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CANADA

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# THE MUNICH ECONOMIC SUMMIT

JULY 6-8, 1992

BACKGROUND INFORMATION



THE MUNICH  
ECONOMIC SUMMIT  
JULY 6-8, 1992



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b2438537 (F)

SOMMET ÉCONOMIQUE  
DE MUNICH  
6-8 JUILLET 1992

Erratum

A preparatory meeting for the proposed intergovernmental conference on high seas overfishing will be hosted in Newfoundland in the fall of 1992, not 1993, as referred to in the issue paper on the United Nations Conference on Environment and Development.

Une réunion préparatoire à la conférence intergouvernementale sur la surpêche en haute mer aura lieu à Terre-Neuve à l'automne de 1992, et non 1993, contrairement à ce qui est indiqué dans la feuille d'information sur la Conférence des Nations Unies sur l'environnement et le développement.



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# THE MUNICH ECONOMIC SUMMIT

JULY 6-8, 1992

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## PRIME MINISTER BRIAN MULRONEY

Born March 20, 1939, in Baie Comeau, Quebec, Brian Mulroney is a lawyer and former corporate executive.

Mr. Mulroney holds a bachelor of arts (honours) degree in political science from St. Francis Xavier University, Antigonish, Nova Scotia, and a bachelor of law degree from l'Université Laval at Québec.

On June 11, 1983, Mr. Mulroney was elected leader of the Progressive Conservative Party of Canada. He subsequently won election to the House of Commons in a by-election on Aug. 29, 1983, in the riding of Central Nova, Nova Scotia.

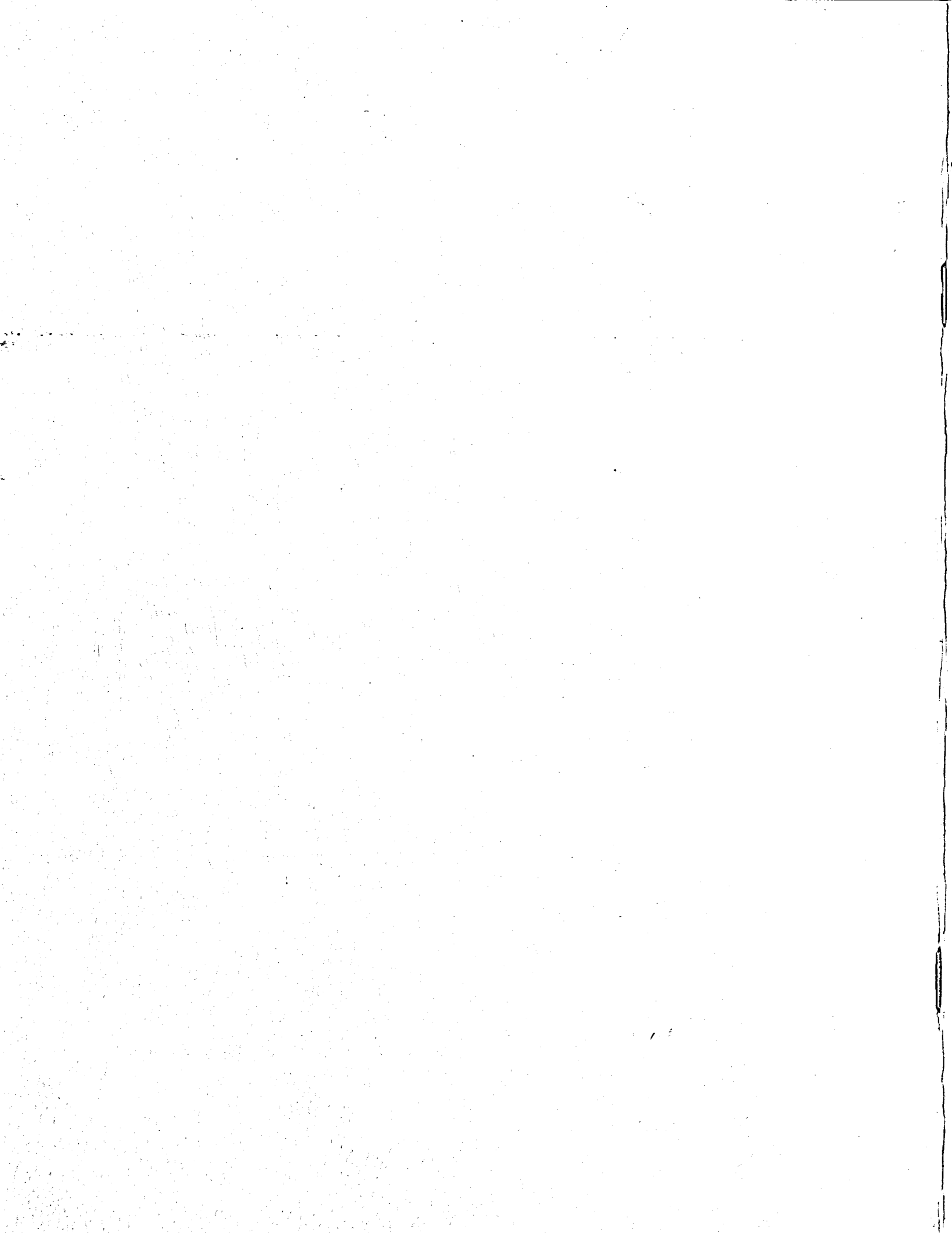
In the general election of 1984, Mr. Mulroney was elected in the riding of Manicouagan, Quebec. His party won the largest number of seats in Canadian parliamentary history. He was reelected in the riding of Charlevoix, Quebec, on Nov. 21, 1988, and led his party to form a second majority government.

Mr. Mulroney has been active in public life and community affairs for many years. In May 1974, he was appointed to the Cliche Royal Commission investigating violence in the Quebec construction industry.

In 1976, he was a candidate for the leadership of the Progressive Conservative Party. Later that year, he joined the Iron Ore Company of Canada as executive vice-president; a year later, he became company president.

Mr. Mulroney has been active in charitable organizations such as the United Way of Greater Montreal, the Big Brothers Association of Canada, the Quebec Association for the Mentally Retarded, the Canadian Juvenile Diabetes Foundation and the Montreal Heart Fund.

Mr. Mulroney is married to the former Mila Pivnicki; they have four children: Caroline, Benedict, Mark and Nicolas.





## SECRETARY OF STATE FOR EXTERNAL AFFAIRS BARBARA MCDUGALL

Born in Toronto on Nov. 12, 1937, Barbara McDougall studied political science and economics at the University of Toronto, where she obtained a bachelor of arts (honours) degree in 1960. She became a chartered financial analyst in 1973.

Mrs. McDougall began her career as an economic analyst in banking. She has also worked as a market research analyst and as a business journalist on national magazines and in television.

For 10 years, Mrs. McDougall was an investment analyst specializing in forest products. From 1976 to 1981, she was vice-president of a securities firm. From 1982 until entering federal politics in 1984, Mrs. McDougall was executive director of the Canadian Council of Financial Analysts.

Mrs. McDougall was first elected to Parliament in September 1984 in the Toronto riding of St. Paul's. She was reelected in the same riding in November 1988.

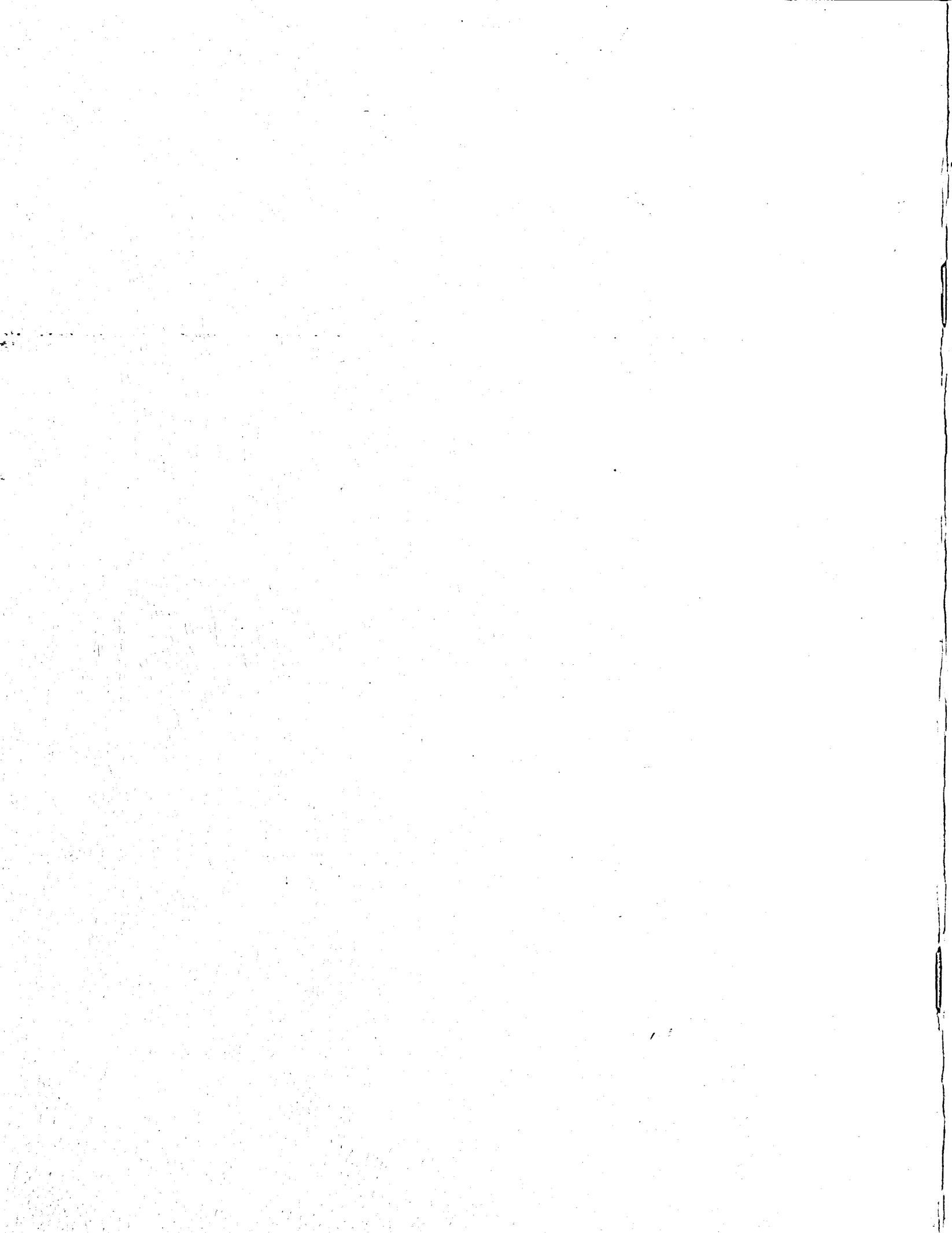
In September 1984, Mrs. McDougall was appointed minister of state (finance). Between 1986 and 1988, she held three cabinet posts at the same time: minister of state (privatization), minister responsible for the status of women, and minister responsible for regulatory affairs.

Mrs. McDougall was minister of employment and immigration from March 1988 until her appointment in April 1991 as secretary of state for external affairs.

She chairs the Cabinet Committee on Foreign Affairs and Defence Policy. She is a member of the Planning and Priorities Committee of Cabinet and the Cabinet Committee on Canadian Unity and Constitutional Negotiations.

As a volunteer, Mrs. McDougall chaired the Salvation Army Red Shield Appeal in Toronto. She has also been a director of organizations providing life skills training and serving senior citizens, and was vice-chair of the Elizabeth Fry Society of British Columbia.







## DEPUTY PRIME MINISTER AND MINISTER OF FINANCE DON MAZANKOWSKI

Don Mazankowski, a native of Viking, Alberta, was born on July 27, 1935, and educated locally. A businessman and farmer, he became involved in provincial and federal Progressive Conservative associations and was elected Member of Parliament for Vegreville, Alberta, in 1968.

In Opposition, Mr. Mazankowski served as transport critic. In 1979, he was appointed minister of transport and minister responsible for the Canadian Wheat Board in the Clark government.

As a member of the Mulroney government, Mr. Mazankowski became minister of transport in September 1984. He also served as acting minister of industry, science and technology.

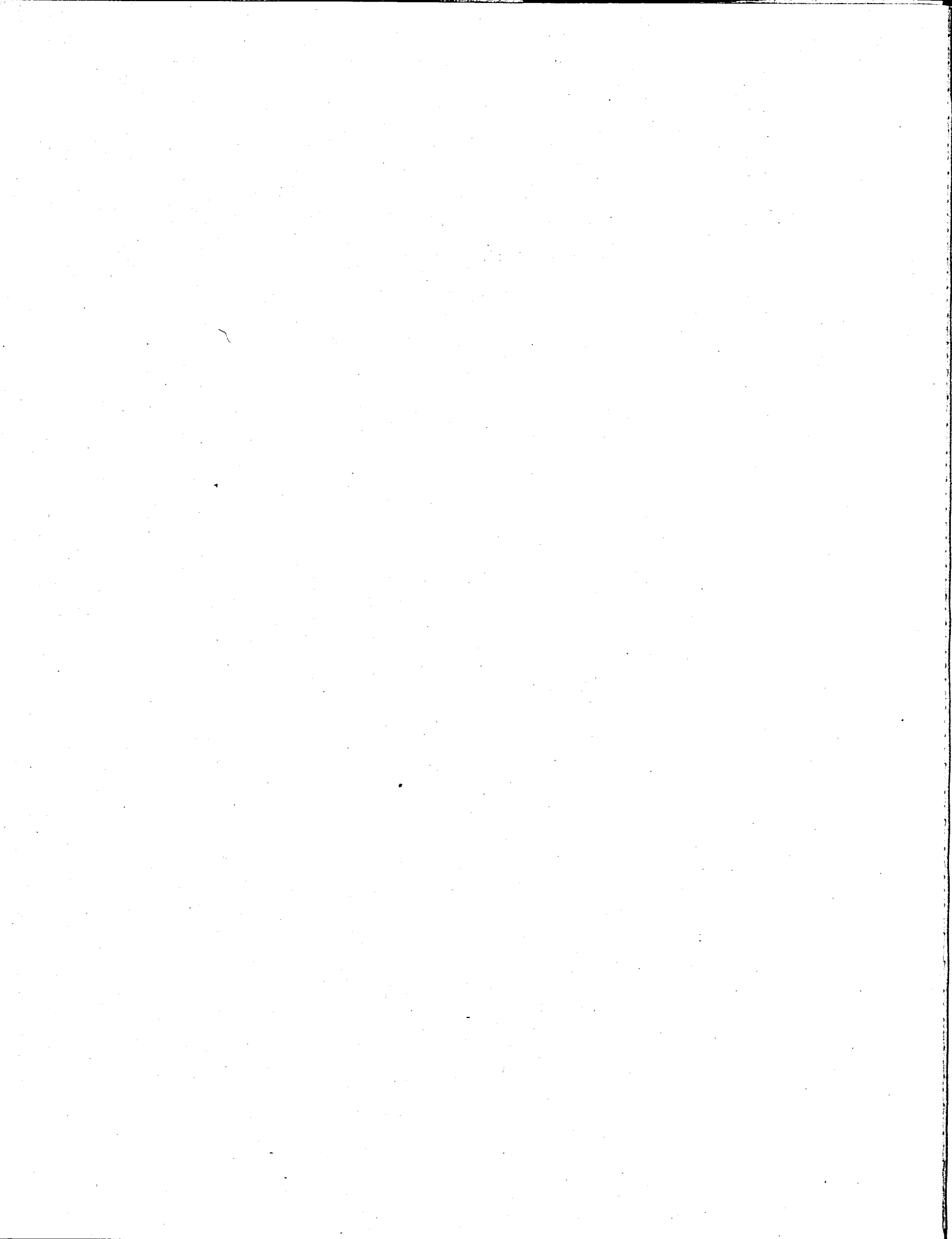
In 1986, Mr. Mazankowski simultaneously became deputy prime minister, government House leader and president of the Privy Council. During that year he initiated and developed the Western Diversification Program.

Mr. Mazankowski was Treasury Board president from August 1987 until March 1988, when he was appointed minister responsible for privatization and regulatory affairs. Later that year, he moved to the post of minister of agriculture.

In the agriculture portfolio, Mr. Mazankowski spearheaded legislation designed to bring economic stability to Canada's agricultural community.

Mr. Mazankowski was named finance minister in April 1991. His posts on several cabinet committees include vice-chair of Priorities and Planning and of Security and Intelligence.

Mr. Mazankowski is married to Lorraine Poleschuk and is the father of sons Gregory, Roger and Donald.



## THE MUNICH ECONOMIC SUMMIT

This year's economic summit, the 18th annual meeting of leaders of the seven major industrialized democracies and the president of the Commission of the European Communities, will take place in Munich, Germany, from July 6 to 8.

Leaders are expected to focus primarily on the global economic situation, economic and political reforms underway in the former Soviet Union and Central and Eastern Europe, relations with developing countries, the environment, the safety of Soviet-designed nuclear reactors and nuclear proliferation.

Several important developments during the past year shape the context for this year's summit. Economic growth has been disappointing, with the rate of growth of the summit countries slipping to 0.8 per cent in 1991, from 2.5 per cent in 1990.

Following the dramatic breakup of the Soviet Union, newly independent republics are struggling to build viable economies and democratic institutions in conditions of ethnic tension and political instability. The emerging democracies of Central and Eastern Europe are making progress but face continuing challenges. Elsewhere, many developing countries are also pursuing economic reform and adopting more democratic governments.

Foremost on the agenda of summit leaders will be the global economic situation. Economic growth among the G-7 nations has slowed considerably since mid-1990, following eight years of record expansion. Individual structural reform policies, combined with continued policy coordination among G-7 partners have, however, provided the basis for future growth, although unemployment levels remain unacceptably high.

Leaders will review progress with the medium-term strategy of fiscal restraint, reduced real interest rates and policies to enhance productivity.

They will also likely exchange views on economic conditions in their own countries, as well as on structural issues.

The further liberalization of international trade is of continuing importance to global economic growth. Progress in multilateral trade negotiations will likely be reviewed by summit leaders.

The emergence of the newly independent countries of the former Soviet Union presents challenges to the international community. Summit countries are playing a leading role in supporting reform and the development of democratic, market-oriented societies, although the new countries themselves are ultimately responsible for their transformation.

Summit leaders intend to assess efforts at reform and confirm that Western support will be linked to tangible progress. President Yeltsin's meeting with leaders following the summit will provide an opportunity for a full discussion of developments in Russia.

Economic and political reforms under way in Central and Eastern Europe, and the state of international assistance to the region, will likely be reviewed at Munich. Bilateral programs coordinated through the Group of 24, and multilateral assistance through the International Monetary Fund, the World Bank, the Organization for Economic Cooperation and Development and the European Bank for Reconstruction and Development, will continue to play an essential role in supporting the economic transformation of these countries.

Leaders recognize the adjustment programs being successfully undertaken by many developing countries and will likely consider the implications of growing economic differentiation among them. Attention will be given to the difficult social and economic problems facing the least developed. The importance of good governance, respect for

human rights, democratic development and the implementation of sound economic policies in these states is also expected to be stressed.

Throughout the world, awareness of environmental issues has increased dramatically over the past decade, and the environment has held a prominent position on the agenda of several economic summits. Implementing domestic environmental policies requires international cooperation. Leaders in Munich are expected to review the results of the United Nations Conference on Environment and Development, including the key issues of climate change, biodiversity, and the Global Environment Facility. The protection of living marine resources and sustainable forestry management remain priorities for Canada. Discussion of market-oriented instruments to further environmental protection may also be addressed.

The dramatic political developments of the last year have raised important new security concerns. The breakup of the Soviet Union and ensuing political instability in the region, combined with Iraqi and North Korean attempts to develop nuclear weapons capabilities, have brought nuclear non-proliferation to the forefront of international security concerns.

Adherence to the strategic arms reduction and non-proliferation treaties, a strengthening of the International Atomic Energy Agency and enhanced export controls on dual use material and equipment are essential components of an effective non-proliferation strategy. Leaders may consider this issue, along with the risks posed by proliferation of knowledge and expertise in the design of nuclear weapons and delivery systems.

The safety of Soviet-designed nuclear power plants in Central and Eastern Europe and the former Soviet Union will likely be discussed. Leaders are expected to consider how best to ensure that the safety requirements of these reactors are being met.

As in previous years, political issues will also be discussed by summit leaders and their ministers. Of particular importance will be the international security situation, with special attention to conflict in Central and Eastern Europe and the former Soviet Union.

Legacies of the Cold War remain in the Asia-Pacific region. Tensions persist in the Korean peninsula and the northern islands territorial dispute continues to dominate relations between Japan and the Russian Federation. These matters may also be discussed during the summit.

## CANADA AND ECONOMIC SUMMITS

### SUMMIT HISTORY

The annual economic summit is the most visible element of an extensive, ongoing process of consultation and cooperation among the group of seven leading industrialized democracies known as the G-7 countries.

Discussions held during the summits and meetings of the Group of Seven finance ministers are closely linked to work in other international fora, including the International Monetary Fund, the World Bank, the General Agreement on Tariffs and Trade and the Organization for Economic Cooperation and Development. Through these institutions, governments seek to manage an increasingly interdependent world economy.

The 1992 Munich Summit will be the culmination of a year-long process. Issues on the summit agenda were reviewed during five advance meetings of the personal representatives of summit leaders. These representatives are known as "sherpas," in reference to a Himalayan people famous as mountain guides. Through their preparatory meetings, the sherpas seek areas of agreement on main issues that may lead to a consensus at the summit. Prime Minister Mulroney's personal representative is Derek Burney, Canadian ambassador to the United States.

The first economic summit took place in Rambouillet in 1975 after the president of France invited his colleagues from the United States, the United Kingdom, Germany, Japan and Italy to discuss the major economic issues in a relatively unstructured environment. Canada joined in 1976 at the Puerto Rico Summit, and was followed by the European Community in 1977, in London.

The first summits focused on economic recovery. Heads of state and government agreed on measures to support stable economic expansion and to reduce high levels of unemployment without increasing inflationary pressures. The leaders recognized that structural changes had to

be made in national economies to cope with rising oil prices and new economic realities.

In the early 1980s, the fight against inflation became a primary concern. The leaders agreed on the need to restrain public borrowing and to contain growth of the money supply. They increased their efforts to harmonize their policies in order to expand, reinforce and maintain the recovery that followed the 1981-1982 recession. They have since sought to ensure continued economic stability and prosperity by reducing inflation, interest rates and budget deficits.

Following the 1986 Tokyo Summit, summit members' growing emphasis on coordinating economic policies saw the Canadian and Italian finance ministers join those of the United States, France, the United Kingdom, the Federal Republic of Germany and Japan to form the Group of Seven. Ministers, central bank governors and senior officials of the G-7 meet between the economic summits to discuss the economic performance and policies of their respective countries. This further strengthens economic and monetary cooperation.

Summit leaders regularly discuss matters related to the liberalization of trade and market-oriented trade practices. At the 1986 Tokyo Summit, on the initiative of Canada and with the support of the United States, the leaders expressed for the first time their concern over subsidy practices and protectionist measures that are distorting world agricultural markets. As a result, agriculture became one of the main issues of the Uruguay Round of multilateral trade negotiations launched in September 1986 under the auspices of the General Agreement on Tariffs and Trade.

While macroeconomic issues have traditionally been uppermost on the agenda, other global issues have gained prominence over the years. Summit statements on problems such as terrorism, narcotics and human rights abuse attract international attention and frequently lead to action.

At the 1981 Ottawa Summit, for example, the focus on relations between developed and developing countries led to the North-South Summit in Cancun, Mexico. Since the Toronto Summit of 1988, growing awareness of environmental concerns has linked economic development and environmental protection as an international priority.

Recent summits have addressed the issue of reconstruction in Central and Eastern Europe. In 1989, leaders asked the Commission of the European Communities to take the steps necessary to coordinate assistance in support of reforms in Poland and Hungary. Since then, assistance through the 24 member countries of the Organization for Economic Cooperation and Development has been extended to all the countries of the region.

In 1989 U.S.S.R. President Mikhail Gorbachev wrote to summit leaders outlining his objective of integrating the Soviet Union into the international economic system. At the Houston Summit of 1990, leaders asked four organizations to jointly study the Soviet economy and recommend reform. The four were the International Monetary Fund, the International Bank for Reconstruction and Development, the Organization for Economic Cooperation and Development, and the European Bank for Reconstruction and Development.

The next year, immediately following the London Summit, leaders met with President Gorbachev to review his reform plans. Following the Munich Summit this year, leaders will review developments in Russia with President Boris Yeltsin.

## CANADA'S PLACE AT THE ECONOMIC SUMMIT

Canada joined the economic summit process in 1976, a time of instability and change. Oil price shocks, instability in financial markets and economic uncertainty underlined the need for expanded dialogue and policy coherence among the leading industrial democracies.

Canada was then, as now, the world's seventh largest industrialized economy. During a time of uncertain energy and raw material supplies, Canada's wealth of natural resources was important to Western countries. As well, Canada could

assume a valuable intermediary role between the major industrial powers and the less developed countries because Canada was active in many major international groups and had never been a colonial power.

Since the mid-1970s, the importance of summit participation for Canada has increased. The globalization of finance, trade and information during the 1980s and 1990s, along with the need to respond to the collapse of the Soviet bloc, has highlighted the need for international economic coordination and cooperation through leadership from the leading industrialized countries.

Canada's prosperity and security is directly related to its ability to influence the direction of international affairs, and its role in the economic summits will continue to be critical. Canada's commitment to the development of a rule-based international system adds credibility to its participation.

Possibly the most valuable outcome of the economic summits is their role in setting a framework for G-7 economic policies. By demonstrating to the world's 180 countries that the leaders of the seven largest industrial economies can discuss and agree on a collective approach to economic growth, the summits send a message of confidence to businesses, governments and consumers around the world.

Each summit has focused on the key economic problems of the day, such as growth, inflation, trade liberalization and fiscal and monetary policy. This has a very real impact on the decisions and activities of key players in the global economy. For Canada, the maintenance of the stable and secure economic environment promoted by the Summits is critical to every major sector of its economy.

By participating in international support for reforms in Central and Eastern Europe and the former Soviet Union, Canada is contributing to global stability and helping to prevent the emergence of conditions that could lead to a return of the Cold War. In the longer term, a successful transition in these countries would open significant opportunities for Canadian businesses especially in sectors such as oil and gas where Canadian expertise is particularly pertinent.

Canada is, as well, able to use the summit process to raise issues of particular concern to Canadians. At the 1991 London Summit, for example, Canada obtained a particularly strong declaration urging protection of living marine resources and compliance with regimes established by regional fisheries

organizations through effective monitoring and enforcement measures.

Canada's participation in economic summits serves both its domestic and international interests at a time when the distinction between the two is becoming increasingly blurred.



## THE GLOBAL ECONOMIC SETTING

The pace of economic activity declined in 1991, as world output contracted by 0.3 per cent following 2.2 per cent growth in 1990 and 3.3 per cent in 1989. Among the seven major industrial democracies (the G-7 countries), aggregate real growth slipped to 0.8 per cent in 1991.

Several of the major industrialized countries which experienced a recession, including the United States, the United Kingdom and Canada, did not achieve as robust a recovery as they had expected. High consumer and corporate debt levels had a marked negative effect on confidence and consumption demand and this delayed recovery.

Meanwhile, the fast pace of growth in Japan and western Germany slowed by the second half of the year. France and Italy did not experience recession, but growth was weak throughout the year.

A severe contraction of economic activity in the Central and Eastern European countries and the countries of the former Soviet Union contributed to the negative aggregate world growth rate. The fall in output in these countries reflects the legacy of past policies, the collapse of trade among the former members of the Council for Mutual Economic Assistance and, in a number of Eastern European countries, the adjustments associated with the early stages of radical economic reform.

Output also fell substantially in the Middle East, primarily because of the effects of the Gulf War. Aggregate growth in developing countries was -3.4 per cent in 1991.

Inflation in the G-7 countries fell, in aggregate, to 4.4 per cent in 1991 from 4.8 per cent in 1990. In the first half of 1992, inflationary pressures have continued to ease in most economies, with Germany as the main exception. Wage demands and the relatively high levels of public spending

associated with unification have contributed to ongoing price pressures in that country.

The cumulative current account deficit of the G-7 countries shrank in 1991, partly as a result of Gulf War-related transfers. The current account deficit of the United States fell sharply to a level of \$9 billion, from \$92 billion in 1990. In the meantime, the Japanese trade surplus doubled to a level of \$73 billion. Germany recorded a current account deficit for the first time since 1981.

Negative terms of trade effects contributed to a wider deficit in the developing countries. The deterioration in external accounts was concentrated in the Middle East; in contrast to a surplus on the current account registered in the region in 1990 and 1989, a deficit was recorded in 1991.

Growth in the volume of world trade fell in 1991, to an estimated 3.3 per cent, compared with growth rates of 4.1 per cent in 1990 and 6.7 per cent in 1989. The collapse of trade among the former members of the Council for Mutual Economic Assistance and slow growth among the major industrialized economies were the major factors contributing to weaker expansion of trade.

Progress on reducing inflation allowed room for a reduction in interest rates in several countries. In 1991, short-term rates fell by between 250 and 400 basis points in Japan, the United Kingdom, the United States and Canada, with Japanese rates recording the smallest fall and Canadian rates recording the largest decline. Short-term rates have continued to fall in these countries in 1992. Since the end of 1990, interest rates have remained relatively flat in France and Italy but have increased in Germany.

While there were substantial exchange rate fluctuations due to a number of factors, including interest rate differentials among industrial economies, the overall changes in exchange rates from the beginning of 1991 have been relatively small.

An exception is the yen, which depreciated about 7 per cent against the U.S. dollar. In the first half of 1992, the U.S. dollar has tended to strengthen against most of the major currencies, as prospects for an American recovery appear to be relatively favourable.

The outlook for 1992 is for a recovery of the global economy, albeit a moderate one by historical standards. The International Monetary Fund has forecast a 1.4 per cent growth rate for 1992. In 1993, growth is expected to show a more marked recovery, with a forecast of 3.5 per cent growth. The volume of world trade is expected to increase at a pace of 6.3 per cent in 1993 after recording a 5 per cent increase in 1992.

Several of the main forces behind the weakness of activity in 1991 are no longer at work in 1992 or are diminishing. The uncertainties related to the crisis in the Middle East have dissipated, private citizens and corporations in several of the larger

industrial countries have reduced their high levels of debt, and interest rates have fallen. As financial balances are consolidated, the basis for a resumption of stronger growth is improving.

Inflation in the G-7 economies, with the major exception of Germany, has eased so far in 1992 and this is expected to be the case for the year as a whole. The International Monetary Fund has forecast the aggregate G-7 inflation rate to be 3.2 per cent in 1992 and 3.1 per cent in 1993.

Structural reform in several key areas, including tax reform and privatization, has been introduced in G-7 countries in recent years, improving the flexibility of markets and the ability of economies to adapt to global economic change. Prospects for sustained non-inflationary growth will be enhanced as monetary and fiscal policies in industrial countries continue to be directed towards medium-term objectives of price stability and further fiscal consolidation.

## CANADA'S FOREIGN POLICY DIRECTION

Canadian foreign policy has three main objectives for the coming years: strengthening cooperative security; pursuing sustainable development; and ensuring respect for human values.

### STRENGTHENING COOPERATIVE SECURITY

The security of Canada and its people is an enduring and vital foreign policy objective. Although it remains essential to maintain military stability through defensive alliances, the 1990s present Canada with an opportunity to work for a more cooperative world order based upon the rule of law.

The international community needs to address threats to security such as nuclear proliferation, drug trafficking, terrorism, and irregular migration caused by political, economic and environmental factors. Consultation about these threats can reduce them and enhance our capacity to cooperate to prevent and manage conflicts.

In moving towards cooperative security, Canada's focus will be on both regional and global structures. Regional structures should be consonant with, and supportive of, a multilateral system based on the rule of law and centred on a strengthened and more effective United Nations.

Canada's participation in defensive alliances will remain integral to the creation of a cooperative security regime. Canada will participate in a reinvigorated NATO, relevant to the more cooperative climate of today's Europe. Canada will continue to strengthen its links with Europe by building up its relations with the European Community, pressing for a more effective Conference on Security and Cooperation in Europe and developing closer relationships with Central and Eastern Europe and the countries of the former Soviet Union. Canada will work with like-minded countries to enhance cooperative security in other regions.

Peacekeeping has been a traditional and justifiable source of pride for Canadians, and efforts will continue in this area. What Canadians currently recognize as peacekeeping may begin to change, however, and this will pose further challenges. Peacekeeping may increasingly take on functions such as electoral supervision and refugee protection, which were once considered to fall under the exclusive purview of national governments.

In the United Nations system, the world already has the essential framework for consultation on global cooperative security. Canada seeks to strengthen that framework, and to foster greater respect for the rule of law and the principles of collective security enshrined in the UN Charter.

### PURSUING SUSTAINABLE DEVELOPMENT

Canada's prosperity depends on open, liberal and rule-based trading, and on the productivity and skills of its labour force. Trade policy and domestic policy will be more integrated and will include protection of the natural environment. Given the current international coordination and harmonization of economic, industrial and trade policies, Canada needs to anticipate trends, in order to ensure timely and effective adjustment to continued globalization.

Canada has a vital interest in seeing that the major players in the multilateral trading negotiations are able to reach an agreement on ways to reduce various subsidies, including agricultural subsidies, and otherwise improve the rule-based multilateral trade and payments system. GATT-compatible regional trading arrangements such as the Canada-U.S. free trade agreement and the North American free trade agreement will continue to advance Canada's trade and investment interests.

Canada's well-being also depends on the protection of the environment. Differing economic

conditions, implementation of sustainable development practices and the sharing of global resources and responsibilities will require new levels of international cooperation in this area. The 1992 United Nations Conference on Environment and Development, held in Brazil, brought together heads of state and government from around the world and represented the international community's most concerted effort to date to cooperate and increase understanding of environmental issues.

Threats from environmental degradation come from global as well as domestic sources. Canada wishes to establish effective international environmental guidelines and controls, to advance international environmental law, and to encourage international financial institutions and other international organizations to include protection of the environment as a factor when they make economic decisions.

## **SECURING DEMOCRACY AND RESPECT FOR HUMAN VALUES**

Canada's foreign policy will continue to make clear the abiding commitment of Canadians to human rights, the rule of law, and economic and political freedom. Forging an international consensus around universal human values is one of the best guarantees of Canada's future security and prosperity.

The end of the Cold War opens greater opportunities for further acceptance of democratic values around the world. Development assistance and debt relief will remain conditional on the implementation of appropriate economic reforms, and consultation among donor countries will continue on how this can best be achieved. Considerations of good government and respect for human rights will also play a role in the allocation of Canadian development assistance.

## CANADA AND THE COUNTRIES OF THE FORMER SOVIET UNION

The dissolution of the Soviet Union has changed the face of Eastern Europe and Central Asia, creating new opportunities and new challenges for Canada and its partners. The constraints of centralized political and economic control have been removed, but have yet to be replaced by democratic and market mechanisms.

The effect of central planning in the former Soviet Union provides a striking modern-day example of non-sustainable development, largely due to over-investment in polluting and unproductive industries and to other misallocations of resources.

Despite fears of widespread social unrest, the countries of the former Soviet Union have survived their first winter of independence without catastrophe. Their governments have begun to grapple with issues of economic reform, political pluralism, and ethnic violence.

These countries have been welcomed into the global community. They are now members of the UN, the Conference on Security and Cooperation in Europe and the North Atlantic Cooperation Council. The International Monetary Fund, World Bank, and European Bank for Reconstruction and Development have accepted the membership applications of all of the newly independent countries.

### CANADA AND THE NEWLY INDEPENDENT STATES

Throughout the momentous changes in the region, Canada has maintained and expanded its high-level contacts. Russian President Boris Yeltsin has visited Canada twice this year, signing important political and trade agreements. Ukrainian President Leonid Kravchuk has also visited, as have the presidents of Moldova and Kyrgyzstan.

Both Canada's secretary of state for external affairs and its minister of international trade have held talks in Ottawa with their counterparts in

Moscow, Kiev and Alma Ata. The minister of energy, mines and resources has also visited Russia and Ukraine.

Canada is sensitive to the differing needs and aspirations of each of the countries of the former Soviet Union. In addition to strengthening its presence in Moscow, Canada has established an embassy in Kiev (Ukraine), and offices in Alma Ata (Kazakhstan) and Yerevan (Armenia).

Recognizing the historic opportunity provided by the end of the Cold War, Canada has made significant commitments to the region. To the end of 1991, Canada had disbursed over \$1.6 billion in credits and other assistance to the former Soviet Union, the second highest per capita assistance of the summit countries, exceeded only by Germany.

In 1992, Canada is providing nearly \$1 billion more, for a total of almost \$2.5 billion. To promote exports by the countries of the former Soviet Union, Canada is granting the general preferential tariff — as low as zero in some categories.

### ECONOMIC AND POLITICAL CONDITIONS

In Russia, President Yeltsin is popular. His government is coming under intense stress as reforms begin to bite, however. Through reshuffling, he has managed to preserve control of his government.

All but two parts of the Russian Federation have signed a federative treaty, which provides added scope for regions and republics to pursue their own interests. Oil-rich Tatarstan and Chechnia are holding out for more autonomy.

Russia is establishing its own armed forces and has taken control of those outside the Commonwealth of Independent States. The Russian general staff is developing a new military doctrine based on defensive sufficiency.

Russia's economy is in a state of turmoil. In addition to the over-investment in polluting and unproductive industries and other misallocations of resources mentioned earlier in this chapter, Russia suffers from the sudden disruption of traditional trading relationships and severe inflation. For many people, the reform process will be painful, and the benefits not immediately evident.

The Russian government has been working with the International Monetary Fund and the World Bank, in particular, to develop a viable reform program, and is committed to transforming the Russian economy along market-oriented lines. Priorities include: macroeconomic stabilization (the reduction of budget deficits and control over the growth of money and credit); freeing of prices on more commodities (particularly energy); doing away with monopolies; introducing competition, privatization, and land reform.

Implementation will be a major challenge under Russian conditions. Many unproductive military and heavy industries are particularly vulnerable. Delaying reform, however, will not solve the fundamental problems.

The introduction of ruble convertibility this year is an important measure, and the government is now focusing on a program of macroeconomic stabilization which can be supported by the resources of the International Monetary Fund and by emergency rehabilitation loans from the World Bank. In April, the G-7 announced a US\$24 billion assistance package, part of which is contingent on Russia concluding a standby arrangement with the IMF.

Foreign investment will be one of the keys to Russia's economic development. Although further progress is required in creating the conditions necessary to attract this investment, Canadian companies are already involved in the promising oil and gas sector, through joint ventures and sales of capital equipment.

Russian foreign policy is a significant and largely positive factor in international affairs. Russia is a co-sponsor of the Middle East peace process, and takes part in many United Nations cooperative efforts, including peacekeeping.

Russia is giving priority to its relations with the other countries of the former Soviet Union. The

Commonwealth of Independent States, however, is proving to be little more than a transitional vehicle. Key military and economic issues have pitted Ukraine against Russia.

Canada has been in touch with Russian and Ukrainian leaders to urge cooperation and compromise on nuclear and other issues. Despite post-Soviet rivalries, progress is being made on the Conventional Forces in Europe and Strategic Arms Reductions treaties.

Ukraine has consistently balked at what it sees as Russia's aspiration to assume the role of the former U.S.S.R. It has demanded that western countries accept Ukraine as a significant regional power in its own right.

In accordance with its own commitment to non-nuclear weapons state status, and with the encouragement of western countries including Canada, Ukraine has completed tactical nuclear weapons transfers to Russia. It is committed to removing strategic nuclear weapons by the end of 1994.

Ukraine has approached economic reform more cautiously than Russia. Like other countries in the region, it lacks many of the institutional mechanisms necessary to implement market-oriented reforms. The Ukrainian government unveiled its program only in April. It aims at reducing the country's dependence on countries that use the ruble as their currency. The monetary, fiscal and microeconomic policies which would underpin such a move have yet to be defined.

Temporary Ukrainian coupons are replacing rubles in most transactions in Ukraine. The coupons will be phased out when Ukrainian banknotes, printed in Canada, enter into circulation.

Ukraine's priority areas for incoming investment are sugar refining, medical equipment, electronics, pharmaceuticals, road-building and construction.

With the partial exception of Kyrgyzstan, Central Asia continues to be ruled by ex-Communists who look to Turkey and the "tigers" of Asia as secular models for state building and economic progress.

The mujahideen victory in Afghanistan is influencing events in neighbouring Tajikistan, where the Muslim/democratic opposition has forced changes to the government.

Iran is seeking to extend its influence in the region, but is relying more on business and cultural ties than on militant Shia Islam in this traditionally Sunni area.

The Transcaucasus remain a region in crisis. Low-level fighting continues to take place in Nagorno-Karabakh and along the Azerbaijani-Armenian border. The Conference on Security and Cooperation in Europe has organized a peace conference

in Minsk to discuss ways of resolving the conflict. Canada was instrumental in launching this process.

The government of Azerbaijan is undergoing major changes as it seeks to complete the democratization process. Georgia, under the interim leadership of former Soviet foreign minister Eduard Shevardnadze, is moving toward new elections scheduled for October.

## CANADA AND CENTRAL AND EASTERN EUROPE

Many of the images of the dramatic changes that swept through Central and Eastern Europe — tearing down the Berlin Wall, the joyous crowds in Prague's Wenceslas Square — are remembered as signs of positive change. But other images, scenes of civil unrest and violence and the despairing faces of the newly unemployed, should make us heedful that the transformation of the political landscape of the region is not yet over, that the stresses and opportunities of the economic changes will be long lasting and uneven, and that the need for assistance and support will continue.

Progress in economic reform has been variable from country to country, with the greatest successes to date in Poland, Hungary and the Czech and Slovak Federal Republic. In Bulgaria and Romania, where the economies were less developed, economic restructuring and recovery has been slower. The Baltic states, Estonia, Latvia and Lithuania, having regained their independence must now reconcile their desire to encourage closer ties with neighbours to the west with the legacy of the established links to the former Soviet Union. Albania, only now emerging from isolation, is near economic collapse. Even though the pace has sometimes wavered, regional governments have been generally consistent, however, in moving forward with necessary reforms while going through this period of economic difficulty.

Yugoslavia, once the most advanced country in Eastern Europe, has been torn apart by violent conflict. The rebuilding of the political and economic infrastructure of its former republics will require considerable resources over and above the current support provided through international humanitarian assistance efforts.

Key to all efforts to meet democratic aspirations and develop market-based economies is the integration of the Central and Eastern European countries into the international economic system. Western countries and institutions have responded

with openness. For example, from NATO has come the North Atlantic Co-operation Council, the Organization for Economic Cooperation and Development continues to shape programs to meet regional needs, and the European Community has signed association agreements with Poland, Hungary and the Czech and Slovak Federal Republic.

The "Group of 24", including Canada, continues to provide economic and political support to the region. Since 1990, G-24 members have committed some C\$45 billion to various forms of economic assistance, including debt relief, grants, loans, balance of payments support and technical assistance. Canada, for example, has provided assistance of over C\$2.25 billion. G-24 members have made available technical and managerial expertise, provided necessary emergency relief, aided infrastructure development and contributed to macroeconomic stability.

G-24 members have also contributed funds through such multilateral institutions as the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development. Multilateral organizations with financial resources and technical expertise and experience will continue to play a vital role in assisting the countries of Central and Eastern Europe through this period of transformation.

Canada continues to channel most of its programs for bilateral cooperation and technical assistance through the Task Force on Central and Eastern Europe. Focused initially on Poland and Hungary, the programs now extend to the Czech and Slovak Federal Republic, Romania, Estonia, Lithuania and Latvia (as well as the countries of the former Soviet Union). The task force assists countries in democratic development and economic restructuring. Emphasis is placed on practical projects that draw on the resources of the Canadian private sector, investors, ethnic organizations and



other interested groups. Most projects offer technical assistance, particularly in areas where Canada has special expertise. These include training in privatization, law, finance, taxation, telecommunications, environment and agriculture. To date, the task force has supported over 230 projects in the region.

In the longer term, the key to the success of economic reforms will be the integration of the countries in the region into the world's commercial, financial and trading systems. There is great mutual benefit to Canada and these nations in the promotion of commercial and investment ties.

Privatization will be a necessary prerequisite to the restructuring and strengthening of these economies, and one primary vehicle to assist this is investment. The nascent private sector, to be the engine of growth, can greatly benefit from the infusion of capital and technical and managerial expertise. Canada has taken a number of steps to encourage investment in the region. Among these is the signing of Foreign Investment Protection Agreements with the Czech and Slovak Federal Republic, Hungary and Poland. Canada has

ratified Double Taxation Agreements with the Czech and Slovak Federal Republic, Poland and Romania and recently signed an agreement with Hungary.

Canada has taken positive steps to deliver on its promises and has extended general preferential tariff status to Poland, Hungary, the Czech and Slovak Federal Republic, Romania, Bulgaria and Slovenia. Yugoslavia's access to preferential tariff status was withdrawn as part of a coordinated package of economic sanctions.

The violence that has riven Yugoslavia, which the sanctions were intended to counter, is a reminder that the news from Central and Eastern Europe is not all unalloyed good news. Many are suffering dislocation as a consequence of reforms, with higher unemployment and inflation in a time of economic shrinkage. Loosening of social and political control has allowed ethnic tension and rivalry to come to the fore. Low voter turnout in some elections gives evidence that some citizens are already wearying of political manoeuvring and factionalism.

## ECONOMIC RELATIONS WITH DEVELOPING COUNTRIES

Despite significant progress in recent decades, nearly one billion people in the developing world continue to live in poverty. Reducing global poverty, the fundamental objective of Canada's development assistance, has been an integral part of Canadian foreign policy for over 30 years.

In absolute terms Canada was the world's eighth largest donor in 1991, providing 4.2 per cent of global development assistance. On the basis of gross national product, Canada was the second most generous of the G-7 countries, providing 0.44 per cent. In 1992-93, Canada's development assistance budget will reach \$2.79 billion. All of Canada's development assistance is provided as grants.

Canada believes that economic summits must address the concerns of developing countries, and has often demonstrated leadership on key issues. Indeed many developing countries look to Canada to voice their concerns because of relationships developed through membership in such organizations as the United Nations, international financial institutions, La Francophonie and the Commonwealth.

Canada wants to ensure that the developing world keep moving towards market-oriented economic reform, social justice and democratic development. All three are essential for sustainable development.

Many developing countries, such as South Korea, Malaysia and Mexico, have taken major strides and are now near to or have achieved self-sustaining development. Meanwhile, other countries, such as Mozambique, Somalia and Zambia, face bleak prospects. The adjusting economies of Latin America, meanwhile, are emerging from heavy debt loads and have a more positive outlook.

## THE CHANGING WORLD SCENE

The context for development has changed dramatically in the last decade, as the increasing globalization of economics, finance and trade has profoundly transformed the relationship between developed and developing countries. Many developing countries are making better use of their natural resources because of improved access to external financing.

Global conditions define the availability of such financing, the cost of debt, the value of exports, the volume of investment flows, technology transfers and the accessibility of markets. Together these factors far outweigh the value of all development assistance. Implementing appropriate policies in response to these global trends has become the key to a sustainable future for developed and developing countries.

The end of superpower rivalry in the late 1980s and the increasing adoption of market economics have affected the approach to development. The ideological battle played out in many developing countries has eased, although fears are expressed that the developed world's attention to developing countries will be diverted to the former Soviet Union and Central and Eastern Europe. Canada intends to maintain a high priority for assistance to the developing world, particularly for low-income countries.

## GOOD GOVERNANCE

There is a growing consensus that sustainable development requires sound market-oriented economic policies, greater reliance on the private sector, a better climate for investment, democratic institutions and human rights, and strong social programs for basic health and education services.

Developing countries have many difficult choices to make as they set their economies on the path of growth and development. The G-7 countries remain committed to maintaining adequate resource flows to support these efforts. Canada, in particular, has made good governance one of the key criteria for its official development assistance.

Summit leaders are also committed to creating a global trading and economic environment that supports sustainable development in both the industrialized and developing worlds. Success is possible only if appropriate policies are in place in developed and developing countries.

## ENVIRONMENT AND DEVELOPMENT

Concern for the global environment and recognition of the link between the environment and development are forcing new approaches. For developing countries, poverty, population pressures, inadequate human resource development, deforestation, over-fishing, soil erosion, and pollution are related. Strong national efforts, supported by donors like Canada, are needed if sustainable development is to be achieved. Developed and developing countries share a common interest in addressing the global issues of protecting the ozone layer, bio-diversity, climate change and the marine environment. The UN Conference on Environment and Development held in June 1992 in Brazil represented a unique effort by all countries to seek common solutions to common problems.

## DEVELOPING COUNTRY INDEBTEDNESS

Since the debt crisis emerged in the early 1980s, economic summits have played a major role in developing a strategy to relieve the debt of nations around the world. Recognizing the unique circumstances of each debtor country, the strategy supports economic adjustment that provides a framework for sustained growth.

Canada has been a leader in providing official development assistance and debt relief to low and

lower-middle income countries. Canada has forgiven all its official development assistance loans to the least developed countries, to the francophone and Commonwealth countries of Sub-Saharan Africa, and to the Commonwealth countries of the Caribbean. The total value of loans forgiven is \$1.1 billion. Most other donor countries have taken similar measures.

The debt of the poorest countries has been of special concern to Canada, which played a key role in achieving consensus at the Toronto Summit in 1988 on concessions. "Toronto terms" have brought debt relief to some 20 of the poorest countries. Canada has since advocated further relief and welcomed the December 1991 agreement among major creditors to provide up to 50 per cent reduction in certain maturities.

In 1990 creditors agreed on more generous treatment for lower-middle-income countries, such as Cameroon, Côte d'Ivoire and Peru, including longer repayment periods and voluntary debt conversions. At the 1991 London Summit it was agreed to continue to review the needs of these countries on an individual basis.

Under the 1989 Brady Plan, international financial institutions have loaned money to middle-income debtor countries to help reduce debts owed to commercial banks. To obtain financing, countries must make major changes aimed at building a sound economy. So far, Mexico, Venezuela, Costa Rica, the Philippines, Morocco, Uruguay and Argentina have benefited from Brady plan packages with positive effects on economic recovery, investment and access to international capital markets.

At the Munich Summit, leaders will review the evolution of the debt strategy, and Canada will emphasize that sound economic policies by the debtor are important but may not always be sufficient. Canada will advocate that G-7 leaders continue to review terms and consider more favourable treatment, especially for the poorest countries.

## ENVIRONMENT

In just 20 years, protection of the natural environment has emerged from relative neglect to being among the top priorities on the international agenda. Environmental problems, which were once perceived as primarily local in nature, are now recognized as global in their impact. Climate change, ozone depletion, transboundary air pollution, deforestation, mismanagement of marine resources and other such issues have forced the international community to take steps to respond to environmental degradation.

At the 1972 Stockholm Conference on the Human Environment, environmental concerns were placed firmly on the international agenda for the first time. The conference also resulted in the establishment of the United Nations Environment Program to coordinate and promote action on environmental issues within the United Nations system.

Following on the Stockholm Conference, the Report of the World Commission on Environment and Development (the Brundtland Commission) in April 1987 introduced the term "sustainable development" to the international lexicon, and emphasized that the environment and economic growth are not only compatible but interdependent.

The economic summits have included the environment as an important agenda item, and have thus played a major role in addressing environmental concerns. At the 1988 Toronto Summit, a substantive discussion on the environment took place, which led to an endorsement of sustainable development.

The 1989 Paris Summit communique called for action in areas such as climate change, the environment/economy interface, sustainable forestry and oceans. This summit also noted that financing and technology transfers would be required to help developing countries deal with past damage and that they, too, should take environmentally responsible action.

Leaders at the 1990 Houston Summit urged completion of negotiations on climate change and forestry and the development of a strategy on land-based sources of marine pollution. They underlined the need to conserve and protect living marine resources, respect conservation regimes and strengthen regional fisheries organizations. The importance of preserving biodiversity (the wealth and variety of genetic material, species and ecosystems) was noted as well.

The Houston Summit also endorsed on-going work by the Organization for Economic Cooperation and Development (OECD) on environment/economy linkages, market-oriented approaches, and environmental indicators. OECD environment ministers met in January 1991 and developed an environmental strategy for the 1990s which included four Canadian initiatives: reviews of countries' environmental policies; good environment practices for governments; an examination of the relationship between trade and the environment; and the continuation of OECD work on environmental indicators. Ministers also encouraged the OECD to intensify its work on economic instruments, including proper resource pricing and "green taxes" (taxes used to discourage environmentally harmful activities).

Further support for environmental cooperation was provided by the London Summit of 1991, where emphasis was placed on the role of market economies and democratic systems in mobilizing adequate resources and ensuring accountability. Protection of living marine resources, a Canadian priority, also received particular attention.

The high priority attached to environmental issues by summit leaders, the groundwork provided by the Stockholm Conference and the Brundtland Commission, and the efforts of many other international bodies including the Commonwealth and La Francophonie culminated in the June 1992 United Nations Conference on Environment and Development (UNCED) held in Brazil. Hosted by

the UN and attended by leaders from around the world, UNCED's aim was to develop an international environmental agenda for the 21st century and clarify the links between environment and development. The conference sought to make progress on a wide scope of environmental issues ranging from climate change to forest management to the protection of biodiversity and marine resources.

In concert with multilateral efforts at UNCED and the economic summits, the Canadian government has undertaken to make environmental protection a top domestic priority. Following extensive public consultations on environmental problems,

it unveiled the "Green Plan" in December 1990. The Green Plan is a comprehensive policy framework and action plan for sustainable development in Canada which establishes targets and schedules for a range of domestic and international environmental issues. It is based on the principle of partnership among stakeholders (e.g., federal and provincial governments, business, labour, indigenous groups, and non-government organizations).

Growing public awareness, combined with the sheer magnitude of the problem, will ensure that environmental protection remains a key agenda item both domestically and internationally for the future.

## NUCLEAR SAFETY

Nuclear power is one of the most important energy sources in the world today, and will be increasingly significant in the future as an energy provider that does not contribute to global warming. In Canada, nuclear power plants supply 16 per cent of the nation's electricity requirements, with Ontario relying on nuclear power for 50 per cent of its needs.

The central role played by nuclear power in the Canadian economy has ensured that safety and control measures are a top priority. The Atomic Energy Control Board monitors and regulates the nuclear industry in Canada, and has played a major part in Canada's nuclear safety record.

In the former Soviet Union and Central and Eastern Europe, nuclear power is also of great importance. Countries of the former Soviet Union rely on nuclear power for some 12 per cent of their electricity requirements, while those of Central and Eastern Europe use nuclear energy to supply 25 to 50 per cent of their electricity needs.

The accident at the Chernobyl nuclear power station in 1986 exposed the safety risks posed by Soviet RBMK-type reactors, and raised serious questions about older VVER types. Although the countries concerned have identified many of the problems and are trying to address them, remedial action is often hampered by the shortage of resources and the lack of independence of the regulatory authorities.

The risks posed by Soviet-designed nuclear power plants in Central and Eastern Europe and the former Soviet Union affect many nations in Europe and beyond.

Support programs initiated by the International Atomic Energy Agency, which monitors nuclear materials production in member states, and the Organization for Economic Cooperation and Development's Nuclear Energy Agency have focused on analysis, consulting and training. The

safety assessments of the RBMK reactor type are particularly urgent as this type of reactor causes the greatest concern and sufficient detailed information is not yet available.

Further action by both operators and the international community is required to address the areas of operational safety, design safety, and nuclear safety regulation. The Munich Summit provides an opportunity for summit leaders to discuss cooperative approaches to deal with these serious problems. Addressing all aspects of nuclear energy safety is a high priority for Canada.

A focus of Canadian efforts to date is its project management role in the construction, commissioning and startup of the first Candu unit at the Cernavoda nuclear power station in Romania. This comprehensive assistance program encompasses training of operating staff and regulatory officers to ensure the development of an integrated "safety culture" in the Romanian nuclear community.

Canada is also participating in several multilateral efforts to assist Central and Eastern European and former Soviet Union countries in solving safety and waste management problems associated with civilian power reactors. These efforts include the safety enhancement action program developed by G-7 countries; using the technical expertise of the International Atomic Energy Agency; the coordination programs of the Group of 24 and the Commission of the European Communities; and work undertaken by the World Association of Nuclear Operators.

Canada's unique expertise in Candu (pressurized fuel channels) technology is also relevant to improving the safe operation of RBMK reactors until replacement power is available. Ontario Hydro and Atomic Energy of Canada Limited are discussing with Russia and Lithuania a possible joint safety assessment and remedial program in those countries.

## NUCLEAR PROLIFERATION

Nuclear proliferation is now the most critical security issue facing the world. With the disintegration of the Soviet Union, new problems have emerged which require an urgent response on the part of the international community. As stated by Prime Minister Mulroney in February 1991, Canada is determined to prevent the spread of nuclear weapons, and the Munich Summit affords a unique opportunity to address this concern, as well as the related issues of disposal of fissile materials and proliferation of knowledge and expertise on the design of nuclear weapons.

The key instrument to halting the spread of nuclear weapons is the 1970 Nuclear Non-Proliferation Treaty, which stipulates that states with no nuclear weapons now may not acquire them, but which does provide for assistance to non-nuclear-weapon states seeking nuclear technology for peaceful purposes. The treaty also commits parties to negotiate an end to the nuclear arms race and to achieve nuclear and general disarmament.

Canada is a staunch supporter of the treaty and has provided strong encouragement to other states to sign it. There are now over 140 signatories, but the number is well short of the universality that is necessary, given the treaty's significance. There are several countries with nuclear programs, which have yet to sign the treaty. At the 1995 Review Conference, a decision will be taken to extend the treaty. Canada advocates indefinite extension, and will be working with other countries to pursue this objective in the coming years. As part of an effective international effort, Canada would be prepared to end its economic cooperation programs with any country that undermines the treaty.

At the same time, and in recognition that it is still possible to adhere to the treaty and carry out a clandestine nuclear program, as Iraq and North Korea have done, Canada is advocating stronger

measures to deter violations. Canada is also calling for a more coherent political management of potential non-compliance by establishing a systematic process of referring serious situations to the UN Security Council. In order to accomplish all of this, the International Atomic Energy Agency would need to be strengthened and its resources increased to allow it to inspect any country, any time. Canada is working along with the major UN contributing states to ensure that this is done.

Because proliferation is rooted in security concerns at the regional level, Canada is working at this level to address these problems. Canada is calling for negotiations leading to a peaceful settlement in the Middle East, including the development of a regional cooperative security system, and is also supporting the proposal for a five-power conference in South Asia. It is endorsing further work on enhancing the effectiveness of the Conference on Security and Cooperation in Europe and the North Atlantic Cooperation Council in Europe, as well as calling for a comprehensive inspection regime in North Korea.

Canada is conscious that building a comprehensive framework for non-proliferation involves more than restraints and agreements in the area of nuclear weapons. As well, it involves sharing the benefits of peaceful nuclear technology with all countries, thereby allaying suspicions on the part of many countries that non-proliferation is simply a way of denying or limiting access to such technology. For these purposes, Canada supports an expanded program of technical cooperation within the International Atomic Energy Agency and greater international efforts to promote the atom as a source of safe, environmentally sound energy and agricultural, industrial and medical benefits.

There are additional steps that could be taken to build on the impressive record of cooperation

among the nuclear powers in recent months. Canada endorses the goal of a comprehensive test ban treaty, which would build on current momentum.

Canada is participating in the International Science and Technology Centre in Moscow as a means of ensuring a smooth transition within the ex-Soviet nuclear science and technology community. Canada is helping to found a similar

centre in Kiev, and is calling for strong summit action to help ensure the safety of Soviet-designed nuclear reactors, as a means of allaying concern about safe nuclear energy. Canada also supports the development of a program for the safe storage and eventual destruction of surplus fissile materials in countries of the former Soviet Union. Canada would be prepared to join in an international program to assist these countries in the destruction of nuclear weapons.



## CANADA'S ECONOMIC PERFORMANCE

From 1984 to 1989, Canada's economy, led by vigorous growth in domestic demand, expanded faster than any other economy among the group of seven major industrial democracies (G-7 countries) — with the exception of Japan. Employment growth in Canada, over this period, was the fastest in the G-7.

By 1989, however, increasing demand pushed the economy beyond its long-run capacity for producing goods and services. Inflationary pressures emerged in both product and labour markets. The inflation rate of the consumer price index (excluding food and energy) increased to 5.5 per cent, and unit labour costs increased 5.4 per cent.

In 1990, private sector wage settlements provided increases of six per cent or more, up from about 3.5 per cent in 1986. Rising costs combined with falling prices weakened corporate balance sheets and profit margins.

However, monetary policy remained firm. Monetary conditions tightened until May 1990 when the 90-day commercial paper rate rose to a peak of 14.03 per cent, and the differential with the corresponding rate in the U.S. widened to 565 basis points. The large interest-rate differentials contributed to the strength of the Canadian dollar.

In the second quarter of 1990, the economy slipped into a year-long recession during which the real gross domestic product fell 3.1 per cent. Recovery began in the second quarter of 1991 when the real gross domestic product increased a strong 5.5 per cent (annual rate). But the recovery was hesitant in the third and fourth quarter of 1991. This weakness spilled into the first quarter of 1992. Employment has fallen and the unemployment rate rose to 11.2 per cent in May.

The recession was deeper than expected and recovery has been weaker due to external and internal factors. Externally, recovery has been slow

in the United States, Canada's major trading partner. This, plus sluggish production in the other major industrial economies, led to weak commodity prices, which have hurt the value of Canadian exports.

Within the Canadian economy, the slow adjustment of inflation expectations as well as low levels of business and consumer confidence have hindered the recovery. As well, restructuring to meet increased global competition has affected many sectors, particularly manufacturing and retail.

Nevertheless, conditions are improving. For example, inflation has come down sharply. The annual rate for the first four months of 1992 has averaged 1.7 per cent, the lowest level for an equivalent period, since 1964. Canada now has the lowest rate of inflation among the G-7. Moreover, the inflation rate of the consumer price index (excluding food and energy) fell to 2.2 per cent in April.

Wage pressures have also adjusted. Private sector settlements have declined from a peak of 6.4 per cent in the third quarter of 1990 to 2.7 per cent in the first quarter of 1992. Smaller wage increases and improved productivity are resulting in lower costs. The rate of increase in unit labour costs was 2.4 per cent in the last quarter of 1991, down from 6.2 per cent in 1990.

The progress in reducing wage pressures means that the progress in reducing inflation is sustainable. Canada is clearly capable of achieving its inflation-reduction target of three per cent for the end of 1992.

Lower inflation pressures have eased monetary conditions. The 90-day commercial paper rate declined over 775 basis points since May 1990 and is now at its lowest level since May 1973 (apart from a brief period early in 1975). The Canadian dollar has fallen from a peak of more than 89

cents American in early November 1991 to about 83 cents American in early June.

There are signs that the economy has begun to respond more forcefully to lower inflation and easier monetary conditions. Housing sales have increased strongly in response to lower mortgage rates as well as a number of government home-ownership assistance programs. A survey by the Conference Board of Canada showed a sharp rebound in business confidence in the first quarter of 1992.

External factors also favour recovery in Canada. Real gross domestic product in the United States

increased 2.4 per cent in the first quarter of 1992 and final domestic demand rose 4.7 per cent. This contributed to stronger Canadian export performance in the early part of 1992. Commodity prices have been increasing since late 1991, which should lead to better trade conditions and healthier profits.

Given these factors, the Canadian economy is expected to grow strongly in the second half of 1992 and in 1993. In its April 1992 World Economic Outlook forecast, the International Monetary Fund predicts the Canadian economy will grow 2.3 per cent in 1992 and 4.9 per cent in 1993, outpacing all other G-7 countries in both years.

## STATISTICAL SUMMARY BY COUNTRY

		Canada	U.S.	Japan	Germany <sup>1</sup>	U.K.	France	Italy
GNP/GDP (% change)	1990	0.5	1.0	5.2	4.5	1.0	2.8	2.0
	1991	-1.5	-0.7	4.5	3.1	-2.2	1.2	1.0
	1992 <sup>2</sup>	2.3	1.6	2.2	1.3	0.8	1.8	1.5
Employment (% change)	1990	0.7	0.5	2.0	2.9	0.3	1.1	1.4
	1991	-1.8	-0.7	1.9	2.8	-2.7	0.0	1.4
CPI inflation (%)	1990	4.8	5.4	3.1	2.7	9.5	3.4	6.5
	1991	5.6	4.2	3.3	3.5	5.9	3.1	6.4
	1992 <sup>2</sup>	1.7	3.1	2.2	3.8	3.7	2.7	5.0
Change: 1990 to 1991 (%)		+0.8	-1.2	+0.2	+0.8	-3.6	-0.3	-0.1
Unemployment rate (%)	1990	8.1	5.5	2.1	6.2	5.9	9.1	11.0
	1991	10.3	6.8	2.1	5.5	8.1	9.6	10.9
Current account balance (billions of U.S. dollars)	1990	-19	-92	36	48	-28	-8	-14
	1991	-23	-9	73	-21	-8	-4	-19
	1992 <sup>2</sup>	-18	-53	93	-14	-15	-4	-20
Change: 1990 to 1991 (billions of U.S. dollars)		-4	+83	+37	-69	+20	+4	-5
Official Development Assistance (ODA) (% of GNP/GDP) <sup>4</sup>	1988	0.50	0.21	0.32	0.39	0.32	0.50	0.39
	1989	0.44	0.15	0.31	0.41	0.31	0.54	0.42
	1990	0.44	0.21	0.31	0.42	0.27	0.55	0.32
Change: 1989 to 1990		nc	+	nc	+	-	+	-
Central government fiscal balance (% of GNP/GDP)	1986	-4.7	-4.9	-3.0	-1.2	-2.3	-2.2	-11.2
	1987	-4.3	-3.5	-1.9	-1.4	-1.2	-1.9	-10.6
	1988	-3.2	-2.9	-1.1	-1.7	1.5	-1.7	-9.7
	1989	-3.3	-2.6	-1.1	-0.9	1.7	-1.5	-9.3
	1990	-3.8	-3.0	-1.2	-2.9	-0.8	-1.8	-9.9
	1991	-4.0	-3.5	-1.4	-3.1	-1.1	-1.6	-9.4
1992 <sup>3</sup>	-2.8	-3.9	-1.6	-2.9	-2.5	-1.7	-8.3	
Change in financial balance 1986 to 1991 (%)		+0.7	+1.4	+1.6	-1.9	+1.2	+0.6	+1.8
Savings ratio	1990	10.4	4.7	14.3	13.9	9.1	12.0	15.6
	1991	10.5	4.2	14.5	13.3	10.3	12.2	15.6
	1992 <sup>3</sup>	10.0	4.2	14.1	13.3	9.9	12.1	15.2
Central government net debt interest payments (% of total spending)	1988	24.9	13.6	15.9	7.6	5.2	6.9	19.2
	1989	27.2	14.5	14.7	4.2	4.8	7.8	20.9
	1990	28.4	14.6	na	na	na	na	na
	1991	26.7	14.6	na	na	na	na	na
	1992 <sup>3</sup>	25.2	14.1	na	na	na	na	na

Sources: Department of Finance Canada; World Economic Outlook, International Monetary Fund, May 1992; OECD Economic Outlook 50, December 1991.

Note: "na" means not available.

<sup>1</sup>Current account data refer to West Germany for the first half of 1990 and all of Germany for the second half of 1990. Central government fiscal balance and central government net debt interest payments data refer to all of Germany (national accounts basis) for 1990, 1991 and 1992. All other data refer to West Germany.

<sup>2</sup>Projections for 1992 are from the World Economic Outlook, International Monetary Fund, May 1992.

<sup>3</sup>Projections for 1992 are from the OECD Economic Outlook 50, December 1991, except for the Canadian central government net debt interest, which comes from Department of Finance Canada.

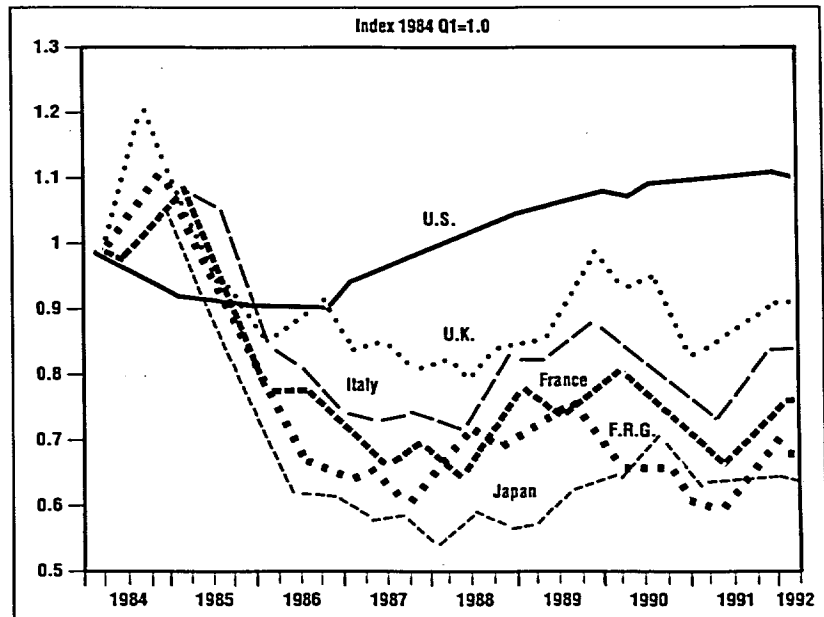
<sup>4</sup>Official development assistance data for France exclude Department d'Outre-Mer—Territoires d'Outre-Mer expenditures. Includes forgiveness of non-ODA debt (in \$US): France, 289; Japan, 15; U.K., 8; U.S., 1200.

## COMPARATIVE ECONOMIC CHARTS

**CHART 1  
CANADIAN DOLLAR MOVEMENTS AGAINST G-7 CURRENCIES**

Following continuous appreciation against the American dollar in the period since 1986, the Canadian dollar began to ease early in 1992. Over the course of 1991, the dollar appreciated slightly against its American counterpart, beginning the year at US\$0.8621 and ending it at US\$0.8654. On May 8, 1992, the dollar stood at US\$0.8313.

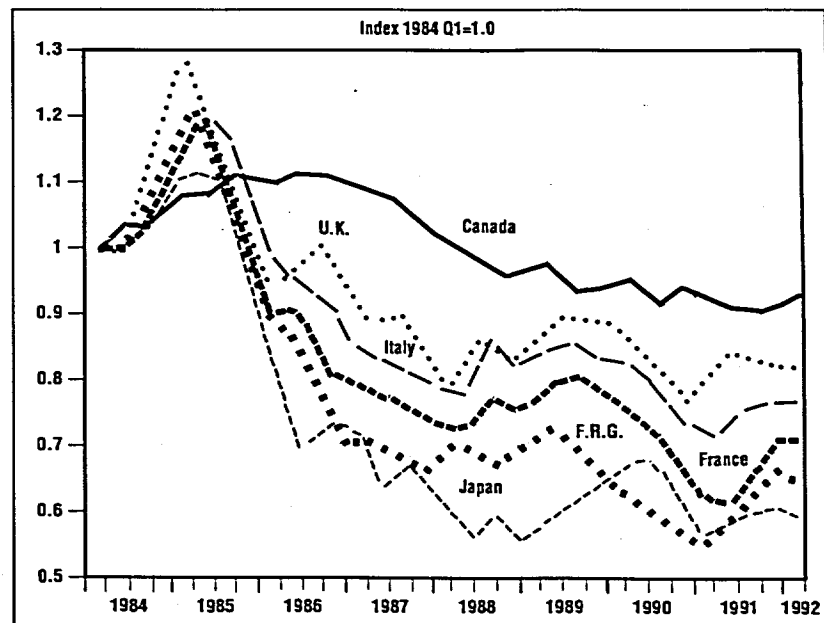
Against the currencies of the overseas G-7 countries, the dollar appreciated over the first three quarters of 1991 and depreciated over the fourth quarter. Over the year as a whole, the dollar appreciated by 2.6% against the pound sterling, 5.3% against the French franc, and 4.3% against the German mark. It fell 5.1% against the Japanese yen. Since the beginning of 1992, the Canadian dollar has continued the decline begun in the fourth quarter of 1991.



**CHART 2  
U.S. DOLLAR MOVEMENTS AGAINST G-7 CURRENCIES**

The American dollar weakened against the currencies of the other G-7 countries in the second half of 1991 and, except against the Canadian dollar, continued to weaken in the beginning of 1992. By the end of March 1992, the dollar was worth 133.2 yen and 1.643 marks versus 137.9 yen and 1.812 marks at the end of June 1991.

The depreciation during the second half of the year reflected the growing differential between foreign interest rates and American rates. While European rates remained relatively high as a result of inflationary pressures in Germany, American rates declined on account of a weaker-than-expected economy.

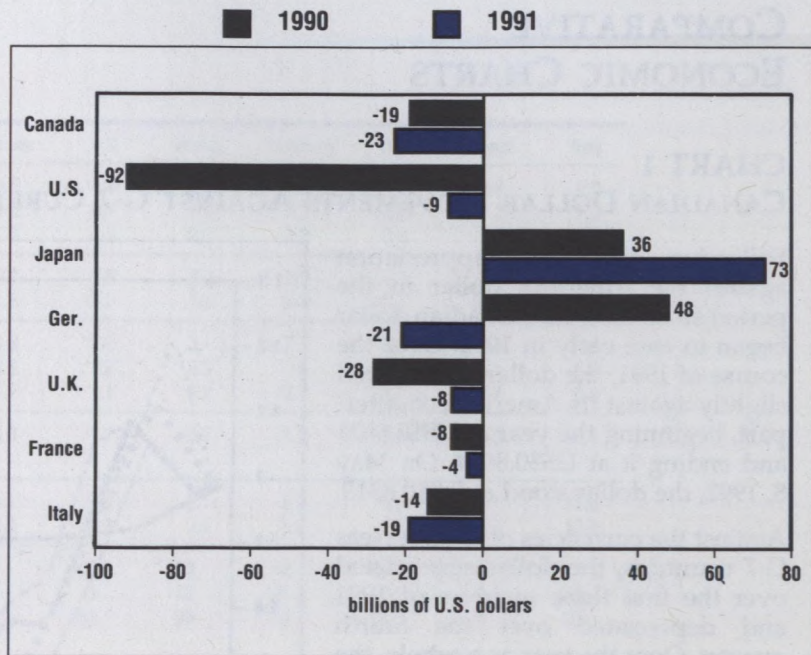


### CHART 3 CURRENT ACCOUNT BALANCE

Current account imbalances increased in Canada, Italy, and Japan in 1991. However, transfer payments — largely related to the Gulf War — from Germany, Japan, and the countries of the Middle East, resulted in a substantial improvement of American and British current account balances.

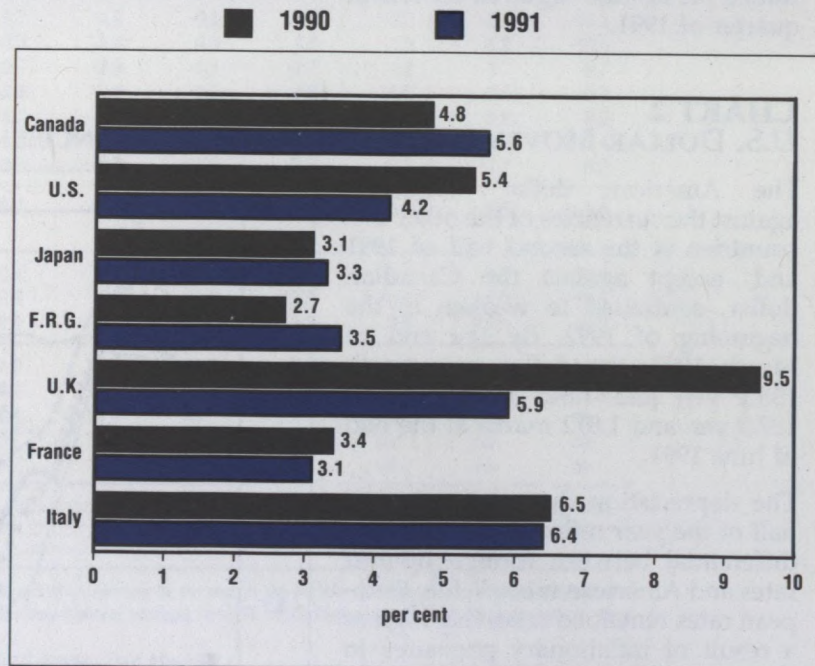
In Germany, a sharp increase in imports required to meet the needs of the former German Democratic Republic and increased transfer payments related to the Gulf War brought the German current account from a surplus to a deficit in 1991.

The Canadian current account deficit widened from US\$18.8 billion in 1990 to more than US\$23 billion in 1991, largely due to a deterioration in the balance of trade in goods and services.



### CHART 4 GROWTH OF THE CONSUMER PRICE INDEX IN 1990 AND 1991

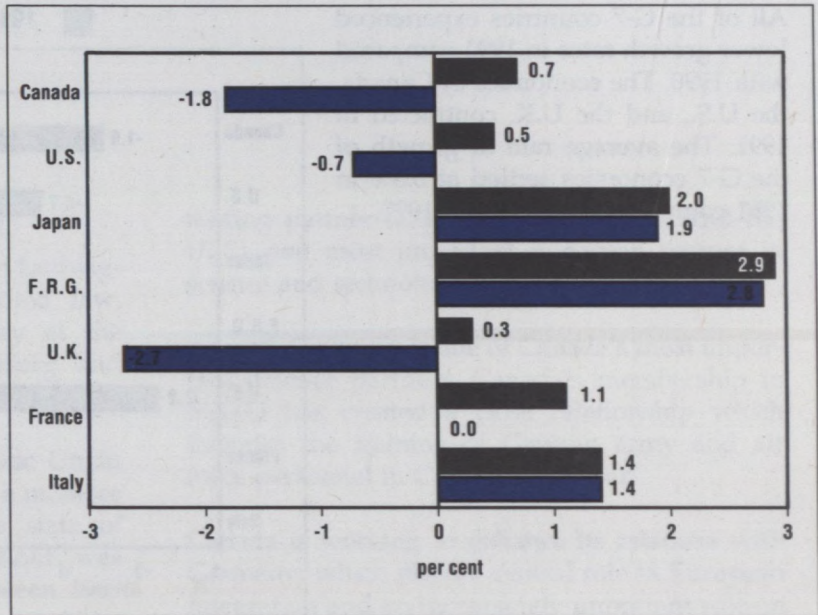
Consumer price inflation declined in four of the G-7 countries in 1991 but increased in Canada, Germany, and Japan. The U.K. experienced the sharpest decline in inflation, after registering the G-7's highest rate in 1990 because of the new poll tax. Inflation in Canada and in western Germany in 1991 was also affected by indirect tax increases. By April 1992, however, the Canadian inflation rate dropped to 1.7%, the lowest among the G-7.



### CHART 5

#### GROWTH OF EMPLOYMENT IN 1990 AND 1991

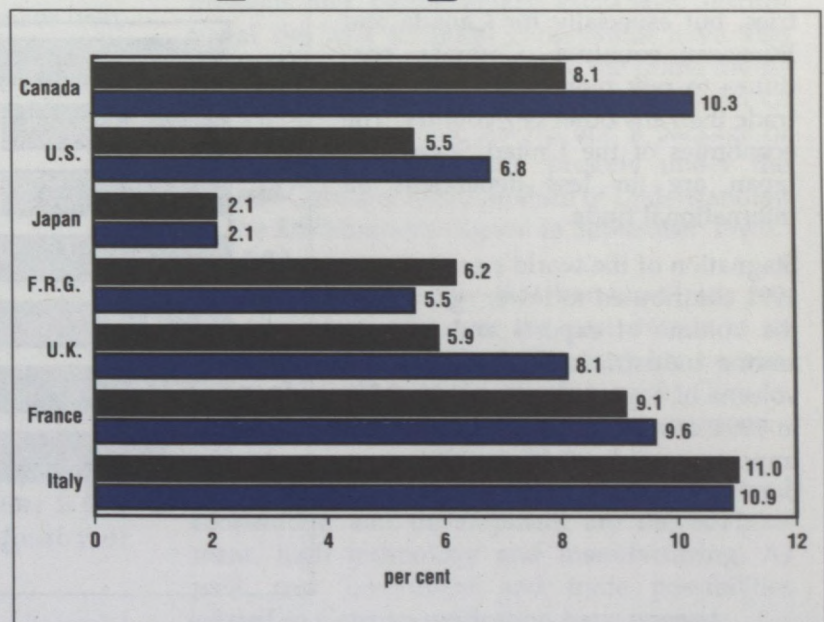
The highest increase in employment occurred in Germany in 1991, followed by Japan and Italy. France experienced no employment growth while recession decreased the number of jobs in the U.K., U.S., and Canada.



### CHART 6

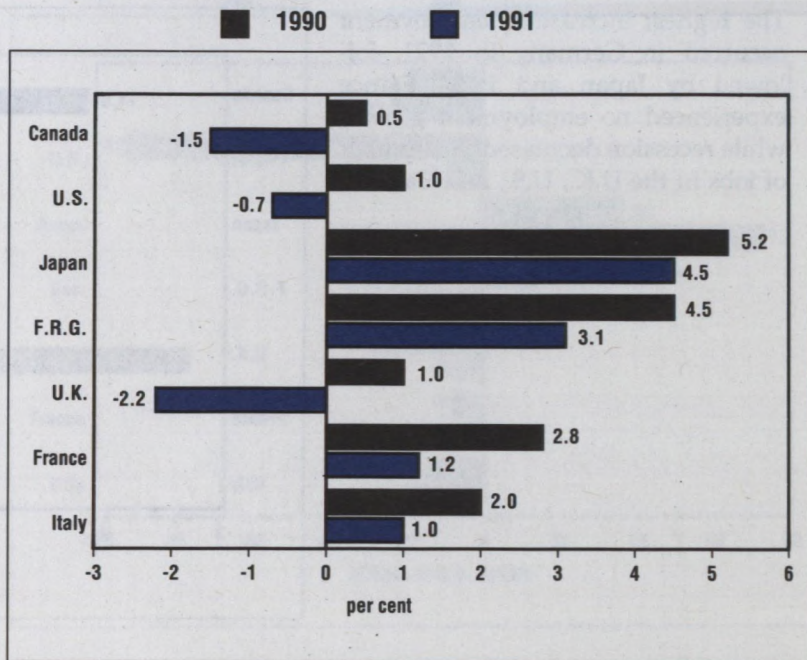
#### UNEMPLOYMENT RATES IN 1990 AND 1991

Recession in North America and the U.K. led to an increase in unemployment rates. France also experienced an increase in unemployment. Unemployment rates declined in Germany and Italy and remained stable in Japan. Japan has the lowest unemployment rate among the G-7 while Italy continues to have the highest.



**CHART 7**  
**GROWTH OF REAL GNP OR GDP IN 1990 AND 1991**

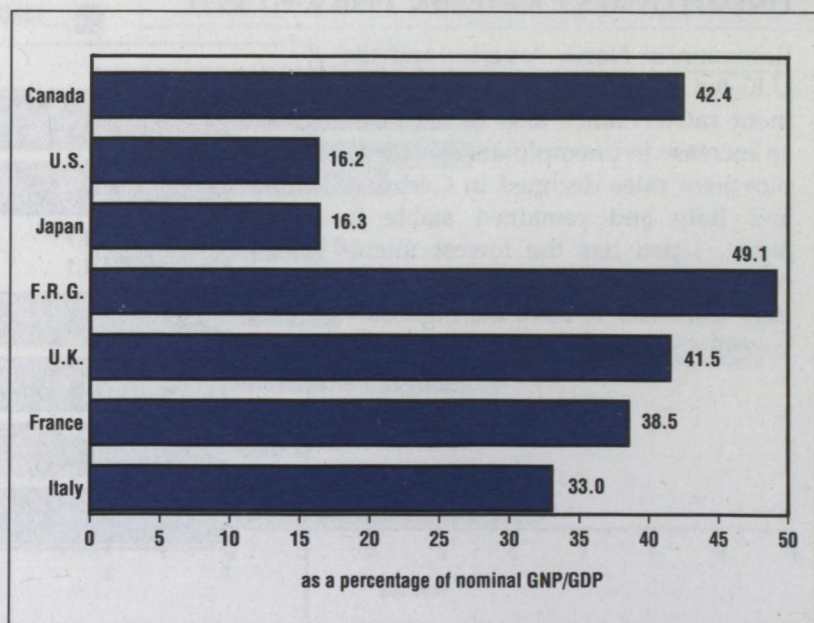
All of the G-7 countries experienced lower growth rates in 1991 compared with 1990. The economies of Canada, the U.S., and the U.K. contracted in 1991. The average rate of growth of the G-7 economies settled at 0.8% in 1991 compared with 2.5% in 1990.



**CHART 8**  
**IMPORTANCE OF INTERNATIONAL TRADE IN 1991**

Trade is important for all G-7 countries, but especially for Canada and European countries. Germany continues to rely more on international trade than any other G-7 country. The economies of the United States and Japan are far less dependent on international trade.

Stagnation of the world's economy in 1991 contributed to lower growth in the volume of exports and imports among industrialized countries. The volume of exports increased by 2.7% in 1991 compared with 5.5% in 1990. Imports grew by 2.4% in 1991 compared with 4.5% in 1990.



## GERMANY

### CHANCELLOR HELMUT KOHL

Helmuth Kohl was born April 3, 1930, in Ludwigshafen, Rhineland-Palatinate. He studied law, sociology, political science and history at the universities of Frankfurt and Heidelberg and received his doctorate in 1958.

Dr. Kohl joined the Christian Democratic Union (CDU) in 1947 and by 1955 had become a member of the party executive for his home state of Rhineland-Palatinate. In 1959, Dr. Kohl was elected to the state assembly and between 1969 and 1976 served as state minister president (premier). He has been a member of the Bundestag (federal lower house) in Bonn since 1976, the same year in which he was the CDU candidate for chancellor and became chairman of his party's Bundestag caucus.

Dr. Kohl became chancellor in October 1982. His centre right coalition government was reelected for a third consecutive mandate in December 1990, in the first pan-German elections since unification. His central preoccupation following the elections has remained the issue of German unification.

Chancellor Kohl made his first official visit to Canada in June 1988.

As the host of the Munich Summit, this will be Chancellor Kohl's 10th Economic Summit.

He will be accompanied by the minister of economics and deputy chancellor, Juergen Moller; the minister of foreign affairs, Klaus Kinkel; and the minister of finance, Dr. Theodor Waigel. Chancellor Kohl's personal representative is Dr. Horst Kohler, state secretary in the Ministry of Finance.

### CANADA-GERMANY RELATIONS

Germany is Canada's third-largest foreign investor (after the U.S.A. and the U.K.), fourth-largest

trading partner (after the U.S.A., Japan and the U.K.), and most important European partner in science and technology.

As well, Germany is one of Canada's most important defence partners. Canada's membership in NATO has created a close relationship which includes the training of German army and air force personnel in Canada each year.

Canada is working to enhance its relations with Germany, which plays a central role in European integration and an increasingly important role on the world stage. Prime Minister Mulroney's visit to Bonn, Berlin and Dresden in June 1991 marked the beginning of a new chapter in Canada's relations with the unified Germany.

In the past year, there have been increased high-level contacts at both the federal and provincial levels, as well as a greater number of trade missions and parliamentary exchanges. Institutional ties and technical cooperation have also been reinforced: during his visit, the prime minister announced the establishment of the John G. Diefenbaker Academic Award and a package of environmental cooperation projects under the Canada-Germany Memorandum of Understanding on the Environment (signed in September 1990).

German statistics show that two-way trade has grown dramatically over the past decade to its present level of \$7 billion. Germany has consistently enjoyed a trade surplus with Canada, although that surplus has fallen in recent years.

Particularly promising fields for further bilateral cooperation and development are the environment, high technology and manufacturing. As well, new investment and trade possibilities related to German unification have opened.



## FRANCE

### PRESIDENT FRANÇOIS MITTERRAND

François Mitterrand was born on Oct. 26, 1916 in Jarnac, Charente. After studying law, literature and political science at the University of Paris, he was drafted into military service in the first year of World War II.

Wounded and taken prisoner, he was transferred to a prisoner of war camp in central Germany, from which he escaped in 1942. Upon his return to France, he joined the resistance. Sent on missions to London and Algiers, where he was received by General de Gaulle, he returned to occupied France in February 1944 to continue the fight. He was secretly appointed secretary-general for prisoners of war, deportees and refugees by General de Gaulle. In this capacity, he took part in the first provisional Government Council of the French Republic in liberated Paris on Aug. 17, 1944.

In 1946, he was elected member for Nièvre. During the 12 years of the Fourth Republic — 1946 to 1958 — he was a minister in many governments. In 1947, at the age of 30, he was the youngest minister to serve in 100 years.

In May 1958, he became one of the main leaders of the opposition. In the presidential elections of 1965, he was the sole candidate of the left when General de Gaulle was reelected. During the 1974 presidential elections, he was once again the sole candidate of the left but was narrowly defeated by Valéry Giscard d'Estaing.

On May 10, 1981, Mr. Mitterrand was elected President of France, and was reelected May 8, 1988.

President Mitterrand will be accompanied at Munich by the minister of the economy and finance, Michel Sapin, and by the minister of foreign affairs, Roland Dumas.

His personal representative at the Munich Economic Summit will be Anne Lauvergeon, assistant secretary-general of l'Élysée.

### CANADA-FRANCE RELATIONS

Bilateral relations between France and Canada are productive and close.

In recent years, France-Canada relations have been reinforced through a series of visits by the respective heads of state and government of both countries, as well as by Canadian provincial representatives. Prime Minister Mulroney visited France most recently in April 1992, where he commemorated the anniversaries of the battles of Vimy and Dieppe. The premiers of Quebec, Ontario and New Brunswick paid official visits to France in 1989, followed by that of the premier of Alberta in 1991.

France and Canada work together closely in a range of international institutions such as the United Nations, the North Atlantic Treaty Organization, the Group of Seven Industrialized Countries, the Conference on Security and Cooperation in Europe, and La Francophonie.

Cultural cooperation between France and Canada is encouraged at the government level through the Cultural Agreement of 1965, the Museological Cooperation Agreement of 1990, and numerous bilateral exchange programs. Fourteen Canadian studies centres play an effective role in promoting an understanding of Canada in France. The two countries also enjoy a special partnership in the audio-visual field, through joint production agreements and combined participation in the international French-language television channel, TV-5. More than \$300 million has been invested in joint productions since 1986.

The value of bilateral trade in 1991 between France and Canada was nearly \$4 billion, and was marked by a slight increase in the trade deficit on the Canadian side, which rose to \$606 million.

Investment between the two countries has shown considerable growth in recent years. During the 1980s, the cumulative value of French investment in Canada rose from \$1.3 billion to \$4 billion, placing France fourth among Canadian sources of foreign investment. Noteworthy recent acqui-

sitions by France include: Connaught Biosciences, Federal Pioneer, the diversified acquisitions of the Groupe Victoire in the insurance sector, and the participation of EMC in potash mining in Manitoba. There are more than 300 French companies now established in Canada.

Canadian investment in France accounts for a significant 5 to 7 per cent of the latter's foreign investment capital. Canadian capital is currently invested in some 100 French companies.

## ITALY

### CANADA-ITALY RELATIONS

Canada's relations with Italy have intensified in recent years in step with Italy's growing economic importance. Former prime minister Giulio Andreotti's visit to Toronto in March 1992 underscored the importance of the growing bilateral relationship and strengthened transatlantic ties. A number of factors, including the recent downturn in the Canadian economy, have, however, contributed to a small decline in two-way trade from \$3 billion in 1990 to \$2.8 billion in 1991. Canadian exports to Italy decreased by 10 per cent in 1991 to \$1 billion while Canadian imports from Italy decreased slightly from \$1.9 billion in 1990 to \$1.8 billion in 1991. In recent years, Italy has enjoyed a trade surplus with Canada.

To strengthen and diversify cooperation between Canada and Italy, and in particular to develop trade and investment, the two governments concluded an Economic and Industrial Cooperation Agreement on Aug. 1, 1988. Several import-

ant trade and industrial missions to Italy have taken place since then. In January 1989, the minister for international trade led a business delegation to Italy. Italy's minister for foreign trade visited Canada in September 1990, and a month later a delegation of the CONFINDUSTRIA (the Federation of Italian Industrial Associations) met with Canadian industrialists in Ottawa.

Canadian provinces have also developed important relations with Italy, notably Ontario, which has been dealing with Lombardy, a wealthy industrial province of northern Italy.

Although Italian investment in Canada is significant, Italian restrictions on capital movements and currency controls have prevented bilateral investment from reaching its full potential. In addition, Italy and Canada have much to gain by engaging in joint ventures and strategic partnership in the nearby markets of Central and Eastern Europe and the United States.

## JAPAN

### PRIME MINISTER KIICHI MIYAZAWA

Kiichi Miyazawa was born in Tokyo on Oct. 8, 1919. He studied law at Tokyo University and graduated in 1941. After serving as a Ministry of Finance official for over 10 years, he was first elected to the House of Councillors in 1953, reelected to the Upper House and then elected nine times to the House of Representatives from the third district of Hiroshima Prefecture. He is the president of the Liberal Democratic Party and also the leader of the third largest faction within the party.

He has served in a number of cabinet positions including: director general of the Economic Planning Agency (1967), minister of international trade and industry (1970), foreign minister (1974), chief cabinet secretary (1980), and finance minister during both the Nakasone and Takeshita administrations (1987 and 1989). During the Takeshita administration he was also deputy prime minister.

Mr. Miyazawa was designated prime minister on Nov. 5, 1991. Munich will be Mr. Miyazawa's first economic summit as prime minister. He attended the summits of 1975 and 1976 as minister of foreign affairs. At Munich, Mr. Miyazawa will be accompanied by Foreign Minister Michio Watanabe and by Finance Minister Tsutomu Hata. His personal representative is Koichiro Matsuura, deputy minister in the Foreign Ministry.

### CANADA-JAPAN RELATIONS

Canada's relationship with Japan has developed rapidly in recent years over an increasingly wide range of activities. Both Canada and Japan have realized their importance to each other in bilateral, regional and global terms, a recognition which is underlined by more than 22 consultative mechanisms that have facilitated the expansion of political, economic and cultural relations.

Prime Minister Mulroney visited Japan in May 1991 to meet with former Prime Minister Kaifu

and to inaugurate the new Canadian chancery, a symbol of the importance of the bilateral relationship. The prime ministers announced on that occasion the creation of "Forum 2000: Partnership Across the Pacific," a bi-national panel. The forum is examining all aspects of Canada-Japan relations, and is to present its recommendations by the end of 1992.

Japan is the world's second largest economy and its third most important trading nation. It is Canada's most important single trading partner after the U.S.A., ahead of the U.K., Germany and France combined. The overall trading relationship is generally harmonious, although in 1991 there was a record trade deficit with Japan, and Canada may experience fallout from the troubled Japan-U.S.A. trading relationship.

In 1991, Canada's exports to Japan amounted to \$7.11 billion, a drop of 13 per cent from the \$8.17 billion recorded in 1990. Canadian imports from Japan increased by 7.7 per cent to \$10.25 billion, leaving a record merchandise trade deficit for Canada of \$3.14 billion. This was the second consecutive drop in Canadian exports to Japan, and the eighth consecutive year of a merchandise trade deficit.

The primary reason is a shift in Japanese imports away from raw materials and resources, which have been the backbone of Canadian exports to Japan, towards higher value-added products. Meanwhile, the Canadian appetite for Japanese cars and consumer products continues to grow.

Japan is a major source of capital for Canada. Portfolio investment alone totals \$44 billion, mainly in the form of federal and provincial government bonds. Japanese direct investment in Canada also continues to grow, reaching a cumulative total of \$5.7 billion last year — well over double the 1985 level.

During the past decade, Japan moved from being the eighth largest foreign investor in Canada to third largest, behind the U.S.A. and the U.K. Currently the three most important sectors for Japanese investment in Canada are pulp and paper, automobiles, and mining (including petroleum). Air links between the two countries have also expanded, and in 1991 tourist arrivals from Japan exceeded 480,000.

Canada-Japan relations are being given a further boost through the launching of the Canadian government's \$65 million Pacific 2000 program under its Going Global trade strategy. Pacific 2000 involves a variety of initiatives, such as language

training and academic research, to enable Canadians to meet the challenge of the dynamic marketplace of the Asian Pacific nations.

Canada and Japan share an interest in cooperation in high technology. A Canada-Japan science and technology consultative process has been in place since the mid-70s, and was formalized through a bilateral agreement concluded in May 1986. Canada has put in place the Japan Science and Technology Fund, which supports the development of enhanced science and technology collaboration with Japan, with the ultimate objective of joint technology development.

## UNITED KINGDOM

### PRIME MINISTER JOHN MAJOR

John Major was born in 1943 and educated at Rutlish Grammar School. He was an executive with Standard Chartered Bank from 1965 to 1979 and is an associate of the Institute of Bankers. From 1968 to 1971 he served on Lambeth Borough Council.

Before his election to Parliament as member for Huntingdonshire in 1979, Mr. Major contested Camden (St. Pancras) in February and October 1974. Since the general election of 1983, he has sat for Huntingdon.

From 1981 to 1983, Mr. Major was parliamentary private secretary to the minister of state at the Home Office. He became an assistant government whip in 1983, and was next appointed a lord commissioner of the treasury (a senior government whip) in 1984.

In 1985 he was made parliamentary under-secretary of state for social security at the Department of Health and Social Security and was promoted to minister of state for social security and the disabled in 1986. He remained in this post until his appointment as chief secretary to the treasury following the general election of June 1987.

John Major was secretary of state for foreign and commonwealth affairs from July until October 1989, when he became chancellor of the exchequer. He was elected Conservative leader on Nov. 27, 1990 and became prime minister on Nov. 28.

John Major led the Conservative Party to its fourth consecutive election victory on April 9, 1992. Returning at the head of a parliamentary majority, Mr. Major will lead a government that intends to put Britain "at the heart of Europe" as it takes over the presidency of the European Council of Ministers of the European Community on July 1, 1992.

Prime Minister Major will be accompanied at the Munich Summit by Chancellor of the Exchequer Norman Lamont and Foreign Secretary Douglas Hurd. His personal representative is Nigel Wicks, second permanent treasury secretary.

### CANADA-U.K. RELATIONS

Canada's relations with the U.K. are close, although they have changed considerably over the years. British entry into the European Community and, on the Canadian side, the development of the free trade agreement with the United States, the prospect of free trade with Mexico, and the growing importance to Canada of the Pacific Rim have influenced the relationship. The two prime ministers meet regularly, as do the ministers responsible for foreign affairs. There were in excess of 200 meetings and visits at the ministerial or senior official level during 1991.

Both countries have long been committed to a strong and dynamic relationship. Their unique bilateral links have served to enhance transatlantic ties during the rapid changes of recent years. The British presidency of the European Community during the second half of 1992 offers a unique opportunity to intensify Canada-EC and Canada-U.K. transatlantic cooperation.

Canada's commercial relationship with the U.K. is, by almost every measure, the most extensive Canada has in Europe. The U.K. is Canada's third-largest trading partner, after the U.S.A. and Japan. Two-way merchandise trade with the U.K. decreased from \$8.4 billion in 1990 to \$7 billion in 1991. The U.K. enjoyed a trade surplus of \$1.3 billion, due largely to North Sea oil exports to Canada. Canadian value-added exports of manufactured products decreased in 1991, but continued to form the second-largest export grouping, after wood and wood articles.

The U.K. is the first, and frequently most successful, point of entry to the European Common Market for many Canadian producers of manufactured and consumer goods. Ready markets exist for globally competitive offerings in the deregulated telecommunications market, informatics, aerospace and ground transportation sectors, as well as the recently privatized energy sector.

The U.K. remains the second-largest foreign investor in Canada, with holdings exceeding \$18

billion. Canada ranks fourth as a destination for U.K. investment and over 650 British firms have subsidiaries in Canada. Some 250 Canadian firms operate in the U.K., including all major Canadian banks and security firms, several insurance and trust companies, and many legal, accounting, consulting and service firms.

## UNITED STATES

### PRESIDENT GEORGE BUSH

George Bush was born June 12, 1924 in Milton, Massachusetts. Following World War II, in which he fought with distinction as a navy pilot in the Pacific, Mr. Bush entered Yale University. Upon completing his degree in economics in 1948, he moved to Texas. A successful businessman, he was co-founder of three firms: Bush-Overbey Oil in 1951, Zapata Petroleum Corporation in 1953, and Zapata Offshore Company in 1954.

George Bush began his public career in 1966 when he was elected from the Texas 7th district to the U.S. House of Representatives. In December 1970, he was appointed ambassador to the United Nations, a position he held for two years. From January 1973 to September 1974, he was chairman of the Republican National Committee. In October 1974, he served in Beijing as chief of the U.S. Liaison Office in the People's Republic of China. From 1976 to 1977, he was director of the Central Intelligence Agency.

Selected as Ronald Reagan's running mate in the November 1980 presidential election, George Bush served two terms as vice-president of the United States. On Jan. 20, 1989, he was sworn in as 41st president of the United States.

Mr. Bush will be attending his fourth economic summit. He will be accompanied by Secretary of State James Baker III, and Treasury Secretary Nicolas Brady. President Bush's personal representative is Robert Zoellick, counsellor of the State Department.

### CANADA-U.S. RELATIONS

Canada and the U.S. are partners in the largest bilateral trading relationship in the world and allies in the defence of North America and Europe; both share a common responsibility for the preservation of the environment of the continent.

Canada and the U.S. are each other's most important customer. In 1991 total two-way trade (mer-

chandise and non-merchandise) was \$256.8 billion, having increased by \$12.9 billion (5.3 per cent) since the free trade agreement came into effect in 1989. For the period 1988 to 1991, Canada's merchandise trade surplus with the U.S. grew by 5.7 per cent; in 1991 it totalled \$15 billion. Overall, the U.S. absorbs approximately 76 per cent of Canadian merchandise exports. Some 64 per cent of Canadian imports come from the U.S. market. Non-merchandise trade, including tourism, services, investment income and transfers, is a significant element of the full bilateral economic relationship.

Canada is by far the largest single customer for U.S. sales abroad. In 1990, Canada accounted for 21 per cent of all U.S. exports. Canada buys more U.S. products than Germany, the U.K., France and Italy combined; Ontario alone buys more U.S. goods than all of Japan. According to the U.S. Department of Commerce, over two million manufacturing jobs in the U.S. rely on Canadian imports.

Preliminary 1991 statistics on direct investment indicate that the U.S. is the largest foreign investor in Canada, accounting for \$84.6 billion. Reinvested earnings of Canadian affiliates continue to be the major source of U.S. direct investment in Canada. The stock of Canadian direct investment in the U.S. is also significant, amounting to \$55.4 billion in 1991. Canada ranked (in 1990) as the fourth-largest foreign investor (eight per cent) in the U.S.

The free trade agreement has been in effect for over three years. Implementation is proceeding. A 10-year phase-in will eventually eliminate all bilateral tariffs and most other border restrictions. While free trade implementation advances smoothly on many fronts, recent Canada-U.S. trade tensions are of some concern. Canada prefers negotiated solutions to trade disputes; however, Canada is determined to protect the rights of Canadian exporters under the agreement.



Canada, U.S. and Mexico negotiations aimed at the creation of a North American free trade agreement continue. Several ministerial meetings have already been held in 1991-92, with chief negotiators and negotiating teams meeting concurrently.

In the field of the environment, Canada and the U.S. have made significant progress in overcoming and resolving the difficult problems of transboundary water pollution and wildlife management. In particular, a bilateral air quality accord was achieved on March 13, 1991, and the bill amending the U.S. Clean Air Act (including a 10-million tonne reduction in SO<sub>2</sub> emissions by the year

2000) was signed by the president in November 1990.

Overall management of the relationship is provided through frequent meetings between the prime minister and the president and between Canadian ministers and their U.S. counterparts. High-level consultations with the Bush administration remain vital to the conduct of effective relations. Prime Minister Mulroney and President Bush have met 14 times since the latter's inauguration in January 1989. The most recent meeting took place May 19-21, 1992, in Washington, D.C., where trade issues dominated their discussions.

## EUROPEAN COMMUNITY

### PRESIDENT OF THE COMMISSION JACQUES DELORS

Jacques Delors was born in Paris on July 20, 1925. He began his career in 1945 as a writer for the Bank of France. In the early 1950s, Mr. Delors was involved in union activities.

From 1962 to 1969 he was seconded from the Bank of France to create the social affairs service for the general commissariat of planning. In 1969, he was appointed counsellor for social and cultural affairs in the office of Prime Minister Chaban-Delmas. He also worked for the United Nations Social Development Research Institute.

In 1981, Mr. Delors was appointed minister of the economy and finance. In 1984, he left the French government and became president of the Commission of the European Communities.

As president of the Commission, Mr. Delors strongly favours reform and renewal of the European Community. He is a strong and eloquent proponent of European integration. His presidency has been marked by initiatives such as the Single European Act (1992) and the signature of the Treaty on European Union (Maastricht).

Mr. Delors will be accompanied by Frans Andriessen, vice-president of the Commission. His personal representative is Pascal Lamy, chef de cabinet.

### CANADA-EUROPEAN COMMUNITY BILATERAL RELATIONS

Canada has long attached a very high priority to its relations with the European Community and its 12 member states, which, taken together, represent Canada's second-largest trading partner.

In 1976, the EC and Canada signed a framework agreement to promote, diversify and develop mutual trade and economic interchange. The

parties meet once a year to review and promote economic activity.

With the beginning of implementation of the Single European Act in 1987, the EC acquired a new importance for Canada. The act helped revitalize the EC, which, in the wake of the collapse of the communist regimes of Central and Eastern Europe, has become the pole of attraction for the region's new democracies.

European political cooperation, which was institutionalized by the Single Europe Act, is not a "community" process but provides for a mechanism of intergovernmental cooperation and consultation linking the 12 member states of the EC and the European Commission on all kinds of policy issues. In 1988, Canada agreed with EC member states to have semi-annual consultations on important questions of foreign policy, in the political cooperation context, at the level of ministers and senior officials.

In November 1990, a turning point was reached in political relations between Canada, the EC and its member states, when the Declaration on Relations between Canada and the EC (Transatlantic Declaration) was signed. In this declaration, the parties undertook to face together the common challenges of the future.

The mechanisms of political consultation were also reinforced to include consultation between Canada's prime minister and the presidents of the European Council and of the Commission of the European Communities. These consultations took place most recently in Ottawa in April 1992, under the Portuguese presidency of the European Council.

Trade is a major component of Canada's relations with the EC. In 1991, trade with the EC accounted for 9.4 per cent of Canada's total trade turnover. Canada's trade with the EC totalled \$25.8 billion in 1991, down from \$27.1 billion in 1990. Much of

the decline is attributable to a decline in trade with the United Kingdom. Canada has experienced a trade deficit with the EC since 1983.

In 1991, Canadian direct investment in the EC totalled \$18.6 billion, or 20 per cent of the total Canadian direct investment abroad. EC direct investment in Canada totalled \$30.8 billion, or 24 per cent of the total foreign direct investment in Canada.

If one considers the overall volume of trade, commercial relations between Canada and the EC are generally smooth.

One serious bilateral irritant is the issue of EC over-fishing, (in excess of North Atlantic Fisheries Organization quotas), of the "straddling" cod stocks off Canada's Atlantic coast. Prime Minister Mulroney raised Canadian concerns with President Delors during their meeting in April 1992.

With the signature in Maastricht in December 1991 of the Treaty on European Union, the EC and its member states embarked on a new phase of integration, including economic and monetary union and a process of political union. Under the community's 1992 program, the EC is removing all existing barriers to the free flow of goods, services, capital and people. With a population of almost 350 million and a gross national product of \$6 trillion the community will rival the U.S.

The completion of the EC's single market is expected to lead to greater economic growth, with EC firms becoming increasingly competitive and able to exploit new economies of scale. The post-1992 EC will be an even more attractive and important market for Canadian companies.

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## **INTERNATIONAL ECONOMIC ORGANIZATIONS AND INSTITUTIONS**

### **CAIRNS GROUP**

The Cairns Group was formed to promote reform in agricultural trade. It consists of 13 small and medium-size countries that export agricultural products (Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay). The Group was named after Cairns, Australia, where agriculture ministers first met in 1986.

### **CONFERENCE ON SECURITY AND COOPERATION IN EUROPE (CSCE)**

The conference was created in 1975 by the Helsinki Final Act and links Canada, the United States and 50 European countries. It was initially a series of conferences on principles governing relations among participating states. Discussions covered military security; human rights, political, economic, scientific, technological and environmental cooperation; and democratic development and the transition to market-based economies.

Following the summit of CSCE heads of state and government in 1990, a permanent secretariat was established in Prague, the Conflict Prevention Centre in Vienna and the Office of Democratic Institutions and Human Rights in Warsaw. The Committee of Senior Officials and the Council of Foreign Ministers were also created. At the next CSCE summit in Helsinki, Finland, July 9-10, leaders are expected to sign a political document which will, among other things, help the CSCE deal more effectively with conflict in Europe. They will, as well, consider the creation and use of CSCE peacekeeping forces.

### **EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)**

The bank was set up in 1991 with headquarters in London. Its job is to foster the transition towards

open market-oriented economies and to promote private entrepreneurial initiative in Central and Eastern European countries, including those of the former Soviet Union, that are committed to multi-party democracy, pluralism and market economics. Canada, a founding member of the bank, has a 3.4 per cent share of its capital base. Canada's deputy prime minister and finance minister is the bank's governor for Canada.

### **GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)**

Since 1948, GATT has been the principal international body concerned with liberalizing world trade, and negotiating the reduction of trade restrictions and other measures that distort trade. More than 100 countries carrying out more than 90 per cent of world trade are GATT members. GATT sets rules governing international trade in goods; Uruguay Round negotiations have sought to bring investment, services, intellectual property, and trade in textiles and clothing under GATT disciplines.

One of the major functions of GATT is to provide a framework for resolving international trade disputes between governments. Where informal bilateral consultations fail, contracting parties may turn to the GATT dispute settlement process to engage in formal bilateral consultations. Ultimately, if such consultations are unsuccessful in resolving bilateral differences, there is recourse to a GATT panel.

The GATT Secretariat has its headquarters at the United Nations in Geneva. The director general is Arthur Dunkel (Switzerland).

### **GLOBAL ENVIRONMENT FACILITY (GEF)**

The facility was established in November 1990 as a three-year pilot project to help developing

countries undertake projects with global environmental benefits in four areas: ozone stabilization; international waters; climate change; and biodiversity. The World Bank, the UN Environment Program and the UN Development Program are implementing agencies. The facility has 31 members, 14 of which are developing countries. Due to its recent designation as the financial mechanism for the Framework Convention on Climate Change, the facility will now have a longer-term role. Canada's contribution amounts to 1.8 per cent of the \$1.4 billion pilot phase.

### **GROUP OF SEVEN (G-7)**

The Group of Seven (G-7) was created at the 1986 Tokyo Economic Summit. It consists of the finance ministers and central bank governors of the summit countries (Canada, Germany, France, Italy, Japan, the United Kingdom, and the United States), and was formed in order to enhance the surveillance and coordination of international economic policies, with a view to improving the economic performance of member countries.

Since its inception the G-7 has met regularly, usually with the participation of the managing director of the International Monetary Fund.

### **GROUP OF 24 (G-24)**

At the 1989 Paris Economic Summit, leaders decided to extend economic assistance to Poland and Hungary. They asked the Commission of the European Communities to coordinate this assistance. The commission responded by inviting 24 countries, all of them OECD members, to exchange information, establish priorities and review progress. This group, which meets in Brussels, calls itself the G-24. It has also been extending coordinated economic assistance to the Czech and Slovak Federal Republic, Bulgaria, Romania, Albania and, more recently, Latvia, Lithuania and Estonia. The mandate of the G-24 does not extend to the countries of the former Soviet Union.

### **INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA)**

The agency, headquartered in Vienna, was founded in 1957. It has established a program of on-site inspections, audits, and inventory controls known collectively as "safeguards." The purpose

of the safeguards is to use the risk of timely detection to deter the diversion of nuclear materials from peaceful uses to military purposes. Attempts by adherents to the Non-Proliferation Treaty, notably Iraq and North Korea, to develop clandestine nuclear weapons programs have, however, prompted discussion on how the safeguards might be further strengthened. At present there are 123 member states.

### **INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)**

The association is the concessional financing arm of the World Bank. Loans are concentrated in the poorest developing countries and are issued at no interest, with very long grace and repayment periods. The association obtains its funding mainly from the voluntary contributions of donor countries. Replenishments are arranged every three years through negotiations among donors. Negotiations on the 10th replenishment are to be completed by December 1992.

Canada, the seventh largest contributor, committed US\$829 million to the ninth replenishment in 1989.

### **INTERNATIONAL MONETARY FUND (IMF)**

The IMF was established in 1945 to promote international monetary cooperation and, through enhancing the openness and stability of the international payments system, international trade. The IMF finances member countries who have balance-of-payments difficulties subject to the implementation of measures to improve economic management. It also oversees the functioning of the international monetary system.

The Interim Committee, established in 1974, is an advisory body made up of 22 members representing the same countries or groups of countries ("constituencies") as those on the executive board. The Development Committee was also set up in 1974. It has a structure similar to the Interim Committee and reviews development policy issues and financing requirements.

The IMF has 160 member states, including Canada. The managing director is Michel Camdessus (France). Canada's finance minister is the

governor for Canada, and Canada has a seat on the executive board.

### **NORTHWEST ATLANTIC FISHERIES ORGANIZATION (NAFO)**

NAFO is the international body responsible for managing fish stocks in the north-west Atlantic outside Canada's 200-mile limit. NAFO is made up of 11 contracting parties: Canada, the European Community, Bulgaria, Cuba, Denmark (for the Faroe Islands and Greenland), Iceland, Japan, Norway, Poland, Romania and Russia. Its objective is to contribute, through consultation and cooperation, to the optimum use, rational management and conservation of the fishery resources of the convention area.

### **ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)**

This organization was founded in 1961. It replaced the Organization for European Economic Cooperation, established in 1948 to coordinate European requests for assistance under the Marshall Plan. Canada was one of the founding member countries.

The OECD, which has its headquarters in Paris, is the forum where representatives of the governments of the industrialized democracies share information on their domestic economies and consult on approaches to international economic issues. It also discusses environment issues, especially the link between environment and economy, as well as a broad spectrum of social policies.

Reflecting the growing integration of the world economy, the OECD has entered into discussions with a number of non-member countries, most notably Hong Kong, Singapore, Taiwan, South Korea, Malaysia and Thailand. Through the Centre for Cooperation with European Economies in Transition, the OECD has also started a comprehensive program of technical cooperation involving public policy advice with the countries of Central and Eastern Europe and the former Soviet Union.

The OECD Council, comprising all 24 member states, including Canada, meets once a year at the

ministerial level. The last ministerial meeting took place May 18-19, 1992. The secretary-general is Jean-Claude Paye (France).

### **OECD NUCLEAR ENERGY AGENCY (NEA)**

The agency was created in 1956 as the European Nuclear Energy Agency and was renamed the OECD Nuclear Energy Agency in 1972 with the admittance of Japan. Canada and the United States joined in 1976. The agency is a subsidiary body of the OECD; its purpose is to further the development of the production and uses of nuclear energy, including applications of ionizing radiations, for peaceful purposes. Participating countries also aim to harmonize measures at the national level.

### **PARIS CLUB**

The Paris Club is an informal group of representatives of official creditors who meet under the chairmanship of the French treasury. They reschedule direct government credits and government-guaranteed commercial credits provided to other countries. While the club has been in existence since the 1950s, it only began to meet on a regular basis with the onset of widespread debt-servicing difficulties among developing countries in the early 1980s.

Usually, the Paris Club stretches a country's debt service payments over 10 years. For the poorest countries, and more recently for lower-middle-income countries, this has been extended to 15 to 20 years. In 1988 the Paris Club agreed on a concessional treatment for the poorest countries (Toronto Terms).

This treatment was enhanced in 1991 (Trinidad Terms). Paris Club debt relief is conditional on the debtor country adopting an International Monetary Fund-supported program of economic reform in order to improve its economic management and allow it to service its external obligations.

### **UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT (UNCED)**

This conference was held in Rio de Janeiro from June 3 to 14, 1992. UNCED brought together

heads of government and heads of state from all over the world to discuss the integration of environment and development strategies on a global scale.

### **UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)**

UNCTAD meets every four years at the ministerial level to consider international economic questions that affect the plans and prospects of developing countries. A permanent secretariat and several bodies and committees meet regularly in Geneva. UNCTAD VIII, held in February 1992, resulted in an agreement to implement fundamental reforms that focus on policy research and analysis for the international community.

Canada supports UNCTAD financially through an annual assessed contribution to the UN budget. In addition, Canada provides approximately \$1.25 million per year for trade development and promotion of training projects implemented by the UNCTAD/GATT International Trade Centre, and \$5,000 annually for an UNCTAD project for women. The secretary-general is Kenneth Dadzie (Ghana).

### **UNITED NATIONS ENVIRONMENT PROGRAM (UNEP)**

This program was created in 1972 as an outcome of the UN Stockholm Conference on the Human Environment. The first executive director was Maurice Strong, the Canadian chairman of both the Stockholm conference and the 1992 UN Conference on Environment and Development. UNEP's headquarters are in Nairobi, Kenya. It

promotes international cooperation and monitors the environment around the world. Canada has been a consistent supporter of the program, which relies for its funding on voluntary contributions.

### **WORLD ASSOCIATION OF NUCLEAR OPERATORS (WANO)**

The association was created in 1989 to maximize the safety and reliability of nuclear power plant operation. Its goal is to exchange information and, thereby, to encourage comparison and emulation amongst its members. Membership is open to any nuclear power plant operator who supports the association's commitment to responsible power plant operation and collective responsibility for informing and assisting other nuclear operators. Current Canadian members are Atomic Energy of Canada Limited, New Brunswick Power, Ontario Hydro and Hydro Quebec.

### **WORLD BANK**

The World Bank is a group of four institutions: the International Bank for Reconstruction and Development, established in 1945; the International Development Association; the International Finance Corporation; and the Multilateral Investment Guarantee Agency. Together they help raise standards of living in developing countries by channelling financial resources from developed countries.

There are more than 150 member nations in the bank, including Canada. The president is Lewis Preston (U.S.). The governor for Canada is the deputy prime minister and minister of finance. Canada is the sixth largest contributor to the bank, providing US\$287 million in 1989-90.

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## LONDON SUMMIT DECLARATIONS

### ECONOMIC DECLARATION July 17, 1991

#### Building World Partnership

1. We, the Heads of State and Government of the seven major industrial democracies and the representatives of the European Community, met in London for our seventeenth annual Summit.

2. The spread of freedom and democracy which we celebrated at Houston has gathered pace over the last year. Together the international community has overcome a major threat to world peace in the Gulf. But new challenges and new opportunities confront us.

3. We seek to build world partnership, based on common values, and to strengthen the international order. Our aim is to underpin democracy, human rights, the rule of law and sound economic management, which together provide the key to prosperity. To achieve this aim, we will promote a truly multilateral system, which is secure and adaptable and in which responsibility is shared widely and equitably. Central to our aim is the need for a stronger, more effective UN system, and for greater attention to the proliferation and transfer of weapons.

#### *Economic policy*

4. Over the last year, some of our economies have maintained good growth, while most have slowed down and some gone into recession. But a global recession has been avoided. The uncertainty created by the Gulf crisis is behind us. We welcome the fact that there are now increasing signs of economic recovery. Progress has been made too in reducing the largest trade and current account imbalances.

5. Our shared objectives are a sustained recovery and price stability. To this end, we are determined to maintain, including through our econ-

omic policy coordination process, the medium-term strategy endorsed by earlier Summits. This strategy has contained inflationary expectations and created the conditions for sustainable growth and new jobs.

6. We therefore commit ourselves to implement fiscal and monetary policies, which, while reflecting the different situations in our countries, provide the basis for lower real interest rates. In this connection, continued progress in reducing budget deficits is essential. This, together with the efforts being made to reduce impediments to private saving, will help generate the increase in global savings needed to meet demands for investment. We also welcome the close cooperation on exchange markets and the work to improve the functioning of the international monetary system.

7. We will also, with the help of the Organisation for Economic Co-operation and Development (OECD) and other institutions, pursue reforms to improve economic efficiency and thus the potential for growth. These include:

- a) greater competition in our economies, including regulatory reform. This can enhance consumer choice, reduce prices and ease burdens on business.
- b) greater transparency, elimination or enhanced discipline in subsidies that have distorting effects, since such subsidies lead to inefficient allocation of resources and inflate public expenditure.
- c) improved education and training, to enhance the skills and improve the opportunities of those both in and out of employment, as well as policies contributing to greater flexibility in the employment system.



- d) a more efficient public sector, for example through higher standards of management and including possibilities for privatisation and contracting out.
- e) the wide and rapid diffusion of advances in science and technology.
- f) essential investment, both private and public, in infrastructure.

8. We will encourage work nationally and internationally to develop cost-effective economic instruments for protecting the environment, such as taxes, charges and tradeable permits.

### *International trade*

9. No issue has more far-reaching implications for the future prospects of the world economy than the successful conclusion of the Uruguay Round. It will stimulate non-inflationary growth by bolstering confidence, reversing protectionism and increasing trade flows. It will be essential to encourage the integration of developing countries and Central and East European nations into the multilateral trading system. All these benefits will be lost if we cannot conclude the Round.

10. We therefore commit ourselves to an ambitious, global and balanced package of results from the Round, with the widest possible participation by both developed and developing countries. The aim of all contracting parties should be to complete the Round before the end of 1991. We shall each remain personally involved in this process, ready to intervene with one another if differences can only be resolved at the highest level.

11. To achieve our objectives, sustained progress will be needed in the negotiations at Geneva in all areas over the rest of this year. The principal requirement is to move forward urgently in the following areas taken together:

- a) market access, where it is necessary, in particular, to cut tariff peaks for some products while moving to zero tariffs for others, as part of a substantial reduction of tariffs and parallel action against non-tariff barriers.
- b) agriculture, where a framework must be decided upon to provide for specific

binding commitments in domestic support, market access and export competition, so that substantial progressive reductions of support and protection may be agreed in each area, taking into account non-trade concerns.

- c) services, where accord on a general agreement on trade in services should be reinforced by substantial and binding initial commitments to reduce or remove existing restrictions on services trade and not to impose new ones.
- d) intellectual property, where clear and enforceable rules and obligations to protect all property rights are necessary to encourage investment and the spread of technology.

12. Progress on these issues will encourage final agreement in areas already close to conclusion, such as textiles, tropical products, safeguards and dispute settlement. Agreement to an improved dispute settlement mechanism should lead to a commitment to operate only under the multilateral rules. Taken all together, these and the other elements of the negotiations, including GATT rule-making, should amount to the substantial, wide-ranging package which we seek.

13. We will seek to ensure that regional integration is compatible with the multilateral trading system.

14. As we noted at Houston, a successful outcome of the Uruguay Round will also call for the institutional reinforcement of the multilateral trading system. The concept of an international trade organisation should be addressed in this context.

15. Open markets help to create the resources needed to protect the environment. We therefore commend the OECD's pioneering work in ensuring that trade and environment policies are mutually supporting. We look to the General Agreement on Tariffs and Trade (GATT) to define how trade measures can properly be used for environmental purposes.

16. We are convinced that OECD members must overcome in the near future and, in any case, by the end of the year, remaining obstacles to an

agreement on reducing the distortions that result from the use of subsidised export credits and of tied aid credits. We welcome the initiative of the OECD in studying export credit premium systems and structures and look forward to an early report.

### *Energy*

17. As the Gulf crisis showed, the supply and price of oil remain vulnerable to political shocks, which disturb the world economy. But these shocks have been contained by the effective operation of the market, by the welcome increase in supplies by certain oil-exporting countries and by the actions co-ordinated by the International Energy Agency (IEA), particularly the use of stocks. We are committed to strengthen the IEA's emergency preparedness and its supporting measures. Since the crisis has led to improved relations between producers and consumers, contacts among all market participants could be further developed to promote communication, transparency and the efficient working of market forces.

18. We will work to secure stable worldwide energy supplies, to remove barriers to energy trade and investment, to encourage high environmental and safety standards and to promote international cooperation on research and development in all these areas. We will also seek to improve energy efficiency and to price energy from all sources so as to reflect costs fully, including environmental costs.

19. In this context, nuclear power generation contributes to diversifying energy sources and reducing greenhouse gas emissions. In developing nuclear power as an economic energy source, it is essential to achieve and maintain the highest available standards of safety, including in waste management, and to encourage co-operation to this end throughout the world. The safety situation in Central and Eastern Europe and the Soviet Union deserves particular attention. This is an urgent problem and we call upon the international community to develop an effective means of coordinating its response.

20. The commercial development of renewable energy sources and their integration with general energy systems should also be encouraged,

because of the advantages these sources offer for environmental protection and energy security.

21. We all intend to take a full part in the initiative of the European Community for the establishment of a European Energy Charter on the basis of equal rights and obligations of signatory countries. The aim is to promote free and undistorted energy trade, to enhance security of supply, to protect the environment and to assist economic reform in Central and East European countries and the Soviet Union, especially by creating an open, non-discriminatory regime for commercial energy investment.

### *Central and Eastern Europe*

22. We salute the courage and determination of the countries of Central and Eastern Europe in building democracy and moving to market economies, despite formidable obstacles. We welcome the spread of political and economic reform throughout the region. These changes are of great historical importance. Bulgaria and Romania are now following the pioneering advances of Poland, Hungary and Czechoslovakia. Albania is emerging from its long isolation.

23. Recognising that successful reform depends principally on the continuing efforts of the countries concerned, we renew our own firm commitment to support their reform efforts, to forge closer ties with them and to encourage their integration into the international economic system. Regional initiatives reinforce our ability to cooperate.

24. All the Central and East European countries except Albania are now members of the International Monetary Fund (IMF) and the World Bank. We welcome the steps being taken by those countries that are implementing IMF-supported programmes of macro-economic stabilisation. It is crucial that these programmes are complemented by structural reforms, such as privatising and restructuring state-owned enterprises, increasing competition and strengthening property rights. We welcome the establishment of the European Bank for Reconstruction and Development (EBRD), which has a mandate to foster the transition to open, market-oriented economies and to promote private initiative in Central and East European countries committed to democracy.

25. A favourable environment for private investment, both foreign and domestic, is crucial for sustained growth and for avoiding dependence on external assistance from governments. In this respect, technical assistance from our private sectors and governments, the European Community and international institutions should concentrate on helping this essential market-based transformation. In this context, we emphasise the importance of integrating environmental considerations into the economic restructuring process in Central and Eastern Europe.

26. Expanding markets for their exports are vital for the Central and East European countries. We welcome the substantial increases already made in exports to market economies and we undertake to improve further their access to our markets for their products and services, including in areas such as steel, textiles and agricultural produce. In this context, we welcome the progress made in negotiating Association Agreements between the European Community and Poland, Hungary and Czechoslovakia, as well as the Presidential Trade Enhancement Initiative announced by the United States, all of which will be in accordance with GATT principles. We will support the work of the OECD to identify restrictions to East/West trade and to facilitate their removal.

27. The Group of Twenty-Four (G24) process, inaugurated by the Arch Summit and chaired by the European Commission, has mobilised \$31 billion in bilateral support for these countries, including balance of payments finance to underpin IMF-supported programmes. Such programmes are in place for Poland, Hungary and Czechoslovakia. We welcome the contributions already made for Bulgaria and Romania. We are intensifying the G24 coordination process and we reaffirm our shared willingness to play our fair part in the global assistance effort.

### *The Soviet Union*

28. We support the moves towards political and economic transformation in the Soviet Union and are ready to assist the integration of the Soviet Union into the world economy.

29. Reform to develop the market economy is essential to create incentives for change and enable the Soviet people to mobilise their own substantial natural and human resources. A clear

and agreed framework within which the centre and the republics exercise their respective responsibilities is fundamental for the success of political and economic reform.

30. We have invited President Gorbachev to meet us for a discussion of reform policies and their implementation, as well as ways in which we can encourage this process.

31. We commend the IMF, World Bank, OECD and EBRD for their study of the Soviet economy produced, in close consultations with the European Commission, in response to the request we made at Houston. This study sets out many of the elements necessary for successful economic reform, which include fiscal and monetary discipline and creating the framework of a market economy.

32. We are sensitive to the overall political context in which reforms are being conducted, including the "New Thinking" in Soviet foreign policy around the world. We are sensitive also to the importance of shifting resources from military to civilian use.

33. We are concerned about the deterioration of the Soviet economy, which creates severe hardship not only within the Soviet Union but also for the countries of Central and Eastern Europe.

### *The Middle East*

34. Many countries have suffered economically as a result of the Gulf crisis. We welcome the success of the Gulf Crisis Financial Co-ordination Group in mobilising nearly \$16 billion of assistance for those countries suffering the most direct economic impact of the Gulf crisis and urge all donors to complete disbursements rapidly. Extensive assistance is being provided by Summit participants for the Mediterranean and the Middle East, as well as by the IMF and World Bank.

35. We believe that enhanced economic co-operation in this area, on the basis of the principles of non-discrimination and open trade, could help repair the damage and reinforce political stability. We welcome the plans of major oil exporting countries for providing financial assistance to others in the region and their decision to establish a Gulf Development Fund. We support closer

links between the international financial institutions and Arab and other donors. We believe this would encourage necessary economic reforms, promote efficient use of financial flows, foster private sector investment, stimulate trade liberalisation and facilitate joint projects e.g. in water management, which would draw on our technical skills and expertise.

### *Developing Countries and Debt*

36. Developing countries are playing an increasingly constructive role in the international economic system, including the Uruguay Round. Many have introduced radical policy reforms and are adopting the following principles:

- (a) respect for human rights and for the law, which encourages individuals to contribute to development;
- (b) democratic pluralism and open systems of administration, accountable to the public;
- (c) sound, market-based economic policies to sustain development and bring people out of poverty.

We commend these countries and urge others to follow their example. Good governance not only promotes development at home, but helps to attract external finance and investment from all sources.

37. Our steadfast commitment to helping developing countries, in conjunction with a durable non-inflationary recovery of our economies and the opening of our markets, will be the most effective way we have of enhancing prosperity in the developing world.

38. Many of these countries, especially the poorest, need our financial and technical assistance to buttress their own development endeavours. Additional aid efforts are required, to enhance both the quantity and the quality of our support for priority development issues. These include alleviating poverty, improving health, education and training and enhancing the environmental quality of our aid. We endorse the increasing attention being given to population issues in devising strategies for sustainable progress.

39. Africa deserves our special attention. Progress by African governments towards sound economic policies, democracy and accountability is improving their prospects for growth. This is being helped by our continued support, focused on stimulating development of the private sector, encouraging regional integration, providing concessional flows and reducing debt burdens. The Special Programme of Assistance for Africa, co-ordinated by the World Bank and providing support for economic reform in over 20 African countries, is proving its worth. We will provide humanitarian assistance to those parts of Africa facing severe famine and encourage the reform of United Nations structures in order to make this assistance more effective. We will also work to help the countries concerned remove the underlying causes of famine and other emergencies, whether these are natural or provoked by civil strife.

40. In the Asia-Pacific region, many economies, including members of the Association of South-East Asian Nations (ASEAN) and the Asia-Pacific Economic Co-operation (APEC), continue to achieve dynamic growth. We welcome the efforts by those economies of the region which are assuming new international responsibilities. Other Asian countries, which are strengthening their reform efforts, continue to need external assistance.

41. In Latin America we are encouraged by the progress being made in carrying out genuine economic reforms and by developments in regional integration. We welcome the continuing discussions on the Multilateral Investment Fund, under the Enterprise for the Americas Initiatives which, together with other efforts, is helping to create the right climate for direct investment, freer trade and a reversal of capital flight.

42. We recognise with satisfaction the progress being made under the strengthened debt strategy. Some countries have already benefited from the combination of strong adjustment with commercial bank debt reduction or equivalent measures. We encourage other countries with heavy debts to banks to negotiate similar packages.

43. We note:

- (a) the agreement reached by the Paris Club on debt reduction or equivalent measures

for Poland and Egypt, which should be treated as exceptional cases;

- (b) the Paris Club's continued examination of the special situation of some lower middle-income countries on a case by case basis.

44. The poorest, most indebted countries need very special terms. We agree on the need for additional debt relief measures, on a case by case basis, for these countries, going well beyond the relief already granted under Toronto terms. We therefore call on the Paris Club to continue its discussions on how these measures can best be implemented promptly.

45. We recognize the need for appropriate new financial flows to developing countries. We believe the appropriate way to avoid unsustainable levels of debt is for developing countries to adopt strengthened policies to attract direct investment and the return of flight capital.

46. We note the key role of the IMF, whose resources should be strengthened by the early implementation of the quota increase under the Ninth General Review and the associated Third Amendment to the Articles of Agreement.

### *Environment*

47. The international community will face formidable environmental challenges in the coming decade. Managing the environment continues to be a priority issue for us. Our economic policies should ensure that the use of this planet's resources is sustainable and safeguards the interests of both present and future generations. Growing market economies can best mobilise the means for protecting the environment, while democratic systems ensure proper accountability.

48. Environmental considerations should be integrated into the full range of government policies, in a way which reflects their economic costs. We support the valuable work in this field being undertaken by the OECD. This includes the systematic review of member countries' environmental performance and the development of environmental indicators for use in decision-making.

49. Internationally, we must develop a co-operative approach for tackling environmental issues. Industrial countries should set an example and thus encourage developing countries and Central and East European nations to play their part. Co-operation is also required on regional problems. In this context, we welcome the consensus reached on the Environmental Protocol of the Antarctic Treaty, aimed at reinforcing the environmental preservation of this continent. We note the good progress of the Sahara and Sahel Observatory as well as the Budapest Environmental Centre.

50. The UN Conference on Environment and Development (UNCED) in June 1992 will be a landmark event. It will mark the climax of many international environmental negotiations. We commit ourselves to work for a successful Conference and to give the necessary political impetus to its preparation.

51. We aim to achieve the following by the time of UNCED:

- a) an effective framework convention on climate change containing appropriate commitments and addressing all sources and sinks for greenhouse gases. We will seek to expedite work on implementing protocols to reinforce the convention. All participants should be committed to design and implement concrete strategies to limit net emissions of greenhouse gases, with measures to facilitate adaptation. Significant actions by industrial countries will encourage the participation of developing and East European countries, which is essential to the negotiations.
- b) agreement on principles for the management, conservation and sustainable development of all types of forest, leading to a framework convention. This should be in a form both acceptable to the developing countries where tropical forests grow and consistent with the objective of a global forest convention or agreement which we set at Houston.

52. We will seek to promote, in the context of UNCED:

- a) mobilisation of financial resources to help developing countries tackle environmental problems. We support the use of existing mechanisms for this purpose, in particular the Global Environment Facility (GEF). The GEF could become the comprehensive funding mechanism to help developing countries meet their obligations under the new environmental conventions.
- b) encouragement of an improved flow of beneficial technology to developing countries, making use of commercial mechanisms.
- c) a comprehensive approach to the oceans, including regional seas. The environmental and economic importance of oceans and seas means that they must be protected and sustainably managed.
- d) further development of international law of the environment, drawing inter alia on the results of the Siena Forum.
- e) the reinforcement of international institutions concerned with the environment, including the United Nations Environment Programme (UNEP), for the decade ahead.

53. We support the negotiation, under the auspices of UNEP, of an acceptable framework convention on biodiversity, if possible to be concluded next year. It should concentrate on protecting ecosystems, particularly in species-rich areas, without impeding positive developments in biotechnology.

54. We remain concerned about the destruction of tropical forests. We welcome the progress made in developing the pilot programme for the conservation of the Brazilian tropical forest, which has been prepared by the Government of Brazil in consultation with the World Bank, in co-operation with the European Commission, in the framework of appropriate policies and with careful attention to economic, technical and social issues. We will financially support the implementation of the preliminary stage of the pilot programme utilising all potential sources, including the private sector, non-governmental organisations, the multilateral development banks, and the Global Environmental

Facility. When details of the programme have been resolved, we will consider supplementing these resources with bilateral assistance, so that progress can be made on the ground. We believe that good progress with this project will have a beneficial impact on the treatment of forests at UNCED. We also welcome the spread of debt for nature exchanges, with an emphasis on forests.

55. The burning oil wells and polluted seas in the Gulf have shown that we need greater international capacity to prevent and respond to environmental disasters. All international and regional agreements for this purpose, including those of the International Maritime Organisation (IMO), should be fully implemented. We welcome the decision by UNEP to establish an experimental centre for urgent environmental assistance. In the light of the recent storm damage in Bangladesh, we encourage the work on flood alleviation under the auspices of the World Bank, which we called for at the Arch Summit.

56. Living marine resources threatened by over-fishing and other harmful practices should be protected by the implementation of measures in accordance with international law. We urge control of marine pollution and compliance with the regimes established by regional fisheries organisations through effective monitoring and enforcement measures.

57. We call for greater efforts in co-operation in environmental science and technology, in particular:

- a) scientific research into the global climate, including satellite monitoring and ocean observation. All countries, including developing countries, should be involved in this research effort. We welcome the development of information services for users of earth observation data since the Houston Summit.
- b) the development and diffusion of energy and environment technologies, including proposals for innovative technology programmes.

### *Drugs*

58. We note with satisfaction progress made in this field since our Houston meeting, notably the

entry into force of the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychiatric Substances. We welcome the formation of the United Nations International Drugs Control Programme (UNDCP).

59. We will increase our efforts to reduce the demand for drugs as a part of overall anti-drug action programmes. We maintain our efforts to combat the scourge of cocaine and will match these by increased attention to heroin, still the principal hard drug in Europe and Asia. Enhanced co-operation is needed both to reduce production of heroin in Asia and to check its flow into Europe. Political changes in Central and Eastern Europe and the opening of frontiers there have increased the threat of drug misuse and facilitated illicit trafficking, but have also given greater scope for concerted Europe-wide action against drugs.

60. We applaud the efforts of the "Dublin Group" of European, North American and Asian governments to focus attention and resources on the problems of narcotics production and trafficking.

61. We commend the achievements of the taskforces initiated by previous Summits and supported by an increasing number of countries:

- a) We urge all countries to take part in the international flight against money laundering and to cooperate with the activities of the Financial Action Task Force (FATF). We strongly support the agreement on a mutual evaluation process of each participating country's progress in implementing the FATF recommendations on money laundering. We endorse the recommendation of the FATF that it should operate on a continuing basis with a secretariat supplied by the OECD.
- b) We welcome the report of the Chemical Action Task Force (CATF) and endorse the measures it recommends for countering chemical diversion, building on the 1988 UN Convention against drug trafficking. We look forward to the special meeting in Asia, concentrating on heroin, and the CATF meeting due in March 1992, which should consider the institutional future of this work.

62. We are concerned to improve the capacity of law enforcement agencies to target illicit drug movements without hindering the legitimate circulation of persons and goods. We invite the Customs Cooperation Council to strengthen its cooperation with associations of international traders and carriers for this purpose and to produce a report before our next Summit.

### *Migration*

63. Migration has made and can make a valuable contribution to economic and social development, under appropriate conditions, although there is a growing concern about worldwide migratory pressures, which are due to a variety of political, social and economic factors. We welcome the increased attention being given these issues by the OECD and may wish to return to them at a future Summit.

### *Next Meeting*

64. We have accepted an invitation from Chancellor Kohl to hold our next Summit in Munich, Germany in July 1992.

## CHAIRMAN'S STATEMENT (as prepared)

1. We have had a successful first day of the Summit under John Major's Chairmanship. We have issued two declarations.
2. The *political declaration* emphasises the theme of our common commitment to strengthening the international order and to reinforcing the multilateral approach. We have launched some ideas on making the UN more efficient and effective, for example in the field of emergency disaster relief. We deal with the Middle East in particular, following the Gulf War. (In this context we welcomed the recent reply by President Assad of Syria to President Bush, which we hope will open the way for progress toward a conference leading to direct negotiations. We wish every success to Jim Baker as he returns to the region). We also address the democratic recovery of Central and Eastern Europe as well as the current constitutional upheaval in Yugoslavia. We flag the prospect of a transformed Soviet Union wholeheartedly rejoining the international community,

about which we shall hear President Gorbachev's views tomorrow. We underline the political need to restore economic growth to post-apartheid South Africa if reform there is to endure and succeed. We highlight the need for progress on hostages, and for perseverance in the fight against terrorism.

3. The second declaration addresses *conventional arms transfers and proliferation of chemical, nuclear and biological weapons*. It brings together the various aspects of these important subjects, and charts a way forward, without claiming an exclusive role for any group or institution. The urgency of addressing our responsibilities has been brought home for us all by the Gulf War. For conventional arms we propose that the international community apply the three principles of transparency, consultation and action. The G7 strongly support our proposal for a UN arms register.

4. We have also discussed other foreign policy issues.

5. We hope that the new spirit of international cooperation will be as fully reflected in *Asia* as in *Europe*. The full normalisation of Japan/Soviet relations, including resolution of the Northern Territories issue, would greatly contribute to this. We recognise that existing multilateral frameworks in the region such as ASEAN-PMC and APEC play an important part in ensuring stability through dialogue and co-operation.

6. We welcome *China's* cooperation with the international coalition in opposing Iraqi aggression and over other regional issues. We hope to see further economic and political reform in that country, though we still have serious concerns about human rights there. Contacts with the Chinese have been re-built over the past year, and this process should continue. Unconditional extension of Most Favoured Nation status to China by the US would contribute to these goals.

7. We look forward to *North and South Korea's* admission to the United Nations and to the resumption shortly of high-level dialogue between the two countries. North Korea's continuing failure to

sign and implement a nuclear safeguards agreement remains an issue of major concern.

8. We would welcome a comprehensive settlement in *Cambodia* allowing peace, independence, democracy and full respect for human rights. We hope for a similar outcome in *Afghanistan*. We should also like to see a return to full democracy in *Burma*. We welcome *Mongolia's* continuing progress towards political and economic reform, which deserves further support.

9. I have mentioned South Africa in the context of our political declaration. Elsewhere in *Africa* we are naturally immensely concerned with the threat of famine in several countries and you will find the economic communique tomorrow will reflect this. We will support the movement towards democracy, the rule of law and full respect for human rights. The peace agreement in Angola is welcome. We will encourage the efforts towards reconciliation in Ethiopia, as well as in Mozambique and Somalia.

10. The consolidation of democracy in *Central and South America* is welcome as is the further progress towards sound economic policies. We hope the negotiations towards peaceful settlements in El Salvador and Guatemala will succeed. We also hope that Cuba will no longer remain conspicuously outside the political and economic mainstream.

11. On *Cyprus* we support the Secretary-General's continuing efforts to draw up an outline agreement. If the participants can seize the present opportunity and set out realistic proposals, there could be real hope of progress towards a lasting bicomunal, bizonal settlement as envisaged in UNSCR 649.

12. From all this, you will see we have covered wide horizons, and there is a large measure of agreement between us. And, as our political declaration says, we share with the wider international community the sense both of challenge and of hope that some at least of these problems will respond to renewed efforts from us all in the months ahead.



## POLITICAL DECLARATION July 16, 1991

### Strengthening the International Order

1. We, the leaders of our seven countries and the representatives of the European Community, renew our firm commitment to the ideal of a peaceful, just, democratic and prosperous world. The international community faces enormous challenges. But there is also reason for hope. We must reinforce the multilateral approach to the solution of common problems and work to strengthen the international system of which the United Nations, based on its Charter, remains so central a part. We call on the leaders of other nations to join us in that cause.

2. It is a matter of hope and encouragement that the United Nations Security Council, with the backing of the international community, showed during the Gulf crisis that it could fulfil its role of acting to restore international peace and security and to resolve conflict. With the East-West confrontation of the last four decades behind us, the international community must now build on this new spirit of cooperation not only in the Middle East but wherever danger and conflict threaten or other challenges must be met.

3. We believe the conditions now exist for the United Nations to fulfil completely the promise and the vision of its founders. A revitalised United Nations will have a central role in strengthening the international order. We commit ourselves to making the UN stronger, more efficient and more effective in order to protect human rights, to maintain peace and security for all and to deter aggression. We will make preventive diplomacy a top priority to help avert future conflicts by making clear to potential aggressors the consequences of their actions. The UN's role in peacekeeping should be reinforced and we are prepared to support this strongly.

4. We note that the urgent and overwhelming nature of the humanitarian problem in Iraq caused by violent oppression by the Government required exceptional action by the international community, following UNSCR 688. We urge the UN and its affiliated agencies to be ready to consider similar action in the future if the circumstances require it. The international community cannot stand idly by

in cases where widespread human suffering from famine, war and oppression, refugee flows, disease or flood reaches urgent and overwhelming proportions.

5. The recent tragedies in Bangladesh, Iraq and the Horn of Africa demonstrate the need to reinforce UN relief in coping with emergencies. We call on all Member States to respond to the Secretary General's appeal for voluntary contributions. We would like to see moves to strengthen the coordination, and to accelerate the effective delivery, of all UN relief for major disasters. Such initiatives, as part of an overall effort to make the UN more effective could include:

- (a) the designation of a high level official, answerable only to the United Nations Secretary-General, who would be responsible for directing a prompt and well-integrated international response to emergencies, and for coordinating the relevant UN appeals; and
- (b) improvement in the arrangements whereby resources from within the UN system and support from donor countries and NGOs can be mobilised to meet urgent humanitarian needs in time of crisis.

The United Nations would then be able to take the early action that has sometimes been missing in the past. The United Nations should also make full use of its early warning capacity to alert the international community to coming crises and to work on the preparation of contingency plans, to include the question of prior earmarking of resources and material that would be available to meet these contingencies.

6. Since we last met the world has witnessed the invasion, occupation and subsequent liberation of Kuwait. The overwhelming response of the international community in reversing the forcible annexation of one small nation was evidence of the widespread preference for

- taking collective measures against threats to the peace and to suppress aggression
- settling disputes peacefully
- upholding the rule of law and

— protecting human rights.

These principles are essential to the civilised conduct of relations between states.

7. We express our support for what the countries of the Gulf and their neighbours are doing to ensure their security in future. We intend to maintain sanctions against Iraq until all the relevant resolutions of the Security Council have been implemented in full and the people of Iraq, as well as their neighbours, can live without fear of intimidation, repression or attack. As for the Iraqi people, they deserve the opportunity to choose their leadership openly and democratically. We look forward to the forthcoming elections in Kuwait and to an improvement of the human rights situation there and in the region.

8. We attach overriding importance to the launching of a process designed to bring comprehensive, just and lasting peace between Israel and her Arab neighbours, including the Palestinians. Such a peace should be based on UN SCRs 242 and 338 and the principle of territory for peace. We support the concept of a peace conference starting parallel and direct negotiations between Israel and representative Palestinians on the one hand and Israel and the Arab states on the other. We confirm our continuing support for the current American initiative to advance the peace process, which we believe offers the best hope of progress towards a settlement. We urge all the parties to the dispute to adopt reciprocal and balanced confidence-building measures and to show the flexibility necessary to allow a peace conference to be convened on the basis set out in this initiative. In that connection we believe that the Arab boycott should be suspended as should the Israeli policy of building settlements in the occupied territories.

9. We take note with satisfaction of the prospects opened by restoration of security in Lebanon. We continue to support efforts by the Lebanese authorities to achieve the implementation of the Taif process, which will lead to the departure of all foreign forces and the holding of free elections.

10. We express our willingness to support the development of economic cooperation among the countries of the Middle East on the basis of liberal policies designed to encourage the repatriation of

capital, an increase in investment and a decrease in obstacles to trade. Such policies should be accompanied by comprehensive long-term efforts to bring about more stability for the Middle East and the Mediterranean.

11. We welcome the further substantial progress in reform, both political and economic, achieved in the countries of Central and Eastern Europe during the last year and recognize that these gains will need to be maintained through a difficult period of economic transition, including through regional initiatives. We have a strong interest in the success of market reforms and democracy in Central and Eastern Europe and we commit ourselves to full support for these reforms. We also take note of the progress of Albania towards joining the democratic community of nations.

12. Our support for the process of fundamental reform in the Soviet Union remains as strong as ever. We believe that new thinking in Soviet foreign policy, which has done so much to reduce East/West tension and strengthen the multilateral peace and security system, should be applied on a global basis. We hope that this new spirit of international co-operation will be as fully reflected in Asia as in Europe. We welcome efforts to create a new union, based on consent not coercion, which genuinely responds to the wishes of the people of the Soviet Union. The scale of this undertaking is enormous: an open and democratic Soviet Union able to play its full part in building stability and trust in the world. We reiterate our commitment to working with the Soviet Union to support their efforts to create an open society, a pluralistic democracy and a market economy. We hope the negotiations between the USSR and the elected governments of the Baltic countries will resolve their future democratically and in accordance with the legitimate aspirations of the people.

13. It is for the peoples of Yugoslavia themselves to decide upon their future. However the situation in Yugoslavia continues to cause great concern. Military force and bloodshed cannot lead to a lasting settlement and will only put at risk wider stability. We call for a halt to violence, the deactivation and return of military forces to barracks and a permanent ceasefire. We urge all parties to comply with the provisions of the Brioni agreement as it stands. We welcome the efforts of the European Community and its member states

in assisting in the resolution of the Yugoslav crisis. We therefore support the dispatch of EC monitors to Yugoslavia, within the framework of the CSCE emergency mechanism. We will do whatever we can, with others in the international community, to encourage and support the process of dialogue and negotiation in accordance with the principles enshrined in the Helsinki Final Act and the Paris Charter for a new Europe, in particular respect for human rights, including rights of minorities and the right of peoples to self-determination in conformity with the Charter of the United Nations and with the relevant norms of international law, including those relating to territorial integrity of states. The normalisation of the present situation will allow us to contribute to the indispensable economic recovery of the country.

14. We welcome the positive developments in South Africa, where the legislative pillars of apartheid have at last been dismantled. We hope that these important steps will be followed by the de facto elimination of apartheid and improvement in the situation of the most impoverished among the population of South Africa. We hope that negotiations on a new Constitution leading to non-racial democracy will begin shortly and will not be disrupted by the tragic upsurge of violence. All parties must do all that is in their power to resolve the problem of violence. We are concerned that the foundation for a new non-racial South Africa will be undermined by mounting social problems and declining economic prospects for the majority of the population, which have contributed to the violence. There is an urgent need to restore growth to the economy to help reduce inequalities of wealth and opportunity. South Africa needs to pursue new economic, investment and other policies that permit normal access to all sources of foreign borrowing. In addition to its own domestic efforts, South Africa also needs the help of the international community, especially in those areas where the majority have long suffered deprivation: education, health, housing and social welfare. We will direct our aid for these purposes.

15. Finally, we look for further strengthening of the international order by continued vigorous efforts to deter terrorism and hostage taking. We call for the immediate and unconditional release of all hostages wherever they may be held and for an accounting of all persons taken hostage who may have died while being held. We welcome the

undertakings given by governments with an influence over hostage holders to work for the release of hostages and urge them to intensify their efforts to this end. We extend our sympathy to the friends and relations of those held. We reaffirm our condemnation of all forms of terrorism. We will work together to deter and combat terrorism by all possible means within the framework of international law and national legislation, particularly in the fields of international civil aviation security and the marking of plastic explosives for the purpose of detection.

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16. This forum continues to provide an invaluable opportunity for representatives from Europe, Japan and North America to discuss the critical challenges of the coming years. But we cannot succeed alone. We call on the leaders of the other nations to join us in our efforts to make a practical and sustained contribution to the cause of peace, security, freedom and the rule of law, which are the preconditions for trying to bring about greater justice and prosperity throughout the world.

## **DECLARATION ON CONVENTIONAL ARMS TRANSFERS AND NBC NON-PROLIFERATION**

**July 16, 1991**

1. At our meeting in Houston last year, we, the Heads of State and Government and the representatives of the European Community, underlined the threats to international security posed by the proliferation of nuclear, biological and chemical weapons and of associated missile delivery systems. The Gulf crisis has highlighted the dangers posed by the unchecked spread of these weapons and by excessive holdings of conventional weapons. The responsibility to prevent the re-emergence of such dangers is to be shared by both arms suppliers and recipient countries as well as the international community as a whole. As is clear from the various initiatives which several of us have proposed jointly and individually, we are each determined to tackle, in appropriate fora, these dangers both in the Middle East and elsewhere.

## Conventional Arms Transfers

2. We accept that many states depend on arms imports to assure a reasonable level of security and the inherent right of self-defence is recognised in the United Nations Charter. Tensions will persist in international relations so long as underlying conflicts of interest are not tackled and resolved. But the Gulf conflict showed the way in which peace and stability can be undermined when a country is able to acquire a massive arsenal that goes far beyond the needs of self defence and threatens its neighbours. We are determined to ensure such abuse should not happen again. We believe that progress can be made if all states apply the three principles of transparency, consultation and action.

3. The principle of *transparency* should be extended to international transfers of conventional weapons and associated military technology. As a step in this direction we support the proposal for a universal register of arms transfers under the auspices of the United Nations, and will work for its early adoption. Such a register would alert the international community to an attempt by a state to build up holdings of conventional weapons beyond a reasonable level. Information should be provided by all states on a regular basis after transfers have taken place. We also urge greater openness about overall holdings of conventional weapons. We believe the provision of such data, and a procedure for seeking clarification, would be a valuable confidence and security building measure.

4. The principle of *consultation* should now be strengthened through the rapid implementation of recent initiatives for discussions among leading arms exporters with the aim of agreeing on a common approach to the guidelines which are applied in the transfer of conventional weapons. We welcome the recent opening of discussions on this subject. These include the encouraging talks in Paris among the Permanent Members of the United Nations Security Council on 8/9 July; as well as ongoing discussions within the framework of the European Community and its Member States. Each of us will continue to play a constructive part in this important process, in these and other appropriate fora.

5. The principle of *action* requires all of us to take steps to prevent the building up of dispro-

portionate arsenals. To that end all countries should refrain from arms transfers which would be destabilising or would exacerbate existing tensions. Special restraint should be exercised in the transfer of advanced technology weapons and in sales to countries and areas of particular concern. A special effort should be made to define sensitive items and production capacity for advanced weapons, to the transfer of which similar restraints could be applied. All states should take steps to ensure that these criteria are strictly enforced. We intend to give these issues our continuing close attention.

6. Iraqi aggression and the ensuing Gulf war illustrate the huge costs to the international community of military conflict. We believe that moderation in the level of military expenditure is a key aspect of sound economic policy and good government. While all countries are struggling with competing claims on scarce resources, excessive spending on arms of all kinds diverts resources from the overriding need to tackle economic development. It can also build up large debts without creating the means by which these may be serviced. We note with favour the recent report issued by the United Nations Development Programme (UNDP) and the recent decisions by several donor countries to take account of military expenditure where it is disproportionate when setting up aid programmes and encourage all other donor countries to take similar action. We welcome the attention which the Managing Director of the International Monetary Fund (IMF) and the President of the World Bank have recently given to excessive military spending, in the context of reducing unproductive public expenditure.

## Non-Proliferation

7. We are deeply concerned about the proliferation of nuclear, biological and chemical weapons and missile delivery systems. We are determined to combat this menace by strengthening and expanding the non-proliferation regimes.

8. Iraq must fully abide by Security Council Resolution 687, which sets out requirements for the destruction, removal or rendering harmless under international supervision of its nuclear, biological, chemical warfare and missile capabilities; as well as for verification and long-term monitoring to ensure that Iraq's capability for such weapon systems is not developed in the

future. Consistent with the relevant UN resolutions, we will provide every assistance to the United Nations Special Commission and the International Atomic Energy Agency (IAEA) so that they can fully carry out their tasks.

9. In the nuclear field, we:

- Re-affirm our will to work to establish the widest possible consensus in favour of an equitable and stable non-proliferation regime based on a balance between nuclear non-proliferation and the development of peaceful uses of nuclear energy.
- Reaffirm the importance of the nuclear Non-Proliferation Treaty (NPT) and call on all other non-signatory states to subscribe to this agreement;
- Call on all non-nuclear weapon states to submit all their nuclear activities to IAEA safeguards, which are the cornerstone of the international non-proliferation regime;
- Urge all supplier states to adopt and implement the Nuclear Suppliers Group guidelines.

We welcome the decision of Brazil and Argentina to conclude a full-scope safeguard agreement with the IAEA and to take steps to bring the Treaty of Tlatelolco into force, as well as the accession of South Africa to the NPT.

10. Each of us will also work to achieve:

- Our common purpose of maintaining and reinforcing the NPT regime beyond 1995;
- A strengthened and improved IAEA safeguards system;
- New measures in the Nuclear Suppliers Group to ensure adequate export controls on dual-use items.

11. We anticipate that the Biological Weapons Review Conference in September will succeed in strengthening implementation of the convention's existing provisions by reinforcing and extending its confidence-building measures and exploring

the scope for effective verification measures. Each of us will encourage accession to the convention by other states and urge all parties strictly to fulfil their obligations under the convention. We each believe that a successful Review Conference leading to strengthened implementation of the BWC, would make an important contribution to preventing the proliferation of biological weapons.

12. The successful negotiation of a strong, comprehensive, and effectively verifiable convention banning chemical weapons, to which all states subscribe, is the best way to prevent the spread of chemical weapons. We welcome recent announcements by the United States which we believe will contribute to the swift conclusion of such a convention. We hope that the negotiation will be successfully concluded as soon as possible. We reaffirm our intention to become original parties to the convention. We urge others to become parties at the earliest opportunity so that it can enter into force as soon as possible.

13. We must also strengthen controls on exports which could contribute to the proliferation of biological and chemical weapons. We welcome the measures taken by members of the Australia Group and by other states on the control of exports of chemical weapons precursors and related equipment. We seek to achieve increasingly close convergence of practice between all exporting states. We urge all states to support these efforts.

14. Our aim is a total and effective ban on chemical and biological weapons. Use of such weapons is an outrage against humanity. In the event that a state uses such weapons each of us agrees to give immediate consideration to imposing severe measures against it both in the UN Security Council and elsewhere.

15. The spread of missile delivery systems has added a new dimension of instability to international security in many regions of the world. As the founders of the Missile Technology Control Regime (MTCR), we welcome its extension to many other states in the last two years. We endorse the joint appeal issued at the Tokyo MTCR meeting in March 1991 for all countries to adopt these guidelines. These are not intended to inhibit cooperation in the use of space for peaceful and scientific purposes.

16. We can make an important contribution to reducing the dangers of proliferation and conventional arms transfers. Our efforts and consultations on these issues, including with other supplier countries, will be continued in all appropriate fora so as to establish a new climate of global

restraint. We will only succeed if others, including recipient countries, support us and if the international community unites in a new effort to remove these threats which can imperil the safety of all our peoples.