

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Working Lunch with Russian President Yeltsin:
Economic Issues, Jackson-Vanik, Denver
Summit, Space Station, Nagorno-Karabakh (C)

PARTICIPANTS: U.S.

The President
Madeleine Albright, Secretary of State
Sandy Berger, Assistant to the President for
National Security Affairs
John Shalikashvili, Chairman, JCS
John Podesta, Deputy Chief of Staff
Strobe Talbott, Deputy Secretary of State
Larry Summers, Deputy Secretary of the
Treasury
Jim Steinberg, Deputy Assistant to the
President for National Security Affairs
Jim Collins, Ambassador-at-Large for the NIS
Jan Lodol, Principal Deputy for the Under
Secretary of Defense for Policy
Steve Pifer, Senior Director for Russian,
Ukrainian and Eurasian Affairs (NSC)

Russia

President Yeltsin
Yevgeniy Primakov, Foreign Minister
Oleg Davydov, Deputy Prime Minister
Yuriy Yarov, Deputy Head of Presidential
Administration
Dmitriy Ryurikov, Foreign Policy Assistant
Yuliy Vorontsov, Ambassador to the United
States
Vladimir Lukin, Member, Russian State Duma
Viktor Samsonov, Chief of the General Staff
Nikolay Afanasyevskiy, Deputy Foreign
Minister
Yuriy Mamedov, Deputy Foreign Minister
Nikolay Spasskiy, Head, MFA USA Department

DATE, TIME March 21, 1997, 1:00-2:00 p.m.
AND PLACE: The Finnish President's Residence, Helsinki

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The President: When you gave your speech on March 6, I wrote down what you said: "I wish to hand over to my successor a country with a dynamically developing economy and with effective and just social protection, a country whose citizens confidently look to the future." That is a vision that I'd like to help you advance. (U)

President Yeltsin: Very good. (U)

The President: As you know, Vice President Gore and Prime Minister Chernomyrdin are working on a lot of issues in this area. I am glad to see Chubays and Nemtsov on the economic team. Now you need concrete actions. What you need to do is to increase investment in Russia and Russia's full participation as a partner in international economic institutions. I believe and have said in the United States that the potential for Russia to have very, very high economic growth in the next few years is tremendous. (C)

But it is clear you cannot force investment in. As an American oil company executive said, pushing investment is like pushing on a rope. You cannot push it in; you have to pull it in. (C)

When Al and Viktor Stepanovich met, they agreed on tax priorities, energy laws that could attract \$50-60 billion in investment to Russia, steps against corruption and the Bilateral Investment Treaty. We will strongly support reactivating the IMF program. The IMF has done a lot and can do more. I know the difficulty of passing a new law in the Duma and that only you can provide the leadership. But we are ready to offer technical assistance. (C)

With your permission, I would like to invite the Deputy Treasury Secretary, Larry Summers, to describe what we can do to help investment in Russia. Then I would like to talk about some steps governments can take to help. (C)

Deputy Secretary Summers: We have spoken widely with potential investors in Russia. Four priorities seem to us to be important. First is passage of a new tax code through the Duma and improvement of tax administration, so that the taxation rates for entrepreneurial activity can come down. (C)

President Yeltsin: In March, the new tax code will be submitted to the Duma. (C)

Deputy Secretary Summers: We have more than 20 people in Moscow working now on this law and to improve its administration, which is crucial to implementation. The second and third priorities are support for legislation for production-sharing arrangements

and ratification of the Bilateral Investment Treaty, which is very important for investors. Finally, cooperation with the World Bank and others can mean private guarantees, and support for investment could be raised to improve the total flow of investment into Russia. (C)

These four concrete steps, along with vigorous efforts on corruption, which was part of your March 6 speech, would do much to attract capital, both from foreign investors and from Russians who have placed their money overseas. (C)

President Yeltsin: Yes, I agree. And I would like to ask you the following questions. What about your anti-dumping laws? And what about restrictions from the U.S. Department of Energy -- we purchased supercomputers from the United States for the purpose of destroying strategic nuclear missiles. But the sale was denied. This is not just. We are not sure what you call us: we are not enemies, but we are not yet friends. This is not right. (C)

Deputy Secretary Summers: I do money, not supercomputers. This is something we will have to look at. (C)

President Yeltsin: We hear talk about trade restrictions. (C)

The President: I will look into this. This may have something to do with our export restrictions. I will check and get back to you, perhaps even today. (C)

President Yeltsin: Good, Bill. How should I understand that Russia is viewed as a country that is not a market economy? As President, I have hard feelings on that. (C)

Deputy Secretary Summers: Russia has made great progress toward market reforms under your leadership. But "market economy" is a technical term in our trade law. In important ways, if Russia were labeled a "market economy," it would force you under various laws that are more restrictive on your products. The best way we can help Russia on its exports is through the World Trade Organization, which is an important priority for us. (C)

The President: Let's talk about the WTO. First, I am prepared to instruct my government to make available in 1997 funds to support \$4 billion in investment, the same amount as the total from 1992-1996. We agreed not to use the figure in the joint statement, but investors should know it. (C)

I am also asking Congress for a new aid package for the NIS for 1998. It will expand cooperation on investment problems like crime and taxes. I also hope to expand people-to-people

exchanges between groups of Americans and Russians. It will strengthen our partnership as people and the young come to know each other. (C)

I want to accelerate Russia's merger into the WTO, Paris Club and OECD. Membership is more than a question of investment or open markets. These organizations will define global trade and economic relations for the 21st century, and Russia need to be at the table. (C)

We agree on membership in the Paris Club in 1997 and WTO in 1998. Let me say that there is some opposition within my government to doing that, as we have refused to set dates for other countries, for example, China. But I took the view that Russia is a great democracy, and its economy is changing rapidly. This is a unique situation, and it is important to do this. (C)

However, what the United States does not have the power to do is to waive the membership conditions. We can support your membership based on your meeting membership conditions. You continue to make progress, and we believe that you can make it. We are ready to help; we will do everything that we can to help Russia meet the membership requirements and help you to become a member. (C)

President Yeltsin: Bill, we are not seeking any special conditions for joining the WTO and Paris Club. We will join on the basis of generally agreed conditions. (C)

The President: This is something we might ask the Gore-Chernomyrdin Commission to monitor closely. I am ready, prepared to invest time. We don't want you to fail and will do whatever is necessary to make sure you get in. (C)

President Yeltsin: I agree. (C)

The President: I would like to raise two other matters that are of symbolic importance: Jackson-Vanik and the G-8. You and I have been talking for years about Jackson-Vanik, and you know that I want to see Russia graduated out of it. In preparation for this meeting, I took some soundings in the Jewish Community and in Congress, asking what we would have to do to graduate Russia from Jackson-Vanik. The only negative reaction I got back was that the Duma has passed a law on the waiting period for emigration for those involved in secret questions -- changing it from five to ten years. There is concern that this could limit emigration. It is a major obstacle now in the Congress. (C)

How can we define a process to move forward on Jackson-Vanik? The language in the joint statement is fine, but I want to move.

It is important that we treat this with care and with a minimal public profile. The change from five to ten years is a problem. Mr. Lukin was Ambassador in Washington; he knows how hard it will be to pass this through Congress if the Jewish groups are not at least neutral. I have said that I want this done. And I know how important this is in Russia. Perhaps you could return to five years for the waiting period. (C)

President Yeltsin: You know, I met Netanyahu, the Prime Minister of Israel. He has no complaints about Jewish emigration. He thinks one million is enough! (C)

The President: Some days he would probably like to see you take some back! (C)

President Yeltsin: Some are even in his cabinet, such as Sharanskiy. (C)

The President: I saw on television when Sharanskiy returned. We need to consult on this and get a feel as to where things are. Let's set a process to get this done. It is an old problem that should have been solved. (C)

President Yeltsin: As to your proposal, I am quite satisfied with the talk about the new elements of cooperation. I am prepared to sign the joint statement. Therefore the joint statement is no problem; we could sign or declare it orally. As for the G-8, we can include it in the statement or not -- how do you like to handle it? (C)

The President: We propose that you come at the beginning of the meeting. There will be one press conference, and we will all leave at the same time. If there are some financial issues for the Seven, there would be a low-key meeting but no separate press conference. It would be done without a separate public meeting and be a small part of the summit. (C)

President Yeltsin: Good. (C)

The President: I have checked with the other countries, and they are okay with this. I called Hashimoto myself, and we had a long conversation. He asked me to tell you what he said. Japan historically has opposed Russia as part of the Eight, he said, but he wants to do it, as it will increase Russia's influence in the world, and Russia's influence is having a positive effect -- it is important. (C)

He said he felt that you are likely to make the most of this opportunity and work for a better partnership. He also wants to improve bilateral relations with Russia. He is not asking for

any specifics, but he does want to improve the relationship and resolve outstanding issues, including the Northern Territories. (C)

In my opinion, Hashimoto is the strongest leader that Japan has had for a long time. He makes decisions and is prepared to stick with them. He is also prepared to take risks. You have a good opportunity to discuss various questions with him. He is not like other Japanese leaders. (C)

As to how we should announce the question of the Eight, the other leaders have asked that we announce this at the press conference rather than in a joint statement. If it is in the joint statement, it looks like all of this was done in advance so that I will get the credit. If, however, it is done at the press conference, I can be spokesman for the group; it is better politically. (C)

President Yeltsin: Yes, this is agreed. (C)

The President: Larry, if there is any way that we could work out Paris Club membership by Denver, that would be a nice boost. (C)

Deputy Secretary Summers: It is possible, but it depends on what our Russian friends can do regarding that part of their debt that is military debt. These have a special character. (C)

President Yeltsin: We can note this but without any special mention or example of these debts. This could be mentioned. We will probably say this has a special character. (C)

The President: That means Russia is prepared to note? (C)

Deputy Prime Minister Davydov: No, what we have in it we will have. We would only like to say that we'd like to have some adjustment, but not right now. We will write off some debt on the decision of the Paris Club. Now we are in a situation of financial losses, because the Paris Club is proceeding with debt restructuring, but we are not taking part. This is costing us. (C)

President Yeltsin: We are owed over 100 billion in U.S. dollars. (C)

Deputy Secretary Summers: We want to do this as soon as possible. It would be helpful if the Russian negotiator forwarded data on all of Russia's debts. That would help. (C)

The President: You mean debts owed Russia, so that the Paris Club can calculate them in. (C)

President Yeltsin: Okay. (C)

The President: I would like to mention one or two other issues. The first is difficult to bring up, because we have discussed it before -- the space station. We have worked hard for partnership in this area and need to work on this. We have discussed the importance of Russia getting funding for this. I am afraid that Congress, if we do not get these funds soon, will do something to endanger the program. (C)

President Yeltsin: You called me, Bill, and I remember. I intervened, and this new timetable set by the Gore-Chernomyrdin Commission is to be fulfilled. (C)

The President: Strobe? (C)

Deputy Secretary Talbott: I believe the problem continues. (C)

President Yeltsin: We have a new timetable, and I can assure you that we will comply with it. (C)

The President: I want to expand our cooperation on foreign policy issues, including on regional conflicts. One is Nagorno-Karabakh. We now have an American-French-Russian tri-chair. But look at what is going on there. It would be in the interests of all to resolve the Nagorno-Karabakh problem. We have a large stake in this, and I am ready to work with you to get this off of dead-center. I want you to know that I have discussed this with Madeleine, and we are prepared to get involved. (C)

President Yeltsin: I think there is quite a good prospect, Bill. You should be more active in this issue. We will not be jealous. I am sure that your influence will be positive. This is a personal question for Ter-Petrosyan and Aliyev. I need to work more on this, because they are near to Russia, near to me. I should play a more active role. (C)

The fact that Ter-Petrosyan has made this personnel change without consulting us is a problem. When I get to him, I will have to sort this out. (C)

As for the substance of the conflict, it is the level of self-government for Nagorno-Karabakh. There is no solution between Armenia and Azerbaijan. The solution probably is autonomy for Nagorno-Karabakh but within the framework of Azerbaijan's territorial integrity, which should be preserved. Let's work in parallel. Probably you and I will have to invite Aliyev and Ter-Petrosyan for talks. (C)

The President: I agree. I have met with the two of them together twice. It seems to me that they will never get an agreement by themselves. Maybe if we put forward some ideas and were prepared to back them up, perhaps with some monitors. (C)

President Yeltsin: Good. (C)

The President: I know you need to rest, so perhaps we should break. (C)

President Yeltsin: I agree. (C)

-- End of Conversation --