

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Uruguay Round

PARTICIPANTS: The President
James A. Baker, III, Secretary of State
Brent Scowcroft, Assistant to the President
for National Security Affairs
Edward Madigan, Secretary of Agriculture
Ambassador Carla Hills, U.S. Trade
Representative
John Robson, Deputy Secretary of the Treasury
Ambassador Jules L. Katz, Deputy U.S. Trade
Representative
Robert Zoellick, Counsellor to the Department
of State
David Gompert, Notetaker
Richard Crowder, Under Secretary of
Agriculture
James Dobbins, U.S. Representative to the
European Community
Thomas Niles, Assistant Secretary of State
for European and Canadian Affairs
C. Howard Wilkins, Jr, Ambassador to the
Netherlands

The EC

Ruud Lubbers, Prime Minister, Kingdom of the
Netherlands
Jacques Delors, President of the
European Commission
Hans van den Broek, Minister for Foreign
Affairs
Kim Kok, Finance Minister and Deputy Foreign
Minister
Yvonne van Rooy, Foreign Trade Representative
Piet Bukman, Minister of Agriculture
Frans H.J.J. Andriessen, V.P. of the
European Commission
J. H. Meesman, Ambassador to the Netherlands.
Peter von Walsum, Political Director,
Minister of Foreign Affairs
Charles R. Beuge, Director of European
Integration Division, Ministry of
Foreign Affairs
Raymond MacSharry, Commissioner for
Agriculture

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AS AMENDED
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Andries van Agt, EC Ambassador to VP
Andriessen

DATE, TIME November 9, 1991, 9:00 a.m. - 12:15 p.m.
AND PLACE: The Hague

Prime Minister Lubbers: Thank you for your letter. We agree on the suggested approach, the importance of concluding the Uruguay Round, and the need to support Dunkel. Mr. Dunkel needs some guidance. I suggest that we discuss, first, what we can agree on internally and second, what we should tell the press. I think it is very important to make this distinction between what we might be able to agree on and what we would want to make public. (C)

Our view is that we need an integral approach in several areas. Agriculture is the most difficult area and the key to success. There still are some substantial problems in this area. I invite you to begin, Mr. President. (C)

The President: Thank you, Ruud, for arranging this important meeting. We are at a critical point. If we get no agreement, the world will divide into trading blocks. I know I am preaching to the choir, that everyone in this room is in the choir; but I will preach to it anyway. You know from my letter that we want to overcome U.S.-EC divisions. Our problems with you on agriculture are not just an American position. I know we have a lot of countries who have the same concerns as we do. I am not an expert on trade negotiations, but I am an expert on the big picture. I can tell you that if the free trade system is not maintained, we are all in for major trouble. I want to point out that everyone in the U.S. Government needed to move this negotiation along is sitting right here at this table. We can settle this matter right here. (C)

You know from my letter that I want to use this meeting to overcome U.S.-EC differences on the Uruguay Round. Since writing you, there have been some promising signs, but all agree there have also been some disappointments. We told you that we would move in areas of interest to you when you were ready to negotiate on agriculture. We would not insist on resolving agriculture first. At London, we agreed to target three other sectors: intellectual property, market access, and services. Now we have stepped forward in these other areas. As a result, I hope we agree that we have narrowed our differences. We can probably bridge these differences with further work and flexibility. (C)

On intellectual property, I understand we've agreed to everything except two issues: appellations of origin for wine and spirits, which you want, and recognition of contractual rights relating to film and book royalties, which we want. I think we can note our agreement and direct our negotiators to resolve these two issues as soon as possible, so they can work together in Geneva to sell the whole package. If I'm not right, tell me. (C)

On market access, we've come a long way, but you still want us to lower some "peak" tariffs for products sensitive to us (e.g.

textiles, ceramics) and we want you to accept a zero tariff for some other sectors (e.g., wood, electronics, paper). I'll direct Carla to negotiate bold cuts of these peak tariffs, if you'll agree to our "zero" tariff requests. (C)

On services, we're in general agreement on an overall framework, a fact we should confirm publicly. So we're down to differences over three key sectors -- maritime, basic telecommunications, and audio visual. We both have problems on these. I suggest we ask our negotiators to develop solutions to report back. We can't hammer this out today. (C)

These are the three sectors we targeted at the London Summit. If we can state our progress today, and then wrap them up very soon, we can give a shot in the arm to the essential Geneva negotiations. (C)

This brings us to the difficult agricultural issue. We have some disappointment with the paper you gave us. (C)

For example, your base year for calculating export subsidy cuts inflates the base from which reductions would be made. This is a big point. What you are now offering would give us very little on the two agriculture issues that are most critical: export subsidies and market access. (C)

I don't want to be insensitive. I know it is hard for the EC to move on agriculture. But we've made real headway on the other three topics we highlighted at London, and we are still stuck -- "high-centered" -- on agriculture. You've asked for candor. I can tell you, with no doubt in my mind, that a Uruguay Round agreement containing your offer in agriculture would certainly be rejected by Congress. We have to get something do-able, fair, more competitive. Nor would other nations go along. We should not lose this opportunity to come to grips with this problem, face-to-face, at the top. (C)

So let me talk straight: we will agree right here today to a 35-30-30 package over five years centered on a 35% reduction in export subsidies if:

- first, the base period is the '86 - '88 average;
- second, the reduction for export subsidies is measured in tonnage so we can be sure we know the reductions will in fact mean fewer subsidized exports; and
- third, we continue reductions in all three areas after five years at a rate to be determined at a subsequent review. (C)

If you are willing to accept this proposal, with its focus on export subsidies, I believe our negotiators can handle market access and internal supports, as long as we stay away from rebalancing and we don't use stocks or other measures to undermine the cut in export subsidies. (C)

That, I hope you agree, is a major move. (C)

If we reach an understanding here, we can report it confidentially to Dunkel, and he can suggest it. (e)

Prime Minister Lubbers. Thank you very much Mr. President. Let me make sure I have your position correctly. What you are saying is that you would agree to a 35-30-30 reductions package using '86-'88 as the base period, measured in tonnage with the continuation after five years, with a review. Before I go into the agricultural question, let me ask Mr. Andriessen if he has anything that he wants to say on non-agricultural issues.

Minister Andriessen: As I see it, the only way we can make a deal in this negotiation is on a global basis. Agricultural is essential in order to break the dead-lock. The other issues have to be solved as well, and I think they can be solved if we can get a breakthrough in agriculture. Mr. President, the summary that you have provided on the non-agriculture issues is correct.

On intellectual property rights, the big issues are (1) wine and spirit appellations, and (2) contractual rights. I should underscore that the contractual rights issue is a very difficult one for us, but I think that somehow it can be overcome. With regard to market access, I have to say Mr. President that we were disappointed by the position the U.S. side prepared and presented this week. But you are right, the critical issues are zero for zero and peaks. On tariff peaks, textiles is especially important for us. You need to understand that we have great reluctance with regard to zero-for-zero across the board. It might be possible in some sectors. We should review what we have already talked about, and maybe we could find more, but the whole list you gave us for zero-for-zero is not acceptable. Nevertheless, progress is possible. Concerning services, we could either take a minimalist approach or a maximalist approach. I think it would be very difficult for both of us to deliver the maximalist approach, so maybe we could find something in between as the solution. (e)

Prime Minister Lubbers: Mr. President, we have the impression here today that agreement on agriculture would lead to progress in other areas. Are there any problems in the other areas that cannot be solved? (e)

Minister Andriessen: We can solve the rest of the problems if we can solve agriculture. (e)

The President: Let me ask Ambassador Hills to address that same question. (e)

Ambassador Carla Hills: The differences that have been discussed here are not easy problems. But with good will on both sides, they can be bridged. (e)

The President: The answer is yes, Ruud. (e)

Prime Minister Lubbers: We have only a few weeks. Now with regard to agriculture, thank you very much for your specificity. I have a question for you. Will the reductions apply to U.S. practices? What is the position of the United States concerning its own export subsidies, in particular with regard to corn gluten and other grain substitutes? This is what they call the rebalancing issue. (C)

Secretary Madigan: We have only one subsidy program and that is the EEP program. It's \$1 billion per year, and, of course it would also be affected by the reductions that would be agreed to in this Round i.e., cut by 35%. But U.S. grain substitutes would not be affected because they are not subsidized. (C)

Commissioner MacSharry: We believe that your deficiency payments play a role and should be taken into account. You have identified the main problems Mr. President, but I'll be as candid as you. When we debated the possibility of specific commitments in the Commission and in the Council, we could not get a majority of member states. Even for the formula we discussed with you, we don't have the political cover we need, we do not have a majority. Now as for your three points: for the base year we need the average from 89-90-91, but we would be prepared to take the proposal in the Hellstrom paper, that is 88-89-90. As for numbers, 35% is absolutely impossible. But we could do 30-30-30, and we could accept some combination of volume and budget as the way to measure reductions. On the question of continuation: this is a five-year agreement. There would be a review in the fourth year. All in all, we are not too far apart; but this is very difficult. The Commission proposal is ambitious. (C)

Prime Minister Lubbers: I have a few questions. With regard to the base year I would like to know what the effect of this is on the numbers? Second, with regard to the continuation clause, it must be possible to solve this. Our intention here is to improve the world trading system. That is what this is all about. I remember as a young minister in the economics area we went through Round after Round of trade negotiations -- from Kennedy to Tokyo always with the intention of doing more. This is an ongoing process. I just want to offer this thought. My third point is that you cannot ignore the question of rebalancing. (C)

The President: I want Ed Madigan to comment on this question.
(U)

Secretary Edward Madigan: We certainly appreciate the EC's political difficulties in agriculture, but sometimes we wonder whether you appreciate ours. Congress must approve this. Everyone in Congress has an agricultural constituency. This has been going on so long that they all have become very knowledgeable. Using tonnage as the measure is vital because otherwise the EC could subsidize in the future at the level of exports as today. As for the base year, in 1986 the subsidized volume was 16 million and in 1991 the subsidize volume was 21 million; so you can see the difference, and therefore, the importance in selecting the right base year. With regard to

rebalancing, what you are asking is for the U.S. to give up the zero bindings for corn gluten feed we already secured in exchange for concessions we made in earlier GATT negotiations. We have already paid for that, and you can't ask us to pay for it again. (C)

Commissioner MacSharry: I said that we would do tonnage and budget, so you will be able to see a real reduction. And we can solve the base period problem by deferring to the Hellstrom proposal. On rebalancing, we have a whole new ball game now. Now that the EC is prepared to give up its variable levy as it accepts tariffication of market access barriers, it stands to reason that the U.S. should give up its zero binding. (C)

Prime Minister Lubbers: I want to make what I consider to be a fundamental point. You're asking us for a very basic change in our system, and if we are to do that, we should look at the system as a whole, which includes your internal payments. I know our increase in exports is giving you problems, but this increase is a response to your sharp increase in corn gluten sales to the EC. And now you are saying produce less by 30%. (C)

Secretary Edward Madigan: No, we are not. We don't care how much your farmers produce. What we care about is that they don't dump it on the world market at subsidized prices. (C)

Prime Minister Lubbers: For many years there were zero bindings in corn gluten in return for our exports. Now you want us to cut our exports but not make a change in the tariff on corn glutens? (C)

The President: I think we have a fundamental difference as to what this is all about. The whole idea is to try to eliminate these subsidies in order to get free market forces working. (C)

Commissioner MacSharry: Yes, Mr. President, you are right. But the corn glutens come from corn, which is subsidized in the United States. Let's face it, we will keep supporting agriculture in both the EC and the U.S., but let's reduce together. Your mechanisms are important too, and they can't be ignored. (C)

Secretary Edward Madigan: We have proposed reduction of tariffs, internal supports and export subsidies. With regard to internal supports, you made the point that we have some as well. But, in our case, the deficiency payments that we provide are incentives not to produce. Look at the total subsidized production: in the EC, \$42 billion worth; in the United States, \$9 billion worth. (C)

Secretary Baker: While you are at it, why don't you include the food stamps program even though that is welfare. Are you trying to say that these also represent internal supports? Our point is that they don't distort trade. All we are asking is that you ask your farmers to compete. We don't care how much they produce, we

don't care how much they try to sell, we just want them to sell in a competitive market. (C)

Prime Minister Lubbers: We should take a look at the subsidies per farmer in the United States versus the EC. We have a special system in Europe. The whole idea was to translate the system into GATT terms through tariffication, and we think that you should be prepared to translate your system into tariffs also. That way we can look at the whole picture; that is what the GATT is all about. How can we tell our people that they must reduce -- that we must put farmers out of business -- while you have the zero tariff in corn gluten? It seems that this is unfair. Your volumes will keep going up as ours will keep going down. Your subsidies per farm are much higher than ours. Therefore, rebalancing is important, not just to the EC but to others. (C)

Secretary Madigan: Over half of our farmers receive no subsidies at all. (C)

Prime Minister Lubbers: Perhaps it is more practical to go back to the President's points. (C)

Commissioner MacSharry: But just a minute. I think it is important to point out that U.S. farmers benefit from your deficiency payments. (C)

Prime Minister Lubbers: Last year, Mr. Hellstrom made a proposal. It didn't work, and now we have lost a year. Maybe we can improve upon this. Hellstrom had a reason for his proposal, and it was to address the fundamental problem in the U.S. as well. My impression is that we are losing again this year. If I have to defend in the community the kind of reductions you are talking about, and then a farmer in the U.S. gets double the subsidy that the European farmer gets, how can I explain this? (C)

Secretary Madigan: You can explain it by pointing out that U.S. farmers average 1,000 acres while European farmers average 50 acres. Our farmers have multimillion-dollar farms with enormous capital tied up. (C)

The President: This is a fundamental point about trade. I am very concerned by this whole line of argument on your side -- that somehow we should reward inefficiency. Should an inefficient manufacturing plant that has too many people therefore get a larger subsidy? Would that make any sense? You can't base a negotiation on the premise that the most inefficient producers should be subsidized. How can you sell that argument around the world? (C)

Prime Minister Lubbers: Why can't you get rid of subsidies for U.S. farmers? (C)

The President: Well, maybe we can. In fact, let's get rid of all subsidies on both sides. You know you can't do that. (C)

Commissioner MacSharry: That may be so, Mr. President. But we are simply trying to point out that the playing field is not as level as you think. (C)

The President: Well, let's start over from a new premise. Let's have a completely level field. We will get rid of all of these subsidies. We can do this in the United States. I am ready to announce this today. (C)

Prime Minister Lubbers: I think we need to take a break, Mr. President, in order to look at what our final limits might be on the EC side. (C)

(Following a Break) I think it is agreed that no further political guidance is needed from us for negotiations on the non-agricultural issues which we have a common understanding of and which we think can be settled if agriculture can be settled.

With regard to agriculture, I conclude that it is possible to come closer on the basic question. We have come up with a proposal for 35% reductions in all sectors for 6 years. We would then have a review with the intention to go further after that. We suggest that the base year would be a combination of the Hellstrom proposal and your proposal of the '86-'88 average. This proposal would allow us to conclude the negotiation.

However, there would be two remaining problems. The first relates to the tonnage measure that you want. We will offer a combination of tonnage and budget. It should be possible to bridge the gap on that measure. However, what the EC can offer with regard to tonnage will be related to the question of rebalancing that we brought up earlier. We can have a deal if we can settle the tonnage-rebalancing issue. (C)

The other problem that will remain if we are able to conclude along the lines that we suggested is that we must have peace between the United States and Europe on trade, especially in this area. We would hope that the U.S. would not be taking countervailing action against our remaining EC subsidies. Our people should work this out. (C)

The President: I would like Secretary Madigan to reply. (U)

Secretary Madigan: 35% in all three categories for 6 years with some combination of base years is something that we can explore. The Congress has to ratify this agreement, and on the other questions you've raised you need to understand that they are moving in the opposite direction. There is no way that we can say that we have given up our 301 rights. (C)

Prime Minister Lubbers: What I am proposing is that the EC offer has to take into account the entire agricultural situation. Again, 35-35-35 over six-years with a review, with a mixed measurement system and a mixed base-year; leaving two issues -- how much tonnage, which is related to the question of

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rebalancing, and secondly, I would like to talk with you about what a GATT agreement would mean for trade disputes. This is not all for the public. We won't talk about a peace clause in public. We have made substantial progress overall I think today. Including substantial progress on agricultural, especially with our proposal on 35-35-35 for six-years. (C)

-- End of Conversation --

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

November 13, 1991

SIGNED

ACTION

MEMORANDUM FOR WILLIAM F. SITTMANN

FROM: DAVID C. GOMPERT 

SUBJECT: Memorandum of Conversation of the President at
The Hague with the EC Members on November 9,
1991, on the Uruguay Round

Attached at Tab A is a Memorandum of Conversation between the
President and the EC members at The Hague on November 9, 1991.

RECOMMENDATIONS

That you sign the memorandum to State at Tab I.

Approve / Disapprove

That you sign the memorandum to USTR at Tab II.

Approve / Disapprove

That the attached Memorandum of Conversation be filed for the
record.

Approve / Disapprove

Attachments:

Tab I Memorandum to State

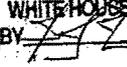
Tab II Memorandum to USTR

Tab A Memorandum of Conversation

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Declassify on: OADR

~~CONFIDENTIAL~~

DECLASSIFIED
E.O. 12068, SEC 3.5(B)
WHITE HOUSE GUIDELINES, AUGUST 28, 1997
BY:  NARA, DATE 01/10/01