

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: President's Expanded Meeting with Prime Minister Mitsotakis of Greece (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
Michael Sotirhos, U.S. Ambassador to Greece
James F. Dobbins, Acting Assistant Secretary of State for European and Canadian Affairs
David C. Gompert, Senior Director for European and Soviet Affairs
David Ransom, Director, Office of Southern European Affairs, Department of State
Nicholas Burns, Director for Soviet and European Affairs (Notetaker)
Interpreter

Constantine Mitsotakis, Prime Minister
Antonis Samaras, Foreign Minister
Ioannis Varvitsiotis, Minister of Defense
Dora Kakoyianni, Deputy Minister to the Prime Minister
Efthimios Christodoulou, Alternate Minister of Economy
Christos Zacharakis, Ambassador to the U.S.
Constantine Liberopoulos, MFA Director-General of Political Affairs
Emmanuel Ghikas, MFA Director for Cyprus and Turkey
Lucas Tsilas, Director of the Prime Minister's Diplomatic Office
Interpreter

DATE, TIME July 18, 1991; 5:00 p.m. - 6:00 p.m.
AND PLACE: Prime Minister's Office, Athens, Greece

Prime Minister Mitsotakis: Thank you very much for your visit, Mr. President. It is very important and very effective for moving forward with our relationship. This is a good opportunity to exchange views on the most important issues. In the time left to us, we would like to ask our Minister of Economics to give you a brief picture of our economy. (U)

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Minister Christodoulou: Allow me to outline the problems. The economy was mishandled in the 1980s to serve party aims. There was increased consumption and excessive borrowing. Between 1981-1990, there was a fourfold increase in the national debt in standard prices. We have income-generated consumption and investment fell, government obligations rose. In addition, while we had EC contributions annually, they were channeled into consumption. By last year, 85% of new savings covered the national debt -- this was very inefficient. Under Pasok, the government became a payroll factory and the payroll grew. The gray economy grew at an enormous rate, covering 40-45% of GDP. All together, in 1980, GDP was 59% of the EC average while in 1990 GDP was only 52% of the EC average. So, the 80s was a critical decade, a lost decade. (Ø)

Our policy is the following: 1) Budgetary discipline; 2) big reforms; 3) concentrate public investment in infrastructure -- our telecommunications was once the best in Europe, the best, but now is the worst. We need \$600 million in the next five years for health and education and to provide the base for private investment. We also stress privatization. The country needs to be more productive. We need a growing tax base. The principal aim is to lower tax rates and broaden the base. (Ø)

The President: Is Papandreou giving you hell when you speak in Parliament? I noticed the left block when I spoke in Parliament today. Do you have questions hour in Parliament as in the UK? (Ø)

Minister Christodoulou: Yes. The Prime Minister faces the opposition. (Ø)

The President: I see. Who can ask questions? (U)

Foreign Minister Samaras: Papandreou and all the other leaders of the opposition. (U)

The President: Including the little lady? Excuse me, Mr. Minister for the interruption. (Ø)

Minister Christodoulou: We have a restricted incomes policy. As a result, we started with 23% inflation in January, down from 18.1%, and we hope to reach 15% by the end of 1991 and be in single digits by 1992. We would then want to join the European Monetary system. We have a solid platform for further investment and really need it. We want the platform to stimulate it. But there is a very large public debt -- over 60% of tax revenues. The Gulf war was a big cost to us and the problems in Yugoslavia hurt our exports. Forty percent of our exports go to Yugoslavia which has hurt them badly. This crisis is costing us millions per day. The danger we run is that we may have cash difficulties in the future since the tax revisions are geared to the economy which is in recession. Anything that would lessen the burden would be important to us. Tourism is also down. (Ø)

The President: We talked to the Prime Minister about the possibility of reducing obligations to the U.S. -- we'll have to see what can be done. (Ø)

Prime Minister Mitsotakis: We discussed this with you today, Mr. President and thank you for your understanding. We would be most interested in an overview of the meeting with Gorbachev but first I would like the Defense Minister to describe our military ties. (Ø)

Defense Minister Varvitsiotis: We would like to thank you for the two Knox frigates and accelerated deliveries of the F-4Es. I want to make two points. First, in 1993, annual FMS credits should be about equal to the amount needed to reimburse you for our debt. This could effectively suspend our military arms program. I have a list showing the annual payments -- in 1993, it would only get around \$30 million. Second, I want to stress that we have very old weapons. All of our ships are over fifty years old. The armaments are old and would be a good collection for a museum. I would appreciate it if you would accelerate some of the items on our list. (Ø)

The President: In what categories? (Ø)

Defense Minister Varvitsiotis: We are waiting for 36 A-7s. We have a letter of agreement and are waiting for an answer. (Ø)

The President: We will see what we can do. What did Cheney and Powell say? (Ø)

Defense Minister Varvitsiotis: General Allen came but we need a push from you. (Ø)

The President: We will talk about that when we get back. General Scowcroft works with them. (Ø)

General Scowcroft: Mr. President, the CFE cascade will help a bit with tanks and artillery. (Ø)

The President: Let me review the summit. Bessmertnykh gave Jim Baker a paper proposing a START agreement. General Scowcroft and Jim checked it with our experts in Washington and we found that the Soviets had met our issues. Data denial was important. You know it is difficult for the American people to understand why we should aid a country that has nuclear warheads pointed at us. I'll be in Moscow the week after you. On the economics side, there are enormous problems. Gorbachev to his credit did not ask for money. We encouraged him to do what you are doing -- privatize. We encouraged a treaty with the republics. They have enormous energy potential but there is confusion over who owns the resources. He said he would work out the union treaty, privatize and convert the ruble. This is an enormous challenge for Gorbachev. He is threatened by the right which does not like his economic and political reforms. On the left is Yeltsin who came to the U.S. recently and performed well. (Ø)

Prime Minister Mitsotakis: He has matured. (U)

The President: He has. Our G-7 meeting with Gorbachev went well. He accepted the package we had and we also provided some agricultural support before we got there. We are very pleased on START but probably cannot finish all of it by Moscow, can we Brent? (Ø)

General Scowcroft: There may be a few blank pages. (U)

The President: START was a major development. We are almost staggered by how to help Gorbachev. He does not have the advantages you have. But he is less threatened than before. We discussed the Baltics which may be of interest to you. Gorbachev insists they abide by the secession law. So, overall, it went well. (Ø)

Defense Minister Varvitsiotis: Is he afraid of the Baltics? (Ø)

The President: Yes. Lithuania is important economically for some products. (Ø)

Prime Minister Mitsotakis: Thank you for this summary. I would only add that similar problems exist in Eastern Europe. The transition to a market economy is difficult and so we have to be patient. (Ø)

The President: I think growth in world trade would help Greece. We are coming out of our recession, not quickly but we are and we hope that will have some good effect on you. (U)

Prime Minister Mitsotakis: We are glad for what you said. Despite Gorbachev's difficulties, he cannot be replaced. (Ø)

The President: We are trying to maintain support for Gorbachev. Some of our extreme right wants a dissolution of the union to reduce the military threat to us. Some supporters of the Baltics think getting rid of Gorbachev will help. But we are concerned the KGB or military could end up in charge. Gorbachev doesn't seem worried about that and Yeltsin doesn't either. So, we have kept on track with Gorbachev, especially on START. I told Gorbachev in London that he was on a tightrope with all his problems and was holding things together. (Ø)

Prime Minister Mitsotakis: Your presentation is optimistic and I thank you for it. (Ø)

Foreign Minister Samaras: I just received word that your Charge d'Affaires just notified us this afternoon that your State Department will announce a new travel advisory on Greece and Turkey for July 18-22. We would like to say that things are bad enough. If this is done, it will be unnecessarily turbulent. It will create huge problems. (Ø)

The President: International problems? (Ø)

Mrs. Bakoyiannis: Extremely. (U)

The President: What is the security reality? (Ø)

Mrs. Bakoyiannis: There is no danger to tourists. We have a special terrorism which is focussed on specific targets. If this is done now, Mr. President, it would really be bad. (Ø)

Foreign Minister Samaras: It will hurt tourism. (Ø)

The President: Let us talk about it. We better get inside (Samaras handed to the President the U.S. announcement). What will be the effects on Greece? (Ø)

Prime Minister Mitsotakis: I agree with Dora. I really think there is no threat. Take the facts. Look at recent months. We had terrorist bombs but no victims. Our terrorists are mainly active in domestic politics. (Ø)

Mrs. Bakoyiannis: The terrorists were hoping for this kind of reaction during your trip. (Ø)

Prime Minister Mitsotakis: There were expectations you would withdraw the previous advisory. Let us talk about this. (Ø)

The President: Perhaps we could say it without mentioning Greece and Turkey. We could remind people of the existing travel advisory and note that caution should be used during my visit. (Ø)

-- End of Conversation --