

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Mikhail Gorbachev of the USSR (U)

PARTICIPANTS: The President
James A. Baker, Secretary of State
John H. Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President for National Security Affairs
Condoleezza Rice, Special Assistant to the President for Soviet Affairs, (Notetaker)
Interpreter:

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Mikhail Gorbachev, President of USSR
Eduard Shevardnadze, Foreign Minister
E. Primakov, Member, Presidential Council
S.F. Akhromeyev, Advisor to the President
Aleksandr Bessmertnykh, Soviet Ambassador to the United States

DATE, TIME AND PLACE: September 9, 1990, 2:30 - 5:00pm
Presidential Palace, Helsinki Finland

President Bush: I thought we had a very good discussion this morning. I have taken on board seriously your views that a peaceful solution is needed. I understand there is a statement, which we need to discuss, that would be seen as an enormous success. I think we would then have exhausted the Persian Gulf discussion. If this is agreeable, let's move on. (S)

I'm not equipped to negotiate arms control now. As I said, we are very much committed and awaiting resolution. I'll go back and encourage our negotiators to get going. (S)

President Gorbachev: Now you are speaking of negotiators respectfully. (U)

President Bush: They should get it done; they're hung up on technicalities. I am open to hearing about the future of Europe. There is the IMF. We could talk about economic issues. We don't have an agenda. (S)

President Gorbachev: I want to greet my colleagues with whom we have worked with success. I want to support what the President has said - our colleagues and yours can take full note. The President and I think it is very important to make sure at this phase of mutual development that we act together, supported broadly by the UN. I recall in 1967, the evolution of crisis and comparing it to now. We are channeling our energies differently. We have barred the possibility of any further action on his [Saddam] part. We have adopted an embargo and protected oil resources. Based on those criteria, a lot has been accomplished. We can contemplate the next phase to make sure UN Resolution 660 is accomplished. We will have acted not from a position of weakness but of strength. There are some hot heads who have been hinting that we are acting from weakness. We have been able to discuss developments fruitfully and agreed to work together. I've said that as regards arms talks, it is possible to complete the talks and negotiations on CFE and START. The Foreign Ministers will have to work in a very substantive way. (S)

I have done some work on the Statement on page 1. There are some amendments that we would like to suggest: (S)

In para 1: "Iraq's illegal invasion": I want to omit illegal because yesterday he wanted to prove it was legal. The word invasion makes it entirely clear.

President Bush: "Illegal" strengthens it. (S)

President Gorbachev: I think he is trying to exploit the point - invasion is invasion. (S)

Even now in the resolutions being adopted in the UN the humanitarian aspect is being provided for. We should also take out "should be monitored." Saddam has said there is no pressing humanitarian need. We have agreed that it must be monitored, but we cannot describe everything. You have mentioned children; maybe we should reflect this. We could mention children, and that we want to resolve the crisis -- "consistent with the UN Charter" -- as soon as the objectives have been achieved. It is essential at this stage to work actively to resolve all conflicts. (S)

President Bush: That links the Palestinian question with Saddam's illegal act. I want to ask the Secretary of State to respond. (S)

Secretary Baker: Deletion of the word "illegal" is no big matter. If you want to, no problem. (S)

Minister Shevardnadze: Maybe "aggression" is better. (S)

Secretary Baker: The only fundamental difference is the issue of food. Let me skip and go to "our preference to resolve." There's no problem with a small change -- "determined to see it end" -- no problem. "Once the objectives mandated by UN 660-665 resolutions" have been achieved. (S)

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President Bush: OK. (U)

General Scowcroft: "The resolutions listed above." (S)

President Gorbachev: OK. (U)

Secretary Baker: You suggest it is essential. The change would be to "is." I want to say that it is essential to work actively, to avoid future, present or past tense. (S)

President Gorbachev: OK. (U)

The paragraph on food is inconsistent with the UN Security Council's discussions. We need to add something about the children. "Control" is meant to make sure only those who are truly deserving. I would speak specifically of children. This doesn't change the essence. (S)

President Bush: Let me comment on a problem here. What we are doing is accepting the argument that the humanitarian clause needs to be enacted. We must be careful that we don't accept Saddam's view. If we now say that the Indians, etc., would send food and say that the humanitarian clause has been triggered. I accept that the UN has spoken, but my reservation is that I don't know that there are shortages. We are told that they have a good stock. (S)

Secretary Baker: Why not reference the UN resolution, and (1) provide for embargo exceptions in humanitarian conditions; (2) note the sanctions committee is in process of determining the meaning; and (3) that the US and USSR agree that monitoring is necessary, with priority to children. (S)

President Gorbachev: The idea of referring to the resolution is correct. It will show our humanism, but then you are saying US and USSR imports must be monitored to ensure that food reaches strictly those to whom it is destined. (S)

President Bush: We also need to have the right to put medicine in the same category. (S)

Secretary Baker: Let's have drafters work on it. We agree that commercial sales of food is not what is meant by humanitarian exception. (S)

President Gorbachev: Yes, indeed. (S)

President Bush: This statement will have a strong positive impact. (S)

President Gorbachev: Even reiterating our position will so do. (S)

President Bush: I understand President Reagan is coming soon. (U)

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President Gorbachev: We have prepared for him. I will receive him. (U)

President Bush: He is a little older. I have great affection for him. (U)

I am interested in how we can be positive influence on your reforms. I would like to think that out of being together on the Iraq crisis that we can work together better. I wondered if that should be left for later when we helped formulate change in NATO. I wanted a signal to be seen, that east-west confrontation had given way to cooperation. The NATO meeting in London was enthusiastically approached. I hope it was read as a real change. What shall we talk about? Economic problems? (S)

President Gorbachev: OK. You are right that we, in the context of our reform, have reached the decisive phase. This explains all the debate and turmoil. We have been able to keep the turmoil within debate, which has sometimes been sharp. In some places there has been conflict. Still, overall, any global confrontation or civil conflict has been averted. In a country with our complicated history, structures are not simple. We are overloaded with problems. That we have avoided conflict is good. Now all is to be decided. It is understood that we must move toward a market. It will mean substantial changes. There is an understanding that to move, it is necessary to have a different situation. How do we get there? We must change property relations. There is a very difficult process of phasing out state property -- lease holds, cooperatives -- and selling off small and medium enterprises. It means privatization in many forms and a new motivation for individuals: peasants to own farms or family shops. In setting up shareholders, we create new participants in the market. We need to reform banks, create antimonopoly laws. Everything is ready; stock exchanges are being set up right now. We are approaching a complex society with a dislocated consumer market. It could result in a price explosion. There is now a sharp debate about whether we should raise prices in a centralized way. The government wants a centralized rise in prices. Shatalin wants price stabilization first, and then let the market set the prices. This means absorbing ruble overhang and adjusting incomes. This discussion is in the final stages. A decision will be given and the program of transition announced as of Oct. 1. (S)

President Bush: When you submit the plan to the Republics, do they have to act on it and pass laws? (S)

President Gorbachev: We must not just consult them, we need their consent. (S)

President Bush: How long a time frame do you envision? (S)

President Gorbachev: For stabilization, we need 3-5 months to stabilize the market to begin to release some prices in 1991-1992. The transition period will come only then, and it will be

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long and hard. People worry about price inflation and unemployment. The whole of society must learn how to act; this may seem strange to you. We will need tremendous effort. Unpopular measures will be enacted, but we must hold the society together. But we cannot wait. If we do not act radically, it will be dangerous. Money will cease to work and barter will take over. There will be economic chaos with each collective working self-protectively. We must muster the will, and this is not a simple thing. The Russian Communist Party Congress shows there will be problems. We need also to have some sort of room for maneuver, to saturate the market with products, to make people feel that the change in prices will bring something to the consumer. A reduction in the money supply, an increase in production of consumer goods -- I hope Western countries can help with the specifics. We are speaking of a need for help. The numbers are not great, and we are not asking for grants, just loans that we will pay back with interest. The coming 3-5 months will be critical. Your position will be of great importance. I hope that when Baker comes to USSR he can discuss specifics, not just in terms of bilateral relations, but things that will have an effect on others. (S)

President Bush: There are certain areas where we can move forward. I touched briefly on energy cooperation; that could be done in the short range. We could free up some technologies that have been held up, like horizontal drilling. There we can move forward. I hope Shevardnadze can talk about what you need in the short-run. (S)

As you know, we don't have the cash for large economic assistance. I don't want to be under false colors, but the climate for cooperation is continuing. There is still some old thinking, but I think we are on common ground now. This statement will help, and I will refer to it. Maybe it will swing some heads. We are negotiating at Andrews Air Force Base, trying to figure out how to cut the budget. We have some constraints, but out of this new order we can find a way. (S)

Secretary Baker: It's important to clear away the legal underbrush. For example, if you can get your negotiators to engage meaningfully on the Kerensky Debt claims, we might be able to repeal Stevenson and Byrd. In terms of getting a Trade Agreement, we are watching your discussion on passage of emigration legislation. You need to get it approved; it will help give us some freedom to maneuver. (S)

President Gorbachev: We are about to pass new legislation on foreign investment. We intend to take the first steps to convert the ruble. (S)

Secretary Baker: We are also negotiating a Bilateral Investment Treaty. One of my assistant secretaries of State told me we are in a position to complete a draft for a later meeting. We would be in a better position to cooperate on loans and grants. (S)

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Governor Sununu: There is big difficulty in encouraging private investment. They don't know who to negotiate with -- the Republics or the center. The uncertainty is the biggest problem. If you can make it clear, we'd be able to move more quickly. (S)

President Gorbachev: I believe we are on our way to -- we are reexamining -- major Union programs. We will send Union money to fund programs with the Republics. They can also cooperate between regions. All enterprises are able to have independent access to the market. We see vast opportunities; some partners have already found each other, particularly in conversion of defense complexes. I understand the process is well underway. The Soviet Union will not disappear, but we need production, etc. (S)

President Bush: Have you thought about gold backing of some instruments? You could raise a specific amount of money. (S)

President Gorbachev: There will be some new opportunities. We want the normal ruble to be gold backed too, and we will devalue it. This question was analyzed, and we must move toward convertability. Otherwise it will interfere with market reforms. Sound finances, a reliable ruble, and diversity of ownership will help. (S)

Secretary Baker: As you know, we are briefing businessmen. There is a great potential to further develop energy reserves. The US can make the technology. (S)

President Gorbachev: We can have very good cooperation in this area. (S)

Secretary Baker: Let's take it out of the U.S. realm, for example, if a French company wanted to risk its money, would the USSR grant concessions? (S)

President Gorbachev: I think there are some well considered proposals for the Tenpiz Oil fields involving an entire consortium with Chevron. All in all we must develop the oil, gas, and energy industry. We sustain great losses now. We listen to good proposals. (S)

Another subject which should be positively evaluated concerns laying a Euro-Asia communication channel based on fiber optics. The Japanese are interested in it. But we want to hear from you -- the US must look into everything agreed on. (S)

There are problems involving the US Administration and the Soviet Aviation Minister. (S)

General Scowcroft: I believe this concerns the development of a civil aircraft. (S)

Yes, the Soviet Union would provide the body, the US the engine, and the Israelis the avionics. (S)

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President Bush: Another important area is energy. Cooperative development of hydrocarbons with other countries would be beneficial. I understand ARCO is coming to your country. Companies are aware of the need to safeguard against appearance of "owning" the resources of the USSR. They are prepared to be flexible. (S)

President Gorbachev: Maslykov is in charge of this; he will work out all proposals. Perhaps you could talk with them. (S)

Secretary Baker: Companies are worried that the Republics will come back and say there is no deal. (S)

President Gorbachev: We understand. (S)

Shevardnadze: In Irkutsk we described long term projects. (S)

General Akhromeyev: The President of Texaco will make a report. He is working both with central organization and Russian Federation. (S)

Mr. Primakov: He raised the problem correctly. This document has to be dealt with in great detail. There is speculation at this time about why don't you get access to just some Republics, not to all Union Republics. The main recipient will be the central government. It is a much different matter to do it between enterprises. We are open to creation of markets, and the Union republics want to participate. But only those who produce goods should participate. But we should not forget the importance of the central government. (S)

President Gorbachev: We ask whether anyone asks what state General Motors belongs to. We are in the phase of passing declarations which people might have thought then alarming. Now we are tackling the economy, which demands the establishment of a unitarian state. Russia was particularly decisive, although they continue to thrust out statements. People are getting sober. This is now the foundation of an economy -- communications, information, finances, single currency, a single custom system -- there is no getting away from it. (S)

President Bush: I believe it would be helpful, strictly on trade, to have some state officials talk about how trade and taxation works. Would it be helpful for you? (S)

President Gorbachev: I think after a while it would be helpful. (S)

Primakov: Republic governors can receive them on a level of friendly bilateral exchange. (S)

President Bush: There are many people who understand what you're trying to do. Maybe this is for the near future. (S)

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On regional subjects, I think we're close on Afghanistan and Cambodia. I feel like a mouse in a trap. I don't want the cheese just out of the trap. I want to ask Jim to say what we're thinking; I know Eduard and Jim have talked about it -- let's get them resolved. (S)

Secretary Baker: Recent developments hold more promise on Afghanistan, and we are closer to an agreement. On July 18, we said we would have a dialogue with Vietnam. The Perm 5 has a framework agreement, and we are fairly satisfied with it. We said we would begin with Phenm Phen, and you with Sihanouk. He has indicated he will attend. I am very hopeful that maybe we can find resolution. We would appreciate anything you can do to press on this matter. (S)

On Afghanistan, the question is one of the degree to which Najibullah would cede authority. We're getting closer. We need to revive the detailed proposals, but we're very close. One solution could be a temporary transfer authority, and then we could consider negative symmetry within that context. But we don't want a hostile government. (S)

President Bush: I know we can get them done. (S)

Shevardnadze: It is right that we should continue and work out the fundamentals like free elections, uninvolvement, presence of some organization in Cambodia, such as UN representatives there, etc. Five documents were agreed among the Perm 5 on the internal aspect. The Chinese are serious and changing, but internal contradictions remain. We and you could have been more active if it had not been for Iraq. But we are on a good track and making natural headway. There are some new elements, such as consenting to hold free elections under the sponsorship and rigorous control of the UN. We should set up a committee for holding elections and overseeing government and Presidential functions -- these should be turned over to that committee, including the army, militia, etc. I think in Moscow we can analyze it all. (S)

Also, the President received Najibullah -- the Afghans are showing greater flexibility. (S)

President Bush: Is UN election idea new? (S)

Shevardnadze: It would be just the way it was in Nicaragua. (S)

President Bush: And there would be observers? (S)

President Gorbachev: We think we should set up committee for that purpose. (S)

President Bush: Creating a UN presence in Cambodia could be expensive, perhaps \$5 billion. (S)

General Scowcroft: May we should discuss what we will say at the press conference. (S)

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Shevardnadze: A question is sure to be asked about the President's visit this year. (S)

President Gorbachev: Our position is that an agreement remains in effect to meet; we just need to speed up work. (S)

President Bush: We didn't put any conditions on our next visit. I will say I'm looking forward to it, hope to have a START agreement in place, we're hoping to do it this year, and that we discussed it. (S)

President Gorbachev: Your formula is acceptable. (S)

President Bush: I'll mention that there is no specific date, but that we want to do it, maybe at the end of this year or early next year. (S)

What questions, Marlin, should we be ready on? (S)

Marlin Fitzwater: The situation in Gulf and whether you made any new plans. (S)

President Bush: I would say we want a peaceful resolution, and that our statement speaks to our fundamental resolve. (S)

Marlin Fitzwater: A question may also arise on Soviet participation, troops in particular. (S)

President Bush: If economic assistance comes up, we can say that some businessmen are on the way. (S)

Secretary Baker: The use of force question may also come up. (S)

President Bush: The statement is very good; it deals with all of this. Who will read it? If you get Russian copies, we can do it in English. (U)

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