

THE WHITE HOUSE  
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Second Main Plenary Session of the 16th  
Economic Summit of Industrialized Nations

PARTICIPANTS: George Bush, President of the United States  
James A. Baker, Secretary of State  
Nicholas F. Brady, Secretary of the Treasury  
Richard McCormack, Under Secretary of State  
for Economic and Agricultural Affairs

Francois Mitterrand, President of the French  
Republic  
Roland Dumas, Minister of Foreign Affairs  
Pierre Bérégovoy, Minister of Economy,  
Finance and Budget  
Jacques Attali, Special Counsellor to the  
President of the French Republic

Margaret Thatcher, Prime Minister of the  
United Kingdom  
Douglas Hurd, Secretary of State for Foreign  
and Commonwealth Affairs  
John Major, Chancellor of the Exchequer  
Nigel L. Wicks, Second Permanent Secretary  
to the Treasury

Helmut Kohl, Chancellor of the Federal  
Republic of Germany  
Hans-Dietrich Genscher, Vice Chancellor and  
Federal Minister for Foreign Affairs  
Theo Waigel, Federal Minister of Finance  
Horst Kohler, State Secretary, Ministry of  
Finance

Brian Mulroney, Prime Minister of Canada  
Joseph Clark, Secretary of State for External  
Affairs  
Michael Holcombe Wilson, Minister of Finance  
Derek Burney, Ambassador to the United States

Gullio Andreotti, President of the Council of  
Ministers of Italy  
Gianni De Michelis, Minister of Foreign  
Affairs

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Guido Carli, Minister of the Treasury  
Umberto Vattani, Diplomatic Counsellor to the  
Prime Minister

Toshiki Kaifu, Prime Minister of Japan  
Taro Nakayama, Minister for Foreign Affairs  
Ryutaro Hashimoto, Minister of Finance  
Kabun Muto, Minister of International Trade  
and Industry  
Koji Watanabe, Vice Minister of Foreign  
Affairs

Jacques Delors, President of the Commission  
of the European Communities  
Frans Andriessen, Vice President of the  
Commission of the European Communities for  
External Relations  
Henning Christophersen, Vice President of the  
Commission of the European Communities for  
Economic and Financial Affairs  
Pascal Lamy, Chief of Staff to the President

DATE, TIME  
& PLACE:

Tuesday, July 10, 1990, 2:43 p.m.-5:27 P.M.  
O'Conner Room, Herring Hall, Rice University  
Houston, Texas

1. Trade

The President: On the agriculture negotiations, the technical people have difficulties with some of the language. The problem with the Thatcher text is the reference to common measures. If we could end with the word "commitment" in the Thatcher text, then our problem is solved. (U)

If we could stop the Thatcher text after the word "commitment," we have the possibility of moving forward. Otherwise, let's go with Baker's text of this morning. (U)

Commissioner Andriessen: I would like a few minutes to study the text. (U)

Prime Minister Thatcher: I would like to substitute the word "balanced" with the words "fair, or in an equivalent way."

2. Environment

The President: Last year in Paris, we paid significant attention to the environment. We should continue this focus here. For us, a critical element is the need for balance, in particular, the balance between faster action on the environment and economic growth. We all face heavy pressure for immediate action on the environment. We can continue to make progress on the environment only in the context of economic growth. Let us not forget that our countries are the engines of global economic growth. (U)

We need international cooperation on the environment. We need not all take the same steps, but we should move in the same direction. I believe we can develop a communique which emphasizes cooperation in a number of areas. There seems to be three outstanding issues: global climate change, forestry and the World Bank environmental facility. (U)

Regarding climate change, I support the effort of the IPCC to develop a framework convention on climate change. I have offered to host the first negotiating session; this should be held in February 1991. We should agree that the convention be ready in 1992. But I believe strongly that it is unwise to become preoccupied solely with limiting CO<sub>2</sub> emissions. We must look at all greenhouse gases and sinks. Gases other than CO<sub>2</sub> are almost half of U.S. greenhouse emissions. (U)

We are taking steps that will cut these emissions -- through our Clean Air Act, CFC phaseout and reforestation plan. These will reduce U.S. emissions by 15-25 percent by 2000. But two points: First, targets and timetables on CO<sub>2</sub> or other greenhouse gases await completion of the framework convention. Second, any implementing protocol should be comprehensive, i.e., encompassing all sources and sinks of greenhouse gases. Thus, each nation can pursue its own most efficient strategy for addressing climate change. (U)

We all share a deep concern for protecting forests. Forests are important for reasons that go beyond climate change. For this reason, I propose that we agree to a Convention on Forests, to be completed by 1992, that would cover both temperate and tropical forests. Such a convention could cover cooperative research, education and technical assistance, monitoring of the condition of the world's forests, efforts to promote reforestation, curb air pollution and harmful subsidies and halt deforestation. We might also look at debt-for-nature swaps and other such mechanisms. I see this as a major initiative coming out of the Summit and look for your support. (U)

Our actions alone will not solve the world's environmental problems. Developing countries and Eastern Europe will be important. Additional financial assistance will be required. But on the World Bank Green Fund, I believe our position is misunderstood. The U.S. has long argued that the international financial institutions should place more emphasis on the environment -- to protect tropical forests, promote energy conservation and to require environmental action plans. (U)

I believe we can all support debt-for-nature swaps. Just last month, I announced an initiative for Latin America to promote these and other forms of bilateral assistance. But I also believe we must weigh environmental activities against the resources required for other developmental activities. I believe that all World Bank lending should take environmental considerations into account. Indeed, this is now required.

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Thus, I do not think it makes sense to have a separate Green Fund. (U)

I would like to hear your views. (U)

Chancellor Kohl: We must take measures to deal with the threat of global climate change. International cooperation is essential. Gases are caused by human activity. We need to deal with that problem. Whether the bad impact occurs in 40 or 80 years is unimportant. The problem cannot be ignored. Whole coastal regions of the earth will be flooded. (U)

We have acted to deal with the ozone. CO<sub>2</sub> also should be limited. In 1992 we want to limit CO<sub>2</sub> as part of the climate change convention. We want to limit or possibly reduce greenhouse gases. (U)

Turning to forests, I like President Bush's proposal. We are finding it difficult in Europe to increase forests. I would prefer a protocol in 1992 on forests which would come into effect at the same time as the framework convention on climate change. (U)

20 million hectares of forest are being destroyed annually. The world is losing tropical woods. People suffer as well. (U)

But industrialized and tropical forest countries must take action. I propose we set the example as the protector of tropical forests. I talked with the new Brazilian President recently. He is more concerned than his predecessor about the destruction of forests. Most of the tropical forests are in Brazil. In eight more years, there will be no more tropical forests in Brazil. They cannot be reforested. (U)

If we talk too long, the forests will be gone. We have asked the EC Commission to talk with the Brazilians. We need a pilot program. We should cooperate with the World Bank. We have a paper in front of us, but we need to work concretely to help, not just to talk and write. A hands-on approach to help Brazil is necessary. (U)

Foreign Minister Dumas: Last year at Paris we devoted much time to environmental issues. We need to address the global climate change question. Regarding forests, we should not single out one country, especially since the Brazilians are so sensitive. African tropical forests also are threatened. Some of the big African forests are threatened by desertification. (U)

Last year in Paris, we talked about the sahel observatory. We created a liaison group committed to combat desertification. 500 major political figures considered the problem south of the Sahara. We needed to fill in information gaps. All of this is now ongoing. Satellite observations are underway. All technical means are deployed to fulfill the Paris Summit decisions. (U)

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Prime Minister Kaifu: Let me say a few words about our program. We have long-term and short-term programs for global climate change. These involve satellite monitoring. We need to redouble cooperation internationally. Each country has a special situation. Each country has its own target. Each country has -- and must set -- its own target, while not lagging behind others. (U)

On climate change, MITI issued a plan several weeks ago. Tropical forest problems are caused by poverty, in part. Advanced countries should support developing countries. ITTO is doing good work and NGOs are helping too. Japan provided 20 million dollars to ITTO. I hope others will contribute to ITTO as well. (U)

Japan will contribute to various funds helping with the environment. Our expenditures will reach 300 billion yen. This will strengthen aid efforts. (U)

We must use the UNEP Center. (U)

The President: Foreign Ministers have nearly finished the text on the Soviet Union and will now leave the room. One or two delegations have asked that we try to conclude a bit early. If Sherpas finish their work, then we could move up the Communique reading early. If we can get agreements done early, then we can speed up the departure. (U)

Prime Minister Andreotti: I am concerned about the Brazilian project, particularly if Brazilian sovereignty would be threatened. (U)

Regarding nuclear power, we held a referendum and can no longer build nuclear power plants. So we have to change the text of the draft communique to reflect an Italian legal problem. I oppose the greens on this, but it is a fact. (U)

Prime Minister Thatcher: We are all cleaning up the environment. The Clean Air Act in England is law. But we have a lot of sulfur coal that has to be eliminated. (U)

We are cleaning up the water and the beaches, but the costs are high. And people need to know that it will be an expensive proposition for all people. Public utilities will be more costly. (U)

We have serious regional problems too. Our pollution is bad, and we need to curb this. Rivers are impacted by nitrogen fertilizer. Algae bloom. The costs are high. The polluter pays, however. Damage to the ozone layer was caused by chemicals discovered in the 1930s. Their stability was a problem. We will phase them out by the year 2000. This is a good example of international cooperation. (U)

On the greenhouse effect, scientists are forecasting warming by the end of the decade. Still, there is much dispute about how much and how soon. And there are differences about the impact of man-made and natural causes on greenhouse gas creation. We must reduce CO<sub>2</sub> now. Many of us are taking precautionary measures, not only on CO<sub>2</sub>, but also methane. Methane is worse than CO<sub>2</sub>. CFCs are bad also. CO<sub>2</sub> emissions should be dealt with in some form. A much bigger nuclear power program would be a major help to the greenhouse gas problem. We can predict the cost of changing our energy consumption to cope with greenhouse gas problems. We don't know the cost of letting climate change occur. (U)

On biodiversity, we need to manage forests well. The quality of life can be improved by caring for the forests on a long-term basis instead of short-term exploitation. There is also the threat of ocean currents shifting. We need to take precautions now. We must continue with research, but also keep the Brazilian forest intact. I support a World Bank initiative on Brazilian forests. (U)

I would also mention the Antarctic agreement that took 8 years to negotiate. We need to sign and ratify it. (U)

Prime Minister Mulroney: In 1985 we decided to reduce acid rain by half by 1994. President Bush acted upon this, and we are now negotiating an acid rain accord. (U)

The midwest of the U.S. ships acid rain to Canada. 14,000 Canadian lakes are now acidified. 150,000 Canadian lakes are damaged as are Canada's forests. Acid rain hurts asthmatics as well. So President Bush's cooperation with Canada is important and will have massive benefits. (U)

We need to follow up on some of our undertakings at the Summit. Canada didn't do well on follow-up to the Paris Summit environmental commitments. (U)

We need to reduce CO<sub>2</sub> and other greenhouse gases with early protocols and specific commitments. Costs will come down. The more we wait, the more it will cost. North-South cooperation is necessary to solve some of these problems. The 1992 conference on development will be important. (U)

Environmental labeling is important. So is protection of tropical forests in Brazil. Canada is looking for ways to help the German proposal. We have encouraging signals from Brazil. The Houston Summit will be important for public opinion in Canada for what it does on environmental matters. (U)

President Delors: On the question of tropical forests and Brazil specifically, there is no real controversy here. All agree that those forests are important and should not be allowed to be destroyed. These vital resources are irreplaceable. Why is Brazil so important? The rapid pace of deterioration is of

dramatic proportions. The EC Council decided to consult with the Brazilians, even if Collor wants to respect Brazilian independence. (U)

The Brazilian President said he would possibly stop the forest destruction if he could arrange debt-for-nature swaps on a sufficient scale. The result is encouraging. If we want to develop global measures that are fair, it will be necessary in the climate convention to have a protocol on forestry and energy together. The developing countries think that developed countries have done much polluting in the past century and a half. (U)

In the case of nuclear power, scientists who were formerly anti-nuclear are now pro-nuclear. We should be encouraged by this and use the scientists to combat the green extremists who are anti-nuclear. (U)

We must balance costs and benefits on environment and the economy to change our economy rationally and in a balanced way. (U)

The President: Canada was attacked by environmentalists, but we too have some environmental extremists who will never be satisfied with whatever we do. (U)

Prime Minister Mulroney: Chancellor Kohl had a great year: unification, the World Cup victory, and an A grade from the environmentalists. (U)

Chancellor Kohl: Sherpas cannot do magic. I cannot ask for a vote on the Brazilian project, but I would like this program approved in the Communiqué. We are ready to talk to the Brazilians about forests. We want the World Bank to coordinate the Brazilian project. If the EC wants to do something about forests, fine. But let's now rope the U.S. into the EC study. (U)

Prime Minister Thatcher: Let the EC and the World Bank work together. All of us are members of the World Bank. Let's do the Brazilian project through the World Bank.

Unknown speaker: The machinery of the World Bank will work from a different vantage point. It is normal for the World Bank to help. The problem with the World Bank is that the rain forest may get lost in the shuffle. However, I am not against the World Bank. (U)

President Bush: We don't like to have the EC present us with a fait accompli. The Brazilian issue is an example. We don't like this kind of thing. We don't care what you want to do. But we are not members of the EC. (Ø)

In our initiative for Latin America, we are doing something about debt-for-nature swaps and debt reduction. (U)

The Brazilians are sensitive about sovereignty. Let the EC go ahead, but if we are part of it, I would like it to be done by the organization that we are a part of, i.e., the World Bank.

(Ø)

Prime Minister Thatcher: Bilateral aid is the fastest action. We are in danger of doing something in the EC that is bad. We have an example here of what is dangerous about driving the world into blocs. Let's work through the World Bank. (Ø)

Chancellor Kohl: I have to contradict Margaret. We are not building blocs. We just want to be effective. This is the fourth economic summit where we have talked about rain forests. I want action. Let's do something concrete -- something must happen here and now in Brazil. My experience with the World Bank is that it is still just a bank. The EC is more than that. Let's bring in all the groups. (U)

If it is impossible for the EC to be included on this, okay. But I want to be sure that the World Bank actually does something about the Brazilian rain forest. Young people are concerned about rain forests. We must do something. I want you to send out the message that we are going to do something about Brazilian rain forests -- something that touches hearts not just minds. (U)

The President: Sometime I want to have a discussion with you about the EC and where we are going with it. This is not the time or place for such a discussion, but I am putting down a marker that I have problems with the way this is being handled by some. In that regard, I would recall the EBRD fait accompli. This is a big and complex problem for the U.S. and Japan. We want to be in on the take-off, not just the landing. My country is out front on Brazil. (Ø)

Prime Minister Mulroney: On this item, perhaps we could get a combination working group between the EC and the World Bank to collaborate on Brazil. I leave this as a thought. (U)

The President: That's an interesting thought. (U)

Prime Minister Kaifu: Regarding the Amazon forest issue, the U.S. and Japan and Canada are not in the EC. I support President Bush on this point. We need to deal with the issue in a broader framework. Let's get out the message that we are dealing with the Brazilian problem. Let's not have a public fracas about members and non-members of organizations. Some of us are already committed to bilateral programs. (U)

Prime Minister Thatcher: Nothing should prevent us from going ahead with our bilateral efforts. (U)

Chancellor Kohl: I have nothing against the World Bank. But something must be done in the next 12 months. I have never proposed that the EC and non-members were to accept it. The EC

should be part of what happens. Let's say that the World Bank manages things, but should cooperate with the EC. (U)

I am not concerned about the method, only about early results. The World Bank should manage the project, and the EC should cooperate. Who can oppose that?

The President: I think that sounds reasonable. Let's instruct the drafters to go that way. We now have an English version of the Foreign Ministers' text on the USSR. It will take some time to get the other languages ready. Let's talk about development in the meantime. (U)

### 3. Debt

President Mitterrand: I have some reservations. We have exhausted ourselves a bit on environment. Nothing is more important than the thorough misery in two-thirds of the world. (U)

Poverty concerns me as does indebtedness in the Third World. Commercial creditors have not been fully refunded. At Venice Summit in 1987, we asked the Paris Club to look at cancelling indebtedness for the poorest. That led to long-term rescheduling for seven poor countries. Last year at the Summit of Arche, we approved the Brady plan. Mexico and others benefitted from this. In Houston, another step forward is needed. Governmental debt for middle-income debtors needs to be addressed. Let's set up a system of options for dealing with Paris Club debt. We need to expand Paris Club terms for middle-income debtors and provide a menu of options similar to the Brady plan options for official debt. (U)

Prime Minister Andreotti: I want to refer to the Craxi report on debt. For poorest countries, we should be especially generous. For the middle-income countries, we need to be somewhat less generous, but more so than now. (U)

The U.S. initiative for Latin America was a good thing. (U)

We need to reexamine the Craxi proposals and think about it later after we have studied what he has proposed. (U)

Prime Minister Mulroney: We have cancelled some official indebtedness to poorest countries. Canada can also support the general approach of President Mitterrand. We would like to have the Paris Club study this idea -- to study the precedential element. (U)

Again, I want to recall my shock at the negative reaction of my people at cancelling debt in the Caribbean. Nevertheless, I support the Mitterrand proposal on debt. (U)

Prime Minister Thatcher: We need to consider debt on a case-by-case basis. At Toronto, we did cancel debt of the poorest

countries. The Paris Club has agreed to keep those concessions under review. In the case of lower middle-income countries, the Paris Club is offering to be more generous if reform efforts are underway. There is then the problem of middle-income debtors. The Brady plan has helped here. (U)

One comment before going on further: Last year in Paris we were asked to cancel our debt. If we start being irresponsible with that kind of debt write-off for middle-income countries, we will, in effect, encourage them to be profligate in future borrowings. Taxpayers will wind up paying for defaults in excessive borrowing. If it is too easy to borrow and then say you don't have to repay, you will encourage irresponsibility. I want to study the Mitterrand plan. (U)

Finance Minister Weigel: Aid to Central and Eastern Europe should not come at the expense of the Third World. In Africa, our efforts have made an impact. We should remember that the Asian countries who are prospering do not have problems with debts. We should continue the Brady initiative also in the Paris Club. Fifty debtor countries have been written off. The Mitterrand plan is worth thinking about for lower middle-income countries. We have to think about the problem of precedents in debt. (U)

The President: We cannot act on the specific proposal now, but perhaps later this evening or tomorrow after studying. (U)

MITI Minister Muto: The new debt strategy seems to be working well. The important thing is that the IMF and the World Bank agree on an overall program. Commercial banks will not provide new money under current circumstances, but debtor countries need new money. So for some countries, perhaps some will reduce interest rates while others will use other options. (U)

On official debt, we should think about Mitterrand's idea, but that may be a risky option. In the case of Japan, we will find it difficult to provide new money to countries that take the official debt reduction option. There are moral hazard problems with the Mitterrand plan. (U)

#### 4. The Soviet Union

Prime Minister Thatcher: This work should be completed as expeditiously as possible. A four-month timeframe is impossible. (U)

Chancellor Kohl: I would like to urge that we mention a date for the study. Between now and the end of the year would be a suitable timeframe. The Soviet Union needs a decision between now and the end of the year. We urgently need a date that we can stick to. (C)

Secretary Baker: If we go with the option in paragraph 4, we need to designate someone to coordinate the study. I propose that the IMF and the World Bank chair the study. (Ø)

The President: Does that cause problems? (U)

Can we agree on the Baker suggestion on the IMF and the World Bank? (Ø)

Chancellor Kohl: I prefer alternative 2 of paragraph 4. (U)

President Delors: The EC recommends that the President of the EBRD coordinate the whole study. (U)

The President: There is no staff at the bank now. EBRD isn't established yet. (U)

Foreign Minister Dumas: I supports Delors' suggestion. Attali would head the study, drawing on consultants from World Bank. (U)

Chancellor Kohl: I support the EBRD suggestion by France. Let the EBRD manage the project. (U)

The President: The Bank is not a going concern. We much prefer the other solution. Attali can't do it alone. (U)

Prime Minister Mulroney: It's unfair to ask Attali to do it alone. (U)

President Mitterrand: Attali will not be my official after he takes over the bank. (U)

Prime Minister Thatcher: Mr. Attali will help in any case. Mr. Bush, what can you accept? (U)

President Bush: We are trying to find a compromise. We can support alternative paragraph 4 as the date for work. But we should specify that the IMF and the World Bank chair the study. (Ø)

I would like a report on the EBRD. (U)

Prime Minister Thatcher: It will be in a larger building in London. But it is not being set up yet. (U)

The President: We want to ask organizations now in business to do the work of chairing. (U)

Prime Minister Andreotti: I suggest that President Bush himself chair the study. (U)

Prime Minister Kaifu: I support the IMF and the World Bank. (U)

The President: How will we break this impasse? I suggest a compromise along Baker's lines. (Ø)

Chancellor Kohl: I am getting lost. Who is in charge? (U)

The President: The only issue remaining is the chairmanship of the study. (U)

Secretary Baker: We have agreed to ask the IMF and the World Bank to chair the study. They should coordinate with others. We have proposed this, but not agreed to it. (U)

Prime Minister Thatcher: I support that proposal. (U)

President Mitterrand: Why have two chairs? I propose a rotating chair. To choose between the World Bank and the EBRD should be the solution. All of the institutions should be equal. (U)

Prime Minister Mulroney: I recommend that President Bush chair the study. (U)

The President: I decline the chairmanship. I would prefer to have the IMF chairman with the others being equals. The Soviets would have difficulty with the U.S. as chair. (Ø)

Prime Minister Mulroney: The study will be coordinated by the IMF and the World Bank. (U)

President Mitterrand: I would prefer to have the four bodies get together to meet at the initiative of the President of the G-7. Perhaps the Secretary of the Treasury could convene meeting. Starting from there, they will be working on their own. It should be a headless operation -- four equals. We should convene the meeting and then let people do their things independently. (U)

The President: The Soviets will not understand if I am in the chair. I appreciate the suggestion, but don't want the position. The Soviets would be unhappy. I recommend the IMF or World Bank as chair, and, therefore, I endorse Prime Minister Mulroney's suggestion. (Ø)

Prime Minister Mulroney: Rather than co-chairmanship, the study could be coordinated, rather than chaired, by the World Bank and the IMF. (U)

President Mitterrand: I could reiterate my idea -- four equals. Let one of them convene the meeting. There would be no chairman, merely a convening. Coordinating is not good. Why not have the IMF convene the others? The work should be completed by year's end, and the IMF should convene the group. (U)

Prime Minister Kaifu: I agree. (U)

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The President: I agree to inform the IMF that it should convene the meeting of the four organizations to start the work. (U)

-- End of Conversation --

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