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THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Prime Minister Mazowiecki of Poland (U)

PARTICIPANTS: The President
 James A. Baker, Secretary of State
 Brent Scowcroft, Assistant to the President for National Security Affairs
 Raymond G.H. Seitz, Assistant Secretary of State for European and Canadian Affairs
 Robert L. Hutchings, Director for European Political Affairs
 Interpreter

Tadeusz Mazowiecki, Prime Minister
 Krzysztof Skubiszewski, Foreign Minister
 Alexander Smolar, Advisor to the Prime Minister
 Interpreter

DATE, TIME AND PLACE: September 29, 1990, 6:20 - 6:55 p.m.
 Waldorf Astoria Hotel, New York

The President: Welcome. Thank you for coming. I know you must have a busy schedule. I think back to our good discussions in March. Since then, there has been a lot of change around the world. As you know, I received a very gracious letter from President Jaruzelski telling me that given the internal political situation, he would not be coming to the U.S. for a state visit. I wrote him quite a personal letter in reply. I told him I understand his decision but want to receive him on a personal basis later. I just wanted you to know that. I know he has a complicated past, but he has played a good role, and he showed me great hospitality on my two visits to Poland. Now, I would like to ask you to raise any issues or questions that are on your mind. We have been preoccupied with the Gulf but have not lost sight of Poland's democratic evolution. We know your economic difficulties, made worse by the Gulf situation, and want to help.

Prime Minister Mazowiecki: Thank you, Mr. President, for finding time to see me. I know very well how packed your timetable is. I also recall my March visit very vividly. I thought we understood each other very well. I hope that understanding

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continues. Regarding your preoccupation, from the beginning we have very closely observed the resolutions of the Security Council. We see barbarity in the treatment of nationals of Western countries. It is a very dangerous region, but we have decided to send a mobile hospital. (C)

The President: Thank you. I meant to say so. We are very pleased with your offer. (U)

Prime Minister Mazowiecki: We will also send a hospital ship and are prepared to consider further commitments in the form of a rescue ship. We do appreciate the importance of the issues. We have about 1200 Polish people there. (C)

The President: In Iraq and Kuwait? (C)

Foreign Minister Skubiszewski: No, only in Iraq. (C)

Prime Minister Mazowiecki: Of course we have felt economic consequences from the embargo. They were debtors and repaid their debts with oil. As you said, since we met there have been many changes, including in Poland. We have worked to pursue these changes -- in laws, institutions, and in the economy. Now we face the great challenge of privatization on a scale never tried before. We have more than 7,000 companies, so it cannot be done overnight. We want to start in two processes. First, we want to move to full privatization of firms of smaller size, as well as a few big ones, as examples. Then we will place the rest of the companies in a different legal status in the first stage of privatization. Only afterwards will they go into fully private ownership. We believe this will alter significantly the Polish economy. However, we now face new challenges. First there are the economic consequences of the unification of Germany. Here let me add one comment on political matters, since we discussed this at great length in March. Thank you for your support in the Two Plus Four. We succeeded. (C)

The President: Is the treaty between Germany and Poland underway? (C)

Prime Minister Mazowiecki: We want it signed immediately after unification. We have a draft ready. (C)

The President: I believe this will work out to your satisfaction. (C)

Prime Minister Mazowiecki: Second, we have economic problems in relation to the Soviet Union, because of the shift to hard currency pricing and the question of raw material supplies. Let me make another political digression. In March we talked about Soviet troops. Now we have addressed two notes to the Soviet Union demanding swift talks. We would like arrangements for their withdrawal by the end of next year. There are now 48,000 troops in Poland, and we would like to make sure they leave before the end of next year. There is also the problem of the transfer of Soviet forces from Germany through Poland to the

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Soviet Union. Both parties will have to talk with us. (S)

The President: Are the talks with the Soviet Union regarding the 48,000 troops going smoothly? (S)

Prime Minister Mazowiecki: We are waiting for their reaction to our proposal. I get a sense of diverse trends. The diplomatic service understands, but there has been some surprise among the military. Of course, there is also the problem of finding housing for these troops, which calls for general talks on the whole package, both economic and political. For several months, it has been difficult for us to find competent partners to talk to. (S)

The President: Am I right in saying that the problem is more logistical than Soviet rethinking on security issues? Does the Soviet presence cost your economy? (S)

Prime Minister Mazowiecki: Yes. We have long asked for a revision of the arrangements for these troops. They hadn't been readjusted for many years. (S)

The President: Are you paying the Soviets for their troops being there -- providing housing, etc.? (S)

Prime Minister Mazowiecki: The problem is that their refund to us is calculated according to artificially lowered prices. (S)

Foreign Minister Skubiszewski: There has been immense damage to the environment, especially our forests. We are investigating the extent of this damage, but we estimate it at \$12 billion rubles. (S)

Secretary Baker: At what rate of exchange? (S)

Foreign Minister Skubiszewski: It is hard to say. The figure is in transferable rubles. (S)

The President: May I ask a question? Since you and I met, has there been any change in attitudes about U.S. troops and a strong NATO? Is this controversial in Poland? (S)

Prime Minister Mazowiecki: Our position has been clear from the beginning. We were the first to say a unified Germany can and should remain in NATO. (S)

Foreign Minister Skubiszewski: I got a letter criticizing me for not asking American troops to come to Poland to replace the Soviets. (S)

Prime Minister Mazowiecki: Let me touch on another issue. The evolution of the situation in Poland is such that the public has shown patience with our reforms. Now there is some debate about prospects for our elections, first Presidential and then general. In that debate, the problem is raised whether the results of the economic reform have been satisfactory. No one doubts that the direction of change -- toward the market -- is irreversible, but

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Poland needs some signs that their economic problems are appreciated by the Western world. One issue concerns our foreign debt. I would be very obliged, Mr. President, if America would take the first step. So far everyone says they understand our problem regarding official debts, but they say the private banks should take the first step. Then the private banks say the official banks should be first. Someone must act first. The economic results of our actions will take time, and we need some sign that the burden is lifting. I ask if America could take that step. I am saying so because in our first discussion you encouraged me to be frank. (S)

The President: First, we are impressed with your privatization. You wrote me in July, and I thank you for putting the issue clearly to me. We will explore this with the Paris Club. Jim, where do we actually stand on this? (S)

Secretary Baker: In the past we have supported a very liberal rescheduling for Poland in the Paris Club. We will continue to do so. We have a very small share of your official debt -- something around \$80 million. This is quite small compared to most in Europe. Our problem in being first -- though there is lots of sentiment for forgiving -- is that it would basically destroy the Paris Club. Without speaking for the President on an issue we have not really discussed specifically, it seems to me that if one of the other European members of the Paris Club would call for forgiving official Poland debt, we would be there very quickly. (S)

Foreign Minister Skubiszewski: Germany? (S)

Secretary Baker: Yes, or some other country. (S)

The President: We are running out of time, so let me make my pitch on the completion of the Uruguay Round. If you are meeting with West European leaders, lean on them regarding agriculture. It would be beneficial to you as well. I am getting frustrated. The EC is dragging its feet. We need your help, so if you agree I hope you will help. We will talk more about your debt situation. (S)

Secretary Baker: We have talked to the Soviets about converting to hard currency for oil, and they have given us certain assurances. I don't know if they have talked to you. (S)

The President: We are also working with them on technology sharing to help them increase their oil production. Are there other subjects you wanted to raise? There is no lack of interest in the U.S. for Poland. We want to help you and be constructive. I hope the Enterprise Fund is working. (S)

Foreign Minister Skubiszewski: One important point: the Soviets are watching our economic reform very closely, so its fate will have consequences that go beyond Poland. (S)

-- End of Conversation --

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