

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: The President
 James A. Baker, Secretary of State
 John H. Sununu, Chief of Staff
 Brent Scowcroft, Assistant to the President
 for National Security Affairs
 Marlin Fitzwater, Press Secretary
 John Kelly, Assistant Secretary of State
 (NEA)
 Dennis Ross, Director for Policy Planning,
 Department of State
 Margaret Tutwiler, State Department
 Spokesperson
 Thomas Pickering, Ambassador to the UN
Notetaker: C. David Welch, NSC

 Shimon Peres, Deputy Prime Minister and
 Finance Minister
 Nimrod Novick, Political Advisor
 Avraham Gil, Media Advisor
 Moshe Arad, Israeli Ambassador to the U.S.

DATE, TIME September 25, 1989, 3:45 p.m. - 4:20 p.m.
AND PLACE: The President's Suite, Waldorf-Astoria Hotel,
 New York City, NY

The President: I am very pleased to see you again. I don't know how you would like to spend this time, but we can talk about any subject you like. Just let me say that we have taken a little flak in the press here for not being activist in our foreign policy. They have written especially about us not moving fast enough in our relationship with the Soviets. But the Soviets know, on the other hand, that we want to see perestroika proceed. We hope this relationship will work to benefit our friends, especially Israel.

Deputy PM and Finance Minister Peres: In a sense, Mr. President, the Bush era that dates from 1988 will be seen in its first year as the year of democracy. Communism is collapsing. Even the Soviets have had elections. There have been student demonstrations in China. The French celebrated their revolution's anniversary more with regret than joy, and you will recall Margaret Thatcher's remarks. The communist systems have failed economically and socially. The gates to emigration have been opened in the Soviet Union, and maybe this will be good for us. After years of decline, the Arabs are asking themselves "where did we go wrong?" You know, Mr. President, that there was

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a period in history when the Arabs were ascendant, at the top of history. The Soviet Union is no longer an example to these nations, so there are now voices in the Middle East saying "let's try democracy." This could be the beginning of historic change away from the rule of the gun that has characterized Arab regimes.

Deputy PM and Finance Minister Peres: There have been some initial successes in the peace process. You supported the elections idea; now Egypt does as well. The Palestinians at least do not reject it; maybe some even accept elections. The Soviets are not prominent players and do not seem to seek a spoiling role. Syria is weakened in Lebanon. Asad looks like a man of yesterday, not a man of the future, of tomorrow.

Deputy PM and Finance Minister Peres: The Egyptian plan is not so bad, although it raises some issues for us. The composition of a Palestinian delegation is one issue, but we must recognize that this is the first time we have a Palestinian side to talk to. Differences remain in Israel over the question of including "outsiders" in a delegation of about 10 persons. Egypt forged a -- pardon my words -- Talmudic compromise by suggesting recent deportees. On the 10 points themselves, Egypt has clarified that this is the opening position. As a government, we must respond to the issue of the composition of the delegation, because at a minimum, the Egyptians and the Palestinians have accepted the idea of elections. It is entirely proper, as well, that they should demand the right for East Jerusalemites to vote. Of course, the Israelis fight internally over these things -- we are, after all, both democratic and Jewish. For example, when Sadat came to Jerusalem, we went through a similar debate that divided the two parties, forming strange parliamentary coalitions that paired portions of each party rather than each party simply opposing the other.

Deputy PM and Finance Minister Peres: We are as close as ever before to starting negotiations, which of course would change things dramatically in the Middle East. The Soviets are diverted. Mubarak is strong and knows the heart of the matter for us. There is no substitute for the role of the United States. Furthermore, there is no opposition to the Egyptian role per se. We should act now and decisively to tackle the heart of the conflict -- the Palestinian issue. With the end of war in the Middle East and the beginning of democratization, we could turn to repair of our economies. Japan is a successful model -- it has a minimum of military power, but a maximum of economic power. Compare it to the USSR, with a maximum of military power, and a minimum of economic power.

The President: It is interesting what you say about the splits in the political parties during Sadat's initiative. Is this the situation now with Mubarak's 10 points? Or, is the split along party lines?

Deputy PM and Finance Minister Peres: For the time being, the divisions are pretty much along party lines. Now, Likud is

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skeptical whereas Labor is supportive; the religious parties are in the middle camp. Among the latter, there are interesting developments: the chief rabbi of Israel's Sephardic Jews went to Egypt, met Mubarak, and came back and issued a statement that land is sacred, but human life is more sacred. Now, the dispute is a classic one between the two major parties. A decision to go ahead would keep the coalition intact, running away from a decision would hurt the coalition.

Deputy PM and Finance Minister Peres: No one is asking Israel to accept the 10 points. On the contrary, many in Israel are hoping and asking the Palestinians to accept the 10 points because they are so favorable from their point of view. Look at what is not in the 10 points. There is no mention of the PLO, no mention of the right of return, no mention of a return to the 1967 borders, no call for a Palestinian state, and no call for self-determination. Elections are the way to peace.

Deputy PM and Finance Minister Peres: A second point I would like to mention is the economic situation in Israel. We are turning the corner. The government's policy is gradually to privatize government-owned industry. I always say that if we want to give away dollars like socialists, then we must earn dollars like capitalists. The entrenched bureaucracy is another problem; we need to weaken their grip. Unemployment, though high, is going down.

The President: What is the unemployment rate now?

Deputy PM and Finance Minister Peres: It was 9.4 %, but the number of employed has actually been increasing. One thing keeping the unemployment ratio up is that the number of Bedouin registering to collect benefits has been increasing. Now we are looking at what we must do to prepare to receive more Soviet Jews. Operation Moses, which the United States was such a big part of, brought a forlorn tribe back to their land. Now we need Operation Joshua for the Soviet Jews.

The President: How do we work with you on this? Our situation is delicate. We face severe financial problems. There is a need to control our immigration policy, yet we also want to preserve the image of the Statue of Liberty welcoming people with open arms. We don't want to turn people away.

Deputy PM and Finance Minister Peres: For years, Soviet propaganda painted Israel as an inhospitable desert. Soviet Jews were understandably reluctant to come to Israel because they thought it would be a hardship. Soviet Jews must be brought to see what Israel really is. We need \$3 billion to absorb the 100,000 that possibly could be coming to Israel. Of this, we can pay \$2 billion from our own resources; we must raise the remainder.

Deputy PM and Finance Minister Peres: Our relations with the Soviets are strange. They permit great openness in some things,

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such as the ballet coming to Israel. They seek dairy technology and we export cows to the USSR. They are looking to barter for fruit supplies to Moscow, Kiev, and Leningrad. The Soviets suggested that we take civilian cargo planes in return, but El Al refused the planes. What is required is to improve the Soviet aircraft by technical modifications. We want to know if this would be all right with the United States. The idea is to expand our relations with the Soviet Union so that Soviet Jews begin to get a fuller picture of their nation.

Deputy PM and Finance Minister Peres: We want to encourage Soviet Jews to come to Israel. If we can open their eyes, Israel will be more attractive. 200,000 Jews came in the 1970's; none have left. The 20,000 Soviet tourists who have visited us leave surprised by what Israel looks like because of what they were told by the Soviet authorities before.

The President: You want us to encourage those who want to come to the United States to go to Israel?

Peres: Yes -- those with an Israeli visa should come to Israel.

Secretary Baker: We are changing the process of reviewing refugee applications to Moscow, away from Rome and Vienna. You could help us in this effort by telling American Jewish groups that the United States is not cutting back in the number of Jews from the Soviet Union granted refugee status.

Deputy PM and Finance Minister Peres: We want a stronger presence for Israel in the USSR so as to show our people what Israel is about.

The President: The Soviets are sensitive to this issue as well.

The meeting then terminated; the President and Peres stayed on for a ten minute private one-on-one.

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