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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Prime Minister Andreotti of Italy

PARTICIPANTS: The President
James A. Baker, Secretary of State
Nicholas F. Brady, Secretary of the Treasury
John H. Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President for National Security Affairs
Robert M. Gates, Assistant to the President and Deputy for National Security Affairs
David C. Gompert, Special Assistant to the President for European and Soviet Affairs
Peter F. Secchia, Ambassador to Italy
Richard T. McCormack, Under Secretary for Economic and Agricultural Affairs
Robert Zoellick, Counselor
Adrian A. Basora, Director for European Economic Affairs, NSC Staff (Notetaker)
Sim Smiley, Interpreter
Alec Toumayan, Interpreter

Giulio Andreotti, Prime Minister of Italy
Jacques Delors, EC Commission President
Gianni De Michelis, Foreign Minister of Italy
Claudio Vitalone, Under Secretary, Ministry of Foreign Affairs
Rinaldo Petrignani, Ambassador to the U.S.
Bruno Bottai, Secretary General, Ministry of Foreign Affairs
Umberto Vattani, Diplomatic Adviser to the Prime Minister (Notetaker)
Andreas Van Agt, EC Ambassador
Pascal Lamy, EC Commission Adviser
Pio Mastrobuoni, Press Spokesman
Carla Longro, Interpreter

DATE, TIME AND PLACE: November 13, 1990, 4:45-6:00 p.m. EST
Cabinet Room

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The President: Welcome Mr. Prime Minister, Mr. Delors and members of the delegation. In our private meeting, we covered bilateral issues. The Italian-U.S. relationship is strong. This meeting is on the EC, and I will turn it over to you. But we do have serious concerns on the Uruguay Round. There is a risk of serious failure. So I would like to leave a few minutes at the end to explain our views. (S)

Prime Minister Andreotti: Thank you. I am happy for this opportunity. All members of the EC are inspired by a desire for cooperation and mutual understanding with the U.S. When the problems are related to trade, our positions sometimes diverge. On the Uruguay Round, Mr. Delors can explain our position better than I. Politically, the EC has begun a very thorough revision of the Common Agricultural Policy. This is hard on the member countries, but we have told our publics that this is the direction in which we must go. (S)

Regarding the trade balance between the U.S. and the EC, the U.S. is in surplus and the EC is in deficit. U.S. agriculture is different from European agriculture. The EC has tried to open up its market to African, Latin American and Caribbean countries under the Lome Convention. If you look at the overall picture therefore, the EC has made an effort in the agricultural area. (S)

President Delors: I would like to explain the position of the EC for two reasons. First, our proposal was rejected even before it had been studied. Second, the Uruguay Round involves more than just agriculture. Mr. Dunkel, the GATT Secretary General, said yesterday that many other issues remain unresolved. If you single out only the EC, then we are moving towards a political rupture. The U.S. is turning the rest of the world against us.

If you look closely at the EC and U.S. proposals, they are of the same order of magnitude, comparing both of them in the same time perspective. If the two biggest producers stop their war of words, then I think we can bring our positions together. I apologize for my frankness, but I am very concerned about the declarations that have been made by some U.S. ministers. Both the U.S. and the EC proposals have strengths and weaknesses, but it is important that the two biggest producers get together. (S)

The President: Yes, it is important that the U.S. and the EC not pass in the night. I am not exaggerating the negative consequences of a blow-up of the Uruguay Round, however. I would like to go back to our Houston understandings. The position that the EC has now tabled is not what we agreed to in Houston. The issues of export subsidies and of market subsidies are just not

addressed. There are other ways to solve the problems of the agriculture sector than through agricultural subsidies. The third world is getting hurt, even though we want to help them. And the other areas of the Uruguay Round negotiations have ground to a halt. The Uruguay Round can help to assure stability for the emerging democracies in Eastern Europe and elsewhere by removing trade barriers for their exports. (S)

I hate to contemplate the possibility of failure, but if the Uruguay Round fails because of the EC, there would be numerous repercussions. Bilateral trade frictions would increase because of protectionist pressures in Congress. The world trading system would evolve towards regional trading blocks. We are not stirring up the agricultural exporting countries in the Uruguay Round negotiations. They are coming to us and saying, "Can't you help us?" What we need is what we agreed to at Houston (reads from the Houston language): "substantial, progressive reductions" in all three categories. The U.S. proposal is for 75% reduction in barriers to market access and in price supports and 90% reduction in export subsidies. The EC proposal is for 30% reductions only on price supports. I am fired up about this because I thought we had an agreement at Houston. Do you have any rebuttal? (S)

Prime Minister Andreotti: The position of farmers in Europe is different from that of the United States. We have 10 million farmers as against 3 1/2 million in the U.S. and therefore we need a longer time period to change the system. We started this process two years ago and have already achieved a decrease in agricultural expenditures. Remember that the EC imports \$39 billion per year in food as against U.S. imports of only \$21 billion. The EC exports \$28 billion worth as against U.S. exports of \$40 billion. I am not being polemical but this helps to explain why we must move gradually. Would you like to add anything Mr. Delors? (S)

President Delors: If our negotiators can sit down alone together at the negotiating table, without any allies, then I think we can make progress. To the Cairns group attack upon us we could reply that they are the ones who are being the most protectionist. But let us compare our proposals. The U.S. is asking for reductions between 37.5 and 45% over the next five years, and the EC offer is for a 30% reduction. Our positions are not as far apart as may seem, therefore. Just as you have your Congress, we have 12 member countries, and for us a 30% reduction in subsidies means a 40% reduction in the agricultural work force. What we must do is get the U.S. and EC around one table and end the war of words. Regarding your desire to have the Uruguay Round mentioned in the Transatlantic Declaration, this is an unfair way of pressuring the EC. (S)

The President (holding in his hand a document describing the Houston understandings on the Uruguay Round): Is this not what we agreed to at Houston? (Copies of the document are passed around the table) (S)

Foreign Minister De Michelis: This was a difficult compromise inside the EC. Therefore, the EC negotiating position was worded in an ambiguous way. However, the EC is ready to move to a 30% reduction in all 3 categories. (S)

The President: Let's be clear about this. Can I write in 30% in each of the 3 categories? (S)

President Delors and Foreign Minister De Michelis: Yes. (U)

President Delors: We need a success in the Uruguay Round in order to gain support for agricultural reform inside the EC. We are working for a success, not failure. (S)

Secretary Baker: So there is to be a reduction in all 3 categories! (S)

Governor Sununu: This certainly has not been clear to our people in the negotiations. (S)

Foreign Minister De Michelis: Some countries within the EC are interested in some areas of the Uruguay Round, and some are interested in others. This is the reason for the ambiguous wording of our offer. (S)

President Delors: We want to use this negotiation to facilitate reform. (S)

Secretary Baker: You are using the elements of measurement that were suggested by the United Kingdom at Houston. Our people don't calculate it this way. (S)

The President: Let's regroup overnight. You, Jacques, are staying here overnight and can get together in the morning with Secretary Brady to discuss the issue further. In the meantime, our specialists will be looking at your offer. (S)

President Delors: We need to change the global mood. (S)

The President: On atmospheric, I take your point. But we face a real time deadline and we need significant progress soon on agriculture. Let us try to reach an understanding of your proposal, and also to change the atmosphere as Jacques Delors and Gianni De Michelis suggest. (S)

President Delors: Our problem is to get the farmers to change their positions. Therefore we need a good "mood" in the negotiations. This way we will be able to differentiate between small and large farmers within the EC. (S)

The President: Do you feel we are stirring up the Cairns group? (S)

President Delors: Yes, I do. However, Australia is also very protectionist. (S)

The President: I understand that the Cairns group is upset, without any need for instigation by the U.S. (S)

President Delors: The EC is very open to exports from the developing countries under the Lome Convention. (U)

Foreign Minister De Michelis: I agree that we need to avoid a failure in the Uruguay Round. It would be a disaster. However, it is easier for us to convince our governments if you put real offers on the table, for example in the field of textiles. Therefore you should not try to single out agriculture from the rest of the negotiation. This tactic leads towards disaster. We need a strong political input and therefore you should involve the highest possible level. I recommend that you raise this issue with President Mitterrand and others in addition to Prime Minister Andreotti. Otherwise we will get to the end of December, still in a polemical phase. (S)

The President: At Houston we came up with a set of objectives. I agree that we should lower our rhetoric now, but we cannot abandon our goals. Maybe we are closer than we think. (S)

Prime Minister Andreotti: Regarding U.S. public opinion, I think you should keep in mind the fact that the EC sent only 3 million tons of produce to the U.S., versus 25 million tons of U.S. produce exported to the EC. You can see that there is no protectionism on the part of Europe. (S)

Governor Sununu: With all due respect to the fact that you have 12 countries within the EC, we have 50 states. On textiles, we had to use all our political assets. Otherwise the Senate would not have sustained a veto. Furthermore, you should not underestimate the importance of the clock that is ticking on the fast track. In January, the situation will change, and it will change for the worse. (S)

Foreign Minister De Michelis: A positive conclusion to the Uruguay Round is preferable under any circumstances. A failure

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would create much bigger problems. (S)

President Delors: I propose that for our ministerial in Brussels on Friday we prepare a list of all contentious issues in the negotiation. The purpose of this will be to clarify the state of the negotiations, and we should not speak about our problems outside of the meeting. (S)

The President: If you talk to Secretary Brady tomorrow, you can prepare the ground for the ministerial. (S)

We are pleased with the way international support is holding on the Gulf. I appreciate the way the Commission has spoken out on the hostage issue. We have difficulties with our own Congress when individuals go over to Baghdad and plead with Saddam Hussein to release some of the hostages as an act of kindness. I am grateful for EC leadership on the Gulf issue. (S)

Secretary Baker: We appreciate your political cooperation on all other aspects of the crisis as well. (S)

President Delors: It is important that we provide assistance to countries that are affected economically other than the front line states. (S)

Secretary Baker: If you can do something for Jordan as well, however, it would be important. (S)

The President: The tragedy is that Saddam Hussein is talking about the haves and have-nots, but his Islamic brothers are suffering badly because of the price of oil. For example, Senegal has been driven to its knees. We have got to prevail. I have never been more determined, and I am grateful to the EC for its support. (S)

Secretary Brady: We are grateful for the EC's pledge of \$690 million. It is important that the assistance to Jordan be provided very early in 1991. (S)

President Delors: We will try to put the assistance into the pipeline before the end of 1990. (S)

The President: I would like to ask the Prime Minister or Mr. Delors if they are worried about King Hussein's being destabilized. (S)

Prime Minister Andreotti: Jordan has a mixed population. There are many Palestinians, particularly in the occupied territories. It is a very poor country as compared to its neighbors which are oil producers. Hussein is personally a very brave man. He is

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worthy of admiration and fundamentally a friend of the West. It would be a mistake to abandon him. However, his future depends in part on a settlement of the West Bank issue. (S)

The President: We agree with your assessment. I have a high regard for Hussein, although I am sorry about his initial statements during the crisis. We have a stake in Hussein's survival. We don't want a radical Jordan. It is not true that we have shunned King Hussein. He and I have a good personal relationship. (S)

Prime Minister Andreotti: I am happy that the text of our U.S.-EC Declaration is almost completed. Perhaps during your stay in Paris we could issue the declaration. (S)

Secretary Baker: The declaration is politically important. (S)

Prime Minister Andreotti: It is important for world public opinion, just as we needed the CSCE on human rights. When East-West history is written, human rights will turn out to have been half of the U.S. Soviet dialogue. We will be seeing President Gorbachev in Rome before we all convene in Paris. (S)

The President: We are worried about the USSR, even though there has been some progress in human rights. (S)

Prime Minister Andreotti: In December, the EC Council will do something on aid to the Soviet Union. (S)

The President: The question is, to whom do you give the aid -- to the Republics, to Moscow? (S)

-- End of Meeting --

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