

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: The President's Meeting with Austrian
Chancellor Franz Vranitzky (U)

PARTICIPANTS: The President
Secretary Baker
Chief of Staff, Governor Sununu
Assistant to the President for National
Security Affairs, Brent Scowcroft
Deputy Assistant to the President for National
Security Affairs, Robert M. Gates
Ambassador Henry Grunwald
Deputy Assistant Secretary of State for
European Affairs, William Bodde, Jr.
Notetaker: Robert Hutchings, Director for
European Political Affairs, NSC

Chancellor Franz Vranitzky
Foreign Policy Advisor to the Chancellor,
Eva Novotny
Ambassador Friedrich Hoess

DATE, TIME May 5, 1989, 9:45 - 10:10 am EST
AND PLACE: The Oval Office

The President expressed his gratitude to Austria for its service in hosting international conferences so important to European security, and said he knew that these must be trouble for the host country. (U)

The President noted speculation in Europe about U.S. willingness to engage Gorbachev in the peace process. He assured the Chancellor that the Administration is completing its policy reviews and will approach East-West relations in a sound way and at various levels, with the conviction that the West is on the winning side in terms of political systems and economies. Western Europe is doing well, and Eastern Europe is trying to move toward what has been successful in the West. The President said that while there was no panic to meet with Gorbachev, he would welcome such a meeting. This is a promising time, with new chances to enhance peace and freedom. The President added that he recently looked again at the speech he gave in Vienna several years ago and thought it seemed realistic in light of new signs of progress in the Soviet Union and Eastern Europe. (P)

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Chancellor Vranitzky assured the President that having conference activities in Vienna, and cooperating with politicians from 34 countries, was not a hardship but a vitally important task. Austria is grateful to those nations who chose Vienna as a meeting place for conferences and for international understanding. (Ø)

Chancellor Vranitzky agreed that important changes are taking place in Eastern Europe and noted particularly the removal of the iron curtain between Austria and Hungary. (Ø)

The President noted the wonderful symbolism and reality of the action, which received wide coverage in the U.S. (Ø)

Chancellor Vranitzky said that Austria is ready to cooperate with all in Eastern Europe who wish to cooperate. Romania is not ready for cooperation, Czechoslovakia is hesitant, and the GDR wants bilateral cooperation but not internal reform. The Chancellor, referring to the important changes in Poland and his earlier discussion with Secretary Baker, said it is important for the West to assist, so as to keep the momentum alive. He noted that with Eastern Europe's weak economic situation, high debts, and lack of convertible currency, cooperation is often a one-sided affair. He expressed concern about increasing social and political tensions, particularly in Yugoslavia, adding that Austria's role as a small country and an outpost of free democracy is to keep a dialogue open. (Ø)

The President added that the West should show proper support and avoid the dangers that might come from rhetorical overstatement. He agreed with the Chancellor's appraisal of Eastern Europe but thought Czechoslovakia might not be so far behind Poland and Hungary. The President also noted that Yugoslavia's unwieldy system of rotational leadership was not conducive to stability. As to Poland, it would be hard to overstate the emotional connections with the U.S. through Polish-Americans and the Church, yet the U.S. cannot do everything the Polish regime or Solidarity want. The U.S. wants to see progress there continue,

but must pursue a balanced policy. It is a promising time in Eastern Europe, which the Chancellor summed up well. The President said he wished Romania would do more, but failed to see many redeeming features in President Ceausescu. (Ø)

Secretary Baker asked whether the Chancellor thought any East European country would move toward full currency convertibility. (Ø)

Chancellor Vranitzky replied that none would for the foreseeable future. If any country had a chance, by virtue of the size of

its economy and its natural resources, it would be the USSR itself. Of the smaller countries, Hungary is the most likely candidate, but it also has the highest per capita debt and will have to enter into rescheduling negotiations with the Paris Club. (Ø)

The Chancellor concluded that Hungary's economic situation does not serve as a basis for convertibility. (Ø)

The President asked whether Hungarian leaders are blaming the system itself for their economic troubles. (Ø)

Chancellor Vranitzky said they are mainly blaming their predecessors, a process that also involves a difficult public debate over how to deal with the roles of Kadar and Nagy during the 1956 revolution. (Ø)

The President asked how Kadar's standing has been affected. His reputation has suffered, but he does not seem to have been given the treatment accorded Stalin after his death. (Ø)

Chancellor Vranitzky listed Kadar's merits: he was the first communist leader to establish a certain autonomy and independence, and he was the first to move toward domestic liberalization. He was a reformer long before *perestroika*, but he did not see as his goal the streamlining of the bureaucratic system. Now the situation in Budapest looks good, but conditions 50 kilometers outside the capital are much worse. (Ø)

The President observed that Kadar had been respected in Hungary but was now on the way down in public perceptions. The view of Kadar in the U.S. was based on his role in 1956, the President said, but his own view was more tolerant, as was that of the Hungarian people. (Ø)

Chancellor Vranitzky alluded to Austrian and Hungarian preparations for a joint World Exposition by 1995, which would be the first ever held by two countries. (Ø)

The President asked the Chancellor about the Austrian economy. (Ø)

Chancellor Vranitzky replied that it was doing very well. There is satisfactory growth, low unemployment, a 2% inflation rate, and balanced trade. He noted, however, that Austria was faced with the European Community's plan to create a unified single market by 1992. The Chancellor drew the President's attention to the fact that Austria was preparing to apply for EC membership, saying it was important to mention this to the leader of a country that signed the Austrian State Treaty in 1955. He emphasized that Austria would not change anything written in the

State Treaty nor do anything to dilute Austrian neutrality. What was negotiated in 1955 with the U.S., the U.K., France, and the Soviet Union should not be changed or diminished. The Chancellor said he would be delighted if the American Administration would understand that Austria's neutrality would not be altered by EC membership. Austria had to give thought to the Community, since two thirds of its trade goes into the EC. (Ø)

The President observed that it is not clear what the impact of 1992 will be, but that the U.S. will be appealing for fewer and fewer restrictions. The U.S. has serious problems with the EC's agricultural policy and wants to eliminate as many restrictions as possible. The President said he would take these issues up at the Economic Summit. Freer trade is in everyone's interest. (Ø)

Chancellor Vranitzky said he wanted to insure that those outside the EC do not suffer after internal EC barriers are abolished. Austria does not want to be isolated or excluded and does not want to see new borderlines of discrimination or protectionism. The global economy will not arrive at free trade by the year 2000 through measures that hinder trade. (Ø)

Before concluding the meeting, the President asked how Swiss views compared to Austria's. The Chancellor replied that Switzerland's domestic situation, particularly its reliance on referenda, made it very difficult to join the international community. (Ø)