

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: First Plenary, London Economic Summit (U)

PARTICIPANTS: George Bush, President of the United States  
James A. Baker, Secretary of State  
Nicholas F. Brady, Secretary of the Treasury

Francois Mitterrand, President of the French Republic  
Roland Dumas, Minister of State for Foreign Affairs  
Pierre Bérégovoy, Minister of State for Economy, Finance and the Budget

Helmut Kohl, Chancellor of the Federal Republic of Germany  
Theo Waigel, Minister of Finance  
Jurgen Moellemann, Minister for Economics

Brian Mulroney, Prime Minister of Canada  
Barbara Jean McDougall, Secretary of State for External Affairs  
Donald Frank Manzankowski, Minister of Finance

Guilio Andreotti, Prime Minister of Italy  
Gianni De Michelis, Minister of Foreign Affairs  
Guido Carli, Minister of the Treasury

Toshiki Kaifu, Prime Minister of Japan  
Taro Nakayama, Minister of Foreign Affairs  
Ryutaro Hashimoto, Minister of Finance  
Eiichi Nakao, Minister of International Trade and Industry

Jacques Delors, President of the Commission of the European Communities  
Frans Andriessen, Vice President

John Major, Prime Minister of the United Kingdom  
Douglas Hurd, Secretary of State for Foreign and Commonwealth Affairs  
Norman Stewart Hughson Lamont, Chancellor of the Exchequer

Ruud Lubbers, Prime Minister of the Kingdom  
of the Netherlands

DATE, TIME Tuesday, July 16, 1991, 9:00 A.M.-12:30 P.M.  
AND PLACE: Long Gallery, Lancaster House, London,  
England

Prime Minister Major: With regard to the Political and Arms Control Declarations, the Political Declaration seems agreed upon by Foreign Ministers. I don't see the need to discuss it further. FM Hurd can present it to the public later today. All agreed. (U)

On the Arms Control Declaration, there are four areas of disagreement by the French. Let's discuss paragraph 5. (Ø)

President Mitterrand: I think this issue is outside our competence, i.e., this is the London Economic Summit. The decisions we take affect others. Once we go outside our competence, we affect many outside us. We give an impression that we're directing world policy. Other bodies exist for this. This kind of text can be accepted at every Summit, but we need to scrutinize such language closely. This doesn't suit us here. We should let appropriate bodies do the work. Six out of seven of us here belong to NATO; let that suffice. Or do it through the UN and the General Assembly. Not to mention other appropriate bodies. We're going beyond our competence here, with reports, senior officials meetings, experts, and so on. I won't refuse if others wish to speak of this, and will accept (the text) so as not to make difficulties. Maybe we could consider permanent structures to look at arms -- not let it be part of the G-7. We proposed yesterday deleting the reference to senior officials follow-up. (Ø)

Prime Minister Major: I'm grateful that you're content for discussions to continue but understand that you are troubled by the specifics of on-going review by senior officials. (Ø)

Prime Minister Kaifu: We are all well aware that the Summit started as an economic process. But we need to preserve peace and order. There can be no new Saddam Husseins. We can leave the specific formulation to the Chair. But I would like for discussions to continue and would like a specific reference to this in the text. (Ø)

Prime Minister Mulroney: We've gotten the text pretty watered down already. We're down to one sentence. We're not talking about an annual review. The original text was much stronger. I find it extraordinary that we disagree on this message -- this was a key lesson of the Gulf War. We're all pushing these principles. I gather the question is whether the G-7 should do this. But no forum gets as much attention. We would be ridiculed not to do this at our first meeting since the Gulf War. We're not pushing the G-7's institutionalization. But we can't duck the issue. The text is as weak as it can be. Any more and

we should just take it out. It's really a matter of how many more wars you want! I think this doesn't trouble President Mitterrand's concerns about process. (C)

Prime Minister Andreotti: Maybe we can delete, "on the basis . . . ." (U)

Prime Minister Major: This seems sensible. (Prime Ministers Lubbers and Kaifu agree.) Is this OK with President Mitterrand? To say, "We intend to give these issues our continuing close attention"? (U)

President Mitterrand: I understand the suggestion. Prime Minister Kaifu has raised the issue of Saddam Husseins. I'm not sure our attitude would have been maintained then. I'm not sure why Prime Minister Mulroney says we'd be a laughing stock. Do we need a small committee to avoid this? It's OK to delete "on the basis. . . ." This won't stop close attention to the issue; we just don't need to have it done in the G-7. We'll be doing it in Paris. But I do consider this a concession on my part. (C)

Prime Minister Major: OK. We'll accept Prime Minister Andreotti's suggestion -- to delete "on the basis . . . ." (U)

With regard to paragraph 6, second sentence: I don't understand the brackets. This is a statement of fact. (U)

President Mitterrand: The whole philosophy of the text is mixed together. The Gulf War was not new. Nor was Iraqi aggression. Putting all the LDCs in the same situation as Iraq will miff them. I will have something else to say on LDCs when Prime Minister Major gives me the floor to do so. (C)

Prime Minister Lubbers: The second and third bracketed sentences seem to me to be related. So listen to Mitterrand on the third bracket . . . . (U)

President Mitterrand: I'm more concerned with the tone of the text than the substance. We're combining all LDCs with Iraq. This is paternalistic. Three of us have nuclear weapons. This is related to the third (sentence) brackets. We are encouraging donors to align their aid to the military situation, to be a gendarme on military expenditures. Many will object to this, saying security is their affair. This language has a bad tone. The first sentence in paragraph 6 is OK. We should cut the second. The third seems paternalistic; it covers up Third World development problems. This is a question of sensitivity. (C)

Prime Minister Lubbers: President Mitterrand is fundamentally right. We should address all nations. But we are doing so, e.g., in paragraph 5. Perhaps we should say the problem is disproportionate, excessive spending, and fix the text so that the same criteria applies to LDCs as to us. (C)

Prime Minister Mulroney: President Mitterrand is right. Perhaps we should add to the third sentence, "While all countries. . . ." (U)

Prime Minister Major: This is an intriguing suggestion. Prime Minister Lubbers' point is important also. There is a right to self-defense. But we should add a reference to disproportionate. (U)

Foreign Minister Dumas: I have a different suggestion. Let's begin paragraph 6 with the Iraqi sentence -- to start with the facts. Then add "all" in the third sentence per Prime Minister Mulroney. Then we can delete the brackets in the third sentence. (U)

Prime Minister Lubbers: I didn't mean delete in addition disproportionate military expenditures . . . . (U)

Prime Minister Major: I think we all agree on switching the first and second sentences. I think we all agree to adding "all" in the third sentence. Then we would keep the third sentence, but add after "military expenditures" the clause "where it is disproportionate." (Everyone said OK.) (U)

Regarding paragraph 16, the bracketed text "all appropriate fora." (U)

Foreign Minister Dumas: President Mitterrand made this point before. (U)

Prime Minister Lubbers: Let's substitute "will be continued in all appropriate fora." (Everyone agreed.) (U)

Prime Minister Major: We will circulate a clean text. The Finance Ministers will join us. (U)

#### World Economy

Prime Minister Major: Let's start with the Chancellor of the Exchequer for a report on Finance Ministers' discussions. (U)

Chancellor Lamont: We agreed this has been a difficult year -- the Gulf War, higher oil prices, recession in North America and the U.K., slower growth in France and Italy. In Germany and Japan, confidence is strong. Our policy coordination works well. The slowdowns have been shallow and short. The conditions for recovery are now in place. We all agree on getting inflation down and keeping it down. The only way to achieve lower nominal and real interest rates is to keep inflation down. (U)

We've heard that the U.S. seems to have bottomed out in the second quarter. The recession was mild and short. There are risks in the recovery. (U)

In Canada, recovery started in the second quarter. (U)

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

In the U.K., a moderate recovery is expected in the second half of 1991. (U)

In Japan and Germany, there was rapid growth last year. (U)

Overall, there has been a pickup of activity, but there are uncertainties. We expect greater convergence in the future, and 2.5-3.5% growth in 1992. (U)

We discussed inflation. It's still rising among the G-7 at a rate of 4.5%. But the foundations for non-inflationary recovery are laid. We need to maintain them. (U)

On fiscal policy, there is concern about budgetary deficits. Some of the deficits are due to recession. (U)

We agreed on an early, comprehensive Uruguay Round agreement, with an accord on agriculture as a prerequisite. (U)

Prime Minister Major: I'll invite Treasury Minister Carli to add to the Chancellor of the Exchequer's remarks (as Dean). (U)

Finance Minister Carli: Let's focus attention on the major change between 1990 and 1991: the change between the net capital importers and exporters. Up to 1990, two countries were net exporters of capital -- Japan and Germany. In 1991, Germany ceased to be an exporter and is now a net capital importer. Eastern Europe is also seeking capital from abroad. One can identify net capital importers, but it's harder to do so for exporters because the size of the omissions is larger. This means it is important to increase savings. Current account deficit nations destroy savings. Italy is among them. There is a question of tension on the international markets, leading to higher interest rates. The household sector continues to increase savings. Paragraph 6 of the Economic Declaration seeks to encourage savings. But savings are still inadequate. The EC itself is a net capital importer. This fact, plus Soviet needs, makes one wonder whether we could accept the requests that have been made. Contrary to the 1970s and 1980s, we now face a pronounced imbalance between savings of the developed countries and the needs of the LDCs, the USSR, and Central and Eastern Europe. (U)

It may be advisable to set up a working party to examine information on this subject. (U)

Secretary Brady: I'm pleased with the emphasis in the Declaration on growth. And on the fiscal and monetary conditions for growth. In the 1970s and 1980s, our policies produced growth that supplied the funds needed in Latin America, etc. (U)

Finance Minister Waigl: I'd like to pick up on the capital exporter issue. Germany has a large need for capital that will be hard to cover from the capital markets. We have a large need for savings. There is a big increase in the first quarter -- e.g., the self-financing of enterprises. This suggests we might

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

be able to finance from our own efforts. But for a few years we'll need co-financing. (U)

Reducing our current account deficit helps the general economic situation, e.g, the pulling effect of the DM on Italy helps to increase its exports to the FRG. This gives a big boost for growth, especially for smaller nations. (U)

We have a new budget. New debt has been reduced, and matches investments. Deficits in the public sector will be reduced from 5.5% to 3.3%. Unification has posed special circumstances for us. Next year, our budget will be up by only 3%, a rate which will be below the rate of our GNP growth. (U)

Finance Minister Hashimoto: Japan's current account surplus is up. This is a subject of concern. We have many requirements for savings. We may want to create new SDR's in the IMF until new quotas are created. Countries could match this. I proposed this to the IMF earlier this year. We need a program oriented toward the issue of the shortage of funds. (U)

Finance Minister Bérégovoy: The following are our main concerns. Economic activity is slower in France. German growth has kept overall growth in Western Europe up. Signs of recovery are being felt in North America, but the recovery is less pronounced than expected. German growth is less impressive, too. European exports are helped by Germany, but we are concerned about the consequences if Germany's economy doesn't grow. (U)

Secretary Brady has referenced the need for growth to generate savings, but higher rates stimulate savings and hurt growth. So we need coordinated actions on exchange rates. I support a new issuance of SDRs -- reserved for LDCs. We could open up a credit line to the medium-income countries who are in trouble. We need to show signs of optimism in the financial markets. We need to reduce interest rates. (U)

Finance Minister Mazankowski: There are three components for Canada: (1) a clearly defined deficit reduction target to be achieved by earmarking new VAT proceeds and by expenditure control; (2) an inflation target going from 3% to 2%; (3) holding down wages in the public sector. The Provinces backed this. Wage settlement increases are down to 3.1% in May. Another component is improving competitiveness. Minister Wilson will bring forward a comprehensive document soon. The first quarter was weaker than expected. (U)

Vice President Andriessen: We need an encouraging signal from this meeting, but the underlying trend is growth. But interest rates and inflation aren't good in the EC. There is a lack of convergence in the EC and globally. (U)

Prime Minister Major: I see a convergence of views, but shades of differences in emphasis. Recession was on the way before the Gulf War, but the war exacerbated it. Inflation is down, but we need to keep it down. (U)

The conclusion: policies that served us well in the last decade will do so again. But we've also stressed the need for structural reform. The Uruguay Round is also important. So let's move to the next topic: Trade and Energy. (U)

Trade and Energy

Prime Minister Major: We need to resolve UR this year. Let's ask Prime Minister Mulroney to open. (U)

Prime Minister Mulroney: One year after the Houston Summit, the prospects for the UR are gloomy. We have a simple choice: make the necessary compromises to resolve it this year, or risk losing what we have achieved, thereby weakening the global system and risking a rising tide of protectionism. (U)

No one is perfect. All must compromise. The stakes are high. These questions are not easy, as we saw in the U.S.-Canada FTA negotiations. They can leave scars. No one has more hidden pockets of protectionism than Canada. Jim can confirm that the U.S. has them, too. I believe (trade) makes our economy stronger by imposing discipline. We are now negotiating a NAFTA that involves a market of 350 million people. (U)

So why focus on multilateral trade negotiations? For the sake of the world economy. The alternative is the poor use of resources, e.g., support to farmers. President Mitterrand said something important on LDCs. Almost all have opened up to the outside. The Round is critical for them: \$55 billion of additional export income. The same is true for Central and Eastern Europe. (U)

There are four major areas: (1) intellectual property -- the elements are largely in place; (2) services -- we need a framework; (3) market access; (4) agriculture. (U)

Time is running out. We need to narrow our differences this summer. The Cairns Group is willing to do so. The EC's CAP reform proposals are encouraging and could facilitate progress. We need a clear personal commitment by the Heads. I read today's IHT editorial and the London Times. The West must practice what it preaches. The best way to signal to the Soviets that they need to make sacrifices is to make sacrifices ourselves. (U)

Vice President Andriessen: I see a trend toward regionalism. That is OK if the multilateral system is functioning. Otherwise, I fear the development of trade blocs. So we need to finish the UR this year. Failure to finish the Round could unravel the results achieved to date. The EC believes we should remain committed to what we've done. LDCs need to join the multilateral system. The world has an interest in UR success, but it is extremely important for the EC. I see three new contributions. (1) The U.S. extension of fast track. (2) DG Dunkel's activity -- e.g., the paper on options for the main sectors (agriculture, services, and market access). There will be a second, more operational paper by the end of July. (3) CAP reform. This was

not undertaken for the sake of the negotiations, but could affect them. Of course, there are criticisms of it; this is normal. We need to concentrate on the globality of the negotiations. Agriculture is key, but it is not the only sector. Singling it out doesn't help the climate. (U)

Prime Minister Lubbers: In the Houston Declaration, the Heads pledged their personal involvement. But they couldn't do it in December. Now there is a second chance. We need to be willing to be in direct contact. Regarding Eastern Europe, we need to integrate them into the GATT -- e.g., to see the linkage between trade and credits, and between the USSR's problems. We should ask our experts to examine this. (U)

Energy is a commodity. We need to handle this through the market. But it also helps to add transparency. And add to our considerations the issues of (1) the security of supplies and (2) the environment. We should seek to avoid a theological debate on the price mechanism. We need to address points one and two. Energy efficiency requires market prices -- as in the USSR. The EC is discussing the use of taxes to influence energy efficiency. We also need to focus on sustainable growth. Regarding the Energy Charter, I'm glad that many support it. We need to put it into practice in a practical way. We need protocols to describe specific issues, for example, nuclear safety versus oil versus natural gas transport. An instrument of economic integration in this area will help us, too. (U)

The President: I'm disturbed that some thought there has been a silent U.S. conspiracy to avoid a GATT success. I don't want to inflict our domestic problems on you. But we had a whale of a battle on fast track. Congress said there had been no UR progress. We won the battle, and our victory includes NAFTA. UR and NAFTA don't conflict; they supplement one another. So we want to gun down that rumor. I agree the Heads need to be involved. I had a good visit with Prime Minister Kaifu. We both understand one another's problems, as well as the need for agreement. We agree on the effect (of the UR) on the Third World. I see no conflict between regional arrangements and multilateral trade negotiations. The benefits of the former cannot match the latter. (U)

I'm concerned about Central and Eastern European needs, too. The best aid is trade, and trade is more important than any aid we can give them. Politics is involved, of course. For example, textiles. But we'll bite the political bullet. Others need to, also. (U)

I agree the core areas are services, intellectual property, market access and agriculture. Let's focus on agriculture. We have problems, too -- EEPs and Australia. If the Round falls apart, we'll survive -- by retreating back into blocs -- but it will hurt us all. We should focus on the 4 categories. We could have a minimum agreement, but that wouldn't get the job done. I'll make the tough political decisions. (U)

Prime Minister Kaifu: We are moving toward an economy more based on domestic demand and redressing external imbalances. Intellectual property, services, and market access are all important. I'll comment briefly on agriculture. Japan is the largest net importer of agricultural products. We are 48% self-sufficient. We have liberalized in a number of areas -- from citrus products to beef. We need also to consider non-trade concerns, such as food security. Agricultural export subsidies are important. (U)

Economics Minister Moelleman: There are two main issues for the press (from this Summit): GATT and the USSR. On GATT, there are great expectations for this meeting in Central and Eastern Europe and in the LDCs. There is EC consensus on the need for agricultural reform. On agriculture, we can't get closure this year, but can make key decisions. On IPR, services and market access, we could reach a conclusion by the end of the year. (U)

Foreign Minister De Michaelis: The climate now is better than in Houston. The development of stronger regional markets will be hurt if we don't conclude the UR this year. This requires political leadership and an added political effort. I like the text. We need to see compromise by the people in this room. We need to give a signal of political compromise. The negative consequences of failure will be political. (U)

Regarding paragraph 9, we would like it to say it is "politically essential" to achieve . . . , rather than "it will be essential."  
(U)

Energy is a special market. We need regulations and/or institutions to make that market as transparent as possible. We need a long-term strategy, too. We need to say something to producers. We should keep the language in paragraph 17 which is now in brackets. (U)

Finance Minister Bérégovoy: We need agreement in the UR, but everything must be put on the table. The fact is that the EC has a large share of international trade -- 25% (Japan and the U.S. have 11% each). The EC is not a fortress. We've already done more than others. Agriculture is not easy to solve. This concerns all of us, not just the LDCs. (U)

On energy, supply and demand is important. But this is not an ordinary market. Some have acted on stocks. We want the Franco-Venezuelan consumers-producers initiative approved. The Paris meeting was a big success. We want a regulated, orderly market.  
(U)

Prime Minister Kaifu: (He spoke briefly on energy and nuclear.)  
(U)

The President: Do the French statistics on EC trade include intra-EC trade? (U)

Finance Minister Bérégovoy: They are a percent of GNP. (U)

MITI Minister Nakao: Nuclear safety is an important issue. There need to be efforts with the LDCs and others. (U)

Prime Minister Major: The producer-consumer dialogue will be an issue of some dispute. I'd prefer to rely on markets; we saw during the Gulf crisis, market allocation was efficient. (U)

We are unanimous on the political and economic significance of the UR and on global, not partial, agreement. There is no dispute about the dangers of a trade war. We agree on the problems of the LDCs and the apparent contradiction of asking them to open their markets when we won't do the same. We also agree on the importance of trade over aid. (U)

Prime Minister Lubbers: The figures are 22% for EC external trade, versus 14% for the U.S. and 11% for Japan. I suggest formulating a connection in the Declaration between energy and environment. (U)

#### Central and Eastern Europe

Vice President Andriessen: At the Paris Summit, the 7 decided to support Central and Eastern Europe. The EC Commission was asked to coordinate. The G-24 has done its work, working with the various countries and the IFIs. Our strategy has three elements: (1) market access, (2) technical assistance, and (3) financial aid. Together, the G-24 and the IFIs have allocated \$40 billion in Central and Eastern European assistance. This comes to \$9.4 billion from the Bretton Woods institutions, and \$30 billion from the others in the form of \$20 billion in loans and \$10 billion in grants. EC exports to Eastern Europe are up 10%, while those to the U.S. are up 17%; EC imports from Eastern Europe are up 8.1%, while U.S. imports are down 5.8%. We need to be concerned about displacing Central and Eastern Europe as we consider support for the USSR. And we need to try to reestablish Central and Eastern European trade with the Soviet Union. (U)

Secretary Brady: (He outlined the Trade Enhancement Initiative; said we believe the G-24 is the appropriate coordinator; stressed grants; noted that burdensharing needs to consider resources around the world; and said we oppose lifting of the EBRD cap on the Soviet Union because this would hurt the prospects for Congressional funding for the EBRD.) (U)

Foreign Minister Genscher: Germany accounts for over 24% of G-24 assistance to Central and Eastern Europe. We are concerned about the negative approach of the U.S. toward Romania; Romania is as much a democracy as Bulgaria. (U)

Finance Minister Hashimoto: Japan is far away, but we seek to cooperate. We need to be flexible in our response, and shouldn't be rigid. (U)

Finance Minister Bérégovoy: We agree on the need to include Romania. The EC has sought a 50-50 share in balance of payments

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

support for Romania; we need to get closer to this. It's hard to discuss Central and Eastern Europe without considering the USSR.

(S)

Chancellor Kohl: I'm not satisfied with this discussion. We all hope for Central and Eastern Europe. Germany cannot be asked to bear the lion's share -- 40% -- of the burden. (S)

President Delors: It's hard to evaluate statistics. Technical assistance, food aid, etc., all get counted together into the \$40 billion total. Of this, \$10 billion is from the IFIs. Of the remainder, EC countries account for 78%, and the EFTA countries account for 6%. The 50-50 split on Romania is important. We couldn't complete a balance of payments facility for Bulgaria because others did not share the burden. (S)

Prime Minister Major: To summarize, I think we see four main points. (1) We need to send a strong, clear message of support for Central and Eastern Europe. (2) We need to establish a liberal trade regime; this is critical for Central and Eastern European economic reconstruction. (3) The Central and Eastern European countries request some help in restoring their Soviet trade. (4) Progress in these areas is important to drawing in private investment. (U)

-- End of Meeting --

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~