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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Spanish Prime Minister Felipe Gonzalez

PARTICIPANTS: The President
Peter Tarnoff, Acting Secretary of State
Anthony Lake, Assistant to the President
for National Security Affairs
Robert Rubin, Assistant to the President
for Economic Policy
Richard Gardner, U.S. Ambassador to Spain
Alexander Vershbow, Principal Deputy
Assistant Secretary of State
Jenonne Walker, NSC Notetaker, Oval Office
Julien LeBourgeois, NSC Notetaker (lunch)

Prime Minister Felipe Gonzalez
Jaime Ojeda, Spanish Ambassador to the U.S.
Miguel Angel Feito, Secretary of State for
Commerce and Tourism
Francisco Villar, Secretary General for
Foreign Policy
Miguel Gil, Spokesman, Ministry of the
Presidency
Jose Rodriguez-Spiteri, Director General for
North America and Asia
Jose Pons, Director, International Affairs
Department, Ministry of the Presidency

DATE, TIME December 6, 1993 11:30am-1:35pm
AND PLACE: Oval Office/Blair House

The President: When did you arrive? (U)

The Prime Minister: Last night about seven. I had dinner with the Prince, who as you know is studying at Georgetown. His Majesty the King asked me to give you his very best. He was very impressed when you said you would keep an eye on the Prince. The Prince is happy at Georgetown and getting an excellent education. (U)

The President: As you know I went to Georgetown. I told His Majesty I would keep an eye on the Prince but the Prince doesn't seem to like that because he hasn't been around. (U)

The Prime Minister: The Prince says that there is a democratic majority on campus and that political discussion there is animated and lively. (U)

I am happy to meet you. We have followed with an attention that probably would surprise you the implementation of major features of your Administration's policy. We are very interested in all you are doing about the development of infrastructure. I talked to Mrs. Clinton this morning about your proposals on health care. I also am very interested in what you are doing to reform education as a factor in economic development. For the last decade we have been doing all three things. So the country that you knew when you went to Spain has changed radically and you should go back. It would be easier to show you the changes than to explain them. Since I know that you will go at least four times to Europe next year, one of those times you should stop in Madrid. Otherwise I will try to influence Mrs. Clinton. (C)

But the government's priorities here have really struck us because they point to an historic change of direction. Our two countries' concerns are coming together in the middle. We are extremely concerned about adapting the educational system to the needs of development. We broke with the trade unions on an ambitious program of training and changing the hiring system of enterprises. We are doing all of this in the midst of a very deep cycle of change. Very important discussions are going on over unemployment. Our rate is three times greater than yours and our labor market is incredibly rigid. In my talks with the unions I say that this year we're going to lose 500,000 jobs and the increase in salaries is totally insensitive to this. The collective bargaining agreements are growing at 2% over inflation. (C)

One of the things that pleases us the most is the big infrastructure investment during the last 6-7 years in Spain. Spain has changed radically as a result. (C)

The President: All of our countries have big trouble creating jobs. In the U.S., the labor markets are more flexible and that helps create jobs, but wages of the lowest paid have not kept up with inflation over the past twenty years. So we need to maintain labor market flexibility but keep open the prospect for low earners to earn more. For many of the years since 1976 France had good growth and did better than we at raising minimum wages and narrowing the gap in wages, but lost jobs even when its economy was growing. So if fewer people produce more goods there will be more unemployment and lower wages for those who do work. We must find a way to increase jobs and wages. (C)

I am amazed that you have maintained as much support with your unemployment problems. It is a great tribute to you. I hope that a recovery in world economic growth can help. At the G-7 meeting last July the U.S. said that we would keep our commitment to bring our deficit down and keep our markets open. We have been pushing Japan to open its markets. I hope the change in leadership of Germany's Bundesbank will bring German interest rates down so Europe can have growth. (C)

The Prime Minister: That will be the debate this weekend. In Spain, entry into the European Community caused greater customs

disruption than in any other OECD country but in the same years GDP grew 30% in real terms and the salary range narrowed. During that period there was very high growth in employment. But since 1991 when we entered a period of less growth, there has been brutal job elimination. Much of what was done before has been undone from a jobs point of view. (e)

I just talked to Brussels. This weekend's debate will have two components. We will discuss Delors' White Paper and economic policy guidelines for 1994. We must keep pressing interest rates down and do a better job of controlling government spending. If the West Europeans could coordinate we could bring interest rates down. We came down 5% just this year but real interest rates still are very high. There still is a Bundesbank problem because of the German obsession. I talked to Chancellor Kohl last Friday at our bilateral Summit about the sensible Commission proposals to coordinate interest rates and budgets downward, using the European Investment Bank to make loans for construction in telecommunications and communications in general. So without affecting national budgets it would be possible to reactivate economies by further developing communications and telecommunications. The purpose is to start growth without disturbing the balance. The paradox is that Germany does not accept this so far and the UK is not happy despite British efforts to cut interest rates. But if interest rates do not go down in Germany, in the medium and long term they cannot in the UK either. (e)

Another important question is job creation prospects. All agree that we must break the excessive rigidity of the jobs market; we in Spain especially. We still have job classifications that look like the first industrial revolution. Mobility within the job market also is rigid. (e)

There is some confusion in how growth in productivity should be divided. A stupid debate about distribution of the work week. There has been a huge scandal in France over how a 32-hour work week would effect unemployment. The false and dangerous element is the idea that the amount of work available can be determined with precision without understanding that it depends on how competitive the companies are and on other activities that can absorb the remaining unemployed. For instance, environmental programs. How many workers can they absorb? Or home care for the elderly, instead of putting them in nursing homes? All kinds of new activities could absorb part of the unemployed. (e)

And the whole area of training. Will the new technological revolution have the same effect as the last one? In the last one, after initial labor savings, more jobs were created. (e)

But what is essential is that the G-7 coordinate better. No country can grow while others are in recession. We must convince Kohl to lower interest rates. (e)

The President: But can he? How independent is the Bundesbank?

(e)

The Prime Minister: Just about as autonomous as the Federal Reserve. I followed with great interest and concern the NAFTA debate. But I have learned from many years in politics that when the executive branch makes a full commitment it is very difficult for another branch to resist -- whether the legislature or the federal reserve. (C)

NAFTA was of overriding importance for all of the Americas. I hope it will not do serious damage to the U.S. (C)

The President: I think the damage is beginning to go away. But you are right that the outcome was in doubt. Ten days before the vote leaders of the opposition proposed putting the vote off to avoid hurting the Presidency with a defeat. We were 100 votes behind two months before the vote. Congress knew it was the right thing to do, but was afraid of the consequences. In the end the vote was very important because it made a statement that we would reach out to the rest of the world, be confident as a people. (C)

I believe the Vice President discussed the Hemispheric Summit later this year. If we embrace the rest of the hemisphere it will be good for democracy and world growth (Latin America is now the second largest grower, after Asia) and I hope it will be good for Spain because of your strong role in Latin America. The U.S. has ignored its responsibilities in Latin America. Our banks got over extended and then called in their loans, and that hurt Latin American economies badly. My predecessor was concerned with Central America and the drug program and ignored the big overall potential of the region. I hope to have your help there. (C)

The Prime Minister: This is the best moment to have a continental summit. There is a process of democratization, modernization, economic opening throughout the continent. And politically never in my 25 years of intensive involvement have there been better possibilities. There is now substantial understanding with the U.S. and great opportunities for America to overcome the demons of the past. They have been waiting a long time for attention from the U.S. Cuba is the most obvious exception. (C)

(Other participants join the meeting at this point.)

The Prime Minister: This is an historic moment. Almost all the countries of Latin America have overcome nationalistic attitudes toward the U.S. (C)

We have special relations with Cuba. We know the American position. So in addition to saying what you expect to hear, there also is substantial agreement between us that there must be a process of democracy in Cuba. Our concern is whether change will have to be traumatic or will be peaceful. We are trying to force a dynamic of change as peaceful as possible. Presently events are evolving faster than before. The economic system is not sustainable. (C)

I had a relatively tough talk with Castro this summer. I said that the embargo cannot be blamed for Cuba's economic crisis. That does not mean that the embargo does not have influence. It makes the situation more acute. But the crisis is a result of Cuba's political system. (C)

They agreed to a thoroughgoing study of how the production system in Cuba needs to be changed toward an open market. Without being overly naive, we did have two excellent working meetings. The purpose is to conclude by January a plan to begin the transformation from a centralized to an open economy. (C)

For now Castro has accepted this, although there is an internal struggle. Some sectors agree that political change also will be necessary but others do not want anything to change. Castro is in the middle of this struggle. We will continue to try to force this dynamic in the right direction. (C)

The President: What do you think he wants to do? (C)

The Prime Minister: He doesn't know himself. In the first session when our team, headed by my former economics minister, presented conclusions to Castro, I think he defined his attitude. He said "I think that you are right that we must do the things you propose but I am not sure whether we will be able to." So he knows that he needs to change quickly. The argument that weighs most heavily on him is that Cuba is drifting ever further from the currents of democracy elsewhere in the hemisphere so he is getting isolated. This weighs on his thinking. I think he does want to make changes. (C)

I do not think Fidel Castro ever was a committed communist. That does not mean anything because he has been worse -- a kind of Christian anarchist or something. That is a Spanish specialty. He adopted the communist model to keep himself in power, and was successful. But he never was a communist like his brother Raoul. (C)

They are very dependent and react to any gesture from the U.S.; much more than you would imagine. But at the same time they have Spanish pride. If Cuba were not so close geographically to the U.S. the changes would already have happened. They are obsessed with the U.S. But I think that change will come in the next year. (C)

The President: We may be obsessed with each other. (C)

The Prime Minister: True. Quite an exaggerated obsession. Once when talking to Gromyko about Afghanistan I asked if the Russians hadn't figured out how the U.S. has put up with a communist country so close to its coast for so long, and he just laughed but did not deny it. But yes, it has been an obsession for the U.S. as well. (C)

Cuba is a wonderful country. A sensational island. It has perhaps the greatest potential in the Caribbean. (C)

The President: There is no question about it. The problem for us is reinforced by the enormous number of Cuban Americans, many exiles from Cuba. There is some division among them but most believe, and I agree, that the embargo is helping get Castro to at least think about his alternatives. It is a strange situation because the U.S. could be the best friend Cuba ever had. We need reconciliation. But most of our Cuban people believe that if we let up, he could use any economic relief to tighten his political grip. (✓)

The Prime Minister: If that took place, and I do not think it would, but if there were a more open American attitude to Cuba it could make political change in Cuba unstoppable. If you had that maneuvering room. But I have talked to Cuban Americans. We have had very interesting discussions. They think a transition model like that of Spain would be acceptable. I said that would mean they would have to turn the page of history because in Spain we went from dictatorship to democracy without even any temptation for reprisals. (✓)

I discussed this with Havel, and gave him one anecdote. The first time I took a plane from Madrid as Prime Minister was to the funeral of my father-in-law in Seville. I came down the stairs of the plane and the Chief of Police saluted me and I called him by name and he changed color. He paled. "Do you know me?" he said. "Yes, of course," I replied, "you arrested me in 1974". (✓)

(Laughter as the participants departed for lunch.)

-- END OF CONVERSATION --

Gonzalez Working Lunch December 6, 1993

The President: We need one week to sell a GATT agreement to Japan and everybody else. But even today I took a call from Korea on an agricultural angle. We should be able to reach agreement with the Europeans today; if not today, tomorrow. (C)

Prime Minister Gonzalez: Spain's economic opening and integration over the past years have had a tremendous structural impact. In some fields, 73 percent of what we consume is of U.S. origin, seven percent from Spain, and 20 percent from the rest of the world. (C)

The President: I hope we can talk about that over lunch. It's an issue I never needed to consider before becoming President and one we are recognizing. (C)

As for the overall GATT agreement and Japan, we hosted a recent meeting of the APEC nations in Seattle -- where I had my second meeting with Prime Minister Hosokawa. He told me that if the U.S. and the Europeans reach an agreement, Japan would not stand in the way of an accord. There is the visible problem of rice -- changing from quotas to tariffs -- but markets can appear to be open and barriers still exist. We have had a series of bilateral negotiations to change such Japanese practices for everyone's benefit -- to end Japan's \$1 billion trade surplus, half of which is with the U.S. (C)

Prime Minister Gonzalez: The Japanese have mechanisms to control their market, specifically the tight cooperation between MITI and Japanese industries. In Japan, they plant rice in a room this size! How can that be profitable? Unsustainable protectionism in Japan makes it possible for one melon to cost the same as a television set. We will have even more problems with the Chinese when they join GATT. They respect no rules and have amazing potential for growth. (C)

I want to say we have not done badly with our economic opening. Some sectors have been hurt, but overall the results have been good. Now, with the current crisis, the negatives are more obvious. So we are interested in the success of GATT. It is not too difficult to reach agreement by the 15th. Some of the Latin American countries are not paying enough attention to IPR issues, but that will come. (C)

The President: The Chinese problem is more interesting to me in a way than Japan's. (C)

Prime Minister Gonzalez: China ignores trade rules. They make things confusing. We used to say: "It's all Greek to me." Now we have to say it's all Chinese. A Spanish company in China has been making powdered chocolate for four years. But 20 companies there have copied the formula! There is no oversight of any kind. (C)

The President: Perhaps we will get there. I had an interesting visit with President Jiang Zemin in Seattle and also have to stop saying it's all Greek. If I raised an issue he did not like, he would read a speech. He speaks English and had to listen to his own speeches twice. (S)

Prime Minister Gonzalez: They refuse to talk politics -- only the economy. I asked the President about the downfall of the USSR, sure he could not get out of this one. He replied with a Chinese parable: How could a country (the USSR) work whose officials actually toss back all the mao tai when told that is the Chinese way. (S)

I tried to talk about human rights but they said: "We know what you are going to say. There is no need to go on. When you get home, you will find a surprise." A few days after my return, they freed a few of the Tiananmen leaders. The Chinese will determine what the 21st Century means to us. (S)

The President: It is hard to know how to deal with China. We all have a large stake in what kind of society it becomes. Therefore, the issues of human rights and non-proliferation are important. It is also hard to pass up economic opportunities. You never know with China if you are taking one step forward or two back. We have tried to bridge the post-Tiananmen gap without giving up our insistence on human rights. They say that we are being mean, but we take 30 percent of China's exports. That is a reasonable contribution to its welfare. (S)

Prime Minister Gonzalez: We have to be pragmatic. We are used to thinking that there is a communist system there. Even politically, that has ceased to exist. They have a market economy within an entrenched totalitarian framework. It may take years before this structure loses its intensity, given the leaders' obsession with their huge populace speaking all sorts of languages. It is hard to fit China into how we think of a country. (S)

But there is a revolution of telecommunications -- and the fax. We want to see democratic participation. But China is now moving more toward disorder than toward greater participation. It is more totalitarian than communist. And they have an elephant's memory for any gesture. (S)

The President: They also believe time is on their side. They have great patience. (S)

Prime Minister Gonzalez: And a different sense of history. On one visit I saw Deng, who at the end of his life talked in detail of what would happen in 50 years. If we said the same sort of thing to the television, people would laugh. (S)

The President: China dominated the world in 2500 BC. (S)

Prime Minister Gonzalez: China is easier to understand in the arms field, where there is room to negotiate. They believe we

don't understand what democracy means for China. Russia never had a free market and doesn't understand. China does. (C)

The President: May we talk about GATT? I would like to explain our position on audio-visuals. I understand why this is important for countries such as France and Spain. We have put on the table a rule to allow current restrictions. But we don't want to limit new technologies or to have contracts negotiated in the U.S. not honored elsewhere. Our entertainment industry is concentrated in New York and California, two states with the highest rate of unemployment here. The audio-visual sector is very labor intensive. We have been negotiating mostly with the French and I know you are generally aligned with them. We are hoping for some accommodation. (C)

In the end, it is hard to restrict audio-visual products, given satellites and other technologies. With regard to cultural identity, cable and satellite give a country more opportunities to dedicate channels for local use and to still permit access for others. Every major city in the U.S. has a Spanish-language channel with a majority of imported programming. Washington, D.C. has an Asian channel. This industry is second best in exports for the U.S. and we need this to be taken into account. (C)

Prime Minister Gonzalez: Madrid is a major importer of films, and there have been sharp recent increases. I won't be overly nationalist; the situation is not reversible. But an example: If there is a popular 'super production, lots of people go, but they make a package deal to bring other movies that are not so much in demand. Only seven percent of films screened at the box office are Spanish. The problem won't change. Our only objective is to maintain our local production -- to see it maintain itself and become competitive. But to lose it would be a great problem for any political party. Spain will continue to be an excellent client and the market share of the U.S. won't change. We have to maintain a small amount of protection. (C)

The President: The U.S. has made clear its position to accept current restrictions. It is difficult to grasp all the nuances of packaging, but we should try to get legal protection for any agreement we negotiate. (C)

Prime Minister Gonzalez: We are just about to change our regulations. It should not be interpreted as trying to further restrict U.S. products. The legislation we are preparing won't put new restrictions over and above what exist now. Please, do not worry. (C)

The President: Perhaps our people should discuss this. Some who have contacted us think the regulations would bring changes, reducing distribution and dubbing licenses. Those who know about this issue should discuss it. (C)

Prime Minister Gonzalez: I agree. My people could explain our feeling. We don't want to turn the clock back. Twenty percent

of the box office take goes to European countries, mainly France. This is a natural evolution. France and we both have lobbying intellectuals and artists too. (C)

Between us, I don't like the cultural-based exception in GATT. It would be much better to study this issue. But this is not an opinion that can be expressed publicly. What flexibility does the U.S. have on this in GATT? (C)

The President: I was told this morning that we more or less have an agreement with the Europeans, but it was unclear whether this concerned agriculture or audio-visuals. A big issue domestically is whether what the U.S. gives up meets our laws on counter-vailing duties and anti-dumping. If we weaken our tools, Congress could vote the agreement down. There is not as much Congressional opposition to GATT as there was to NAFTA, since everyone sees the benefit of a wide reduction of tariffs. If the rules work well, there will be more integration of the global economy and respect for international organizations. (C)

Prime Minister Gonzalez: The European Union wants to create a multilateral oversight mechanism. One U.S./EU conflict is excess U.S. corn. Ninety percent went to Spain, which is continuing to absorb it. This doesn't affect the price index but does impact local production. Spain's bilateral trade deficit with the U.S. is structural -- and increasing. It can only be fixed by trading more. We still find some difficulties entering your open market. We keep the U.S. from being more in deficit. (C)

The President: We appreciate that. (C)

Concerning the NATO Summit in January, we are trying to work out ways to relate to the emerging democracies in Eastern Europe -- ways to cooperate that do not provoke a negative reaction from Russia. It is important that the U.S. reaffirm its commitment to Europe. I understand that Spain has given a positive reaction to our Summit proposals, but I wanted to ask you personally. (C)

Prime Minister Gonzalez: This is the most difficult question for the Alliance. France wants to be more integrated in trans-Atlantic decision-making -- except perhaps for Mitterrand, who because of his age does not want to make the change. The Minister of Defense wants more integration. The point is that no one doubts the trans-Atlantic link. This is not worth discussion. But there is a huge vacuum in the East, where countries have vague foreign policies while they grapple with the questions of security and economics. Russia does not want the East and Central European countries to join a military alliance on its borders. It is a delicate situation. Yeltsin does not have much room for maneuver with the Parliament, even less with the armed forces. (C)

The U.S. position is the only one possible. We will support it, but we know that most of the East Europeans do not see it as sufficient. And it will still worry Russia. (C)

I have been concerned for some time about Ukraine. A year ago I met with the President. He said clearly what he had hinted publicly, that he would not comply with nuclear arms agreements. We are asking for compliance he won't be able to give. He wants a U.S. nuclear umbrella. Therefore, this is a further problem for NATO. (C)

Another problem we must deal with before the Summit is Yugoslavia. (C)

The President: Are the chances good for reaching an agreement this weekend? (C)

Prime Minister Gonzalez: Yes. There are possibilities for the current plan. If successful, implementation will be the next step. This will be important for NATO. (C)

Another Spanish soldier lost his life over the weekend. We never had anything to do with the Balkans. One half of UN troop casualties in Yugoslavia have been Spanish. (C)

If there is a real agreement, the figure of 50,000 troops is too big; 20-25,000 would be more appropriate. But to impose peace would require more than 250,000 troops. This could come up over the weekend. What is the U.S. position on participation in a peacekeeping force and on loosening the embargo on Serbia? (C)

The President: I want to thank you for Spain's involvement and regret the loss of your soldier. (C)

The U.S. would support a peace settlement if it is generally agreed by the parties and do its best to help implement it. Neither 50,00 nor 250,000 troops would be enough to enforce peace if the parties don't want it. The reality is more ragged than any agreement. (C)

Prime Minister Gonzalez: It's asking a lot for them to be honest. (C)

The President: Yes. There has been lots of fighting for a long time, and it's hard to bring everyone on board. Our military people have used the estimate of 50,000 troops in the event of a settlement. I've taken that recommendation from the experts. There could be many local people who would continue fighting for more territory or who would try to take the law into their own hands. This is why our contingency plans involved 50,000 troops. If you believe otherwise, our military experts should talk. (C)

Whatever role the U.S. plays, the U.S. Congress will have to support it. In Somalia, I almost faced an immediate, forced withdrawal of our forces. There was a real sense of isolationism about any ground force involvement. But I would not predict that Congress would countermand my February statement on implementing a settlement. Congress does support the ongoing negotiations and the humanitarian airlift. The prevailing mood is, if we go in, it must be with plenty of troops. (C)

Mr. Lake: We are perhaps looking at different terms than before. Maybe we will only need to protect Muslim-held areas. (C)

Prime Minister Gonzalez: To just close off Muslim areas? (C)

Mr. Lake: Not to demilitarize all areas. (C)

Prime Minister Gonzalez: Yes, though some Muslim areas are right on the border and would still need to be demilitarized. I was told today: "Don't be too surprised if there is an agreement over the weekend." (C)

The President: What about corridors for the isolated Muslim areas? (C)

Prime Minister Gonzalez: The main issue is access to the sea. Croatia recognizes it needs to offer something but is not yet ready. The Muslims may want to wait until spring and launch a new offensive. We should discourage them from doing this. (C)

Mr. Lake: It is more difficult with the Croats than with the Serbs. We have argued for many months against trying to force the Muslims into an agreement, since by definition it would not last. Especially since they are doing well militarily. Military commanders would reject an agreement as not in their interest. (C)

Prime Minister Gonzalez: It's a mirage for the Muslims to think they can do better. We have reports from the Spanish forces who have dealt with constant Muslim incursions into Croat areas. It would be a shame for the senseless destruction to continue. International aid is being used to prolong the fighting. (C)

The President: If an agreement is concluded and we agree on the number and distribution of peacekeeping troops to enforce it, how much risk would there be for them? (C)

Prime Minister Gonzalez: Honestly, with an agreement, relatively high. There are no real guarantees that one group or another won't shoot. (C)

The President: Well, are we ready to meet the press? We have held them off for three hours. (U)

Prime Minister Gonzalez: When can you come to Madrid? (U)

The President: I'd like to come back! (U)

Prime Minister Gonzalez: The King would be delighted and, of course, you would have to bring Mrs. Clinton. (U)

The President: Would you be able to open the Prado early? (U)

Prime Minister Gonzalez: Even if it is a Monday, when it is normally closed. You will be flying over Spain two times out of

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13

your four trips to Europe next year. You should reorganize your trip. (U)

Mr. Lake: All those wonderful paintings by Bosch. (U)

The President: The thing to do would be for you to force down the plane, and then I could defect. (U)

-- END OF CONVERSATION --

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