

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting regarding Soviet Grain Purchases and the Uruguay Round

PARTICIPANTS: The President
Nicholas F. Brady, Secretary of the Treasury
Clayton K. Yeutter, Secretary of Agriculture
Richard G. Darman, Director, Office of Management and Budget
Carla Hills, United States Trade Representative
John Sununu, Chief of Staff
Michael Boskin, Chairman of the Council of Economic Advisers
Brent Scowcroft, Assistant to the President for National Security Affairs
Roger Porter, Assistant to the President for Economic and Domestic Policy
Ede Holiday, Assistant to the President and Secretary to the Cabinet
Lawrence Eagleburger, Deputy Secretary of State
Roderick DeArment, Deputy Secretary of Labor
Timothy Deal, Senior Director for International Economic Affairs, NSC Staff (notetaker)

DATE, TIME

AND PLACE: November 28, 1990, 3:10-4:15 p.m. EST
Cabinet Room

The President: What's this about a Bush embargo on grain? Everybody in the agricultural sector wants to give things to the Soviet Union. Senators are urging me to waive Jackson-Vanik. (C)

Secretary Yeutter: I have been getting battered in the farm community. Prices are falling; everyone wants us to give credits to the Soviets. The Soviets have made the rounds in Washington and presented their case. They claim that in the absence of credits they will not fulfill their commitments under the Long-Term Grain Agreement. (C)

Mr. Eagleburger: The President's authority to give such credits is limited by law. (U)

Secretary Yeutter: The Soviets won't buy our grain without credits. (C)

The President: Don't we need legislation to provide credits?

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General Scowcroft: No. You have the authority to waive the Jackson-Vanik requirements. (U)

Secretary Yeutter: We are only talking about credit guarantees, not credits. (U)

Mr. Boskin: The Soviets are worried about emigration. (U)

The President: Well, we should talk about this issue. (C)

Secretary Yeutter: The Soviet Union is a big market, and we are losing it. (C)

Mr. Eagleburger: The Soviets fear a brain drain if they pass an emigration law. (C)

The President: How do we leave the issue then? (C)

General Scowcroft: We need to know Gorbachev's intentions regarding the emigration law. (C)

The President: There's another problem: Soviet creditworthiness. (C)

Secretary Yeutter: We are talking only about credit guarantees; there should not be a big gamble. (C)

General Scowcroft: We will look into the issue and give you our recommendations. (C)

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The President: I wanted to meet with you before you all go off to the wars in Brussels. I would like a status report. I talked to Andreotti, Delors, Mitterrand, and Kohl about the Uruguay Round. I will be talking to Kohl at the end of the week. I can raise the issue with him once again. He acted as if he would like to help. I am annoyed at the way Delors keeps trying to stir things up. (C)

What is our bottom line? How do we get a deal? If we do reach some sort of agreement with the EC, will that bring the dissidents along? What's the compromise? (C)

Ambassador Hills: (referring to chart distributed to Principals) The chart shows agriculture in the center. All the things that we want in agriculture are linked to everything else. The EC could say that it can't deliver on agriculture, but the LDCs will walk. (C)

We must get something in all three areas of export subsidies, market access, and internal prices to bring the LDCs along.

Perhaps we won't get the number we want. But the number is not so important. The trend, the direction, is. (S)

If we don't succeed, trade relations will deteriorate. The LDCs will be badly hurt. The Cairns Group is in these negotiations for one thing: agriculture. Without something in agriculture, those countries will not deal in services or market access issues. (S)

I don't have a number for the three areas. We can't say what it is. We don't know what will bring the LDCs to the table. In any event, agriculture is not a stand-alone agreement. (S)

The EC is behaving mischievously. They are trying to take the spotlight off agriculture and turning it, for example, on to intellectual property. But if we don't get something on agriculture, we can't get the other parts of the package. (S)

A failure need not hurt you, Mr. President. You have taken the high road. You have spoken of the need to create market opportunities for LDCs and others. We must get market opportunities for the emerging democracies. (S)

The alternative is that we come home and turn to the bilateral front. We could also concentrate our trade negotiating efforts on the Hemisphere. We can't get a minimal package through Congress. Rostenkowski reiterated that point to me. If services fall off, there won't be much heat. If we lost intellectual property, that would be more of a problem. But without a U-turn by the EC on agriculture, we won't have enough. (S)

A failure next week will not mean the end of the Uruguay Round. If the EC can't deliver now, perhaps it can deliver in January. The market access negotiations are not advanced; there are other problem areas. (S)

The President: Why then have we focussed so much attention on the December date? (S)

Ambassador Hills: March 1991 is our drop-dead date. But we have to work back from there to take into account the need for private sector advice, etc. (U)

We could have a terrible session at Brussels results in a lot of critical press commentary. But such criticism could be salutary and lead to a renewal of the talks. (S)

If we walk away, you will not be hurt. You could simply say that trade has been an engine of growth, that what was proposed would not help in this regard, and that you could not accept the deal. (S)

The President: What about textiles? I heard that our offer was not so good. (S)

Ambassador Hills: We have a good offer on the table. (C)

The President: What do you predict then will happen in Brussels?
(C)

Ambassador Hills: The EC hasn't put anything into the three boxes (a graphic depiction of the U.S. and EC offers in agriculture). Their proposal is worse than the existing situation. They want the power to create protectionism, to raise tariffs. They want to conduct economic warfare against other countries. We care less about market access. Export subsidies are our concern. Market access is important for the LDCs. But if the EC does not open its markets, countries like Japan and Korea will follow their example and keep us out. (C)

The President: Where don't we have market access in the EC now?
(C)

Secretary Yeutter: Almost everywhere. The EC uses a system of variable levies to isolate its farm sector from the world economy. As a result, our share of the EC grain market has dropped. There has been a net shift of 50 million tons in the EC grain market as the EC has moved from a large net importer to a large net exporter. They are putting our farmers out of business. (C)

General Scowcroft: What would happen if they could guarantee a "slop over" of, say, 15% in these boxes? (C)

Ambassador Hills: I would not make agriculture a stand-alone issue. If they believe that we will accept a certain number, they will then put up roadblocks in other areas. There isn't any number that we can whisper to them back channel. The number that we will accept will be lower than what we have sought, but I can't tell you what it is. The problem is that agriculture is linked to other issues and other participants. (C)

Secretary Brady: This fail/no fail proposition bothers me. Do we have to let it be characterized that way? We will become paralyzed. We have other things going on with the Europeans, e.g., the Gulf crisis. (C)

Ambassador Hills: The U.S. won't walk. Others will. That may create the crisis needed for a breakthrough. Meanwhile, the French Agriculture Minister has invited thousands of European farmers to come to Brussels to protest any change in the EC's offer. That's agitation. (C)

Secretary Brady: I don't find their stonewalling surprising. (C)

Ambassador Hills: It's going to be a terrible week. (C)

Secretary Brady: Can't we avoid the fail/no fail scenario? (C)

Ambassador Hills: I hope to make some progress. But I also need to be able to walk away. (C)

Secretary Yeutter: Let me make one specific point regarding Kohl. I have talked with the Germans and concluded that they are key. Their stance will make or break the negotiations. (C)

In terms of the three boxes, market access and export subsidies are the most important. Movement there will necessarily lead to changes in internal pricing. So what has the EC done? They have zilch on the table. There's no need to get into specifics. We are after other markets. But others will follow the EC's lead. We will lose access to key Asian markets such as Korea and Japan. The exact number is flexible, but we need something. (C)

Governor Sununu: Why are you willing to concede on principle? (C)

Secretary Yeutter: That's not so. We just won't get 75%. The President should focus on export subsidies. Market access hurts the LDCs. Export subsidies are the highest priority for the U.S., Australia, and Argentina. That's where the Germans come in because they don't care about export subsidies. The EC could go a long way to discipline subsidies. Now they are just generating surpluses that they dump on world markets. They could use any number of programs, e.g., set-asides. But instead of doing anything, they just say trust us. The Germans aren't the problem here. The French are. If Kohl steps in, there might be a significant improvement in the EC's offer, e.g., 50%. (C)

Mr. Eagleburger: I don't want to debate tactics. It's important to understand, however, that if our efforts fail, the President will be hurt. We can expect rising protectionism in the Congress directed against the EC and Japan. It would be horrendous. A turn to hemispheric trade would not be the answer. The consequences will be serious. What do we do after a walkout? How do we get back together again? You need to be told, Mr. President, where the line is. In short, the consequences of a failed round will be awful; there will be hell to pay; hemispheric trade arrangements are not the answer. (C)

Ambassador Hills: You misunderstood me. I don't see hemispheric trade as an alternative. A minimal package, however, will not get through the Congress. (C)

Mr. Eagleburger: A failure would be very serious. (C)

Ambassador Hills: By standing firm on principle, we might get something in the next 18-24 months even after a collapse. That's not so bad. Rules are needed in the new areas. But the EC is stonewalling. You are standing under the right banner, Mr. President, by standing firm. A minimal package will not get

through Congress. We need a philosophical line that is definite.
(C)

Mr. Darman: Let me to try to formulate the problem. This is not a substantive comment. Carla faces a tough negotiation in which we all have an interest. She needs to have the ability to walk out if necessary, and she needs the ability to adjust the limits. The trouble here is that there is great unease about not knowing what you will do. We're worried. (C)

Here's the strategy that I would suggest:

- (1) The GATT Round is important; we want it to succeed.
- (2) We will need to compromise, but the compromise must get through the Congress.
- (3) The financial transactions area is a good supplement.
- (4) We will have to compromise on agriculture. (C)

Regarding agriculture, a change in direction would be enough. But agriculture is not alone; it is linked to other issues. What does it take to make Congress happy? You may have some sense for that. You don't need to tell this group what it is. This is one issue where you and the President could meet alone and settle the issue. We would not need to know the outcome. (C)

Ambassador Hills: The direction is most important. But because of linkages between issues, it is not so simple as one number. Not even agriculture is a stand-alone issue. You could have a situation where we are blocked in one area of the negotiations and agriculture is making progress. I might want to be able to ask Clayton to hold up the agricultural negotiations temporarily while we push on the other issue. I just can't give you a specific number then. (C)

Mr. Darman: We can end up with a successful deal, but we will have to go through the perils of Pauline. It will be messy along the way. The agriculture number that we get will not be as high as we want, but it will be a move in the right direction. (C)

Ambassador Hills: We can't resolve these issues in Brussels. Everything is hung up on agriculture. We need to address market access issues; that's important for the LDCs. We are tardy in our work, and it will be a bloody meeting. But we won't be the first out the door. The Cairns Group will leave first. But any other alternatives will expose you politically, Mr. President.
(C)

Mr. Boskin: I agree with most of what has been said. Our negotiators need flexibility. The long-term effects of a failed Round could be significant not only in terms of trade tensions,

but also in terms of the effects on foreign and economic policy. (C)

You must have a deal in mind. A good agreement is tremendously important. Whether we conclude that deal in December or January is not important. (C)

Ambassador Hills: I agree with what's been said. A good agreement will be good for the economy. The frictions from failure are understood. There will be severe harm to the LDCs; the opportunity cost will be high. But we can't get the EC to go along. We will lose opportunities in intellectual property and services. But if we don't get something in agriculture, the LDCs will not agree. We can't do this by ourselves. Even if we had a "number," that would not help pull together a deal. We are not just negotiating in one group. (C)

Secretary Yeutter: There is no chance at all of concluding the Round in Brussels. The EC can't change its position there. There will be a breakup. Do we have a reasonable chance of pulling it back together later? The Germans need to show leadership. (C)

Governor Sununu: If we have a breakup and then an orderly return in January, how do we deal with the political problem of appearing to back away from principles? How do we get a structure that's saleable? (C)

Ambassador Hills: The Montreal session broke up. Clayton then held the negotiations over for the new Administration. After my confirmation, we got the negotiations back on track. Perhaps we need something like Montreal. We could give Kohl reasonable time to change. Andriessen told me that it was too bad that we could not manufacture a crisis before the U.S.-EC Ministerial. Without that, Ministers would not let him change positions. His knees were cut out from under him. (C)

Secretary Brady: There's too much discussion about precipitating a crisis. Let's let the Germans have their elections and then let Kohl work on the French. The timing is driven by us, by our fast track authority. (C)

Secretary Yeutter: We are talking about a three-week delay. (C)

Secretary Brady: There are other things going on. (C)

Ambassador Hills: What's the alternative? (U)

Secretary Brady: Let's not exaggerate. This thing gets played out on the back pages of the financial press. (C)

The President: But we can't have a bad deal. (C)

Secretary Brady: I agree, but we don't need to precipitate a crisis. (C)

Mr. Porter: We know what we want, and we won't be the first out the door. The EC's inability to move on agriculture has led to gridlock. The Cairns Group will leave. The key is Kohl. But he needs some time; he can't turn around overnight. (C)

Secretary Brady: A blowup may make it more difficult for Kohl. (C)

Secretary Yeutter: We need strong pressure. (C)

General Scowcroft: What is our plan? What do we say if there's a walkout? How do we address Governor Sununu's concern about the political appearance of conceding on principles after a walkout? (C)

Ambassador Hills: We can make the best progress in restricted talks, say, two on each side. I am prepared for that. We haven't been strident. We are playing to a number of audiences. We have a plan, but I can't say what is our "number" on agriculture. (C)

General Scowcroft: But what are we going to say, especially when asked about our other equities in Europe? What do we say in January if we resume discussions to counter the impression of a cave? What will we say when the crisis occurs? (C)

Secretary Yeutter: All this will be quasi-orchestrated. (C)

Mr. Darman: We should get a statement ready. (U)

Ambassador Hills: I have given many speeches on the subject. We can just reiterate the old line. (C)

Mr. Eagleburger: We should all read from the same sheet of music. (C)

Ambassador Hills: I'll be delighted to provide it. (C)

The President: Australian Prime Minister Hawke has called for a Heads of State meeting on the Round. That's a bad idea. The prospect of such a meeting would only put off real discussion. (C)

General Scowcroft: We need some alternative scenarios. (C)

Ambassador Hills: I think things are under control. (C)

Mr. Boskin: But if we get into the Sununu scenario, we will need alternatives. (C)

Mr. Darman: Carla, you know where it's likely to come together. Why not lay it out and give it to the people who have a need to know? You know enough already to project the outcome. (C)

Ambassador Hills: That's difficult. Services may drop off the table. We have a matrix with a hundred issues on each side plus 96 countries. (C)

The President: Anyone else? (U)

Ambassador Hills: I have a letter from Senator Baucus on the Round. My reply will be more in the sorrow rather than anger vein. (C)

-- End of Conversation --