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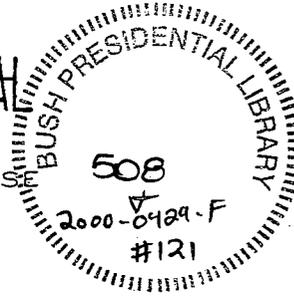
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THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Felipe Gonzalez, Prime Minister of Spain (U)

PARTICIPANTS: The President
The Vice President
James A. Baker, Secretary of State
Nicholas Brady, Secretary of the Treasury
Richard Cheney, Secretary of Defense
Brent Scowcroft, Assistant to the President for National Security Affairs
Robert M. Gates, Assistant to the President and Deputy for National Security Affairs
Joseph Zappala, U.S. Ambassador to Spain
Adrian Basora, Director for European Economic Affairs, NSC Staff (Notetaker)

Felipe Gonzalez, Prime Minister
Francisco Fernandez Ordonez, Foreign Minister
Carlos Solchaga, Finance Minister
Rosa Conde, Minister/Government Spokesperson
Julian Santamaria, Spanish Ambassador to U.S.
Fernando Gomez Aviles-Casco, Secretary General of Commerce
Eudaldo Mirapeix, Foreign Ministry Director General for North America
Juan Antonio Yanez, International Affairs Advisor to the Prime Minister (Notetaker)

DATE, TIME AND PLACE: October 19, 1989, 11:00 a.m. - 12:20 p.m.
The Oval Office

The President: First, I want to wish you a very warm welcome to Washington. We have a wide range of issues to discuss. Let me suggest that you lead off with the issues that are on your mind.
(U)

Prime Minister Gonzalez: There have been very positive changes in our bilateral relations. These have to do in part with Spain's own internal political and economic evolution as well as Spain's attempt to define its international role and move away from its previous isolationism. We are ratifying our membership in the WEU; we are fully involved in the construction of the European community, and we are participants in the

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nonproliferation treaty. Our policies are becoming more defined, more open to the rest of the world. Spain is becoming firmly identified as a European, Western nation. (Ø)

As to relations with the United States, we are looking for points of expanded cooperation. There had been difficulties in recent years, but now these have been overcome. We need to define Spain's relationship with the U.S. within the new East-West context. We Western Europeans are focusing very heavily, sometimes obsessively, on the changes in Eastern Europe. At times we worry about them. The speed of change is almost dizzying. In Poland, there is no alternative to the present government because it represents the alternative. The alternative is already in power and we cannot let it fail. (Ø)

In Hungary, it is remarkable that the country has even changed its name as part of the reform process. In Poland, remarkably, the Secretary General of the Communist Party told the King that the page in Poland had been definitively turned on the Communist experience.

(Ø)

In this period of change and stability, it would be frivolous to say that NATO is no longer needed. The Federal German Republic represents a special challenge that we must deal with carefully.

(Ø)

With regard to bilateral relations, we would like to build up our exchanges based on agreements in the cultural and scientific fields, as well as in areas such as taxation, which can help to encourage investment in both directions. It is a sign of the times that, over the past year, Spanish investment in the U.S. actually exceeded U.S. investment in Spain -- although I am sure this trend will not continue. (Ø)

The President: As I assess our bilateral relations, I see them as very sound. The very fact that you are here in the midst of an election campaign says something about the relationship. I agree with you regarding the dynamics of change in Eastern Europe. We support that change, and Secretary Brady is working hard to help put together financing to assist in the economic reforms there. (Ø)

When I was in Poland last July, it was remarkable to see General Jaruzelski and Solidarity leaders all in the same room for lunch at our Ambassador's residence. Even though Jaruzelski had jailed these same leaders only a few years earlier, they were joking together. We have a great affection for Poland here in the U.S.; in fact, it is said that there are more Poles, or Polish-Americans, in Chicago than in Warsaw. (Ø)

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Regarding NATO, Secretary General Woerner visited Washington recently and suggested that NATO play a larger role regarding the changes in Eastern Europe. I am not sure exactly what he had in mind. I would be interested in hearing your views. (Ø)

Secretary Baker: The Prime Minister and I had an interesting talk last night about the Soviet Union. Regarding NATO, it will definitely have a continuing role, not a diminished role, certainly not in the near term. We will need NATO to help us manage the changes in Eastern Europe. We will need it to help us deal with the consequences of the demise of Communism, even if there is less of a military challenge facing the alliance. Woerner's idea is that NATO can help to formulate the Western response, thus building up the political aspects of the NATO mandate. (Ø)

The Vice President: Based on my travels to Latin America, I am very impressed by Prime Minister Gonzalez' standing with Latin American leaders. With his prestige, he can help solve the problems that we face in Nicaragua and Panama. (Ø)

Secretary Brady: Spain has been very helpful in implementing the new debt strategy. We very much appreciate Spain's role. There are two ways of looking at the debt problem: one approach takes account of the problems of our own banking system; the other looks at the debt problems of the countries themselves. On the latter score, I am frequently asked if Spain will provide new money to help alleviate the problem. (Ø)

I would also like to mention our goal of assuring full financing of the \$1 billion structural adjustment fund to support economic reform in Poland. The U.S. has offered to put up \$200 million. We need to find the other \$800 million, and I hope that Spain will contribute. (Ø)

The President: I had a group of bankers over the White House for drinks recently and I am now very sympathetic to Nick Brady's problem in getting the bankers to put up new money. I had thought that bringing them to the White House would help soften them up, but then I overheard them talking among themselves off in a corner. They were complaining about the difficult sacrifices we were asking them to make. (Ø)

I am very impressed with Mexican President Salinas, both with the debt restructuring agreement he has signed on to, and with the steps he has taken since then to implement this agreement. (Ø)

Secretary Cheney: I had the honor to host a visit from Defense Minister Serra just recently. We had excellent discussions, which made it clear that our relationship has progressed beyond

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the base negotiations to a stage of normal relations within the alliance. We talked about setting up a bilateral consultative group involving our two ministries of defense, which is something I would like to do. I very much agree that NATO's role will be important in providing continuity and stability in Europe over the coming years. (Ø)

Prime Minister Gonzalez: Turning back to Eastern Europe, I think it is important to be aware of the limits and difficulties of the reform process in both the political and economic spheres. When our bankers say they don't want to invest in Poland, it is because Poland does not yet have its new economic system in place. In the Soviet Union, Gorbachev does not know how to set up a market-based pricing system. Eastern Europe needs time to make the necessary adjustments -- and yet once the windows are open, one can no longer control the speed at which the winds of freedom blow in. (Ø)

On the Soviet Union, it is not ethnic problems but rather the explosion of nationalisms that represents the gravest danger, for example, in the Baltic republics. This represents one of the limits of perestroika. One of the very important questions we must face is whether the West is prepared to accept this limit. In my view, we cannot attempt to break up the Warsaw Pact. Gorbachev needs to have the military blocs continue in existence. Rationality and tranquility is needed on both sides. (Ø)

Regarding Latin America, it is important not to focus solely on Central America, which we tend to do too much. The problems of democracy throughout the region are important and countries such as Argentina and Chile have more magnitude and impact than those in Central America. In Nicaragua, I think we are seeing an opportunity for democracy to be won irreversibly. I see this as the outcome, whoever wins the elections, as long as they are clean. I say this despite the suspicions that one may have about the Sandinistas. I share these suspicions, in that the Sandinistas do not have a democratic vocation, but I feel that they believe that they cannot avoid democratic elections. The opposition can win in February, or it can win four years later. The important thing is that the electoral process be a clean one. (Ø)

On Panama, I have some ideas that we might want to discuss, but not a plan. Perhaps we could talk about this tonight. (Ø)

Finance Minister Solchaga: On the debt issues, Spanish policy has been very positive and we have pushed for a common EC position. We are concerned about the difficulty of finding new funds. It is important to take a variety of approaches to restructuring. We believe that in view of the international debt situation, the U.S. should agree to the proposed quota increase for the IMF. (Ø)

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Foreign Minister Ordonez: In El Salvador, we are trying to provide strong support to President Cristiani. As to the U.S.-Spanish bilateral relationship, we now have a new framework. The new juridical framework should be implemented, for example, the new cultural agreement. I hope we can move quickly to have a new science and technology agreement by overcoming the problems posed in the light of the U.S. Omnibus Trade Act. Fin Min Solchaga tells me that with regard to the proposed tax treaty, we can finish off our negotiations within five days. On defense industrial cooperation, we would like to see a memorandum of understanding between the Defense department and our defense ministry which would provide for a better trade balance and defense products. On the commercial side, we hope for increased exchanges. The Spanish bid for the Boston-New York train is an example of such a project on which we would appreciate your help. We should also be able to reach nuclear agreements based on the fact that Spain has signed the MPF treaty. And, of course, our Expo '92 in Seville will be a major event in which we look forward to U.S. participation. (Ø)

Secretary Baker: We have asked democratic political parties in Europe to support Mrs. Chamorro in her campaign in Nicaragua. This is permitted by Nicaraguan law. We would like to ask that you consider having Spain doing something in this regard. Also, in view of Spain's prestige in the region it would be very valuable to have Spanish observers in the Nicaraguan elections in addition to the EC observers already planned. (Ø)

Prime Minister Gonzalez:

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We, too, want to guarantee that this will be a clean election and Spain is already present in Nicaragua towards this end. (Ø)

The President: Turning back to NATO, we want to push forward on the CFE negotiations. We think your concerns have been met on the paramilitary issue. I have been pleased with the Soviet reaction so far and expect that they will not engage in foot dragging. But it is important that we not have a fractured NATO position. (Ø)

Prime Minister Gonzalez: I agree with you although perhaps the time frame you have set for the CFE negotiations is too short. Although we should try to meet the schedule, there are some real technical problems that need to be sorted out carefully. I agree that alliance cohesion is important. If we can get the Soviets to cut their military spending by as much as 3 or 4 percentage points of GNP, this would be of more assistance to the economy than all of the aid that the NATO allies and Japan could possibly provide. (Ø)

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The President: We don't want the goal of completing the CFE negotiations promptly to slip if it can be avoided, so we should try to meet the goal. (Ø)

Prime Minister Gonzales: I agree with you completely. I will certainly not say anything in public implying that we should prolong the negotiations. (Ø)

Secretary Baker: NATO has now gained the initiative in these negotiations and we should be sure to keep it. (Ø)

Secretary Cheney: I should mention the visit of Soviet Defense Minister Yazov which was an historic first. Our discussions were very interesting indeed. He talked about restructuring in every area except the strategic rocket forces. I asked him a direct question on this, but Yazov ducked it. He is clearly having a difficult time with the transition which is being required of the Soviet military. (Ø)

Prime Minister Gonzalez: The Soviets need to get arms control agreements. (Ø)

On the Middle East, despite the great difficulties, we need to get a dialogue started. The role of the U.S. is critical. I noticed that Secretary Baker was very skeptical yesterday, but even if the situation is difficult we should use whatever opportunities exist. (Ø)

The President: If Secretary Baker was "grumpy" yesterday, it was because Prime Minister Shamir had put the wrong spin on what Secretary Baker was trying to do. First Shamir made a public statement misrepresenting the U.S. position, and then he called me one half hour later to talk about it. What we need to do is to get Shamir to implement his own plan. Instead, he is accusing us of pushing for a "Palestinian state," which is false. I agree that we should continue our engagement as long as there is still some chance. The fact that both the Government of Israel and the PLO are critical of the plan may mean that it is a good plan. (Ø)

Prime Minister Gonzalez: It may be that Shamir feels that he needs to say no to his own plan for domestic political reasons, but that at the same time he wants to be pushed to move ahead on the project so that he can say that he had no choice. (Ø)

Secretary Baker: The PLO is also very negative. (Ø)

The President: Let's go out now and make our statements to the press. We'll have more time to talk this evening. (Ø)

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