

1 M. Morris
2 Foley

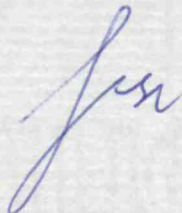
ANDREW TURNBULL

8 February 1989

cc: Richard Wilson (with enclosure)

JAMES GOLDSMITH'S IDEAS ON FOREST CONSERVATION -
THIRD WORLD DEBT

As discussed, please let me have any views on Goldsmith's ideas (attached) before Richard Wilson and I lunch with him on 14 February.



GEORGE GUISE

James GOLDSMITH

February 6, 1989

Mr. George Guise
10 Downing Street
London S.W. 1

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Dear George Guise,

Herewith, a note as requested.

I look forward to seeing you at lunch at Wilton's on February 14th.

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by 'm', a small 'S', and a horizontal line.

James Goldsmith

Let us take as a given that the survival of the tropical rain forests is of profound and global importance.

General considerations:

- 1) Such forests are located principally in the third world.
- 2) Free market mechanisms are needed to induce the host nations (hereinafter "the host nations") to maintain their forests.
- 3) Initiatives will be rejected if they have a flavour of: imperialism; "yankee domination"; the developed world (who have sacrificed their own environment in the process of industrial development) "pulling up the ladder behind them" and stranding the underdeveloped nations, etc...
- 4) So the developed nations should recognise that the host nations are maintaining a natural and vital resource for the good of all; that, rightly or wrongly, they believe that they are sacrificing development opportunities by protecting these assets; and that they need to be compensated to do so.

General method:

- 1) The world organisations mostly have degenerated into self perpetuating bureaucracies. Their budgets are spread widely; at best they do little good (in my view, they do considerable harm); and are focused principally on the perpetuation of the bureaucracies themselves. The purpose of their organisations needs to be redefined and their budgets laserbeamed onto clear objectives. A principal objective should be the protection of the world's tropical rain forests.

- 2) From the complex of world organisations, one would be chosen as the vehicle for this task (hereinafter "Forestco"). Its organs of management would include representatives from throughout the world.
- 3) Forestco would enter into contracts with the host nations whereby the host nations, for an annual payment of predetermined rent, would undertake to protect their forests for the good of all.
central rent
 There would be a normal monitoring process prior to the payment of annual rent.
- 4) Payment would be in the form of international debt at par value issued by the host nations.
*How does
 low help
 hosts*
- 5) Such debt would be acquired by Forestco through the market or by bilateral transactions with banks and creditors. To avoid escalation of the price of the debt, Forestco could buy forward (for payment on delivery) or buy future call options. In any case, the pool of international debt is growing as a result of accumulating interest. It might be more attractive to the host nations to pay the rent with the interest stream rather than the capital. The interest stream can be detached from the bonds and acquired separately. This would have an immediate positive impact on the cashflow of the host nations.

Advantages:

- 1) Encourage the protection of the tropical rain forests.
- 2) Help float the economies of the host nations off the rocks and reintroduce them into the world economy.
- 3) Relieve economically induced political pressures and animosity against the developed world.

4) Recognise the reality that the debt will never be repaid in full (the market already recognises this obvious fact). But receive something in return.

Note:

For such a plan, a number of powerful and seemingly incompatible forces need to be brought together:

This proposal:

- allows local politicians to be relieved of immediate cashflow problems.
- represents a commercial transaction which could be presented positively to the local electorates.
- allows the international bureaucrats to perpetuate their jobs.
- helps the international bankers (but at market price, so it is no subsidy. It makes the market more liquid).
- obtains the backing of a lobby of growing importance - the environmentalists.

Note on another subject:

Irrelevant
It is possible that the UK might wish to privatise properties owned by the Forestry Commission. If so, the buyers should undertake to harvest these forests at a rhythm not greater than their sustainable growth. Also they should undertake that they harvest in a way which protects the diversity and quality of the forests. If not, some buyers could "clear cut" the forests for immediate financial gain. This would be tragic for the nation and damaging for the government which in turn would be tragic for the nation.