

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Private Plenary Session
1992 Munich Economic Summit (U)

PARTICIPANTS: George Bush, President of the
United States of America
Robert Zoellick, Under Secretary of State
for Economic and Agricultural Affairs

Helmut Kohl, Chancellor of the Federal
Republic of Germany
Horst Köhler, State Secretary, Ministry of
Finance

Francois Mitterrand, President of the
French Republic
Anne Lauvergeon, Deputy Secretary
General, Office of the President

Brian Mulroney, Prime Minister of Canada
Derek Burney, Ambassador to the United States

Guiliano Amato, Prime Minister of the
Italian Republic
Umberto Vattani, Diplomatic Counsellor

John Major, Prime Minister of the United
Kingdom of Great Britain and Northern
Ireland
Andrew Turnbull, Deputy Secretary, Treasury

Kiichi Miyazawa, Prime Minister of Japan
Koichiro Matsuura, Deputy Minister for
Economic Affairs, Ministry of Foreign
Affairs

Jacques Delors, President of the
Commission of the European Communities
Pascal Lamy, Chief of Staff to the President
of the EC Commission

DATE, TIME Tuesday, July 7, 1992, 10:20 a.m.-12:30 p.m.
AND PLACE: Residenz - Vierschimmelsaal
Munich, Federal Republic of Germany

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Chancellor Kohl: We need to talk about our preparations for
President Yeltsin, including the safety of nuclear power plants.

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Our experience in eastern Germany shows that the damage is considerable. Problems grow day-by-day. All my information is that if the winter is harsh, the food situation will be more difficult. Less than 50 percent of the land is being used for grain. We need to structure our talks with President Yeltsin. We want to be helpful. This not a tribunal. But we need to be straightforward. (Ø)

President Yeltsin does face increasing difficulties. Let's recall that Gorbachev faced a putsch shortly after London. Our program is Help for Self-Help. We can't pour money down a bottomless pit. The invitation alone represents cooperation. The Sherpas have prepared a program of help for self-help. It includes concrete measures. We want specific pledges to come out of this. (Ø)

I'll start by briefing Yeltsin on what we're doing. We need to discuss the link between help for self-help and actions in the FSU. We can't just do this year after year. I hope Prime Minister Mulroney will start with political questions. Then we'll go to economic subjects. We'll reflect this in our press conference afterwards. We also have to note problems among republics. There is the issue of returning troops. It could be explosive because there is nothing to return to. They lived well in Germany. Now they have no prospects. This is dynamite. (Ø)

The President: Let me start with President Yeltsin's visit. I think it was successful. He's trying to distinguish himself from President Gorbachev. Given the rising nationalism at home, he needs balance, help and respect. We're pleased to see the structure of political topics after the statement. It will accord President Yeltsin respect. Let's get his views on Yugoslavia. I spoke to him; he said he'd stand with the West. (Ø)

Russia has the opportunity to open doors in the Asia-Pacific. I took up the Northern Territories issue. It's important to Kiichi Miyazawa. Yeltsin said he had problems. Yeltsin plans to visit Japan. We all need to stand by Japan. (Ø)

On the economy, Yeltsin and Gorbachev before him have taken courageous steps. But they have a long way to go. They are set up for failure if they expect a normal market economy overnight. The goal is to keep the democratic and market reform process moving forward. He'll talk with confidence about his actions. But he still faces roadblocks. The energy sector. He will stress areas of immediate interest. (Ø)

This is a challenge of political economy, not just technology. He needs to establish the fundamentals. He needs a political base through a middle class of property holders; to get retail shops into private hands, as Central and Eastern Europe did; to allow farmers to buy, sell, and mortgage land; and to give trucks to soldiers, which will earn them a living and provide competition. Yeltsin talks as if he understands, but I'm not sure he does. He needs to break up monopolies. Energy could be

a real model. He could get hard currency right away. I think he recognizes this, and may announce some moves. He has problems with his parliament. Our points could help him use these points at home. (Ø)

The IMF's phased approach will help us move forward. There is a danger of hyperinflation. I agree with the idea of a Consultative Group for Russia in the context of budgetary, monetary and structural reform. The World Bank has coordinated consultative groups in the past. (Ø)

Our Congress is moving on the Freedom Support Act. It passed the Senate. I hope to get it through Congress this month. We've pledged over \$7 billion in aid to the FSU and disbursed about 60 percent of this. This includes \$1.6 billion in grants. He will press for debt relief. We should give Paris Club rescheduling of principal and interest. He will ask us to open our markets. He will press for this to become a G-8. The present formula doesn't make sense. He's not a full-fledged participant. I'm open to discussing this. We could give him standing without putting him in the middle of the rest of our work. We could make him welcome, but not as a full member. (Ø)

This is an important meeting. He's worried about his right wing forces. And sometimes he makes optimistic statements he can't back up (e.g., the Minsk "agreement"). We need to take this into account. (Ø)

Chancellor Kohl: I talked to Yeltsin about the possibility of a putsch. He said the same as Gorbachev had said a year ago. I agree with President Bush on Yeltsin's euphoria. He can't carry his burdens without a positive spirit. But we have to look at this in the cold light of day. Yeltsin needs to know we have confidence in him. There are ups and downs in political life, particularly for him. He's got to find hope somewhere. On the G-8, I wouldn't discuss this. He's invited, he's welcome. The future is in the hands of history. We'll assess the situation regarding Japan. I urge that we not discuss this tomorrow. He's stuck to the status quo. (Ø)

Prime Minister Amato: President Bush and Chancellor Kohl made full statements. I don't have much to add. We need to help strengthen Yeltsin politically and psychologically. A post-Yeltsin period would be worse. So we need to help him overcome a difficult phase. I wouldn't discuss a G-8 or a G-7+1. The aim of the G-7 is to coordinate the economies of the most industrialized states. As President Bush said, you can't do that with an economy that's not a market economy. The relationship is political. I agree with Chancellor Kohl. Yeltsin will ask for things. We know what we can give him. We should ask him for things that would be useful for him. First, a readiness to solve the Northern Territories with Japan is important. Yeltsin is in a corner domestically, so there is no instant solution. But our aid could be used to advance a future solution. Second, is the issue of safeguarding common areas with other republics. If links are eroded -- trade, monetary, military -- there will be

big problems. The USSR survived through centralization of power. People will concentrate on the local market if they don't have (this power). An interstate commerce clause could be important as in the U.S. It's essential, though this may be beyond them. They need a single command of the armed forces, a monetary system, and prices. (Ø)

On the economy, I agree with President Bush. We need to shift the attention to aspects where we can have a partnership -- capital input with managers. Gorbachev's plans never reached reality. So if Yeltsin worked with us on energy, infrastructure (roads, telecom) in a profitable way, it would change the economy. We have things to offer apart from financing: (1) the IMF \$1 billion; (2) debt -- a 5 or 2-year moratorium; we need to decide; (3) technical assistance. I think we should comment on Russian troops in the Baltics. We also need to talk to the Balts about the rights of Russians there. It's hard to pull out troops if the Russians there receive discriminatory treatment. The constitutions should guarantee the rights of minorities there. A second issue is the legacy of Soviet scientists. President Mitterrand has a proposal to create a foundation. This is a great pool of experience. (Ø)

Chancellor Kohl: We're discussing Russia, but should talk about other republics, too. We'll meet Kravchuk in Helsinki. (Ø)

Prime Minister Miyazawa: We've pledged \$2.6 billion plus \$20 million to the nuclear scientists' centers. This is on top of the \$24 billion. We agreed to provide \$25 million for nuclear plant safety. We have a concrete proposition on simulator centers. They will need to replace less stable power stations. This could involve billions, not to mention jobs. (Ø)

Tomorrow, we'll be meeting as the G-7+1. We'll extend a clear message on aid to the market democracies. They need to implement the IMF's measures. They need macro reforms with micro/structural reforms. I expect Russia to take appropriate measures for the domestic legal structure. (Ø)

I appreciate the reference to territorial problems. It's important to integrate Russia into the Asia-Pacific as a constructive partner. This isn't just a bilateral issue, but is important for the whole international community. I hope this is a common message. (Ø)

Our nightmare is Russian sales of conventional arms -- to Libya, North Korea. They haven't sold to China yet, but the Chinese could afford a lot, including for the navy. The IMF recommendations can't include the disposal of weapons. This could make the PRC very strong militarily. As to inviting Yeltsin to the next summit, I need to examine the question before making any decision. So I'd appreciate not mentioning this to Yeltsin. (Ø)

President Delors: I last met Yeltsin on May 30. He expects a great deal, perhaps too much. He said he hasn't received a

kopec; I explained that he was wrong. He didn't conceal his difficulties with the Ukraine. I see he had a meeting yesterday with the other 11 republics on military topics. He said there are problems running a country with 130 nationality groups. He welcomed the EC decision on providing \$250 million grant aid and counterpart funds. He wanted an agreement with the EC, like we have with the U.S. and Japan. We're working on this. On the economy, he admitted it's not working. We can't get an interlocutor on technical assistance; we can't implement \$2 billion worth of programs. (Ø)

There is a growing conflict between Gaidar and Volskiy's defense industrialists. Yeltsin plays one off against the other. There is no uniform monetary system; it's archaic. The economy is still deteriorating. Inflation was at 650 percent in the first quarter. Interest rates are negative. Oil exports are down, bottlenecks exist, facilities are obsolete. The European Energy Charter has been held up because of the lack of reliable spokesmen. (Ø)

On the other side: The IMF can't use the same approach (it's used elsewhere in the world). They can't move rapidly to budgetary reform. They need debt rescheduling. We need to structure our emergency relief; there are severe shortages. For the science foundation, the EC is pledging 4 million ECU. Re nuclear safety, we're at work in Bulgaria. We committed \$120 million. We know this is not sufficient for closedown. Chernobyl's radioactivity is eating away at (Ø)

Prime Minister Major: I agree with much of what President Delors said. We do Yeltsin no favors if we're not frank. Our obligation is to help him face his problems. A lot has happened in the last year. Twelve countries are no longer one. Those twelve have ties, hostilities, and historical burdens. There are barriers to trade. There is no control of the money supply. The economy is deteriorating greatly. A fall in output of 15 percent for the FSU is forecast. Some of this is fewer tanks. People are being paid for not producing. Unemployment is low in theory. But this is a fool's paradise. They can't survive. They're moving to a black market and a barter economy. Some other republics followed Russia in freeing prices. In Ukraine, there is no tangible sign of reform. They are focused on Russia. (Ø)

The key is Russia itself. If they succeed, others will follow. It is the most reform-minded and purposeful. I think Gaidar understands; Yeltsin knows less well, but he backs Gaidar. Parliament shows no sign of understanding. Yeltsin does deserve our support. He would like to go down in history as the one who implemented market reform. Gaidar is the best prime minister they'll get. But put it in the context of what's really been done (it's less impressive): There has been no real privatization. The gaps between words, especially in parliament, and actions is great. Laws and decrees are not carried out. On land reform, little ownership is established. Where it occurs, a farmer can take over vacant land, but has no legal title or right to sell. They have big factories. These can't be closed without

some social unrest. The reformers have setbacks: the budget, inflation. I think the deficit is up from 33 percent to 50 percent of GDP in the first six months of 1992 (?). The end product is hyperinflation. That's the alarming part. (Ø)

There are some positives: Enterprises are dealing with one another. Flats are being privatized. New businesses are springing up. Plots are being distributed for private farm production. (Ø)

I think the message should be:

(1) The IMF agreement is good. The deficit should move to 5 percent of GDP, and inflation to 10 percent/month.

(2) Be clear why we welcome this agreement: The Russian government must take actions to avoid hyperinflation. No government would survive this. I don't think he understands what hyperinflation would do. There is a sheer lack of control over money. You can't destroy confidence in money as you start with a money economy.

(3) ?

(4) This is politics, as well as economics. Presentation is as important as the contents. We need to stress his position. We can't extract reform commitments. We should build on our historic partnership.

(5) I hope we can hear what it's like in Russia; at the micro level, too. What are they actually doing to set up market structures? Are there plans for property rights, anti-monopoly policies, etc. We're committed to try to help. But success will come only from Russia itself. Self-help -- cooperation. (Ø)

This won't be a comfortable meeting, but a valuable one. I share your views on Northern Territories. I also agree on the troop withdrawal point. (Ø)

Prime Minister Miyazawa: The first IMF tranche is good news, but it's a drop in the bucket versus the \$24 billion program. Is it anti-climactic? What is your assessment? (Ø)

Prime Minister Major: They won't solve their problems with the first credit tranche. But it shows we're ready to respond if he moves. Russia gave commitments on interest rates, to build up its foreign exchange reserves, to cut expenditures 20 percent, to increase import tariffs, to cut credit supply increases. I see this as an indicator of good intent. (Ø)

Prime Minister Mulroney: President Yeltsin just visited. It was successful. He is traumatized by Gorbachev. He says Russia is 7 years behind because of Gorbachev and his half-reforms. He is testing the political limits of reform. He faces military opposition. We should probe about his immediate plans. What will he do next week and next month? We should speak plainly

about what we can and can't do; he thinks we can do anything. He needs to be treated with honor, e.g., on the IMF and debt rescheduling. (Ø)

Canada has already disbursed \$2.5 billion. Only Germany is ahead of us on a per capita basis. Yeltsin could get \$60 billion if everyone did the same per capita as we. We should highlight people-to-people contacts; we need to help reform take root. We should ask him to look into minority rights; he brushes this away. We also need to encourage him on the Baltics. He says he can't afford to bring the troops home. (Ø)

We should set the Tokyo Summit as the target to settle the Northern Territories. The nuclear arms agreement with the U.S. was the most important. We've failed to recognize the enormity of this. (Ø)

We need to say tomorrow that Yeltsin has done 3 times more than Gorbachev. To put this in perspective, we looked at the Marshall Plan. It involved \$12.4 billion over 4 years; 16 nations; 255 (?) million people. This translates to \$72 billion in today's dollars -- or 1.2 percent of U.S. GNP. We now are at 0.2 percent of our GNP. There was a kick in clause for Europe to help itself. The Marshall Plan was a most generous act. We think we're doing a lot, but just compare. (Ø)

Yeltsin has great pride and sensitivity. He's concerned with his image and how we treat him. We have to tell him the truth; what we can and cannot do. (Ø)

President Mitterrand: I don't have much to add. I'd stress 3 points. (Ø)

(1) Baltics: The Russian argument is not fully sincere. Hundreds of thousands of soldiers are there. They're in the heart of the capitals, such as Riga. The Balts fear incidents. They've got national pride. There is rotation among the troops; troops are sent in and the governments aren't told. This is tied to self-esteem; access to the sea; Peter the Great. (Ø)

Chancellor Kohl: These are elite troops. (Ø)

President Mitterrand:

(2) Scientific Potential: This is true in the nuclear field. Their scientists and top engineers shouldn't be available to anyone. We could benefit, too. (Ø)

(3) Nuclear power plants: There is a 100 percent certainty of an explosion in the next 15 years that will be as serious as Chernobyl. We would be gravely negligent if we don't grasp this issue. It would hurt all our nuclear plants. We meet 70 percent of our power needs (through nuclear), and all of our electricity. It's more economical than coal. (Ø)

The revolution is just starting. These leaders will pass from the scene. They're in the last stages of the Marxist era. (Ø)

Chancellor Kohl: Prime Minister Mulroney mentioned the Marshall Plan. It was an important part of my life. We were half-starved. Americans brought rations to our school. Unlike in 1919, the Americans remained and brought practical aid, not just soldiers. Recall Stalin at Yalta: Impoverishment would lead to world revolution. The Marshall Plan stopped that. We can point to this with gratitude, but this is also a model for us now. History doesn't repeat itself, but could. (Ø)

This is a vast country -- from Koenigsberg (Kaliningrad) to Vladivostok. It needs investment in the future. If it reverts, it will return to arms expenditures. Future generations will ask what we did. We can't leave them to their own devices. We need to talk about what we can and cannot do; their expectations are absurd. We need to be frank with Yeltsin, but this isn't a tribunal. (Ø)

I hope we can devote our last half-hour to the issue of nuclear power plants. I have to warn against saying it's just our neighbors' problem. There is no real alternative to nuclear power now. I hope we can agree on what the Sherpas have drafted. (Ø)

We don't want to confine ourselves to bilateral aid. Germany has already put up \$58 billion. It will be wretched if we don't do this jointly. If we do, we'll get into figures amounting to \$700 million over five years. Needs more. (Ø)

Prime Minister Miyazawa: (Disagreeing.) What do you mean by jointly? (Ø)

Chancellor Kohl: Two aspects: (1) Bilateral aid coordination. This is a good idea. (2) Agree to do this in a collective way. (Ø)

Prime Minister Amato: I support the Chairman's proposal. We should pool our efforts, and affirm a modest amount over five years. We should have a Common Fund, perhaps. Let's just agree to the principle here. (Ø)

The President: I oppose another fund and bureaucracy. Considerable amounts have been pledged; we'll do our part. That's why we have brackets (in the text). Let's get bilateral commitments to cover nuclear safety. I hate to object to a new international organization, but I fear bureaucracy. We're reserved on a fund. We have money available, so let's do the assistance on the basis of coordination. (Ø)

President Delors: I'm looking at the text. Different objective. Fund within the context of the G-24. (Ø)

Chancellor Kohl: There is no danger of a bureaucracy. The idea is to have a practical effect. Please reconsider this; we can come back to it. (Ø)

Prime Minister Miyazawa: Is this money for the EBRD? (Ø)

Chancellor Kohl: No. (Ø)

Prime Minister Mulroney: I understand it's within the purview of the EBRD. (Ø)

(Exchange of views.)

The President: There is an international organization already working. What's then to be done? (Ø)

President Delors: It's an existing organization with new tasks. The Fund is to stimulate bilateral action. (Ø)

Prime Minister Mulroney: I'm also concerned with bureaucracy. These funds should be only for near-term actions. I understand: (1) no new bureaucracy; (2) donors manage; (3) EBRD to administer; and (4) coordination through the G-24. (Ø)

Chancellor Kohl: If you look at EBRD management practices. . . . When contracts are being granted, there is no fear of getting cut out. Can we agree to break off this discussion for now and come back to it later today? (Ø)

Prime Minister Major: There is a misunderstanding. The fund is a backup for gaps in the bilateral efforts, filler for cracks. (Ø)

Chancellor Kohl: Yes. Bilaterally you focus on points of interest. (Ø)

BREAK FOR LUNCH

-- End of Meeting --

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