

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Restricted Meeting with Prime Minister
Romano Prodi of Italy

PARTICIPANTS: The President
The Vice President
Robert Rubin, Secretary of Treasury
Samuel R. Berger, Assistant to the President
for National Security Affairs
Thomas Pickering, Acting Secretary
of State
James Steinberg, Deputy Assistant to the
President for National Security Affairs
Donald K. Bandler, Special Assistant to the
President and Senior Director for European
Affairs, NSC Staff (Notetaker)

Romano Prodi, Prime Minister
Lamberto Dini, Minister of Foreign Affairs
Ferdinando Salleo, Ambassador to the
United States
Roberto Nigido, Diplomatic Advisor to the
Prime Minister
Silvio Fagiolo, Chief of Staff to the
Foreign Minister

DATE, TIME May 6, 1998 10:50am - 11:50 a.m.
AND PLACE: Oval Office

The President: Congratulations on the achievement of monetary union. I know this was a great aspiration and a great victory for you. Your country owes you a lot for the leadership that it took to get to this historic moment. (U)

Prime Minister Prodi: You know the vision was really Kohl's. Europe is a complicated place and we could have a lot of problems as we saw in those final negotiations on the chairmanship of the European central bank. Kohl saw the potential for Germany going in many directions and he was the one who had the vision for European Union. With the creation of

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the monetary union all of that has been decided. It is no longer possible for Germany to split off or for Europe to come apart. (U)

The President: Yes, Kohl is a very good man and he has been there a very long time. (U)

Prime Minister Prodi: I agree it has been a long time. (U)

The President: Right. By Italians standards, he has been there an eternity. (U)

Prime Minister Prodi: Kohl prevailed over the tendency of Germans to want to stand alone. He had a vision for European Monetary Union and also for the other enlargement besides NATO, the enlargement of Europe to include its central European neighbors. At the moment of the decision to enlarge, it was certainly the thing to do but I must say we considerably underestimated the costs. Of course, this is what you have to do or you would never start such a project. In any case, the entrants will be about 30 percent of the population of the larger Europe, but they only have 10 percent of the income. (U)

The President: I am going to stop in Germany on my way to the Birmingham G-8. (U)

Prime Minister Prodi: Yes, I understand you are going to make a great speech in Berlin. This is really very important. The Germans are disquieted with events. Symbolically it is important that you stop there and speak to them. Will you participate afterwards in the 50th anniversary of the WTO? (U)

The President: I would like to do that, but I have to hold the dates due to the legislative calendar. Now you know that this is an election year here and we only have about 60 days of Congressional work left. (U)

Prime Minister Prodi: The election campaign really begins after the summer holidays, doesn't it? (U)

The President: Yes, but that is still soon. If Congress goes home now, they can all agree to attack me. Therefore, I can't be away a single day when we have the possibility here to work with Congress and achieve something. And believe me, Romano, we have things to achieve. In any case, let's start now onto our broader agenda. And tell me what you would like to discuss. For my part, I can tell you that I want to repeat that I am

thrilled by your success, by the stability and leadership that you brought to Italy. I mean not only your efforts to build our partnership, but what you are doing as well with all of Europe.
(C)

Prime Minister Prodi: I don't want to exaggerate my achievements. The spirit of our country is changing but it is going to take a long time. There has been a big change in the parties but there is a bipolarism there. We need to bring about a long-term change in our system. (C)

The fact that we got the monetary union is a big relief and a matter that gives me a great sense of satisfaction. We will be able to deliver better on our tasks and will be able to do better in evolving an effective common foreign policy, to be more active addressing the problems in the Balkans, Iraq and the Middle East, and as well as to deal with long-range problems. The biggest of these, put in general terms, is the border between the Christian and Islamic worlds. That is why we are so focused on Turkey. Despite its economic and human rights problems, it has enormous importance for our ability to live peacefully in this region over the long-term. (C)

You know we took an important initiative in putting together our mission to Albania because years had passed without an Italian foreign policy. Many years had passed without an important Italian foreign policy initiative. Now we have delivered, we are ready to take part. We are ready to tackle the problems in Bosnia with you. Even in Kosovo. (C)

We have a clear sense now of our own potential. Italy has about the same GNP as the United Kingdom and only about 10 percent less than France. With this kind of economic clout we can and need to do more. Our priorities are going to be on the southeast and the Balkans. Italy is now the first or second largest trading partner with the region. Larger than France and the United Kingdom combined. So, it is a natural for us and we have to do our duty. (C)

At the Rome Contact Group meeting, we agreed together that we wanted to increase the pressure on Milosevic. I called Yeltsin and then called you about our conversation. I told him that we have to press both of the parties. Yeltsin responded fairly but he repeated two or three times his strong opposition to sanctions. You know it is not easy to get the Contact Group to act. We are pressing on the Rugova side as well as on Milosevic. We need to stick together in the Contact Group.

Actually, I am worried about the idea of sending troops. I would do it if necessary but you know we are already in Bosnia, in Macedonia, and if we go into Kosovo we will have a presence in four of the Balkan countries. When we went into Albania, I agreed to go there and to come back out very quickly. You know, that is not easy to do. And spreading our troops over four different countries is a potential problem. (C)

I was asked by the press this morning if we will be able to deal with Russia and the Crimea on one side and Iran on the other side. You know, I thought about this and we must not permit a strong linkage between Iran and Russia. We are in a position to help Iran evolve and to develop a dynamic society with the middle class. Italy has a long tradition of relations with Iran. We ourselves prohibited investment over a period of time. Indeed, we put pressure on the French, telling them that now was not the time to invest. However, we concluded that this is the time to resume more normal relationships with Iran. As long as we continue to stress the three points on which they need to do better: terrorism, development of nontraditional arms and human rights. But it is useful to resume going to Tehran and I plan myself to go. In this mission, I am going to tackle the problems as well as try to advance the evolution in that country. All of this can connect positively to the Middle East peace process. (C)

Foreign Minister Dini: I visited Tehran in March and had meetings with people including Khatami. His CNN interview and other things he has said and done indicate his spirit to build bridges to the West and especially the United States. He drew parallels between the United States and Persia. He has strong support but he also is opposed by Khamanei and the Revolutionary Guards who fall under his control. In short, he needs a bit more time to allow for an official U.S.-Iran dialogue but is ready to move forward on institution-to-institution and people-to-people exchanges. He will win his battle. (C)

Prime Minister Prodi: (interjecting) I am not so sure. (U)

Foreign Minister Dini: Some of the people I talked with suggested that Iran had abandoned all support to terrorism. We also discussed the Middle East peace process. The Iranians thought that Oslo was too favorable to Israel but now they are no longer opposing it. It is also important to take account of the fact that Iran is in the presidency of the Islamic conference. This is having a moderating influence. Iranian

officials traveled to Saudi Arabia. If this evolution continues Iran could actually be a source of regional stability. (S)

Vice President Gore: The problem is that the words on terrorism are not matched by reality. Khamanei controls the Revolutionary Guards. I agree that there is a good chance that Khatami will win the struggle but there is also a large risk that he won't. During the interim, we need to judge by what they do, not what they say. (S)

Foreign Minister Dini: The Iranians make a distinction between terrorism and support for liberation armies. Beyond that, we have no indications of terrorism except perhaps in the Palestinian area and in fact terrorism has dwindled worldwide. Therefore, we see the support of terrorism declining and of course, we have to be cautious, but at the same time give them encouragement. (S)

The President: Your going could be positive, but a very clear message is needed. It is pivotal for the unfolding of the next 30 years if Khatami succeeds. We are mindful of his need not to go too fast on official contacts. We have a special role in dealing with terrorism, the Middle East peace process and Israel, so if you go, you have to have the right message that strengthens his hand. Secondly, under ILSA, which has caused tensions between the United States and France, we need to make a determination. We are trying to work this out so we can continue to improve relations with Iran. But there are a lot in Congress who want to be tough and there is strong support among some American voters. We need your understanding and sensitivity to modulate your desire to begin doing business with Iran. (S)

Samuel Berger: Especially over the next few weeks. (S)

The President: Yes, we have to do what the law says but continue to nurture the reform movement in Iran. If there are other deals, energy deals where there are investments in Iran, it would complicate matters greatly. (S)

Prime Minister Prodi: I understand and that was exactly the reason I stopped these deals. And I stopped investment over a long period of time. Italian investment was stopped with Iran over a long period of time so we can certainly stop it for another few months. Iran is hot, you know, and so is Ukraine. If we can control and make progress with them strategically it will calm things down. (S)

Samuel Berger: If you go, it is very important to give the message the President just explained. Our understanding is that terrorism has not stopped. I'm not just talking about Hizbollah but also their assassination attempts against individuals. (✓)

Prime Minister Prodi: (interjecting) Yes, I know there is internal terrorism. (✓)

The Vice President: Yes, but there are also other forms of it. (✓)

Samuel Berger: He needs a clear understanding that we will not be able to normalize with him unless he comes to grips with this cancer. Otherwise, he could get the impression that he is able to talk to the Italian Prime Minister, the French Prime Minister, so why should he bother to deal with these problems? (✓)

The President: We don't believe he is supporting terrorism, but Khamanei and his revolutionary guards are providing arms and training to terrorists in their own country and in the Middle East. This goes to Hizbollah and beyond Hizbollah to Islamic Jihad. (✓)

The Vice President: The Italian company ENI is a significant one. There are vast energy resources in the Caspian basin, in Azerbaijan, Kazakstan and Turkmenistan and elsewhere. These countries are vulnerable to Russia from the north and to Iran from the south. If Italy and the United States cooperate now to develop a pipeline under the Caspian sea we could get a multiple pipeline result which would be the equivalent of an umbilical cord of independence. If a pipeline goes through Iran, on the other hand, we would put this prospect at risk because a north-south pipeline would slow down or end the possibility of a trans-Caspian pipe. Therefore, we need to get to work on this, and we should do it together. (✓)

Foreign Minister Dini: Our company ENI is not operating alone. It operates with U.S. companies. (✓)

The Vice President: But ENI is in Iran. (✓)

Prime Minister Prodi: Yes, they are very frightened about being squeezed between Russia and Iran. A pipeline in fact would give them more freedom. (✓)

The Vice President: A pipeline under the Caspian is the only way in the long-term. Multiple pipelines give the best guarantee of energy security. If the West allows a north-south pipeline option to be developed, the east-west one just will not get done. (C)

Prime Minister Prodi: Well as I learned in economics, we need to have the highest number of suppliers as possible. So we must send oil out from Russia, from Iran and through the Caspian. (C)

The President: Okay, but I am afraid if we get a pipeline through Iran and it is built early, it will block the financing needed to build a trans-Caspian pipe. (C)

Prime Minister Prodi: I agree, yes. I agree. (C)

The President: I agree also on your point about Ukraine. We need to help nurture its independence. I went there and Kuchma has been here several times. (C)

Prime Minister Prodi: They don't help themselves. (C)

The President: I agree, and the elections could actually make it worse. (C)

The Vice President: It is bad. The situation is not as bad as it could have been. There is no communist majority poised to take over as was the case for Yeltsin at certain points. (C)

Prime Minister Prodi: We want to build transportation networks to Ukraine and also into the Balkans. And let me turn back to Albania. We need to make decisions on how to get more help to the civilians. We have nonprofit organizations at work there rebuilding universities and some infrastructure. It is very important to give hope in Albania, hope which does not exist now. (C)

The President: Do you have a reconstruction plan? (U)

Foreign Minister Dini: Not now. I targeted the need for one. The EU will help. (C)

Samuel Berger: Unless we deal with the political issue, the relationship between Kosovo and Albania will get worse and will increase radicalization. The student movement is already attracting arms from around the region. We have to get both

parties into a negotiation on status. We have to be tough on both and make it clear to them that there can be no violations. (C)

Prime Minister Prodi: Let's talk about the new transatlantic marketplace. Europe is in a new phase. We must have a strong link with the United States and we need to translate this into action. The only limit on us is that whatever we do has to have a connection to the WTO. I don't see any problem there. We need to give more energy to studying different possible trade projects together. Europe after the monetary union will be more self-confident -- despite the differences over the European central bank chairmanship. We have achieved all the points we set out for ourselves. (C)

We need to avoid any danger of detachment or division within the West. Blair agrees perfectly with me. We have strong support, so we can bring this up in the G-8 and at the next EU meeting. Let's get some concrete action, especially in view of the Far East financial crisis. The U.S.-European relationship should be and will be stronger and stronger. I have no sense that it is any less important. There are a number of hotspots which require management and policy efforts. (C)

Foreign Minister Dini: There will be some resistance from France on audio-visual and intellectual property rights. They are putting up a real squawk. Sir Leon Brittan has to deal with this. We are more open. We see the value, we see the strength of U.S.-European relations. (C)

Prime Minister Prodi: Yes, and specific problems can be solved. (C)

The President: We need to think about Asia. It shows that we can work together, but we need momentum of our own as well. We can't be sure of how Asia is going to evolve in the future. And indeed, many of the Asian countries and others are now outside the WTO. China and other countries are debating if they want to be part of this international system. Therefore it is important for us to develop the links with one another, just as we are working together in Latin America all the while staying within the WTO framework. (C)

Prime Minister Prodi: Another important question is the Greek-Turkish problem. I find it to be almost hopeless. (C)

The President: Thanks for raising that. You know before Luxembourg, I had a long talk with Kohl. I almost begged him to reach out to Turkey. (X)

Prime Minister Prodi (interjecting) He just couldn't do it in this election year. Italy is in a position to help. (X)

Foreign Minister Dini: We have supported Turkish accession into the EU but Greece and Germany are in a different situation. (X)

Prime Minister Prodi: It should be enough to give Turkey the Customs Union payments it deserves. But this has been made impossible due to the Greeks. We have been trying to tell the Greeks, but they find it impossible to understand. Turkey now is owed \$700 million in cash. We are ready to follow through on that. (X)

The President: Yes, and they need the money. (X)

Prime Minister Prodi: I agree. (X)

Foreign Minister Dini: This will also be a sign that Europe is with Turkey. (U)

The Vice President: Turkey faces elections just as Germany does. (U)

Prime Minister Prodi: And money for Turkish payments is already in our budgets so we can move forward without modifying them. But Greece continues to veto. I will be seeing Simitis soon. He is a reasonable man but he has political opposition. (X)

Foreign Minister Dini: Turkey has to bring its Aegean differences with Greece to the International Court of Justice, then they would get Customs Union funds and that would help on Cyprus. We need a quid pro quo but we are not there yet. (X)

The Vice President: We appreciate your support on this and your not selling destabilizing weapons to the island. (X)

The President: You know no other European leader that I have spoken with about this believes it with the conviction that you do. (X)

Prime Minister Prodi: Perhaps we are closer to the situation. The odd thing is that it is the Turkish military, which is the keeper of secularism, which is toughest on Cyprus. They won't

relax until they believe that their future lies in Europe. We have to keep working on it. I think we have some influence with the Greeks but it is hard. The Greek-American community has been outraged about Cyprus, but they don't appreciate what needs to be done to unlock the problem. (S)

You know the European Union has free movement of peoples and as you know this would not be possible if Turkey entered. But they are ready to have some limits on movement. (S)

The President: The Turkish military wants to know that the West still wants them and understands their significance. And if Iran goes the wrong way, Turkey will be even more important. After these upcoming elections, we need a formula where Greeks let go of the Customs Union money, where the Aegean jurisdiction questions get resolved and a Cyprus peace process started. But, you know, Turkey also has an irrational element. If not, why would they have gone to war over this tiny pile of rock, called Imia/Kardak. It's crazy, you have to call it by its Greek and its Turkish name. If you have advice for me after seeing Simitis, please get in touch. I believe we have possibilities here. There are big questions on the table. We have to assure that we have a process that continues to move forward in the Balkans. We have to get Turkey right, which is critical for Europe's future, and we have to continue dealing with problems that flow from extreme Islamic fundamentalism. (S)

Prime Minister Prodi: Can we talk for a minute about a few bilateral problems? Italian public opinion is very sensitive in this period after the cable car accident. Any interview makes news in Italy. It is a subject of reporting hourly. (S)

The Vice President: Well, you know it is hard for us to control what is said in our own media. (U)

Prime Minister Prodi: I know, it is almost impossible. (U)

The President: Our military does have some rules on this, but there are also constitutional freedoms. (S)

Prime Minister Prodi: This issue can play into the renewal of your military bases. Because you have managed it well and we managed it well together, it has helped, but there are still some risks. (S)

Another question is one of mercy, Mrs. Baraldini. I know I can't ask you to do anything, but public opinion is very

sensitive to this. I know I can't interfere with your judicial system and your justice but this is a big issue. She has been in jail for 16 years. I can't ask you about something like this, I feel awkward about it, but I hope you understand why it would be difficult or impossible for us to take a firm engagement about her staying in jail if you released her to us because the rules are different in Italy. We could make a commitment that we won't ask that she be released from jail into some sort of custody program. If we could just find something... Sixteen years is a long time... Her sister died due to a terrorist incident in Chad. So it is an emotional question. She has started to repent, so it is a big question. Please understand it is important and emotional in Italy. (C)

The President: Well, let's move next door for our expanded session and join the others. (U)

-- End of Conversation --