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Memorandum of Conversation: Luncheon Meeting with German Chancellor Helmut Kohl, March 26, 1993, 1:15 - 2:20 pm

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Summary:

Clinton, Kohl, and others discuss Russia's political and economic situation, aid for Russia, German and American involvement in Iraq prior to the Gulf War, and other international issues.

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THE WHITE HOUSE

WASHINGTON

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MEMORANDUM OF CONVERSATION

SUBJECT: Luncheon Meeting with German Chancellor Helmut Kohl

PARTICIPANTS:
The President
The Vice President
Warren Christopher, Secretary of State
Lloyd Bentsen, Secretary of the Treasury
Mack McLarty, Chief of Staff
Anthony Lake, Assistant to the President for National Security Affairs
E. Anthony Wayne, NSC Staff, Notetaker
Gisela Marcuse, Interpreter

Chancellor Helmut Kohl
Dieter Vogel, State Secretary and Spokesman
Horst Kohler, State Secretary, Finance Ministry
Dr. Immo Stabreit, Ambassador to the U.S.
Dr. Peter Hartmann, Director-General for Foreign Affairs, Security Policy and Economic Cooperation
Dr. Johannes Ludewig, Director-General for Economic and Financial Policy
Dr. Werner Weidenfeld, Coordinator for German-American Relations
Interpreter

DATE, TIME AND PLACE: March 26, 1993 1:15 - 2:20 pm
Old Family Dinning Room

(The conversation began with joking about the fact that the only complete sets of White House China came from Presidents Reagan and Johnson. Chancellor Kohl then recounted his entry into politics and his experiences with Konrad Adenaeur.) (U)

The President: Secretary Christopher, could you give a description of your meetings with Russian Foreign Minister Kozyrev and our current thinking on Russia? (U)

Secretary Christopher: Kozyrev stressed the need for concrete, tangible projects, and President Clinton agrees with that approach. We are looking at agriculture, energy, and housing as key areas where we can focus our bilateral assistance. We hope that after our bilateral summit with Yeltsin and the announcement of our bilateral aid package, our friends will announce comparable bilateral assistance packages for Russia. We hope to put forward programs that really work. We also need to work on

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what we can do together at the macro-level in the G-7 context. We have been trying to accommodate the Japanese. That is part of the reason that we have resisted an early summit. We did not want to upstage them, especially as they potentially have the most to contribute in some areas. I think they feel reassured right now. But we want to act quickly and not to make our actions so highly conditional that we can not help. We also need to find a way to move to help the ruble as soon as we can. At the same time, we want to keep Russia contributing constructively on Bosnia. In general, they are being helpful, even though we just had to agree to a seven day delay in enforcing the No-Fly Zone. We will want to discuss Bosnia in Vancouver. We will also discuss arms control and SALT II, especially in relation to Ukraine. But the emphasis will be on economic matters. ~~(C)~~

The President: I would like to discuss three issues in some detail and then have us set up a system to follow-up bilaterally. (U)

Chancellor Kohl: Yes, that is fine. Horst Kohler will be here the week after next, and he can follow-up. (U)

The President: First, I think it would be good if we can all say something about new bilateral aid around the time of the Vancouver summit to give a boost to Yeltsin. Second, I hope we will all be able to say something together about a multilateral effort before the April 14-15 G-7 ministerial meeting. Third, we should look at whether we can have an impact on stabilizing Russia's currency. Yeltsin and his people are agreed on the need to do that, but they do not control the Central Bank. Rather, Yeltsin's opponents or at least non-reformers do control it and are giving out money to their friends. ~~(C)~~

Secretary Bentsen: It is imperative that Yeltsin and Fyodorov get control of the Central Bank. Inflation is running at 40% a month; it's bordering on hyperinflation. It won't take much money to help stabilize the currency if the bank and money supply are under control. Probably a couple of billion dollars could help immensely. But we can't do it if the Central Bank continues to print money irresponsibly. We need that much conditionality. Also, it seems to me that we need some sort of stand-by agreement on debt while they are restructuring, and of course Germany is essential in dealing with debt. ~~(C)~~

Chancellor Kohl: I agree with much of what you said. It is important to look at our starting point. The package agreed at Munich was not bad, but it was never implemented. Yeltsin brought this up when I visited him, complaining that the Munich promises were never kept. Maybe we should revisit the Munich agreements. ~~(C)~~

Secretary Bensten: Well, I think we need to focus now on what we can do quickly and concretely. For example, if we want to move in the area of oil and gas which could increase their income, we need to define property rights and to make sure Russia will live up to contracts. ~~(C)~~

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Mr. Kohler: Let me explain a bit about the philosophy of our approach in Munich. It was not that we should control Russian development policy. We would let them proceed with their own special genius. We agreed to provide help for self-help, with no impression that they were under our tutelage nor exaggerated expectations. That is why we need to concentrate on specific projects such as in the energy sector. And, as Secretary Bentsen said, this can only work if we control hyperinflation and if the Central Bank cooperates. Once they get rid of the current Central Bank president, we can get more courageous on an agreement with the IMF. On debt, we agree on the need to ease the debt payment burden, but we have a political problem with our companies and banks. And, we want to avoid the impression that we can solve all the problems with debt relief. It won't do that. I also agree that the international community needs to offer more assistance, more money. We are willing to participate in a debt arrangement, but we need a legal basis to do so. Ukraine and Russia need to agree to recognize the debt and how to handle it. That is why we can not now accept the U.S. idea on a debt stand down. It is not the figures but the political recognition of the debt that causes a problem for us. ~~(C)~~

The President: On the present agreement for rescheduling, how much should Russia pay back to Germany this year? (U)

Mr. Kohler: Under the G-7 agreement, Russia would repay about $3.7 billion this year, but of that probably only about $1.2 billion will really be repaid. Under the old G-7 offer, we estimate a burden on the German budget in 1993-94 of about $8 billion. But what we need first is a legal basis for rescheduling and then we can work for the best rescheduling agreement possible. ~~(C)~~

The President: If they pay one third of the $3.5 billion would that make it easier for you to reschedule quickly? And do I understand correctly that the budget burden is what you would have to pay back to creditors? (U)

Mr. Kohler: Yes, we have to pay German exporters out of our funds, but we do have a half year delay between the time a debt is declared unpayable and when we must reimburse our companies. That gives us some flexibility in allowing for slippage of debt repayment. ~~(C)~~

The President: So if the Russians made a modest payment, it could help in renegotiating their debt payments? ~~(C)~~

Mr. Kohler: No, we don't need payment. The key for us is to get a legal basis, legal recognition of the debt. Then we can have a standstill on debt. ~~(C)~~

The President: Would a repayment help or not? ~~(C)~~

Mr. Kohler: We need a legal basis for dealing with the old debt before we can extend any more credits. ~~(C)~~

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Chancellor Kohl: But certainly it would help us a bit politically if there were some repayments. (~~C~~)

Secretary Bensten: I agree that you need guarantees as to who is responsible for the debt, and we can't just give Ukraine a veto on all of this. (~~C~~)

The President: So we agree that we will talk about what we can each do and about what we can do with the G-7 for the April 14-15 meeting. We will discuss further ideas on dealing with the currency problems, and we will work more on what we can do about debt rescheduling. (~~C~~)

Secretary Christopher: And you will consider a bilateral aid package? (~~C~~)

Chancellor Kohl: Yes, though I will have to look at what we can do bilaterally. I think we can try to have a bilateral and multilateral package ready by the end of the week of 14-15 April in order to have a political impact in Russia before the referendum. (~~C~~)

Mr. Kohler: I will be here the week of April 5, so we can work on this. (U)

The President: Good. Also, I wanted to mention an interesting idea which Senator Nunn shared with me -- to use NATO infrastructure funds to help pay for housing for Russian officers. Our Treasury people tell me that at today's exchange rates we can build an acceptable house for about $10,000. If we could use some NATO funds and funds from individual countries, maybe we could lead the way for others to join and thus have a big impact on the ground and for Yeltsin. The psychological and political impact of an aggressive effort on housing could help. (~~C~~)

Chancellor Kohl: I completely agree that we should look into it, but we should also look at Germany's bad experiences in this area. The houses will not be in Moscow but far away, and you will find a remarkable thing -- when you enter into a contract with local Russian companies for housing, there will be no infrastructure, no water, etc. You will need to include all of that in your planning. Our experiences were catastrophic. (~~C~~)

Mr. Kohler: And in relation to the low value of the ruble, we must remember that many goods are not available in Russia. If you want to build the housing relatively quickly, you may need to bring the materials in from the West which is expensive. That is why it didn't turn out to be so quick or inexpensive for us. (~~C~~)

The Chancellor: Still, let's look into the idea. (U)

The President: Yes, maybe the NATO funds could pay for the infrastructure and individual countries could pay for the housing. We are also very concerned that all the economic gain made could be wiped out with one more Chernobl. So we want to

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work on nuclear safety as well as make an effort to build up the oil and gas sector. (~~C~~)

Chancellor Kohl: I agree. At Munich, we made a big effort on this issue. We were talking about $50 million for this effort to encourage safety -- training programs, etc. I am warned of another Chernobl and that it might not have been so bad if people had been better trained. But I was largely rebuffed in Munich. Only after you were elected and because of the high standing of the Vice President have we felt there was some rethinking going on. We just missed a big nuclear accident recently in Lithuania. One thing I know is that after Chernobl, the people of Eastern and Central Europe were hysterical. And this is not only a problem for Russia, Ukraine is a problem too. It would be very good if we could come back to this issue in Tokyo. (~~C~~)

The Vice President: A major part of the President's bilateral package will be aimed at nuclear safety. If a bilateral package from Germany, even one aimed just at this, could be announced, this would help. (~~C~~)

Chancellor Kohl: Yes, there is an opportunity here. This is an issue you can sell to the people, as I said in Munich and in London the year before. I'm impatient to move on this and think we can do more, especially if you help. (~~C~~)

The President: On a related topic, you know we can't force the Russians, but they could attract a lot of investment, clean up their environment and guarantee income, if they reformed the way they run their energy sector. That's where the money is -- as a famous American robber replied when asked why he robbed banks. We could begin with small steps that would bring quick gains. (~~C~~)

Chancellor Kohl: We raised this with Gorbachev when he came to London. I raised the idea of a private consortium which could repair the pipelines to the West for 30% or 40% of the profits. I also discussed this issue with the President of Khazakhstan. It would help them ecologically, it is doable, and it brings in money. (~~C~~)

President Clinton: And, they could require Western companies to do other things as part of the price of entry, for example, saving the natural gas that they now flare off. (~~C~~)

Chancellor Kohl: I think we are in a position to find American and German companies which could work on this, for example, to work on the pipelines and keep them going in return for a portion of the profits. (~~C~~)

The President: I have just been told that they have moved the press conference to 2:30. Why don't we take a few minutes to discuss nonproliferation. We are very concerned about proliferation. You can look a few years down the road and see trouble. North Korea is defying the NPT. Iraq is still trying to break through the limits set. Iran is involved in very worrisome behavior. And, Russia is under economic pressure to

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sell its materials, technology, and know-how. We believe we need to be very vigilant, and to be effective we need a partnership with Germany. ~~(C)~~

Secretary Christopher: One piece of good news is that Kozyrev told me that Moscow would not sell nuclear plants to Pakistan or Iran. ~~(C)~~

The Vice President: This is very important and in the long run it could have an impact on German-American relations. When there was an accounting after the war with Iraq, many U.S. companies were embarrassed, but as you know, Germany was in a category by itself. The companies that had been willing to sell to Iraq made up a very long list. I mention this only because though we are not now in a similar situation with Iran, it is not difficult to imagine in a few years that Iran may be willing to challenge the peaceful nations of the world. When we do an accounting then, if we were to find that Germany sold dual-use technology which made it possible, that could really harm relations. Perhaps you could ask your ministers to give special attention to dual-use technology. Our information suggests that there is a big flow going from Germany to Iran. ~~(S)~~

Chancellor Kohl: It is not my intention to talk about things that are past. But if the Senate had published the full list of companies that had sold to Iraq, Germany would not have been the only one embarrassed. But my opinion of the German companies' sales is that it was horrible. Our problem is rooted in part in the fact that we have a very open economic system. Now we realize that people have been abusing it. The second problem is that our industries produce a huge amount of dual-use materials, in the pharmaceutical sector for example. But now we have new legislation that will help. I have instructed our people to have the closest cooperation with you EO 13526 1.4c, 1.4d We have had some success, and we must note that the Israelis have their own problems which we must address. But it is not my policy to support these kind of exports, and I want to try to counter these kind of exports. Twice I have talked to the leaders of German business about this. We need to outlaw and ban the people who break the rules, I explained. I noted that the public prosecutor can not do it all. I said that if big and world famous companies were involved, we would still strictly apply the law and establish a new climate. My businessmen claim that U.S., Swiss, French, and UK companies are gaining sales at their expense. I think we need to make clear to all that this is a question of war and peace. EO 13526 1.4c, 1.4d But there are problems. If we do something we must do it completely. We need a reasonable cooperation between us. EO 13526 1.4c, 1.4d But please trust me. I am willing to cooperate with you. I agree that if we allow free flows into Iran, it will soon be armed to the teeth. If there is a problem contact me directly.

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The President: Good, we will work closely on this problem. Now, I think we better get ready for our press conference. ~~(C)~~

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