

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Second Plenary, London Economic Summit

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
Hans-Dietrich Genscher, Vice Chancellor and Minister of Foreign Affairs
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 Mazankowski, 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

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Ruud Lubbers, Prime Minister of the Kingdom
of the Netherlands
Hans van den Broek, Minister of Foreign
Affairs

DATE, TIME Tuesday, July 16, 1991, 3:40-5:30 P.M.
AND PLACE: Long Gallery, Lancaster House, London,
England

Chancellor Lamont: (Summing up earlier discussions) We've all considered President Gorbachev's message. We've agreed it needed a constructive response. The message is an appealing political document. It didn't disguise troubles. The Soviet economy has weakened more quickly than the reform plans foresaw. A key Soviet problem has been the lack of concrete steps and clarity on: Center-Republic relations, macroeconomic stability, and commitments to private property. We've all felt that reform plans lacked details and credibility. Under these circumstances, there could be no financial assistance. We've urged the Soviets to step up the reform process. We discussed specific proposals. We had strong reservations on creating funds for stabilization and to supply goods. On restructuring debt, there are difficult problems. We lack information on assets. We've asked the USSR to reflect on the damage which would be done by pursuing this issue. We could offer for the IMF to discretely collect information. Debt rescheduling is undesirable. We've felt it was time to offer leadership and frankness. (Ø)

We see five criteria for reform: (1) achieving a balance between the Center and the Republics; (2) radical reform (no less than in Central and Eastern Europe); (3) tightened macroeconomic policy in the near future; (4) a commitment to drastic reductions of military expenditures; and (5) adequate conditions for foreign investment (related to point 1). These we've seen as the main tests of good Soviet intentions. A few other points: The collapse of trade with Central and Eastern Europe has hurt both the Soviets and the Eastern Europeans. We're concerned about agricultural decline. (Ø)

Regarding follow-up, we've discussed several possibilities: (1) Special Associate status with the Bretton Woods institutions; (2) the four institutions (IMF, EBRD, OECD, and EBRD) should intensify work on the Soviet Union and work closely together; (3) enhanced technical assistance, with priority to food distribution, energy, defense conversion and nuclear safety. (Ø)

There were different views on the form of follow-up. There was no agreement. But all agreed there needed to be a framework. Perhaps we'll want to wait for the Gorbachev meeting. But examples might include the OECD, or the Sherpas. (Ø)

Foreign Secretary Hurd: We agreed that our response to the Soviets should be forward leaning. A number of political points were raised, and we should raise them now or later: Soviet

defense spending, Center-Republic relations, Cuba, information on Soviet gold reserves. Key points: (1) no cash, (2) Special Association, (3) stepped up technical assistance, including nuclear safety, and (4) on-going contacts of some kind, between the G-7 and the Soviets. (Ø)

We disagreed on (a) raising the EBRD cap; (b) how far should Special Association point toward full membership; and (c) the nature of follow-up. All agreed the four institutions should be involved, and there is also the question of political conditionality. (Ø)

Prime Minister Major: We have limited time for this discussion. We're all agreed: there can be no bag of money; there should be IFI Special Association (though the question of whether this leads to membership remains open); and what should be the institutional involvement. Let's focus on: (1) the follow-up process; (2) whether Special Association leads to membership; and (3) the EBRD cap issue. (Ø)

Chancellor Kohl: I thought the Heads' discussion went further. We should work from that. (Ø)

Prime Minister Major: There were further ideas mentioned, but I'm not sure everyone supported them. There are other issues, too: support for the EBRD, support for nuclear safety, and energy leakage. And President Delors set out ideas that could be developed bilaterally or multilaterally. (Ø)

Chancellor Kohl: Let me give my summary of the outcome: Either we send an important message or we don't. We must try to influence events in the USSR. There are some key points. (1) A special relationship with the IMF and the World Bank must be well established. Let the future decide; I'm against saying membership is not possible. (2) We should find a forum where we decide which of the four institutions is the contact point (not the leader). (3) It is absolutely necessary that technical dialogue go along with political dialogue. It could be important to involve the OECD nations, the Sherpas, or have a more open process. (4) On the EBRD cap issue, there was no decision by the Heads. (5) We should send a message if we want private investment (e.g., energy). (6) The security of nuclear power plants is an issue. There was a suggestion of IAEA involvement. The consequences of a second Chernobyl would be worldwide. I'm not suggesting that we adopt a Cassandra stance, but we need to address these things. We also agreed that defense expenditures are important. We've also got to consider what we say in public tomorrow. The Chairman should report; there should be no text released. (Ø)

Secretary Brady: A third alternative was discussed at lunch: use existing organizations. We don't want to create a new one that could become a pledging exercise. We could use existing regimes and organize, bilaterally and multilaterally, as needed. This could be more along Chancellor Kohl's line, where the institutions could decide among themselves. (Ø)

Prime Minister Andreotti: Amazing political changes are taking place. The Warsaw Pact is gone with no notice. (Pointing to Italy's experience) In 1947 our government was weak, the Communist threat was great, and we got an Ex-Im loan. We got the Communists out. I recall that. There are times one needs to decide with political foresight. This doesn't mean writing a blank check. It's also interesting to note the emphasis ex-Communists are putting on the IMF. Special Association needs to suggest it is transitory. (Ø)

Prime Minister Lubbers: I would like to see if we all agree with President Delors' points. (U)

President Delors: (1) As for a program to fight inflation, etc., only the IMF can take the lead. (2) The EBRD was created for Eastern Europe. It has \$10 billion in funds (\$3 billion capital and \$7 billion loans). This means only 180 million ECU for the USSR. Could we increase it since Eastern Europe has gotten \$40 billion? (3) On technical assistance, each of us can do it. What's new is what we developed in the five areas. (4) It took us six months to do this, and that shows a certain disorder. But now there is an organization/approach that can be implemented. (5) Gorbachev will emphasize the slogan that he must fill the shops to carry out reform. The U.S. and the EC did \$1 billion each. It's important that our aid reach the places where it is needed. (6) Energy: The Soviets use three times more energy than the U.S., and six times more than Europe. Nuclear safety is important, and they've got to try to repair their existing systems. The European Energy Charter will explore this. (7) Private investment has been a disaster for a year. About \$8 billion has been pulled out. Investors need assurances of the application of the Law on Foreign Investment. (8) On USSR-East European interdependency, the East Europeans are now paying market prices for Soviet goods. Soviet imports from the region are down 40%. Could we require Soviet purchases from Central and Eastern Europe if we assist them? (Ø)

Prime Minister Mulroney: I am in favor of special association. Gorbachev is visiting this group; we must respond. There must be a process. President Delors talked about the problems of finding an interlocutor. I agree with Secretary Brady and don't think we need a great new bureaucracy. The U.K. proposal doesn't build a bureaucracy. We can support this with enthusiasm. We need some coordination of international institutions. I suggest the U.K and Germany (as current and incoming chairmen) do this. I'm not sure what the OECD is doing there; I would prefer President Delors' approach. The U.K. proposal is excellent. (Ø)

Prime Minister Kaifu: Economic reform requires political reform, too. I agree on Special Association; we all do. We need to make use of existing organizations. (Ø)

The President: We set up the EBRD last year to help Central and Eastern Europe. At the last minute, we decided to fit in the USSR. Now some of us are calling for bank loans to the USSR.

Why should we raise the limits if the Bank hasn't made any loans yet to the USSR? In any case, it shouldn't loan because the economic conditions aren't there. Congress won't go along with this, and we've told them the Bank wouldn't do it. Why should the EBRD loan to the USSR when no one else is? If everyone wants to raise the limits, then there should be a footnote that the U.S. is against it. There is no economic logic in lending now.
(Ø)

On assigning this problem to someone, I'm close to what Chancellor Kohl said. We're all assuming there needs to be a G-7 mechanism. But Prime Minister Kaifu needs the Northern Territories. We have political problems -- each of us does. The best thing Gorbachev could do for us is to free the Baltics. We all have our bilateral priorities; Helmut has some on eastern Germany. I don't like this kind of mechanism on the political side. It's OK to report back to the G-7, but don't set up a new bureaucracy. Economic policy in the Soviet Union isn't yet together. We shouldn't expand the mission of this group to start what could even possibly be a new bureaucracy. (Ø)

Secretary Baker: I'd like to add one point. It's hard to separate politics and economics with the USSR. Each of us has a different political imperative. The Soviets spend 25% of their GNP on defense. It would be hard for President Bush to bring around the American people to helping the Soviets under such circumstances. No one can accuse President Bush of not doing enough to support Soviet reform. But we need to consider the political aspects on a bilateral basis. We cannot address our political relationship other than through a bilateral mechanism.
(Ø)

Foreign Minister Nakayama: President Bush referred to the Northern Territories. I would like to thank him. There needs to be a global application of new thinking in foreign policy. Japan is opposed to changes in the EBRD cap. (Ø)

Chancellor Kohl: Everyone here agrees that changes in the USSR will affect all of us globally. I recall in the INF discussions that Japan feared the Soviets would move their missiles to Asia. I understand President Bush's concerns on missiles. There can be no support for Gorbachev if his policy on armaments doesn't change. This is true for the Baltics, too. (Ø)

But what do we expect from the man? I see the political problem of Soviet forces in the former GDR, Poland, etc.; but that problem isn't less in the USSR. There is a split in the Communist Party. (Ø)

I'm not dreaming of a multilateral policy here. Is there agreement on Special Association and on a role for the four institutions? Then we also need a political approach. The U.S. is saying we could do this via Sherpas (notetaker comment: U.S. representatives all shake their heads in disagreement). The mechanism can't just discuss technical problems; it needs to

engage politically, too. I don't mind if the OECD does this.
(Ø)

The President: We're talking about an economic program. I'm not saying don't follow up politically. It's a question of whether the G-7 does issues such as Cuba and the Northern Territories, etc. This is an Economic Summit. There is an interaction with politics, of course. Perhaps the issue is one of definitions. I thought we wanted to follow up on an economic agenda with President Gorbachev. You all wouldn't want to assign your political problems to the G-7. It's OK to follow up on energy, nuclear safety, and the agenda you laid on. The political follow-on of that agenda is an enormous expansion of the G-7 role. (Ø)

Prime Minister Mulroney: Maybe we're discussing the same thing. We support START, cutting aid to Cuba, recovering the Northern Territories. We're happy to do so. Our proposal doesn't impinge on the inviolability of bilateral relations. Nor does it create a new bureaucracy. We just want to see our economic response to the Soviets properly executed. (Ø)

Prime Minister Major: The word political seems to be the problem. The purpose is to follow up on macroeconomic reform, e.g., stabilization, price reform, etc. So the G-7 has a forum for discussion with the USSR that the IFIs don't. (Ø)

To summarize: (1) On the Special Association-Membership question: there is general support for Chancellor Kohl's position. It should evolve; there should be no presumption; it's a technical matter that will take time to clarify. So exclude that one. (2) On the EBRD cap: The U.S. and Japan oppose lifting the limit. We can't carry that one any further; there's no agreement today. (3) On carrying forward our discussions with the USSR: Secretary Brady has proposed the IFIs and the G-7 chairman make a yearly visit. The U.K., Mulroney and Kohl have proposed using the OECD to carry forward the economic debate, with members limited to the IMF executive board. I'm not sure there is consensus on either proposal. (Ø)

President Mitterrand: I'm reluctant to expand the number of countries involved (e.g., through an OECD-based mechanism). Nine of us thought we were close; make this 27 and we will have to repeat the process. I'm not keen on it. Let's simplify: We're agreed on the items of secondary importance (e.g., who discusses the Northern Territories). The Baltics and Cuba. Soviet missiles are aimed at New York (could hit Bonn and Paris, too). Our security is at stake. Those closer to the Soviet Union have less security. But I don't feel the threat weighs as heavily now as 5 years ago. The situation has changed. That's why we're here. But has it changed enough? Some think it could get worse. Some feel we could help by supporting Gorbachev. Who should we place our bets on? That's what it's all about. It is foolish to help someone who will attack us. If we're going to help Gorbachev, raising the ceiling on EBRD, which is so absurdly small, won't lead to missiles being fired. (Ø)

I'm glad President Bush picked up my points from the earlier case. If he doesn't want a follow-up, fine. The G-7 chair rotates. The Chair can maintain contact with the USSR. I'm not sure what we're talking about. I agree with Chancellor Kohl.
(Ø)

President Delors' analysis is exactly right. It's not worth an IFI battle. Let the host of the G-7 handle it, and the four institutions can handle their relations themselves. The question is what more do we do for Gorbachev, given continuing peaceful revolution. We're not for throwing away money. But let's do something or nothing. Leave it with the G-7 Chair; no bureaucracy. Do you really think you'll achieve freedom for the three Baltic states before we raise the 180 million ECU cap? This is disproportionate. Gorbachev is coming here to speed up the process of reform. How should we help him? Not by throwing away money; there's no danger of imprudence. But we should go a few steps further. (Ø)

President Bush: No. Yes on the follow-up proposal. I didn't imply that we would wait on EBRD limits for the Baltics. I'm not linking these. I'm making this linkage because of my Congress and because no one else is loaning. I think I've done a lot to keep the process with Gorbachev on track. You've solved the question of follow-up; it should be the G-7 Chair. (Ø)

Prime Minister Lubbers: When you look at President Delors' points, look at the timing to see how it will work out. (Ø)

Prime Minister Major: I think we've moved the debate. We will put the points on paper before we meet with President Gorbachev.
(Ø)

Developing Countries

Prime Minister Major: I want to focus on the poorest countries.
(Ø)

Others: We need to work this out in the Paris Club. (U)

Secretary Brady: We need a slight alteration in the language, but back the spirit fully. (U)

Prime Minister Major: There is general agreement on a more concessional package. The terms have been discussed among Finance Ministers before. (U)

Environment

Prime Minister Major: (He called for attending the Rio UNCED conference.) (U)

Secretary Brady: (He noted that the U.S. cannot commit to attending UNCED; on global climate change, we'll show progress;

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on biodiversity, he said we cannot comment; he addressed the issue of the Brazilian rainforest.) (U)

-- End of Meeting --

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