

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Heads of Delegation Meeting with President Boris Yeltsin at the 1992 Munich Economic Summit (U)

PARTICIPANTS: George Bush, President of the United States of America
Robert Zoellick, Under Secretary of State for Economic and Agricultural Affairs
Helmut Kohl, Chancellor of the Federal Republic of Germany
Horst Köhler, State Secretary, Ministry of Finance
Francois Mitterrand, President of the French Republic
Anne Lauvergeon, Deputy Secretary General, Office of the President
Brian Mulroney, Prime Minister of Canada
Derek Burney, Ambassador to the United States
Guiliano Amato, Prime Minister of the Italian Republic
Umberto Vattani, Diplomatic Counsellor
John Major, Prime Minister of the United Kingdom of Great Britain and Northern Ireland
Andrew Turnbull, Deputy Secretary, Treasury
Kiichi Miyazawa, Prime Minister of Japan
Koichiro Matsuura, Deputy Minister for Economic Affairs, Ministry of Foreign Affairs
Jacques Delors, President of the Commission of the European Communities
Pascal Lamy, Chief of Staff to the President of the EC Commission
Boris Yeltsin, President of the Russian Federation
Yegor Gaidar, Acting Prime Minister
Peter Aven, Minister for Foreign Economic Relations

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DATE, TIME
AND PLACE:

Wednesday, July 8, 1992, 3:05 p.m.-5:40 p.m.
Residenz - Kaisersaal
Munich, Federal Republic of Germany

Chancellor Kohl: Warm welcome, particularly to President Yeltsin and PM Gaidar. I hope we'll have a frank and open conversation. We will end at 6 p.m. sharp. President Yeltsin and I will have a press conference at 6:55 p.m. (Ø)

We've been discussing the dramatic changes in Russia. Your presence here is living proof of that. We all see the major challenges, but also opportunities. We discussed reforms in Central and Eastern Europe and the FSU, particularly in Russia. We all know what energy, power, courage, and determination are required, and we pay tribute to you. We're excited to hear what you'll say. We don't want to interfere in your domestic concerns; we want to encourage you. What is going on is of interest to all of us. Backsliding would hurt us, cost us dearly. We know the difficulties you face. Macro stabilization is a prerequisite for political stability. Privatization is important. Your job will be easier if you mobilize foreign investment. We'll support you in developing a legal structure. The safety of nuclear power plants is important. The shock of Chernobyl is still with us. (Ø)

We've drawn up 10 points we want to discuss. Our idea is comprehensive partnership. Our offer of assistance goes beyond Russia. Help for self-help. (Ø)

- (1) Support of financial institutions. The IMF has agreed with you on a three-phase program; the first credit tranche is important.
- (2) Period of grace for debt.
- (3) Export credits. Would like a counterpart from you (?).
- (4) Technical help. Tangible assistance to build markets.
- (5) Support for private investment, especially in oil and gas. This will be a success for you.
- (6) Trade concessions.
- (7) Management training for privatization, consultancies.
- (8) Cooperation in arms conversion, space technology, science.
- (9) Nuclear plant safety.
- (10) Consultative Groups to encourage structural reforms, coordinate with you, if you agree. (Ø)

We're partners here. It's not a question of rich and poor. Russia has a great history and culture. We need a friendly and frank exchange, to say what's true. Perhaps Prime Minister Mulroney would like to speak. (Ø)

Prime Minister Mulroney: I have been asked to speak on political matters; this is a synthesis of our opinion. Your presence is a vote of confidence in you and the Russian people. We want to help you succeed. We know you have a proud history. You are coming as a partner looking to get his country off the ground. (Ø)

You need a free and open society for reforms. There are 7 nations here, who represent a large share of the world's GNP. Economic well being is tied to openness. There are great differences among us: cultural, geographic, language, etc. What keeps us together and explains our success? It's freedom. The key is liberty and democracy. It doesn't emerge overnight. It's fragile, ungainly, but pure and impressive. Genuine political freedom is linked to the market and prosperity. You can't have bits and pieces. We know you're building a reform constituency. You face daunting problems. As if we didn't have any. Canadians are waiting to bury me. Your courage on the tank is a symbol of your political courage. Tolerance and respect for minorities are at the heart of democracy. You face problems of ethnic nationalism. Your commitment to reform is a powerful example for others. (Ø)

I know you're preoccupied with your neighbors. Relations with Ukraine are essential to stability; we hope you'll work out the Crimea. We'd like to know how you see these relations evolving. On the Baltics, we urge you to reach settlements on the timing of withdrawal. Even a gradual withdrawal would be positive. I know you're worried about where to put the troops. But we understand you're also rotating troops in. It's important to show movement on this soon. We will speak to the Balts on Russian minorities. (Ø)

Congratulations on an historic arms control agreement. We all agree that your work in this area reduced pressures for proliferation. It will help redirect resources. There is the problem of the flight of experts. The Moscow Science Center will help. (Ø)

International law and justice provide the basis for resolving the Northern Territories with Japan. I know you feel the importance of this bilaterally; but the consequences affect all of us. (Ø)

We welcome your peacekeeping support at the UN. We'd like to hear your assessment of Yugoslavia. We want to work with you as a partner. The peacekeeping agreement on Moldova is important. (Ø)

Prime Minister Major: I'd like to add my welcome. We will be frank to help you overcome difficulties. We all have practical interests in Russia. We all have sympathy and admiration. Big

changes took place in the last year. The USSR was a different country: it had a command economy, wasn't democratic, and didn't have a freely-elected leader. This meeting is different. (Ø)

The task in front of you is huge. You've joined the family of democratic nations, but not yet the world economy. Change will take time and will be painful. It is the right way, the only way, to secure economic well-being. We all have problems, but there's more on your table. We do have experience. The changes that have occurred over the past year add to the difficulty. There was a single monetary and economic area. Now there are barriers to trade, effective control of the money supply has been lost. This is not a technical matter. There is risk of hyperinflation. It would destroy the market economy before it's born. There is a sharp fall in output. Much of the decline comes in appropriate areas -- e.g., tanks -- but jobs in these factories did give people wages. But they're getting wages without production now. New firms are being established, some of them private. There will be a showdown over the infrastructure of the market economy -- privatization, land reform, operation of the bankruptcy law. Laws and decrees need to be implemented and enforced across Russia, e.g., privatization must go widely. Land reform is not just allowing farmers to own their land, but legal title, ability to sell, etc. You face unemployment. People are being paid for jobs that don't exist. There are still subsidies for your social services. You need to move the subsidies from enterprises. You'll face unemployment on a new scale. You need a social safety net. Money will need to be taken from subsidies. (Ø)

There is risk of hyperinflation. You've got budget deficit and credit problems. Countries don't survive these problems without great damage; it lasts. It may be hard to explain hyperinflation. The market economy needs money people can trust. If money loses value, so will everything else in society. Wages lose value. A painful economic reform can be a recipe for disorder; but hyperinflation can be the seed of revolution.

So the IMF discussions are critical. Tough targets were agreed to, but they are crucial, essential. I hope the IMF agreement will be a bargain between Russia, the IMF, and the G-7; it's a partnership. It will be difficult. It will work; we believe this. Investment will follow from abroad; yours can be the first government to privatize. With the right legal framework, billions could flow. A revolution in living standards will occur. (Ø)

So we have the release of the \$1 billion; there is more to come. There is generous debt rescheduling. We'll continue technical assistance (banking experts to clean up and interest others in our banks). Bilaterally, we will release \$500 million in export credits. A GATT agreement could help. The safety of nuclear power plants worries all of us. (Ø)

There's a crucial wider point: If you complete what you've begun, this will contribute to political stability and faster

growth, etc. We have an interest in your success. We want to work as partners. We have two hours here to hear what will be done and how, your timetable, what practical steps you plan to take, and your problems. The more we know in detail, the more we can help. At the end of the day, your policies will determine your success. The price of success will be very great. The converse is true, too. (Ø)

President Yeltsin: Let me begin by expressing gratitude for being able to attend this leading Western forum. This direct contact should be friendly, not formal. This includes problems in Russia. We'll reply to your questions in the spirit that you're not expressing doubt, but have a genuine desire to have our problems elucidated first hand. (Refers to Gaidar, too.) (Ø)

The world has changed greatly following the collapse of communism and totalitarianism. The Cold War has ended. We're in transition toward partnership. But we've delayed. There are still differences between East and West. We're proceeding confidently on the road to freedom, civil rights, rule of law. We need radically new approaches in our relations. (Ø)

Bilaterally, we've discussed this. But it's not yet accomplished in Japan. In the course of an official visit in September, I'm convinced that we'll find a way to solve problems. The Northern Territories issue is bilateral, but it's important to understand that you wish to bring mutual understanding and open economic cooperation. It's in your declaration. We'll seek that road. The Russian people have had a hard time. The psychological burden will make it difficult. The economy will help solve some of your other problems. We've studied your economic and political declarations and will support them and move in those directions. (Ø)

Now I'll discuss problems. I regret that economic reform was not initiated 6 years ago. We can't turn the clock back. We've had a firm march for 6 months. We can't agree on a march back; we're following this month to month. These 6 months for Russia have been bitter. Seventy years wiped out the notion of private property. It used to evoke an allergy; now we need to change our thinking. The second stage of our reform started July 1 in the Deeping Program which runs through 1993 and 1994. We're reaffirming the strategies of the first part and will be deepening it, especially as concerns property. There's not been much progress on privatization. This is true. But for 74 years we lived by levelling. Now there are 150,000 private farms. They're small, but there. This will rise four and five times, and soon will be millions. We have a clear program for privatization. It's not just shops. We have the legislative basis for joint stock companies, which will be for all large enterprises in the first stage. If we stick to it, they'll be about 70% by 1993. (Ø)

Next is the issue of inflation. I understand your and the IMF's concerns. It's not just a concern to me, but a painful subject.

It's declining. In June, it was 11%, versus 300% in January; by 1993, it will return to 3%. Inflation will blow up all our reforms. This is a confidential gathering. We have to take care of all states of the CIS. The USSR budget consisted of subsidies to them. Now we don't have formal subsidies, but half a year's difference is owed us -- 300 billion rubles, or \$10 billion. We can't ask them to pay. It would repulse them, including the three nuclear powers. We want to carry through, at least until it is irreversible. We've got a bold government. I personally support it. We will follow through. There is no way back. (Ø)

We have about \$70.7 billion in external debt. Frankly, we can't pay. We are paying interest: for deliveries of food, grain from the U.S. and others. We won't follow the Bolsheviks of 1917 and renounce our debt. We will pay. No CIS republic has paid a cent to us; we pay for them, too. I look to you for your support in the London and Paris Clubs, to support a realistic rescheduling time frame. (Ø)

As for nuclear plant safety, with assistance from the U.S., Canada, Germany, and France, we'll have a program. The first stage is for the next 2-3 years. We want to close down all first generation plants. The second stage is to retrofit the second generation plants under IAEA safeguards. The cost is \$10-15 billion. Most of this falls on us. But Chernobyl shows the danger. We hope that one-third of this comes from others, for equipment and operational training, etc. The third stage is to get new stations installed. We have pretty clear ideas on where to build them. We understand concerns and are taking practical steps. (Ø)

Next, we want to liberalize our external economic relations. We've reached the first stage with the IMF. Thank you for your help. It should get easier. We've eliminated differences of principle. It's unrealistic to completely liberalize energy and fuel prices. There are limits to peoples' patience. This is our biggest difference. We've adopted laws, removed barriers, established MFN status. We look to you to remove obstacles. You're closed to us. This costs us more than the assistance we get. This is a paradox. What to say about GATT? This is good news, but other barriers exist. We need more export possibilities. We could swell our hard currency earnings. (Ø)

We have a decline in production. It's one of our most difficult issues. It's down 15% in six months. You're right that the largest part is in the military-industrial complex. You know how militarized our economy is. It's a sclerosis. We impoverished our people for military uses. Now we're working on conversion of defense industries. I've talked about this with you and businessmen. We need a common program. You have technical and engineering experience. This is vital. We're discussing how to stabilize in the fall; its not getting much worse in the second quarter -- the big decline was in the first quarter. (Ø)

The mass media is carrying reports of a possible putsch. I can't understand the actions of national communists. No objective

prerequisites for a putsch exist. All military-defense leaders are committed to the President, the Prime Minister, and to the Supreme Soviet. (Ø)

CIS: It's only 6 months old, too. You have more experience in commonwealth. There are differences, but views are converging. Especially with Ukraine. Agreements have removed the main bones of contention. We still have the problem of the ruble zone. The first IMF credits will be used for this. We've discussed mechanisms to counter difficulties if one republic moves to its own currency. (Ø)

Regarding trouble spots, you're well informed. Shevardnadze and I signed an agreement on South Ossetia. We're implementing it now. Forces are being pulled back. We have agreement with Moldova for disengagement. (Romanian and Bulgarian troops can help.) Nagorno-Karabakh requires a CSCE mechanism. This will be discussed in Helsinki. The conflict goes way back; everyone is well armed. It's a dangerous situation. (Ø)

Political decisions have been taken on the Baltics. There are 100,000 troops, and they are to be withdrawn. There is no other possible decision. These are left over FSU forces. Russia didn't send them. We finance them and are obligated to withdraw them. We agreed for a timetable for the second half of 1992 and 1993. We'll stick to it. There are financial difficulties, and housing problems, etc. But the most important thing is that we don't intend to beef up these forces. Our tour there is for 2 years. We're not bringing single divisions up to strength as troops leave. It's easier to withdraw some officers and equipment. (Ø)

We signed an agreement with President Bush. We will strictly carry out nuclear weapons destructions. We signed with Belarus, Ukraine and Kazakhstan on the withdrawal of nuclear weapons and the NPT. We will carry out these obligations. Some missiles have already been withdrawn (SS-18s). (Ø)

We welcome a Consultative Group with persons from your nations to prepare for the next meeting (Tokyo Coordinating Conference?). (Ø)

I discussed with Secretary Baker moving on the sale of land and bankruptcy. We now have private land ownership, including by foreigners. (Ø)

Some 50% of our population lives below the poverty line. This causes real pain. I hope you can help us ease social tensions. Greater hope for the success of reform will help. (Ø)

I hope I have answered your questions. I don't want to abuse my time. There are no East-West divisions now. The rules of the game should be equal for us all. (Ø)

Prime Minister Amato: Russia is now part of Europe. It had drifted away. I want to thank you and President Bush for your arms agreement. I'd like to ask for a few clarifications. (Ø)

(1) Inflation: How is it diminishing? We know there are products in the shops. My son is in Russia, as Boris Yeltsin knows, but prices are high. Is demand declining, so prices come down?

(2) The relationship between the decline of production and the military apparat does exist. Our companies could help you.

(3) You're reassuring on relations with the republics, regarding non-proliferation and the use of forces. Is there a problem with the monetary system, e.g., with Ukraine? Are your companies using international prices with other republics? What are the consequences of this?

(4) Nuclear plant safety: \$10-15 billion has been mentioned for second generation plants. You said that one-third of this would come from outside, for equipment, etc. Assistance could be more helpful if Russia eliminated duties on these materials. Are you prepared to lift them?

(5) I agree on the need for debt rescheduling. (Ø)

President Yeltsin: It would be interesting to hear from Prime Minister Gaidar, too. (Ø)

Prime Minister Gaidar: Regarding inflation, of course, the fall in prices for the mass of goods is something we can only dream of. We're trying to prevent hyperinflation. It would end democracy. This is a real and serious risk. We started reforms at a time of easy money. Prices took off at first, but tight money policy has been turning this back, slowing the rate of growth. We used financial instruments to bring them down. In January, inflation was 345%; February - 308%; March - 208%; May - 17%; June - 19%. It's still high; there's inertia behind it. (Ø)

And this is not against a background of increased production. Linkages are breaking down, and military production is declining -- whole sectors of the economy. Also, we have forced cuts in imports because of the lack of hard currency. It hurts production. We hope you can help. (Ø)

Re world prices, decontrol has moved prices up to world levels for many products, except fuel -- which we'll bring up over the course of two years. There are vast and concealed subsidies. (Ø)

Re tariffs on nuclear equipment imports, we will certainly reduce these. (Ø)

President Mitterrand: Others raised questions. I don't need to repeat them except one: Russia is part of Europe. It's

illuminating to say this because we'd forgotten. It's not part of our working circuit. Gorbachev and Yeltsin are Europeans. Even we have our faults; I know President Bush, Prime Minister Mulroney, and Prime Minister Miyazawa feel that. Many of our criteria should apply to you. It's a different order of magnitude. You're in a period of transition which will be quite long. Forty years ago many of us struggled to get on our feet. Russia is one of the great states. Russians are no less gifted than others; they only lack experience and habit. For 74 years you were absent. You had your own system; it failed -- astonishingly quickly. (Notes link between market economics and democracy.) Great scientific developments. We want a foundation for young people. This is an elite like ours. Misguided for military. You will become a true competitor -- this will be all the better. (Ø)

There are two duties for Russia to fulfill. It's not just a matter of granting political and economic freedom. First, to address the social consequences of brusque change. Hundreds of thousands of people will be destabilized. They have a right to live. Inequalities could lead to discord, disavowal of their leader. You need to ensure they can earn their livelihood. I wonder how Russians manage. They're very patient. This can't go on forever. Second, your strategic arms agreements are worthy of the gratitude of the world. They gave a new impulse; I hope there is follow-up. Need time to digest. I hope someday to stop nuclear testing. I know George Bush and John Major don't agree. Since you continue them, I will, too. But I regret it. It's absurd. We have no enemies. (Ø)

You should set up a plan for withdrawal from the Baltics; they're worried. You need to recognize their sovereign rights. I think nuclear plants are the main danger. We need a rapid response to \$10-15 billion -- one-third from us. We need to face this by summer. Ethnic disputes worry us. Seeking tribal divisions. (Ø)

Re Yugoslavia, we need an international force to protect minorities. All are afraid. Rule of law guaranteed. International Arbitration Court. Need to stop Yugoslav contagion. Need to force states to accept international arbitration. If they see the U.S. and Russia associated with this idea, it will give it strength. Could add military sanctions. Prime Minister Mulroney realizes this. Most countries breaking up had a dictatorship or empire. Higher power protected (minorities?). Who does now? You'll have these problems in your own area. This is not to accuse; the new fashion affects us all. Need rule of law. (Ø)

The President: I can't add anything. Two questions, perhaps for Prime Minister Gaidar. First, you asked about access to our markets. Is there one category, or are you referring to everything? Second, knowing of the historical friendship of Russia with Yugoslavia, do you have difficulty with our communique? We should act in concert if we can. Perhaps you have a unique role. (Ø)

President Yeltsin: We fully support your declaration on Yugoslavia. I reaffirm our phone agreement re UNSC. Also applies to Croatia. Need to broaden our view; it's not just Serbia and Croatia. May involve the UN and Russia re Croatia and Serbia. (Ø)

Prime Minister Gaidar: We face a whole series of obstacles because we were isolated for many years. First, metals. Uranium sales are shut out -- this is particularly important for the conversion of industries from nuclear weapons production. Mineral fertilizer. Aluminum. Mercury. Cast iron. Wood materials. Second, high technology. Especially the COCOM limits. There has been progress, but this is still a major restraint. Space, etc. (Ø)

Prime Minister Miyazawa: Your success is important to all of us. So is the principle of law and justice: we announced package on this basis. \$1.4 billion in trade insurance re oil and natural gas. (\$200 million for natural gas can be agreed on soon.) Multilaterally, we support the IMF, the World Bank, the Science Centers, \$25 million for nuclear power safety. Camdessus said the release of the first billion dollars will come soon. We welcome this. For Prime Minister Gaidar, do you expect agreement with the IMF? A debt agreement? (Ø)

Prime Minister Gaidar: This is the approach. The first credit tranche opens the way for broad cooperation. In August, we'll negotiate a standby, and agree by October 1. We'll negotiate a Stabilization Fund so we can activate it when the prerequisites are created, perhaps by the end of the year. The way is opened for Paris and London Club debt reschedulings. (Ø)

President Yeltsin: I would like to add on debt: We could go boldly for debt-for-equity swaps. Give property, buildings, facilities, plants, land, minerals. There is vast oil in Sakhalin. (Ø)

Prime Minister Amato: Regarding barriers to trade and COCOM, it could be useful to check on the criteria applied. Perhaps they're less favorable than for nations without the partnership we have. (Ø)

Prime Minister Major: President Yeltsin's point on debt-for-equity swaps is very important. This has immense possibilities. It's the most encouraging thing in a long time; it's worth all else here. (Ø)

President Delors: I have 3 questions regarding Russian-EC cooperation. (Ø)

(1) Regarding trade restrictions, the EC applies MFN to Russia. We've eliminated quantitative restrictions on state enterprises; 85% of all goods enter duty free. On aluminum, despite your low (electricity prices and therefore low prices?), we've taken no anti-dumping actions. Uranium is a problem.

(2) To develop our technical assistance, including training, we've committed 1.3 billion ECU. But we lack a single interlocutor. I think you said you'd set up one central point of contact. Will you?

(3) Is energy aid going to be needed next autumn? (Ø)

And other questions: (1) What about the ruble zone? (2) How to attract private investment? Is there a way to guarantee a return on capital and dividends? Like a debt-for-equity arrangement? (3) Many difficulties are linked to your distribution system. How can we help here, especially in the spirit of a market economy? (Ø)

Prime Minister Gaidar: We have no interest in dumping. As a former finance minister, I can assure you that all our exports suffer from our weak exchange rate. We're grateful to the EC for technical assistance. We need a market infrastructure, massive training, lawyers, accountants; and to upgrade our agriculture, especially our livestock and modernization of distribution. Technical assistance coordination would be a natural for the Consultative Group. Regarding guarantees, we're pleased that the U.S. moved on the bilateral investment agreement; we're working also on this with Japan. Our most important medium-term task is political risk insurance and insurance for other risks. (Ø)

President Yeltsin: I'm very satisfied with our conversation and grateful for the understanding you've shown. I appreciate the style of openness and mutual confidence here. We've been equally candid. I want to thank you for the actions you've taken and for support of Russia's reforms. This concerns all of us. It's inspiring and encourages us. (Ø)

Chancellor Kohl: This was an unusual discussion. There was real frankness. President Mitterrand went beyond just economic issues -- to think about where we're coming from and where we're going to. As a German, I'm sensitive to Russia's role. We were on the way to Russia, as it were (?). (Ø)

Now we'll go to our press conference. I'll make clear the hard work that has been done here. The most important things to say: Your success will be our success. Any falling back to old structures will be disappointing. Now we're in Munich. In 1938, we were on the verge of WWII. Now we have great opportunities. This is the most favored generation of the century. The most important thing is to signal optimism, confidence, and hope. (Ø)

Prime Minister Miyazawa: As the next chair.... Thanks for this successful summit. (U)

-- End of Meeting --