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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Chancellor Helmut Kohl of Germany

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
Robert Fauver, Special Assistant for National Security Affairs and Economic Policy
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
Dr. Walter Neuer, Chief of Staff
Interpreter

DATE, TIME AND PLACE: March 26, 1993 11:55 am - 12:55 pm
Cabinet Room

The President: Welcome. The Chancellor and I have had a good discussion in the Oval Office. We talked mostly about the importance of helping Russia as well as a bit about Bosnia. Maybe we can talk about Russia in some more detail and look at a few other issues before we go to lunch. On the issue of the American economy, let me say that I have worked hard to present a program that will make substantial reductions in our debt over the next five years and that, at the same time, will increase our investment in new technologies and in retraining of workers. I have also notified Congress of my intention to seek extension of our fast track authority and to get a good Uruguay Round agreement, which I know you care about very much. On the economic front, we are focusing on encouraging growth. We will be doing our best to bring debt down and to keep our interest

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rates down while not cutting off the economic recovery which has begun. In fact, I have asked Congress for funds to help speed up the recovery. I understand the enormous burden which Germany has assumed in bringing the east into the country and that you have even less influence than I do in bringing down interest rates. Still, I am concerned that the U.S. alone can not do it all -- encourage world growth, support Russia, solve Bosnia, open the world trading system. We need partners in these efforts. I look at the French elections and can see the dangers of letting the economy get too bad -- the people vote in protest. I had to face those who wanted protectionism in my campaign. I resisted and argued that we need a good GATT agreement and a good NAFTA package. So we must do what we can together to promote world economic growth and to liberalize trade. (S)

Second, I would like to seek your advice on what we can do with Japan. It has a massive trade surplus while in domestic recession and thus has large sums of money which could be invested. But the political system is so fractured by scandal. It leaves one uncertain of how to proceed. (S)

Finally, I'd like to discuss what we can do for the Tokyo summit. We must build on our package, on your "solidarity pact" and on the modest recovery which John Major is greeting. I really want us to come out of the summit with a good growth package and with more G-7 coordination. That coordination is going to be vital for the future. All the wealthy countries except Japan face difficulties in creating new jobs along with growth. (S)

Chancellor Kohl: Thank you very much. I want to first express my appreciation for our restricted talk, and I want to repeat my general philosophy -- German-American cooperation is more important today than it was 20-30 years ago. Thirty years ago, people were afraid of war so it was easy to point out the need to pay for security. Today, the world is open. German unification is accomplished. And that means that we must face up to our responsibilities. We have no more excuses. We are no longer a divided country. So we must face up to this reality and amend our constitution. I add here that our constitution is as it is in part because of the advice we received from British and American authorities. But, we are working on this. It is difficult, but we are trying. (S)

Second, I strongly believe that you can not have German unification without European unification. They are two sides of the same coin. As Conrad Adenaur used to say "you need the roof of European unification over all of us." Germany needs this more than others need this. We are a big country, but like the top student in the class we are respected but not liked by the others. Often the others in the class are happy if we write a bad paper. So the bottom line is that we will take the path of European unity. The alternatives are not to choose Europe or the U.S., however. We want European unity and good U.S.-European relations. We want America to be with us and American troops to stay in Germany at a level that is not just for decorative purposes. Of course, we can adjust the level to meet the needs.

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But the key point is that the vast majority of the German people want American troops to stay. (S)

I think that the twelve will ratify the Maastricht treaty by the end of the year, but that even if one or two drop out the train will go ahead. And I think that most of the EFTA countries -- Sweden, Finland, Austria and others -- will join in 1995. America should not take an anti-European position. You know that much of what we are doing is in response to American advice over the years to unite more closely. We want to do this with America with us. (S)

As for GATT, let me note that in Tokyo we will have to go before 2,000 or so journalists. If we say that we are agreed that the Uruguay Round must be concluded, they will drown us out with laughter. They will look back at the two last summits where we said the same thing. We'll be naked before them. We need to do all we can to conclude the Uruguay Round quickly. At Munich, we were only a hair's breadth away from agreement. We didn't make it and then the French referendum held us up. Now it is the French parliamentary elections and in a year and a half there will be the French Presidential elections. The French are important. The agreement is bad for our farmers, but it is worse for theirs. My advice is that we start negotiating again immediately after the French government is in place. We should renew negotiations and ignore the statements made in the French campaign. If I know my friend in the Elysee, he will say its up to the Prime Minister to negotiate this. We need to try, but we should not delay. (S)

Mr. Vice President, we had a long talk in Rio about the economy and the rain forests. Those who suffer most from no GATT agreement are the third world countries. There is little possibility of helping the rain forests as long as these countries are suffering economically and if GATT is solved it will start to bring them the benefits of free trade and increased wealth. In this context, let me say that I do not think it is good to up the ante on trade. If a U.S. tank faces an EC tank there will be problems. I will try to help. I got a cable from my farmers on the way here asking me not to soften my stance, but I think we need to move to agreement. (S)

On Japan, I visited several weeks ago. The Japanese find themselves confronted with big economic problems. I visited a university in Tokyo which was founded by German Jesuits and was told that the younger generation in Japan is going through something like our "generation of '68" in Europe. This could bring changes to the Japanese lifestyle of leaving home for work at 6:00 am and not returning until 11:00 pm, even as they preserve their culture. We need to discuss these changes with the Japanese. These changing habits will be important for resolving our differences. Of course, we must get them to sit with us and discuss aid to Russia in a way that gets them to participate. Working with you, we might be helpful. I'm exaggerating a bit, but they fear the risk of being isolated and

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the economic consequences of that. We need to keep this in mind for the economic summit. (S)

A brief word on Germany: the forty years in which the country was divided left a deeper scar than I had thought. Three generations of children were subjected to communist propaganda. When I visit the eastern laender, I am greeted by 19 year old soldiers who went all through school learning that NATO and I were enemies and that the EC was a bunch of greedy capitalists. Now, we expect these same men to have accepted all of the changes. And it is a general problem because we need so many people to staff the administration. They just don't drop from the air. In 1945, my town in Germany was captured by the Americans. They had a list of all those who had been elected in the last democratic elections in our town and put the survivors back in place a week after taking over the town. But we can't do that. The last democratic elections in the GDR were in 1932. We cannot rely on that group. So the people in the administration now have no government experience. And, I must say that the west Germans are pampered children in some ways. They are very good at complaining. This is part of the reason that I say the psychology of the situation is important. Our Solidarity Pact is important for the figures agreed, but equally for the psychological message it gives. I told Secretary Bentsen a few minutes ago that 50% of economic success is psychological. It will be decisive if the people feel that we are going to put things right, that we will make it. (S)

It is not just a question of sums of money, but we are going to put 110 million DM into the east this year. In two years, we have provided more telephones and telephone lines than during the whole period of the GDR, but the people need to understand that it takes time to get it all done. It may be hard for you to understand but in the GDR to buy a new car in 1989 one had to wait twelve years after paying a deposit and ordering it. Now they can get one in a week. Unfortunately, we also had many disagreeable people who went to the east from the west and set a bad example. But we will cope. We are trying to slim down our bureaucracy. We had many abuses in our social system. We are in the middle of a dispute over our health system in that connection. I will share our difficulties with you to show just how difficult it can be to reform a health system. (S)

But joking aside, I'm optimistic. With the G-7, lets send the best message we can on development of the world economy. Also, regarding the Bundesbank, I think things will go in the right direction. I think we are on a good trend with interest rates. As for the European economy, the UK data suggests that they are making progress getting out of their slump. After the elections, I think the French will maintain a stable franc and increasing privatization should help the economy. We will continue on our course. We have privatized 85% of the 12,000 former state companies in the east. It is difficult but it is the right direction. I will speak for free trade. There will be no fortress Europe. When we have problems in this area, lets be sure to discuss them openly. (S)

The President: Let me respond and then I'd like to let the Vice President speak on the environment. First, I very much appreciate your efforts to move Germany to participation in international peacekeeping and peacemaking operations. I am aware of your difficulties on the NATO AWACs and your recent decision to move ahead on that if enforcement of the No-Fly Zone is authorized. I also appreciate your participation in the air drop operation. On the Uruguay Round, I fully agree that we must make a good effort. A successful Round can be a big help to our economies. (S)

Regarding U.S. troops in Europe, I firmly believe that we should maintain our presence as long as it is wanted. Our plans are to maintain about 100,000 troops over the next five years and then we would see what the needs are. But I think that number meets the psychological needs as well as the real military needs. Of course, we will need to see what happens in Russia. (S)

I appreciate your advice on Miyazawa and the importance of their feeling isolated on Russia and other issues. I appreciate that you think that you have bigger health care problems than us, but your system looks pretty good from here. You only spend 9% of your GDP on it and we spend 14% and rising. I appreciate the fact that your short-term rates are coming down and that inflation is staying low. We have different rate problems. Your long-term rates stayed low while ours were too high and while your short-term rates are too high and ours are low. I do think that Germany and the U.S. will be the key for world growth unless we can get a recovery effort underway in Japan. (S)

On the environment, if we could successfully conclude the Uruguay Round and go back to the Rio principles, then the U.S. and Germany could do a lot to lead the effort to preserve the rain forests. We could work with the pharmaceutical companies to find solutions. But that is a conversation for another day. (S)

The Vice President: Germany has been a world leader on the environment, and Chancellor Kohl, you have been an inspiration on this. The longer-term issues will require a good deal of work between us, but there are two issues we can work on now. First, the Bio-diversity Treaty which you signed and we didn't. I favor the treaty but see problems with the language on protection of intellectual property. We are trying quietly to change that language and to facilitate technology transfer in the longer term. The UK is being helpful in this effort and I would hope that Germany could help too. Second, on the Climate Convention, our view is different than the Bush Administration. We will be meeting the goals under the convention. I know there is a debate in Germany if the goals can be met, but I want to underscore that Germany can play a critical role giving moral leadership to the world, if it complies. I know that there is discussion in the EC of the EC agreeing to the convention in a bloc. That could slow things up and create a bottleneck. I urge you to reaffirm your commitment to the convention and to look at alternatives to an EC-wide ratification. I also hope you will consider our proposed

energy tax and take a new look at the EC proposal in light of it.

(S)

Chancellor Kohl: I will take all of your concerns into consideration. I want very close cooperation between us on these issues. We would have saved a lot of money if we had applied ecological lessons to the construction of Germany. I think we need to work on the Japanese here too. For example, their use of hardwood is tremendous and growing. In Germany, we face problems of dense growth and of deforestation of the Alps. If the latter happens, it will pollute the Rhine further and undermine all of the water supply in Germany. This is an issue that stays with young people in Germany and here. I sensed this when I visited the University of California at Berkeley last year. They are interested in the future climate. In Germany, we face forests dying from acid rain. You know that forests have almost a mythological importance for us -- in our poetry and our lyrics. So I have much sympathy for this issue, and am all in favor of close cooperation. (S)

One issue that is close to me is the German-American Academic Council. I hope we can have a formal opening for the Council to give it the right kind of start. Let me explain why this is important to me. After the war, many people emigrated to the U.S. including many academics and scientists who were embittered, but they had a link to Germany. Henry Kissinger is a prime example -- he always followed the German ball club scores. Schonenfeld does the same thing with a team in Berlin. But those links are fading, and we need to plant new trees now. I went to Heidelberg university which has a long history of ties to America, but that is dying now. Thus, the goal of the German-American Council is to keep us together. However much I support European unity, the U.S.-German relationship is of existential importance to us. I would welcome your support for these efforts. (S)

The President: I will be very supportive. The Council is a wonderful idea. I will do all that I can to support it. I believe we are planning a formal announcement next month. (U)

Mr. Weidenfeld: The important thing for today is to express general support for the Council and then plan for a formal announcement next month. (U)

The President: There is no problem in expressing our support today. I am additionally sensitive to our cooperation noting that two of your scientists were on the Space Shuttle mission which we had to defer this week. We need to break for lunch shortly and I suggest that we might discuss Russia, Bosnia and non-proliferation then. But first let me ask Secretary Bentsen if he would like to add a few points. (U)

Secretary Bentsen: I would like to take up briefly some of the themes which the Chancellor raised about world growth. Germany and the U.S. are two major economic powers. Here in the U.S. we may be able to achieve 3% economic growth, but we cannot sustain

our growth without growth in Europe and growth in Europe depends in large part on Germany. I deeply appreciate our cooperation to date, and now we must work together to urge Japan to undertake its own economic stimulus. In the case where we cannot get them to undertake such a stimulus then we must realize that the U.S. cannot sustain our stimulus efforts unless Europe grows too. (S)

Chancellors Kohl: I'd like to ask Mr. Kohler to comment on the G-7 cooperation. (U)

Mr. Kohler: In Europe, we are trying to undertake a Europe-wide growth initiative. One part of the program would be increased infrastructure spending. The second part is to encourage member states to stimulate their economies. EC Finance Ministers will be working on this again in April. I agree with the earlier comments that interest rates are a key factor in European growth. The long-term German rates are low -- the best in 25 years, and I think there are good chances that the short-term rates will come down further. But it would be a mistake to put public pressure on the Bundesbank. That could be counter-productive. Recent wage increase restraint and the Solidarity Pact will help bring about a further reduction of rates, I believe. I also agree that getting Japan to undertake an effort at economic stimulation is essential for world growth. But again, we need to exert pressure confidentially, not publicly. Confidence and trust among the G-7 will be vital and a successful Uruguay Round agreement will be a key element in confidence building. Let's not put the Round off until we've implemented our growth strategies but move the Round forward at the same time. (S)

The President: I agree with that. Now why don't we adjourn to our lunch. (S)