

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Expanded Meeting with President Havel of Czechoslovakia (U)

PARTICIPANTS: The President
 John H. Sununu, Chief of Staff
 Brent Scowcroft, Assistant to the President for National Security Affairs
 Marlin Fitzwater, Assistant to the President and Press Secretary
 Shirley Temple Black, Ambassador to Czechoslovakia
 Robert L. Hutchings, Director for European Political Affairs, NSC Staff
 Lisa Valyiova, Interpreter

Vaclav Havel, President
 Jiri Dienstbier, Foreign Minister
 Alexander Vondra, Foreign Affairs Advisor to the President
 Karel Schwarzenberg, Director of the President's Office
 Michael Zantovsky, Press Spokesman
 Richard Wagner, Deputy Foreign Minister
 Alexandra Brabcova, Interpreter

DATE, TIME AND PLACE: November 18, 1990, 10:00 - 10:40 a.m. Hradcany Castle, Prague

President Havel: The President and I already started our conversation. I might just say that I have taken the opportunity to discuss the situation in this country in perhaps too much detail. (U)

The President: It was very interesting. I said if there is anything the U.S. can do in the construction of the new system, we want to try to do it. We have a bilateral program of assistance, and we are great believers in the importance of investment. We will try to encourage the IMF and World Bank to be generous. (U)

President Havel: To remain in the economic sphere, our experts have calculated that to launch the transition to market reform we would need \$3.5 billion. As we move toward a convertible currency, we would be grateful if you could work for us in the international community. We need just a first injection so we could move without major jolts. We are also negotiating with U.S. firms for joint ventures or other investments. (U)

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The present situation is more complicated, not only because of delays in oil supplies from the Soviet Union but also because of the collapse of markets in the Soviet Union and the former GDR, with which we have a large share of our trade. Let me give you just one example of the distortions. In CMEA, which incidentally has also collapsed, we have more trade with Romania than with the U.S., which shows how distorted our trade has been. The Czechoslovak people are familiar with the markets in those countries; this is related to the plan our Foreign Minister presented at Harvard. Perhaps he might explain it. (C)

Foreign Minister Dienstbier: Before doing so, let me add that our experts are familiar with trade not only in Moscow but also in Irkutsk and other places. Regarding the program, it has not only economic objectives but is related to security. At Harvard I gave just an example, a kind of model. Our point of departure is that the West is ready to help the Soviet Union. The Soviet Union lacks money and capacity; we have capacity but no money. If our country, along with Poland and Hungary, could work with the Soviet Union on joint projects, we might be able to alleviate one aspect of the transition. Supporting our exports to the Soviet Union might help. It would be required that programs be truly effective. We should avoid the situation of Poland in the 1970s -- of throwing money into a black hole. Nor do we want just to maintain outdated industries in the countries concerned. The program should be aimed at modernizing our industries. One final remark: what is at stake is not only economic, but also has a security aspect. The worst thing would be if the newly emerging democracies are strangled. If the West contributed by providing some financial assistance, this would be a cheaper way of safeguarding security. (C)

The President: I mentioned to President Havel our concern about the international oil situation. There is not a shortage of oil. There is disruption in some areas, but overall the big producing countries have made up the oil that was taken off the market because of Iraq and Kuwait. But what Saddam Hussein has done is driving a lot of developing countries to their knees. Speculation about war or shortages has driven the prices crazy. I am convinced that the forces in place are enough to guarantee the Saudi oil fields, but world markets are not sure. This leads me to ask you how you are being hurt by the situation in the Soviet Union and the Gulf. (C)

President Havel: I have briefly touched on that. We are hurt to a substantial extent. All our industry is dependent on the Soviet Union. Now the oil flow is not dependable. Supplies have been cut back. We have had extensive discussions with the Soviets. Our Foreign Minister went there and our Finance Minister too. It was not a political decision but the result of the devastation of the Soviet economy. (C)

The President: What is the pricing arrangement? Did it use to be subsidized? (C)

President Havel: For a long time prices were unnatural. They didn't correspond to the world market. We paid partly in goods. Starting January 1 the price will be three times as high as it was. (S)

Foreign Minister Dienstbier: This by itself poses a great problem, but the situation would be much worse if there were a total collapse in the Soviet Union. Besides, the Adria pipeline could supply only about one third of our needs. Hungary is in the same situation. Eventually we want to be linked to the Western oil system. (S)

The President: I agree with you that the Soviets did not make a political decision to cut back oil supplies. We are undertaking with them private ventures that will greatly increase their oil producing capacity. (S)

President Havel: We have just talked about part of a broader problem. With the collapse of communism in Czechoslovakia, Poland, Hungary and other countries, we may be facing a temporary vacuum as all the old links cease to exist. It could be breeding ground for chaos and instability. Our democracies are just emerging. To fill this vacuum is not just our problem; it is also an obligation of the West. For years you helped assure the victory of freedom. Therefore it is not in the West's interest for a new threat to emerge. (S)

The President: We agree with that. We don't want Poland, Hungary and Czechoslovakia in some never-never land without strong ties. We think the CSCE offers a good structure, and you already have a toe-hold in NATO through your mission there. Coming out of the CSCE Summit, we should have a good discussion about how to proceed. I would like to know your thinking. (S)

President Havel: Since the outset Czechoslovakia has placed high hopes in the CSCE process, as we see in CSCE a possible line for shaping the future European order and eliminating the vacuum. We have launched a number of initiatives and believe the Summit will allow the process to take a second breath. We should proceed toward treaty-based relations, which might help involve the central and eastern European countries and promote their integration. We want to institutionalize the CSCE. We hope the permanent secretariat might be in Prague. A final remark on NATO: we realize it is a pillar that might be used in building a new European security structure. There are the liaison missions, and we had a visit by Woerner. We might consider an association agreement similar to the one we are negotiating with the EC. (S)

The President: I know that you know that we support the location of the secretariat in Prague and hope that will be determined in Paris. I was glad to hear about the Woerner visit. I understand

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it went well. I think we are thinking along the same lines. I am anxious to know more about how you see the CSCE functioning in the future. It will have an arms control function, which may cause some difficulties for the U.S. -- in the area of naval arms control, for example. But I think we are thinking along the same lines. I assure you we don't want Poland, Hungary, or Czechoslovakia in a European no man's land. (S)

President Havel: I am very happy to know there is agreement on the fundamental security questions. (S)

-- End of Conversation --

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