

Meeting Record

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 September 1990

Dear Richard,

GULF CRISIS: US BURDEN-SHARING INITIATIVE

The Prime Minister had a meeting this morning with US Treasury Secretary Brady to hear more about the American initiative of burden-sharing and assistance to countries affected by sanctions against Iraq. Secretary Brady was accompanied by Mr. Lawrence Eagleburger (Deputy Secretary, State Department), Jim Wolfowitz (Department of Defense) and the United States Ambassador.

Secretary Brady said that President Bush had already explained the basics of the American initiative to the Prime Minister. He and Secretary Baker would be visiting a number of capitals over the next few days to seek support for it. The main purpose of the initiative was to buttress the diplomatic and military efforts which the West was making in the Gulf, by getting an economic pillar into place. The United States thought that Turkey, Egypt and Jordan should have priority for assistance. They were not very happy with Jordan's behaviour but we could not afford to see King Hussein's regime crumble.

Secretary Brady continued that the United States plan for assistance to countries affected by sanctions had two stages. In a first phase, they were thinking in terms of an immediate transfusion to help to keep the three countries upright. The figure they had in mind was US\$3.5 billion. For the medium term, ie. 1991, possibly extending into 1992, they were thinking of US\$7 billion. They hoped the short-term assistance could be agreed very rapidly, so that it could be disbursed by the end of September. They would like agreement in principle to the medium term help by October, so that disbursement could begin early next year. Secretary Brady emphasised that the United States Administration expected the bulk of funds to come from the Germans, the Japanese and the Gulf States.

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The Prime Minister said that we were very grateful to the United States for its initiative, which we thought an excellent one. We would play our part. She must consult with the Chancellor of the Exchequer about the size of our contribution (Brady did not mention a figure). But we would be in touch very quickly. She agreed that the three countries mentioned by Secretary Brady should have priority. But assistance to Jordan must be on the strict condition that it implemented sanctions. She hoped that the Americans would also try to tap wealthy neutral countries like Switzerland, Austria, Sweden and Finland for contributions. Mr. Eagleburger interjected that the Administration certainly ought to look at that. The Prime Minister continued that we were particularly concerned about the refugee situation in Jordan. We had already contributed funds to alleviate it, but would have to do more. We should also keep in mind the need of some East European countries, particularly Hungary, for assistance. Secretary Brady said he understood that EC funds for Turkey were being blocked by Greece. The Prime Minister confirmed that the Fourth Financial Protocol was being held up. We would renew our efforts to get it unblocked.

Turning to other aspects of the Gulf situation, the Prime Minister commented that she hoped the President would get Mr. Gorbachev to reaffirm the objections of the UN Security Council resolutions and commit himself to their achievement. She was intending to telephone President Bush before the weekend. The Prime Minister also said that we had received requests from the American side to send additional forces, in particular ground forces. We would give consideration to this. The greatest danger in the present situation seemed to her to arise from attempts to peddle so-called Arab solutions which diluted what the Security Council had ordained. We simply could not accept this. The only acceptable solution was that laid down in the Security Council resolutions. The United States and Britain had put their reputation on the line and could not afford to fail. This should be made clear to President Gorbachev.

The Prime Minister raised the US intention to divert the Iraqi vessel Zanoobia to Aden and urged that this should be reconsidered. It would only encourage the Yemenis to breach sanctions.

In a brief discussion of the US economy, Secretary Brady said that the press seemed determined to deploy a recession in the United States, but the US Administration saw no reason why this should be so.

Concluding the discussion, the Prime Minister said that we would be as co-operative as possible with the American initiative. She would be in touch with the President. Secretary Brady mentioned that the Americans were not intending to make any public reference to any specific figures for their initiative.

You will notice that Secretary Brady did not at any point suggest that the United Kingdom should contribute to sharing the costs of the US military deployment in the Gulf. The subject was not mentioned at all. On the question of assistance to Egypt, Turkey and Saudi Arabia I think the Prime Minister will want to

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be in a position to say something about our contribution when she telephones the President on Friday afternoon.

I am copying this letter to John Gieve (H M Treasury), Simon Webb (Ministry of Defence) and Sonia Phippard (Cabinet Office).

*Yours sincerely,
C. D. Powell*

C. D. POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office

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SECRETARY BRADY'S BRIEFING, 5 SEPTEMBER 1990

NICK BRADY: As I am sure you are all well aware, President Bush has despatched two missions, one headed by Secretary Baker, the other by myself, to consult with the various partners in the UN and world effort relating to Iraq. We have met this morning with Prime Minister Thatcher, who was enormously supportive of the programme that we outlined. Yesterday, we met with Foreign Minister Dumas and Finance Minister Beregevoy of France. I can tell you the broad outline of the programme that we have put forth, which is very simply to add a third spoke to the wheel, and by that I mean that the diplomatic support for the world effort against the aggression of Saddam Hussein, is in place. The military backing for that effort is fast coming into place, and now what President Bush wanted us to do, world leaders to co-ordinate and to consult about, that of providing an economic support, a third leg to this programme, is under way and we are very impressed with the support we are getting for the broad outlines of our plan and, of course, we are all impressed with Prime Minister Thatcher's knowledge and understanding of the problem and her support on behalf of the British people. I would be glad to take any questions you might have.

Q: Were you looking for particular support from Britain? Did you get it, and if so what was it?

BRADY: The basic mission that we had was to outline a plan to bring forward funds which would make it very clear that we were able to sustain a programme over time in the Gulf area, and towards that basic end Mrs Thatcher and her Ministers were enormously supportive. The broad outlines of the amount of money that was required were discussed. We are not going to put those figures forward, because our mission is to co-ordinate and consult, and until we get through that co-ordination and consultation it would be premature to put out any numbers. But the concept is totally agreed to, supported, and Mrs Thatcher, as always, was ahead of the game.

Q: Could you perhaps talk about this and how much you are looking for altogether? Have you been promised any, have you been promised a small amount?

BRADY: As I mentioned to you, I really don't think, until we get through this mission, which is not one of laying down a programme which has to be observed in this detail, what we have is a plan which will put real blood and flesh on the bones of the economic support for the economic sanctions and embargoes, and until we get other people's point of view, we are really not in a position to put out figures. But there has been no disagreement at all with the basic goals and objectives of the programme.

Q: Which is more important, getting money to the front line states or making sure the embargoes and sanctions work?

BRADY: I would not make a distinction between the two, they are both important, but it is absolutely critical that we get the money to the front line states, because it is at the essence of making sure the embargo and sanctions work. I have no doubt they will get it.

Q: Do you feel that all this will have an effect on US taxpayer?

BRADY: It has an effect on the US taxpayer right now. It has an effect on the British taxpayer, and the French and German, and the Japanese taxpayer. I think, one of the myths that has surrounded this whole effort is that there is an aftermath from the Vietnam War, which continues with this effort. It is simply not true: President Bush has been very clear have been very clear in setting forth what the objectives are in the Gulf; the American people, by all opinion polls, are tremendously supportive, so I don't prescribe to the theory that there is some impatience developing with the American people. I think quite the contrary is true.

Q: Did you get a commitment on conditional British funds?

BRADY: I would leave that to Mrs Thatcher. We did not talk about the specific amounts. She was tremendously supportive, and indicated the plan that we outlined to her was one with which she agreed, and of course there is a requirement for funds in that plan, and she promised that Great Britain would do their part, but I would refer you to Mrs Thatcher.

Q: Can you tell us anything about UK/French financial burden sharing? Are you seeking contributions on this trip? Is that accurate?

BRADY: Not really. The concept was discussed, that everybody is going to have to be part of this burden sharing, and we didn't get any disagreement either here or in France. I would not say that that report which I saw was accurate, I don't believe that is the case. We are first of all looking for their advice and consent to a plan, which we got. They are world leaders and they have been for many years; in matters of international finance this is a programme which requires international support. We put forward our ideas, they will make some changes in them, I am sure, as will other allies, but from the point of view of putting the plan forward, which has as its goal the sustainability of the effort in the Gulf, nobody had any objection to that. In fact, there was nothing but support.

Q: Has Mrs Thatcher told you that Britain has already committed itself

BRADY: I would leave that again to Mrs Thatcher that which she wishes to make public about her own views, but I would say that that gives the wrong impression, in my view. She indicated that the plan we put through was one that had a dollar commitment connected with it, and that was going to take support from all countries.

Q: What time frame are you working to get this done/

BRADY: There are, in essence, two parts to the programme, and for convenience's sake, we have separated it into funds for the remainder of 1990 and then funds for 1991. We have broad outlines of what we think these parts should take. It hopefully, with regards to the funds for 1990, those will be brought on stream as quickly as possible so that front line states, so called, are not forced to undergo any more hardship than necessary.

Q: Will you get agreements within months?

BRADY: As quickly as possible.

Q: Is this going to be done through the IMF, or the World Bank, or through the US Treasury?

BRADY: With regard to the funds that are being asked for in 1990, those will most probably be in the form of bilateral assistance from each of the individual countries over the longer term, and particularly if the level of world oil prices continues at a higher level, it is obvious that there is going to be a systemic effect to this whole problem, and that would have to be addressed to an international financial body and/or international financial institutions.

Q: Will there be a re-direction of trade because of all this?

BRADY: I certainly hope that with regard to countries such as Turkey and Egypt and Jordan, who are quite obviously going to have economic distress, that the solution to that problem is not only one of supplying funds, but keeping the on-going machinery working. It is find to give a country funds, but you don't want the population out of work and on the dole, so hopefully there would be a re-direction of trade, which would be beneficial to those three countries.

Q: What about America's military debt with Egypt?

BRADY: With regard to Egypt, the President announced yesterday that he was going to recommend to Congress that we would give the \$7 million of military debt, so called FMS debt, that the United States hold with regard to prior purchases of military equipment by Egypt, and we certainly hope that other nations will follow on as well.

Q: How will all this affect the US economy?

BRADY: Obviously, the matter of higher oil prices would have an effect on the economy, and also the increased military expenditure will make a difference. However, I am not one to declare the States in recession. I know it is a very popular idea to say that we are now in recession, but that is not the case at all. What we have been undergoing in the States is slower growth. The fact of the matter is the economy grew 1% in the first 6 months of 1990, and that means it is that much bigger than the previous year. The impact of higher oil prices will have an effect, but not one that in my opinion is going to stop the growth. It is not the sort of growth that we hoped for, certainly not as much as we planned for, but it is still slow.

Q: Would you want the Kuwaitis to benefit from the funds too?

BRADY: I think Jim Baker will be visiting with the Kuwaitis as well as the Saudis, and he will have those discussions at first hand with them, and I think we will wait until he has those discussions, but I would say this: as a joint effort, it is not only the US. We need the money for the front line states, and it is important that that need be taken care of as well.

Q: Is there resentment of America going around the world asking for money?

BRADY: Quite the contrary. Particularly Mrs Thatcher this morning said she thought it was exactly the right thing that the plan had to be brought forward. Let me go back to where we

started. The purpose of this exercise is to add the third spoke to the wheel. We have the diplomatic spoke in place, the military spoke is coming into place, and now we need the economic spoke; support for the first two parts which will indicate that this effort in the Gulf is one that can be sustained. Mrs Thatcher was, as usual, ahead of the game, she understood that, applauded it, and thanked us for making the trip to see her, and the Japanese and Koreans, where we are going next, and Jim Baker is going to Germany and Brussels, and the Middle East. Quite the reverse: everybody understands the logic of what is going on. Three points: diplomatic, military, economic. That is the way that sanctions and embargoes will stay in effect. Very important.