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DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

EXTERNAL DEBT CRISIS AND DEVELOPMENT

PROTECTION OF GLOBAL CLIMATE FOR PRESENT AND FUTURE GENERATIONS OF MANKIND

Note verbale dated 4 December 1989 from the Permanent Mission of
France to the United Nations addressed to the Secretary-General

The Permanent Mission of France to the United Nations presents its compliments to the Secretary-General and, with reference to the following items dealt with by the Second Committee, "Development and international economic co-operation" (item 82), "External debt crisis and development" (item 84) and "Protection of global climate for present and future generations of mankind" (item 85), has the honour, as the Mission of the country which hosted the latest Summit of seven major industrial nations (14-16 July 1989), to transmit herewith the Economic Declaration of the Summit of the Arch.

The Permanent Mission of France would be grateful if the Secretary-General could have this document circulated as a General Assembly document, and takes this opportunity to convey to him the renewed assurances of its highest consideration.

ANNEX

Economic Declaration of the Summit of the Arch

(16 July 1989)

1. We, the heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Paris for the fifteenth annual Economic Summit. The Summit of the Arch initiates a new round of Summits to succeed those begun at Rambouillet in 1975 and at Versailles in 1982. The round beginning in 1982 has seen one of the longest periods of sustained growth since the Second World War. These Summits have permitted effective consultations and offered the opportunity to launch initiatives and to strengthen international co-operation.

2. This year's world economic situation presents three main challenges:

(a) The choice and the implementation of measures needed to maintain balanced and sustained growth, counter inflation, create jobs and promote social justice. These measures should also facilitate the adjustment of external imbalances, promote international trade and investment, and improve the economic situation of developing countries;

(b) The development and the further integration of developing countries into the world economy. Whilst there has been substantial progress in many developing countries, particularly those implementing sound economic policies, the debt burden and the persistence of poverty, often made worse by natural disasters affecting hundreds of millions of people, are problems of deep concern which we must continue to face in a spirit of solidarity;

(c) The urgent need to safeguard the environment for future generations. Scientific studies have revealed the existence of serious threats to our environment such as the depletion of the stratospheric ozone layer and excessive emissions of carbon dioxide and other greenhouse gases which could lead to future climate changes. Protecting the environment calls for a determined and concerted international response and for the early adoption, world-wide, of policies based on sustainable development.

INTERNATIONAL ECONOMIC SITUATION

3. Growth has been sustained by focusing policies on improving the efficiency and flexibility of our economies and by strengthening our co-operative efforts and the co-ordination process. In the medium term, the current buoyant investment seen during this period should pave the way for an increased supply of goods and services and help reduce the dangers of inflation. The outlook is not, however, without risks.

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4. Until now, the threat of inflation in many countries has been contained, thanks to the concerted efforts of Governments and monetary authorities. But continued vigilance is required and inflation, where it has increased, will continue to receive a firm policy response so that it will be put on a downward path.
5. While some progress has been made in reducing external imbalances, the momentum of adjustment has recently weakened markedly. There needs to be further progress in adjusting external imbalances through co-operation.
6. In countries with fiscal and current-account deficits, including the United States of America, Canada and Italy, further reductions in budget deficits are needed. Action will be taken to bring them down. This may help reduce the saving-investment gap and external imbalances, contribute to countering inflation and encourage greater exchange-rate stability in a context of decreasing interest rates.
7. Countries with external surpluses, including Japan and the Federal Republic of Germany, should continue to pursue appropriate macroeconomic policies and structural reforms that will encourage non-inflationary growth of domestic demand and facilitate external adjustment.
8. All our countries share the responsibility for the sound development of the world economy. Over the medium term, deficit countries have to play a key role in global adjustment through their external adjustment and increased exports; surplus countries have to contribute to sustaining global expansion through policies providing favourable conditions for growth of domestic demand and imports.
9. The emergence of the newly industrializing economies and the initiation of a dialogue with them are welcome. We call on those with substantial surpluses to contribute to the adjustment of external imbalances and the open trade and payments system. To that end, they should permit exchange rates to reflect their competitive position, implement commitments under the General Agreement on Tariffs and Trade and reduce trade barriers.

INTERNATIONAL MONETARY DEVELOPMENTS AND CO-ORDINATION

10. Under the Plaza and Louvre agreements, our countries agreed to pursue, in a mutually reinforcing way, policies of surveillance and co-ordination aimed at improving their economic fundamentals and at fostering stability of exchange rates consistent with those economic fundamentals.

There has been progress in the multilateral surveillance and co-ordination of economic policies with a view to ensuring internal consistency of domestic policies and their international compatibility. The procedures to be used have been more clearly defined and improved in co-operation with the International Monetary Fund.

11. The co-ordination process has made a positive contribution to world economic development and it has also contributed greatly to improving the functioning of the

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international monetary system. There has also been continued co-operation in exchange markets.

It is important to continue, and where appropriate, to develop this co-operative and flexible approach to improve the functioning and the stability of the international monetary system in a manner consistent with economic fundamentals. We therefore ask the Ministers of Finance to continue to keep under review possible steps that could be taken to improve the co-ordination process, exchange market co-operation, and the functioning of the international monetary system.

12. We welcome the decision to complete the work on the ninth review of the International Monetary Fund quotas with a view to a decision on this matter before the end of the year.

We note that the question of a resumption of the allocation of special drawing rights remains under consideration in the Executive Board of the International Monetary Fund.

13. Within the European Community, the European monetary system has contributed to a significant degree of economic policy convergence and monetary stability.

IMPROVING ECONOMIC EFFICIENCY

14. We will continue to promote measures in order to remove inefficiencies in our economies. These inefficiencies affect many aspects of economic activity, reduce potential growth rates and the prospects for job creation, diminish the effectiveness of macroeconomic policies and impede the external adjustment process. In this context, tax reforms, modernization of financial markets, strengthening of competition policies and reducing rigidities in all sectors including energy, industry and agriculture are necessary. So are the improvement of education and vocational training, transportation and distribution systems and further policies aimed at giving more flexibility and mobility to the labour market and reducing unemployment. Within the European Community, the steady progress towards the completion by the end of 1992 of the programme contained in the Single Act has already given a strong momentum to economic efficiency.

15. The decline of saving in some of our countries in this decade is a cause for concern. This lower level of saving can contribute to high real interest rates and therefore hamper growth. Inadequate saving and large fiscal deficits are associated with large external deficits. We recommend, within the framework of policy co-ordination, policies to encourage saving and remove hindrances where they exist.

16. Financial activities are being increasingly carried out with new techniques on a world-wide basis. As regards insider trading, which could hamper the credibility of financial markets, regulations vary greatly among our countries. These regulations have been recently, or are in the process of being, strengthened. International co-operation should be pursued and enhanced.

TRADE ISSUES

17. World trade developed rapidly last year. Yet protectionism remains a real threat. We strongly reaffirm our determination to fight it in all its forms. We shall fulfil the Punta del Este stand-still and roll-back commitments, which, inter alia, require the avoidance of any trade restrictive or distorting measure inconsistent with the provisions of the General Agreement and its instruments. We agree to make effective use of the improved GATT dispute-settlement mechanism and to make progress in negotiations for further improvements. We will avoid any discriminatory or autonomous actions, which undermine the principles of the General Agreement and the integrity of the multilateral trading system. We also are pledged to oppose the tendency towards unilateralism, bilateralism, sectoralism and managed trade, which threatens to undermine the multilateral system and the Uruguay Round negotiations.

18. The successful negotiation of the Trade Negotiations Committee of the Uruguay Round in Geneva last April, thereby completing the mid-term review, is a very important achievement. It gives a clear framework for future work in all sectors including the pursuit of agricultural reform in the short term as well as in the long term. It also gives the necessary framework for substantive negotiations in important sectors not yet fully included in GATT disciplines, such as services, trade-related investment measures and intellectual property.

Developing countries participated actively in these negotiations and contributed to this success. All countries should make their most constructive contribution possible.

We express our full commitment to making further substantive progress in the Uruguay Round in order to complete it by the end of 1990.

19. We note with satisfaction the entry into force of the Free Trade Agreement between Canada and the United States, as well as more recent initiatives to intensify the close economic relations between the European Community and countries of the European Free Trade Association. It remains our policy that these and other developments in regional co-operation, should be trade-creating and complementary to the multilateral liberalization process.

20. It is the firm intention of the European Community that the trade aspects of the single market programme should also be trade-creating and complementary to the multilateral liberalization process.

21. We note with satisfaction the progress that has been made in strengthening the multilateral disciplines on trade- and aid-distorting export credit subsidies. This effort must be pursued actively and completed in the competent bodies of the Organisation for Economic Co-operation and Development (OECD) with a view to improving present guidelines at the earliest possible date.

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GENERAL PROBLEMS OF DEVELOPMENT

22. Development is a shared global challenge. We shall help developing countries by opening the world trading system and by supporting their structural adjustment. We shall encourage, too, economic diversification in commodity-dependent countries and the creation of a favourable environment for transfers of technology and capital flows.

We underline the continuing importance of official development assistance and welcome the increased efforts of Summit participants in this respect. We note the targets already established by international organizations for the future level of official development assistance and stress the importance of overall financial flows to development.

We underline simultaneously the importance attached to the quality of the aid and to the evaluation of the projects and the programmes financed.

23. We urge developing countries to implement sound economic policies. A vital factor will be the adoption of financial and fiscal policies which attract inward investment and encourage growth and the return of flight capital.

24. We note with satisfaction that there has been substantial progress in the multilateral aid initiative for the Philippines that was given special attention in the Toronto Economic Declaration.

25. Faced with the worrying economic situation of Yugoslavia, we encourage its Government to implement a strong economic reform programme that can command bilateral and multilateral support.

THE SITUATION IN THE POOREST COUNTRIES

26. The enhancement of the International Monetary Fund Structural Adjustment Facility, the World Bank special programme of assistance for the poorest and most indebted countries and the fifth replenishment of the African Development Fund are all important measures benefiting those countries having embarked upon an adjustment process. We stress the importance attached to a substantial replenishment of International Development Association resources.

27. As we urged last year in Toronto, the Paris Club reached a consensus in September 1988 on the conditions of implementation of significant reduction of debt-service payments for the poorest countries. Thirteen countries have already benefited by this decision.

28. We welcome the increasing grant element in the development assistance as well as the steps taken to convert loans into grants and we urge further steps to this end. Flexibility in development aid as much as in debt rescheduling is required.

29. We attach great importance to the efficient and successful preparation of the next general conference of the United Nations on the least developed countries, which will take place in Paris in 1990.

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STRENGTHENED DEBT STRATEGY FOR THE HEAVILY INDEBTED COUNTRIES

30. Our approach to the debt problems has produced significant results, but serious challenges remain: in many countries the ratio of debt service to exports remains high, financing for growth promoting investment is scarce, and capital flight is a key problem. An improvement in the investment climate must be a critical part of efforts to achieve a sustainable level of growth without excessive levels of debt. These improvements of the current situation depend above all on sustained and effective adjustment policies in the debtor countries.

31. To address these challenges, we are strongly committed to the strengthened debt strategy. This will rely, on a case-by-case basis, on the following actions:

(a) Borrowing countries should implement, with the assistance of the Fund and the Bank, sound economic policies, particularly designed to mobilize savings, stimulate investment and reverse capital flight;

(b) Banks should increasingly focus on voluntary, market-based debt and debt service reduction operations, as a complement to new lending;

(c) The International Monetary Fund and the World Bank will support significant debt reduction by setting aside a portion of policy-based loans;

(d) Limited interest support will be provided, through additional financing by the International Monetary Fund and the World Bank, for transactions involving significant debt and debt service reduction. For that purpose the use of escrow accounts is agreed;

(e) Continued Paris Club rescheduling and flexibility of export-credit agencies;

(f) Strengthening of the international financial institutions' capability for supporting medium-term macroeconomic and structural adjustment programmes and for compensating the negative effects of export shortfalls and external shocks.

32. In the framework of this strategy:

(a) We welcome the recent decisions taken by the two institutions to encourage debt and debt-service reduction which provide adequate resources for these purposes;

(b) We urge debtor countries to move ahead promptly to develop strong economic reform programmes that may lead to debt and debt-service reductions in accordance with the guidelines defined by the two Bretton Woods institutions;

(c) We urge banks to take realistic and constructive approaches in their negotiations with the debtor countries and to move promptly to conclude agreements on financial packages including debt reduction, debt service reduction and new money. We stress that official creditors should not substitute for private lenders. Our Governments are prepared to consider as appropriate tax, regulatory

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and accounting practices with a view to eliminating unnecessary obstacles to debt and debt service reductions.

ENVIRONMENT

33. There is growing awareness throughout the world of the necessity to preserve better the global ecological balance. This includes serious threats to the atmosphere, which could lead to future climate changes. We note with great concern the growing pollution of air, lakes, rivers, oceans and seas; acid rain, dangerous substances; and the rapid desertification and deforestation. Such environmental degradation endangers species and undermines the well-being of individuals and societies.

Decisive action is urgently needed to understand and protect the Earth's ecological balance. We will work together to achieve the common goals of preserving a healthy and balanced global environment in order to meet shared economic and social objectives and to carry out obligations to future generations.

34. We urge all countries to give further impetus to scientific research on environmental issues, to develop necessary technologies and to make clear evaluations of the economic costs and benefits of environmental policies.

The persisting uncertainty on some of these issues should not unduly delay our action.

In this connection we ask all countries to combine their efforts in order to improve observation and monitoring on a global scale.

35. We believe that international co-operation also needs to be enhanced in the field of technology and technology transfer in order to reduce pollution or provide alternative solutions.

36. We believe that industry has a crucial role in preventing pollution at source, in waste minimization, in energy conservation, and in the design and marketing of cost-effective clean technologies. The agricultural sector must also contribute to tackling problems such as water pollution, soil erosion and desertification.

37. Environmental protection is integral to issues such as trade, development, energy, transport, agriculture and economic planning. Therefore, environmental considerations must be taken into account in economic decision-making. In fact, good economic policies and good environmental policies are mutually reinforcing.

In order to achieve sustainable development, we shall ensure the compatibility of economic growth and development with the protection of the environment. Environmental protection and related investment should contribute to economic growth. In this respect, intensified efforts for technological breakthrough are important to reconcile economic growth and environmental policies.

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Clear assessments of the costs, benefits and resource implications of environmental protection should help Governments to take the necessary decisions on the mix of price signals (e.g., taxes or expenditures) and regulatory actions, reflecting where possible the full value of natural resources.

We encourage the World Bank and regional development banks to integrate environmental considerations into their activities. International organization, such as OECD and the United Nations and its affiliated organizations, will be asked to develop further techniques of analysis which would help Governments assess appropriate economic measures to promote the quality of the environment. We ask OECD, within the context of its work on integrating environment and economic decision-making, to examine how selected environmental indicators could be developed. We expect the 1992 United Nations Conference on Environment and Development to give additional momentum to the protection of the global environment.

38. To help developing countries deal with past damage and to encourage them to take environmentally desirable action, economic incentives may include the use of aid mechanisms and specific transfer of technology. In special cases, ODA debt forgiveness and debt for nature swaps can play a useful role in environmental protection.

We also emphasize the necessity to take into account the interests and needs of developing countries in sustaining the growth of their economies and the financial and technological requirements to meet environmental challenges.

39. The depletion of the stratospheric ozone layer is alarming and calls for prompt action.

We welcome the Helsinki conclusions related, among other issues, to the complete abandonment of the production and consumption of chloro-fluorocarbons covered by the Montreal protocol as soon as possible and not later than the end of the century. Specific attention must also be given to those ozone-depleting substances not covered by the Montreal protocol. We shall promote the development and use of suitable substitute substances and technologies. More emphasis should be placed on projects that provide alternatives to chloro-fluorocarbons.

40. We strongly advocate common efforts to limit emissions of carbon dioxide and other greenhouse gases, which threaten to induce climate change, endangering the environment and ultimately the economy. We strongly support the work undertaken by the Intergovernmental Panel on Climate Change, on this issue.

We need to strengthen the world-wide network of observatories for greenhouse gases and support the World Meteorological Organization initiative to establish a global climatological reference network to detect climate changes.

41. We agree that increasing energy efficiency could make a substantial contribution to these goals. We urge international organizations concerned to encourage measures, including economic measures, to improve energy conservation and, more broadly, efficiency in the use of energy of all kinds and to promote relevant techniques and technologies.

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We are committed to maintaining the highest safety standards for nuclear power plants and to strengthening international co-operation in safe operation of power plants and waste management, and we recognize that nuclear power also plays an important role in limiting output of greenhouse gases.

42. Deforestation also damages the atmosphere and must be reversed. We call for the adoption of sustainable forest-management practices, with a view to preserving the scale of world forests. The relevant international organizations will be asked to complete reports on the state of the world's forests by 1990.

43. Preserving the tropical forests is an urgent need for the world as a whole. While recognizing the sovereign rights of developing countries to make use of their natural resources, we encourage, through a sustainable use of tropical forests, the protection of all the species therein and the traditional rights to land and other resources of local communities. We welcome the initiative by the Federal Republic of Germany in this field as a basis for progress.

To this end, we give strong support to rapid implementation of the Tropical Forest Action Plan which was adopted in 1986 in the framework of the Food and Agriculture Organization of the United Nations. We appeal to both consumer and producer countries, which are united in the International Tropical Timber Organization, to join their efforts to ensure better conservation of the forests. We express our readiness to assist the efforts of nations with tropical forests through financial and technical co-operation, and in international organizations.

44. Temperate forests, lakes and rivers must be protected against the effects of acid pollutants such as sulphur dioxide and nitrogen oxides. It is necessary to pursue actively the bilateral and multilateral efforts to this end.

45. The increasing complexity of the issues related to the protection of the atmosphere calls for innovative solutions. New instruments may be contemplated. We believe that the conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines is urgently required to mobilize and rationalize the efforts made by the international community. We welcome the work under way by the United Nations Environment Programme, in co-operation with the World Meteorological Organization, drawing on the work of the Intergovernmental Panel on Climate Change and the results of other international meetings. Specific protocols containing concrete commitments could be fitted into the framework as scientific evidence requires and permits.

46. We condemn indiscriminate use of oceans as dumping-grounds for polluting waste. There is a particular problem with the deterioration of coastal waters. To ensure the sustainable management of the marine environment, we recognize the importance of international co-operation in preserving it and conserving the living resources of the sea. We call for relevant bodies of the United Nations to prepare a report on the state of the world's oceans.

We express our concern that national, regional and global capabilities to contain and alleviate the consequences of maritime oil spills be improved. We urge all countries to make better use of the latest monitoring and clean-up

technologies. We ask all countries to adhere to and implement fully the international conventions for the prevention of oil pollution of the oceans. We also ask the International Maritime Organization to put forward proposals for further preventive action.

47. We are committed to ensuring full implementation of existing rules for the environment. In this respect, we note with interest the initiative of the Italian Government to host in 1990 a forum on international law for the environment with scholars, scientific experts and officials, to consider the need for a digest of existing rules and to give in-depth consideration to the legal aspects of environment at the international level.

48. We advocate that existing environment institutions be strengthened within the United Nations system. In particular, the United Nations Environment Programme urgently requires strengthening and increased financial support. Some of us have agreed that the establishment within the United Nations of a new institution may also be worth considering.

49. We have taken note of the report of the sixth conference on bioethics held in Brussels, which examined the elaboration of a universal code of environmental ethics based upon the concept of the "human stewardship of nature".

50. It is a matter of international concern that Bangladesh, one of the poorest and most densely populated countries in the world, is periodically devastated by catastrophic floods.

We stress the urgent need for effective co-ordinated action by the international community, in support of the Government of Bangladesh, in order to find solutions to this major problem which are technically, financially, economically and environmentally sound. In that spirit, and taking account of help already given, we take note of the different studies concerning flood alleviation, initiated by France, Japan, the United States and the United Nations Development Programme, which have been reviewed by experts from all our countries. We welcome the World Bank's agreement, following those studies, to co-ordinate the efforts of the international community so that a sound basis for achieving a real improvement in alleviating the effects of flood can be established. We also welcome the agreement of the World Bank to chair, by the end of the year, a meeting to be held in the United Kingdom by invitation of the Bangladesh Government, of the countries willing to take an active part in such a programme.

51. We give political support to projects such as the joint project to set up an observatory of the Saharan areas, which answers the need to monitor the development of that rapidly deteriorating, fragile, arid region, in order to protect it more effectively.

DRUG ISSUES

52. The drug problem has reached devastating proportions. We stress the urgent need for decisive action, both on a national and an international basis. We urge

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all countries, especially those where drug production, trading and consumption are large, to join our efforts to counter drug production, to reduce demand, and to carry forward the fight against drug trafficking itself and the laundering of its proceeds.

53. Accordingly, we resolve to take the following measures within relevant forums:

(a) Give greater emphasis on bilateral and United Nations programmes for the conversion of illicit cultivation in the producer countries. The United Nations Fund for Drug Abuse Control (UNFDAC) and other United Nations and multilateral organizations should be supported, strengthened and made more effective. These efforts could include particular support for the implementation of effective programmes to stop drug cultivation and trading as well as developmental and technical assistance;

(b) Support the efforts of producer countries which ask for assistance to counter illegal production or trafficking;

(c) Strengthen the role of the United Nations in the war against drugs through an increase in its resources and through reinforced effectiveness of its operation;

(d) Intensify the exchange of information on the prevention of addiction, and rehabilitation of drug addicts;

(e) Support the international conference planned for 1990 on cocaine and drug demand reduction;

(f) Strengthen the efficiency of the co-operative and mutual assistance on these issues, the first steps being a prompt adherence to, ratification and implementation of the Vienna Convention on illicit traffic in narcotic drugs and psychotropic substances;

(g) Conclude further bilateral or multilateral agreements and support initiatives and co-operation, where appropriate, which include measures to facilitate the identification, tracing, freezing, seizure and forfeiture of drug crime proceeds;

(h) Convene a financial action task force from Summit participants and other countries interested in these problems. Its mandate is to assess the results of co-operation already undertaken in order to prevent the utilization of the banking system and financial institutions for the purpose of money laundering, and to consider additional preventive efforts in this field, including the adaptation of the legal and regulatory systems so as to enhance multilateral judicial assistance. The first meeting of this task force will be called by France and its report will be completed by April 1990.

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INTERNATIONAL CO-OPERATION AGAINST AIDS

54. We take note of the creation of an International Ethics Committee on AIDS, which met in Paris in May 1989, as decided at the Summit of Venice (June 1987). It assembled the summit participants and the other members of the European Community, together with the active participation of the World Health Organization.

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55. We take note of the representations that we received from various heads of State or Government and organizations and we will study them with interest.

NEXT ECONOMIC SUMMIT

56. We have accepted the invitation of the President of the United States of America to meet next year in the United States.
