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Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Scowcroft, Brent, Collection
Series: Chronological Files
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OA/ID Number: 91148
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Folder Title:
Other (March 1990)

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Withdrawal/Redaction Sheet
(George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01a. Outline	Re: Meeting with Secretary of the Treasury Nicholas Brady (2 pp.)	3/8/90	~~(b)(1)~~	~~C~~
01b. Talking Points	Re: Points To Be Made for Meeting with Secretary of the Treasury Brady (1 pp.)	n.d.	~~(b)(1)~~	~~C~~
02. Memo	Timothy E. Deal to Brent Scowcroft Re: EBRD [European Bank of Reconstruction and Development] (2 pp.)	3/14/90	~~(b)(1)~~	~~C~~
03. Memo	Timothy E. Deal to Brent Scowcroft Re: IEPR Breakfast, 7:30 a.m., March 29, State Department (3 pp.)	3/28/90	~~(b)(1)~~	~~C~~

Collection:

Record Group: Bush Presidential Records
Office: Scowcroft, Brent, Files
Series: Chronological Files
Subseries:
WHORM Cat.:
File Location: Other (March 1990)

Pinksheet Number: cap1241
OA/ID Number: 91148-010
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NSC/S PROFILE

RECORD ID: 9001802
RECEIVED: 07 MAR 90 17

CHRON FILE

TO: PRESIDENT

FROM: SCOWCROFT

DOC DATE: 08 MAR 90
SOURCE REF:

KEYWORDS: EBRD USSR
AP

other

PERSONS: BRADY, NICHOLAS

SUBJECT: PRES MTG W/ TREASURY SEC BRADY ON 8 MAR

ACTION: NOTED BY PRES DUE DATE: 10 MAR 90 STATUS: C

STAFF OFFICER: DEAL LOGREF:

FILES: WH NSCP: CODES:

D O C U M E N T D I S T R I B U T I O N

FOR ACTION	FOR CONCURRENCE	FOR INFO
		BLACKWILL
		DEAL

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White House Guidelines
E.O. 12958, SEC 3.4 (B) September 11, 2006
By CAP NARA, Date 7/10/09

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1802

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2010-0775-MR
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THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN

CHRON FILE

March 8, 1990

MEETING WITH
SECRETARY OF THE TREASURY NICHOLAS BRADY

DATE: March 8, 1990
LOCATION: Oval Office
TIME: 1:30 - 1:50 p.m.

FROM: BRENT SCOWCROFT

I. PURPOSE

To give guidance to our negotiators on acceptable terms for U.S. membership in the European Bank for Reconstruction and Development (EBRD).

II. BACKGROUND

Since your discussion with Mitterrand in December at St. Martin about an Eastern European development bank, U.S. negotiators have met with counterparts from the OECD countries, Eastern Europe and the USSR to negotiate proposed Articles of Agreement for the Bank. There have also been several G-7 meetings to resolve differences between the U.S. and Western European positions. The next negotiating session, which the French hope will be the last, takes place this weekend in Paris.

Last month, G-7 Deputies (Treasury Under Secretary Mulford for the U.S.) reached agreement on an ad referendum basis on a package which addresses many of our concerns. Initially, we had opposed any notion of Soviet borrowing from the Bank and also called for ceilings on the amount of the Bank's resources which could go for infrastructure loans, which could soak up the Bank's funds rapidly, and for loans to state-owned enterprises in Eastern Europe. Aside from the Japanese, the other OECD countries were unwilling to support our approach. The main elements of the G-7 package are:

1. Soviet Borrowing: There would be two categories of borrowers. The Soviets would be in Category A and therefore eligible to borrow up to their total capital contribution, but only for technical assistance and private sector operations. The Soviets would provide a Memorandum of Understanding, stating that they would not seek to move to Category B (under which they would be eligible to draw on the full resources of the Bank) for five years. Movement from Category A to B would require an affirmative vote of 75% of the directors representing 85% of the voting power of the Bank.

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cc: Vice President
Chief of Staff

~~CONFIDENTIAL~~

2. Public/Private Sector: Forty percent of the EBRD's resources would go for public sector activities; 60%, for the private sector. That 40/60 split would be applied on a country-by-country basis.

3. "Backsliding": This provision in the Articles of Agreement would allow EBRD governors to suspend lending to an Eastern European country which had retreated on progress toward democracy and a market-oriented economy.

While this package does not meet all our initial negotiating objectives, it is probably the best deal that we can get. In fact, the real challenge will be to hold the line in face of possible efforts by the Western Europeans to ease the restrictions on Soviet borrowing and loans for the public sector in Eastern Europe.

I recommend that you agree to U.S. participation in the Bank, essentially on foreign policy grounds. While the Bank may be helpful marginally in promoting movement toward market economies in Eastern Europe and the Soviet Union, the actual needs of these countries for external support far exceed the proposed capital of the Bank. Thus, the EBRD has more symbolic than substantive importance and represents essentially a Western commitment to Eastern Europe's economic transition and recovery. Conversely, staying out of the Bank, for example, on the grounds that the Soviets are borrowers would appear to be reneging on that political commitment and send negative signals domestically and internationally.

That said, I believe it important for you to stress to Nick Brady and the negotiating team that we must hold the line on the G-7 package. We have compromised enough, and any further concessions on our part may make the EBRD proposal impossible to sell on Capitol Hill.

III. PARTICIPANTS

A list of participants is at Tab B.

IV. PRESS PLAN

White House photographer.

V. SEQUENCE

Secretary Brady will describe the background and issues for decision. After a general discussion, you can give your guidance.

Attachments
Tab A Points to be Made
Tab B Participants List

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POINTS TO BE MADE FOR MEETING WITH
SECRETARY OF THE TREASURY BRADY

-- The G-7 package seems a reasonable compromise and, from what you have said, may be the best deal we can get.

-- We should, however, hold the line and make no further concessions on the key issues of Soviet borrowing and the mix between private and public sector lending.

-- If we are successful in that endeavor, I am prepared to support U.S. participation in the Bank.

-- Conversely, if the French and others try to water down the G-7 package, you should indicate that you do not have authority to agree to such terms now.

-- We need not threaten to stay out because many might not see that position as credible. But we could delay the process if the others start to play games and significantly alter the G-7 package.

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PARTICIPANTS

The President
James A. Baker, Secretary of State
Nicholas F. Brady, Secretary of the Treasury
Richard Darman, Director, Office of Management and Budget
Brent Scowcroft, Assistant to the President for National Security Affairs
David Mulford, Under Secretary of the Treasury for International Affairs

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1802

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

March 7, 1990

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

FROM: TIMOTHY E. DEAL TD

SUBJECT: Secretary Brady's Meeting with the President, 1:30 p.m., March 8, Oval Office

Attached at Tab I is a memorandum from you to the President for tomorrow's meeting with Secretary Brady on the European Bank for Reconstruction and Development.

Concurrence by: Robert Blackwill AAB for RB

RECOMMENDATION

That you sign the memorandum to the President at Tab I.

Attachments
Tab I Memo to the President
Tab A Points to be Made
Tab B Participants List

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NSC/S PROFILE

RECORD ID: 9002003
RECEIVED: 14 MAR 90 11

CHRON FILE

TO: SCOWCROFT

FROM: DEAL

DOC DATE: 14 MAR 90
SOURCE REF:

other

KEYWORDS: EBRD USSR

PERSONS:

SUBJECT: EBRD NEGOTIATION SUMMARY

ACTION: NOTED BY GATES DUE DATE: 17 MAR 90 STATUS: C

STAFF OFFICER: DEAL LOGREF:

FILES: WH NSCP: CODES:

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FOR ACTION	FOR CONCURRENCE	FOR INFO
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E.O. 12958, SEC 3.4 (B) September 11, 2006
By CAP NARA, Date 7/10/09

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2003

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

March 14, 1990

INFORMATION

Deputy Natl Sec Advisor has seen

MEMORANDUM FOR BRENT SCOWCROFT

FROM: TIMOTHY E. DEAL

SUBJECT: EBRD

Although press reports painted a different picture, the EBRD negotiations this past weekend went well, and the prospects for agreement on the Articles of Agreement by the next meeting seem good. Here's a summary of the main issues:

1. Soviet Borrowing: Mulford presented our position on Soviet borrowing (i.e., preference that the USSR not be eligible, but if that position is not acceptable, then Soviet borrowing should be limited to paid-in capital) to the G-24 meeting on the morning of March 10. It was not well received, but it also was not debated at length. Mulford, McCormack and I then met with the Soviet delegation who heard our political arguments about why we could not be more forthcoming and countered with their own: Soviet deputies will roast Soviet officials who negotiate a deal whereby the USSR can only borrow back from the Bank the exact amount it put in while paying interest. At the G-7 luncheon following the bilateral, the others reluctantly agreed ad referendum to a position calling for limits on Soviet borrowing to paid-in capital, but only for a three-year period, not five as we had suggested. Neither we nor other G-7 representatives discussed this proposal in open session, and there was no further debate over Article 8, the section dealing with eligibility for loans.

This has become a bilateral issue, requiring a bilateral solution. We might set the stage for a negotiated settlement first in Baker's meeting with the Soviet Finance Minister this week and then seal it during the Baker-Shevardnadze meeting in early April. I have alerted State to the need for resolution of the issue in these channels since our Western partners will go along with whatever the U.S. and USSR can agree.

2. Lending for Infrastructure and to State-Owned Enterprises: Through nearly all-night negotiations with the Soviets, we reached agreement on the text of Article 11, which sets forth the methods of operation of the Bank. Basically, the text finally approved reflects the G-7 Deputies' proposal that 40% of the Bank's funds go for public sector activities; 60%, for the private sector. This issue is now closed.

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3. <u>European Investment Bank</u> (EIB): After lengthy discussion and some heated corridor discussions between Mulford and the chief British negotiator (who accused Mulford of taking a position different from Brady in his meeting with the British Chancellor), Mulford called Brady and obtained Brady's concurrence to allow in the EIB as a full member.

4. <u>ECU</u>: We made little progress on the question of the payment of the U.S. contribution. We have insisted on a fixed rate, since Congress would not authorize us to have an open-ended commitment which fluctuated with exchange rate movements. The others assert that the Bank should not be liable for any exchange rate losses. Settlement of EIB membership may make the hardliners on this issue (the UK and Netherlands) more amenable to a solution on the ECU.

5. <u>Size of the Bank</u>: We have continued to reserve on the Bank's overall capital with virtually all other countries favoring 10 billion ECU ($12 billion). We will concede once other issues are resolved.

6. <u>Shares</u>: Most seem willing to allow the U.S. the biggest share (10%), but the issue remains open.

7. <u>Other</u>: The group agreed to four working languages (English, French, German and Russian) and to a system of voting by qualified majority which is 75% in most cases (85% though for any movement between "baskets" of eligible borrowers -- the Soviet borrowing issue). Unresolved are the Bank's location, the Presidency of the EBRD (Attali v. Ruding), and the size of the Board of Directors and their status as residents or non-residents.

The next meeting will be April 9 with the expectation of agreement on all outstanding issues. A Ministerial meeting would follow in early May for the signing ceremony.

Attali behaved well -- at least toward the U.S. delegation. He cleverly arranged to have French Finance Minister Beregovoy give David Mulford the French Legion of Honor at a small ceremony on the second day of the conference. I assume he wishes to ensure full Treasury cooperation in the final stage of the negotiations and perhaps a U.S. vote for Attali as EBRD President.

Concurrence by: Robert Blackwill RB

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RECORD ID: 9002403
RECEIVED: 28 MAR 90 15

CHRON FILE

other

TO: SCOWCROFT

FROM: DEAL

DOC DATE: 28 MAR 90
SOURCE REF:

KEYWORDS: EBRD, USSR, EGYPT, GATT, HONDURAS, ZAMBIA

PERSONS:

SUBJECT: IEPR BREAKFAST 29 MAR

ACTION: NOTED BY SCOWCROFT   DUE DATE: 31 MAR 90   STATUS: C

STAFF OFFICER: DEAL   LOGREF:

FILES: WH   NSCP: CODES:

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2403

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

March 28, 1990

Natl Sec Advisor has seen

INFORMATION

MEMORANDUM FOR BRENT SCOWCROFT

FROM: TIMOTHY E. DEAL

SUBJECT: IEPR Breakfast, 7:30 a.m., March 29, State Department

1. EBRD

The "final" round of negotiations on the EBRD begins on April 9 in Paris. The key outstanding issue concerns Soviet borrowing. A G-7 compromise, which we believe goes too far, calls for limitations on Soviet borrowing to the amount of their paid-in capital, but with possible reconsideration (and likely liberalization of terms) after three years instead of the five we had sought. Meanwhile, Soviet State Bank Chairman Gerashchenko has written Nick Brady and proposed his own compromise (a limit on Soviet borrowing by the state-owned sector to the amount of paid-in capital while allowing firms in the USSR's "private sector" to borrow up to the amount of the callable capital). Given the political drama underway in Lithuania, we should wait until just before the April 9 meeting to see whether we should move beyond our present position.

Other issues still undecided concern the Bank's presidency (Attali v. Ruding of the Netherlands), its location, the number of directors, and the ECU payment question. At the breakfast, Mulford plans to distribute a short paper on these points.

2. Soviet Issues

GATT Observership

At the March 16 IEPR breakfast (which you did not attend), Baker and Brady agreed the U.S. should not stand in the way of the apparent consensus among other countries for immediate GATT observership for the Soviet Union. This is a change in our position expressed at Malta. Japan is the only country favoring observership after the end of the Uruguay Round, but it will also support the consensus. The issue is on the agenda for the April 3 GATT Council meeting. In light of events in Lithuania, we believe it appropriate to postpone discussion in the GATT Council. There is no urgency in considering the Soviet request on April 3.

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2010-0775-MR
ES 4/18/13

Trade Agreement

The third round of negotiations on a U.S.-Soviet trade agreement took place March 19-22 in Vienna. A bracketed text has been drawn up. Although much was agreed to, major differences remain on areas important to us, i.e., intellectual property rights, market access and operating conditions in the Soviet Union for U.S. businesses, and financial matters. The Soviet delegation said it could not move further without political guidance.

The Baker/Shevardnadze meetings next week provide an opportunity to press our key points at a senior political level. We could also have Ambassador Matlock talk to senior officials in Moscow. The original intent was to try to conclude the trade talks by the end of April. It may be desirable to stretch them into May to see if we cannot get more out of the Soviets.

3. Country Problems

Honduras

President Callejas will be meeting with the President on April 17. He can be expected to raise a number of economic issues, including seeking U.S. help in clearing Honduran arrears to the IMF, World Bank, and Inter-American Development Bank ($247 million total). AID is presently advising the GOH to use none of its forthcoming $120 million in Economic Support Funds (ESF) to clear these arrears. Treasury will complain about that, but State in fact agrees with Treasury that some ESF should be applied to arrears, and has indicated so to AID. The GOH has also asked the Treasury Department for a bridge loan to help on the arrearage problem. State will support the GOH request while Treasury has not yet taken a position. We recommend that you: (a) support the use of some ESF for clearing arrears, and (b) urge Treasury to provide a small bridge loan for these purposes.

Egypt

Egypt continues its long process of negotiation with the IMF and World Bank over its economic reform program. The World Bank, at the staff level, has indicated some degree of support for the GOE's proposed package of structural adjustment measures that would form the basis for a World Bank Structural Adjustment Loan, but Bank management has not yet approved the program (energy price increases are still being negotiated). The IMF is waiting for Bank management clearance before sending its own mission to negotiate the details of a macroeconomic adjustment program. Thus, Board approval and disbursement of funds from the two institutions lies many months in the future. State may push Treasury to urge the IMF to send its mission immediately. We should side with State.

Zambia

State will propose that the USG consider extending Section 572 authority to forgive debts to Zambia, freeing it from Brooke Amendment sanctions which limit our ability to disburse new aid. However, USG policy is to consider 572 debt forgiveness only for countries which have IMF/World Bank lending programs in effect, which Zambia does not. When the USG formulated its strategy on applying Section 572, it intentionally limited it to Sub-Saharan Africa and to countries with operative IMF/World Bank programs to minimize the budgetary impact. You may wish to remind others that the President wrote Kaunda in February that once Zambia meets the requirement for a structural adjustment program with the IMF or World Bank, "it will be eligible for forgiveness of old development assistance debt owed the U.S. . . ."

Brazil

President Collor's bold economic program still has strong support in the opinion polls despite its rather forceful economic bite. The freezing of financial assets has greatly reduced liquidity, slowed down business, and caused some prices to drop, hurting retailers the most. Collor still has to push his program through the legislature, where it will encounter resistance. State may raise the issue of what kind of support we should be giving Brazil. Treasury probably will indicate it is too early to promise any financial support until we can assess the longevity of the economic adjustment program. The President called Collor very briefly on March 23 to congratulate him on his "bold and comprehensive" plan. He also said, "We want to do what we can to help, despite our own damned deficit."

Concurrences by: Robert Blackwill, Condi Rice, Bill Pryce, David Welch, John Ordway