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THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: President Bush's July 7 Meeting with
EC Commission President Delors (C)

PARTICIPANTS: The President
James A. Baker, III, Secretary of State
Nicholas Brady, Secretary of Treasury
General Scowcroft, Assistant to the President
for National Security Affairs
Robert Zoellick, Under Secretary of State for
Economic and Agricultural Affairs
W. Henson Moore, Deputy Chief of Staff to the
President
David Mulford, Under Secretary of Treasury
for International Affairs
David Gompert, Special Assistant to the
President and Senior Director for
European and Eurasian Affairs, NSC
Thomas Niles, Assistant Secretary of State
for European and Canadian Affairs

Jacques Delors, President, EC Commission
Frans Andriessen, Vice President, EC Commission
Henning Christopherson, Vice President,
EC Commission
Horst G. Krentzler, Director-General for
External Relation, EC
Pascal Lamy, Chef de Cabinet, Office of the
President of the EC
Johannes P. Wijnmaalen, Chef de Cabinet,
Office of the Vice-President of the EC
for External Relations and Trade Policy
Bernhard Zepter, Adviser, Office of the
President of the European Commission

DATE, TIME July 7, 1992, 7:45 a.m. - 8:15 a.m.
AND PLACE: Munich, Germany

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The President: Our discussions yesterday on the Round were very general. Do you think the French were in a position to cut a deal? The impact of domestic politics is understandable, and we really have to be practical. (C)

President Delors: Secretary Baker and I were asked, yesterday, to seek to make a breakthrough; however, French Foreign Minister Dumas said that nothing would be possible until after the September 20 French referendum on Maastricht. The Commission had been prepared to make an effort to narrow the gap. We are embarrassed by the current state of affairs. (C)

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The President: The media is trying to raise expectations. The U.S. was ready to try, but there is no use trying if this is doomed to failure. (Ø)

Secretary Baker: Are there any new developments? (U)

President Delors: Dumas reported to Mitterrand on the discussion at the foreign ministers dinner and then I spoke to Mitterrand. Mitterrand said that he was prepared to give the U.S. volume reductions in subsidized grain exports, but would require, in return, limits on U.S. exports of cereal substitutes. Mitterrand explained that he had to be able to demonstrate to French farmers that the agreement is a good deal. (Ø)

Secretary Baker: This goes to the substance of the discussion. All participants should be interested in reaching an agreement in Munich. We should discuss the politics of the issue. The Community can argue that a deal that protected direct payments to farmers and cut significantly the U.S. EAP program was a good one from the EC point of view. However, I see doubt on the EC side that a deal is possible at this time. (Ø)

President Delors: It should be possible to reach agreement on a press statement which said, honestly, that progress had been made and that a good working procedure to resolve the remainder of the issues had been established. (Ø)

The President: Let me repeat, we are ready to seek a deal. (Ø)

(Delors and Andriessen offered suggestions for positive public statements.) (U)

President Delors: In conclusion, I just do not think it is useful to waste time on the Round. (Ø)

The President: I regret that conclusion. Let me mention any concern about your approach to a quota for bananas and its negative effects for GATT tariffication. (Ø)

President Delors: Others are also seeking exemptions, especially the Japanese on rice and Canadians on dairy. (Ø)

The President: We all have problems. In the U.S. case, it involves dairy, peanuts and sugar. Mulroney has told us that his political life depends upon securing an exemption for Canada's dairy program. (Ø)

President Delors: The EC is only asking for a temporary derogation on bananas. (U)

The President: The U.S. sugar interests could do the same. (U)

Secretary Baker: Care must be taken to avoid an action that causes the entire tariffication package to unravel. (U)

Secretary Brady: Failure to close the remaining gaps on the Round will feed the pessimistic mood in the economy. (U)

President Delors: I agree. (U)

The President: Yesterday's summit discussion on the world economy demonstrated that problems thought to be uniquely American are, in fact, present in all the summit countries. (U)

President Delors: I am sorry that at yesterday's session no one picked up my point that too much weight was being placed on monetary policy to control inflation and that fiscal instruments were largely immobilized due to high interest rates, which has a chilling impact on economic activity. (U)

Secretary Brady: In the United States, fiscal and monetary policy are headed in the same direction. (U)

The President: I am worried that Yeltsin would come to the Summit and complain afterward that all the G-7 does is talk while he is under fierce attack at home. Moreover, the \$1 billion due from the IMF doesn't go into his pocket, although he might not know that yet. (U)

Secretary Baker: What conditions has the Fund imposed for the \$1 billion? (U)

Mr. Christopherson: I understand that the key ones are a reduction in the budget deficit as a percentage of GDP. During my last visit to Moscow I found conditions the same as under Gorbachev -- little movement and no implementation. (U)

The President: Yeltsin has done some big things. (U)

Mr. Christopherson: The first tranche from the IMF will, in any case, have to go to the Fund for the first tranche of Russia's quota. (U)

Vice President Andriessen: What is the U.S. position on conditionality? Should the same conditions be established for Russia as for other fund borrowers? Some, such as UK Prime Minister Major, take the line that a more flexible approach was needed. (U)

Secretary Brady: The Fund is being more flexible, although some conditions, such as the reduction in the budget deficit, are being imposed. (U)

Secretary Baker: The Fund should concentrate on three key factors: the budget deficit as a percentage of GDP, the growth in the money supply and the establishment of a realistic exchange rate. (U)

Mr. Zoellick: A substantial part of the aid package is bilateral. The United States is moving ahead with some of its programs such as CCC credit guarantees. Secondly, the IBRD is working on a \$500 million general import program. A larger

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project loan package will be the next step. Finally, debt relief through a Paris Club agreement would be worth about \$2.5 billion annually. (U)

The President: What would the total U.S. contributions through Freedom Support be? (U)

Mr. Zoellick: That would amount to a total of \$7.5 billion, including \$1.5 billion in direct grants (including technical assistance). (U)

President Delors: Yesterday's discussion of nuclear safety did not reach conclusion. I would like Frans to explain the Community's position. (U)

Vice President Andriessen: On procedure, the EC prefers a multilateral program. On the program itself, the EC's contributions amounted to \$70 million in 1991 and \$130 million in 1992, with a further increase foreseen for 1993 to \$250-\$300 million. (U)

President Delors: The Community has undertaken a large program in Bulgaria, with the IAEA, on the Kozloduy station. (U)

The President: Bob, could you explain our program? (U)

Mr. Zoellick: We have agreed to the G-7 action plan and our bilateral support will probably amount to more than \$100 million over the next 2-3 years. For the next five years, the total program has been calculated at \$680 million, of which \$200 million would be contributed by the host countries. Thus, with the existing programs, it appeared that sufficient resources would be made available. What would a multilateral program be expected to do? I worry that it could serve as the launching pad for long-term projects for the overhaul/replacement of power plants with price tags in the \$20/40 billion range. (U)

President Delors: It is necessary to clarify what was being done bilaterally and what the function of a multilateral approach would be. (U)

Mr. Christopherson: We must not forget about the needs of the other 11 new states. Several EC members have taken individual states into their IMF "constituencies", and it would be helpful if the G-7 could say something about meeting the needs of those states. (U)

The President: Ukrainian President Kravchuk had been upset not to have been invited to Munich. (U)

Mr. Christopherson: Many of the new states are in substantially worse shape than Russia and have essentially no potential for export earnings. (U)

The President: We should also keep the needs of the Central/Eastern Europeans and the Baltic States in mind. (U)

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Mr. Christopherson: The EC will have separate programs for the Baltic States and that the IMF calculates their 1992 needs at about \$1 billion. (U)

President Delors: Each of them wants its own currency. (U)

Vice President Andriessen: Albania is in a deep economic crisis. (U)

The President: We were very impressed with President Berisha. (U)

Mr. Christopherson: Albania's uncovered needs in 1992 were relatively modest, about \$100 million. (U)

The President: I wonder how Albania made it before the democratic revolution. (U)

Mr. Christopherson: Is the United States prepared to aid Poland? (U)

The President: We are ready to convert our \$200 million share of the Polish stabilization fund to some other use and are encouraging the other contributors to do the same. The Germans might have problems with this idea. (✓)

Mr. Christopherson: Are you imposing any conditions on this action? (✓)

Mr. Zoellick: It is tied to the conclusion of a new IMF program. (✓)

Mr. Christopherson: The Poles still seek additional budgetary support for 1992. (U)

Mr. Zoellick: The latest IMF analysis indicates that better than expected growth and inflation performance may obviate that need. (U)

- End of Conversation -

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