States we are already seeing such efficiencies where independent power generation has been created. We are moving aggressively to adopt electricity restructuring legislation favoring retail competition, and over time we anticipate annual benefits to consumers of nearly \$20 billion as a result of electricity restructuring.
- Governments also have a unique role to play in encouraging the development of new technologies for producing and conserving energy. We have introduced a multi-billion dollar package of tax incentives and R&D investments to stimulate the development and deployment of energy efficiency and greenhouse-gas reducing technologies.

- The Energy Ministerial recognized the interdependence of the global energy economy, particularly when it comes to moving energy resources to market. Diversity of supply and the efficient transport of resources through multiple pipeline routes are central to our cooperation in the Caspian region and other new energy markets of the world.

Energy - Nuclear Safety

- The 1996 Moscow Nuclear Safety and Security Summit affirmed the commitment of the G-8 to putting safety first. We want to continue to advance this agenda.
- We have particular concerns about the restart of Kursk 1 Chornobyl-style nuclear power plant in violation of the EBRD's Nuclear Safety Account grant agreement.
- We would be very concerned if the restart of Kursk 1 appears a first step in a program to extend the life of its oldest and least reactors. The safety situation in Russia requires that MINATOM put safety first.
- Improving the financial management of the power sector, particularly by ensuring revenue availability to enable investments in nuclear safety and in alternatives to high-risk, older Soviet-style nuclear plants is needed.

Environment - Climate Change

- In the United States, we are moving forward with programs to reduce greenhouse gas emissions. The public as a whole is much more supportive than our Congress.
- Programs underway or in development include a \$6.3 billion package of tax cuts and R&D investments, a plan for restructuring our electricity industry that includes significant incentives for renewable energy, our Partnership for Advancing Technologies in Housing (PATH), broad industry consultations and a commitment to reduce federal government emissions. Under a new energy-saving program with the commercial building sector, the Empire State Building, the World Trade Center, and the Sears Tower all announced that they would cut energy use by 30 percent.

- We cannot solve this problem unless **developing countries also begin to take on commitments**. We do not want to limit their growth. We must work together to show these countries that clean energy is in their interest because 1) it will protect the local environment, 2) these countries are most likely to be hurt by a changing climate, and 3) taking on a binding target would allow these countries to attract investment in an emissions trading system, since emission reductions credits will be significantly less expensive to earn in the developing world.
- We need to work together between now and Buenos Aires to deepen involvement of developing countries, particularly key countries like China and India. I intend to focus on these issues during my trips.
- **Emissions trading** has been a tremendous success in the United States. For example, in our program to address acid rain, emissions trading helped reduce costs to a fraction of original estimates.
- Rather than trying to limit trading, we need to make sure that market mechanism work. If properly designed, they will help reduce more emissions at cheaper cost. One key to this is ensuring that we all have established effective monitoring and verification systems.
- This is an issue of great importance to all our governments. I hope that our foreign and finance ministries will be active players in our work on this issue in the months ahead.

[Only if asked about Signing and Ratification]:

- We have said that we will sign the protocol in the coming year. For us, the most difficult challenge is gaining Senate ratification. The Communique we have negotiated will help demonstrate to the Senate that we mean business in bringing developing countries on board.

Environment - Standards for Export Credit Agencies

- Each year, our countries invest billions of dollars in projects in the developing world. These projects have a dramatic impact on the global environment.

- Our export credit agencies play an important role in many projects. If we wish to protect global environment, we must develop environmental standards for export credit agencies.
- Since last year, we made only modest progress within the OECD. It is clear that many export credit agencies need strong political direction before they invest resources necessary to develop and apply environmental standards.
- Propose that we call on OECD Participants Group to develop common environmental standards for all export credit agencies, as a matter of priority. The Participants should report to us at next year's summit on progress and a concrete plan for implementation.
- This is a test of our seriousness in protecting global environment. Environmental standards for ECAs are one of most powerful tools we have available.

Environment - Forests *[only if raised]*

- I am delighted we have agreed on a practical G-8 Forest Action Program, which shows we are serious about improving our own forestry practices and helping other countries to do so.
- We intend to give the Action Program our utmost attention, and I hope you will do the same.
- We are working with Indonesia, Brazil and the Philippines to deal with the fire crisis, especially ones expected in Brazil at the start of the dry season, which may be the worst ever in the Amazon.
- In the long-term, we must focus on fire prevention and management (not just suppression) and work with our partner countries to change policies and practices (such as illegal logging and burning to make way for plantations) which cause these uncontrollable fires that affect us all.
- The Brazil Pilot Program has great potential to make a difference in the Amazon. We were pleased to pledge \$10 million to the program over the next five years.

Global Forest Convention or Framework Agreement [If raised]

- We do not think that trying to move forward on a framework agreement is the best use of energies. Developing countries are not likely to take on standards that are high enough to make an agreement worthwhile. Let's try to establish sustainable practices first.

SATURDAY P.M.:
EMPLOYABILITY

SATURDAY AFTERNOON
SESSION OVERVIEW: EMPLOYABILITY

Prime Minister Chretien will lead the Saturday afternoon discussion on employability. You and your counterparts will discuss plans for helping spur job creation and social inclusion. Your presentation will summarize the U.S. Action Plan submitted for the Summit, covering your three-part economic strategy, our efforts to reduce the relatively few structural areas needing reform, policies already in effect, such as the EITC and welfare-to-work programs, and new initiatives we have launched.

The presentation will track with seven principles for generating new job opportunities and tackling unemployment and exclusion, as agreed to by G-8 Labor and Finance Ministers, at this year's London Employability Conference, attended by Secretaries Rubin and Secretary Herman, along with Gene Sperling. They include:

- (1) sound macroeconomic policies;
- (2) structural reforms to promote employment;
- (3) tax/benefit reform (including welfare to work);
- (4) enhancing employment and training opportunities for disadvantaged workers;
- (5) equal opportunity;
- (6) fostering entrepreneurship;
- (7) lifelong learning.

Ministers also agreed with us that promotion and observance of core labor standards were important in a global economy. The Birmingham Communique references the London principles, but focuses more on the individual country Action Plans intended to show how each of the G-8 countries are committed to improve employability and job creation, including measures to help young, long-term unemployed find work; to help new entrepreneurs; to carry out structural reforms, including making tax and benefit systems more employment friendly; and to promote life-long learning.

The concept of "Active Aging," which was highlighted at the Denver Summit and the Kobe Jobs Conference last November, is also addressed. The Birmingham Communique calls for each country to explore what forms of work are appropriate to the needs of older workers and to adapt work to suit them accordingly. Last week, G-7 Finance Ministers asked the OECD to review individual country aging issues and report to the Summit in the year 2000.

Below are assessments of the labor situation in each of the other G-8 economies.

United Kingdom. The British economy is very strong, with relatively low unemployment. However, they face a serious problem with long-term and youth unemployment. During last year's campaign, Prime Minister Blair lamented the possibility of a permanent underclass. The UK's most recent budget proposals make serious commitments to address these problems through their Welfare-to-Work initiative -- called the New Deal -- and a Working Families Tax Credit -- modeled after our EITC. The UK's budget provided £5.2 billion (\$8.8 billion) over five years for a New Deal for young people, single parents, the long-term unemployed, partners of the unemployed, disabled people, and disadvantaged communities.

France. France faces a very high unemployment rate, some three-quarters due to structural issues according to the OECD. These structural problems include high labor costs because of excessive payroll taxes; generous unemployment benefits which discourage job seeking; over-regulation of the labor market including difficult and lengthy processes to fire workers and employers' ability to change work hours); and the lack of entrepreneurship. The French are taking a number of steps to address these problems (reducing payroll taxes, decreasing unemployment benefits, encouraging entrepreneurship). The government has also promised to create 700,000 jobs for youth -- half in the private sector and half in the public sector. While there has been some progress in public-sector jobs, but hardly any progress on the private-sector jobs program. And the government wants to reduce the legal workweek from 39 hours to 35 hours, hoping to increase employment by sharing work hours. However, most are opposed to this legislation -- especially employers -- and this initiative may raise labor costs, and thus, unemployment.

Canada. Despite strong economic growth over the last few years, Canada still has a high unemployment rate (8.6 percent in February). Experts have pointed to a number of structural problems for this relatively high unemployment rate, including a steady increases in payroll taxes over the last 20 years; increased benefits which have reduced incentives for workers to seek new employment intensively; and the fact that the Canadian unemployment system did not tax firms based on their use of the system so that firms relied on their ability to use temporary layoffs rather than changes in hours or rates of pay to respond to market shocks. In mid-1996, Canada revised their unemployment insurance system, helping to reduce disincentives to work and making employers pay part of the cost for layoffs. The Canadian government has introduced the Canadian

Opportunities Strategy. The strategy also includes grants to needy students with children, tax relief for interest payments on student loans, tax-free withdrawals on designated savings vehicles to encourage lifelong learning, and tax incentives for families to save for their children's education. The centerpiece of this strategy are Millennium Scholarships, which will help more than 100,000 students by providing \$3,000 (Canadian dollars) per year, which is about the average cost of tuition at a publicly funded university in Canada.

Japan. Japan's employment situation is being affected by both cyclical and structural issues. Japan's weak macroeconomic situation is leading to increases in their unemployment rate. While still low relative to the other G-8 countries, the Japanese unemployment rate was 3.6 percent in February -- more than 70 percent above what it was in 1990 (2.1 percent). Japanese firms typically hire new workers directly out of school, with the prospects of a lifetime jobs and extensive on-the-job training that produces a highly skilled workforce. However, this practice by large Japanese firms of providing lifetime employment contributes to Japan's labor market rigidity. Japan is likely to raise the issue of active aging, which includes both helping older people work later into life and tackling the effects of population aging on pensions, health care, and long-term care.

Italy. Italy faces a very high unemployment rate (12.1 percent in January 1998). This high unemployment seems to be caused by three inter-related problems: low outflows of people from the ranks of the unemployed; large regional imbalances; and low employment rates of women and youth, especially in Southern Italy. Italy's economy, though, is in a virtuous cycle: President Prodi's deep budget cuts and commitment to EMU have led to dramatic drops in interest rates which has helped increase business confidence and strengthen the Italian economy. At the G-8 Finance and Labor Ministers meeting, the Italians spent much time discussing their efforts to develop an equity market based on our NASDAQ. In this context, they are likely to discuss their efforts to provide venture capital and promote entrepreneurship.

Germany. Germany also faces a high unemployment rate -- 11.5 percent in 1997. The OECD estimates that three-quarters of this is due to structural issues. The underlying causes of this rising unemployment rate are complex, including rigidities in labor, capital, and goods markets as well as features in the tax and benefit systems. Some of these rigidities include high wage costs, restrictive employment regulations regarding hiring and firing compound the negative impact of high wage costs; high unemployment benefits that can last as long as 32 months

(compared to 26 weeks in the U.S.); and tax and regulatory systems that discourage small business growth. Germany is recognized for their excellent apprenticeship program, known as the "Dual System." This system trains about 70 percent of all school leavers (currently almost 1.6 million young people). In 1996 alone, there were 574,300 new apprenticeship agreements. As a rule, training in the dual system takes 3 to 4 years to complete. Firm participation in the training system is high, ranging from nearly all large-scale enterprises to about one-third of firms with between 5 and 9 employees. Employers pay the young trainees a training allowance, in lieu of wages, to compensate them for work done in the firm; allowances are fixed by collective agreement, amounting to about \$550 per month in 1996.

Russia. According to ILO, the unemployment rate has risen from 5.0 percent at the beginning of 1994 to 9.4 percent in the fall of 1997. It is clear that the Russian economy is starting to turn around. In 1997 -- for the first time in five years -- real GDP growth did not fall. One way the Russian government is trying to spur economic growth is through the Russian Small Business Fund (RSBF). The RSBF was created in 1994 with capital from the G-7 countries. Collectively, the G-7 pledged \$150 million, with EBRD matching contributions dollar for dollar. Unfortunately, country pledges did not add up to the full \$150 million. To date, with America's recent additional contribution of \$5 million, the fund has received \$125 million from G-7 countries (and Switzerland and the EC), along with \$150 million from EBRD. In less than four years of operation, the RSBF has made over 16,000 small- and micro-loans to Russian businesses, with a total value approaching \$220 million. RSBF is working in nineteen Russian regions, with expansion to ten more underway in 1998. They have provided training to Moscow-based and regional Russian banks on how to lend to small businesses and how to profit from the lending.

SUMMARY POINTS FOR BIRMINGHAM SUMMIT:
ATURDAY AFTERNOON EMPLOYABILITY SESSION

- **Promote Strong, Sustained Macroeconomic Growth to Bring More People into the Workforce.** Three-part strategy: eliminate deficit, invest in future, promote global marketplace. Investment-led expansion raising living standards and bringing the most disadvantaged into workforce. Keeping unemployment low and job growth high moves welfare recipients into work force.
- **Making Work Pay and Providing Incentives for Work Over Welfare.** Effective anti-poverty programs include: EITC; employer tax incentives; Partnerships with business; Federal commitment to direct hire welfare recipients; grant program for hard-to-employ, long-term welfare recipients. UK started New Deal for young people and single parents. Canada's Self-Sufficiency Project (SSP) tests use of temporary earnings supplements to help single parents leave welfare assistance for jobs. Germany's apprenticeship program is a model for other countries.
- **Expand Access to Education and Training.** HOPE Scholarship tax credit largest increase in a generation. Working to reform employment and training system (e.g., One-Stop Career Centers, though Europe has had for years).
- **Help Those People Outside the Economic Mainstream.** In partnership with private sector through Community Reinvestment Act; support job creation in areas where unemployed people are concentrated through Empowerment Zone/Enterprise Community initiative; Brownfields tax incentives.
- **Fostering Entrepreneurship.** Reducing regulation, community development banks, and expanded loans to small businesses help small- and medium-sized businesses. Russia Small Business Fund has helped to provide credit there.
- **Encourage Active Aging.** Challenge of demographic shifts. Plan to reserve future budget surpluses until achieving Social Security reform -- move from dealing with fiscal deficit to dealing with generational deficit.
- **Core Labor Standards.** Committed to promoting bilaterally and through multilateral organizations.

SATURDAY AFTERNOON
EMPLOYABILITY SESSION

KEY POINTS

Prime Minister Chretien will lead this discussion. Your presentation tracks with Seven Principles agreed to earlier this year by G-8 Finance and Labor Ministers, at the London Employability Conference. Under each principle, key U.S. policies or experiences are listed. Also, possible questions for other leaders are included, keying off their programs and experiences.

Overview

- Our goal must be to spur job creation while ensuring that no one falls through cracks. We must strike right balance between flexible labor market and strong social safety net.
- United States can learn from other G-8 countries on helping those outside economic mainstream. Still, our experience shows that flexible labor markets are fundamental to job creation.
- Besides flexible labor markets, though, critical to
 - (a) promote strong, sustained macroeconomic growth to bring more people into workforce;
 - (b) create programs that make work pay and provide strong incentives for work over welfare;
 - (c) create programs to help those people outside mainstream.

Promote Strong, Sustained Macroeconomic Growth to Bring More People into the Workforce

- Strong, sustained economic growth helps workers at margin. We have pursued a three-part economic strategy: eliminating our deficit, investing in future and promoting global marketplace. Strategy has helped lead to America's first balanced budget and our strongest economy in a generation.
- Our investment-led expansion is raising living standards of those at bottom of income distribution and is bringing the most disadvantaged Americans into workforce. As economy grows and unemployment drops, businesses reach deeper into labor pools, hiring workers they may not have otherwise considered.

- Income inequality remains a significant problem in the United States. Still, important to note that our strong economic growth has been shared broadly. Since 1993, every income group -- from well-off to poorest -- experienced real increases in income. The poorest 20 percent of U.S. households experienced biggest percentage increase (6.8 percent). And the poverty rate has declined; the African-American poverty rate is down to 28.4 percent -- the lowest ever recorded. Child poverty rate has had its biggest three-year drop in nearly 30 years.
- Prosperity is also spreading to more Americans. African-American unemployment rate has fallen to lowest level since 1973 (9.3 percent). Hispanic unemployment rate has dropped to lowest level on record (6.8 percent). Despite significant progress, rates are still unconscionably high. Importantly, incomes of African-American and Hispanic households are on the rise; for example, the typical African American household's income is up \$2,273 since 1993.
- Keeping unemployment rate low and job growth high is also essential if we are to move current welfare recipients into work force. Early, indirect evidence shows that employment and labor force participation rates among single women who maintain families -- about two-thirds of whom have children under 18 -- have increased significantly in past few years.

Making Work Pay and Providing Incentives for Work Over Welfare

- The **Earned Income Tax Credit** is excellent example of a program that makes work pay and provides strong incentives for work over welfare and is an effective anti-poverty program. In 1996 alone, it lifted more than 4 million people out of poverty. My Council of Economic Advisers found that EITC expansion explains *half* of 4.7 percent decline in child poverty rate since 1993. Research also shows that EITC brings significantly more single mothers with children into workforce.
- Parents who work full-time should not have to raise their children in poverty. Expanded EITC and the 90-cent minimum wage increase in 1996 mean that a full-time minimum wage worker is more than \$3,000 better off than when I took office. Single parents working full-time with two kids can now raise their families out of poverty. However, as costs continue to rise, some of these families will fall back below the poverty line in coming years. That is why it is critical to sustain gains we have already made and raise the minimum wage again.

- In 1996, we dramatically reformed welfare to promote work and responsibility. We have launched a comprehensive effort to increase welfare recipients' employment opportunities, working with state, local and private sector partners. Last year, I set the goal of moving two million Americans off welfare by the year 2000. We met that goal, two years ahead of schedule.
- Our strategy includes two employer tax incentive programs -- the **Work Opportunity Tax Credit** and the **Welfare-to-Work Tax Credit** -- making it easier for businesses to hire entry-level workers and long-term welfare recipients; a **Welfare-to-Work Partnership** with businesses committed to hiring people from the welfare rolls; a **Federal government commitment** to directly hire at least 10,000 welfare recipients in the next four years; and a **\$3 billion Welfare-to-Work grant program** to help states and local communities move hard-to-employ, long-term welfare recipients into lasting, unsubsidized jobs.

[You may want to ask **Prime Minister Blair**]:

- I know that you kicked off the New Deal for young people and single parents in January in 12 regions. And, last month, you started the program for young people on a national basis. What kind of initial results are you seeing and how are the British people -- in particular, those participating -- responding to this new initiative?

[You may want to ask **Prime Minister Chretien**]:

- You put in place the Self-Sufficiency Project (SSP), a long-term experiment to test the use of temporary earnings supplements as a way to help single parents leave welfare assistance for employment. Like our EITC, intent of SSP is to make work pay more than being on welfare. What kind of results are you seeing? Has it helped promote work and raise earnings? Have there been any unintended consequences, such as longer spells on welfare, as it is targeted at long-term welfare recipients?
- Those who drop-out of school are far more likely to end up in poverty and with a weak attachment to labor force. It is crucial to do everything possible to strengthen ties between school and work and prevent students from dropping out. Our **School-to-Work program** encourages educational and career opportunities for all students by providing venture capital grants for state and local partnerships to develop and implement systems that help young people make the transition from school to careers. Mentoring can also be critical. That is why I have proposed an initiative which would help build **mentoring partnerships** between colleges and middle schools in high-poverty communities.

[You may want to ask **Chancellor Kohl**]:

- Your apprenticeship program is a model for all other countries. What suggestions do you have on establishing systems as comprehensive as yours?

Expand Access to Education and Training

- Last year, we provided largest increase in educational investments in a generation, including biggest increase in aid for students wanting to attend college in half a century. Through expanded grants for low-income persons, cheaper and easier-to-obtain student loans for all persons and tax incentives for low- and middle-income families, we have made it financially possible for every American to obtain post-secondary education throughout their working lives.
- Our \$1,500 **HOPE Scholarship tax credit** -- a straight reduction in a family's tax bill -- will help make the 13th and 14th grades as universal as a high school diploma is today.
- We are also working to fundamentally reform our employment and training system for the 21st-century economy. We are working to secure passage of a bill that would consolidate the tangle of training programs into a **simple skill grant for American workers**; creating a network of **One-Stop Career Centers (which Europe has had for a number of years)**; increasing accountability to ensure results; and empowering people to gain the skills that are in greatest market demand.

Help Those People Outside the Economic Mainstream

- One of our greatest challenges is bringing economic opportunity into our inner cities and rural communities. Government can not achieve this alone, but we can help bring a spark of private enterprise into distressed communities.
- In the past five years, private sector has made \$355 billion in financial commitments to low-income communities, primarily because we simplified and strengthened the **Community Reinvestment Act** which helps bring private capital into distressed communities. We are also working to support job creation in areas where unemployed people are concentrated -- through our **Empowerment Zone/Enterprise Community** initiative and the **Brownfields tax incentives** -- to encourage revitalization of economically distressed areas and cleanup and redevelopment of environmentally distressed communities.

- To help disadvantaged youth in high-poverty areas, we have two major programs, one old and one new. **Job Corps** provides nearly 70,000 disadvantaged youth a full-time, year-round residential program that offers a comprehensive array of training, education and supportive services. And our new **Out-of-School Youth** program will help high-poverty areas provide comprehensive services aimed at raising employment rates of out-of-school youth.

Fostering Entrepreneurship

- The U.S. economy is driven by entrepreneurs. Through reducing burden of regulation and ensuring that benefits of new regulations justify costs, a network of community development banks, and expanded loans to small businesses, we are helping America's small- and medium-sized businesses.

*[You may want to ask **President Chirac**]:*

- Entrepreneurship is key to creating jobs. In the United States, most new jobs are created by small businesses. What steps are you taking to foster entrepreneurship and thereby help reduce unemployment?

*[You may want to ask **President Yeltsin**]:*

- Is there a lack of capital for Russian small businesses? And what effect has the Russian Small Business Fund had in alleviating any credit crunch for Russia's small businesses?

Encourage Active Aging

- Demographic shifts in the early 21st century pose a challenge to inter-generational equity -- we don't want tomorrow's retirees to face a difficult retirement or tomorrow's workers to bear too high a burden in supporting those retirees. That's why we need to act now. I have put forward a plan to reserve America's future budget surpluses until we achieve Social Security reform, to examine options in 1998, and to reform Social Security in 1999. The United States is therefore moving from dealing with our fiscal deficit to dealing with our generational deficit. Other countries must do the same.

Core Labor Standards

- We are committed to promoting international application of core labor standards through bilateral relations and participation in multilateral organizations. These help to ensure that all segments of society have the opportunity to share in the prosperity made possible by global integration and technological innovation.

BACKGROUND

**FRIDAY G-7:
Background Papers**

BACKGROUND ON THE U.S. ECONOMY

Economic conditions in the United States remain very favorable with the expansion now in its eighth year. Growth accelerated in 1997 but is expected to moderate back closer to its long-term sustainable rate, partly due to the impacts of the Asian crisis. Employment gains have been very strong and the unemployment rate remains at its lowest level in a quarter of a century. Inflation pressures are largely absent, the federal budget is headed toward surplus and there are few signs of the imbalances that have ended past expansions.

Economic growth was very strong over 1997, with real GDP posting its largest gain in ten years. Early indicators suggest that strength continued into 1998, and in the first quarter, the economy grew 4.2 percent at an annual rate -- the sixth quarter in a row of more than 3 percent growth. Rapid increases in consumer spending, housing and equipment investment in the first quarter more than offset a large drag on growth resulting from deterioration in the foreign trade balance.

The trade deficit widened sharply in January and February, largely the result of lower goods exports to East Asia. Over the past four months, reduced exports to the five core troubled economies (Korea, Indonesia, Thailand, Malaysia and the Philippines), together with Japan, China, Taiwan and Hong Kong, accounted for about 80 percent of the reduction in overall exports of U.S. goods.

The outlook is for the Asian crisis as well as slowing domestic demand to moderate the pace of economic growth through the remainder of the year. Growth is projected to move back eventually to its long-run path of near 2-1/2 percent, where it is assumed to remain for the rest of the six-year forecast horizon. This outlook is generally similar to the consensus of most private forecasters.

Employment gains have been very strong, with 15 million new jobs added to the economy since January 1993. Job growth speeded up to a very rapid 358,000 per month in the final quarter of 1997, but returned to a more stable pace in the first quarter of this year. Growth in manufacturing jobs (and production) slowed recently, possibly reflecting the impact of the Asian crisis on demand for U.S. exports.

In the first quarter, the unemployment rate was 4.7 percent (on a quarterly basis), the lowest in 28 years. Other indicators of labor utilization such as the employment-population ratio, which recorded an all-time high in both January and February, also show

that labor markets are tight. Real wages have started to accelerate, rising by 2.9 percent over the past year -- the fastest rate in 25 years.

So far, there are **few signs that inflationary pressures have emerged**. The behavior of both the consumer and producer price indexes was remarkably subdued last year and so far in 1998. A sharp fall in energy prices and an easing in food prices were important factors, however even the "core" measures (excluding food and energy) remained tame. Core consumer prices were up only 2.2 percent through the twelve months of 1997, the lowest such inflation rate since the mid-1960's.

The **fiscal position** of the U.S. Government has improved remarkably in the past five years. The federal deficit was cut from an all-time high of \$290 billion in fiscal year 1992 (representing 4.7 percent of GDP) to \$22 billion in fiscal 1997 (0.3 percent of GDP). **This year, the budget is forecast to show a modest surplus. This would be the first surplus in 30 years.** With continued fiscal discipline, surpluses are expected to grow each year through the forecast period.

BACKGROUND PAPER: GLOBAL ECONOMY: JAPAN

By general consent, Japan's economy will achieve little or no growth this calendar year, and only a weak upturn is likely in 1999. Forecasts completed just before the announcement of the April 24 fiscal package range from very small declines (-0.3 percent for the OECD and Consensus, -0.1 percent for the IMF) to very small increases (Fed 0.2 percent) for 1998. The Treasury forecast completed April 28 -- which projects a 0.1 percent rise in GDP in CY 1998 and a 0.9 percent rise in 1999 -- takes into account the impact of the fiscal package specifics just announced but is little changed from last month's estimate: while the details announced April 24 indicate that the package is stronger than previously thought, the most recent indicators (wage and employment data, EPA survey of investment intentions) required downgrading estimates of ex-package growth.

We expect another sizeable rise in Japan's current account surplus this year (to about \$125 billion -- over 3 percent of GDP -- from \$95 billion in 1997), but there may be only a small further rise in 1999. The decline of the yen and weak domestic demand should improve Japan's trade balances with non-Asian countries, and oil imports will be cheaper. On the other hand, Japan's exports to other Asian countries are collapsing, since the yen has risen against many currencies and domestic demand has contracted in many of these countries.

The April 24 announcement showed the ¥16.7 trillion package as consisting of the following key elements:

- Around ¥11.8 trillion (2.3 percent of GDP) in total "real water" stimulus by our estimate;
- Of this total, ¥7.2 trillion is in new public works spending; ¥4.0 trillion in temporary income tax cuts; ¥0.3 trillion in tax incentives to stimulate housing purchases and corporate investment; and ¥0.3 trillion in subsidies for low income elderly and for encouraging employment of older workers.
- About 70 percent of the total will be spent within FY98, with the remaining 30 percent in FY99.

Assuming that the program is carried out promptly, there should be a significant favorable impact on the Japanese economy in calendar 1998 and early 1999: perhaps a contribution of 1.1

percentage points to growth in CY98 and 0.2 points in CY99. In effect, the program should convert 1998 from a recession year to a slow-to-flat growth year. More important, it should stop the macroeconomic situation from unraveling further.

Whether this program is enough to get Japan firmly on an upward path -- by restoring business and consumer confidence and thereby generating higher levels of consumption and investment spending that will continue after the fiscal program is over -- remains to be seen. Longer-term sustained growth will also require measures to repair the banking system and to open and deregulate the economy.

BACKGROUND PAPER:
GLOBAL ECONOMY: EMU AND STRUCTURAL REFORM IN EUROPE

The Continental Europeans will be in a mixed mood, self-congratulatory for having just put inauguration plans for EMU in place, with 11 founding members, and sobered by the bruising battle between Paris and Bonn that yielded a compromise agreement new head of the European Central Bank. However, resolution of the larger issue of job growth on the Continent does not seem much advanced. Domestic demand will indeed strengthen somewhat this year in France, Germany and Italy, but in Germany especially this prospect remains more of a forecast than an achievement. Familiar structural problems, and self-inflicted wounds such as the planned shortening of the workweek (without reductions in weekly wages) in France and Italy, make it hard to see dynamic investment-led recovery in these countries.

BACKGROUND PAPER: ASIAN FINANCIAL CRISIS

Positive news in April, including Indonesia's agreement with the IMF and Korea's successful bond issuance, has raised hopes that recovery may replace crisis in Asian markets. Indonesia, Thailand, Malaysia and Korea are just starting to implement the structural reforms needed to restore sustained growth. While financial markets may regain stability, painful "real economy" effects (e.g., rising unemployment and inflation, low growth) are just beginning. Those effects promise a difficult and volatile period ahead.

The Indonesian government signed a detailed revision of its IMF agreement on April 10 -- perhaps ending months of policy vacillation and feuding with the IMF. However, prospects remain guarded and political uncertainty will continue to hobble economic reform. Though initially dismissed as a "crony" cabinet, the new ministers helped deliver the revised IMF agreement. They must now show the will to implement reforms.

President Soeharto's political position is reasonably firm, but there remains considerable uncertainty about the course of events. Student protests, though contained for now, are rising in intensity. The cutbacks in subsidies, although far more modest than in earlier IMF packages, have also triggered unrest. The government and foreign creditors are negotiating the creation of a credible mechanism to resolve the private debt overhang. A drought will increase the need for trade financing to import food and contribute to mounting inflation. The United States has committed over \$600 million in food aid and humanitarian assistance and \$1 billion in Ex-Im Bank trade finance.

In Japan, market confidence is sagging as Prime Minister Hashimoto's proposed \$30 billion temporary tax cut and \$77 billion of public works projects appear insufficient to boost domestic demand and enable Japan to absorb more imports, especially absent additional market-opening measures and banking and structural reforms.

After a successful \$4 billion bond offering in April, Korea is focusing on financial and corporate reform. There is no room for complacency as markets remain vulnerable to possible corporate bankruptcies; a painful adjustment period lies ahead. Malaysia's relatively strong economy, low debt, fiscal austerity and restructuring measures helped it weather the crisis without seeking outside assistance. Transparency and banking problems persist and near-term economic stagnation seems likely. In Thailand, the currency has stabilized in recent weeks and there are signs private investors may be returning. However, private sector analysts estimate GDP will decline by 3 percent in 1998 and that business failures and unemployment will rise. Prime Minister Chuan's hold on power is firm for now, and he is content with the \$1.7 billion USG package he received in Washington in March.

BACKGROUND PAPER: INTERNATIONAL FINANCIAL ARCHITECTURE

The 1994 Naples Summit initiated a G-7 review of international economic institutions that culminated in a set of recommendations at the 1995 Halifax Summit shaped in large part by the Mexican financial crisis.

The international financial architecture has re-emerged as a key issue in light of the recent crises in Asia. Congressional consideration of the IMF quota increase has also focussed attention on the need to make the international system function more efficiently, including by making the IMF more transparent and by avoiding "bailouts" of international investors and creditors.

The United States has taken the lead in advancing dialogue on this issue, including by convening a special meeting of twenty-two finance ministers and central bank governors (the "Willard Group") hosted by Secretary Rubin and Chairman Greenspan to follow up on your pledge in Vancouver to convene such a global group to consider the implications of the Asian crisis. Strengthening the architecture was also the primary focus of the spring meeting of the IMF's Interim Committee in Washington in mid-April, as well as a number of other international fora.

The G-7 Finance Ministers' report to Heads on "Strengthening the Global Financial Architecture" will cover the following key topics:

On transparency, there is consensus among the G-7 of the need for greater transparency by both national governments (economic and financial data) and by the IMF (its decision-making, policies, and concerns about member countries).

There is broad agreement on the need for capital account liberalization, supported by appropriate domestic policy reforms. We have recently toned down our strong advocacy of liberalization (specifically, we call for an amendment to the IMF charter) in response to concerns in Congress. There is a chance that others may raise capital controls or "Tobin taxes" as ways to limit volatility of flows; we continue to oppose such measures.

With regard to strengthening national financial systems, the 7 agree on the need for a new system for multilateral surveillance of national supervision. The UK and Canada have made specific

proposals, but there is now agreement to defer a decision on the institutional arrangements for accomplishing this. There is also consensus on the need for wider adoption of international standards for banking supervision ("Basle Core Principles") and development of standards in other areas (accounting, loan classification, and corporate governance).

To reduce moral hazard and ensure that the private sector takes full responsibility for its own decisions, there is agreement to expand the IMF's policy of lending into arrears and to encourage flexibility in bond contracts to allow for re-negotiation.

BACKGROUND PAPER: G-7 FINANCIAL STABILITY

The final report of the G-7 financial experts was approved in March and was included in the report of the G-7 Finance Ministers to the G-7 Heads of State.

There has been considerable progress since Denver. A particular accomplishment is agreement on the Ten Key Principles for enhancing information sharing among regulators. The information sharing principles are a culmination of work beginning in fall 1997, when the G-7 financial experts conducted a review of information sharing practices and barriers among G-7 countries. The principles mandate certain actions that had previously proved controversial, including that each country would adopt express laws to share information, and that information provided to a regulator from a foreign authority could be passed on to that regulator's law enforcement officials, a concept which Japan had resisted in the past. Certain G-7 countries (including the United States) are currently addressing the statutory revisions necessary to eliminate the barriers which have been identified in their respective countries.

The final report also notes the ongoing work in other areas, including the supervision of internationally active financial institutions, strengthening risk management, transparency and disclosure, international aspects of the year 2000 problem, on-site inspection, and fostering cooperation with the private sector. Some of this work may be carried forward in the new G-22 group formed to deal with the aftereffects of the Asia crisis.

BACKGROUND PAPER:
MULTILATERAL DEVELOPMENT BANKS - REFORMS AND RESOURCES

The Asian economic crises have pointed the need for further improvements in the global financial architecture and provided renewed momentum for non-financial reforms related to corruption, core labor standards, and the environment. The IMF has adopted guidelines on governance and become more active on labor and environment issues, but the multilateral Development Banks (MDBs) are better able to address most specific problems in these areas.

There has been some progress in the World Bank's year old Strategic Compact reform effort in decentralizing operations, establishing indicators to measure performance, and focusing more on governance, health and education, financial sector, environment and labor standards. However, there has not been adequate cost cutting or emphasis on quality control. We will work closely with the Bank to ensure it meets its commitment of a FY2001 budget no higher than FY1997 budget in real terms, focuses on areas where it has an advantage and strengthens quality control.

We are close to concluding a capital increase for the Multilateral Investment Guarantee Agency (MIGA), which is similar to our OPIC. At our insistence, policy issues of special concern to the Administration and the Congress, including information disclosure, an independent inspection function, environment, and labor issues and worker rights, were part of the negotiations. We won agreement that MIGA and the International Finance Corporation (IFC), the other private sector window of the World Bank, will adopt strong labor standards. But here has been little progress on the other three issues. We will not finalize the agreement until we are satisfied that these issues are on the right track.

The IDA-12 negotiations, which began in early 1998, offer an opportunity to pursue our reform agenda in World Bank. We are seeking strong policy commitments as a condition for our replenishment. The other leaders may seek commitments on a deadline or size for the replenishment, but we believe agreements on reforms should precede funding decisions.

A final area of reform relates to environment. We concluded replenishment negotiations for the Global Environment Facility (GEF-2), agreeing to \$2.75 billion over four years and a strong reform agenda. France and Germany pressed us to increase our \$430 million contribution, but we opposed this as unrealistic, since Congress has recently appropriated less than half of our GEF requests. We are open to increasing the pledge once we have

cleared our arrears and secured authorization for GEF-2. We are emphasizing rapid implementation of GEF reforms, with focus on incorporating climate change factors into all MDBs' operations.

You are in a stronger position on IFI resources this year. Your FY98 budget reduced MDB arrears from \$862 million to \$638 million, clearing all of our arrears to IDA (\$234 million). An FY98 Supplemental Request seeks \$18 billion for the IMF Quota Increase and New Arrangements to Borrow (NAB); prospects for this funding request is still unclear. The FY99 Budget contains a request for \$502 million in arrears, including all (\$192 million) of our arrears to the GEF. This should leave \$136 million in arrears remaining to be cleared in FY2000.

~~CONFIDENTIAL~~

BACKGROUND PAPER: UKRAINE'S FINANCIAL SITUATION

The Ukrainian government has consistently failed to act on promised economic reforms, bringing the country to the brink of a financial crisis. In the run up to the March 29 parliamentary elections, the government spent freely, hoping to abate the appeal of opposition parties. Even then, the government did not target spending to pay salaries, running up additional wage arrears and scrapping measures to improve budgetary transparency. In March, the IMF suspended Ukraine's on-again, off-again standby program. Most foreigners have fled from Ukraine's T-Bill market, despite interest rates of 45-50 percent. Ukraine, in effect, survived by issuing two Eurobonds to raise \$1 billion at the highest rates ever for Europe.

President Kuchma and his economic team claim to understand that survival through pricey Eurobonds is unsustainable. Senior government officials have publicly raised alarm bells over a "deepening financial crisis" and the urgent need for reform. Deputy Prime Minister Tyhypko told a banking conference on April 27 that servicing the country's debt would soon outstrip planned budget revenues, and that the only way forward is to restore investor confidence and secure financial backing from international lending organizations. Kuchma recently ordered his economic team to renew negotiations with the IMF; by the end of April they agreed in principle on a solid multiyear program.

The new IMF program will go to the board once Ukraine completes a number of prior actions. It calls for a treasury system to control expenditures, a realistic budget, tax reform, cutting regulatory and licensing requirements and market reforms in energy and agriculture. The key unknown is whether President Kuchma has the political will to move legislation through parliament. The left won about 40 percent of the seats in the March 29 parliamentary elections -- by no means the leftist sweep the press originally portrayed. That said, centrist parties are sharply divided. The course of reform, and Kuchma's presidential chances, depend on his ability to unite the center around an economic strategy to encourage investment and growth.

Ukraine's financial problems come just as there are signs of improvement in other areas of the economy. Industrial output rose by 1.7 percent and GDP was essentially flat during the first quarter of 1998, compared to declines of 6 and 7.9 percent, respectively, during the same period last year. Kiev has also maintained control over inflation (1.7 percent for the quarter versus 3.2 percent last year).

~~CONFIDENTIAL~~

Reason: 1.5(d)
Declassify on: 4/30/08

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PER E.O. 13526

2016-0142-M (1.54)
KBH 1/29/2020

BACKGROUND PAPER: NUCLEAR SAFETY - UKRAINE

Rivne-4/Khmelnytsky-2 (R4/K2). In December 1995, the G-7 and Ukraine signed a Memorandum of Understanding (MOU) on Closing the Chornobyl Nuclear Power Plant by 2000. One possible project under the MOU is completion of the R4/K2 reactors. Co-financing (with EURATOM) of R4/K2 is under consideration by the European Bank for Reconstruction and Development (EBRD). The EBRD will not complete its evaluation of the project's feasibility (including the project's safety, environmental feasibility, the financial viability of the borrower, and the least-cost due diligence) before this fall.

The European G-7 are pressing hard for the EBRD to ease its financial requirements in light of Ukraine's slow progress on economic/power sector reforms. We remain favorably disposed to the project if it meets the EBRD's requirements. There are also questions about whether enough financing will be available to implement the project since the EBRD is considering a lower financial commitment than originally envisaged. The G-7 should press the EBRD to be forthcoming with a viable financing package if R4/K2 meet the EBRD's due diligence requirements. The G-7 Heads Chairman's Statement will make this point.

President Kuchma continues to link Chornobyl closure to completion of R4/K2. The European G-7 have also been sympathetic to this position, although it was not a commitment in the MOU. We have never accepted Kuchma's formulation that Chornobyl cannot close without R4/K2. Rather, we have always stated that the basis for closing Chornobyl should be that electricity supply satisfies demand. Ukraine has the generating capacity to meet electricity demand; its problems are financing to purchase fuel and to replace old, inefficient plants. If Ukraine keeps to an IMF program, the donor financing plan will address fuel import needs to meet electricity demand.

Chornobyl Shelter Implementation Plan (SIP). In May 1997, the G-7 and Ukraine endorsed a \$760 million plan to stabilize and repair the Chornobyl Shelter. At the Denver Summit, Heads agreed to support efforts to find private and public sector funding for the SIP. To date, over \$400 million has been pledged from governments around the world. (The G-7 pledged US \$300 million at Denver; the US contribution is \$78 million). Efforts are now underway to seek donations from the private sector. Heads will need to press for additional public and private sector support in order to raise the remaining \$360 million.

MR MARKER

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Folder Title:

The President's Trip to the United Kingdom for the G-8 Birmingham Summit, May 15-17, 1998 [2]

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Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	Economics (4 pages) <i>Partial release - KBH 9/8/2017</i>	05/00/1998	P1/b(1)
002. paper	Background Paper: Additional Middle East Issues (2 pages)	05/00/1998	P1/b(1) <i>KBH 4/30/2020</i>
003. paper	Background Paper: Drugs/UNGASS [UN General Assembly Special Session] (1 page)	05/00/1998	P1/b(1) <i>KBH 4/30/2020</i>

COLLECTION:

Clinton Presidential Records
National Security Council
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FOLDER TITLE:

The President's Trip to the United Kingdom for the G-8 Summit, May 15-17, 1998 [2]

2016-0142-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]
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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

**FRIDAY DINNER:
Background Papers**

Withdrawal/Redaction Marker

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	Economics [partial] (4 pages).	05/00/1998	P1/b(1)

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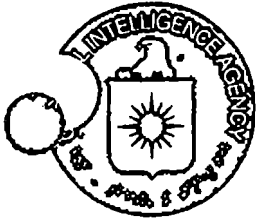
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Economic Crisis Affecting Asian Political Environment

3.5c

Central Intelligence Agency

Asia's unfolding economic crisis has led most governments in the area to focus their energies on their respective domestic challenges, a tendency that has affected the regional environment in positive and negative ways:

- On the one hand, countries are slashing defense spending and delaying the procurement of costly weapon systems, according to [redacted] 1.4c, 1.4d [redacted] press reports. As a result, concerns about regional arms races, particularly in Southeast Asia, are ebbing.
- On the other, many now appear to be placing less emphasis on multilateral cooperation, which had been gaining currency before the crisis. Leaders, for example, are not relying on APEC, ASEAN, and the ASEAN Regional Forum for solutions. [redacted] 3.5c

A prolonged economic downturn in key countries runs the risk of spurring social dislocations that could, in a worst case scenario, threaten regional stability:

- Although most evident in the case of Indonesia, where economic conditions have triggered social unrest, China, too, is undertaking difficult reforms that are already generating some labor unrest. Many in the region are concerned about the safety of their foreign nationals and the potential for destabilizing refugee flows.
- For South Korea, the economic crisis makes granting unconditional aid to the North especially difficult politically. Seoul's insistence on reciprocal gestures for aid frustrates P'yongyang and may prompt the North to take a tougher line on North-South talks and return to military provocations or brinkmanship tactics over the nuclear freeze. [redacted] 3.5c

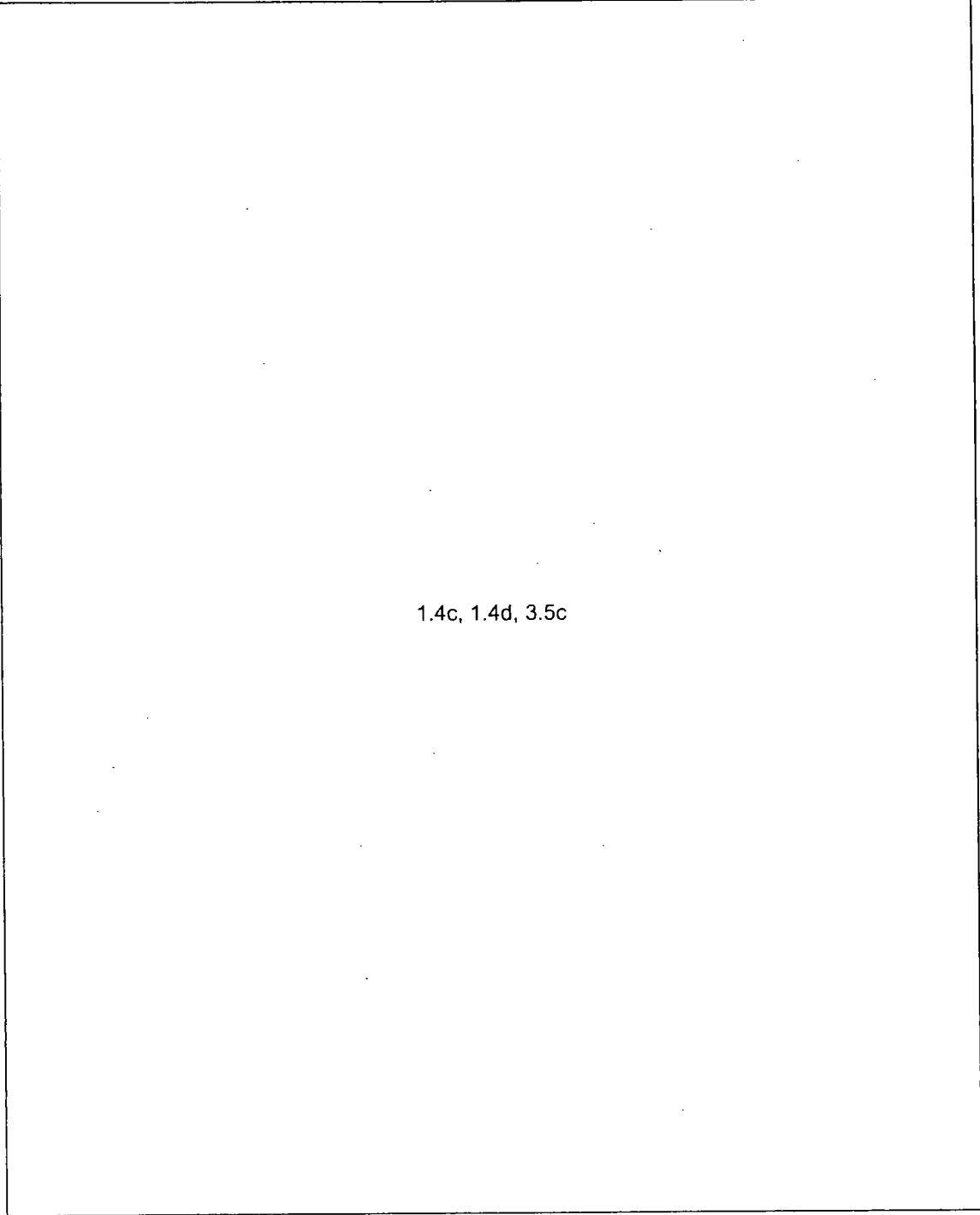
In addition, the crisis is accentuating perceptions about rising Chinese influence. Indeed, Beijing sees its pledge not to devalue the yuan as bolstering Chinese power and providing an opportunity to strengthen ties to Asia [redacted]

1.4c, 1.4d, 3.5c

3.5c

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2/27/2017 KBH



1.4c, 1.4d, 3.5c

Impact on . . .

... domestic politics

... regional agenda

China

Causing export growth to slow, which could dampen overall economic growth and jeopardize Premier Zhu Rongji's reform plans . . . Zhu considered only leader capable of handling economic problems but could also shoulder blame if plans go awry.

China perceives that its stand against devaluing currency has won international praise, changed regional perceptions of China as a threat . . . looks to use new leverage to build stronger ties to ASEAN . . . officials gloating their policies have outshone Japanese efforts.

Japan

Has weakened business and public confidence in the economy, hurting Hashimoto's support rating . . . but lack of challengers to tackle Japan's economic woes may help Hashimoto hang on until at least the upper house elections in July.

Officials say Japan alone cannot be the engine for Asian economic recovery . . . needs EU and US support . . . touting \$40 billion in financial and trade assistance to Asian economies to deflect criticism of weak domestic stimulus efforts.

North Korea

Is providing fodder for internal propaganda claiming North's economic troubles are not unique and discrediting the capitalist economic models . . . allows P'yongyang to claim South Korea is under US and IMF "trusteeship."

Crisis hampers P'yongyang's efforts to exploit niche markets and cajole aid and favorable trade and credit terms from neighbors. . . also using crisis to portray US as would-be regional hegemonist.

South Korea

Is shaping decisions on key issues . . . greater public antipathy to partisan politics blunting impact of wrangling between administration and majority Grand National Party . . . local experts say rising unemployment may spark protests but expect union leaders to exercise restraint due to concerns that turmoil would hinder economic recovery.

Intensified political imperative to obtain reciprocal concessions from P'yongyang in bilateral dealings . . . officials note that the previous administration was criticized heavily for providing unconditional aid during a period of rapid growth.

Russia

Has prompted public admission that economy is suffering . . . officials probably remain concerned that falloff could further erode investor confidence and damage trade revenues if raw materials prices continue to drop . . . crisis could prompt renewed domestic criticism of integration into the world economy.

Moscow still bullish on Asia, although plans to speed up trade development with some countries will undoubtedly be slowed by the crisis . . . Russian energy firms are also pressing ahead with projects to sell gas and electricity to China, Japan, and South Korea to boost trade.

1.4c, 1.4d, 3.5c

Impact on . . .

... domestic politics

... regional agenda

Indonesia

Galvanizing opposition to Soeharto's rule. Rising unemployment and inflation this year increase chances for wider protests that will test the security forces' ability to maintain public order.

Outflow of economic migrants has alarmed neighbors. Reluctance to implement IMF reforms also angering some governments who see this as delaying regional economic recovery. Trade with East Asia has suffered.

Malaysia

Has heightened tensions between Prime Minister Mahathir and Deputy Prime Minister Anwar . . . but Anwar does not yet have the support to challenge him. Crisis threatens Mahathir's goal of turning Malaysia into a developed country and may strengthen his resolve to remain in office beyond 2000.

Has spurred Malaysia to make amends with neighbors, such as Singapore. Wary an influx of illegal Indonesian immigrants might increase social tensions, Kuala Lumpur has sought Jakarta's help in deporting illegal immigrants . . . has attempted to reduce bilateral tensions by repatriating several hundred Acehnese.

Philippines

Is having relatively minor political impact thus far. Crisis may have helped boost candidacy of frontrunner Vice President Estrada, whose populist rhetoric concerns the business community.

Despite the attack on the peso last year and volatility in their financial markets, most Filipinos continue to welcome foreign investment and expanded links with the world economy. But the crisis may reduce Manila's willingness to lower trade barriers in the short term.

1.4c, 1.4d, 3.5c

Singapore

Is having little impact politically, despite rising concern in the business community about contagion effects from Indonesia and Malaysia.

Concerns about impact of crisis on his economy have propelled Prime Minister Goh into the role of a regional spokesman. Goh has called for additional EU, Japan, and US support for the region and championed an export financing package for Indonesia, pledging \$5 billion to the program.

Thailand

Has bolstered sentiment for reform, forcing a change of government last November to make way for new leaders less associated with graft and cronyism. Budget constraints are hampering new mechanisms such as counter corruption and electoral commissions.

Bangkok undertaking efforts to repatriate up to 300,000 of an estimated 800,000 illegal Burmese workers in Thailand and to replace them with Thai . . . seeking rollovers of Japanese loans and lining up additional trade financing from Tokyo. Leaders critical of Tokyo's posture, and want Japan to stimulate region's economy.

BACKGROUND PAPER: ASIAN FINANCIAL CRISIS

Indonesia's agreement with the IMF and Korea's successful bond sale in New York raised hopes that stability and recovery may replace crisis in Asian markets. However, Indonesia, Thailand and Korea are just starting to implement many of the serious structural reforms needed to restore sustainable growth. While financial markets may regain some stability, painful "real economy" effects -- bankruptcies, rising unemployment, decreased growth, rising inflation -- are only now beginning to emerge. Coupled with the social and political tensions already present in Indonesia, those developments presage a potentially difficult and volatile period ahead.

Rioting and looting broke out in Indonesia in early May in response to decreases in fuel subsidies announced by the Government on May 4 as part of the IMF program. (The IMF was prepared to delay some of these subsidy cuts, but Soeharto himself apparently insisted on going forward.) Students with long-standing demands of political and economic reform continue to demonstrate throughout the country, and support for the demonstrations appears to be growing despite a gradually increasing level of violence. Police reaction remains generally restrained, but there were reports of police firing rubber bullets on demonstrators in Medan and Sulawesi.

Prospects are guarded and political uncertainty will continue to hobble Indonesia's economic reform. Creation of a credible mechanism to resolve private sector debt overhang will preoccupy the government and commercial creditors over the coming weeks. A drought will reduce agricultural production, increase the need for trade financing for food imports, and contribute to mounting inflation. (The United States has committed over \$600 million in food aid and other humanitarian assistance in addition to the \$1 billion that Ex-Im Bank will make available.) President Soeharto's political grip remains reasonably firm, but there is considerable uncertainty about the future course of events. The new group of ministers, though roundly dismissed as a "crony" cabinet in March, helped deliver the revised IMF agreement. Now they must show they will implement the reforms.

On May 4, the IMF approved the first of three monthly \$1 billion loans to Indonesia: this is the first disbursement under Indonesia's revised April 10 agreement, and it brings total IMF lending to \$4 billion of the \$10 billion the Fund committed to Indonesia last November. The action ends a months-long standoff between Indonesia and the IMF and should trigger release of World Bank and Asian Development Bank loans totaling \$2.5 billion, in addition to some bilateral loans. Indonesia's compliance with the April agreement has been better than anticipated, though the status of some reforms, such as dismantling of monopolies, remains unclear and will require close monitoring by the IMF and the international community.

Economic prospects have improved recently in Korea, where the government has set out an ambitious reform program and may follow

April's successful \$4 billion bond sale with a \$1 billion offering in May. The Korean government announced additional structural reform measures in April intended to further bolster market confidence in its commitment to restructure its banking system, welcome foreign investment and restore growth.

However, political tensions are rising as the effects of the financial crises begins to be felt in the real economy. **President Kim Dae-jung has acknowledged that unemployment will pose the most significant challenge to his reform program** but has said that he will stand up to the unions in order to keep reforms on track. A May Day rally of roughly 20,000 protesters from the dissident trade union federation clashed with riot police when they began marching from the designated rally site to a nearby cathedral. Even though the rally pales in comparison to some of the mass demonstrations of years past, markets reacted negatively.

In Thailand, Prime Minister Chuan remains popular and the **political opposition is in disarray -- posing little threat for the short term.** The \$1.7 billion USG package and the show of support he received on his visit to Washington has helped him maintain the confidence of the Thai people. Corporate debt workouts are key to recovery and political stability over the coming weeks; the IMF is hopeful that private sector negotiations underway will provide the catalyst to begin to address this issue.

The currency has strengthened, the current account is now in surplus, inflation remains steady and there are signs that private investment may be returning. However, much pain lies ahead as the economy is expected to contract by as much as 5 percent in 1998, and as business failures and the unemployment rate rise.

China has a good fix on the causes of the crisis and has played a constructive role in helping to prevent its spread by publicly committing not to devalue its currency and contributing to IMF packages. Moreover, the Chinese recognize the weaknesses in their own financial and banking structures and have strongly reconfirmed their commitment to economic reform. Time will tell how effective these efforts will be.

Fiscal austerity and restructuring measures carried out in close consultation with the IMF (without an official program) have **enabled Malaysia to avoid seeking outside assistance so far,** but transparency and banking sector problems persist, and lower economic growth seems likely. Malaysian authorities are making strenuous efforts to halt illegal immigration flows from Indonesia, though there appears to be a sense of denial on the part of some of the country's leadership as to the state of its economy.

BACKGROUND PAPER:
GLOBAL ECONOMY: RUSSIA

President Yeltsin and Prime Minister Kiriyenko have appointed a new streamlined cabinet that appears dominated by reformers. While Kiriyenko is untested, Yeltsin likely hopes his young prime minister's lack of ties to the financial empires and political parties will let Kiriyenko accelerate the reform process. The top four in the new Russian government (Kiriyenko and his three deputy prime ministers) have common traits; they are young, reform-oriented outsiders to Moscow, but they lack a strong political base. The latter, coupled with inevitable opposition in a disgruntled Duma and from predatory financiers, will severely test the new government. For the foreseeable future, the government's success and even survival will depend primarily on Yeltsin's ability to stay engaged in support of the government's agenda.

Major problems remain in the fiscal area, and will continue to persist until Russia passes a new tax code that creates a sustainable revenue base. Tax collections continue to fall short of IMF targets, and low world oil prices will depress revenues further. At present, federal revenues are about 8% of GDP; in the United States they are 20 percent of GDP. Such low cash infusions make it difficult for the government to pay wages and deliver basic services, much less modernize and restructure the military. To make up for low tax collections, Russia plans to float up to \$4B in Eurobonds this year. Part of these funds would go to pay budget-funded wage arrears, which have grown to about \$1.3B. Kiriyenko has called for full passage of a new tax code and signature by the President by September to allow implementation in January 1999. Our technical advisors have helped write major portions of the new code.

Contagion from the Asia crisis has been contained with the Central Bank lowering interest rates again after raising them in late January. The discount rate is now at 30 percent. Gross reserves were about \$16B (2.5 months of imports) as of late April. That said, Russia's finances are fragile; Russia suffers from many of the same weaknesses as that sparked the Asian crisis: murky government business ties with a hand-full of oligarchs, inadequate legal protections and opaque government decision-making. The Central Bank has been slowly taking steps to improve the banking system, but a lack of reliable information about banks' balance sheets remains a key problem.

Russia's economic contraction appears to have bottomed out in 1997 and grew slightly (0.4 percent). Growth was originally projected at 2-3 percent for 1998, but Russia will be lucky to break even with the high interest rates sparked by the Asian crisis.

BACKGROUND PAPER: KOSOVO

The crisis in Kosovo has sharpened since the violent police actions began two months ago. There are now daily skirmishes between police and armed Kosovars. The FRY army has deployed along the Albanian border where it now regularly interdicts attempts to smuggle arms and fighters into Kosovo. FRY charges that fighters are training and taking refuge in Albania. Albania charges that FRY aircraft have violated its airspace in operations against Kosovar fighters, and has asked NATO to consider deploying troops at its border with the FRY. Kosovar leaders say they are ready for unconditional talks with Belgrade, with international facilitation. Belgrade asserts willingness to talk but is prepared to discuss only self-government within Serbia and rejects international participation.

The United States leads the effort to establish a political process. In varying degrees, the Europeans have generally supported the effort but remain reluctant to apply pressure cutting back their economic and cultural links to FRY. Russia generally supports Belgrade's line and opposes sanctions.

The Contact Group (CG), meeting in Rome on April 29, endorsed the U.S.-proposed framework, including support for Belgrade's full integration in the international community provided Belgrade adopts the framework for dialogue and the stabilization package. At the G-8 Foreign Ministers meeting in London, all CG members except Russia agreed to ban new investment in Serbia.

Under the CG-endorsed framework, FRY must cease repressive action in Kosovo, reopen the OSCE missions in the FRY (including Kosovo), and invite Felipe Gonzalez as Special OSCE Representative to begin his mission reducing tension, restoring confidence, and improving general prospects for dialogue. At the same time, the Kosovar Albanian leadership must issue a strong condemnation of terrorism. Both parties must commit themselves to rejection of violence for political goals, OSCE principles of territorial integrity, protection of all individuals and ethnic groups, and to international involvement in facilitating substantive negotiations.

BACKGROUND PAPER: MIDDLE EAST PEACE PROCESS

Many U.S. allies are frustrated by the stalemate in the Middle East peace process. Through a recently established enhanced U.S.-EU dialogue on the Middle East, we have briefed the EU regularly on the status of our ongoing efforts to get both parties to respond positively to the ideas the President proposed to Prime Minister Netanyahu and Chairman Arafat during their visits to Washington in January. The EU, which primarily blames Israel for the current stalemate, is eager to see the process get back on track and has urged the United States to table a formal proposal that would force the issue and hopefully lead to a breakthrough. At the same time, the EU has moved in a high profile manner -- albeit unsuccessfully and, in the case of Robin Cook's bungled visit to Har Homa, embarrassingly -- to assert its role in filling the perceived void.

The ideas we have proposed revolved around a four-part agenda including: concrete security measures by the PA, a credible further redeployment of Israeli forces, time-out on unilateral action and accelerated final status talks. These ideas are not an end in themselves but a mechanism for enabling accelerated permanent status negotiations to get underway and succeed. While Arafat has reacted positively in principle, Netanyahu is still looking for ways to substitute quality in the redeployment for quantity and to firm up Palestinians security obligations and commitments.

UK Prime Minister Blair traveled to the region as head of the EU Presidency April 17 to 21 and focused on advancing interim issues including the Gaza airport and Gaza industrial estate. The EU has expressed its displeasure at not having a political role in the peace process commensurate with its substantial economic role and has expressed interest in taking over the chairmanship of the Ad Hoc Liaison Committee (AHLC) responsible for disbursing aid to the Palestinians. The EU is also seeking a direct negotiating role on the interim committee issues. While we have responded positively to the EU's request for enhanced consultations on the Middle East and have briefed them regularly on the status of our efforts, we are pleased with the work Norway has done as chair of the AHLC and do not support the EU's taking over this role.

EU support for U.S. efforts in the peace process has been greatly appreciated. Given the difficulty of the issues being addressed, including security and further redeployment, any parallel proposal by another outside party could easily distract

the parties and divert them from making the hard decisions required of them. EU support has therefore been extremely helpful in keeping the parties focused on the very important issues and decisions before them.

The EU does have an important role to play in using its relations with both parties, in particular with the Palestinians, as well as with the broader Arab world to convince all sides that there is no alternative to making the hard decisions and carrying out the difficult actions before them. It would also be extremely useful for the EU to impress upon Arab leaders the impact that their reaction to any significant agreement between the Netanyahu and Arafat will have on the parties, their populations and the potential for forward momentum.

Japan, Canada, the EU and Russia have all been supportive of our efforts to bring the parties to closure. Japan and Canada are also strong backers of the multilateral track of the peace process.

Regarding southern Lebanon, we welcome the Israeli government's acceptance of UNSCR 425 as a potentially positive step and have asked the Lebanese and Syrians to give it serious consideration. We are consulting with the French who, although more skeptical of Israeli intentions, agree we should cautiously pursue this initiative. The Japanese also have expressed an interest in being helpful on implementing 425. Dennis Ross and Martin Indyk discussed 425 with UNSYG Annan who feels he cannot ignore the Israeli decision but is concerned about the consequences of Syrian opposition. Annan has instructed a UN working group to study the issue. We understand Netanyahu and Annan will meet in New York May 15-17. Lebanese Prime Minister Hariri may also visit Washington in May.

BACKGROUND PAPER: ADDITIONAL MIDDLE EAST ISSUES

Iraq

With the Annan-Aziz agreement and the easy rollover of sanctions, some of the differences we have with France and Russia have for the time subsided. There will be broad support for our unexpected flexibility on the nuclear file. The G-8 will be interested in conclusions we have drawn from the previous challenge and any changes that came from it. The Russians have taken an unhurried approach to completing the UNSC Presidential Statement, but that should be done the week of May 4-8, leaving little contentious to discuss on Iraq.

Iran

Many of the G-8 appear to share our view of Khatami: hopeful but fully aware he does not have full control or latitude to change weapons of mass destruction, terror. Yet the others of the Eight are leaning correspondingly further forward. As you know, Italian Foreign Minister Dini has been to Tehran and Prime Minister Prodi expects to go soon. AS and DAS-level German officials will meet in Tehran with counterparts beginning May 8, marking the first German-Iran meetings since Mykonos. The Japanese State Secretary traveled to Tehran very recently, and Kharazmi may well visit Tokyo before year's end.

It would be helpful to tell colleagues of our hope for change, but also of our belief that we need to avoid pushing Khatami too much; he is doing a balancing act between reformers and conservatives, so our active engagement could potentially undermine his position.

Iran/ILSA

We are seeking European and Russian understanding for what a difficult decision this is for us. Madeleine has been working with Robin Cook and Vedrine to gain support for a "package" which would grant 9(c) project waivers to the EU countries for the South Pars and all similar non-pipeline deals. The Russians insist that their company, Gazprom, receive the same treatment as its partner Total, whether that be sanctions or a specific type of ILSA waiver.

If the issue remains unsolved by Birmingham, you should assure your colleagues that we understand their concerns and are

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working hard to manage this issue in ways that take them into account. At the same time, you should caution that it would be particularly unhelpful for any additional investments in Iran's petroleum sector to go forward at this time -- we continue to see reports that France's Elf and Italy's Agip are close to finalizing a deal to invest in Iran's Doroud oil project, as well as rumblings of Gazprom investing in additional development phases of South Pars.

South Asia

On Afghanistan, Russia is part of the UN's "six plus two" process along with Afghanistan's six immediate neighbors and the United States. As such, it has expressed support for the UN's Special Representative, Ambassador Brahimi, to bring about a cease-fire. However, while we have not supported any of the Afghan factions, Russia (along with Iran) has been a major supplier of arms to the anti-Taliban factions of Dostam and Ahmed Shah Masood. The remaining G-8 members have generally contributed to the humanitarian relief efforts in Afghanistan but have played no direct role.

SATURDAY: CRIME
Background Papers

BACKGROUND PAPER:
PROGRESS ON THE LYONS GROUP 40 RECOMMENDATIONS

At the Denver Summit, the Eight declared they would intensify efforts against transnational organized crime and continue to implement the 40 Recommendations to Combat Transnational Crime compiled by the Lyons Group and adopted at the Lyons Summit. The 40 Recommendations are being implemented by the Eight and are now being adopted as models for the wider international community. The EU has led these efforts by formally endorsing the Recommendations, though the key will be encouraging action by individual EU member states. The 40 Recommendations cover:

- taking steps to remove barriers to mutual legal assistance and extradition;
- exchanging information about the various legal systems of the Eight so that law enforcement entities can cooperate with each other;
- taking measures to increase cooperation on cross border problems;
- developing mechanisms for cooperation against high-tech crime;
- combating the spread of illegal trafficking in firearms;
- beginning the process of curbing money laundering transactions; and
- looking into steps to increase the effectiveness of international conventions.

In addition to the 40 Recommendations, since 1996, the Lyons Group of senior law enforcement experts has overseen a review of the laws which govern criminal offenses and law enforcement powers of the Eight; prepared and distributed to each other information to streamline and coordinate the law enforcement request process, including requests for legal assistance and extradition; and drawn up a directory of law enforcement points of contact in the Eight showing their various judicial and enforcement responsibilities. The Lyons Group is now circulating "user friendly" guides to asset sharing procedures in the Eight and a booklet providing 24-hour contacts for international high-tech and computer-related crime.

BACKGROUND PAPER:
CRIME: MUTUAL ASSISTANCE AND EXTRADITION

In order to ensure that international criminals can enjoy "no safe haven," the Lyons Group has recommended (1) permitting increased extradition of nationals, or at least ensuring that States of nationality conduct effective domestic prosecutions of fugitives; and (2) increasing the use of video testimony as a form of mutual assistance. Both of these recommendations were included in the December 1997 communique issued by the Justice/Interior Ministers of the Eight after their Washington meeting.

At the Denver Summit, the Heads of State affirmed that fugitives should have "nowhere to hide." The United States sought commitments by States to extradite their nationals to the country in which the crime was committed or to conduct effective domestic prosecutions in lieu thereof. Nonetheless, many States (including France, Germany and Russia) still do neither. At Birmingham, we should continue to press at the highest levels for movement in this area.

We should urge that the Lyons Group be asked to undertake a vigorous review of members' domestic processes for execution of foreign extradition and mutual assistance requests and jointly determine how best to remove bottlenecks that make it more difficult to bring fugitives to justice.

Additionally, we should press for vigorous continued work on increasing the use of modern technology -- in particular, video link technology -- to facilitate mutual legal assistance; such technology greatly facilitates interviewing and taking testimony of witnesses spread around the world, and reduces the cost to law enforcement without adversely affecting the rights of accused persons. Most of The Eight have expressed enthusiasm for increasing the use of video link technology in mutual assistance practice; indeed, the four European Union members of The Eight have supported language in the EU-only mutual assistance treaty providing for the use of video links. Russia, however, is concerned about the cost of implementation, and Japan has expressed doubts about its ability to use evidence obtained via video link in its domestic proceedings.

The draft Communique states that "there must be no safe havens either for criminals or for their money." The Communique endorses principles developed by the Lyons Group to facilitate asset confiscation but contains no specific actions to deny safe haven to criminals themselves. We should continue to press for inclusion of language in the Communique on extradition and improved mutual legal assistance.

BACKGROUND PAPER: CRIME:
UN CONVENTION ON TRANSNATIONAL ORGANIZED CRIME

Among the leading issues now being considered by the Lyons Group is the elaboration of a multilateral convention to combat transnational organized crime (being negotiated under the auspices of the UN Crime Commission). This February in Warsaw, U.S. representatives participated in an expert group to consider preliminary elements for such a convention; the meeting was productive and identified numerous options for consideration. The expert group met again in Vienna on April 21-30 in the context of the Crime Commission, and will meet again this Fall. It is hoped that the convention will be completed in time for the UN's Tenth Crime Congress in 2000. Given the complexity of the issues and the number of countries involved in the negotiations, this is clearly an ambitious goal.

At Birmingham, we should express support for a comprehensive and effective international convention against transnational organized crime, commending the United Nations' initiative to facilitate the negotiation of such an instrument. The convention should provide countries with a series of law enforcement tools -- ranging from criminal laws on conspiracy and money laundering to extradition and legal assistance procedures and special investigative techniques -- that would greatly strengthen efforts to fight transnational organized crime. The United States and many other countries have expressed support for a framework convention that would contain such tools and include additional protocols addressing specific forms of criminality, such as firearms trafficking and smuggling of illegal aliens.

The Lyons Group has attempted to reach agreement among The Eight on some of the important aspects of the convention. There appears to be an emerging consensus on many of the major issues such as the need to include criminalization obligations, strong asset forfeiture provisions, provisions authorizing special investigative techniques and sufficient safeguards to avoid obligations to rogue states. However, Canada has at various times advocated a convention applicable to all serious crimes, while the United States and other members of The Eight wish to limit the scope to transnational organized crime. In the context of UN meetings on the convention, it is helpful if The Eight can speak with one voice. Therefore, we should use Birmingham to encourage further efforts among the Eight to achieve a common position.

We successfully pressed to have the draft Communique include language supporting the negotiation of an "effective" Crime Convention within the next two years. The language emphasizes that the Convention must provide law enforcement the tools they need to fight international crime, i.e., that it must have real teeth.

BACKGROUND PAPER: CRIME: HIGH-TECH CRIME

New computer and telecommunications technologies offer unprecedented opportunities for global communication. As nations become increasingly reliant upon these technologies, including wireless communications, their exploitation by high-tech criminals poses an ever-greater threat, taking at least two forms. First, sophisticated criminals are targeting computer and telecommunications systems to obtain or alter valuable information without authority and may attempt to disrupt critical commercial and public systems. Second, criminals, including members of organized crime groups and terrorists, use new technologies to facilitate traditional offenses.

At Denver, the Eight agreed to focus attention on the investigation, prosecution, and punishment of high-tech criminals and on providing all governments the technical and legal capabilities to respond to high-tech crimes.

In December 1997, the Justice and Interior Ministers of the Eight met in Washington, D.C., and adopted ten Principles and a ten-point Action Plan. Each of the Eight has now established a 24-hour point of contact for high-tech crimes, has committed to taking appropriate steps to train and equip law enforcement personnel to combat high-tech crime and will work jointly with industry to ensure that new technologies facilitate our effort to combat high-tech crime by preserving and collecting critical evidence. The Principles and Action Plan will help ensure that there are no safe havens for those who abuse information technologies.

The Principles and Action Plan. G-8 nations agreed to put in place domestic laws that ensure that the improper use of computer networks is appropriately criminalized and that evidence of high-tech crimes can be preserved and collected in a timely fashion. Countries also agreed to ensure that a sufficient number of technically literate, appropriately equipped personnel are available to address high-tech crimes. Lastly, countries recognized that a new level of international cooperation is needed to allow critical information to be collected and exchanged internationally, especially within the short time frame so often required when investigating international high-tech crimes. Evidence sharing is somewhat controversial, and will require an endorsement by Heads.

Since industries generally design, deploy and maintain global communications networks and are primarily responsible for the development of technical standards, greater business-government cooperation is critical. We should seek to develop secure systems that, when accompanied by adherence to good computer and personnel security practices, serve to prevent computer abuse, preserve electronic evidence and assist in ascertaining the location and identity of criminals.

The draft Communique endorses the Ten Principles and Action Plan agreed to by the Justice/Interior Ministers. We should urge that it also specifically endorse reaching agreement on sharing electronic evidence among international partners.

BACKGROUND PAPER: CRIME: ASSET CONFISCATION

One of the Lyons Group's most important recommendations is that countries adopt effective laws to confiscate the proceeds of criminal activity. However, international cooperation to seize criminal assets is underdeveloped. One priority of the U.K. presidency has been to improve international cooperation. The problem stems primarily from (1) inadequate domestic legislation; (2) inadequate asset sharing arrangements; and (3) inadequate training.

Accordingly, the U.S. proposed a number of recommendations to address these problems; the Lyons Group adopted the U.S. recommendations with minor modifications at its March meeting. The recommendations call for strengthening of domestic asset forfeiture and money laundering laws; improving capabilities for rendering effective assistance to each other in forfeiture cases; negotiating bilateral asset forfeiture agreements; engaging in asset sharing; and participating in "cross-training" programs to encourage mutual legal assistance. The U.S. has proposed legislation to expand the domestic crimes for which forfeiture is available, expand the foreign crimes which serve as predicates for money laundering, and provide for the registration and enforcement of foreign forfeiture judgments.

At Birmingham, the U.S. should urge the Eight to endorse the Lyons Group's recommended measures concerning asset confiscation -- in particular, strengthening of domestic and international confiscation regimes through legislation and negotiation of agreements to provide for the seizure and restraint of the proceeds and instrumentalities of serious crimes; extending the predicate offenses for money laundering to include foreign offenses which correspond to domestic crimes; and giving effect to foreign confiscation judgments. We also should strongly encourage other countries to share forfeited assets with those foreign jurisdictions that have provided cooperation in investigations and prosecutions which result in successful confiscations.

Asset sharing is controversial. Forfeiture deprives criminals of their tainted wealth, and international asset sharing provides critical resources to law enforcement and ensures that investigators give the same high priority to international investigations that they give to their wholly domestic efforts. Where there is no prospect of asset sharing or of recouping investigative and prosecutive expenses, there is little

incentive for law enforcement in one country to pursue assets in another. Some countries, e.g., France, Germany, and Japan, take a "finders-keepers" view when disposing of forfeited proceeds. This approach tends to reward countries that have served as havens for criminal wealth and does little to promote international law enforcement cooperation. Members of the Eight should lead by example and negotiate forfeiture cooperation agreements with one another that includes authority to share assets with countries that have provided investigative, prosecutive, or other assistance that facilitated the forfeiture.

The draft Communique endorses principles and the need for legislation to facilitate asset confiscation, we are still negotiating language regarding sharing of seized assets. We should push for endorsement of asset sharing.

BACKGROUND PAPER: FINANCIAL CRIME/FATF

G-7 initiatives on financial crime have focused on improving international cooperation between law enforcement and financial regulators in investigations concerning financial crime and regulatory abuse and on the future of the Financial Action Task Force (FATF). Also, G-7 Finance Ministers have recently received proposals by the French and the British on non-cooperating financial centers and harmful tax competition.

In response to Denver, the FATF adopted a report outlining its plans to extend its mandate (until 2004), expand its membership and foster the development of FATF-style regional bodies. The FATF obtained formal endorsement of its future plans by the FATF nations' ministers on the margins of the April 28 OECD ministerial meeting and is seeking endorsement from the G-7 at Birmingham. **The Summit should support the conclusions in the FATF report, welcome the extension of the FATF mandate and recognize the 26-nation FATF as a mature, international body.** Because Russia is not a member of the FATF, heads of state should ensure that FATF decisions on mandate and membership issues are **endorsed** at the G-7 level and only **welcomed** at the Eight.

Two recent proposals -- one by the French in the context of the financial crimes group and one by the British in the context of a review of the OECD tax competition report -- would increase pressure on offshore financial centers and call for the extension of anti-money laundering systems to address tax abuses. **Both proposals are consistent with U.S. policy, and the FATF is the logical international forum for both matters.**

The G-8 Heads of State Communiqué endorses the establishment of Financial Information Units (FIUs). This proposal is a consolidation of parallel initiatives arising out of the work of the G-7 Finance Ministers and the G-8 Lyons Group. The Lyons Group proposal (per the Germans) originally used the term "centres of evidence;" it is important that the internationally recognized term, FIU, be maintained in the Communiqué.

BACKGROUND PAPER: FIREARMS TRAFFICKING

Each major region of the globe has firearms trafficking "hot spots." In the Western Hemisphere, for example, Haiti historically has been a destination for handguns illegally exported from the United States. Jamaica, Colombia and Mexico are also destinations for illegally exported firearms, which are intended for delivery to organized criminal elements. The Dominican Republic, Netherlands Antilles, and Honduras are known transshipment points. Elsewhere in the world, the United Kingdom, Australia and Canada, for example, have new regulations curtailing firearms ownership, which raises the potential for illegal diversions of firearms to those countries.

Various nations and multilateral organizations are focusing on the phenomenon of international trafficking in firearms. In the Western Hemisphere, members of the Organization of American States (OAS) negotiated and signed last year an "Inter-American Convention Against the Illicit Manufacturing of Trafficking in Firearms, Ammunition, Explosives and other Related Materials." Also last year, the OAS' Inter-American Drug Abuse Control Commission (CICAD) adopted new "Model Regulations" for more effective control of licit firearms commerce among OAS nations.

In 1997, the European Union drafted a "Programme for Preventing and Combating Illicit Trafficking in Conventional Arms." The UN Economic and Social Council approved a resolution enacted earlier that year in Vienna on "Firearms Regulation for the Purpose of Crime Prevention and Public Health and Safety," which recalled earlier work on this subject by that international body. This March, the G-8 Lyons Group's Firearms Subgroup agreed in London on a "Statement of Principles and Plan of Action" to combat firearms trafficking, reflecting much of the substance of these earlier documents.

At the April UN Crime Commission meeting in Vienna, the United States, with 50 other countries, co-sponsored a resolution calling for the elaboration of a binding international instrument on the illicit manufacturing and trafficking in firearms, their components and parts and ammunition. The resolution, which implements the recommendation for the firearms subgroup of the Lyons Group, calls for an international instrument modeled after the OAS Firearms Convention. The instrument would be attached as a protocol to a future UN Transnational Organized Crime Convention. If such an instrument is adopted, it would represent the successful extension of the principles of the OAS Firearms Convention beyond the Western Hemisphere.

BACKGROUND PAPER:
TRAFFICKING OF WOMEN AND CHILDREN

At Birmingham, G-8 heads can give a boost to international efforts to combat the trafficking of women and children by using the Communique to call for activities that would help to prevent such trafficking, prosecute criminals who commit such crimes and protect victims. This recommendation would build on a broader G-8 effort to combat smuggling of illegal immigrants.

In addition to a broad call for action in the Communique, the President could describe in more detail steps that can help prevent, protect victims and prosecute criminals who traffic in women and children. These steps were approved by the UN Crime Convention on May 1. The United States and Italy reached further consensus on even more detailed recommendations just prior to Prime Minister Prodi's state visit. Steps include:

- Protecting victims and prosecuting criminals through joint law enforcement projects aimed at known trafficking routes and organizations;
- Launching joint public information campaigns in source countries to deter potential victims;
- Exchanging information on investigations; investigative methods and procedures;
- Analyzing trafficking patterns, including educating and training law enforcement, immigration and border officers in source and transit countries;
- Developing procedures for witness protection and victim services in source countries in cases of repatriation;
- Promoting initiatives in other multilateral fora to combat trafficking.

These Lyons Group has not yet recommended specific action on trafficking of women and children, but has discussed taking this issue up as part of broader efforts to combat smuggling of illegal immigrants. The United States, Italy and Canada have expressed support for taking this issue up, while Japan expressed concerns about making new commitments in this area.

In preparation for Birmingham, the Eight have agreed to recommend inclusion of a protocol on immigrant smuggling in a proposed UN Crime Convention. The Lyons Group has also agreed to begin planning for joint law enforcement actions against immigrant smuggling syndicates. A new focus on women and children could be a leading segment of those projects.

BACKGROUND PAPER: LAW ENFORCEMENT PROJECTS

Under the UK presidency, G-8 countries are coordinating joint actions against West African organized crime; cocaine trafficking in the Caribbean; Eastern European/Eurasian organized crime; pedophile networks; and stolen vehicles.

So as not to interfere with ongoing operations, there is only a general reference to joint law enforcement actions against organized crime in the communique language. A joint operation to target cocaine smuggling in the Caribbean is planned for the week of the Summit, and positive results could be announced if these are successful.

Active Projects:

- West African crime: We are considering joint operations and use by all G-8 countries of a standard format for electronically communicating law enforcement information to target West African advance-fee letter fraud. Papers assessing the extent of this fraud are due July 1. Common use of Interpol's message format would be a breakthrough in harmonizing and streamlining how we share information on a real time basis.
- Caribbean smuggling: Germany is coordinating joint operations starting in May to target smuggling, especially cocaine, in the Caribbean. The nature of the activities makes it impossible to do more than allude to this project and perhaps announce seizures from the first exercise.
- Eastern European/Eurasian crime: The United States will host a conference this fall to exchange expertise in dealing with investigations of criminal financial transactions by Eastern European/Eurasian organized crime groups. We are urging Russia to enact money laundering legislation being considered by the Duma and build appropriate enforcement mechanisms as steps to combat regional organized crime.
- Pedophile crime: The UK held a working group meeting in April which the United States attended. The focus was on airline and mail routes and possible customs operations targeting pedophile travel and materials.
- Stolen vehicles: The United States will do a study on trends and the extent of the international stolen vehicle problem in the Eight; we may host a meeting in the autumn.

Projects in Development:

- Germany held a meeting on trends in transnational fraud schemes, including credit card fraud. Germany and Italy also are encouraging joint action to address smuggling of illegal immigrants.

- The United States is circulating a questionnaire on intellectual property rights violations to determine current IPR enforcement efforts and identify common grounds for project development.
- The Eight are discussing cooperation to interrupt the movement of illicit currency across our borders.

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BACKGROUND PAPER:
DRUGS/UNGASS

As a follow-up to the commitment in Denver to address the drug problem (a French proposal), the UK has explored how best to address the issue at the Birmingham Summit. The occasion of the UN General Assembly Special Session on Drugs in June and the arrival of Pino Arlacchi, the new, dynamic Executive Director of the UN Drug Control Program (UNDCP), provide the impetus for an appropriate reference to the world drug problem in the G-8 leaders' communique.

The decision to hold a special session on drugs was an outgrowth of Mexico's desire for a Drug Summit. We opposed the idea of yet another costly summit but agreed to a special session in New York, as long as it focused on improving countries' compliance with existing UN drug conventions and did not attempt to create new ones or to cast the problem in terms of north-south divisions. The action plans and draft Political Declaration that have been prepared for UNGASS meet those criteria. All G-8 governments are generally pleased with the documents so a strongly worded endorsement of UNGASS should be easy to secure. Canada may push for more specific reference to the need to reduce the global demand for drugs; we could agree as long as it does not detract from the importance of supply reduction.

During the preparatory meetings for UNGASS, UNDCP Executive Director Arlacchi unveiled an ambitious plan for the global eradication of coca and opium poppy in ten years. After substantial debate and negotiation, a statement welcoming UNDCP efforts to "eliminate or significantly reduce" all illicit drug cultivation was included in the draft Political Declaration for UNGASS. Several G-8 governments have been skeptical of the Arlacchi plan. The UK is particularly doubtful about prospects for controlling opium in Afghanistan, Japan is worried about costs, and Germany and Canada express a more generalized doubt that significant inroads can be made against global levels of cultivation. France, Italy, and Russia are more likely to support favorable mention of the UNDCP's effort as long as there is no specific reference to funding, a reservation we share.

Despite our differences, the G-8 should be able to endorse the goals of the UNGASS and signal real support for the UNDCP's efforts under its new leadership. We should seek the strongest possible message to indicate a renewed vigor in the global struggle against all aspects of the world drug problem.

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BACKGROUND PAPER:
DEVELOPMENT: AFRICA

At Lyons, the G-8 endorsed a New Global Partnership for Development in Africa aimed at supporting efforts to spread the benefits of the expansion of global prosperity to African societies. Last year, in Denver, you described your Partnership for Economic Growth and Opportunity which provides greater market access, debt relief, investment support and foreign assistance for policy reforms to African countries that are pursuing aggressive growth-oriented policies.

Since the Lyons and Denver Summits, Africa has improved its economic performance. The World Bank now projects 4 percent annual growth in Africa through 2006. But more can be done to support African countries making tough political and economic reforms. Your pledge to restore U.S. development assistance levels for Africa to its historic high of \$817 million addresses concerns raised by other G-8 countries about the continuing need for high levels of official development assistance even as the trade and investment partnership is expanded. Additional steps that the G-8 can pursue include:

1. Linking reformers to the global economy by

- Ensuring greater access to our markets for African exports, especially those from poorer nations making market based reforms, by **lowering or eliminating tariffs and quotas** on a wider range of products, and to **focus bilateral assistance** to those governments taking aggressive, growth-oriented steps to open their economies;
- Endorsing IMF and World Bank commitments to provide additional financing to the boldest reformers, including financial support for tariff reform, enhanced export financing, and reducing regional trade barriers, and technical assistance and structural adjustment credits that focus on steps to enhance a country's investment climate;
- Leveraging new private investment through expansion of government-backed investment guarantee programs (such as those offered by OPIC), expanding coverage of political risk guarantees (such as offered by the Multilateral Investment Guarantee Association, or MIGA), and developing new financing mechanisms for regional development.

2. Mobilizing New Resources for African Development by

- Negotiating by spring 1999 a detailed agreement in the OECD to untie aid to the least developed countries.
- Increasing official bilateral development assistance (such as from USAID), to provide this assistance primarily in grant form, and to target resources in support of those countries making the strongest reform efforts; support for reform could also be promoted in replenishment negotiations for the International Development Association (IDA-12), the World Bank's soft loan window.
- Extinguishing concessional bilateral debts for the countries undertaking strong reforms while simultaneously promoting the effectiveness of assistance through goals agreed to by African partners along with coordinated approaches and measurable results.
- Supporting reforms, within the terms of the HIPC initiative, by encouraging immediate interim debt service relief (in the form of new money) to more nations between decision and completion points, and by sustaining substantial Naples-terms relief in the Paris Club.

3. Focus Exceptional Efforts for Post-Conflict Countries with Exceptional Needs by

- developing a concerted strategy to enhance and broaden current measures to assist post-conflict countries, drawing on the skills and resources of the IFIs as well as bilateral assistance. This should be a staged international approach for countries emerging from conflict that incorporates:
 - emergency humanitarian and reconstruction funds;
 - new bilateral and multilateral funds earlier in the post-conflict process to spur development and growth;
 - measures to defer immediate debt service to bilateral and multilateral creditors, or to recognize the non-collectibility of debt service for a specified period;
 - creative measures to address payment arrears;
 - where appropriate, reduction of outstanding debts to a sustainable level;

- expansion of MIGA's mandate to guarantee investments in higher-risk post-conflict countries;
- additional technical assistance for governance and economic reforms earlier in the post-conflict transition; and
- ultimately, balance-of-payments financing for rebuilding and recovery.

G-8 agreement to push for changes in the World Bank's fee policies could generate additional resources from net income to jump-start funding for such efforts.

4. Building Capacity for Political Reform and Good Governance, and for Sustainable Growth and Development by

- Supporting African efforts to democratize, fight corruption and improve transparency, accountability and the rule of law by welcoming and encouraging the work of African institutions and organizations (e.g., the OAU, the UN Economic Commission for Africa), governments and civil society;
- Supporting education and efforts to eradicate deadly diseases, such as malaria and HIV/AIDS;
- Undertaking cooperative efforts to ensure the protection and sustainable development of Africa's enormous natural resources;
- Strengthening Africa's ability to prevent and ease conflict by promoting greater coordination between the African Crisis Response Initiative Force (ACRI) and other peacekeeping training initiatives and by supporting Africa-based institutions for training civilian and military officials in conflict prevention and mediation and encouraging more interoperability.

BACKGROUND PAPER:
HIPC DEBT INITIATIVE

In September 1996, agreement was reached on a comprehensive, coordinated approach by all creditors (multilateral, official bilateral and others) to assist the heavily indebted poorest countries (HIPC's). The HIPC Debt Initiative, for the first time, provides debt relief on obligations to the international financial institutions (IFIs). Decisions to provide HIPC relief will be made on a case-by-case basis for those HIPC's that have demonstrated at least three years of sustained economic reforms, yet will not attain sustainable debt levels with other existing debt reduction mechanisms. Final HIPC relief will be provided after three years (less for countries with longer reform records) after the decision point.

We expect up to 20 countries will become eligible for HIPC debt relief. Uganda, Bolivia, Burkina Faso, Guyana, Côte d'Ivoire and Mozambique have been declared eligible. Uganda qualified in April for final HIPC debt relief. We anticipate formal decisions on Guinea-Bissau and Mali in the near future. We expect more countries to qualify this year. However, there have been calls from NGOs and the UN to provide even more debt relief, particularly in Africa. The goal of the HIPC initiative is to get countries to a manageable level of indebtedness, not entirely forgive all debts.

The UK has been pressing for as many countries as possible to become eligible for HIPC debt relief, particularly before the Jubilee Year 2000. We strongly believe that the HIPC process should not be accelerated at the expense of the reform programs required of the eligible countries. Debt reduction without sufficient economic reform cannot assure sustainable growth and development. G-7 Finance Ministers recently addressed the British desire by encouraging all HIPC's to "take all the steps necessary to embark by the year 2000 on the process of a sustainable exit from their debt problems."

French President Chirac wrote to you suggesting we "decide on a more generous application of the 'terms of Lyons'." In the past, the French have sought to provide enhanced debt relief for their former colonies. We are not certain what Chirac has in mind, but this would require a large additional cost if the Paris Club were to reduce eligible debt by 80 percent for all the poorest countries. Not all countries need more than a reduction on Naples terms (67 percent) to achieve a manageable debt level. We and others have resisted such proposals in the past; **Germany** remains particularly concerned about cost containment and would not support deeper debt reduction.

To ease the debt burdens for HIPCs, the **United States** is encouraging bilateral donors to provide new assistance to HIPCs primarily in the form of grants and urging others to join us in forgiving concessional foreign assistance (ODA) debt. We are also seeking interim relief by all IFIs: all of the IFIs should advance a portion of their final HIPC relief to deliver immediate interim relief as a reward for reforms to date, rather than delaying all debt relief to a fixed completion point, which can be as long as three years into the future.

BACKGROUND PAPER: INFECTIOUS DISEASES: MALARIA

In Denver, G-8 Leaders pledged to combat emerging infectious diseases by strengthening global surveillance and response and building public health capacity, particularly in developing countries. The G-8 also agreed to provide the resources necessary to accelerate AIDS vaccine research and support the Joint United Nations Program on HIV/AIDS (UNAIDS). Just this week, the G-8's leading infectious disease experts and policy makers met, in conjunction with the World Health Assembly in Geneva, to develop a plan for strengthening global infectious disease surveillance and response. This was an important step in launching a global effort to defeat these diseases.

The United States is committed to addressing the challenges of emerging infectious diseases. In June 1996, President Clinton signed a directive that put into place new and innovative steps to detect, combat and prevent emerging infectious diseases both at home and abroad.

The United States is dedicated to the **global fight against malaria.** Malaria is one of the leading killers of children worldwide. **Over the next five years, we will commit a quarter of a billion dollars** to research, prevention, diagnosis and treatment of malaria. In FY 98, we are spending nearly \$30 million for research, including \$1.5 million to strengthen research capacity in malaria-endemic African countries. Through our development assistance programs, we are committing \$25 million in FY 98 -- an increase of \$13 million over FY 97 for USAID's malaria program. In cooperation with G-8, the World Health Organization, the World Bank and other organizations, we can propose to take the following steps to prevent, detect and control malaria:

Prevention and Control

The United States will increase its commitment to prevention and control measures at the local level through the Integrated Management of Childhood Illnesses approach. This can lead to significant reductions in childhood deaths from malaria and other diseases. USAID will establish or expand existing programs in 11 African countries. The United States will make available effective prevention tools, such as insecticide-treated bednets, which can prevent five deaths for every 1,000 children protected. **Over the next five years, USAID will establish self-sustaining programs in five countries to make**

bednets available to 15-20 million people: this means that as many as 100,000 children's lives will be spared. In partnerships with the G-8 and other donors, we can extend these programs to more malaria-endemic countries -- and protect more lives from this terrible scourge.

Research and Training

A comprehensive strategy must include research to develop new tools in the fight against malaria, including an affordable, effective vaccine. We have already taken the first steps in this effort. By the end of this year, the United States and UK together will have sequenced more than 25 percent of the genome of the most deadly malaria parasite. This information will reveal new targets for drugs and vaccines against malaria.

Also by the end of this year, NIH will establish a repository of malaria research reagents for scientists worldwide and will establish a network of clinical and field sites in malaria endemic countries. Through the Multilateral Initiative on Malaria, the United States -- along with the UK, France and the EU -- will work with the World Health Organization and collaborating institutions in Africa to strengthen Africa's own research capacity while advancing critical avenues of malaria research. In addition, NIH has launched a new program to train malaria researchers and other health professionals to tap into the vast resources of the Internet.

Within a decade, working collaboratively, we will have greatly increased the number of candidate vaccines tested in the field, thereby moving us closer to the discovery of a malaria vaccine that can be deployed in mass immunization programs. If a specific goal is to be set, we can aim to reduce deaths due to malaria by 25 percent by 2010 in target countries and by another 25 percent by 2015. This translates into saving between 200,000 and 250,000 lives -- most of them children -- by 2010.

BACKGROUND PAPER: TRADE AND INVESTMENT LIBERALIZATION

The April 29-30 Quad trade ministerial meeting yielded fairly good results for the United States, featuring in particular strong language to pursue work on E-commerce and clear commitments to improving the transparency and openness of the WTO and the multilateral trading system. The WTO ministerial will take place on May 18-20, in Geneva, including an event to observe the 50th anniversary of the GATT/WTO system.

The major goal for the WTO ministerial is to establish a process to prepare for the launch of negotiations at the 1999 ministerial in such areas of the WTO's "built-in agenda" as agriculture and services, but leaving open the possibility of adding new items and working over the next year to develop appropriate negotiating methods (e.g., a round or other more innovative approach). The May 1998 ministerial will not prejudge the outcome of the 1999 negotiation.

Other important outcomes for the WTO Ministerial should include: (1) a commitment to duty-free cyberspace and a work program that ensures that E-commerce is at the center of trade expansion in the next century; (2) progress towards establishing a consultative process that brings in labor and environment as we prepare for the 1999 negotiations; (3) building support for a new approach to environment, including the possibility of creating an Eminent Persons Group to help refocus our agenda; and (4) greater transparency to the system, particularly in dispute settlement, starting with providing better access to documentation and more open meetings -- leading perhaps in time to open dispute settlement hearings and the acceptance of *amicus* briefs.

BACKGROUND PAPER: ENERGY MINISTERIAL

The G-8 energy ministers met in Moscow on April 1, 1998. The Energy Ministerial was proposed by Russian President Boris Yeltsin in June 1997 at the Denver G-8 Summit. The session was preceded on March 31 by a business round table that paralleled the themes of the Ministerial.

The Ministerial communique reflected consensus on the need for open, competitive markets to attract investment necessary to meet future growth in energy demand. While fossil fuels will be the predominant resource for meeting future demand, ministers stressed the need for development of all options, including nuclear, renewables, efficiency and other conventional and nonconventional sources. Ministers noted and welcomed the trend towards liberalization and increased competition among energy suppliers.

Business leaders and ministers alike stressed the importance of Russia making progress on its legal, fiscal, tax and regulatory laws. They placed particular emphasis on the need for production sharing agreement (PSA) legislation in Russia to bring investments into the oil sector. The ministers also stressed the need for nondiscriminatory access to energy transportation networks. Russia spoke of the importance of Caspian energy development to global energy security and its strong support for the Caspian Pipeline Consortium, an indirect reference to its (incorrect) suspicions that the United States does not support Russian involvement in the Caspian.

Ministers stressed the need for strict adherence to international regimes for nuclear safety, specifically singling out Russia for not meeting its commitment to complete a safety assessment of the Kursk-1 reactor before restart. Support for sustainable development was echoed throughout the business and ministerial sessions. Ministers reaffirmed the Kyoto targets and the need to develop the protocol's flexibility mechanisms. Several key delegations (UK, France and Germany) joined the United States in recognizing the need to bring in developing countries.

It was agreed that the G-8 Summit process would be used to monitor progress on implementing the principles agreed to at the Ministerial.

BACKGROUND PAPER: ENERGY: RUSSIA NUCLEAR SAFETY

We have not been able to resolve the impasse with Russia on upholding its international nuclear safety commitments. Specifically, Russia has restarted a high-risk reactor at Kursk without conducting an In-depth Safety Assessment and is actively working to extend the life of Chornobyl-type reactors without the safety and economic analyses to justify the extensions. Russia has resisted all G-7 attempts at dialogue.

At the 1996 Moscow Nuclear Safety and Security Summit, the G-8 affirmed their commitment to make nuclear safety an absolute priority. They agreed to meet the highest internationally recognized safety standards for nuclear plant operation and regulation and to promote an effective nuclear safety culture in each country with nuclear installations. Within the G-8, Russia has not always been a reliable and willing partner in nuclear safety.

The restart of Kursk 1, before completion of the In-depth Safety Assessment or the least-cost economic study, violates Russia's European Bank for Reconstruction and Development Nuclear Safety Account Grant Agreement, and is the first step in a program to extend the life of Russia's oldest, least-safe reactors. The G-7 has asked for detailed safety information and a date when the reactor would be taken off-line. Although promised, Russia has made only minimal, unsatisfactory efforts to respond to G-7 concerns. Though unsubstantiated, Russia has linked restart to a pressing need for the power generated by Kursk 1.

Russia's non-compliance with its NSA grant agreement has broader implications than reactor safety in Russia. Each of the countries in the Nuclear Safety Account program is balking at the closure of its old Soviet-style reactors. Russia still maintains a strong influence over the nuclear policies of these countries; a mutually acceptable solution to ensure Russia's compliance will set the tone, especially for Ukraine, Bulgaria and Lithuania.

Recognizing the economic and social situation in Russia, which in part is driving Russia's actions, the G-7 has been willing to discuss the situation, but there has been no satisfactory indication that Russia is open to it. The G-7 believe this dialogue must begin and that Russia, to become a member of the G-7 Nuclear Safety Working Group, must fully adopt the nuclear safety objectives and practices of the other G-8 members.

BACKGROUND PAPER:
G-8 ENVIRONMENT MINISTERIAL

The G-8 Environment Ministers have been meeting annually for several years to discuss pressing environmental issues. Five topics were discussed in this year's Ministerial, including global climate change, enforcement of multilateral environmental agreements and children's environmental health. Additionally, Ministers focused on environment and employment and protection of marine biodiversity.

At Birmingham, Leaders will discuss global climate change, employability and crime. The Environment is an important aspect of these issues, which led to Leeds Castle discussions on climate change, environment and employment and environmental crimes. G-8 Environment Ministers at Leeds Castle specifically highlighted their intention of encouraging Leaders to address international environmental crime in a manner similar to the successful programs underway to combat international crime in general. International information exchange, capacity building and increased cooperation were points made to improve effectiveness in addressing international environmental crime. Ministers also expressed to Leaders the fact that environmental policy delivers vital improvements in public health and quality of life, as well as, provides opportunities and challenges for job creation across the economy.

Last year, Leaders noted that children face significant health threats from environmental hazards and recognized the particular vulnerabilities of children to environmental threats, pointing out specific areas for action.

Regarding climate change, we stress the need for strong enforcement of the Kyoto Protocol and the need for immediate action to implement the Protocol. On enforcement of Multilateral Environmental Agreements (MEA's), we recommend language that does not commit UNEP to a role and suggest a continued effort to raise public awareness of environmental crime and increase cooperation among G-8 and other countries to stem violations of multilateral environmental agreements. Regarding employability, the Europeans are especially keen on making the statement that environmental standard setting does not hurt the economy in the long-run and, in fact, may even help create jobs in the environment sector. We caution over-stating the benefits for the job market of environmental regulation, believing that, on a regional basis job loss or job growth can occur but on a national basis, no significant net change is experienced. We would rather support language linking environmental regulation with sustainable development, rational use of natural resources and increased quality of life.

BACKGROUND PAPER:
CLIMATE CHANGE AND DEVELOPING COUNTRIES

While a few developing countries have begun to take steps to address climate change, these efforts do not yet constitute the "meaningful participation" we need to protect the environment and to gain ratification of Kyoto by the U.S. Senate. In preparation for Birmingham, the United States has led an effort to build on G-8 partner willingness to formulate a creative, common approach to engaging developing countries in the global response to climate change.

At Kyoto, developing countries agreed to advance existing UN Climate Convention commitments (such as voluntary efforts on energy efficiency) and to join us in establishing a new Clean Development Mechanism (CDM) to facilitate project activities in developing countries that reduce greenhouse gas emissions.

Our primary goals for Birmingham, therefore, are to solidify G-8 agreement to forge a common developing country strategy and to create political support and pressure to achieve progress at COP4. In the run-up to the next Conference of the Climate Convention Parties (COP4) in Buenos Aires in November, the Sherpas agreed to create a temporary G-8 Working Group to make progress on all aspects of outstanding climate change work, including developing country participation. We hope to reach agreement on a strategy to encourage developing country participation and on a coordinated framework to promote the range of activities that developing countries can pursue to ensure meaningful participation.

At Kyoto, G-8 partners in Europe and Japan joined us in arguing that developing countries should be allowed to voluntarily take on a binding commitment as a way of bringing more countries into the process of limiting emissions. Many G-8 nations still need to be persuaded, however, that developing countries actually may stand to benefit from having a binding target (including "growth targets"). If a country adopts energy saving policies across its entire energy system, particularly during periods of projected economic and emissions growth, it may be able to reduce emissions below its voluntary binding target. The resulting emissions credits could then be traded for profit on an international market.

BACKGROUND PAPER: CLIMATE CHANGE AND FLEXIBILITY
MECHANISMS

The Kyoto Protocol enshrines the "flexibility" called for in the Denver Communiqué through international emissions trading, joint implementation among developed countries and a new Clean Development Mechanism (CDM) that involves project-based efforts to limit emissions in developing countries. However, many of the operational details for the mechanisms have been left for the Climate Convention Parties to consider at future sessions. There is considerable skepticism among many Europeans (and also many developing countries) concerning these mechanisms and their role in addressing global climate change.

The Birmingham Summit provides an opportunity to signal to the rest of the world that the G-8 nations are committed to creating flexible and transparent international market-based mechanisms critical to implementing the Kyoto Protocol cost-effectively. In preparatory meetings, we have shaped Communiqué language along these lines. We have also stressed the successful U.S. experiences with emissions trading (e.g., acid rain program), the importance of full private sector involvement and the costs of imposing unnecessary and expensive bureaucratic requirements. We have emphasized the need to establish clear guidelines for monitoring and verification, as well as an effective and efficient compliance regime.

Our views on emissions trading and other flexibility mechanisms are generally supported by Japan, Canada and the Russian Federation. However, G-8 partners in the European Union have urged that limitations be placed on flexibility mechanisms. In part, the European view reflects a belief that the Russian and Ukrainian emissions targets in the Protocol are too weak (allowing for an unfair surplus of "hot air" that the Russians and Ukrainians will be able to trade) and should be renegotiated. In part, this reflects a moralistic view that the United States in particular should reduce emissions within our own borders. Explaining the extent of U.S. efforts to reduce emissions and our support for strong and credible compliance programs as a predicate to international emissions trading may help address these concerns.

G-8 Non-Paper
Diplomatic Strategy to Promote Meaningful Developing Country Participation
on Climate Change

Climate change is a global problem which requires a global solution, and the active and meaningful participation of developing countries in mitigation efforts is crucial to solving the problem. Based on current projections, developing countries are expected to surpass developed countries in total volume of greenhouse gas (GHG) emissions before 2025.

The G-8 will need to make clear, by its message and example, that strong domestic and cooperative international efforts to mitigate climate change are consistent with sustainable development goals, and can benefit both the environment and the economy without limiting future development.

Collectively, the long-term focus of our efforts should be to help persuade developing countries that it is in their interest to take on binding emissions targets. This effort will require strong, energetic efforts by all of us, in partnership and active consultation. We must convince developing countries that they – already the most vulnerable to extreme weather – may be the hardest hit by the projected increases in floods and storms, the heightened occurrence of diseases, and the negative impact on fragile agricultural lands resulting from climate change. The G-8 will need to make clear that mitigation policies can create “win-win” scenarios, such as the reduction of local air pollution that occurs from simply shifting to cleaner forms of energy, and more efficient uses of energy to produced increased and more sustainable economic growth. We should ensure that the benefits of emissions trading – an important aspect of participation in Annex B – are clearly understood by developing countries.

G-8 countries should work together to agree on a common approach to encouraging developing country participation and to agree on a coordinated framework to promote the range of activities and measures developing countries can be encouraged to pursue to achieve meaningful participation. Our strategy should reflect a differentiated approach to specific countries based upon the circumstances – development conditions and emissions levels – of the country with which we are dealing.

Current and prospective OECD members, for example, should be able to take on binding commitments to limit emissions growth, and join the rest of the industrial countries in pursuing active domestic measures directed specifically at addressing climate change. The G-8 should work together to identify specific strategies to mobilize the tools available to promote countries’ participation, to carry a common message to them bilaterally, and to take a concerted approach to multilateral diplomatic opportunities.

The G-8 should also work together to help ensure effective steps are taken by those developing countries already interested in taking steps on climate change. Many of these countries recognize the potential negative impacts of climate change on their own economies and populations. Their active willingness to take steps such as those above, and their vocal support, will be a credible example to others.

Concerted G-8 efforts will be particularly important to eliciting serious involvement by developing countries with large and rapidly growing GHG emissions, some of which fear that taking steps to limit emissions will stunt growth and development. We should encourage them by building upon steps they are already taking (such as those in energy efficiency and conservation, pollution abatement, and sound forest management), to help persuade them that addressing climate change is consistent with their existing goals.

For such countries, specific commitments on energy efficiency targets, eliminating energy subsidies – for “dirty” sources – adoption and enforcement of clean air standards, expanding and enhancing forest areas and other “sinks,” compliance with the UN Framework Convention on Climate Change and the Kyoto Protocol, including preparation of national plans and reports and domestic activities, and wherever possible, the adoption of emissions “growth targets” especially below “business as usual” projections, could highlight their meaningful participation.

Investments in clean technology and environmentally sound policy changes will play a critical role in limiting GHG emissions growth in developing countries as well as enhancing growth and development. International institutions should be encouraged to promote market pricing, privatization, clean technologies and environmentally-friendly approaches to speed the growth of markets for new technologies that help limit emissions growth. We should make complementary efforts with bilateral assistance. Private investment and technology transfer will clearly play a large role as well, including via the Clean Development Mechanism (CDM). We should mobilize trade and investment promotion agencies, and help raise awareness in our own private sectors, to the opportunities for mutually beneficial projects.

The G-8 should work with developing countries to support market-based mechanisms such as the Clean Development Mechanism (CDM), and trading among Annex B countries. We should emphasize that we will work to see that those mechanisms have integrity and effectively serve our goals on climate change. We should, therefore, also move forward together to define better the structure and operation of the CDM and emissions trading. The CDM is clearly a win-win proposition, where investment-led technology transfer can support both sustainable growth and development and solutions to climate change. Likewise, emissions trading will produce cost-effective reductions of greenhouse gases.

The G-8 working group on climate change should explore these issues. As a first step, we should agree that adopting specific plans for concerted efforts with developing countries would be an element for working group attention. It would be especially useful if the outcome of the Birmingham meeting would set the stage for a specific series of recommendations to help make progress at the fourth session of the Conference of the Parties to the Convention, to be held in Buenos Aires in November 1998.

We must begin working immediately with the Sherpas to craft a strong message summarizing the issues discussed above and drafting points for the consideration of the Heads of State at Birmingham.

BACKGROUND PAPER:
ENVIRONMENTAL STANDARDS FOR EXPORT CREDITS

Export credit agencies participate in most of the billions of dollars in foreign investment in developing countries each year. Environmental standards for these agencies would be one of the most powerful tools available to protect the global environment. However, the U.S. Export Import Bank (Ex-Im) is the only G-7 official export credit agency (ECA) that has environmental standards for projects it finances.

Since 1994, the United States has attempted to work with other OECD countries to develop common environmental standards. However, the "green rhetoric" that heavily influences European positions under the climate treaty has not led the Europeans to adopt pro-environment policies on this important issue. At the Denver Summit, we pressed for language urging the OECD Participants (the policy-making body for OECD ECAs) to begin negotiations on common environmental standards. Opposition -- principally from Germany, France and Japan -- forced us to compromise on substantially weaker language. Since then, discussions have been restricted to the OECD Export Credit Group (ECG) -- a technical-level group that reports to the Participants and is not vested with decision-making authority.

Since the Denver Summit, domestic political pressure has caused the UK to appear more willing to consider having ECAs examine environmental issues and Germany to moderate its opposition to our initiative. However, no G-7 ECA supports our initiative to develop common environmental standards and only the UK has begun to acquire the technical expertise necessary to discuss or develop environmental standards. France and Japan continue to oppose all elements of our initiative. Canada recently proposed several environmental principles that ECAs should support; however the Canadian-proposed principles would not lead to any concrete actions to protect the environment.

At the most recent ECG meeting, Ex-Im was isolated on its position that ECAs should do more than adopt the Canadian language and Ex-Im reluctantly supported the vague principles as the compromise language could be interpreted as committing the ECAs to "future work." Other ECAs will probably read "future work" to mean unilateral action as opposed to common approaches to environmental issues.

In preparation for the Summit, other G-8 governments expressed a willingness to accept the Canadian-based principles but have blocked any U.S. efforts for follow-on actions. Summit adoption of these principles, without a strong commitment to further work, would serve to delay any substantive actions toward developing common environmental standards. A strong Summit statement urging OECD ECAs to develop common environmental standards, including a commitment to some specific milestone by the next Summit, would be invaluable for meaningful action but will be very difficult to achieve.

BACKGROUND PAPER: FORESTS

To address continued destruction and degradation of the world's forests, last year G-8 leaders at Denver agreed to support a practical G-8 Forest Action Program and called for a progress report at this year's Birmingham Summit. In fulfillment of that pledge, G-8 foreign ministers will approved a G-8 Forest Action Program at the London Ministerial. The Eight foreign ministers pledged to report back progress made on this program at the G-8 Summit in the year 2000.

In addition, the United States, Canada and Germany worked out common Communique language that bridges the gap between our desire to show progress on practical efforts to conserve forests and Germany and Canada's continued desire to advance an international forest convention. The agreed language calls for a report on the communique but only makes vague reference to the need for "stronger and more effective frameworks and practical efforts."

The Action Program fulfills the calls by environmental groups and developing nations for the world's leading industrial democracies to take the lead in protecting the world's forests. It was developed as a consensus document, reflecting a shared view among the G-8 that practical efforts are a critical component of protecting forests worldwide. Significantly, from the United States' perspective, the Action Program covers five areas of forest protection set out in the Denver Communiqué:

- assessing and monitoring the state of the G-8's own forests,
- developing and implementing strong national forest conservation programs,
- establishing protected areas,
- taking steps to eliminate illegal logging and illegal timber trade, and
- harnessing the resources of the private sector.

Under each of these categories specific actions were listed. For example, under monitoring and assessment the Action Program calls for providing groups and organizations which monitor forests with improved access to satellite data and geographic information systems, an area in which the G-8 countries have unique scientific and technological capabilities.

BACKGROUND PAPER: GLOBAL ENVIRONMENT FACILITY (GEF)

The Global Environment Facility (GEF) is the main international mechanism to address climate change, loss of biodiversity, degradation of international waters and use of ozone-depleting chemicals in developing countries and Eastern Europe. It provides grant funding for demonstration projects that show economically sensible ways to reduce global environmental damage, leveraging funds from numerous other sources and builds the capacity of developing countries to incorporate environmental protection into their development processes. We are the lead GEF donor. At the Denver Summit, the G-7 called for a strong GEF replenishment and enhanced GEF effectiveness.

Congress provided less than one-half of the Administration's GEF budget request in FY98 and only about one-third of the request in the previous two years. Our arrears now stand at \$192.5 million. Last month, donors concluded a second GEF replenishment (GEF-2) of \$2.75 billion. We pledged at the same level as in the first GEF replenishment (GEF-1) -- \$430 million over four years. Germany, France, UK and others pressed hard for the United States to join them in contributing at higher levels than GEF-1. But we took the firm position that we cannot consider additional contributions at least until clearing our GEF arrears (\$192.5 million) and gaining Congressional authorization for our GEF-2 contribution. The Europeans reacted by conditioning part of their supplemental contributions on full U.S. arrears-clearing, as well as on additional U.S. pledges to GEF-2. They may try to insert language into G-7 or G-8 documents to pressure us on these points.

The GEF has several strong opponents in Congress. The GEF's function as the formal "financial mechanism" for the Climate and Biodiversity Conventions leaves it open for attack, and is generally not well understood by most Members. If we had pledged more to GEF-2 than GEF-1 levels, it might have appeared the Administration was ignoring Congressional concerns.

The GEF-2 agreement contains a strong U.S.-sponsored policy agenda to improve GEF and its "Implementing Agencies" -- the World Bank, UN Development Program and UN Environment Program. The main objective is to force these agencies to "mainstream" global environmental protection into their normal development assistance. Reforms would also push developing countries to integrate environment more fully into their development processes. Both of these measures would support U.S. objectives

in the Climate Change Convention, the Biodiversity Convention and other international environmental agreements.

However, to achieve "mainstreaming," we will need stronger support from other G-7 members on the boards of the World Bank and UN agencies. Historically, their representatives have not joined the United States in insisting on stronger environmental action by these institutions.

A related issue is the World Bank's push to establish a pilot Carbon Investment Fund, to invest in greenhouse gas reduction projects in developing countries. Some of this investment would be similar to GEF projects. While there are interesting elements in the proposal, we are concerned that such a Fund might undermine "mainstreaming" environment in the Bank's regular operations and also that it might distort the development of international markets for greenhouse gas emissions.

BACKGROUND PAPER: YEAR 2000 ("Y2K") COMPUTER PROBLEM

Governments, organizations and individuals around the world are dependent upon the electronic processing and exchange of financial and other data. The Year 2000 (Y2K) problem -- whereby many computers that use two digits to keep track of the date will, on January 1, 2000, recognize "00" as 1900, causing them to either stop running or generate erroneous data -- poses a serious threat to our financial systems. Problems in a single location could have a ripple effect in global markets, potentially affecting financial institutions, their customers and the marketplace in general, if payments fail to move as expected.

Experts believe that there will be major problems throughout telecommunications, electric power, financial and other infrastructures on which our peoples depend. Computer systems and embedded chips in the most common household appliances are a part of daily life. International awareness of the problem, and actions to coordinate and correct it, have been lacking.

Every government has an interest in the mutual resolution of this problem as a result of their interests in the public safety of their citizens travelling abroad, in the daily reconciliation of international financial transactions, in the sustained command and control of military activities and combined operations and in the continued assurance of diplomatic communications between capitals. Many governments, institutions and firms, however, mistakenly believe that these problems are not serious, or that their computers and related systems are compliant with Year 2000 requirements. However, even if their computers are properly reprogrammed, they are probably networked to and rely on other external systems that are NOT Year 2000 compliant and thus run the risk of failing as we approach the 21st century.

International cooperation in raising awareness of the problem, sharing technical understanding, providing assistance in fixing the problems where possible -- and preparing for the consequences where not possible -- is needed. Through the G-7/8 processes, the United States has worked to ensure that the Year 2000 issue is on Birmingham agenda. The United States has pushed to ensure that the Basle Committee on International Banking, the International Organization of Securities Commissions and the International Association of Insurance Supervisors coordinate efforts with respect to the financial sector. We have also encouraged the OECD, the World Bank and other international fora to coordinate efforts on the non-financial aspects of the year 2000 problem. We have also worked closely with private sector organizations, such as the Securities Industry Association, to ensure that the Year 2000 issue is on the agenda at events surrounding the annual meetings of the Inter-American and Asian Development Banks and the Asian Pacific Economic Council.

Other countries, particularly Canada and the UK, are taking an increasingly active international role. Prime Minister Blair made a 45-minute, nationally televised speech on year 2000, which was well received both in the UK and internationally. The UK and others have called on the G-8 to play the coordinator role. Although the G-8 lacks a secretariat to play a role in day-to-day coordination, the G-8 can help by clearly setting priorities and institutional guidance. (The UK has called on other countries to contribute funds to a World Bank Trust Fund, which it established to help poor countries deal with the Year 2000 problem, and has provided a £10 million grant. The United States has not committed to making a contribution to this fund.)

Domestically, the President's Council on Year 2000 Conversion is working with Federal agencies to ensure that their own critical systems are ready and to assess where the United States is at most risk for significant disruptions and to formulate a strategy for addressing those areas. The Council has formed working groups to focus on preparations in are key infrastructure areas such as energy, telecommunications, transportation and emergency response. Agencies have agreed to become coordinators for various economic sectors, reaching out to state and local governments, to the private sector and to foreign governments and organizations to increase awareness to the problem, assess year 2000 readiness and offer support.

Large private sector organizations generally seem to have a better handle on the problem than their small- to mid-size counterparts. Many smaller organizations have mistakenly assumed Year 2000 will not affect their operations, while others lack the resources to address the problem. Not all state and local governments are paying appropriate attention to the issue, which is of particular concern as many rely upon older computers in which the problem is most prevalent.

SAT. EMPLOYABILITY:
Background Papers

BACKGROUND PAPER: SELECTED U.S. EMPLOYABILITY POLICIES

Welfare-to-Work Initiative

Two employer tax incentive programs are intended to improve job opportunities for entry-level workers, ease the transition from welfare to work and encourage employers to hire individuals from certain targeted economically disadvantaged groups and those with physical or mental disabilities. The **Work Opportunity Tax Credit** equals a percentage of qualified wages paid to members of certain targeted groups during the first year of employment, up to \$6,000 (25 percent for employment of between 125-399 hours; 40 percent for employment above 400 hours). The **Welfare-to-Work Credit** enables employers to claim a tax credit on the first \$20,000 of eligible wages paid to certain long-term family assistance recipients (35 percent of the first \$10,000 of eligible wages in the first year of employment and 50 percent of the first \$10,000 of eligible wages in the second year of employment).

The Welfare-to-Work Partnership was launched in May 1997 to lead the national business effort to hire people from the welfare rolls. Founded with 105 participating businesses, the Partnership now has over 3,000 members. The Partnership provides technical assistance and support to businesses around the country. Furthermore, the Vice President created the Welfare to Work Coalition to Sustain Success, a coalition of civic groups committed to helping former welfare recipients stay in the workforce and succeed. Tailoring services to meet welfare recipients' needs and the organizations' strengths, Coalition members provide mentoring and other support.

While this Administration has cut the Federal workforce to its smallest level in thirty years, it also believes that the Federal government, as the nation's largest employer, must lead by example. The Federal government has committed to directly hire at least 10,000 welfare recipients in the next four years. Already, the Federal government has hired nearly 3,700 welfare recipients.

Last year, the budget agreement provided \$3 billion for the creation of a Welfare-to-Work grant program. This program will help states and local communities move hard-to-employ, long-term welfare recipients into lasting, unsubsidized jobs. The government will oversee use of these funds for job creation, job placement and job retention efforts, including wage subsidies to private employers and other critical post-employment support

services. Most will be allocated to local Private Industry Councils, who are business-led boards with significant experience in helping the disadvantaged secure employment.

The Administration has proposed to allocate \$283 million for 50,000 new housing vouchers for welfare recipients who need housing assistance to get or keep a job by moving closer to a new job opportunity, to reduce a long commute or to secure more stable housing to minimize emergencies that keep prevent daily, punctual arrival at work. These vouchers, awarded competitively to communities, will help welfare recipients successfully transition to keeping a job.

One of the biggest barriers facing people who move from welfare to work -- in cities and in rural areas -- is finding transportation to get to jobs, training programs and child care centers. Few welfare recipients own cars. Existing mass transit does not provide adequate links to many suburban jobs at all, or within a reasonable commute time. In addition, many entry-level jobs require evening or weekend hours that are poorly served by existing transit routes. To help those on welfare get to their jobs, this Administration has proposed a \$100 million a year welfare to work transportation plan. This competitive grant program would assist states and localities in developing flexible transportation alternatives, such as van services.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a refundable tax credit for working families with incomes below \$30,000. For every dollar a low-income worker earns up to a limit, between 8 and 40 cents are provided as a tax credit. Above a given level, the size of the tax credit is gradually reduced.

In 1993, you expanded the Earned Income Tax Credit and provided tax cuts to 15 million hard-pressed working families. The average family with two kids who received the EITC got a tax cut of \$1,026. In 1996, the EITC lifted more than 4 million people out of poverty -- that's over 2 million more people than were lifted out of poverty by the EITC in 1993. Using a measure of poverty that takes into account both taxes and transfers, the child poverty rate has declined by 4.7 percentage points between 1993 and 1996. The Council of Economic Advisers has concluded that about half of this decline is attributable to the recent expansion of the EITC.

Recent evidence shows that the EITC is helping to increase labor supply, particularly among single mothers with children. One study found that changes in the EITC between 1993 and 1996 could increase labor supply by 19.9 million hours and induce 516,000 families to move from welfare to work.

School-to-Work

Under the School-to-Work Opportunities Act of 1994, operated through a partnership between the Departments of Education and Labor, every State has access to seed money to design and implement a comprehensive School-to-Work (STW) system. These systems integrate academic and vocational education, link secondary and post-secondary education and provide learning opportunities at the work site.

While States and localities have broad latitude to design their own systems, each local system has three core components: first, **school-based learning**, including a coherent secondary and post-secondary program of study tied to challenging State academic standards and occupational skills standards; second, **work-based learning**, providing students with workplace mentoring and a planned program of job training and work experiences covering a broad range of tasks in an occupational area; and third, **connecting activities**, coordinating work- and school-based learning components through such activities as providing technical assistance in designing work-based learning, matching students with employers and collecting outcome data.

All States have received non-competitive Development Grants to help them put together plans for statewide school-to-work systems. 39 States have received implementation grants, and it is anticipated that the remaining 15 States and jurisdictions will begin the implementation phase during 1998. As the program sunsets, states are expected to pick up the financing of their STW systems.

Job Corps

Job Corps is a residential training program for severely disadvantaged young people aged 16-24. The purpose of the program is to assist these young people in gaining the education and skills they need to become more responsible, employable and productive citizens. The Job Corps program offers basic education, high school equivalency classes, occupational exploration, vocational training, work experience, counseling and related support services on a mostly residential basis

through a network of 113 Job Corps centers located throughout the United States and Puerto Rico.

Job Corps funding has increased from \$920 million in FY 1992 to \$1,246 million in FY 1998. In 1996, almost 68,000 new students enrolled in the program and stayed for an average of nearly 7 months. Students gained an average of 2.6 grade levels in reading and 2.3 grade levels in math while in the program; 16,330 students earned GEDs or high school diplomas and 48 percent of all students leaving the program completed vocational training.

The evidence suggests that Job Corps works: eighty percent of Job Corps students found jobs or returned to higher education after leaving Job Corps. Approximately 78 percent of these students were high school dropouts, and 66 percent had never worked full time at the time they enrolled in Job Corps. One evaluation of Job Corps showed that the program resulted in \$1.46 in benefits to society for \$1 invested in the program.

Other Education and Training Programs

In 1997, you increased the maximum Pell Grant for low-income college students to \$3,000 -- the largest increase in two decades. Approximately 3.7 million low-income college students will receive this year's increase and an additional 220,000 low-and moderate-income families that were not previously eligible will receive Pell Grants. Since 1993, the maximum Pell Grant has increased by 30 percent, rising from \$2,300 to \$3,000. The Administration has put in place a series of tax incentives to help Americans go to college. These incentives include a tax credit to help make the 13th and 14th grades as universal as a high school diploma is today. Students will receive a HOPE Scholarship tax credit of 100 percent on the first \$1,000 of tuition and fees and 50 percent on the second \$1,000. The incentives also include a 20 percent Lifetime Learning tax credit, which will be applied to the first \$5,000 of qualified education expenses through 2002 and to the first \$10,000 thereafter.

In addition, Americans will be allowed to withdraw funds from Individual Retirement Accounts (IRAs) -- without penalty -- to pay their own higher education expenses or those of a child, grandchild or spouse. Families also may open **Education IRAs** for any child under 18; for each child, they may add \$500 per year, and the earnings will accumulate tax-free. The 1997 Balanced Budget Agreement also allows taxpayers -- including a parent --

to deduct student loan interest payment from their taxes (up to \$1,000 in 1998, rising to \$2,500 in 2001 and beyond) in the first five years of repaying a student loan.

The Dislocated Worker program provides funds to States and local sub-state grantees to help dislocated workers find, qualify for and get new jobs. Services include on-site assistance to workers and employers when major layoffs are announced (rapid response); retraining and basic readjustment services (including assessment and job search assistance); and supportive services such as child care and needs-related payments (income support) so workers can participate in training. Since 1993, you have more than doubled dislocated worker funding, increasing it from \$517 million in FY93 to \$1,351 million in FY98. This year, it will assist over 600,000 workers, up about 300,000 since 1993. Your FY99 budget increases dislocated worker funding by another \$100 million, bringing funds to nearly triple what they were in 1993.

The Administration is also seeking to reform the job-training system. The current bipartisan Congressional proposals to do this build on President Clinton's 1995 proposal for a G.I. Bill for America's workers. The President believes job training reform must meet four basic principles: (1) empower individuals; (2) streamline services; (3) enhance accountability; and (4) increase flexibility.

The Administration's **Ticket to Independence Program** proposes to allow disabled beneficiaries to choose their own public or private vocational rehabilitation providers. Participating providers would be paid a percentage of disability benefits saved as a result of beneficiaries returning to work for a specified period of time.

BACKGROUND PAPER: EMPLOYABILITY POLICIES: UK

New Deal

The centerpiece of the United Kingdom's Welfare-to-Work initiative is the New Deal for young people, single parents, the long-term unemployed, partners of the unemployed, disabled people and disadvantaged communities. The New Deal for young people and single parents has been running in 12 regions since January 1998 (the New Deal for young people started on a national basis last month, while the New Deal for single parents starts in October). The UK's new budget provides funds to start additional New Deal programs.

The Labour Party manifesto proposed four options to help unemployed young people, each involving education or training leading to a degree: (1) a private-sector job with employer receiving a £60-a-week (\$100) credit for six months; (2) work with non-profit receiving a week wage equal to welfare benefits plus a fixed sum for six months; (3) full-time study in an approved course; and (4) a job with the environment taskforce, linked to Labour's volunteer program. In the first nine weeks, 12,800 young people entered the New Deal program, with 8,800 have been matched to employers and 620 have already found work.

The UK's budget -- released in March -- provided £5.2 billion (\$8.8 billion) over five years for the New Deal. This program is paid for by a one-off Windfall Tax on the excess profits of UK's privatized utilities. For this year, the budget includes an additional £50 million (\$85 million) for the New Deal for young people, targeted on the most disadvantaged young people and providing more training and support for mentors; an additional £10 million (\$17 million) to increase the effectiveness of the New Deal for single parents and ensure that single parents who take a job which turns out to be short term do not lose out; £100 million (\$170 million) to help provide 70,000 intensive welfare-to-work opportunities to long-term unemployed over the age of 25; £60 million (\$100 million) to ensure that partners of the unemployed have the option to receive the help they need to get back to work; the replacement of the Disability Working Allowance with a Disabled Person's Tax Credit; and £15 million (\$25 million) for a New Deal for Communities to help people living in high-poverty areas.

Working Families Tax Credit

The Working Families Tax Credit (WFTC) -- based largely on our Earned Income Tax Credit -- will be introduced in October 1999. It will provide nearly £1.5 billion (or about \$2.5 billion) more

in support for 400,000 working families with children than under the Family Credit, the current benefit program. The WFTC will guarantee working families a minimum income, above and beyond the level of the minimum wage. The WFTC will make a family with two children earning £200 (\$340) a week -- the average entry wage for someone moving from unemployment into full-time work -- more than £23 (\$40) a week better off. Recipients of the WFTC will be entitled to help with 70 percent of their child care costs, subject to an overall ceiling for their child care costs of £100 (\$170) a week for one child and £150 (\$255) a week for two or more children.

The WFTC's phase-out rate will be lower than the current benefit program, improving work incentives and resulting in lower marginal tax and benefit withdrawal rates for 500,000 families currently in receipt of the Family Credit. Under the Family Credit, 750,000 families face marginal tax rates of over 70 percent; under the WFTC, this number will fall by two-thirds to around 250,000. The WFTC helps to integrate the tax and benefit systems, reducing wasteful overlap.

BACKGROUND PAPER: EMPLOYABILITY POLICIES: OTHER G-8

Canada: Self-Sufficiency Project

The Self-Sufficiency Project (SSP) is a long-term experiment to test the use of temporary earnings supplements as a way to help single parents leave welfare assistance for employment. Like our Earned Income Tax Credit, the intent of SSP is make work pay more than being on welfare. Single-parent welfare recipients who have received welfare benefits for at least one year and who leave welfare and take a full-time job (30 or more hours per week) are eligible for SSP for up to 3 years. The recipients benefit is equal to half the difference between a participant's gross earnings from employment and an earnings benchmark set by SSP for each province -- \$37,000 (Canadian dollars) in British Columbia and \$30,000 in New Brunswick. This effectively would double the annual income of those earning around \$6-7 per hour and working 35 hours per week.

SSP was successful in inducing welfare recipients to work full time. Twice as many SSP recipients were working full time than those not offered SSP. SSP recipients were usually \$3-5,000 per year better off than they would be if they worked the same amount and remained on welfare. The large income supplement was offset by a reduction in welfare assistance payments and increased tax revenue. The net annual increase in transfer payments was about \$650 per SSP member. SSP had a substantial anti-poverty effect, reducing the fraction of the group members who had family incomes below the poverty line by 12.4 percent.

Canada: Millennium Scholarships

The Canadian government has introduced the Canadian Opportunities Strategy, of which the Canada Millennium Scholarships is the centerpiece. The strategy also includes grants to needy students with children, tax relief for interest payments on student loans, tax-free withdrawals on designated savings vehicles to encourage lifelong learning and tax incentives for families to save for their children's education. More than 100,000 students will receive Millennium Scholarships with full-time, post-secondary school students receiving \$3,000 (Canadian dollars) per year, which is about the average cost of tuition at a publicly-funded university in Canada. Part-time students can receive scholarships as well. Initially, the program will be funded for 10 years with an endowment of \$2.5 billion.

Scholarships will be awarded to individuals who need help financing their studies and demonstrate merit. Students of any age, studying in publicly funded universities, community colleges, vocational and technical institutes and junior colleges in the Province of Quebec, will be eligible. The Canada Millennium Scholarship Foundation will manage the endowment and award the scholarships, beginning in the year 2000.

Germany: "Dual System" Apprenticeships

The "Dual System" is the core of vocational training in the Federal Republic of Germany, training about 70 percent of all school leavers. There are currently almost 1.6 million young people undergoing dual vocational training; in 1996 alone, there were 574,300 new apprenticeship agreements, mostly in industry and trade (47 percent) and in crafts (37 percent). The "Dual System" is considered part of the formal education system and gives those who do not go on to college both the equivalent of a high school diploma and journeyman status upon graduation. Training is carried out in the vocational school and in the firm. Forty percent of classroom work is devoted to basic education and 60 percent to skills training. As a rule, training in the dual system takes 3 to 4 years to complete. At present there are around 380 recognized occupations for which formal training is required.

Firm participation in the training system is high, ranging from nearly all large-scale enterprises to about one-third of firms with between 5-9 employees. Employers pay the young trainees a training allowance, in lieu of wages, to compensate them for work done in the firm. Allowances are fixed by collective agreement; there is no statutory minimum wage. In 1996, the average training allowance amounted to about \$550 per month.

France and Italy: 35-Hour Work Week

France and Italy are considering proposals to legislate a reduction to 35 in average weekly hours of non-overtime work. At present, over-time compensation is paid to French workers if their average weekly hours exceed 39, for Italy the cut-off is 48 hours. In both countries legislative limits must be observed, on average, over the course of the year rather than on a week-by-week basis. Complex "annualization" schemes determine the yearly over time employers must pay for exceeding the average-work-week restriction.

The premise behind this initiative is that the economy's output is fixed, and therefore, if we share the amount of hours worked, unemployment will fall. Economists call this the "lump-of-labor" fallacy because, in reality, the demand for labor depends upon labor costs and productivity, which are affected by the hours each employee works. As hours worked fall, the output of the last worker hired drops -- but the cost of employing that worker does not fall by as much (because the fixed costs of employment, such as benefits, are unchanged). With the cost of the last worked hired now greater than the worker's productivity, a profit-maximizing firm will reduce employment and output.

Employers are very opposed to this initiative in France because it will increase labor costs and reduce their competitiveness. After originally supporting the initiative, labor unions are now opposed because they think it will lead to lower wages and fewer worker rights. And, according to The Economist, "the unemployed, the scheme's supposed beneficiaries, are wondering how many jobs, if any, it will actually create."

Russia: Small Business Fund

The Russian Small Business Fund (RSBF) is making an important contribution to building the entrepreneurial economy in Russia. This is key to generating economic growth and creating a stable middle class. In less than four years of operation, the RSBF has made over 16,000 small- and micro-loans to Russian businesses, with a total value approaching \$220 million. RSBF is working in nineteen Russian regions, with expansion to ten more underway in 1998. They have provided training to Moscow-based and regional Russian banks on how to lend to small businesses and how to profit from the lending.

The RSBF was created in 1994 with capital from the G-7 countries. Collectively, the G-7 pledged \$150 million, with EBRD matching contributions dollar for dollar. To date, the fund has received \$125 million from G-7 countries (and Switzerland and the EC), along with \$150 million from EBRD. The United States has contributed \$35 million. In addition, the United States has provided more than \$60 million in bilateral technical assistance for small and micro enterprise development. There is now a network of small business training centers across Russia that are linked together through the internet.

1. We, the Heads of State and Government of eight major industrialised democracies and the President of the European Commission, met in Birmingham to discuss issues affecting people in our own and other countries. In a world of increasing globalisation we are ever more interdependent. Our challenge is to build on and sustain the process of globalisation and to ensure that its benefits are spread more widely to improve the quality of life of people everywhere. We must also ensure that our institutions and structures keep pace with the rapid technological and economic changes under way in the world.

2. Of the major challenges facing the world on the threshold of the 21st century, this Summit has focused on three:

- sustainable economic growth and development throughout the world in a way which, while safeguarding the environment and promoting good governance, will enable developing countries to grow faster and reduce poverty, restore growth to emerging Asian economies, and sustain the liberalisation of trade in goods and services and of investment in a stable international economy;
- lasting growth in our own economies in which all can participate, creating jobs and combating social exclusion;
- drugs and transnational crime which threaten to sap this growth, undermine the rule of law and damage the lives of individuals in all countries of the world.

Our aim in each case has been to agree concrete actions to tackle these challenges.

Promoting sustainable growth in the global economy

3. In an interdependent world, we must work to build sustainable economic growth in all countries. Global integration is a process we have encouraged and shaped and which is producing clear benefits for people throughout the world.

4. Overall global prospects remain good. However, since we last met, the prospects have been temporarily set back by the **financial crisis in Asia**. We confirm our strong support for the efforts to re-establish stability and growth in the region and for the key role of the International financial institutions. Successful recovery in Asia will bring important benefits for us all.

Therefore:

- We strongly support reforms underway in the affected countries and welcome the progress so far achieved. With full implementation of programmes agreed with the IMF we are confident that stability can be restored. The underlying factors that helped Asia achieve impressive growth in the past remain in place. Implementation of agreed policies together with the action taken by ourselves and other countries to avoid spillover effects provide the basis for a firm recovery in the region and renewed global stability.
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- **-We believe a key lesson from events in Asia is the importance of sound economic policy, transparency, and good governance. These improve the functioning of financial markets, the quality of economic policy making and public understanding and support for sound policies, and thereby enhance confidence. It is also important to ensure that the private sector plays a timely and appropriate role in crisis resolution. We are conscious of the serious impact of the crisis in the region on the poor and most vulnerable. Economic and financial reform needs to be matched with actions and policies by the countries concerned to help protect these groups from the worst effects of the crisis. We welcome the support for this by the World Bank, the Asian Development Bank and by bilateral donors, and the increased emphasis on social expenditure in programmes agreed by the IMF.**
- **We are concerned that the difficulties could trigger short term protectionist forces both in the region and in our own countries. Such an approach would be highly damaging to the prospects for recovery. We resolve to keep our own markets open and call on other countries to do the same. We emphasise the importance for the affected countries of continued opening of their markets to investment and trade.**

5. Looking ahead to the WTO's celebration of the 50th anniversary of the founding of the GATT next week, we:

- **reaffirm our strong commitment to continued trade and investment liberalisation within the multilateral framework of the WTO;**
- **call on all countries to open their markets further and resist protectionism;**
- **strongly support the widening of the WTO's membership in accordance with established WTO rules and practices;**
- **agree to promote public support for the multilateral system by encouraging a review of transparency in the WTO;**
- **reaffirm our support for efforts to complete existing multilateral commitments, push forward the built-in agenda and tackle new areas in pursuing broad-based multilateral liberalisation;**
- **confirm our wish to see emerging and developing economies participate fully and effectively in the multilateral trade system; commit ourselves to deliver early, tangible benefits from this participation to help generate growth and alleviate poverty in these countries; and undertake to help least developed countries by:**
 - ◆ **providing additional duty-free access for their goods, if necessary on an autonomous basis,**
 - ◆ **ensuring that rules of origin are transparent,**
 - ◆ **assisting efforts to promote regional integration,**
 - ◆ **helping their markets become more attractive and accessible to investment and capital flows.**

6. The last point highlights one of the most difficult challenges the world faces: to enable the poorer developing countries, especially in Africa, develop their capacities, integrate better into the global economy and thereby benefit from the opportunities offered by globalisation. We are encouraged by the new spirit of hope and progress in Africa. The challenges are acute, but confidence that they can be overcome is growing. We commit ourselves to a real and effective partnership in support of these countries' efforts to reform, to develop, and to reach the internationally-agreed goals for economic and social development, as set out in the OECD's 21st Century Strategy. We shall therefore work with them to achieve at least primary education for children everywhere, and to reduce drastically child and maternal mortality and the proportion of the world's population living in extreme poverty.

7. To help achieve these goals, we intend to implement fully the vision we set out at Lyon and Denver. We therefore pledge ourselves to a shared international effort:

- to provide effective support for the efforts of these countries to build democracy and good governance, stronger civil society and greater transparency, and to take action against corruption, for example by making every effort to ratify the OECD Anti-Bribery Convention by the end of 1998;
- to recognize the importance of substantial levels of development assistance and to mobilise resources for development in support of reform programmes, on a basis of fair burden sharing, including negotiating a prompt and adequate replenishment of the soft loan arm of the World Bank (IDA 12) as well as providing adequate resources for a renewed Enhanced Structural Adjustment Facility of the IMF and for the African Development Fund;
- to work to focus existing bilateral loan and investment agency assistance in support of sound reforms, including the development of basic social infrastructure and measures to improve trade and investment;
- to work within the OECD on a recommendation on untying aid to the least developed countries with a view to proposing a text in 1999;
- to support the speedy and determined extension of debt relief to more countries, within the terms of the Heavily Indebted Poor Countries (HIPC) initiative agreed by the IFIs and Paris Club. We welcome the progress already achieved in dealing with six countries under the initiative. We encourage all eligible countries to take the policy measures needed to embark on the process as soon as possible, so that all can be in the process by the year 2000. We will work with the international institutions and other creditors to ensure that when they qualify, countries get the relief they need to secure a lasting exit from their debt problems. We expect the World Bank to join the financial effort to help the African Development Bank finance its contribution to the HIPC initiative. Those countries who have not already done so should also forgive aid-related bilateral debt or take comparable action for reforming HIPCs;

- to enhance mutual cooperation on infectious and parasitic diseases and support the World Health Organisation's efforts in those areas. We support the new initiative to "Roll Back Malaria", to relieve the suffering experienced by hundreds of millions of people, and significantly reduce the death rate from malaria by 2010. We will also continue our efforts to reduce the global scourge of AIDS through vaccine development, preventive programmes and appropriate therapy. The French proposal of a "Therapeutic Solidarity Initiative" and other proposals for prevention and treatment of AIDS will be studied further by our experts.

8. We see a particular need to strengthen Africa's ability to prevent and ease conflict, as highlighted in the UN Secretary General's recent report. We will look for ways to enhance the capacity of Africa-based institutions to providing training in conflict prevention and peacekeeping; and to respond to the exceptional needs of post-conflict countries in an appropriate way as they re-build their economic and social systems.

9. A crucial factor in ensuring sustainable development and global growth is an efficient energy market. We therefore endorse the results of our Energy Ministers' Meeting in Moscow in April. We shall continue cooperation on energy matters in the G8 framework. We recognise the importance of soundly based political and economic stability in the regions of energy production and transit. With the objective of ensuring reliable, economic, safe and environmentally-sound energy supplies to meet the projected increase in demand, we commit ourselves to encourage the development of energy markets. Liberalisation and restructuring to encourage efficiency and a competitive environment should be supported by transparent and non-discriminatory national legislative and regulatory frameworks with a view to establishing equitable treatment for both government and private sectors as well as domestic and foreign entities. These are essential to attract the new investment which our energy sectors need. We also recognise the importance of international co-operation to develop economically viable international energy transmission networks. We shall pursue this co-operation bilaterally and multilaterally, including, within the framework and principles of the Energy Charter Treaty.

10. Considering the new competitive pressures on our electric power sectors, we reaffirm the commitment we made at the 1996 Moscow Summit to the safe operation of nuclear power plants and the achievement of high safety standards worldwide, and attach the greatest importance to the full implementation of the Nuclear Safety Account grant agreements.

11. The greatest environmental threat to our future prosperity remains **climate change**. We confirm our determination to address it, and endorse the results of our Environment Ministers' meeting at Leeds Castle. The adoption at Kyoto of a Protocol with legally binding targets was a historic turning point in our efforts to reduce greenhouse gas emissions. We confirm our intention to sign the Protocol within the next year and resolve to make an urgent start on the further work that is necessary to ratify and make Kyoto a reality. To this end:

- We will each undertake domestically the steps necessary to reduce significantly greenhouse gas emissions.

- As the Kyoto Protocol says, to supplement domestic actions, we will work further on flexible mechanisms, such as international market-based emissions trading, joint implementation and the clean development mechanism, and on sinks. We aim to draw up rules and principles that will ensure an enforceable, accountable, verifiable, open and transparent trading system and an effective compliance regime.

-We will work together and with others to prepare for the Buenos Aires meeting of COP4 this autumn. We will also look at ways of working with all countries to increase global participation in establishing targets to limit or reduce greenhouse gas emissions. We will aim to reach agreement as soon as possible on how the clean development mechanism can work, including how it might best draw on the experience and expertise of existing institutions, including the Global Environment Facility. We look forward to increasing participation from developing countries, which are likely to be most affected by climate change and whose share of emissions is growing. We will work together with developing countries to achieve voluntary efforts and commitments, appropriate to their national circumstances and development needs. We shall also enhance our efforts with developing countries to promote technological development and diffusion.

12. The recent devastating forest fires in south-east Asia and the Amazon, threatening not only our environment but even economic growth and social stability, illustrate the crucial importance of global cooperation and a effective frameworks designed to manage and conserve forests. We strongly support the work under way to that end under the auspices of the United Nations, and by the year 2000 we will each report progress on implementation of our own action plans pursuant to the G8 Action Programme published last week. We will work with all countries and interested groups to build consensus on an international agreement with appropriately high standards.

Growth, employability, and inclusion

13. All our people, men and women, deserve the opportunity to contribute to and share in national prosperity through work and a decent standard of living. The challenge is how to reap the benefits of rapid technological change and economic globalisation whilst ensuring that all our citizens share in these benefits by increasing growth and job creation, and building an inclusive society. To accomplish this, we recognise the importance of modernising domestic economic and social structures within a sound macro-economic framework. To these ends we strongly endorse the seven principles agreed by the G8 Finance, Economic, Labour and Employment Ministers at their London Conference in February on "Growth, Employability and Inclusion". We also welcome the Conclusions of the Kobe Jobs Conference of November 1997, with their particular focus on active ageing.

14. We discussed and welcomed the Action Plans we have each produced to show how the seven principles of the London Conference are being implemented. By sharing national experiences and best practices in this area, we can improve our policies and responses. We

underlined the importance of the involvement of employers and unions in securing successful implementation of these plans.

15. The Action Plans show that individually we are all making new commitments to improve employability and job creation in our countries. In particular, we have committed ourselves to:

- Measures to help young, long-term unemployed and other groups hard hit by unemployment find work (including through new apprenticeship schemes in Italy; and specialized job places for the disabled in Russia);
- Measures to help entrepreneurs to set up companies (including through loans and tax incentives in France and legislation to improve access to venture capital and enhanced cooperation between universities and industry in Japan);
- Carrying out structural reforms – including making tax and benefit systems more employment friendly (through the new Working Families Tax Credits in the UK and the Work Opportunity Tax Credit in the US) and liberalisation of product markets (including the opening up of gas and electricity markets in Germany);
- Measures to promote life-long learning (including tax free borrowing to upgrade skills in Canada).

16. We agreed also that there is scope for increased international cooperation in the G8. We agreed to find new ways of publicising our actions on employment policy – for example throughout the Internet – and to facilitate international learning on a continuing basis.

17. Each country confirmed its determination to introduce the measures set out in its Action Plans and to pursue the concept of active ageing. Measures on active ageing should explore what forms of work are appropriate to the needs of older workers and adapt work to suit them accordingly.

18. These measures will help generate soundly-based and equitable growth. We are also willing to share our principles and experiences, including in the relevant international institutions particularly the ILO, OECD and the IFIs, to help foster growth, jobs and inclusion not only in the G8 but throughout the world. We will also work with such international institutions to promote internationally recognised core labour standards.

Combating drugs and international crime

19. Globalisation has been accompanied by a dramatic increase in transnational crime. This takes many forms, including trafficking in drugs and weapons; smuggling of human beings; the

abuse of new technologies to steal, defraud and evade the law; and the laundering of the proceeds of crime.

20. Such crimes pose a threat not only to our own citizens and their communities, through lives blighted by drugs and societies living in fear of organised crime; but also a global threat which can undermine the democratic and economic basis of societies through the investment of illegal money by international cartels, corruption, a weakening of institutions and a loss of confidence in the rule of law.

21. To fight this threat, international co-operation is indispensable. We ourselves, particularly since the Lyon Summit in 1996, have sought ways to improve that co-operation. Much has already been achieved. We acknowledge the work being done in the UN, the EU and by other regional groupings. We welcome the steps undertaken by the G8 Lyon Group to implement its 40 Recommendations on transnational organised crime and the proposals G8 Justice and Interior Ministers announced at their meeting in Washington last December. By working together, our countries are helping each other catch criminals and break up cartels. But more needs to be done. There must be no safe havens either for criminals or for their money.

22. We have therefore agreed a number of further actions to tackle this threat more effectively:

- We fully support efforts to negotiate within the next two years an effective United Nations convention against transnational organised crime that will provide our law enforcement authorities with the additional tools they need.
- We agree to implement rapidly the ten principles and ten point action plan agreed by our Ministers on **high tech crime**. We call for close cooperation with industry to reach agreement on a legal framework for obtaining, presenting and preserving electronic data as evidence while maintaining appropriate privacy protection and agreements on sharing evidence of those crimes with international partners. This will help us combat a wide range of crime, including abuse of the Internet and other new technologies.
- We welcomed the FATF decision to continue and enlarge its work to combat **money-laundering** in partnership with regional groupings. We will consider high-level meetings to discuss efforts to combat transnational crime, with a special emphasis on money laundering and financial crime. We agreed to establish Financial Intelligence Units (FIUs) where we do not already have them, in line with our national constitutions and legal systems, to collect and analyse information on those engaged in money laundering and liaise with the equivalent agencies in partner countries. We agreed on principles and the need for adequate legislation to facilitate **asset confiscation** from convicted criminals including ways to help each other trace, freeze and confiscate those assets, and where possible, in accordance with national legislation, share seized assets with other nations.
- We are deeply concerned by all forms of trafficking of human beings including the **smuggling** of migrants. We commit ourselves to develop a multidisciplinary and

comprehensive strategy, including principles and an action plan for future cooperation amongst ourselves and with third countries, including countries of origin, transit and destination, to tackle this problem. We consider the future comprehensive UN organised crime convention an important instrument for this purpose.

- We endorse **joint law enforcement** action against organised crime and welcome the cooperation between competent agencies in tackling criminal networks. We agree to pursue further action, particularly in dealing with major smuggling routes and targeting specific forms of financial fraud.
- We endorse the Lyon Group's principles and action plans to combat illegal manufacturing and trafficking of **firearms**. We welcome its agreement to work towards the elaboration of a binding international legal instrument in the context of the UN transnational organised crime convention.

23. We urge the Lyon Group to intensify its ongoing work and present a report on the progress made at our next Summit. We also welcome the steps agreed by our Environment Ministers on 5 April to combat environmental crime.

24. There is a strong link between **drugs** and wider international and domestic crime. We therefore welcome the forthcoming UNGASS on drugs. This should signal the international community's determination to develop a comprehensive strategy to tackle all aspects of the drugs problem. For its part, the G8 is committed to partnership and shared responsibility in the international community to combat illicit drugs. This should include reinforced co-operation to curb illicit trafficking in drugs and chemical precursors, action to reduce demand in our countries, including policies to reduce drug dependency, and support for a global approach to eradicating illicit crops. We welcome the UNDCP's recent initiatives which imply the preparation of alternative and reliable development programmes and benchmarks within existing funding arrangements.

Year 2000 Bug

25. The Year 2000 (or Millennium) Bug problem, deriving from the way computers deal with the change to the year 2000, presents major challenges to the international community. We discussed its implications, in particular in the defence, transport, telecommunications, financial services, energy and environmental sectors, and we noted the vital dependence of some sectors on others. We agreed to take further urgent action and to share information that will assist in preventing disruption in the near and longer term. We shall work closely with business and organisations working in those sectors, who will bear much of the responsibility to address the problem. We will work together in international organisations, such as the World Bank to assist developing countries, and the OECD, to help solve this critical technological glitch and prepare for the year 2000.

26. We accepted the invitation of the Chancellor of the Federal Republic of Germany to meet again next year in Koln on 18-20 June.

G-7 STATEMENT

DRAFT G-7 CHAIRMAN'S STATEMENT

1. The Heads of State or Government of the G-7 countries and the President of the European Commission met today, 15 May, to discuss the world economic and financial situation, and the challenges we face in strengthening the global financial system.

The World Economy

2. We discussed recent developments in our own economies and economics developments in the rest of the world. In our own economies we will work together to achieve sustained non-inflationary growth. Such growth and stability are more important than ever, not only for our own economies, but also for other economies in the world, particularly the recovering economies in Asia.

3. We also agreed that the challenges facing each of our own economies remain different:

- The US, Canada and the UK have enjoyed continued strong growth. In these countries the task is to sustain growth while standing ready to prevent any possible resurgence in inflationary pressures and while increasing national savings in the US;
- In Germany, France and Italy, economic growth gained momentum last year and is now strengthening further; it is important that it be increasingly supported by domestic demand. Continuing structural reform is also essential to improve the longer-term prospects for growth and employment.
- Economic recovery in Japan is critical for the world economy and in particular for recovery in Asia. We therefore welcome the Japanese government's commitment to implement fully and quickly the substantial economic policy package announced last month, and, looking ahead, to hold to policies to revive confidence and achieve long lasting domestic demand led growth. It is important also to make further progress to strengthen the financial system and promote structural reforms.

4. We welcome the decisions taken on 2 May on the establishment of European Economic and Monetary Union. We look forward to a successful EMU which contributes to the stability

of the international monetary system. The commitment in European Union countries to sound fiscal policies and continuing structural reform is key to the long term success of EMU, and to improving the prospects for growth and employment.

5. We recognize that all countries in the world have an interest in growth and stability in our countries. Equally we have an interest in sustained growth and stability in their economies. We are encouraged by the recent progress in restoring confidence in emerging markets that have been affected by the crisis. We welcome the contribution made to global stability by the pursuit of sound economic and financial policies. In particular, prompt action by some emerging and transition countries to strengthen their economic policies has helped avoid spillover effects. Sound macroeconomic policies, open markets and continued structural reform in all countries are essential for long term stability in the world. Recent experience emphasizes the importance also of good public governance.

Strengthening the Global Financial System

6. Globalization has the power to bring immense economic benefits to all countries and people. But the Asian financial crisis has revealed that there are potential weaknesses and vulnerabilities in the global financial system. In particular we are conscious of the serious human and social consequences of such crises when they occur. We therefore see an urgent need to take steps to strengthen the global financial architecture, to reduce the risks of such crises recurring in future and to produce a system that is more robust to shocks when they occur.

7. Previous summits have also dealt with ways of strengthening the global financial system, and this should be seen as a continuing process of reform. It is essential for individual countries to pursue sound economic policies, open markets and good governance, if stability is to be achieved. At the same time we confirm the central role we see for the IFI's in promoting these good policies, in helping to prevent failures in future and in responding when crises occur. Their response has been crucial in overcoming recent problems and we must find ways to strengthen their role in the future.

8. We welcome and endorse the report by our Finance Ministers on ways to strengthen the global financial architecture. Of their ideas, we attach particular importance to the following:

- **increasing transparency:**

- encouraging IMF members to provide more accurate and accessible financial data for example by subscribing to its Special Data Dissemination Standards and identifying publicly those who fail to meet the Standards;

- welcoming the adoption of a code of good practice on transparency in fiscal policy and encouraging its promotion and supporting consideration by the IMF of a similar code of good practice for financial and monetary policy.

- encouraging the IMF to publish more information about its members and their policies, including its concerns about members' policy making and vulnerabilities; and also to publish more information about its own decision making.

- **helping countries throughout the world prepare for global capital flows:**

- assisting them achieve orderly capital account liberalization with the required strengthening of domestic policies and institutions and enshrining this objective in the IMF Articles of Agreement

- urging the IMF to examine how to monitor effectively capital flows, particularly short term flows

- **strengthening national financial systems:**

- encouraging all countries to adopt and implement the Basle Core Principles.

- establishing a system of multilateral surveillance of national supervisory systems, with urgent consideration of options, including options for institutional reform and new forms of collaboration between international financial institutions.

- **ensuring that the private sector takes full responsibility for its own decisions in order to reduce moral hazard:**

- asking the IMF to signal that in the event of a crisis it will be prepared to consider lending to countries that are in arrears, including in situations where debt standstills have arisen, if the debtor country adopts appropriate adjustment policies.

-- encouraging bond issues that allow for renegotiation in the event of default.

9. We ask our Finance Ministers to take forward these ideas in cooperation and discussion with emerging market and other countries, with the international financial institutions and the private sector. We also ask our Finance Ministers to consider further how the existing global discussion fora particularly the IMF's Interim committee, could be strengthened and made more effective. We hope firm proposals on all these issues can be put forward for decision later this year.

**CONCLUSIONS:
G-8 FOR MIN**

CONCLUSIONS OF G8 FOREIGN MINISTERS: 9 MAY 1998

1. We, the Foreign Ministers of the G8 and representatives of the European Commission, met in London on 8 and 9 May 1998. Aware of the growing need to work ever more closely together to ensure a safe and prosperous world, we discussed a number of global and regional issues that are of common concern. Some issues will be taken up by our Heads of State or Government at the G8 Birmingham Summit. On others, we drew the following conclusions.

GLOBAL ISSUES

Environment

2. We fully endorse the outcome of last year's UN General Assembly review progress since the Rio Earth Summit and the conclusions of the G8 Environment Ministers' meeting at Leeds Castle. We reaffirm our commitment to sustainable development and poverty reduction as our over-riding goal and to work together in partnership with others to achieve it. We agree to provide a new impetus to global efforts to promote sustainable development by taking the following actions.

3. We have published today and commit ourselves to the implementation of an Action Programme on **Forests**. This sets out specific measures at the domestic and international levels to promote sustainable forest management, complementing the work of the Intergovernmental Forum on Forests and other international initiatives. We underline the importance of participation and transparency in the development and implementation of practical approaches to sustainable forest management that reflect environmental, ecological, social and economic values. We look forward to working together and with other partners, including those outside government, in implementing the Action Programme and reporting back on progress in the year 2000. Recent large scale forest fires lend urgency to this task.

4. 1998 is the International Year of the **Oceans**. The world needs to use this year to consider how better to manage the seven-tenths of the planet covered by sea. Governments need to take actions domestically and internationally to protect the marine environment and to promote increased public awareness of its vital importance. We commit ourselves to work

actively with others at the 1999 meeting of the UN Commission on Sustainable Development for conclusions designed to promote the conservation and sustainable use of the seas, including at the regional level. As mapped out by the G8 Environment Ministers at their meeting at Leeds Castle, we shall promote greater and more co-ordinated action on marine biodiversity, including regional initiatives, notably in relation to enclosed and semi-enclosed seas and the Arctic. We welcome the intention of the United Kingdom to organise a Second London Oceans Workshop in December 1998, which can offer a focus for the preparation for CSD. We commit ourselves to renewed efforts to implement existing international agreements, including the UN Agreement on Straddling Fish Stocks.

5. On **Freshwater**, access to safe drinking water and adequate sanitation, within a proper framework for integrated water-resource management, is essential to help reduce disease, improve food security and reduce poverty. Water resource management must reflect the integration of water quality and quantity with land management activities, and highlight the need for protection of eco-systems, including water resources, from pollution. Responsible water management entities, including Governments, must organise themselves at local, national, regional and global levels, to achieve these goals. We therefore commit ourselves to helping develop partnerships, including with the private sector, to apply the strategic approach to freshwater management agreed at the recent meeting of the UN Commission on Sustainable Development. We welcome the Ministerial Declaration that was adopted at the Paris Conference on Water and Sustainable Development in March, and emphasise the importance of following up its programme for priority actions.

6. We recognise that national **strategies** are an essential tool of policy making by bringing together the environmental, social, and economic dimensions of sustainable development. We commit ourselves to working with developing countries to help put in place relevant sustainable development strategies by 2002 and to have implementation underway by 2005.

7. We pledge our support to the new Executive Director of the **United Nations Environment Programme** and look forward to a revitalised role for UNEP as the leading global environment authority.

8. We welcome the successful US \$2.75 billion replenishment of the **Global Environment Facility** and reaffirm our commitment to it as the principal funding mechanism for promoting global environmental benefits.

9. We welcome the success of the first Rome Conference of the Parties to the **Desertification** Convention and encourage its full implementation.

10. We recognise the need to take action on the problems **persistent organic pollutants** pose to human health and the environment, and welcome the beginning of negotiations in Montreal in June on a multilateral legal instrument. We recognise the need to address the problems some developing countries will face in reducing and phasing out the use of certain persistent chemicals.

11. Building on efforts in the OECD on taking environmental factors into account when providing **official export credits**, we encourage further work by the OECD to this end and ask for a report back next year.

Nuclear Safety

12. Nuclear safety is a top priority. As our Energy Ministerial colleagues confirmed when they met in April, we intend to meet in full our commitments at the 1996 Moscow Summit on Nuclear Safety and Security. This will involve our active and constructive participation in the work of the international conventions on the safety of nuclear power installations and spent fuel and radioactive waste management. We discussed the situation at Reactor No. 1 of the Kursk nuclear power plant. We agreed on the necessity of the full observation of all the provisions of the Nuclear Safety Account Agreement. We noted that the Russian authorities have invited an EBRD team to examine jointly with Gosatomnadzor the safety conditions of the reactor in the middle of May, and that they have undertaken that any further operation of the reactor prior to the completion of the indepth safety review should comply with the recommendations of both authorities. It is also important to continue developing and implementing national and international nuclear liability regimes. We welcome the adoption of the Protocol to amend the Vienna Convention on Civil Liability for Nuclear Damage and the Convention on Supplementary Compensation for Nuclear Damage.

13. We shall continue to work closely together to help the countries of Central and Eastern Europe and the Newly Independent States to improve nuclear safety. Full implementation of the agreements reached under the auspices of the Nuclear Safety Account since 1993 remains a high priority. As to Chernobyl and the implementation of the Memorandum of Understanding, good progress has been made in establishing the new international fund to finance a major programme to make the sarcophagus safe. Over half of the \$760m required has been raised and the first projects are about to get under way. We urge the countries which have not yet pledged funds to consider joining the 18 countries and the European Union which have already done so, thereby helping to ensure that this important project can be completed by 2006. We also emphasise that contributions by other donors called for at the Denver Summit are necessary.

UN Issues

14. The UN has our firm backing in maintaining international peace and security, and in promoting sustainable development. We continue to support thorough-going **institutional reform** with the goal of strengthening the UN system. Last summer we, along with the overwhelming majority of our fellow UN members, welcomed Kofi Annan's wide-ranging proposals. We are pleased to see several already in force – particularly the new Development Group, the appointment of Louise Frechette as the UN's first Deputy Secretary-General, and the improvement of management practices across the system.

15. But there is still much to do. The main responsibility lies with member states. We will work for agreement of Kofi Annan's remaining recommendations, among them results-based budgeting, sunset provisions, greater coherence in the field, and recycling efficiency savings back into high priority development programmes. We will also encourage further streamlining, especially of ECOSOC subsidiaries, better co-ordination within the UN and stronger links with civil society and other international institutions.

16. The UN continues to have serious **financial problems**. We must find a solution which includes full and timely payment of obligations, and development of a more logical and more equitable scale of assessment.

17. The G8 attaches great importance to **conflict prevention**: we support Kofi Annan's moves to enhance UN capabilities in this area, to integrate human rights concerns into all such activities, and to develop close links with regional organisations. We will offer increased support for his conflict prevention efforts.

18. We welcome the Secretary-General's recommendations on addressing conflict in Africa, as well as efforts by member states, under the aegis of the UN, to work with African states to enhance their peacekeeping capacity and expand the role of the Organisation for African Unity and African subregional organisations in the prevention, management and resolution of conflicts, within the context of the UN Charter. We reaffirm the importance of the UN's co-ordinating role in demining.

19. Violent conflicts often have roots in social and economic injustice. Trade, aid and economic reform programmes should take account of this. When violence ends, the Security Council should support the transition from military peacekeeping operations to peacebuilding and reconstruction. UN civilian police, with human rights field officers, have a key role to play in this, protecting human rights and rebuilding democracy. However, there is a need for better training and rapid deployment. We reaffirm the importance of UNDP's role as the UN focal point for peacebuilding.

20. Perpetrators of atrocities must not be left unpunished. Bringing them to justice will deter others. We strongly support the creation of a credible and effective **International Criminal Court**. Because it is important that the Court enjoy participation of a large number of states from all regions of the world, we call on all states to ensure a successful outcome to the forthcoming Rome Conference.

Non-Proliferation, arms control and disarmament

21. In pursuit of our shared non-proliferation, arms control and disarmament objectives, we are committed to action in the following areas:

- the intensification and successful conclusion of the negotiations on measures, including for effective deterrence and verification, to strengthen the **Biological and Toxin Weapons Convention** with the aim of the earliest possible adoption of a legally-binding Protocol.
- the **safe and effective management of fissile material** designated as no longer required for defence purposes. We welcome G8 states' efforts to deal with the problem of weapons-usable material. A meeting of industrial and financial experts in London in March called for wider and more effective coordination between ongoing projects, and to develop a range of financing options. A meeting of experts should be held in 1999, to reassess progress and to develop new technical solutions.
- **further implementation of the "Programme for Preventing and Combating Illicit Trafficking in Nuclear Material"**. A successful test-run of the Points of Contact system was held in March. We will continue to work towards expanded participation in the Programme. Within the G8 we will undertake a study of border monitoring equipment later this year.
- **further strengthening the safeguards system** we urge all countries to conclude additional safeguards protocols with the International Atomic Energy Agency at the earliest possible date and, recognising the Agency's efforts to make the system more efficient, to ensure that it has the resources necessary to implement this dramatic non-proliferation accomplishment.

22. We remain committed to tackling the continuing risks of the proliferation of weapons of mass destruction and missiles capable of delivering them. We will work to ensure the success of the strengthened review process for the Nuclear Non-Proliferation Treaty (NPT). We will continue to support the work of the Organisation for the Prohibition of Chemical Weapons in implementing the Chemical Weapons Convention in a cost-effective way and we call for the ratification of, or accession to, the Convention by all States which are not yet Parties to it. We urge all those who have not yet done so to adhere to the NPT and to sign and ratify the Comprehensive Test Ban Treaty. We will continue to provide full support to UNSCOM and the IAEA's efforts to eliminate Iraq's WMD programmes and monitor compliance with relevant UNSCRs. We remain committed to the immediate commencement and early conclusion of negotiations on a Fissile Material Cut-Off Treaty. We will also continue to look forward to the entry into force of START II and the beginning of negotiations on START III. We welcome the work in progress on adaptation of the CFE treaty to take account of the changes in Europe and look forward to the conclusion of the negotiations. We reaffirm our commitment to all States Parties' obligations under Article VI of the NPT.

23. We remain concerned about the potentially destabilising effect of accumulations of conventional weapons in regions of tension. We see merit in promoting further practical disarmament measures for the consolidation of peace in areas that have suffered from conflict. We encourage continuing efforts by interested states in this direction, in particular at the United Nations, and reaffirm the importance of transparency and responsibility in transfers of conventional arms and dual-use goods and technologies. We therefore reiterate our full support for the objectives of the Wassenaar Arrangement. We also reaffirm our commitment to the improvement of the UN Register of Conventional Arms. In addition, we will pursue in the appropriate fora the problem of small arms proliferation. We support the recommendations of the UN Panel of Governmental Experts on Small Arms, encourage their implementation, and request the UN to consider further action to address the issue. We recognise the threat posed to civil aviation by the criminal use of Man-Portable Air Defense Systems (MAN PADS), and call for further work to be done to address this problem.

Anti-personnel landmines

24. The opening for signature of the Ottawa Convention was a significant step towards a world free of anti-personnel landmines. We encourage universal fulfillment of its objectives. We note that it will enter into force at an early date. We welcome the contributions made by various bans, moratoria and other restrictions that address the humanitarian impact of landmines. We urge all countries to make further progress towards this goal through signature and ratification of the relevant international agreements, for example through the Ottawa Convention and through Amended Protocol II of

the UN Convention on Conventional Weapons, and by pursuing complementary work at international and regional fora, recognising the special importance of the UN Conference on Disarmament. We encourage the international community to cooperate more effectively in its demining efforts towards the goal of zero victims, including through the newly constituted United Nations Mine Action Service, and to strengthen efforts to ensure effective assistance to and the long term rehabilitation of mine victims.

Democracy and human rights

25. In this 50th Anniversary year of the Universal Declaration of Human Rights (UDHR) we pay tribute to all those who work to defend and protect human rights. We are strongly committed to strengthening democratic values, good governance and the rule of law throughout the world. Human rights are universal and we call upon all states to refrain from denying human rights and fundamental freedoms to individuals because of nationality, ethnicity, race, gender, religion, opinion or language.

26. We will continue to promote the universal implementation of human rights and fundamental freedoms. We will:

- emphasise the key role of civil society by increasing human rights awareness, including among young people, minorities and other vulnerable groups, and by extending new types of assistance to civil society groups; and, bearing in mind the goal of universal ratification of human rights treaties, continue our efforts to maximise accession to human rights instruments;
- provide political and financial support for the new High Commissioner for Human Rights, by seeking to ensure that an adequate share of the UN regular budget is devoted to human rights as well as by continuing voluntary contributions to the funds and programmes which she administers; support efforts to harmonise and integrate human rights, including a gender perspective, into all UN programmes and policies, including peacebuilding activities; and commemorate the 50th Anniversary of the UDHR;
- press for an early conclusion to the International Labour Organisation's (ILO's) efforts to achieve a new Convention on Extreme Forms of Child Labour; increase support for the ILO's International Programme for the Elimination of Child Labour and implement the action plan of the Oslo Conference on Child Labour; work to protect the rights of children and to prevent their exploitation in situations of armed conflict; and support the activities of the UN Secretary General's Special Representative for Children and Armed Conflict;

- strive for the adoption of the ILO Declaration on Core Labour Standards;
- encourage the adoption of voluntary codes of ethical business practices, based on recognised international standards;
- focus further attention in the International Financial Institutions on issues of openness, transparency and good governance;
- in reaffirmation of our commitment to democracy, development, respect for human rights and peace, strengthen the impact of good governance programmes in developing countries by encouraging their own initiatives and improving co-ordination both among donors and with recipient countries, for example through OECD pilot efforts with Africa where an unprecedented multilateral workshop on Development and Good Governance was held in Mali on 4-5 May; co-operate on peacebuilding programmes targeted at stability and reconciliation; and work to address the problem of excessive military expenditures;
- affirm the value of government-sponsored organisations which promote democracy.

Terrorism

27. We reaffirm our determination to combat terrorism in all its forms, irrespective of motive, to oppose any concession to terrorist demands and to promote coordinated international action against this evil. We welcome the substantial progress made to combat terrorism by implementing the 25 measures adopted by the G8 in 1996, and the additional steps agreed at the Denver Summit, including the adoption of the International Convention for the Suppression of Terrorist Bombings. We are taking the following steps to enhance international cooperation: requesting all governments to ratify the eleven international counter-terrorism conventions by 2000; negotiating a draft UN Convention on the Suppression of Acts of Nuclear Terrorism; exchanging summaries of G8 national crisis management procedures; promoting consultation, cooperation and joint action with other states; and exchanging information on new or growing threats, including those from chemical and biological terrorism.

28. We endorse our experts' report and identify the following priority areas for further action:

- **Preventing terrorist fund-raising** We identified points for G8 action and are comparing national legislation. G8 experts will meet to share best practice and determine practical measures for

enhanced cooperation.

- **No concessions to terrorists.** A united front against ransom payment is essential to deter hostage-takers. To promote a common approach we have agreed a set of principles and have proposed advice for organisations operating in high risk countries. A G8 workshop will strengthen coordination and information exchange.
- **Denying terrorist access to arms, explosives and related items.** The Lyon Group is taking forward an action plan to counter trafficking in illegal firearms. We are comparing export controls on explosives and related materials and have agreed the basis for future work, including determining the scope for tighter export controls on items of use to terrorists.
- **Strengthened aviation security.** Ten years after Lockerbie, and recalling the atrocities perpetrated against Air India (1985) and UTA (1989) flights, we expressed grave concern at the evidence recently collected by the ICAO of a continuing lack of satisfactory implementation of international aviation security measures by some Contracting States. We reaffirm the G8's commitment to full implementation of Standards and Recommended Practices agreed under the Chicago Convention and strongly urge all states to pursue implementation with vigour.

Infectious Diseases

29. The impact of infectious and parasitic diseases continues to cause concern. The G8 is committed to helping countries respond to these challenges, for example through strengthening national health sectors, improving surveillance capacity, developing strategies to reduce the threat of anti-microbial drug resistance through suitable drug use policies and development of alternative interventions, and improving disease resistance in children through appropriate micronutrient fortification. Experts from G8 countries and WHO will meet later this month to review current surveillance systems throughout the world, and examine options for assisting WHO as it helps to develop global surveillance networks.

30. We note with renewed concern the UNAIDS estimate that over 30 million people are now living with HIV/AIDS. Prevention measures must remain a priority. We will continue to work with those countries which bear the heaviest burden of the disease, to develop and disseminate cost effective mechanisms which will decrease the rate of HIV infection and the suffering it causes. A vaccine remains the ultimate goal and G8 countries will take forward scientific co-operation in the development of an effective and affordable vaccine.

Intellectual property-related crime

31. We recognise that intellectual property related crime, such as piracy and counterfeiting, is a major and growing problem which should be of concern to all. We agree on the importance of effective action against such crime in our own countries and of the need to encourage other countries to meet the demanding enforcement provisions of the WTO TRIPS agreement as soon as possible so that there are real reductions in the level of piracy and counterfeiting worldwide. We agree to explore opportunities for better co-operation and exchange of information between governments and intellectual property rights holders so as to facilitate more effective enforcement of intellectual property rights.

REGIONAL ISSUES

Bosnia and Herzegovina

32. Peace and reconciliation in Bosnia which is directly linked to security in Europe remains a top priority of the G8 countries' foreign policy. We welcome the progress achieved on implementation of the Dayton/Paris Peace Agreement in Bosnia and, in particular, in Republika Srpska following President Plavsic's and Prime Minister Dodik's move towards peace implementation and cooperation with the international community. But we also remind all signatories to the Dayton/Paris Peace Agreement that any attempt to obstruct or reverse the Peace Process will carry severe consequences. The resolution and co-ordinated approach of the international community, together with that of the High Representative, is proving decisive. We encourage the High Representative to continue taking an active role in the Bosnian Peace Process, using all the authority given to him under the Dayton/Paris Peace Agreement and by the Peace Implementation Conference. The future of the peace process will largely depend on the willingness of the Bosnian authorities themselves to fulfil their commitments to move the peace process forward and build a prosperous and democratic Bosnian state with two pluralist and multi-ethnic Entities. 1998 is a critical year for peace implementation, in particular for all the questions associated with refugee return, freedom of movement, and for the elections held across Bosnia in September. More progress is now also needed on building the central institutions, police reform, economic reform and cooperation with the International Tribunal for the former Yugoslavia. We therefore welcome SFOR's efforts to maintain a secure environment and provide support to civilian implementation. We urge the leaders in Bosnia and Herzegovina to cooperate fully with OHR, UNHCR, OSCE, IPTF and other international agencies to achieve the necessary goals and reaffirm our willingness to assist those who do.

Croatia

33. We call on the Croatian Government, and all other parties concerned, to comply fully with all commitments of the Dayton/Paris Peace Agreement, and with commitments made regarding Eastern Slavonia, and to engage constructively and energetically in international efforts to secure the return of all refugees and displaced persons to their former homes in Croatia and throughout the region, regardless of ethnicity or current residence. We draw particular attention to the need for progress on democratisation in Croatia, especially on improved election laws and increased media freedom.

Kosovo

34. We are deeply concerned by the increasing violence and growing polarisation in Kosovo, and in particular the excessive use of force by the Serbian forces. We reject absolutely terrorism and the supply of arms to terrorists, and the use of violence by armed extremists as a means of bringing about political change. We are firmly opposed to independence for Kosovo and to a continuation of the unacceptable status quo; and we support an enhanced status and autonomy for Kosovo. It is Belgrade's primary responsibility as the government to seek a negotiated solution and to ensure adherence to the rule of law, the protection of all citizens and the safeguarding of human and civil rights.

35. We call on the authorities in Belgrade and the Kosovo Albanian leadership urgently to begin a process of dialogue without preconditions on either side, and for Belgrade to accept international involvement in the negotiations. We also fully support the engagement of Felipe Gonzalez as the Personal Representative of the OSCE Chairman-in-Office and the Special Representative of the EU for the FRY and urge the authorities in Belgrade to co-operate fully with him.

36. Finding a political solution in Kosovo through dialogue is in the interest of all the people in the region. We stand ready to promote a clear and achievable path toward Belgrade's full integration in the international community. However, in the light of Belgrade's failure to start a dialogue to bring about a political solution in Kosovo, Canada, France, Germany, Italy, the United Kingdom, the United States and the European Commission have agreed to implement the decision by members of the Contact Group to freeze funds held abroad by the FRY and Serbian Governments and to stop new investments in Serbia. Japan supports this approach and will study possible action. Other countries are encouraged to take similar action. The Russian Federation does not associate itself with these measures.

37. The international community and we, the G8, have made great efforts to bring about peace in Bosnia and the wider region. We are determined to work with the relevant international organisations to address the growing

problem of refugees and displaced persons in this region. We are committed to working together to enhance the security of all the states in the region, and to upholding the principle of inviolability of borders.

Albania

38. We welcome the commitment of the Albanian Government to restore law and order, to undertake political and economic reform, and to contribute to regional stability. We support Albania's territorial integrity. We pledge our full support to helping Albania recover from the unrest of last year, and encourage the International Financial Institutions and other international agencies to assist in this progress. We reiterate that ultimate responsibility rests with the Albanians themselves and urge all sides - Government and opposition - to work together to this end.

Cyprus

39. We reiterate our support for the UN's efforts to find a comprehensive settlement of the Cyprus problem on the basis of UN resolutions and the high level agreements. We call upon the parties to resume the direct talks under the auspices of the UN. We urge all concerned to work for a settlement on the basis of a bi-zonal, bi-communal federation. We are concerned that new developments in the military sphere, including any increase in force levels and the upgrading of sophisticated weaponry, may risk further raising tension in this already unstable region. We particularly urge the governments of Greece and Turkey to promote good neighbourly relations between them, and to work for the peaceful settlement of their bilateral disputes.

Middle East Peace Process

40. We are deeply concerned at the lack of progress in the Middle East Peace Process. We note and commend all efforts to move the process forward, including by the US at the recent talks in London. We call upon all parties to pursue with renewed vigour negotiations leading to a comprehensive, just and lasting peace which must include security for all in the region. Such negotiations must be based on the full implementation of existing commitments and on the principles of land for peace, as enshrined in UNSC resolutions 242 and 338 and agreed at Madrid and Oslo. On the Israeli-Palestinian track, we further urge the parties to implement existing agreements, to pursue confidence building measures and to refrain from unilateral acts which predetermine the final status negotiations and undermine confidence. Final status negotiations should resume as soon as possible. We support a reinvigoration of the multilateral track of the peace process and the efforts of the multilateral working groups to address regional issues. We are also determined to work with Israel, Syria and Lebanon to bring about a resumption of progress towards a comprehensive settlement. We continue to support the positive role of the Israel-Lebanon Monitoring

Group in reducing the risks to civilians in Southern Lebanon and in Israel. Sustained economic development and improved living standards for the Palestinian people are a real factor in securing peace and enhancing stability in the region.

Iran

41. We welcome recent encouraging political developments in Iran: its ratification of the Chemical Weapons Convention, its stated commitment to develop a civil society based on the rule of law, including greater freedom of speech, and Iran's interest in pursuing a more positive relationship with its neighbours, in the region and with the outside world. We urge Iran to build on this and play a more constructive role in world affairs. We call on Iran to adopt a more positive approach to the Middle East Peace Process and not to support groups that use violent means against it; to take further measures to ensure the human rights of all Iranian citizens, including the Bahai and other communities; to stand by its stated condemnation of all forms of terrorism against anyone anywhere; and to ensure that the threat against the life of Salman Rushdie and those associated with his work is removed. We further call on Iran to respect the international conventions or arrangements it has signed regarding the development of weapons of mass destruction and urge all states to avoid providing assistance to Iran that might contribute to its ability to develop these weapons or missile capabilities in violation of international conventions or arrangements.

Iraq

42. We reaffirm our determination to obtain full compliance with all UN Security Council resolutions related to Iraq. We are determined to ensure the swift, full and effective implementation of arrangements for providing increased humanitarian assistance to the Iraqi people under UNSCR 1153, and call on the Iraqi government to cooperate fully with the UN in this effort and with the UN Special Rapporteur. We commend the UN Secretary General's efforts in obtaining in the Memorandum of Understanding Iraq's commitment to providing full, unconditional and immediate access to UNSCOM and the IAEA in carrying out their UNSC mandate. We welcome the inspections of Presidential sites carried out so far under the arrangements agreed in the Memorandum of Understanding as noted above, and take note that they were achieved on the whole in a satisfactory way with only minor incidents. We look forward to the full implementation of the Memorandum of Understanding and to Iraqi compliance with its obligations under UNSCR 1154. We note that any violation by Iraq would have severest consequences. We regret Iraq's failure so far to comply with its relevant obligations and we note that full compliance with the relevant Resolutions would allow the process of lifting sanctions to begin.

Algeria

43. The continuing violence in Algeria is a cause for serious concern. We condemn unreservedly all acts of terrorism and call on those responsible to bring the violence to an immediate end. We welcome Algeria's commitment to human rights and democracy and the government's efforts to strengthen further democratic institutions. In this regard, visits by UN Special Rapporteurs and greater access for journalists and NGOs would make an important contribution to transparency and openness. We hope the Algerian Government will move ahead quickly, further strengthening the democratic process as well as pursuing the economic reforms to which it is committed.

Afghanistan

44. We fully support the United Nations' efforts to seek a peaceful settlement of the conflict in Afghanistan and endorse the view of the "six plus two" group that the war must be brought to a rapid close. It is our conviction that there is no military solution to the conflict. We are encouraged by the recent UN efforts to promote direct dialogue. We hope that this dialogue will be substantive and will soon result in a peaceful settlement and establishment of a broad-based, multi-ethnic representative government. All factions must refrain from further military offensives. It is essential that all countries with influence on the parties support the UN's efforts and work to halt the supply of arms and materials to the factions from outside Afghanistan. We also call on all Afghan factions to end the appalling human rights abuses in Afghanistan, including discrimination against women and girls; to reduce substantially the production, trafficking and abuse of drugs; and to halt all support for foreign terrorists. We urge all the Afghan factions, and particularly the Taliban, to ensure a cooperative climate for the indispensable work of international humanitarian organisations.

Cambodia

45. Free and fair elections are indispensable to restoring representative government and political stability in Cambodia. We welcome recent positive developments, such as the return of Prince Ranariddh to Cambodia on 30 March and the return of King Sihanouk, whose role remains central to the proper functioning of Cambodia's institutions. We further welcome the efforts undertaken by the members of ASEAN, Japan and the other Friends of Cambodia countries. We remain willing to provide electoral assistance subject to acceptable conditions on the ground. However, serious concerns remain. We call for all parties and political figures to be permitted to participate in the electoral process, and for all sides to respect the result of the elections. We encourage all fighting forces to implement fully the ceasefire as soon as possible. We attach the utmost importance to the respect of human rights, and we urge the Cambodian authorities to investigate human rights abuses, including those catalogued by the United Nations, and to bring the guilty to

justice without further delay.

Myanmar/Burma

46. We remain concerned at the political and economic situation in the country and at continuing widespread human rights abuses, particularly in ethnic minority areas, and the cross-border attacks on refugees in camps in Thailand. We call on the State Peace and Development Council (SPDC) to tackle these issues as a matter of urgency, notably by engaging in substantive political dialogue with national minorities and leaders of the democracy movement, including Daw Aung San Suu Kyi, for the purpose of establishing democracy. We also call on the SPDC to take further concrete action to eliminate the production and trafficking of illicit drugs and to participate more actively in regional and international drug control efforts.

Korean Peninsula

47. We endorse North/South dialogue and the Four-Party process aimed at achieving peace and stability on the Korean Peninsula. We reaffirm our support for the US-DPRK Agreed Framework and to the Korean Peninsula Energy Development Organisation, and underline the importance of North Korea complying fully with all its non-proliferation obligations. We have provided substantial emergency food aid to North Korea and will continue to encourage the government of North Korea to take measures to address the basic causes of the food shortages and allow adequate monitoring of food shipments to be allowed.

Great Lakes Region

48. The destabilising impact of the continuing conflict in the Great Lakes region remains a major concern to the international community. We condemn all politically and ethnically-motivated killings, which risk renewed genocide, and welcome steps to stem the violence such as the reactivation of the UN Arms Flow Commission. We urge the governments and people of Rwanda, Burundi and the Democratic Republic of the Congo to address the causes of conflict, through a process of dialogue and through justice, rejection of violence, reconciliation and capacity-building, to create strengthened democratic institutions and processes, including accountable and representative governments. In this regard, the review by an international panel of eminent persons of the genocide in Rwanda and surrounding events, as proposed by the Organisation of African Unity, should help regional governments and the international community identify ways forward. We commend the continuing efforts of those in the region to promote stability, democracy and prosperity and stand ready to assist these efforts. We deplore the fact that conditions made it impossible for the UN Secretary General's investigative team to continue and we urge the Democratic Republic of the Congo to cooperate in international investigation

of human rights violations.

Nigeria

49. Transition to a credible civilian democratic administration is imperative so that Nigeria can fulfil its true potential in the international community and its important role in the future of Africa. We note that even from the five Government-approved political parties only a single presidential nomination has yet emerged. We underscore that in Africa, as elsewhere, a credible transition requires that those who have an alternative view on the succession to the current leadership should be able to make nominations, organise freely, campaign and take their case to the Nigerian people. We remain deeply concerned about continued human rights abuses, including the detention of leaders and other pro-democracy activists, as well as the harassment of journalists and human rights groups. We call on the Nigerian regime to take immediate steps to release all political prisoners, to restore respect for human rights and the rule of law and to recognise the great importance which the international community attaches to early progress on these issues.

Angola

50. Taking note of certain positive changes in the peace process, we call on all the Angolan parties to implement fully within the previously agreed dates all the provisions of the bilateral agreements, the timetable of the settlement and corresponding Security Council resolutions. We support the efforts to that end of the "troika", of the UN Security Council, and of the UN Secretary General and his Special Representative in Angola.

Somalia

51. We are concerned at the situation of conflict in Somalia, marked by a lack of legal authority and the obstruction of humanitarian aid and rehabilitation. We support the coordinated efforts of the countries of the sub-region through the Inter-Governmental Authority on Development (IGAD), backed up by the IGAD partners and other interested countries and international and regional organisations, to promote peace, stability and institutional reconstruction in Somalia.

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002. report	Biography (1 page)	04/07/1998	P1/b(1)
003. report	Biography (2 pages)	04/23/1998	P1/b(1)
004. report	Biography (2 pages)	04/15/1998	P1/b(1)
005. report	Biography (2 pages)	03/31/1998	P1/b(1)
006. report	Biography (2 pages)	04/13/1998	P1/b(1)
007. report	Biography (2 pages)	04/15/1998	P1/b(1)
008. report	Biography (1 page)	04/13/1998	P1/b(1)
009. report	Biography (2 pages)	04/07/1998	P1/b(1)
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011. report	Biography (2 pages)	04/15/1998	P1/b(1)
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013. report	Biography (2 pages)	04/14/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
 National Security Council
 Executive Secretary
 OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to the United Kingdom for the G-8 Summit, May 15-17, 1998 [3]

2016-0142-M

kh1831

RESTRICTION CODES

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

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

- 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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- 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]
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- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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015. report	Biography (2 pages)	04/24/1998	P1/b(1)
016. report	Biography (2 pages)	04/14/1998	P1/b(1)

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**CONCLUSIONS:
JOINT MTG**

**CONCLUSIONS OF THE JOINT MEETING OF
G8 FOREIGN AND FINANCE MINISTERS : 9 MAY 1998**

1. We, the Foreign and Finance Ministers of the G8 and representatives of the European Commission, met in London on 9 May. We discussed a range of issues, some in preparation for the G8 Birmingham Summit next week. The Managing Director of the IMF, the President of the World Bank and the Director General of the WTO joined us for our discussion of recent developments in Asia and their wider implications. The outcome of our discussion will be reported to our Heads of State or Government meeting in Birmingham in preparation for discussion of this issue.

Development

2. We discussed practical steps to implement a genuine partnership with developing countries as set out at the Lyon and Denver Summits and in the OECD's 21st Century Strategy adopted in 1996, and building on the landmark UN Summits of the past decade and our work bilaterally and with the multilateral development institutions, to achieve measurable short and long term results on development goals. We are grateful to our officials for reporting on the follow up to Denver. We welcome the progress made.

3. The goal of this partnership must be to stimulate growth in a way that contributes to sustainable development and reduction of poverty. It requires action by all partners, by governments and civil society, and by the private sector. We recognised the importance of action to integrate economies better into the global economy, and the critical role of flows of private capital and trade flows and the policy reforms required in those countries to attract them. We also recognised the importance of official support for developing countries which are seeking to tackle deep-seated social and economic problems.

4. In relation to official support, we gave particular emphasis to:

- the continuing need for substantial flows of official development assistance, particularly to the poorest developing countries, through bilateral and multilateral channels;

- the importance of making such assistance as effective as possible. An increased share of official development assistance should go to those developing countries which are pursuing effective strategies to address good governance, sustainable development and poverty reduction. Assistance to such countries should also be more flexible and better co-ordinated. We agreed to work in the OECD Development Assistance Committee, the IMF/IBRD Development Committee, the Special Programme for Africa to promote more flexible funding of aid and technical assistance programmes to developing countries, programmed in partnership with recipient countries. Where we have an effective partnership and share common goals, we should, to the extent possible and consistent with our programmes, aim to provide stronger support for budgets and balance of payments for countries undertaking bold reform in the context of sound development strategies. We will also work to help countries to develop sustainable public expenditure plans and build capacity to manage them in a transparent and accountable way;
- the importance of evaluating progress against multilaterally-accepted targets for poverty reduction and for improvements in primary education, basic health care, gender equality, water and sanitation, food security, environment and governance, and economic growth. We welcomed initiatives being taken by the UN, World Bank and OECD to report regularly on progress towards these goals;
- the substantial debt relief already given under Naples terms and the results achieved, with six countries already declared definitely eligible for HIPC debt relief and a further two countries likely to be declared eligible shortly. We encourage all eligible countries to take the policy measures needed to embark on the process as soon as possible so that all can be in the process by the year 2000. We agree that our export credit agencies should seek to ensure their export credits to HIPC countries are used productively.

5. We stressed the importance of more developing countries making the necessary reforms to attract flows of foreign direct investment and to mobilise additional domestic resources. To this end we agreed to:

- support countries seeking to create a business environment that encourages stable and productive private flows, in particular through education and training, institution building and improvement in legal systems, and in other aspects of social and economic infrastructure;

- encourage more innovative use of multilateral and bilateral investment guarantees, consistent with improving the efficiency of capital markets.

6. We called specifically on the international financial institutions to:

- support the development and implementation of regulatory frameworks for the financial sector;
- develop lending programmes which would more effectively create the elements of an attractive investment climate;
- make temporary resources available to countries undertaking ambitious trade liberalisation where this gives rise to short-term balance of payments or fiscal difficulties.

7. We emphasised the value of regional integration among developing countries that wish to pursue it, particularly in Africa, where many countries suffer from small and fragmented markets and poor transport facilities. We remain ready to support this process with technical assistance. We also urge the international financial institutions to develop more effective support and new instruments for regionally based initiatives.

8. We recognise the particular trade problems of the least developed countries. We stress the importance of effective implementation of the WTO plan of action for the least developed countries, including programmes of integrated technical assistance. We will keep progress under review at the WTO Ministerial.

9. We will also support efforts of all developing countries, particularly those being made in Africa, to promote good governance and participatory development and to fight corruption, including through the development of operational codes, as well as to create regional groupings to combat money laundering.

Electronic Commerce

10. Information and communication technologies offer all countries - industrialised, emerging and developing - the opportunity to revolutionise their quality of life and economic wellbeing. The potential impact of electronic commerce on global growth and employment is profound. Huge advances have already been made. Electronic markets link traders around the world and many jobs are dependent on the internet worldwide. We will work with the international institutions and the private sector to offer the best

opportunities for the future: a predictable and stable environment and a seamless, decentralised global market place where competition and consumer choice drive economic activity. In particular, we welcome the work of the WTO, OECD, other appropriate international fora and the private sector, and encourage:

- removal of inappropriate and unnecessary legal barriers to the electronic conduct of business;
- taxation to be technology neutral. It should neither stifle commercial opportunities by creating unnecessary barriers nor provide increased scope for tax avoidance and evasion. International co-operation through the OECD is essential;
- the international institutions and the private sector to accelerate the development of global frameworks, to promote competition; protect privacy, consumer interests and intellectual property; encompass the use of electronic authentication facilitating contracting over the Internet; and include the promotion of open and internationally agreed standards;
- rapid progress in the work of UNCITRAL on electronic authentication and of the OECD on the implementation of the cryptography policy guidelines;
- public administration to use electronic means to deliver programmes and services, promoting progress in the WTO Working Group on Transparency in Government Procurement and the reform of the WTO Government Procurement Agreement, and pushing forward the work on trade facilitation in the WTO and elsewhere;
- governments to involve business and consumers in this work to ensure that any proposals are practical and take into account the demands of the market place.

11. We look forward to progress at the Ottawa OECD Ministerial Conference in October and in other international fora. A framework on taxation is a priority. We have asked officials to report back next year.

**CONCLUSIONS:
G-7 FIN. MIN**

CONCLUSIONS OF G7 FINANCE MINISTERS: 8 MAY 1998

Finance Ministers of the G7 and the representative of the European Commission met in London on 8 May, as a part of the preparations for the Birmingham Summit, 15 - 17 May. We reached conclusions on a group of issues, set out below. We will also be reporting our discussions to our Heads of State or Government, for their Summit next week. Michel Camdessus, Managing Director of the IMF and Jim Wolfensohn, President of the World Bank, joined us for our discussions on the lessons of the Asian crisis, and steps to strengthen the world's financial system.

World Economy

2. We reviewed recent developments in the world economy. We welcomed the historical decisions in Europe on Economic and Monetary Union. We look forward to a successful EMU which contributes to the stability of the international monetary system. We discussed and welcomed the substantial policy measures announced by the Government of Japan in April, aimed at achieving domestic demand-led growth. Japan expressed its intention to implement them quickly and stressed the importance of further strengthening the financial system. We also noted that the United States economy required vigilance to stay on a sustainable path.

Strengthening the global financial system

3. Globalisation brings clear benefits to people throughout the world but it also brings certain risks. Previous summits have agreed on ways to reduce these risks and strengthen the global financial system. However, the continuing process of globalisation and recent events in Asia have revealed a number of weaknesses and vulnerabilities in national and international financial systems, as well as in the lending practices of private sector investors. We need to act to strengthen the global financial system further, both to reduce the likelihood of such crises occurring in future and to improve techniques for containing and responding to crises when they do occur.

4. We have developed proposals where there is now an emerging consensus for modifications to the architecture of the international financial system. There are important aspects of the issues discussed that require further work. Discussion within our countries, with emerging market countries and with the private sector will continue over the coming months. For now, having restated the importance of sound economic policies, we have identified the need for action in five key areas:

- enhanced transparency and data dissemination;
- helping countries prepare for intergration into the global economy and for free global capital flows;
- strengthening national financial systems;
- ensuring that the private sector takes responsibility for its lending decisions;

- enhancing further the role of the International Financial Institutions and cooperation amongst them and with the international regulatory fora. We are considering ways, and ask the relevant institutions to develop proposals on ways, in which greater co-operation can be achieved including options for institutional reform.
5. We have set out our proposals in a separate report to our Heads of State or Government, which outlines how work is being taken forward in each of these areas and signals a number of areas for further work.

Financial Stability: Supervision of Global Financial Institutions

6. Since the Lyon and Denver Summits, work has been underway to strengthen the international financial system. Recent events in Asia, combined with the rapid consolidation and globalisation in the financial sector, have highlighted once again the need to improve urgently co-operation between supervisors of internationally active financial institutions. We welcome the work done by the international regulatory bodies in this area and urge them to move quickly towards implementation of the concepts they have devised. Today we have reached important conclusions in a separate report. We commend the 10 Key Principles on information exchange which we will be promoting throughout the world as standards to which all countries should aspire. The G7 also looks forward to the continuing contribution of the private sector to developing international standards that enhance the supervision of global financial firms, while reducing regulatory burdens. On the year 2000 issue, we call on the Basle Committee, the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the Committee on Payment and Settlement Systems (CPSS), and their newly formed joint Year 2000 Council to monitor the work that firms in the financial area already have underway, and to do all that they can to encourage compliance.

Financial Crime

7. The fight against financial crime is one of the major challenges of our times. We emphasise that, as both financial services and crime become increasingly globalised, this challenge can only be met if all major financial centres work together. Effective co-operation between financial regulators and law enforcement authorities at the international level is an essential element of this. A G7 expert group was set up by the Denver Summit to consider how this cooperation can be improved within our countries. We now agree to:

- review our laws and procedures concerning information exchange between financial regulators and law enforcement agencies against a common list of key elements for effective cooperation;
- identify by October what modifications are desirable, consistent with fundamental national and international legal principles, to improve our systems and to implement such measures as quickly as possible;
- take forward a number of practical steps to improve cooperation;

- disseminate a G7 Reference Guide to Procedures and Contact Points on Information Exchange to financial regulators and law enforcement agencies in our countries and to expand this Guide to cover all major financial centre countries.

8. We have instructed the G7 expert group to provide a report on progress on all these areas and any further recommendations in preparation for the Köln Summit.

9. We also recognise that action must not be confined to G7 members and we emphasise that all countries should provide effective international administrative and judicial cooperation. In particular, we are concerned at the number of countries and territories, including some financial offshore centres, which continue to offer excessive banking secrecy and allow screen companies to be used for illegal purposes. We recognise that the Financial Action Task Force (FATF) has already taken significant steps in this area and endorse FATF's efforts to support the Offshore Group of Banking Supervisors in its mutual evaluation process. We therefore call on the FATF to review the present position and make recommendations to Ministers by the Köln Summit on what can be done to rectify these abuses.

Financial Action Task Force

10. We commend the work that the FATF has carried out since its creation in 1989 to develop and promote action against money laundering. Its Forty Recommendations remain the essential standard for effective countermeasures. However, although considerable progress has been made in the fight against money laundering, we agree with the FATF that much still remains to be done. We therefore endorse the decision of the FATF to continue its mandate for a further five years and the new strategy it has adopted.

11. We agree that the major task during this period should be the establishment of a world-wide anti-money laundering network encompassing all continents and regions of the globe. We support FATF's intention to expand its own membership to a limited number of countries meeting the agreed criteria and to encourage the further development of regional anti-money laundering bodies. We call on other international organisations to work closely with the FATF in its mission. We also consider it essential that the FATF continues to monitor money laundering trends and techniques and to ensure that its Recommendations keep pace with new developments.

12. We encourage FATF to implement its new strategy as quickly as possible and urge all countries to join in the fight against money laundering.

Tax Competition

13. We warmly welcome the OECD agreement on action to tackle harmful tax competition. This provides a strong basis for co-ordinated international action to curb harmful tax competition through preferential tax regimes and tax havens. And we note the complementary development of the EU Code of Conduct.

14. We strongly endorse the OECD recommendations, and we welcome the establishment of the OECD Forum on harmful tax practices. We will work through the

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Forum to secure effective implementation of the recommendations, and will actively support the proposed dialogue with non-OECD members to promote the agreed principles and recommendations on a global basis.

15. We urge the OECD to give particular attention to the development of a comprehensive programme to improve the availability of information to tax authorities to curb international tax evasion and avoidance through tax havens, and through preferential tax regimes. This would involve developing further the proposals to improve exchange of tax information between OECD countries to address the problems caused by restricted access to banking information and to improve the supply of information from tax havens by the negotiation of effective information exchange arrangements.

16. In addition we encourage international action to enhance the capacity of anti-money laundering systems to deal effectively with tax related crimes. Action here would both strengthen anti-money laundering systems and would also be an essential component of a coherent programme to increase the effectiveness of tax information exchange arrangements. Action could be based on furthering the following objectives:

- a) Effective anti money laundering systems must ensure that obligations to report transactions relating to suspected criminal offences continue to apply even where such transactions are thought to involve tax offences.
- b) Money laundering authorities should be permitted to the greatest extent possible to pass information to their tax authorities to support the investigation of tax related crimes, and such information should be communicated to other jurisdictions in ways which would allow its use by their tax authorities. Such information should be used in a way which does not undermine the effectiveness of anti-money laundering systems.

17. We intend to pursue the development and implementation of these objectives with our OECD partners and in other appropriate fora including the FATF.

18. We in G7 commit ourselves to giving a lead by working to further the foregoing objectives in all territories and jurisdictions for which we have international responsibilities or over which we have influence. And we will follow closely the progress of further work on harmful tax competition which the OECD intends to undertake and the related work on tax related crimes.

Customs Procedures

19. In Lyon we initiated an effort to standardize and simplify customs procedures. We welcome the further work undertaken since Denver which has produced a harmonised and simplified data set for import and export procedures, and urge our experts to reduce that data to a minimum consistent with customs responsibilities by the end of this year. We ask our experts to complete their work, including the development of standardised electronic declarations and to encompass the related import and export data requirements of other government departments and agencies. Our countries will, drawing on each others' experience, take all steps possible to establish customs prototypes or other procedures involving all the G7 countries, which will use an agreed G7 data set, by the Summit in the year 2000 if possible.

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20. We also welcome the significant progress made on the Action/Defis programme of the World Customs Organisation to strengthen co-operation between enforcement agencies and associations of international carriers. We encourage further development of this work.

Ageing

21. We welcome the reports of the G10 and OECD on macroeconomic and financial implications of ageing populations. We ask the OECD to undertake further work looking at individual country ageing issues. We ask for a report from the OECD by the Summit in the Year 2000.

London, 9 May 1998

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BIOGRAPHIES

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001. report	Biography (2 pages)	04/15/1998	P1/b(1)

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Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
012. report	Biography (2 pages)	04/15/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

The President's Trip to the United Kingdom for the G-8 Summit, May 15-17, 1998 [3]

2016-0142-M
kh1831

RESTRICTION CODES

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

- P1 National Security Classified Information [(a)(1) of the PRA]
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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
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

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014. report	Biography (2 pages)	04/13/1998	P1/b(1)

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Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
015. report	Biography (2 pages)	04/24/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Executive Secretary
OA/Box Number: 2588

FOLDER TITLE:

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2016-0142-M

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UNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ATTACHMENTS

Initials: KRY Date: 4/29/2020

2016-0142-01

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