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15 April 1990

From the Private Secretary

Dear Stephen,

PRIME MINISTER'S MEETING WITH PRESIDENT BUSH IN BERMUDA:  
ECONOMIC ISSUES

I have written to you separately on the main political and military issues discussed by the Prime Minister and President Bush at their meeting in Bermuda. This letter deals with the economic and other related issues.

Economic Summit

The President identified four main issues for discussion at the Economic Summit in Houston: East/West relations, environment, Uruguay Round and agriculture, and drugs. The United States was trying to behave responsibly on environmental issues, but other countries were rushing to conclusions without adequate scientific evidence. For instance, a recent NASA study had shown that there had been no significant evidence of climate change over the last decade. We had to look at the costs of some of the measures being proposed internationally. There was a risk of damaging economic growth and affecting employment prospects on the basis of little more than scientific speculation. This would be the overall view which he would put forward at the Summit.

The Prime Minister said that she had seen an advance copy of the IPCC's report. This would say that the world's average temperatures had gone up and that carbon dioxide emissions had played a role in this. She agreed that some of the targets being proposed, for instance on CO<sub>2</sub> emissions, were unrealistic, as were some of the policies. For instance, she would not be prepared to consider higher taxes for environmental purposes, at least at present. We had ourselves circulated a paper on the costs of environmental policies at the last Summit. But she was clear that some action would certainly be needed. We could probably accept a commitment to stabilise CO<sub>2</sub> emissions at current levels by 2005.

The President said that the Summit should consider further action to deter cultivation of drugs. For instance, he wondered whether more could be done through commodity agreements to give incentives to grow alternative crops. The Prime Minister said

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that she was generally sceptical about such agreements. They did not have a good track record.

The President said that he would resist attempts to institutionalise a North/South dialogue. The Prime Minister agreed.

Uruguay Round

The President said that the United States was much preoccupied with the issue of agriculture in the Uruguay Round. It was a major problem. The United States was perfectly ready to drop its own subsidies and export enhancement schemes, if this would lead to a genuine opening up of agricultural markets.

The Prime Minister said that all the major countries were guilty of subsidising agriculture. The first requirement was to establish the facts. That was why we had proposed various mechanisms to measure overall support for agriculture. It was not just a question of export subsidies: we had to take a broader approach and set ourselves realistic objectives. We were doing our best within the EC to secure a positive approach, with some success. This reflected our vision of a Europe without trade barriers, open to the rest of the world. There seemed to be some tendency in the United States to criticise Britain as an obstacle to European unity. This was inaccurate. We were only an obstacle to the sort of protectionist and dirigiste policies which the United States itself found objectionable.

Secretary Baker said that the United States was able to go further than Europe on agriculture. The key was for everyone to move. The Americans were suspicious of discussion of mechanisms, which they saw as simply a diversion from the task of reducing subsidies. President Bush said that he was not too pessimistic about the prospects. American farmers were prepared to compete, provided the competition was fair. He repeated that the United States was ready to reach agreement, provided the result was genuinely a freer market for agriculture.

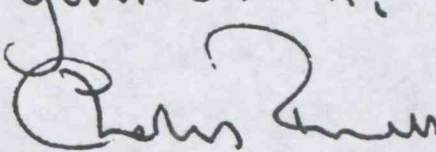
EBRD

The Prime Minister said that we were disappointed at the United States' failure to support London as the site of the EBRD. London was indisputably the best banking centre. The EC would not support Prague. The President said that the United States had unfortunately given a commitment to President Havel. He was not very happy about the idea that Attali should be Chairman of the Bank, particularly in the light of his recent book which had angered him greatly. He was particularly disturbed by suggestions that Attali might hope to hold the EBRD post, while continuing as an adviser to President Mitterrand. The Prime Minister said that we were committed to support for Ruding, who was generally accepted to be the best qualified candidate. But our main concern was to get the Bank to London. The French might be offered the CSCE Summit in compensation. The President commented that he had assumed the Summit would be held in Vienna.

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I am copying this letter to John Gieve (HM Treasury), Martin Stanley (Department of Trade and Industry), Andy Lebrecht (Ministry of Agriculture, Fisheries and Food), Roger Bright (Department of the Environment), Simon Webb (Ministry of Defence) and Sonia Phippard (Cabinet Office).

Yours sincerely,  


C. D. POWELL

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