

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Bilaeral Meeting with Canadian Prime Minister
 Brian Mulroney

PARTICIPANTS: The President
 James A. Baker, III, Secretary of State
 Nicholas Brady, Secretary of the Treasury
 John Sununu, Chief of Staff
 Marlin Fitzwater, Assistant to the President
 and Press Secretary
 Brent Scowcroft, Assistant to the President
 for National Security Affairs
 Robert Kimmitt, Under Secretary of State for
 Political Affairs
 Eric Melby, Director of International
 Economic Affairs, NSC (notetaker)

 Brian Mulroney, Prime Minister of Canada
 Joseph Clark, Foreign Minister
 Michael Wilson, Finance Minister
 Derek Burney, Ambassador to the United States
 Stanley Hartt, Chief of Staff
 Anne Marie Doyle, Assistant Secretary to the
 Cabinet for Foreign and Defense Policy
 (notetaker)

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DATE, TIME
AND PLACE: July 8, 1990, 11:00-11:30 a.m.
 Manor House, Houstonian Hotel, Houston, Texas

The President: Jim Baker was asked why Bill Reilly is not here. The answer is that most environment ministers are not here. Welcome, Brian, I've just seen you in London. I want to hear from you but let me outline what I think are the key issues here. (U)

First, the completion of the Uruguay Round. We have got to get agriculture going. Japan, the Europeans, particularly Germany, have problems. We have got to put everything on the table. (U)

On China we may have differences. We must keep up the pressure on the Chinese. Japan will go ahead with the third yen loan. I will get hell for not pressuring Japan more. But I can't tell Japan not to go ahead, just like I cannot tell Kohl he can't lend to the Soviets. At Houston we need to define what enough

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progress is for loans to resume to China. We have some constraints in our law. I understand that Zhao Ziyang may not be rehabilitated but at least come out from behind the cloud. (Ø)

On the Soviet Union, I made my views clear in London. There is an interesting paragraph in Gorbachev's letter about economic reform. However, the Soviets are not as far along as they should be to get largesse from the West. (Ø)

These are my views, but I would like to hear from you, Brian.
(U)

Prime Minister Mulroney: I believe we should tie a success in Houston to the success of NATO. I feel personally privileged to have been a participant in London. Your communications over the preceding weeks were very significant. France rarely misses a chance to say something inappropriate. In London, we had an unprecedented military and political response to Gorbachev. Attention is now turning to Houston. Canada is in a worse situation than the U.S. concerning assistance to the Soviets.
(Ø)

Foreign Minister Clark: Mike Wilson has screwed up our economy.
(Ø)

Prime Minister Mulroney: I was surprised at the ferocity of attacks on Gorachev. I was surprised at the depth of anger and personal bitterness. Gorbachev's presence is stabilizing. I think we are agreed that our common objective is to sustain Gorbachev. I was surprised to see on CNN that Gerosimov said the Soviet economy is in shambles. (Ø)

The President: Do they pick out the harshest critics? (U)

Prime Minister Mulroney: I don't know. I remember briefing you in November in Washington after I returned from Moscow. I remember some of the direct quotes given me. One person told me, "Yeltsin is a jerk and is going nowhere." Just before Gorbachev had lunch with me in Ottawa before he saw you in Washington, Yeltsin was elected President of the Russian Republic. Swift events are overtaking us, including Gorbachev. (Ø)

Foreign Minister Clark: Gorbachev should be able to count on the Party. (Ø)

The President: The Party is disintegrating all over Eastern Europe. I agree with your view on the harshness of the criticism, especially of Yakovlev and Medvedev. (U)

Secretary Baker: It looks like Gorbachev won a significant vote yesterday on whether the Party would criticize these people.

Prime Minister Mulroney: In terms of personal popularity at home I am down to just about the members of my family. Yet I don't get that kind of harsh criticism. If Gorbachev is chucked out in

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4-5 months, he could be replaced by a reactionary general. Then if Gorbachev was interviewed by the London Times or the Washington Post, he might say: I was doing OK with NATO and was hoping the Houston Summit would send an economic signal but I didn't hear anything. That wouldn't be good. John Sununu said in London that giving \$25 billion is throwing good money after bad. That is true. We must be careful not to do what Kohl is doing. I believe a process solution out of Houston under your leadership would be good. (Ø)

I propose an IMF study to assess the Soviet economy. It would be a prescription for reform; advice to stimulate that reform. I also want to reiterate a suggestion I made earlier, that the Chairman of the Summit brief Gorbachev personally. Woerner is going there; Helmut is going with a lot of cash. There is great value of you and Gorbachev getting together even if only for one afternoon. Your leadership is tied into what the G-7 does. I would like Mike Wilson to explain what we have in mind. (Ø)

Finance Minister Wilson: Our overriding objective is to draw the Soviet economy into the international system. The EC has proposed a study and has pre-empted the Houston Summit. We propose a more in-depth study, one not just on the financial side. The study should cover the IMF, IEA, environmental aspects, how to use the private sector. (Ø)

The reason for the IMF is to identify elements of conditionality, to bring the Soviet Union into the international financial community. The study may help Gorbachev internally to reach a consensus on what the Soviets should or should not do. (Ø)

On the timeframe for the study, the EC study is to be done by the end of September. The IMF study should go past this to fold in the EC study and supercede and overtake it. We need to bring the initiative back to the G-7. Nick [Brady] and I could get together to give the G-7 process a greater hand. (Ø)

Prime Minister Mulroney: I am concerned one European country does not want North America and America involved. We want the U.S. to have a leadership, not peripheral role. With you in the chair, after NATO, you can seize control. I am upset at the snottiness of the French in London. They are trying to elbow Americans out. (Ø)

General Scowcroft: Barber Conable called yesterday to say they would be happy to participate. He said a study would take six months to complete as there is no reliable data. (Ø)

Secretary Brady: We should not imply that if the conditions are met the Soviets would be eligible for aid. (Ø)

Secretary Baker: There are political conditions and economic conditions. The President has spelled them out. Could we get agreement on broad political principles? We should charge the IMF to come up with economic conditionality. (Ø)

The President: We have problems that others do not care about. On Cuba, the French don't give a damn; we have real problems. (Ø)

Prime Minister Mulroney: I told a TV interview that the U.S. won't get involved if the Soviets are sending \$6 billion to Cuba. This is just elementary politics. A U.S. President who says he would give \$10 billion to the Soviet Union with \$6 billion going to Cuba is gone. (Ø)

The President: Interesting process; let the Finance Ministers work on this. (Ø)

Secretary Baker: Could we agree among the G-7 on technical assistance to the Soviet Union? We're doing it; there's no legal prohibition. (Ø)

Finance Minister Wilson: We can agree. It could also be part of the study. (Ø)

Foreign Minister Clark: One caution. This is an opportunity to have international standards applied to reform in the Soviet Union. It is a wholly credible response to Gorbachev. We are willing to help solve problem once we know what it is. (Ø)

The President: Let the Finance Ministers talk about this on the IMF side. (Ø)

Prime Minister Mulroney: Let me mention agriculture. We all have our own problems. I'm being pressed by the Cairns Group. Is there any G-7 support for the de Zeeuw text on agriculture? (Ø)

Secretary Baker: I mentioned it to Delors; he dumped all over de Zeeuw. But there is sympathy among the British; it is possibly a way out. (Ø)

The President: We have got to get past agriculture. (U)

Ambassador Burney: Could we accept de Zeeuw as a basis for negotiation? (Ø)

Secretary Baker: The EC won't accept. (Ø)

The President: We have to get a general commitment that the G-7 will go forward. (U)

Prime Minister Mulroney: No one is pure on agriculture but we are more pure than others. Houston must take a straightforward stand. As Chairman, you have the right to ask us to stand up and be counted. (Ø)

The President: Kohl is the key. If we can get Delors to be forthcoming, Kohl can hide behind him. (Ø)

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5

-- End of Conversation --

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