

DENVER SUMMIT

20-22 June 1997

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COMMUNIQUÉ

22 June 1997

Introduction

1. We, the participants in the Denver Summit of the Eight, as major industrialised democracies, have discussed the steps necessary, both internationally and domestically, to shape the forces of integration to ensure prosperity and peace for our citizens and the entire world as we approach the twenty-first century. We have agreed to work- closely with all willing partners in fostering global partnership for peace, security, and sustainable development that includes strengthening democracy, and human rights, and helping prevent and resolve conflicts.

2. Continuing the important steps we have taken, the Denver Summit of the Eight marks a new and deeper participation by Russia in our efforts. Russia has taken bold measures to complete an historic transformation into a democratic state with a market economy. We are committed to continue the trend of increased Russian participation in the work of our officials between Summits and reiterate our shared commitment to the promotion of a fuller involvement of Russia in the Summit process. Cooperation to integrate Russia's economy into the global economic system represents one of our most important priorities. We welcome the understanding reached between Russia and the Chairman of the Paris Club on the basis for Russia's participation and look forward to the Paris Club and Russia finalising an agreement in the near future. We support the goal of early Russian accession to the WTO on the basis of conditions generally applicable to newly acceding members. We also look forward to continued Russian progress toward accession to the OECD using the potential of the recently created Liaison Committee between Russia and the OECD.

Economic and Social Issues

3. The process of globalisation, a major factor underlying the growth of world prosperity in the last fifty years, is now advancing rapidly and broadly. Globalisation encompasses the expansion of cross-border flows of ideas and information, goods and services, technology and capital. More openness and integration across the global economy create opportunities for increased prosperity as countries specialise in those economic activities which they do best, while also promoting increased competition and efficiency, and the rapid spread of technological innovations. Our task, as we enter the 21st Century, is to make the most of these opportunities.

4. At the same time, globalisation may create new challenges. The increasing openness and interdependence of our economies, with deep trade linkages and ever greater flows of private capital, means that problems in one country can spill over more easily to affect the rest. We must cooperate to promote global growth and prosperity. We must also insure that all segments of society, and indeed all countries across the globe, have the opportunity to share in the prosperity made possible by global integration and technological innovations. It is particularly important that young adults see the path to a successful life, and be adequately prepared to follow that path.

5. Rapid technological change and demographic shifts are also having an important impact on the global economy. We must take advantage of the possibilities for growth to address unemployment and economic insecurity. Sound economic policies and the structural reforms necessary to allow markets to function properly are essential if we are to meet the many domestic and international challenges we all

face. Measures that expand the availability of high quality education and training and increase the responsiveness of labour markets to economic conditions will aid the ability of our people to adjust to all types of structural changes. We look forward to the high-level conference on employment that takes place this fall in Japan, which is expected to contribute to the discussion on responses to structural changes. We also welcome the proposal by the United Kingdom to host a conference of ministers responsible for finance and social affairs early next year on growth, employability, and inclusion, to prepare for further discussion of these vital issues at our meeting next year.

The Opportunities and Challenges of Ageing Populations

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

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

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

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

Small and Medium Enterprises

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

Global Issues

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

Environment

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

UN General Assembly Special Session

13. We discussed the progress that has been made since the 1992 Rio Earth Summit in defining and promoting sustainable development, and we commit ourselves to taking action in areas critical to advancing this agenda. Sustainable development demands the full integration of environment, economic and social policies; should be based upon democratic governance and respect for human rights; and should have poverty eradication as one of its ultimate objectives. In this connection, we reaffirm the vital contribution of civil society. We urge the United Nations General Assembly, at its Special Session to be held next week, to reaffirm and give impetus to the Rio commitments, to take stock of implementation since Rio, and, most importantly, to develop a manageable list of priority issues to address in future work on sustainable development.

Climate Change

14. Overwhelming scientific evidence links the build-up of greenhouse gasses in the atmosphere to changes in the global climate system. If current trends continue into the next century, unacceptable impacts on human health and the global environment are likely. Reversing these trends will require a sustained global effort over several decades, with the involvement of all our citizens, and changes in our patterns of consumption and production.

15. We are determined to take the lead and show seriousness of purpose in strengthening international efforts to confront climate change. Our ultimate goal must be to stabilise atmospheric concentrations of greenhouse gasses at an acceptable level. This will require efficient and cost-effective policies and measures sufficient to lead to a significant reduction in emissions.

16. International cooperation will be essential. At the Third Conference of Parties to the UN Framework Convention on Climate Change in Kyoto we must forge a strong agreement that is consistent with the Berlin Mandate and that contains quantified and legally-binding emission targets. We intend to commit to meaningful, realistic and equitable targets that will result in reductions of greenhouse gas emissions by 2010. The agreement must ensure transparency and accountability and allow Participants flexibility in the manner in which they meet their targets.

17. Action by developed countries alone will not be sufficient to meet this goal. Developing countries must also take measurable steps, recognising that their obligations will increase as their economies grow. We agree to work in partnership with them to that effect by implementing technological development and diffusion and supporting environmental education and capacity building.

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

Forests

19. Forests continue to be destroyed and degraded at alarming rates in many parts of the world. To reverse this trend, we call upon all countries to make a long-term political commitment to achieve sustainable forest management practices world-wide and to 'join us in the immediate implementation of proposals put forward by the UNCSD Intergovernmental Panel on Forests. We have discussed in Denver and have agreed to support a practical Action Program that includes implementing national programs and building capacity for sustainable forest management; establishing networks of protected areas; assessing

the state of each nation's forests using agreed criteria and indicators; promoting private sector management of forests; and eliminating illegal logging. We ask that our officials meet early next year to assess progress in implementing this Action Program and call for a report at our next meeting.

20. At the Special Session of the United Nations, we will work with the active involvement of environmental groups to build consensus on an international agreement with appropriately high international standards to achieve these goals. We welcome the progress made in implementing the Brazil Pilot Program initiated in Houston, and see it as an example of practical international cooperation.

Freshwater

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

Oceans

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

Desertification

23. We welcome the entry into force of the "Convention to Combat Desertification," and urge the parties to develop concrete steps to implement the convention at the First Conference of the Parties this Fall in Rome.

Environmental Standards for Export Credit Agencies

24. Private sector financial flows from industrial nations have a significant impact on sustainable development world-wide. Governments should help promote sustainable practices by taking environmental factors into account when providing financing support for investment in infrastructure and equipment. We attach importance to the work on this in the OECD, and will review progress at our meeting next year.

Children's Environmental Health

25. Protecting the health of our children is a shared fundamental value. Children throughout the world face significant threats to their health from an array of environmental hazards, and we recognise particular vulnerabilities of children to environmental threats. Our governments will explicitly incorporate children into environmental risk assessments and standard setting and together will work to strengthen information exchange, provide for microbiologically safe drinking water, and reduce children's exposure to lead, environmental tobacco smoke and other air pollutants.

Institutions

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

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

28. To ensure an effective response to urgent global environmental problems, we have supported the refocused mandate for the United Nations Environment Program (UNEP), the leading global

environmental authority, as affirmed by the UNEP Governing Council in Nairobi this year. UNEP should promote the coherent implementation of environmental protection within the UN system and serve as an authoritative advocate for the global environment. The newly formed High-level Committee of Environment Ministers and Officials should consider the international environmental agenda and elaborate upon and advance the reforms needed to ensure UNEP's effectiveness, with a particular emphasis on greater policy, program and financial accountability. We look forward to a revitalised UNEP being able to attract the resources needed for its tasks.

29. Further efforts are necessary to ensure the long-term coherence and efficiency of the UN's work on the environment. We encourage the Secretary General to review the handling of environmental matters within the UN system and to explore possible means and structures to improve further the coordination among, and effectiveness of, the concerned institutions.

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

Infectious Diseases

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

32. In the coming year, our governments will promote more effective coordination of international responses to outbreaks; promote development of a global surveillance network, building upon existing national and regional surveillance systems; and help to build public health capacity to prevent, detect and control infectious diseases globally including efforts to explore the use of regional stocks of essential vaccines, therapeutics, diagnostics and other materials. Central to this work will be strengthening and linking existing activities in and among each of our countries, with developing countries, and in other fora, especially the World Health Organisation. We support the efforts of the WHO and the recent World Health Assembly resolutions regarding the quality of biological and pharmaceutical products.

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

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

Nuclear Safety

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

36. We note with satisfaction the entry into force by the Nuclear Safety Convention and the preparations now underway for the first review meeting to be held in April 1999. We applaud the rapid progress made in developing the Joint Convention on the Safety of Spent Fuel Management and the Safety of Radioactive Waste Management and encourage finalisation. We welcome the forthcoming adoption of the Protocol to amend the Vienna Convention on civil liability for nuclear damage and of a new

Supplementary Funding Convention. These conventions will facilitate international safety cooperation and provide for increased compensation for victims in the event of a nuclear accident.

Global Energy Issues

37. We decided to convene a ministerial on energy issues in Moscow next year, and request our officials to start preparations for such a meeting. Its results will be discussed at our next Summit.

Transnational Organized Crime

38. Our efforts to combat transnational crime will be a priority of the group for the foreseeable future. Transnational criminal groups can often adapt to global change more swiftly and efficiently than our governments. International crime not only threatens our citizens, but also undermines young democracies and nations in transition.

39. Last year, we adopted the Lyon forty recommendations to combat transnational organised crime. We have substantially implemented those recommendations, taking action within our own borders and with one another. Together, we have strengthened cooperation bilaterally, multilaterally, and with other nations and groups to bring criminals to justice through mutual legal assistance and extradition, to promote cooperation among our law enforcement agencies, to strengthen document security and improve strategies to combat alien smuggling, and to prevent illegal trafficking in firearms.

40. We must intensify our efforts to implement the Lyon recommendations. In the coming year we will focus on two areas of critical concern: First, the investigation, prosecution, and punishment of high-tech criminals, such as those tampering with computer and telecommunications technology, across national borders; Second, a system to provide all governments the technical and legal capabilities to respond to high- tech crimes, regardless of where the criminals may be located.

41. We also will develop additional methods to secure our borders. Border security is central to all efforts to fight transnational crime, drug-trafficking and terrorism. To this end, we will combat illegal firearms trafficking, by considering a new international instrument. We will seek to adopt standard systems for firearms identification and a stronger international regime for import and export licensing of firearms. We will continue our work to strengthen document security, and improve strategies to combat alien smuggling, attacking the problem at the source and transit the destination countries. Our governments will also move further ahead with efforts to strengthen international legal regimes for extradition and mutual legal assistance, to ensure that no criminal receives safe haven anywhere in the world.

Illicit Drugs

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

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

Terrorism

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

45. Last year, our Ministers adopted twenty-five recommendations to combat terrorism. We have received a positive response world-wide, in particular in the UN General Assembly. Together we have made

substantial progress on many of these recommendations, including: drafting and negotiating a UN convention on terrorist bombing; promoting improved international standards for airport security, explosives detection, and vehicle identification; promoting stronger laws and export controls on the manufacture, trade and transport of explosives; initiating a directory of counter-terrorism competencies; inviting all States to promote the use of encryption which may allow, consistent with OECD guidelines, lawful government access to combat terrorism.

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

Human Cloning

47. We agree on the need for appropriate domestic measures and close international cooperation to prohibit the use of somatic cell nuclear transfer to create a child.

Space Station

48. We look forward to the signing of the Agreement to establishing an international space station. This is an excellent example of international cooperation in carrying out large and promising projects in the field of exploration and peaceful uses of outer space.

United Nations Reform

49. We reaffirm the crucial role of the United Nations in maintaining international peace and security and in fostering global partnership and sustainable development. We support thorough-going reform, with the goal of strengthening the UN. We welcome progress that has occurred in the economic and social fields since our meetings in Halifax and Lyon. In this regard, we welcome Secretary General Kofi Annan's recent reform proposals and support their rapid implementation; we also look forward to the Secretary General's more extensive proposals next month. We remain committed to working with all UN members to realise these reforms.

50. In order for the UN to cope with the challenges of the 21st century, financial reform should proceed together with necessary reform measures in other areas. The UN system must be placed on a firm financial footing through full and timely payment of obligations, and development of a more logical and equitable scale of assessments. Budgets throughout the UN system should be scrutinised with emphasis on prioritisation and maximum operating efficiency. We look forward to the Secretary General's specific proposals for reinvesting savings from improved cost-effectiveness in high priority development programs. Robust oversight mechanisms and sound personnel policies are essential for success.

51. The urgent challenges of economic and social development require the UN to coordinate more effectively the policies and activities of its various bodies including the specialised agencies. To this end, the UN's Economic and Social Council (ECOSOC), supported by the Under Secretary General for economic and social issues, should strengthen its policy and coordination role, in particular through streamlining its subsidiary bodies and improving its working relationship with international financial institutions and the WTO. We welcome the recent reforms in the governance of the funds and programs as well as in the various UN bodies, in particular at UNCTAD and in the regional commissions; these efforts should be sustained and expanded.

52. We call for a thorough and urgent review of the UN's funds and programs, as well as a system-wide review of the roles and mandates of specialised agencies and commissions. We welcome the Secretary General's recommendations for strengthened integration at the country level and better coordination at headquarters. In this context, we recommend the UN undertake performance evaluations of the coordination of its development activities in a range of representative countries. We expect the least developed countries to be the principal beneficiaries of improved efficiency in the UN's development work.

53. We reaffirm that the UN must further improve its ability to act quickly and effectively to address threats to international peace and security. We will continue to help develop the capacities of the UN in

preventing and resolving conflicts. We support steps taken recently by the UN to strengthen its capacity for rapid reaction from the early warning stage to the stage of rapid deployment of new, approved, peacekeeping operations and urge continued improvements in these areas.

Africa: Partnership for Development

54. At Lyon, we initiated a New Global Partnership for Development, noting- both that developing countries have a fundamental responsibility for promoting their own development, and that developed countries must support these efforts. We paid particular attention to the problems of Sub-Saharan African countries, many of which continue to face unusually severe challenges. This year, we aim to translate the principles of that Partnership into new concrete action to support the efforts of African countries to participate fully in the expansion of global prosperity and to spread the benefits throughout their societies. Our objective is not only to facilitate the progressive integration of African countries into the world economy, but also to foster the integration of poor populations into economic, social and political life of their countries.

55. We are encouraged by positive developments, including the adoption of democratic and economic reforms in many Sub-Saharan African countries. Since 1990, more than twenty African nations have held free and fair elections. Democratic governance and the rule of law, in Africa as elsewhere, lay the foundation for human rights, including the rights of women, and sustainable development. We commend those African countries that have set an example by undertaking democratic reforms, improving rule of law and administration of justice, avoiding unproductive expenditures (including excessive military expenditures), and strengthening public institutions and civil society. We will support African efforts to promote democracy and good governance, improve the integrity of public institutions, enhance the transparency of government spending, in particular of procurement, and develop national anti-bribery regulations.

56. Increased prosperity ultimately depends upon creating an environment for domestic capital formation, private sector-led growth and successful integration into global markets. We are encouraged by the increasing number of Sub-Saharan countries that have made progress toward financial sustainability through fiscal and financial practices and have adopted growth and market oriented economic policies, including trade liberalisation and investment climate improvement. These initiatives have produced a welcome acceleration of growth since 1994. We expect the international financial institutions to play an important role in supporting reform in Sub-Saharan African countries. Their support should help to promote productive foreign direct investment and domestic capital formation. We look forward to the IFIs reporting on their efforts by the time of the Hong Kong World Bank/IMF meetings.

57. Access to our markets is a crucial tool for fostering economic growth in Sub-Saharan Africa. We each will continue to improve, through various means, access to our markets for African exports. We support the further integration of the least developed countries into the world trading system. In this regard, African countries will be major beneficiaries of efforts in the WTO on a plan of action to promote capacity building and to provide predictable and favourable market access conditions for least developed countries. We are committed to the effective implementation of this plan and intend to participate actively in the high-level WTO/UNCTAD/International Trade Centre meeting later this year. Furthermore, trade liberalisation by African countries will promote more efficient utilisation of resources. We also welcome African initiatives for regional trade liberalisation and economic cooperation.

58. We will consider ways to enhance opportunities for the Sub-Saharan African countries that need them most and are undertaking effective reform measures. We will review our own bilateral aid and trade promotion programs to ensure that they support climates conducive to economic growth and private investment, including by strengthening capacity.

59. Substantial flows of official development assistance will continue to play an essential role in building the capacity of Sub-Saharan African countries to achieve their sustainable development objectives. We are committed to a results-oriented approach to development policy, with the particular goal of combating extreme poverty. But development assistance alone cannot overcome inappropriate policies. We will work with African countries to ensure adequate and well-targeted assistance for those countries which have the greatest need and carry out the necessary broad-based reforms. This assistance will include support for democratic governance, respect for human rights, sound public administration, efficient legal and judicial systems, infrastructure development, rural development, food security, environmental protection and human resource development, including health and education of their people. In this regard, we will

work to strengthen cooperation among concerned institutes to facilitate and coordinate capacity building efforts.

60. To maximise the effectiveness of our efforts, we will deepen the dialogue with African partners, work for greater local ownership of development strategies and encourage the participation of non-governmental actors. We will also strengthen donor coordination, including with emerging donors. We welcome and fully support the emerging trend of intraregional and inter-regional cooperation to further African development.

61. The United Nations plays a major role in development in Africa, and African countries will be major beneficiaries of reform of the UN economic and social development activities. We encourage the UN's development funds and programs and specialised agencies, to emphasise work in the field in Africa and to fully integrate and coordinate their efforts, both at the headquarters and at the country level. We are encouraged by the Economic Commission on Africa's efforts to energise and focus its activities. The UN Development Program's decision to allocate a portion of its resources based on program quality is a useful approach to assuring effectiveness, and we urge that it be adopted more broadly in the UN's work.

62. A number of African countries are making impressive efforts to harness the information revolution in support of democracy and sustainable development. We welcome the Africa Information Society Initiative. We support their efforts to establish information networks to link African countries with each other and to the rest of the world. In this regard, we welcome the Toronto Global Knowledge '97 Conference.

63. We applaud African leadership in developing effective local capacities in conflict prevention, peacekeeping and post-conflict reconciliation and recovery. We will support African peacebuilding initiatives at the regional, sub-regional and national levels, in particular by the Organisation of African Unity (OAU), taking into account the recent OECD Guidelines on Conflict, Peace, and Development Cooperation, and we will help to forge active partnerships with the United Nations and other donors. We encourage the UN Secretary General, as part of his reform efforts, to identify ways the international community can further strengthen Africa's initiatives. We also call for the expanded utilisation of the existing UN Trust Fund for African peacekeeping and conflict prevention, as well as other relevant UN funds; and broader and substantial donor commitments to the OAU and to subregional bodies with specialised mechanisms for conflict mediation, as well as to the UN/OAU Special Envoy to the Great Lakes.

64. We express our support for long-term efforts to promote rapidly deployable African peacekeeping capacities. We welcome closer coordination among African troop-contributing countries, regional and subregional organisations, donors, and the UN in the development of training, joint exercises, common peacekeeping doctrine, and other efforts to ensure interoperability. We also welcome recent progress towards the establishment of an African Peacekeeping Support Group at the UN, and we urge interested countries to actively explore mechanisms for coordination of practical activities.

65. We express our grave concern at the recent attacks against refugees as well as against personnel of refugee and humanitarian organisations. We emphasise that host States must prevent such acts and prosecute the perpetrators.

66. We have requested that our officials report to us prior to next year's Summit about the efforts they have undertaken together to implement all aspects of this partnership.

Political Issues

67. Together, we are pursuing a strategy of global integration to create a more secure and stable international community. Already, we have used our political cooperation to broaden and deepen the community of open markets and open societies, and in the next year we will work together to build on these efforts. Our Partnership for Development is designed explicitly to support the economic and political development of nations which run the risk of being marginalised from the process of integration. We will focus our energies on strengthening adherence to the norms and principles of international cooperation, and will work together to take effective measures against those who threaten those objectives. We recognise our common interest and responsibility in helping bring an end to conflicts that threaten to disturb international peace and to undermine our deepened cooperation.

Democracy and Human Rights

68. Recent years have seen an unprecedented growth of democracy world-wide. Yet young democratic states can be fragile and short-lived. We have a responsibility and opportunity to further strengthen democratic values and fundamental freedoms where they have taken hold and extend their reach where they have not.

69. Human rights are at the heart of our concerns. Ensuring accountability for violations of human rights and international humanitarian law is essential to promote conflict resolution and peace. The new UN High Commissioner for Human Rights will have a crucial role to play. We will continue to give full support to the International Tribunals for the former Yugoslavia and Rwanda, and work to ensure that the international community and States concerned bring to justice through due process persons responsible for violations of human rights and international humanitarian law.

70. Recognising that strengthening democracy is essential to strengthening peace and human rights, and looking to the 50th anniversary of the Universal Declaration of Human Rights in 1998, we will work together in the coming year to build on our governments' most effective democratic development, peacebuilding and human rights programs. Our efforts will focus on promoting good governance and the rule of law, strengthening civil society, expanding women's political participation, and boosting business and labour support for democracy, particularly in young democracies and societies in conflict. The protection of the most underrepresented or vulnerable is critical to broaden participation in the democratic process and prevent societal conflict. We will work to ensure adoption and ratification of international instruments designed to provide protection to these groups, in particular the speedy adoption of an International Labour Organisation Convention on the eradication of intolerable forms of child labour. We will work through multilateral and regional organisations, particularly with the Development Assistance Committee of the OECD as well as in partnership with non-governmental organisations and young democracies. We also will consider common efforts to promote democracy where it is not now established.

71. We have asked our Ministers to pursue these efforts and to make recommendations for consideration at our next Summit.

72. Democracy, economic growth and development cannot reach their full potential without good governance, in particular the accountability of political leaders and public servants, especially for corruption. We will actively work to eliminate corruption in aid-funded procurement. We will take prompt steps to criminalise, in an effective and coordinated manner, bribery of foreign public officials, and to implement previous undertakings on the tax-deductibility of such bribes. We call upon all other countries to do the same.

Non-Proliferation, Arms Control and Disarmament

73. Since the Moscow Summit on Nuclear Safety and Security, we have taken important steps to implement the agreed "Programme for Preventing and Combating Illicit Trafficking in Nuclear Materials." We will expand participation in this program to include countries in Central and Eastern Europe, and in Central Asia and the Caucasus.

74. Further regarding the safe and effective management of fissile material, with respect to such materials no longer required for defence purposes, we will continue our cooperation through concrete initiatives, in particular the French-German-Russian project to build a pilot plant in Russia to produce MOX fuel from weapons plutonium, which is open to additional states, and the related U.S.-Russian cooperation on the conversion of weapons plutonium.

75. We have worked together to advance our common non-proliferation, arms control, and disarmament goals. The Comprehensive Test Ban Treaty is an historic milestone, and we call upon all States to sign and ratify it rapidly to ensure its early entry into force. We welcome the entry into force of the Chemical Weapons Convention. We advocate its full, effective and universal implementation, and look forward to the early ratification of the Convention by the States that have not yet done so. Recognising that enhancing confidence in compliance would reinforce the Biological and Toxin Weapons Convention, we reaffirm our determination to complete as soon as possible through negotiation a legally-binding and effective verification mechanism.

76. We reaffirm our unwavering commitment to full implementation of the objectives set forth in the Non-Proliferation Treaty. To that end, we welcome the IAEA's recent adoption of a program on strengthening the effectiveness and improving the efficiency of the safeguards system. We urge all States to conclude

additional protocols with the IAEA at the earliest possible date. We reaffirm our commitment to the immediate commencement and early conclusion of a convention banning the production of fissile material for nuclear weapons or other nuclear explosive devices.

77. We welcome the progress on strategic arms control made at Helsinki in March, and look forward to the early entry-into-force of the START II agreement and the initiation of START III negotiations. We reaffirm the key role of the Conventional Forces in Europe Treaty in strengthening European security, and welcome the decision to conclude its adaptation as expeditiously as possible. We welcome the recent agreement among Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and China on reduction of military forces along their borders and consider it an important contribution to the region's security.

78. We endorse unequivocally efforts by the UN Special Commission and the IAEA to eliminate weapons of mass destruction capabilities in Iraq and to monitor compliance. We reaffirm the importance of implementing the U.S.-DPRK Agreed Framework and full compliance by North Korea with its non-proliferation obligations. We therefore place great value on the continuing role of the IAEA in monitoring the freeze on North Korea's nuclear program, implementing safeguards, and helping preserve all information relating to the DPRK's past activity. We welcome the conclusion of negotiations for the EU to participate in the Korean Peninsula Energy Development Organisation (KEDO) and call for further international support for KEDO, including the provision of funds. We stress the importance of Four Party talks and the necessity of North-South dialogue. We call on North Korea to halt its development, deployment and export of ballistic missiles.

79. We welcome the emerging high-level dialogue between India and Pakistan. We encourage both countries to bring their activities into conformity with international non-proliferation norms. Consistent with our support for the CTBT's early entry into force, we encourage both countries to adhere to that treaty.

80. We recognise that global security and stability are strengthened by promoting international responsibility in the transfer of arms and sensitive technologies, and to that end reaffirm our support for the Wassenaar Arrangement. We welcome the steady achievements under the UN Register of Conventional Arms in promoting transparency in armaments. We encourage the work of the UN Panel of Governmental Experts on Small Arms to identify the ways and means to prevent and reduce the excessive and destabilising transfer of small arms and light weapons and we will continue to work together to curb illegal trafficking in firearms.

Export Control Regimes

81. We underline our support for the arrangements that make up the international export control regimes. The Zangger Committee and the Nuclear Suppliers Group, the Missile Technology Control Regime, and, for those who are members, the Australia Group export control regime, all contribute critically to the global application and enforcement of international export control norms.

Anti-Personnel Landmines

82. Last year we committed ourselves to spare no effort in securing a global ban on antipersonnel landmines. To this end, we note the useful and complementary efforts in a variety of fora, including at the Conference on Disarmament and in formal negotiations to take place in Oslo in September through the Ottawa Process which has set the goal of achieving such a ban before the end of the year. We welcome the restrictions on anti-personnel landmines unilaterally declared by States, including by the members of the EU. We reaffirm the UN General Assembly resolution, approved overwhelmingly, calling for concluding an effective, legally-binding international agreement to ban anti-personnel landmines as soon as possible. All States should adhere to the strengthened Protocol on Mines, Booby Traps and Other Devices. We encourage the international community to develop technological solutions to mine detection and clearance, and to strengthen its support for humanitarian demining and assistance to mine victims.

Political Situations

Hong Kong

83. We recognise the historic nature of China's imminent resumption of sovereignty over Hong Kong. Considering our durable interests in this financial and economic centre, we welcome and place weight on China's commitments, contained in the 1984 UK-PRC Joint Declaration and in the 1990 PRC Basic Law. These include ensuring Hong Kong's continued stability and prosperity and preserving its way of life, its high degree of autonomy -- including an independent monetary and economic system -- its fundamental

freedoms and the rule of law. These will provide the essential underpinnings for Hong Kong's future economic success. We look forward to democratic elections in Hong Kong for a new legislature as soon as possible. We take serious note of China's assurances in the Joint Declaration and Basic Law that the provisions of the International Covenant of Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights will continue to apply in Hong Kong.

Middle East

84. The Peace Process faces a crisis, and we are determined to reinject momentum into it. Restoring the sense of security and confidence among Israelis and Palestinians is essential.

We shall do our utmost to reinvigorate implementation of the Oslo Accords and to uphold the principles of Madrid, including the exchange of land for peace. All the problems need to be addressed peacefully through serious and credible negotiations. Both sides must refrain from actions that impede the peace process by pre-empting permanent status negotiations. We believe strongly in the importance of working with Israel, Syria and Lebanon to resume direct talks in order to achieve a comprehensive settlement in the region. We welcome the important role the Monitoring Group has played in strengthening the Understanding of April 26, 1996 and in reducing risks to civilians in southern Lebanon and in Israel. We affirm the importance of the activities within the multilateral framework of the peace process.

85. Economic growth and prosperity are critical to peace. We urge regional parties to pursue economic cooperation among themselves and integration into the global economy. We welcome all efforts to promote the region's development of viable and sustainable economies, including assistance to the Palestinians, and urge donors to fulfil pledges made.

86. We have noted with interest the results of the recent elections in Iran and renew our call upon the Government of Iran to play a constructive role in regional and world affairs. In this regard, while noting the role Iran played in inter-Tajik talks in conjunction with the United Nations and other regional parties, we call upon the Government of Iran to desist from material and political support for extremist groups that are seeking to destroy the Middle East peace process and to destabilise the region. We further call upon the Iranian Government to respect the human rights of all Iranian citizens and to renounce the use of terrorism, including against Iranian citizens living abroad, and, in that connection, to desist from endorsing the continued threat to the life of Mr. Salman Rushdie and other people associated with his work. We call on all States to avoid cooperation with Iran that might contribute to efforts to acquire nuclear weapons capabilities, or to enhance chemical, biological, or missile capabilities in violation of international conventions or arrangements.

87. We confirm our determination to obtain full compliance with all UN Security Council resolutions related to Iraq and Libya. Only full compliance with these resolutions could result in the lifting of sanctions. We are pleased to note that the distribution of food and medicine under UNSCR 986 is providing some humanitarian relief to the Iraqi people.

Cyprus

88. The Cyprus dispute has remained unresolved for far too long. We fully support the mission of good offices of the United Nations Secretary General on Cyprus aimed at engaging the two Cypriot communities in negotiations to achieve a comprehensive settlement in accordance with relevant UN Resolutions and high-level agreements. We strongly endorse the Secretary General's recent invitation to the leaders of both communities and call on them to approach negotiations constructively and in good faith. We call upon the governments of Turkey and Greece to do everything possible to contribute to a solution of the Cyprus problem and to work towards solving their bilateral disputes with regard to the Aegean through early meetings of "Wise Men."

Albania

89. Noting the situation in Albania and its implications for regional stability, we express our appreciation to those organisations and institutions, acting within the coordinating framework of the OSCE under the strong leadership of Franz Vranitzky -- especially the EU as well as the WEU, UNHCR and Red Cross -- that are working with the Government of National Reconciliation to restore normalcy in the country. We applaud the deployment of the Multinational Protection Force under Italian leadership and the authority of the UN Security Council. We underscore the need for the Albanian parties to work together to ensure that the elections reinforce democracy and thereafter work to re-establish order and public safety, pursue economic reform, and create a sound financial system.

Next Summit

90. We have accepted the invitation of the Prime Minister of the United Kingdom to meet in Birmingham on 15-17 May next year.

FOREIGN MINISTERS' PROGRESS REPORT

21 June 1997

1. We are committed to a strategy of global integration aimed at fostering international peace and prosperity. To that end, we have continued to build on the decisions we have already taken and agreed to broaden our common efforts. Since our last meeting in Lyon, we have strengthened our cooperation on non-proliferation, anti-personnel landmines, transnational crime, counterterrorism, and UN reform. This Progress Report highlights our achievements in these areas and decisions for @further joint action. We will continue to discuss these issues over the course of the coming year and review them again in Birmingham. In keeping with our strong commitment to advance international peace and security, we discussed a full range of political situations which both complemented and supplemented discussions by the Heads of the Eight.'

Non-proliferation

Illicit Nuclear Trafficking

2. We commend the work of the Non-Proliferation Experts Group to fulfil the mandate granted to it at Moscow and Lyon to implement the "Program for Preventing and Combating Illicit Trafficking in Nuclear Material," agreed to at the April 1996 Nuclear Safety and Security Summit in Moscow.

3. We encourage the undertaking of more enhanced information-sharing and cooperation among our law enforcement, intelligence, and customs services in the fight against illicit nuclear trafficking, conducted whenever possible on the basis of already-existing agreements, treaties, and arrangements, as provided for in the advisory "Framework for Enhanced Cooperation and Information-Sharing" proposed by Russia and agreed to by the NPEG at its May 12-13, 1997, meeting.

4. We endorse the agreement of our non-proliferation experts to establish specific tasks and a means of communication for the "Points of Contact" system called for by the Program, and the corresponding Terms of Reference and provisional format for the exchange of information on significant illicit nuclear trafficking incidents.

5. To broaden the scope and effectiveness of our efforts to combat illicit nuclear trafficking, we continue to encourage expanded participation in the Program. To this end, we have asked the United States, as current Chair of the Eight, to continue its contacts, initiated by France, with potential future participants. In order to maintain overall direction of the Program after participation in it has been expanded. We agreed that the chair should seek to organise periodic meetings of new participants under the auspices of the Eight to discuss Program activities and exchange views on illicit nuclear trafficking. We welcome the intention of the United States to organise the first such meeting in November 1997 to be held in Vienna.

6. We welcome the progress made in international efforts to develop nuclear forensics capabilities, under the auspices of the IAEA, as well as through the meetings held by the International Technical Working Group (ITWG).

Plutonium Management

7. We welcome the conclusions of the group of experts, convened pursuant to the April 1996 Moscow Summit on Nuclear Safety and Security to examine options and identify possible development of international cooperation for the safe and effective management of fissile material designated as no longer required for defence purposes. Our experts concluded that the most timely and technically viable option is the consumption of plutonium as mixed-oxide (MOX) fuel in nuclear reactors, and as a complementary option, the immobilisation of plutonium in glass or ceramic form mixed with high-level radioactive waste. The experts also concluded that interim storage will be required, whatever longer-term management options are selected. These conclusions were also endorsed by the Non-Proliferation Experts Group last November in Paris.

8. Such an approach to the management of surplus weapons plutonium would serve the international community's non-proliferation objectives and would make an important practical contribution to nuclear arms reduction. The non-proliferation objective should be given priority in the planning and implementation of cooperation programs. Due consideration should also be given to technical, economic, financial, environmental and other relevant factors.

9. International cooperation will accelerate efforts to address the management of surplus weapons plutonium. We therefore welcome the announcement by France, Germany, and Russia of their plans, which are open to additional states, to build a demonstration-scale MOX fuel fabrication facility in Russia. In this regard, we welcome efforts by Canada and Russia, in collaboration with France and Germany, to investigate the feasibility of producing CANDU MOX fuel. The United States and Russia are also planning cooperation in the area of converting weapons components to materials suitable for disposition, in coordination with other international efforts. Participation in these and other related initiatives is being considered by others among us.

10. We reiterate the importance of ensuring transparency in the management of plutonium designated as no longer required for defence purposes. Implementation of all options should include appropriate international verification as soon as it is practicable to do so and stringent standards of material protection, control, and accountancy, with the objective of building confidence that surplus weapons plutonium will not again be used for nuclear explosives or diverted to unlawful purposes. In this context, we welcome the progress reported in the work in Vienna on the elaboration of the "Guidelines for the Management of Plutonium." We also welcome the progress reported by the United States and Russia on their efforts with the IAEA to agree on measures to submit to IAEA verification weapons fissile material designated as no longer required for defence purposes.

11. In order to sustain and build upon the momentum generated by these initiatives, developed in the wake of the Moscow Summit, the Non-Proliferation Experts Group should begin discussion of possible arrangements for coordinating and implementing plutonium management efforts. The Non-Proliferation Experts Group should submit a report to the Heads by next year's Summit in Birmingham.

Anti-Personnel Landmines

12. Our Governments have taken a number of actions in support of the goal established at Lyon to "spare no effort in securing a global ban on the scourge represented by the proliferation and the indiscriminate use of anti-personnel landmines."

13. We have worked actively over the past year to promote the negotiation of a treaty banning anti-personnel landmines. During the fifty-first session of the UN General Assembly, Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States cosponsored a resolution urging states to pursue an agreement to ban anti-personnel landmines. That resolution was approved by an overwhelming margin of 156- 0.

14. We recognise the important and complementary efforts to achieve an effective, legally binding international agreement to ban the use, stockpiling, production, and transfer of antipersonnel landmines at the Conference on Disarmament and in formal negotiations to take place in Oslo in September through the Ottawa process which has set the goal of achieving such a ban before the end of the year.

15. Germany has recently sponsored a conference to investigate possible methods of verifying compliance with such a treaty. Our Governments will continue to participate in efforts to conclude an effective anti- personnel landmine ban to address this urgent problem.

16. Consistent with last year's decisions at Lyon, our Governments are committed to universal adherence to the Convention on Conventional Weapons and to the 1996 Protocol on Mines, Booby Traps, and Other Devices, which strengthens restrictions on the use and transfer of anti-personnel landmines. Our Governments will continue their efforts to secure ratification of the amended Protocol by all countries that have not completed their ratification efforts.

17. Our Governments, together with members of the European Union, have individually established various bans, moratoria, and other restrictions on anti- personnel landmines. Some have implemented production and use bans, and many have begun to reduce substantially their stockpiles of landmines. We will endeavour to ensure that our various bans on the export of anti-personnel landmines become permanent.

18. Finally, consistent with our pledge in Lyon. we have continued to support international efforts to detect and remove implanted landmines and to provide assistance to the victims of landmines. We have assisted other countries in implementing indigenous, self-sustainable mine awareness and mine clearing programs. Japan, Germany, and Canada have sponsored conferences addressing demining issues, including sharing information on mine detection and clearance technologies, developing indigenous demining capabilities, and extending adequate medical care to mine victims. The European Union has

made an enormous contribution in all of these areas. In the coming year, we will continue our efforts to develop the most promising mine detection and clearing technology and to share this technology, as appropriate, with the international community. We will also continue our active demining assistance programs.

Transnational Organised Crime

19. The Senior Experts' Group has overseen follow-up and implementation of the 40 recommendations agreed upon in Lyon to combat transnational organised crime. These activities were designed to focus on practical, legal and operational issues that affect law enforcement, to promote law enforcement capabilities and cooperation between member states, and to suggest steps that all nations could take, on a multidisciplinary basis, to meet the global challenge of transnational organised crime.

20. To strengthen their operational effectiveness, our enforcement experts will consider joint project proposals to target and disrupt major transnational criminal organisations and activities.

21. To help bring criminals to justice, we have agreed upon practical extradition and mutual assistance measures. Our experts are vigorously pursuing arrangements to ensure extradition, transfer for trial or effective domestic prosecution of nationals, and rapid and efficient coordination among law enforcement authorities.

22. To combat illicit firearms trafficking more effectively, we have agreed to promote close operational cooperation among our experts and relevant law enforcement agencies in other states (including to facilitate prompt responses to firearms tracing requests) and to strengthen direct exchange of information with each other, including scientific and technological information for law enforcement purposes.

23. To counter the illegal smuggling of people across our borders, we pledged to assure that our laws and practices effectively target the organised criminal groups involved. Our experts developed centralised points of contact for a more effective and immediate exchange of information on persons who operate alien smuggling networks and on how those networks are organised, while respecting existing information exchange agreements.

24. Recognising that forged and stolen travel or other official documents are a key precondition for many forms of transnational crime, we have adopted measures to counter document fraud.

25. The significant growth in computer and telecommunications technologies brings with it new challenges: global networks require new legal and technical mechanisms that allow for a timely and effective international law enforcement response to computer-related crimes. To that end, we will work together to enhance abilities to locate, identify, and prosecute criminals; cooperate with and assist one another in the collection of evidence; and continue to develop training for law enforcement personnel to fight high-technology and computer-related crime.

Counterterrorism

26. Terrorist bombings in France, Russia, the United Kingdom, the Middle East and South Asia, the seizure of hostages at the Japanese Ambassador's residence in Lima and other vicious terrorist attacks against innocents during the last year demonstrate that terrorism remains a threat to civil society. The increase in hostage taking by terrorists for the purpose of political extortion or ransom was an additional cause for concern. By making substantial progress in implementing the 25 recommendations of the 1996 Ministerial Conference on Terrorism in Paris, our governments have taken important steps to counter the terrorist threat. For example:

-- To strengthen cooperation to combat and eliminate terrorism, the United Nations, at the initiative of our governments, has begun negotiations on a draft Convention on Suppression of Terrorist Bombing. To broaden further such cooperation, we have called on all states to join the international conventions on terrorism specified in the 1996 UN resolution on measures to eliminate international terrorism by the year 2000, and will intensify diplomatic efforts to achieve universal accession and adherence to these conventions.

-- To strengthen our capability to investigate terrorist attacks on ground transportation, our experts held a series of technical and security consultations. To assist states in investigating terrorist crimes involving motor vehicles, we have, in international conferences, pressed for a strengthened international regime of vehicle identification numbers.

- To improve the safety of air travellers, we have worked with others in the International Civil Aviation Organisation (ICAO) Council to gain adoption of higher security standards, including for explosive detection and associated equipment; ICAO members signalled their intention to seek Council approval of agreed airport security standards and of more consistent and uniform implementation of these standards.
- To prevent terrorists from abusing legitimate rights of asylum, enshrined in international law, we initiated a United Nations General Assembly Declaration serving this purpose.
- To counter, inter alia, the use of strong encryption by terrorists, we have endorsed acceleration of consultations and adoption of the OECD guidelines for cryptography policy and invited all states to develop national policies on encryption, including key management, which may allow, consistent with these guidelines, lawful government access to prevent and investigate acts of terrorism and to find a mechanism to cooperate internationally in implementing such policies.
- To improve the exchange of counterterrorism information, the United Kingdom initiated a Directory of Counterterrorism Competencies among the Eight; and the United States offered to share its counterterrorism forensic data bases through bilateral arrangements, with members of the Eight.
- To prevent terrorist access to biological and toxin weapons, the participants of the Fourth Review Conference of the Bacteriological (Biological) and Toxin Weapons Convention (BTWC), at the urging of our governments, recognised the need to ensure, through the review and/or adoption of national measures, the effective fulfilment of their obligations under the Convention in order, inter alia, to exclude the use of biological and toxin weapons for terrorist or criminal activity.
- To promote further cooperation, our governments will compare their domestic legislation related to terrorist fund-raising, and ensure strong domestic laws and controls over the manufacture, trading and transport of explosives.

27. We will continue these efforts in the coming year and extend our counterterrorist cooperation to other critical spheres.

28. To protect our electronic and computer systems from disruption by terrorist attacks, we will share information and methodologies to prevent such attacks and to prevent the use of computer networks for terrorist and criminal purposes.

29. To address the continuing danger from acts of terror using high explosives and other sophisticated technologies, and from potential use by terrorists of materials of mass destruction, our experts will intensify the exchange of information in research and development of counterterrorism technologies.

30. Because of terrorist and other threats to the security of major international events, we will share information and experiences in providing security for such events. The U.S. will hold a conference of experts on this subject in Honolulu in September 1997, in order to exchange information on the most effective security practices for major international special events.

31. To heighten vigilance against acts of terror directed at maritime vessels and their passengers, our governments will encourage the International Maritime Organisation (IMO) to strengthen maritime security measures and to improve the awareness and implementation of IMO standards.

32. In response to a growing international desire for closer cooperation, we will strengthen and expand international cooperation and consultation, and reach out bilaterally and multilaterally, on counterterrorism issues. In this regard we welcomed the initiative by Japan to convene a Seminar on Counterterrorism for the Asia and Pacific Region in December 1996.

UN Reform

33. We reaffirm our commitment to achieving early and practical results in the renewal of the United Nations. We welcome the momentum that has developed over the past two years in favour of substantial reform of the United Nations system in all the major activities of the United Nations. Secretary General Kofi Annan has seized the initiative and generated a renewed commitment to revitalising the entire organisation. Significant efforts are now underway in the UN Secretariat, ECOSOC and its subsidiaries, the high-level intergovernmental working groups on organisational strengthening and financial stabilisation, UNCTAD, the regional commissions, the specialised agencies and the operational programs for development and humanitarian relief.

34. Credit for the progress achieved so far is widely shared. We have been pleased to join with all our fellow members of the United Nations in responding to the broadly recognised needs for enhancement

and improvement of the organisation and its associated agencies and programs. Our concerted efforts have clearly marked out the course to take in increasing the UN system's programmatic efficiency and cost effectiveness.

35. We anticipate the timely conclusion of the various working groups and the prompt implementation of responsive measures during the next UN biennium, 1998-99. Such action will ensure that the United Nations is fully able to meet the challenges of the new century as the premier international organisation responsible for peace, security and the promotion of human welfare and sustainable development in all its aspects.

We call on all member States to join us in redoubling efforts to achieve these vital outcomes.

Political Situations

Democratic Republic of the Congo

36. The momentous changes in the Democratic Republic of the Congo highlight the importance of peaceful democratic transition and the establishment of a broadly-based interim administration. We believe it is important to assist the new authorities in the transition to an elected government, promote respect for human rights, address urgent humanitarian needs, and facilitate economic renewal. We look forward to close cooperation with other donor countries, the United Nations, OAU, International financial institutions, and regional leaders in these efforts. The willingness of our governments to assist in the rebuilding of national institutions will depend on the new authorities' demonstrating their commitment to democratic reform, including elections, sound economic policies, public accountability, and respect for human rights, including protection of refugees.

Republic of Congo (Brazzaville)

37. Deeply concerned by the situation prevailing in Congo, we call on all parties to put an end to hostilities and work together for restoration of civil peace and national reconciliation. We strongly support the mediation of President Bongo of Gabon and the Special Representative of the UN and OAU, Mohamed Shanoun. We are adamantly opposed to any attempt to resolve political differences by the use of force, including the armed overthrow of constitutional government. Congo's future rests upon an enduring political solution that adheres to democratic processes and leads to presidential elections without delay.

Haiti

38. The progress accomplished in Haiti as a result of the United Nations Support Mission in Haiti, underlines the necessity of continued international assistance to maintain stability and promote democratisation, and economic development. We will take positive note of the Secretary General's new recommendations on the nature of the international presence in Haiti subsequent to the termination of the current UNSMIH mandate. We urge that Haiti press forward with implementing its economic modernisation program.

Afghanistan

39. Noting the recent developments in Afghanistan, we call on all Afghan parties to stop the fighting and to work together towards the formation of a broad-based, fully representative central government that will protect the rights of all Afghans and abide by Afghanistan's international obligations. Taking into account risks of regional destabilisation, peace and stability can best be attained through political negotiations under UN auspices with the active and coordinated assistance of all countries concerned and provided that all external interference ceases. All Afghan parties and concerned countries should abide by the provisions of recent resolutions on Afghanistan adopted by the UN Security Council and General Assembly.

Myanmar

40. Concerned by the continuing violations of human rights by the regime, we call on the SLORC to enter into a meaningful political dialogue with leaders of the democratic opposition and ethnic minorities aimed at national reconciliation and the restoration of democracy. We note the recent decision of the Association of Southeast Asian Nations to admit Myanmar as a member of the organisation in July and express the hope that the members of ASEAN will use their influence to encourage an early return to democracy in

Denver Summit: 20-22 June 1997

Myanmar. We stress that the international community holds the SLORC accountable for the safety of Daw Aung San Suu Kyi.

G7 Statement

CONFRONTING GLOBAL ECONOMIC AND FINANCIAL CHALLENGES

21 June 1997

Introduction

1. We, the Heads of State and Government of seven major industrial democracies, and the Representatives of the European Union, have met in Denver to discuss the challenges which we face in economic, financial and other areas as we approach the 21st Century.

2. We remain committed to sustaining non-inflationary growth and contributing to world prosperity. The increasing globalisation of markets is an important engine of world growth that provides opportunities to all countries. Our goal is to realise the full benefits of globalisation for all while meeting the challenges it presents.

3. To achieve this goal, we must:

- Implement policies to promote sustainable, non- inflationary growth; create jobs; restore sound public finances; and meet the challenge of the ageing of our populations.
- Work together with other countries to promote open markets for trade and investment and to support global financial stability, crucial underpinnings of economic growth and prosperity.
- Promote the successful integration of the transition and developing countries of all regions of the world into the global economy.

Promoting Growth

4. Since we met in Lyon, we have been encouraged by the many positive indicators in our economies: inflation remains low, growth continues at a solid yet sustainable pace or is increasing, and fiscal actions are reducing budget deficits. We welcome the impressive gains of the emerging economies, which have contributed significantly to global growth. We also welcome the progress of the transition economies toward creating stable macroeconomic conditions and implementing structural reforms. We call on those countries to work with us to ensure the efficient functioning of the international monetary and trade system.

5. But we still have work to do in our own economies. More must be done to restore sound long-term fiscal positions and, in some countries, to ensure the soundness of the financial system. We are concerned about the high level of unemployment in some countries, which has serious consequences for growth, public finances and social cohesion. Some of our countries have registered strong economic growth and rising employment; in others, the recovery in job growth has not been satisfactory. More needs to be done - especially in the latter cases - to increase labour and product market efficiency through structural reform. We face the challenge of ensuring that all, particularly our young people, can participate in growth and benefit from it. In this respect, we encourage the work of the OECD on regulatory reform.

6. One of the most important challenges we face is responding to the economic, financial and social implications of the changing demographics in our ageing societies. It could significantly affect our pension and health care costs and influence our public budgets; reduce public and private savings, and affect global flows of capital. We therefore pledge to undertake structural reforms that will address these issues. We have asked our Finance and Economic Ministers to examine, in coordination with other competent national authorities, the economic and fiscal implications of ageing, including within the OECD and other relevant international organisations.

7. Our countries' circumstances and priorities differ.

- In the United States, with a long recovery and successful job creation, it is important to remain vigilant against a resurgence of inflation, to achieve the full promise of the agreement to balance the federal budget, and to promote savings. Canada, with very low inflation and impressive success in cutting budget deficits, has recorded increasing growth recently which should lead to further job creation.

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- Japan has the objective of achieving strong domestic demand-led growth and avoiding a significant increase in its external surplus. Further structural reforms, including broader deregulation initiatives and appropriate structural reforms in the fiscal area, are important over the medium term to revitalise the Japanese economy further.
 - France, Germany and Italy share the challenging task of restoring strong employment growth. While pursuing efforts toward restoring sound long-term fiscal positions, they will need to deepen structural reforms to reduce barriers to job creation and to increase efficiency of government action and, where necessary, reshape its role in their economies, including through reforms of the tax and social security systems. The United Kingdom must keep inflation pressures under control and maintain budget deficit reduction while strengthening the economy's long-term growth potential, particularly through education and welfare reform.

8. We discussed EMU, including its international implications. We welcome the efforts of European Union countries to achieve a successful introduction of the Euro and a well functioning EMU, underpinned by sound macroeconomic and structural policies, that would contribute to the stability of the international monetary system.

9. We reiterate our commitment to promoting international monetary stability. We have asked our Finance Ministers to continue to cooperate closely on economic policy and in the exchange markets.

10. Our governments welcome the new round of Russian economic reform launched this year to promote sustainable growth. Russia's plan for fundamental tax reform is essential to put that country's fiscal situation on a sound footing. We fully agree with Russia's intention to pursue vigorously structural reforms to improve the investment environment, promote competition, fight crime and corruption, and strengthen the social sector. In this context, full implementation of Russia's EFF program with the IMF is critical. Successful implementation will help Russia to attract higher flows of private investment. In addition, a deepening and expansion of Russia's relations with the World Bank and the EBRD, through both increased lending and guarantees, will support this ambitious structural reform agenda.

Strengthening the Stability of the Global Financial System

11. International financial markets are becoming increasingly global and complex. This presents new opportunities that can lead to increased efficiencies in the functioning of the international financial system, thereby facilitating growth and prosperity. At the same time, these changes present new challenges. Beginning in Halifax and continuing through Lyon, we have encouraged financial regulators and the international financial institutions to take measures to deal effectively with possible systemic or contagion risks and foster financial stability, without stifling innovation or undermining the benefits of globalisation, liberalisation and competition. We welcome the concerted effort to strengthen the international financial system and endorse our Finance Ministers' report, which outlines the progress achieved in the key areas we identified in Lyon.

12. National supervisors and international regulatory bodies have put in place a network of cooperative arrangements and developed proposals to enhance the supervision of internationally active financial institutions, on both an on-going basis and in emergency situations. These efforts should help the regulatory framework better reflect market developments. Moreover, Finance Ministers have agreed to support necessary changes in laws or regulations that facilitate and improve information exchange for supervisory purposes. Steps have been taken to strengthen risk assessment, reduce foreign exchange settlement risk, and improve market transparency to help our consumers, investors, and regulators better identify, manage, and control risks. In addition, the G-10 Working Party on Electronic Money identified a set of broad objectives and key considerations to help guide national approaches to emerging electronic payment technologies.

13. The Working Party on Financial Stability in Emerging Market Economies, which included representatives from those countries, has outlined a concrete strategy to assist emerging economies in strengthening their financial systems, and the Basle Committee on Banking Supervision has developed a set of "Core Principles" which will contribute significantly to the adoption of improved prudential standards world-wide. We urge the dissemination and endorsement of these reports and implementation of their recommendations.

14. These efforts to promote financial stability and mitigate possible financial crises are part of an important ongoing process to which we attach great importance. We urge our national supervisors to

develop further and implement proposals to enhance international regulatory cooperation. We call on the international financial institutions and the international regulatory bodies to fulfil their roles in assisting emerging market economies in strengthening their financial systems and prudential standards. Our Finance Ministers will consult with the relevant supervisory and international regulatory bodies and international organisations to develop approaches for further actions, and report prior to next year's Summit on progress in implementing these initiatives.

Building an Integrated Global Economy

The International Financial Institutions in a Changing World

15. The rapid growth of global trade and private capital flows requires continuing adaptation and reform of the international financial institutions (IFIs). We therefore reaffirm our support for the ambitious program of IFI reforms underway following Halifax, and our conviction that their comprehensive implementation will substantially strengthen the effectiveness of the international monetary system. We pledge to work collaboratively with the institutions as they pursue these efforts, and to cooperate among ourselves and with others having a stake in the international monetary system to provide them the resources and multilateral support needed for success.

16. We value the IMF's surveillance of the international monetary system. We place particular importance on the IMF helping countries build long-term potential through trade and investment liberalisation. By the time of the World Bank/IMF annual meetings in Hong Kong, we seek substantial agreement on key elements of an amendment to the IMF Articles to give the specific mandate to promote capital account liberalisation to meet the new challenges in global capital markets. We welcome the IMF's progress in strengthening surveillance and promoting improved transparency. Increased attention to financial sector problems that could have significant macroeconomic implications, and to promoting good governance and transparency, will help prevent financial crises. Equally important is appropriate transparency in the Fund's activities with member countries. We welcome the IMF's progress in these areas. We seek substantial agreement toward a proposed amendment of the IMF Articles to provide for an "equity" allocation of Special Drawing Rights, and ask the IMF to work toward completing agreement by the time of the World Bank/IMF meetings in September.

17. The World Bank's Strategic Compact represents a welcome commitment to a new direction, emphasising greater Bank impact on poverty reduction, strong new partnerships with the private sector, and a concentration of operations on countries genuinely committed to sound policies and the welfare of all their citizens. We fully endorse the Bank's commitment to a stronger focus on building institutional capacity, especially in the poorest countries, and its recognition of the central importance of transparency, accountability, and good governance in this effort. We look forward to full and timely implementation of these commitments. We urge the regional development banks to participate fully in meeting these same challenges. We welcome the World Bank Group's initiative to present at the Hong Kong meetings innovative ways to support private sector infrastructure investment in developing countries.

18. Transparent, accountable, and responsive public institutions are essential to achieving sustained economic development and healthy democracies. In this regard, we welcome the long-standing efforts of the World Bank to promote good governance and adoption by the Asian Development Bank of a good governance policy. We urge the IMF and the World Bank to finalise governance policies, consisting of principles and guidelines on best governance practices.

19. It is incumbent on us to help ensure that the IFIs have the multilateral support and financial resources needed to succeed with their ambitious and important reforms. For the multilateral banks, this means meeting our financial commitments in full, particularly with respect to vital concessional lending operations such as IDA. We also agree that the Multilateral Investment Guarantee Agency (MIGA) needs sufficient resources to continue to support, in close cooperation with other members of the World Bank Group, private sector investment in developing countries. Recognising the importance of ensuring that the IMF continues to have adequate resources to fulfil its systemic responsibilities, we ask the IMF Board to work toward completing the Eleventh General Review of quotas by the time of the Hong Kong World Bank/IMF meetings in September. Continuation of the ESAF with adequate resources is needed to maintain a full role for the IMF in promoting growth and development in the poorest countries.

Global Partnership for Development

20. We reiterate our commitment to sustainable and widely-shared economic growth and development, and reaffirm our full partnership with developing countries and the multilateral institutions, as agreed in Lyon. We remain committed, through this partnership and our bilateral efforts, to meeting the interrelated challenges of eradicating deep-seated poverty, investing in human potential and promoting dignity, and building on the clear lessons and major achievements of the past decade. We recognise and welcome the complementary and increasingly important role of the private sector in meeting these challenges.

21. This partnership is based on shared responsibilities and shared interests. For our part, we are committed to a sound global financial system, open trade and investment regimes, and consistent and sustainable growth in the advanced economies. We must ensure that adequate development assistance is available, and that it be concentrated primarily where it will have greatest impact, on the poorest countries in danger of being left further behind, and on the priority human resource investments that are the ultimate source of sustainable development. For their part, recipient countries must pursue sound macroeconomic policies; make fiscal choices that genuinely promote development and minimise unproductive expenditures, especially military expenditures; ensure the best possible use of our support; and respect the basic rights of individuals. We will reinforce these efforts with our active support. We reaffirm the Lyon commitment to support the IFIs' efforts to curtail unproductive expenditure in developing countries through our aid and credits.

22. Our partnership with the developing countries, particularly in Sub-Saharan Africa, where problems associated with poverty and marginalisation are acute, can deepen and take on an additional, more market-oriented dimension as they implement comprehensive, outward looking and effective economic reform measures to promote financial and fiscal stability, trade and investment liberalisation, sustainable development, and growth. We urge the IFIs - in particular the World Bank and the African Development Bank - to reinforce their efforts to support reforming Sub-Saharan African countries in particular to identify priority problems and reinforce steps toward openness, regional integration, and deeper participation in the world economy. Such actions should assist productive foreign investment and domestic capital formation. We call on the IFIs to report on their efforts by the time of the Hong Kong World Bank/IMF meetings. In addition, we welcome an increased focus on microenterprise development strategies in developing countries to broaden participation, and underline the importance of best practices in microfinance through bilateral and multilateral assistance.

Debt Relief for the Poorest Countries

23. We welcome the substantial progress that has been made in implementing the new debt initiative launched in Lyon to help heavily indebted poor countries (the HIPC initiative) implement the bold reforms needed for debt relief to lead to sustainable financial positions and stronger growth. The IMF and World Bank have established specific mechanisms to provide effective multilateral debt reduction for countries qualifying under the HIPC initiative, and have made available initial funds for this purpose. The Paris Club has also shown its readiness to fully participate in the initiative, on the basis of fair burden sharing.

24. We look forward to further implementation of the agreed framework for this initiative in the coming year and expect additional countries to qualify for relief in the months ahead. The IMF, World Bank and Paris Club should fulfil their roles, including the provision of interim relief. They should also continue to coordinate closely with other multilateral institutions to assure their participation, taking into account the particular needs of the African Development Bank. The success of the new initiative relies on a combination of strong debtor reform programs and effective debt relief. We welcome that some countries have already substantially reduced bilateral concessional debt. Other countries should reinforce efforts to reduce or, where possible, extinguish such debt for the poorest reforming countries.

Combating Corruption and Financial Crimes

25. We urge the IMF and the multilateral development banks to strengthen their activities to help countries fight corruption, including measures to ensure the rule of law, improve the efficiency and accountability of the public sector, and increase institutional capacity and efficiency, all of which help remove economic and financial incentives and opportunities for corrupt practices. We support and encourage the IFIs in their efforts to promote good governance in their respective areas of competence and responsibility.

26. In addition to its closer focus on broad governance issues, the World Bank has taken concrete steps against corruption by raising public sector procurement standards world-wide through greater transparency and rigor in the standards it applies to Bank- funded contracts. We urge the regional development banks to collaborate fully in this effort, including by establishing procurement standards that meet the highest standard.

27. We welcome the commitment of the OECD Ministers in May to criminalise bribery of foreign public officials in an effective and coordinated manner. We urge the prompt implementation of their previous recommendation on tax deductibility of such bribes. We are committed to submit criminalisation proposals to our legislative bodies by April 1, 1998, and to seek their enactment by the end of 1998. We are also committed to that end, promptly to open negotiations of a convention to be completed by the end of this year with a view to its entry into force as soon as possible within 1998.

28. We reiterate our commitment to improve international cooperation between law enforcement agencies and financial regulators on cases involving serious financial crimes and regulatory abuse. We ask our experts to report and make recommendations at next year's Summit.

29. Money laundering poses a continuing threat to the democratic values and financial integrity of all of our countries. The Financial Action Task Force (FATF) is leading the international fight against money laundering, and we believe that the FATF should continue its important work. The key challenge will be to spread the anti-money laundering message to all regions of the globe. FATF should consider expanding its membership to include a select group of non-member countries committed to the Forty FATF Recommendations which can play a significant role in their regions. FATF should seek stronger cooperation with regional organisations, the support of the international financial institutions and the cooperation of the international financial services industry. Over the next year, we urge the FATF to review ways to advance its essential work and look forward to receiving its conclusions when we meet at next year's Summit and consider renewal of its mandate for an additional five-year period.

Supporting Growing Global Trade and Investment

30. Trade and investment are essential to increased prosperity, sustainable economic growth and job creation. We attach high priority to full and effective implementation of the Uruguay Round agreements to support the goals of further trade liberalisation to spread the benefits of globalisation. Globalisation will only be sustainable if everyone enjoys the benefits of the resulting economic gains. We welcome the WTO's first Ministerial Conference in Singapore in December, and the important trade agreements covering \$1 trillion in information technology goods and telecommunications services achieved earlier this year and look forward to its expansion. We believe that it will be in the interests of all WTO members to secure a financial services agreement by the end of this year, on a full MFN basis, that contains significantly improved market access and national treatment commitments from a broader range of countries. We shall negotiate constructively to achieve such a result and urge our partners to join us in this effort. Similarly, we look forward to a successful completion in 1998 of the OECD negotiations on the Multilateral Agreement on Investment.

31. We restate the primacy of an open, multilateral, trading system based on the WTO. Next year's 50th anniversary of the GATT provides an occasion to reflect on what we have achieved and an opportunity to look to the future. We endorse the program of work and timetable for further trade liberalisation built into the Uruguay Round agreements and elaborated by Trade Ministers at Singapore. We are committed to building the widest possible support for this process. We agreed to explore further market opening initiatives, taking into account developments in the world economy, the widening membership of the multilateral system, and important traditional trade barriers that remain. While rejecting the use of labour standards for protectionist purposes, we renew our commitment to the observance of internationally recognised core labour standards.

32. We attach a high priority to expanding the membership of the WTO, on the basis of commitments to adhere to WTO rules and to provide commercially meaningful market access. As agreed at Singapore, we also support the further integration of the least- developed countries in the trading system, through a plan of action, including, for example, providing predictable and favourable duty- free market access conditions for their products on an autonomous basis to help foster the expansion and diversification of their exports. We look to the WTO-UNCTAD-ITC Conference to enhance their capacity to benefit from increased trade and investment. We each will continue to improve, through various means, access to our markets for least-developed countries.

33. The development of electronic commerce has the potential to yield great benefits to all our citizens and enterprises. To do so, it must be able to grow in a predictable and stable environment. We have directed our officials to work with the OECD, WTO, other appropriate international organisations, and the private sector to identify opportunities to facilitate global electronic commerce, as well as the challenges it poses to ensure preservation of national security interests, consumer protections, effective tax administration and the ability to deal with criminal activities, including money laundering.

34. In Lyon we initiated an effort to standardise and simplify customs procedures. We urge our customs experts to complete their work in the next year and report prior to our next meeting on their efforts to standardise both the data required by customs and other related administrations to carry out their responsibilities and the form in which data are to be reported electronically, and to reduce data requirements to a minimum consistent with effective administration of customs responsibilities.

35. The globalisation of national economies has increased the challenge of harmful tax competition. As stated in the Lyon communiqué, tax schemes aimed at attracting financial and other geographically mobile activities can create harmful tax competition between states, carrying risks of distorting trade and investment, and could lead to the erosion of national tax bases. Harmful tax competition also undermines the fairness and neutrality of the tax system. Hence we attach great importance to the work undertaken by the OECD. We hope that the OECD can produce its conclusions and recommendations on this subject in time for our consideration at next year's Summit.

Ukraine

36. We encourage Ukraine to tackle the challenges of reinvigorating economic reform and creating a more welcoming environment for investors. Immediate progress on the ambitious reform plan outlined by the Ukrainian government last fall is crucial to that effort and to gaining access to the considerable financing package already available from the IFIs and the donors. Decisive steps are now needed by government to improve the legal standing and practical treatment of investors. This is key to developing the private business sector, without which reform will fail.

37. We have made significant progress in implementing the 1995 Memorandum of Understanding (MOU) with Ukraine on Chernobyl Closure. We reaffirm our commitment to assist Ukraine, within the context of the MOU, in mobilising funds for energy projects to help meet its power needs in 2000 and beyond after Chernobyl's closure. To date, projects have been agreed totalling over \$1 billion. We call upon Ukraine to continue to undertake the reforms necessary for sustainable growth, particularly in its energy sector.

38. We agreed on the importance of securing the environmental safety of the sarcophagus covering the remains of the destroyed Chernobyl reactor. This task is inevitably beyond the resources of Ukraine alone. This is a major challenge for the international community. We have decided to add to the commitments we undertook in the MOU with Ukraine. We endorse the setting up of a multilateral funding mechanism and have agreed that the G-7 will contribute \$300 million over the lifetime of the project. We call upon concerned governments and other donors to join us at a special pledging conference this fall to ensure full implementation of this project.

PROMOTING FINANCIAL STABILITY

[FINANCE MINISTERS' REPORT TO THE HEADS]

21 June 1997

Introduction

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

- enhancing cooperation among the authorities responsible for the supervision of internationally-active financial institutions, importantly by clarifying their roles and responsibilities;
- encouraging stronger risk management and improved transparency in the markets and connected activities, especially in the innovative markets;
- encouraging the adoption of strong prudential standards in emerging economies and increasing cooperation with their supervisory authorities; and
- studying the implications of recent technological advances which make possible the creation of sophisticated methods for retail electronic payments and how to ensure their benefits are fully realised.

The Heads requested that the G-7 Finance Ministers report to the next Summit in Denver on these issues. In December 1996, the Ministers provided an Interim Progress Report to the Heads outlining in detail the extensive work undertaken by Finance Ministries, in association with national authorities and the international regulatory bodies to address the Heads' interest in these areas. This final report for the Summit in Denver describes the accomplishments since Lyon and recommends a set of objectives and proposals to carry this process forward.

International financial markets are undergoing rapid changes, leading to increased expansion, globalisation, and complexity. These changes present new opportunities that can lead to increased efficiency in the functioning of the international financial system. At the same time, the changes present new challenges to consumers, investors, and the markets. Governments must take measures to deal effectively with possible systemic or contagion risks and foster financial stability without stifling financial innovation or undermining the benefits of liberalisation and competition. Governments and regulators have to be careful that the policies and regulations they develop do not result in "regulatory arbitrage," resulting in the flight of financial activities to less regulated or even unregulated markets. We must pursue these efforts while maintaining the important role of market discipline and promoting the improvement of prudential standards.

In the past year, national and international regulatory bodies, the International Monetary Fund, the World Bank and others have continued to intensify their cooperative efforts on a national, bilateral, and multilateral basis to strengthen the international financial system. These actions have produced meaningful progress to enhance risk assessment and address possible systemic or contagion problems. We welcome the increasing degree of interaction and cooperation among all the various bodies and encourage them to continue their efforts.

OBJECTIVES

Enhancing Cooperation among Supervisors of Globally Active Financial Institutions

Major, globally active financial institutions operate in world markets through a variety of legal entities and functional business lines and across geographic jurisdictions. Therefore, as a practical matter, supervisors of regulated entities within a financial group must be in a position to understand a firm's global operations, so that all material risks to the relevant entities within the firm and to the group can be considered. International cooperation among supervisors, including exchange of information, is an important tool in the comprehensive risk assessment of global firms, and in assisting supervisors to take timely supervisory action.

Key Areas of Progress

Substantial work to enhance regulatory cooperation is taking place on a bilateral and multilateral basis. Arrangements to exchange information in emergencies represent a significant step by securities and banking regulators to enhance the supervision of globally active financial institutions and are a building block to expand further regulatory cooperation. We welcome the important steps outlined in the reports of the international regulatory bodies to enhance cooperation among supervisors on an ongoing basis and in emergency situations.

The Joint Forum has agreed that, in appropriate circumstances, a coordinator should be identified to facilitate the exchange of information on globally active financial institutions. The Joint Forum is continuing to develop the possible menu of roles that a coordinator could assume during emergency and non-emergency situations. It is also exploring the relative merits and practical implications of each role (including legal and regulatory constraints) for the coordinator and other relevant supervisors.

The Joint Forum has also drafted a set of supervisory principles, including techniques to assess the potential impact of the group-wide capital structure on the regulated firms.

IOSCO and its members have undertaken a number of practical measures to strengthen their cooperation, including coordinated inspections, investigations, and reviews of major, internationally active financial groups.

Regulators from twenty jurisdictions responsible for the supervision of the world's leading derivative markets and over sixty derivatives exchanges reached an agreement intended to improve information sharing on large exposures of internationally active derivatives firms.

We welcome the progress by these groups and, going forward, we:

- Encourage the Joint Forum to reach agreement on principles for enhanced cooperation, both for ongoing supervision and for emergencies;
- Encourage the Basle Committee, IOSCO, and the IAIS, to develop further their work in these areas, and national supervisors to apply the cooperative arrangements identified by the Joint Forum in its report to Finance Ministers, in order to draw lessons and refine the concrete features of such arrangements;
- Agree to support necessary changes in laws or regulations that facilitate and improve information exchanges for supervisory purposes between national regulatory authorities, while preserving the confidentiality of information.
- Recognize the importance of changing laws and regulations, where necessary, to facilitate onsite inspection arrangements for branches. In addition, the home country supervisor should have the right to obtain information about foreign branches and subsidiaries of the financial institutions under its supervisory jurisdiction. Barriers to onsite inspections should be minimised.

G-7 Finance Ministries are undertaking an assessment of impediments to information sharing identified by the Basle Committee, IOSCO, the IAIS and the Joint Forum.

Encouraging Stronger Risk Management and Improved Transparency in Markets

A stable financial system depends on sound financial institutions, whose operations are transparent to supervisors and to the market. As financial institutions engage in increasingly complex and global transactions, it is critical that they have in place effective systems to measure, monitor, and control risks, as well as sufficient capital to provide for such risks. Public disclosure can also enhance the role of market discipline by improving the information available to market participants. Insolvency or liquidity problems of major globally active financial groups can seriously affect the payment and settlement systems, and mechanisms to permit firms to reduce the net value of their exposures to counter parties may lessen the vulnerability of the system to such events.

Key Areas of Progress

- Supervisors have studied the organisational and management structures of selected globally-active financial conglomerates, developed supervisory tools to better understand their risk management processes, and are expanding guidance on sound risk management systems.
- The Basle Committee is currently overseeing the implementation of the January 1996 Amendment to the Capital Accord to incorporate market risks. The amendment requires banks to hold sufficient capital against risks from trading activities and reinforces their efforts to improve risk management techniques.

- The Basle Committee has issued a consultative paper that establishes twelve principles on the management of interest rate risk that its members will use to evaluate the effectiveness of banks' interest rate risk management.
- IOSCO has created a special task force to define acceptable methodologies for determining minimum capital standards and supervisory approaches to systems and controls for internationally active securities firms.
- Through their comprehensive surveys, the Basle Committee and IOSCO have taken steps to make information available to markets and supervisors on derivatives activities. The Euro-Currency Standing Committee developed a reporting system on derivatives activities of major dealers, to begin in 1998.
- The IASC, in consultation with IOSCO, has the goal of developing, by March 1998, a comprehensive core set of high-quality international accounting standards for use by foreign issuers conducting an offering or seeking a listing.
- The Committee on Payment and Settlement Systems of G-10 Central Banks has taken steps to reduce settlement risk in foreign exchange transactions and along with IOSCO has taken steps to develop and implement a disclosure framework for securities settlement systems.

We welcome the progress that has been made in these areas and look forward to efforts to foster high-quality accounting standards and to improve the information available on the nature and adequacy of risk management and internal controls. In the context of these efforts, we encourage supervisors to examine the feasibility and desirability of establishing stronger public disclosure in periodical financial reports, including whether legislative action is necessary, to maximise the ability of market participants to make meaningful assessments. We also encourage supervisors to explore principles for analysing the capital positions of regulated entities and where such entities are included in a diversified financial group, on a group-wide basis as well, in order to evaluate risks to the regulated entities.

We welcome the steps outlined in the reports from the international regulatory bodies to reduce risks to payment and settlement systems. We encourage the Committee on Payment and Settlement Systems to continue to work with industry groups that seek to offer risk-reducing multi-currency services.

We agree to introduce, where necessary and appropriate, legislative measures to ensure the enforceability of sound netting agreements in relation to insolvency and bankruptcy rules to reduce systemic risk in international transactions.

Encouraging the Adoption of Strong Prudential Standards in Emerging Economies

Strengthening financial systems in emerging economies will reduce the risks of financial and macroeconomic crises that can impose substantial costs on domestic economies and have potential contagion effects in regional and international markets. In response to the G-7, the G-10 formed a working party to identify and analyse factors that promote financial stability in emerging economies and to outline a concrete strategy to strengthen financial systems in such economies.

Key Areas of Progress

The working party, which included representatives of emerging market economies, international regulatory bodies, and the international financial institutions, made significant progress:

- The working party issued for wider discussion a report recommending a strategy comprising: development of an international consensus on the key elements of sound financial systems; formulation of sound principles and practices by international regulatory bodies; use of market discipline and market access to provide incentives for their adoption; promotion by the IMF, World Bank and others of the adoption and implementation of such principles and practices.

The international regulatory bodies and the BIS have made significant contributions:

- In cooperation with 15 key developing countries, the Basle Committee released a consultative paper on "Core Principles for Effective Banking Supervision," and an accompanying Compendium providing more in-depth guidance on supervisory issues.
- The Basle Committee in October 1996 also issued a report setting out a framework for improving and facilitating the supervision of cross-border banking, which was endorsed by supervisors of 140 countries.
- In the last year, the BIS expanded its membership to include representatives from emerging market economies. IOSCO made changes to its organisational structure to increase the representation

of emerging markets. The IAIS formed a special committee to promote the development of emerging insurance markets by establishing principles and offering training programs.

We endorse the strategy proposed by the working party. We also share their view of the ultimate responsibility of national authorities in emerging market economies, the need for sound macroeconomic policies and the importance of further developing competitive, transparent markets operating on sound principles. We encourage the endorsement and implementation of the working party's proposals by national authorities world-wide. We urge national supervisors to implement the Basle Committee's Core Principles, and call on the IMF and World Bank to use them as benchmarks when they advise or conduct surveillance of emerging market economies. We propose the IMF give higher, targeted priority to financial sector stability in its surveillance work incorporating the guidelines and advice of the supervisory community.

We suggest the international regulatory bodies continue to work within the framework proposed by the working party, in dialogue with the international financial institutions. We propose that parties offering bilateral assistance, the World Bank and other development banks encourage sound financial sectors, consistent with the strategy, through the provision of high quality, well-coordinated technical assistance.

We ask the G-10 Deputies, in collaboration with emerging market representatives, to review implementation of the strategy. In this context we ask the international regulatory bodies, the IMF and the World Bank to report to Finance Ministers next April on their contribution to this process, including their efforts to strengthen the roles they play in encouraging emerging market economies to adopt the principles and guidelines identified by the supervisory community.

Studying the Implications of Retail Electronic Payments

In response to the G-7, the G-10 formed a working party to develop a broad understanding of the policy issues that might arise from the development of electronic money and identify those relating to consumer protection, law enforcement and supervision, which could benefit from additional international cooperation. The working party focused on multi-purpose stored value cards and on functionally equivalent payment products for executing payments over open computer networks.

Key Areas of Progress

We endorse the working party report on electronic money and its key findings that consumers, providers and authorities should give attention to the transparency, financial integrity, technical security, and vulnerabilities to activity of electronic money.

On cross-border issues, given the early stage of commercial development we agree with the working party that we should adopt a flexible response to electronic money schemes, particularly in light of somewhat difficult national approaches to regulation, to any impediments to innovation and competition and hence their active development.

The working party provided a useful forum for reflecting the perspectives of central banks, finance ministries, and law enforcement officials. We agree with the working party's conclusion that it is important to monitor the situation going forward and that a similar approach could be useful in the future if circumstances warrant, though it is not necessary at this time to establish new, formal international coordinating mechanisms specifically addressing electronic money developments.

1 The Basle Committee on Banking Supervision, the International Organisation of Securities Commissions, the International Association of Insurance Supervisors, and the Joint Forum on Financial Conglomerates (which is sponsored by the first three bodies and includes banking, securities, and insurance regulators from 13 countries and the European Commission).

2 (These include the International Accounting Standards Committee and the Committee on Payment and Settlement Systems of G-10 Central Banks.)

STATEMENT ON BOSNIA AND HERZEGOVINA

22 June 1997

We, the Leaders of the Eight, reaffirm our commitment to full implementation of the Peace Agreement, and to the goal of Bosnia and Herzegovina becoming a single democratic, prosperous and multi-ethnic nation. We welcome the accomplishments since the 1995 Peace Agreement. Significant challenges remain but we are determined to accelerate the implementation of the Peace Agreement and to reinforce the progress made in the last eighteen months.

We firmly endorse the political declaration adopted at the Sintra Ministerial on May 30, 1997, and join the Steering Board in demanding intensification of effort by the Parties toward fulfilment of their obligations under the Peace Agreement. To ensure that all the Parties are held accountable, our full assistance will be contingent upon their own full implementation of all aspects of the Peace Agreement. We pay tribute to Carl Bildt's outstanding contribution as High Representative to the cause of peace and reconciliation in Bosnia and Herzegovina. We welcome his successor, Carlos Westendorp, and promise him our full support.

We are working to create conditions for a self-sustaining peace. We support the mission of the Stabilisation Force (SFOR) to help provide a secure environment by June 1998. We will continue to provide materials and financial support for the International Police Task Force's efforts to restructure, train, and equip police, in order to establish public order and safety for all the Bosnian people consistent with international democratic standards.

Some elected officials are harmfully blocking key aspects of economic reconstruction, delaying international assistance. We welcome Friday's parliamentary approval of essential economic laws, but delays in doing so and failure to approve an International Monetary Fund program caused further postponement of the needed Donors' Conference. When the Parties meet the necessary conditions, we are prepared to implement the full reconstruction program and to support considerable debt reduction by the Paris Club.

The authorities in Bosnia and Herzegovina must uphold fully the right of refugees and displaced persons to return to their homes in a peaceful and orderly manner. We will support those communities that work cooperatively to support returns. Those who fail to do so will lose access to economic assistance.

There must be justice in Bosnia and Herzegovina if peace is to endure. Both Bosnian entities, as well as the Federal Republic of Yugoslavia and Croatia, have obligations under the Peace Agreement to cooperate fully with the International Criminal Tribunal for the Former Yugoslavia. Those indicted must be turned over to the Tribunal and to stand trial. Full access to economic and other assistance, as well as integration in regional and international institutions, is dependent on compliance with these obligations.

All authorities in Bosnia and Herzegovina must work to accelerate the development of democratic institutions, including accelerating efforts to establish independent news media. We shall contribute the necessary support for the conduct of municipal elections.

We urge the national, entity and local authorities to make Brcko an early example of implementation of all aspects of the Peace Agreement.

We remain concerned that Croatia and the Federal Republic of Yugoslavia, the regional signatories to the Peace Agreement, are not demonstrating a stronger commitment to the peace process. They must also make significantly greater progress to meet international standards of human rights, democratic processes, media freedom and treatment of minorities and refugees. Further progress towards integration in European and international institutions will depend on improvements in these areas.

The international community will maintain a long-term engagement in Bosnia and Herzegovina and in the Balkan region as a whole. We are prepared to continue to help the states of this region, but our continued commitment is not unconditional. We call upon the leaders of Bosnia and Herzegovina, Croatia and the Federal Republic of Yugoslavia to meet their responsibilities and obligations, and to work for a democratic, stable and secure future for their citizens.

STATEMENT ON CAMBODIA

22 June 1997

The recent political instability in Cambodia threatens to set back peace as well as the democratisation process which Cambodian people established under the auspices of the UN in 1993. We, the Leaders of the Eight, strongly appeal to all Cambodian leaders to bring about political stability, civil order, and economic reconstruction through the enhancement of democratic principles and good governance and to demonstrate their commitment to holding a free and fair election by setting a specific date.

We welcome the Japanese Prime Minister's initiative, supported by the French President, to dispatch special envoys to Cambodia to communicate their sense of deep concern that we all share to the leaders of Cambodia. Japan and France will inform us of the outcome of their mission.