

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Official Working Visit with the President
and Prime Minister D'Alema of Italy (C)

PARTICIPANTS: The President
Thomas Pickering, Under Secretary of State
for Political Affairs
John Podesta, Chief of Staff
Samuel R. Berger, Assistant to the President
for National Security Affairs
Gene Sperling, Assistant to the President
for Economic Affairs
Antony Blinken, Special Assistant to the
President and Senior Director for European
Affairs, NSC Staff (Notetaker)
Sim Smiley, Interpreter

Massimo D'Alema, Prime Minister
Lamberto Dini, Foreign Minister
Ferdinando Salleo, Ambassador to the U.S.
Silvio Fagiolo, Chief of Staff to the Staff
to the Prime Minister
Francesco Olivieri, Diplomatic Advisor
Marta Dassu, International Affairs Advisor

DATE, TIME March 5, 10:30 a.m. - 11:00 a.m.
AND PLACE: Oval Office

Oval Office/Restricted Session

Prime Minister D'Alema: Mr. President, I am very pleased to meet you. There are many things to talk about. But let me first say that I am convinced that between Italy and Europe and the United States we share a common way of thinking and a common way of solving problems. I heard your San Francisco speech. I thought it was a very good foundation for our discussions. I appreciate the determination of the United States to seek solutions to major problems and to be engaged in a dialogue with

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international institutions and countries around the world. I believe that more than ever we need a United States that never considers withdrawing into its own power. We need an outward looking America, but we in Europe must assume responsibility too. (U)

Mr. President, unfortunately, the incident in Cavalese and this verdict have created a problem for us. Public opinion in Italy, not only in Italy but throughout Europe -- (U)

Samuel Berger: And throughout America too. (U)

Prime Minister D'Alema: Yes and America too. I was struck by American reports in your newspapers as well. I am aware that the judicial process is not over and we must all have respect for that. But we will have to say something. We must provide answers and reassure the public. I have my own ideas about that. We Italians trust the United States will be able to determine who was responsible. In my opinion, not one individual alone. We are not looking for a person to blame nor saying that it should be that person. We have a simple view: something that should not have happened did happen. Clearly, it is not normal to have a plane flying at 300 feet. Who is responsible? The pilot, the navigator, the map provider, the aircraft? It is up to the justice system to examine the matter and to find out who was wrong. At the end of the day if the judgment is no one did anything wrong that is unacceptable because citizens would not be safe. That is the problem, both difficult and simple. (U)

The President: Mr. Prime Minister, you understand that I must be careful in what I say because there are other trials pending. But I think the most important thing I can say is what I have already said: whatever mistakes were made, the United States is responsible and we want to do whatever is possible to make things right. Under our law there is a difference between civil and criminal liability. Some people have already been disciplined and dismissed. It is important now to deal with the trials that are still there and to see through whatever actions are appropriate and to see who is responsible. In terms of Capt. Ashby, the finding was not that he was not responsible but more specifically that he was not criminally responsible. The United States must bear responsibility; when the whole process is played out, you and all the people concerned must feel that justice was done. (C)

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Prime Minister D'Alema: We will reserve our final opinion until the end of the process, but it is important in this moment that this specific point that we show respect for the judicial process but also that we move forward. We know that the London Treaty of 1951 allows every NATO ally to assert jurisdiction over its military personnel serving outside national territory. We used this ourselves when our Italian Air Force aerobatics team went out of control and crashed in Germany in 1988. The pilots were tried in Italy. But if we want the Convention to stay in place, we must prove that it is effective. Whoever was involved, justice must be done. (S)

Mr. President, maybe we could mandate our defense ministers to reexamine all the regulations and measures to ensure that safety is guaranteed around military bases. I know that already you have taken a number of positive steps, but public opinion has not been informed. For example, I know that there is now no flying below certain heights. These are serious decisions. We thank you. But if our two defense ministers were to meet and speak to public opinion, they could reassure them about the steps taken and also look at new measures that might be useful. (C)

The President: I agree with you. (S)

Prime Minister D'Alema: Today, I hope we can convey two basic messages. First, our commitment to ensure that responsibility for what happened is determined and that those responsible are punished. Second, to reexamine safety rules to ensure future safety. (C)

The President: I agree. (S)

Prime Minister D'Alema:

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The President: Thank you, but let me just add I know that it has been a real burden for you especially so early in your term. I feel terrible about this. (S)

Prime Minister D'Alema: In fact, my term began with many unpleasant things. We had unexpected visitors on our territory. And there was an accident in Moscow when our aircraft was damaged by the Russians. (U)

The President: On the runway? That's certainly better than in the air. (U)

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Prime Minister D'Alema: And it is certainly better to have difficult issues at the start. Statistically, I have had my share for the full term. (U)

Mr. President, if you would allow me, I would like to talk a little bit about Italy. We are continuing along a positive but difficult path. It is especially difficult because we have such a highly fragmented political system. In real substance, in fact there has been great political continuity. We have made a very serious start at re-balancing our budget and keeping our current accounts under control. We have started important reforms in education and public administration. And we will reform the army to move it from the draft to a professional military with more highly skilled soldiers so that we have a greater ability to take greater responsibility on our own shoulders. (U)

So in fact, there has been real continuity. Unfortunately, the former government was brought down because the extreme left broke away from the majority. But we have rebuilt the central left majority to continue the same policies. In this way, there is continuity between the work of Dini, Prodi, and this government. In fact, you may have noticed that my cabinet has many former Prime Ministers including the foreign minister Mr. Dini, and Mr. Ciampi. Mr. President, I preside over a cabinet of Prime Ministers. These are people who have guided our country for years. When they were Prime Ministers, I supported them. Now I hope that Prodi gets the European Union job. We came up with this proposal. There are different views in Europe. Blair supports it, others are more skeptical. I am convinced that it would be a good solution and contribute tremendously to Italy's prestige and a good solution for Europe. (U)

The big challenge for us is how to avoid instability by reform while promoting development, growth and employment. This is a problem throughout Europe. We discussed this extensively at the Milan Conference of Socialist Leaders in Europe. There are different opinions as to the best approach to take. Some argue that we need to modernize European societies to make them less obsolete, less rigid. Many of us admire the dynamism of American society. At the same time, we are worried about giving up social rights that have become part of European civilization and tradition. In short, I would say that Europe is torn between two desires and two needs. On the one hand, admiration

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for U.S. dynamism. On the other, real pride in Europe's social achievements. (U)

The President: You should be proud. I have spent so much of my time arguing with conservatives here that you can grow the economy and still have a strong social safety net. These are not contradictory goals, in fact they are mutually reinforcing. We have been trying to do here in the U.S. what you in Italy and in Europe take for granted. Family and medical leave, childcare, health care. The challenge for us has been how to preserve the social safety net while giving the economy flexibility to grow and create jobs. (U)

I spent years as governor thinking about this problem. In fact, when I was governor I traveled to Italy. I wanted to see how small manufacturers shared facilities, production and distribution -- a system that can be traced to the medieval craft guilds -- as a way of sharing responsibility. Or take France and Germany -- though of course this is a difficult comparison because of the enormous costs of reunification. Without them, I expect German growth would be 7-8 percent. In any event, German labor costs are greater than those in France. But the way each country spends these costs is very different. In France, you get two years unemployment. The Germans focus their resources on retraining. The German system is more expensive but work oriented. In France, I argued with Chirac about the need to move in this direction and he agreed. But really, we on the left need to do it because the right is not trusted on this. You can't put people on the dole for two years and then complain about unemployment. At the same time, we can't leave people in the lurch. But what we have to do is change psychologies, to convince people that there is more profit in working than not, more profit in taking risks in starting new businesses than not. In short, how do you build social cohesion but make work and entrepreneurship attractive? (U)

Prime Minister D'Alema: In Italy, we have contradictions because clearly the economic system in the north is dynamic. The very specific approach focused on small and medium enterprises with lots of training and innovation. We have high unemployment, about 12 percent. But this is an average and in fact the situation is grossly unbalanced between two parts of the country. In the poor south, we have as much as 21 percent unemployment, where as through much of the north the average is more like 7 percent or 8 percent. This is a result of the situation in the south but also a problem of large industry. We

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need to relaunch development, cut labor costs, reduce social contributions that are a burden on labor costs, offer tax rebates to stimulate increased investment by business, and invest more in education and professional training so our workforce can adapt to fast changes. We are moving forward on all of this. We have a basic agreement between labor and employers. (U)

I think it would be interesting if we could have some kind of forum, not official, informal for dialogue on how to combine these two elements, the dynamic economy and the social safety net. You began an effort with Prime Minister Prodi last fall at NYU that I thought was very interesting. Maybe we could do it again. I would be very interested in hosting. We would have intellectuals. Prodi of course. Other European leaders. We could have one day of open and informal thinking and debating on the issues. If you would like to consider this idea, we would certainly be able to provide a very nice location. (U)

The President: Only a fool would turn down an invitation to come to Italy. We did have good discussions. I know that many people in Italy are struggling with these issues and throughout Europe too. Before me, Wim Kok in the Netherlands. He managed a grand bargain between business leaders and labor unions. They now have the highest percentage of part-time employees. This has created major flexibility. These part-time employees earn retirement benefits and pro rata vacations. And now I think the unemployment rate is something like 6-1/2 percent. I know Jospin in France is trying to come to grips with these issues. France had at least three years of growth of more than 3 percent but still their unemployment is over 11 percent. I know that Italians would never tolerate living without health insurance the way so many Americans do. We are not perfect. So I think it would be good to have an opportunity for all of us to continue discussing how to promote economic success and social cohesion at the same time. I would love to do it if we can find the time. I have very good memories of the time when Italy hosted the G-7 then Mr. Berlusconi was the head of government -- I guess he is the only one who is not in your government now. (U)

Prime Minister D'Alema: We are friends. (U)

The President: Well, I would like to pursue this idea. (U)

Samuel Berger: Mr. President we don't want to leave our unemployed Ministers in the Cabinet Room too much longer. (U)

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The President: Okay. Mr. Prime Minister, why don't we move to the Cabinet Room for our expanded session, but as we do let me ask you one non-business question: Are Italians excited about the success of the movie "Life is Beautiful" around the world and here in the United States? (U)

Prime Minister D'Alema: Yes, very much so. We were especially excited about the prospects of the Oscars. (U)

The President: Well, I have to tell you I love that movie. I laughed, I cried. (U)

Prime Minister D'Alema: Yes, I agree. You know I am a good friend of Roberto Benigni. (U)

The President: Please tell him that I am his number one fan. (U)

EXPANDED SESSION/CABINET ROOM

PARTICIPANTS:

The President
Robert E. Rubin, Secretary of the Treasury
Thomas Pickering, Under Secretary of State
for Political Affairs
Louis Caldera, Acting Secretary of Defense
John Podesta, Chief of Staff
Samuel Berger, Assistant to the President
for National Security Affairs
Gene Sperling, Assistant to the President
for Economic Affairs
James Cunningham, Deputy Chief of Mission
Marc Grossman, Assistant Secretary for
European and Canadian Affairs
James Steinberg, Deputy Assistant to the
President for National Security Affairs
Lael Brainard, Deputy Assistant to the
President and Deputy Director NEC
Donald Bandler, Special Assistant to the
President and Counselor to National
Security Adviser for the NATO Summit
Antony Blinken, Special Assistant to the
President and Senior Director for European
Affairs, NSC Staff (Notetaker)
Miriam Sapiro, Director for European Affairs
Sim Smiley, Interpreter

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Italian Participants

Prime Minister Massimo D'Alema
Lamberto Dini, Foreign Minister
Ferdinando Salleo, Ambassador to the U.S.
Silvio Fagiolo, Chief of Staff to the
Prime Minister
Francesco Olivieri, Diplomatic Advisor
General Giuseppe Cucchi, Military Advisor
Giampiero Massolo, Spokesman for the
Foreign Minister
Pasquale Cascella, Spokesman for the
Foreign Minister
Marta Dassu, International Affairs Advisor
Claudio Caprara, Press Attache

DATE, TIME

March 5, 11:00 a.m. - 11:40 a.m.

AND PLACE:

Cabinet Room

The President: Well, Mr. Prime Minister, let me welcome you again in a larger group. We had a good talk about a number issues in our earlier session, and now I would like to turn the floor to you. We can talk about a couple of issues and then I'll take you to lunch. (U)

I should say it won't be anything like an Italian lunch. I have to tell you I had such a lunch one day in San Gimignano, sitting in a square with frescoes all around. I loved it. (U)

Prime Minister D'Alema: I'd like to talk about my impression on two issues that I have been studying over a couple of recent meetings. These are rather important issues. (U)

The first issue is the question of Russia. We are highly concerned about the situation in Russia. I'm especially concerned that we're facing the danger of the complete collapse of the Russian economy. Prime Minister Primakov is a cautious man treading a thin line between chaos and collapse. We -- the United States and Europe -- need to agree on a common strategy to help Russia. (C)

First of all, there are huge security issues, with nuclear weapons potentially unchecked. There are also major dangers for Europe, particularly for Germany, from mass migration of refugees due to crisis. Additionally, there is a major problem with international crime fostered by the Russian mafia. (C)

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In my opinion, Primakov is a point of equilibrium. I think we should support him and not create difficulties for him. (C)

How can we support Russia? First, through institution building. They cannot even collect taxes. The Russian budget is not a valid document. It is not a measure of the potential for revenue collection in Russia. So it is wrong to simply accept and read these figures as representative. The IMF is passionately interested in this figure reading exercise. It certainly cannot tell them much other than that it is in a state of collapse. Secondly, we have to get the Russian industry back on its feet. Third, we have to deal with the financial problem with fresh approaches and give them a chance to breathe. We should do this by differentiating between the debt of the Former Soviet Union and Russian debt. The Russian debt should be repaid, certainly, but to provide Primakov and Russia some breathing space the FSU debt could be frozen or rescheduled, although not cancelled. (C)

I do feel it is necessary to take action on these three issues. Leaving it simply up to Russia and the IMF will cause it to flounder and contribute to the negative feelings toward the West that are current in Russia. We are fortunate that they haven't yet found a demagogue to give expression to these feelings but if such a figure did appear, then we could face great difficulties and frustrations. So, I want to take this opportunity to offer this report of my visit, as there's a lot you can do about this situation. (C)

The President: I agree with what you've said. I agree completely that the system is breaking down in Russia. You mentioned taxes. Primakov said to me you got elected to reverse Reaganomics, we want to be like Finland, but you are preventing me from reversing our economic situation by preventing me from getting this IMF relief. They'll never be like Finland. Finland's tax rate is 38 percent. The Russians spend at 16 percent and collect at ten percent. This is a real problem. Another is health care. Their health care system has completely broken down. The life expectancy for a male Russian is now below 58 years -- with every passing day in my life that seems altogether too short. (C)

But to address the specifics you raised. I have no problem with debt relief. But you know, not much of their debt is from the United States. Most of their debt is German and IMF, and they would need to be persuaded to relieve it. This is especially

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true for the Germans who are burdened with bringing along the former East Germany. Anyway, I'm for it and I'll do what I can. (C)

Even if they do get IMF relief, they have to figure out how to keep it in the country. The last tranche of relief they got was how much? (C)

Secretary Rubin: It was 4.8 billion dollars, and 3.8 disappeared in two days. (C)

The President: Of 4.8 billion dollars, 3.8 went back out of the country within 48 hours. A bunch of Swiss accounts must have increased. The trick is to work on the substantive side to better increase investor confidence and to keep the money in Russia. Debt relief helps because it just means they don't have to spend money they don't have in any case. This gives them something tangible. (C)

Other things. We should do more to entice, encourage and guarantee specific investments. One of the things we've done relating to what you said about nuclear arms is to help the Russians make their nuclear arsenals more safe and secure -- by helping them dismantle weapons, better security, employing their scientists. This has generated employment for 7,000 out of 40,000 of their scientists who are involved in the nuclear program or weapons technology. I have requested that Congress authorize a huge increase in this program. It would include enough additional funding to give 20,000 scientists a decent income and meaningful work. (C)

Another example is the international space station Mir, a joint U.S., Canadian and Russia project. I went down for the launch of the Space Station flight at Cape Kennedy and learned that the Russian cosmonaut going into space hadn't been paid in six months. The entire scientific and technical community and infrastructure in the country is breaking down. (C)

So what we have to do to support Primakov is to support debt relief; support investment; support directed economic projects and support Primakov's efforts to obtain international aid. But none of this is going to do him any good if he cannot get beyond the paralysis in the Duma. (C)

The sum total needs to give him leverage to get things done in the Duma. If he had leverage in the Duma and could ratify Start II and pass economic reform, I could get him a lot of

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money -- money that would allow him to pay his soldiers and miners and fix his health care. (C)

I agree with your assessment that Primakov is a strong and good man. And he is an honest man. He has never lied to me or to my Secretary of State. I like him. But the price of equilibrium is inaction. We need a dynamic equilibrium, not a static one. I was just talking to Larry Summers, Bob's deputy secretary of the treasury this morning about this problem, and we agreed that Russia needs an aid infusion, debt relief, support for specific economic projects, and investment to allow him to get things done in the Duma. (C)

Prime Minister D'Alema: Shortly, there will be elections in Russia and hopefully this will allow him to get things done. If a new President is elected first, fine, that may give Primakov more clout. But we need to ensure it's not a crazy man who gets elected in the form of a nationalist extremist. We have to do something. (C)

The President: My fear is that it will be a nationalist, because they cannot live with the chaos any longer. Russia has enormous potential. But some in the Duma event want the chaos to persist so their side will win. The sad thing is it's not as if they have no options. They have great natural resources to tap and develop which lie fallow, for example. We could generate \$30-50 billion in energy investments within three to five years if they simply passed stronger laws to give confidence to investors. (C)

This is the big problem. There is hardly any subject more important facing the United States and Europe today. The tragedy is that if the KFOR is approved in France this month and they came into Kosovo with us as they have in Bosnia they could help stabilize Europe and give balance to our policy. But the combination of economic problems, the oligarchy, organized crime and the demise of Yeltsin's health are unsustainable. (C)

I must tell you that I am impressed by your analysis of the situation. You have got it exactly right. If the situation in Russia is not fixed by June, then this is going to be the major focus of the G-7 meeting. (C)

As for Primakov, you have defended him eloquently and adequately. His background is in foreign policy, and he is not comfortable with economic and social consequences of his actions. Someone has to tell him -- and I have tried -- that

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political equilibrium is only worth something if it leads to action. This is not like a see saw that you try to keep level with little kicks of your legs. The ground under which the seesaw rests is crumbling. (C)

Prime Minister D'Alema: Listen, while I was there I had lunch with other politicians, and got badly frightened by the prospect of the alternatives. So we definitely need to support Primakov. (C)

The President: That's a scene you should script into your next Italian horror movie. (C)

Prime Minister D'Alema: Let me add another issue in which you have worked hard to support and for which we are grateful -- the Middle East Peace Process. This is also a great concern. I apologize for only raising issues of concern, but that's our duty. (C)

My fear is that nothing good will occur between now and the time of the Israeli elections. My hope is that nothing bad will happen in the same time frame. (C)

I have had the opportunity to talk recently with both Mubarak and Arafat. I told Arafat it would be a terrible mistake if they were to issue a declaration of Palestinian statehood prior to May 4 in that this would be a boon to the fundamentalist position in Israel. My impression is that he understands this but there is factionalism among the Palestinians. We can help them with aid, but we need your help with this. As I have said, the U.S. is a global player, the Euros are global payers. (C)

The President: I'll have to remember to use that line with Congress. That might help me in getting money for Jordan. (C)

Prime Minister D'Alema: I suggested to Arafat that he issue a statement delaying the decision as a sign of respect to the people of Israel. He can do this if at the same time the Europeans or the international community -- if I can use that euphemistically -- come forward as a guarantor of this process. That is to say have someone back him and says he's right and we accept that someday a Palestinian state should exist, and we will act as guarantors. In this way he would not be seen as giving up, but delaying in the context of international guarantees. (C)

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I discussed this with Chirac. Europe can work on this, but I think it's crucial that we do this with the United States. This doesn't mean you would be making the same statement -- that's not the point. You could simply say the United States appreciates and allows Europeans to take this course of action. There's no reason why we cannot play different parts of the game. We can agree, even when taking difference positions. (C)

The President: I agree with that. Here are a couple of observations. In the last Israeli elections, the peace process was set back when Peres lost. Even though Arafat mobilized the Arab vote behind Peres, he lost heavily among Jewish voters -- by about 8 or 9 percentage points -- which is a lot in Israel. Most people believe he lost because of terrorist incidents during the election campaign. So the assumption now must be that if there are incidents, they will help the right. (C)

Since then, there has been an extraordinary effort on the part of the Palestinian security forces to defuse problems and prevent terrorism. They have been remarkably successful but there remains a lot of time for a problem to occur. Arafat wants to maximize the chances that the Knesset and the next government will be pro-peace process. I agree that we must find a way to avoid any unilateral declarations and to avoid an announcement of Palestinian statehood on May 4. We need to do all we can for them. I have earmarked another \$300 million dollars in aid for them. (C)

To get to your second point. I think it is useful for Europe to have a position different from the United States on this. Israel needs to know that world opinion expects the Middle East Peace Process to go forward and that we are mobilizing Palestinian public opinion to be reasonable. (C)

When I was there in December, I visited Gaza. Gaza is dirt poor. Yet there is great potential there. It has forty-three kilometers of prime beach. Somebody could come in and develop that and turn it into a prime tourist area. We need to find other mutually beneficial investment opportunities. (C)

With regard to your suggestion on the Palestinian State, I think the idea is a good one, I am open to it. But you have to be careful about words. For example, I think it would be very difficult for Europe to say that it will be a guarantor. You have to be careful not to find yourself in a difficult position should he unilaterally declare a Palestinian state after the Israeli elections but before final negotiations. Israel would

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go in and occupy all lands on grounds that the Palestinians had abrogated the Oslo process and take the land back. (C)

I do consider it a good course of action that you favor statehood. The reason we and Russia have to take a different stance is that as we are sponsors of the Oslo process we cannot be seen as biasing the outcome -- final status must be determined through negotiations. (C)

I also think you have to be careful about what it is you'll say you'll do. What are you guaranteeing, for example? Is it what they have now, or what they'll have after Oslo? But I think the general idea is right, I support it, and we should get them all the support, funding and aid we can and let them know that Europe wants to see this process finish. (C)

Sorry to be so long-winded about this, but it is so terribly important I wanted to go into some detail. (C)

Shall we go on to lunch and finish our discussion there? (U)

LUNCH

PARTICIPANTS:

The President
Thomas Pickering, Under Secretary of State
for Political Affairs
Louis Caldera, Acting Secretary of Defense
John Podesta, Chief of Staff
Samuel Berger, Assistant to the President
for National Security Affairs
Gene Sperling, Assistant to the President
for Economic Affairs
James Cunningham, Deputy Chief of Mission
Marc Grossman, Assistant Secretary for
European and Canadian Affairs
James Steinberg, Deputy Assistant to the
President for National Security Affairs
Antony Blinken, Special Assistant to the
President and Senior Director for European
Affairs, NSC Staff (Notetaker)

Italian Participants

Massimo D'Alema, Prime Minister
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Silvio Fagiolo, Chief of Staff to the
Prime Minister

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Francesco Olivieri, Diplomatic Advisor
General Giuseppe Cucchi, Military Advisor
Giampiero Massolo, Spokesman for the
Foreign Minister
Pasquale Cascella, Spokesman for the
Prime Minister
Marta Dassu, International Affairs Advisor
Claudio Caprara, Press Attache

DATE, TIME

March 5, 1999, 11:55 a.m. - 12:55 p.m.

AND PLACE:

Old Family Dining Room

The President: Before we move on to other subjects, let me just say one last thing about the Middle East. Whoever is elected Prime Minister in the new system of direct elections must still put together a government. Whatever your views of Netanyahu, the coalition that he had and the cabinet made peace impossible. It cost us the last year and a half. One possible outcome would be that he wins again, but with more of a national unity government. Right now the big problem in Israel is that the political system reflects its diversity in ways that have negative consequences. For example, Russian immigration, the increasing number of Sephardic Jews, religious/secular tensions -- all of this has very little to do with the peace process but it has a very real impact on it. So it is a very complex and difficult situation. And all of us should avoid saying or doing anything between now and the elections that would change the equation and give the extreme right an excuse to score points.

(C)

Now maybe we can turn to Kosovo. Let me first say that I appreciate very much what you said and the unity of the Alliance. I think we have a real chance to get the Kosovar-Albanians to agree. I appreciate the commitment you've made to an international force if in fact there is one. Now, the big question before us is what if the Kosovars say yes but Milosevic says no? Under the existing policy of NATO, we must be prepared to take air action to reduce his capacity to hurt the Kosovar-Albanians. In the end, I think that Milosevic will agree but only if he believes we are prepared to follow through with our threats. He's got his own tremendous economic problems, nationalist sentiment in Serbia, minority problems. I've argued that the only way Serbia has a chance to keep Kosovo within its territory is to go back to the autonomy that was taken away a decade ago. And the only way to get back to that is for there to be a multinational force to implement the agreement.

CLINTON LIBRARY PHOTOCOPY

Milosevic should not see that as a threat. But in the end, the fundamental reason he will accept is if he concludes that it would be too painful for him if he doesn't. (S)

Prime Minister D'Alema: We need lots of solidarity otherwise there is no solution. We took a very clear position when it sounded like the ACTORD would be executed. The Serbs know we are ready to act. We are on the front lines. The NATO air craft are located there. We are the only country that the Serbs could hit in retaliation. So our position is clear. And it is very important to spell that out. (S)

I believe that Rambouillet was an important achievement. Now we must do everything we can to get both parties to sign. Not one but both. That is the scenario that we want. I talked to the Albanian Prime Minister. He is a young man and very energetic. But sometimes he says things that he shouldn't -- that is a part of his youth. (S)

The President: You did too, when you were his age. (S)

Prime Minister D'Alema: Yes, but I was not Prime Minister when I was that young so I couldn't do much damage with my words. Anyway, he has done a good job in saying very clearly there would be no statements about independence for Kosovo. And he will encourage the Kosovars to sign. Now, I see two possible scenarios. First, the scenario that we hope for which is both signing. Then we would deploy troops. We will play our part. The German decision to take part was historic. Very important and positive. Now I am convinced that if there is a deployment, it should not be limited to Kosovo alone but also through Albania. The Albanian government agrees. To guarantee peace, we must stop the smuggling of weapons and also of drugs. They are coming through Albania, especially the ports. The government of Albania does not have enough strength to stop it. We would with an international force, military not police. If we had 500 NATO troops, Albanian policemen would be able to act with greater courage. Otherwise, this is a problem that will never be solved. (S)

The second scenario is the worse-case scenario. And in that scenario, we would have to face the problem of a military reaction. I have a question, Mr. President. If Belgrade refuses to sign, at that point, we need to withdraw the KVM if we want to strike. Withdraw and strike. The following day, the Serbs will kill Kosovars. What then? Ground troops? Do we move into Kosovo without Belgrade's accord? Or do we do

CLINTON LIBRARY PHOTOCOPY

nothing? If nothing, we will have 300-400,000 refugees flowing through Albania to the Adriatic. We are ready to go ahead with the strikes. But we need to talk about the consequences. (C)

The President: In Bosnia, we said no ground forces until there was an agreement. Now, if the worse happens and the scenario you sketched occurs, I believe the Serbs will attack anyway, no matter what we do. We need to strike because we said that we would. If they attack, we will continue. I believe that Milosevic will then accept a multinational force. (C)

The interesting thing is that they have basically agreed on what Kosovar autonomy should look like over the next three years. The sticking point is about NATO. Milosevic may look for a face saving way out. But if he refuses, if he says the hell with peace, we will have to continue to hit him -- the same thing we did in Bosnia which is how we got the agreement. (C)

Prime Minister D'Alema: That is not what I am really concerned about. The issue is consequences such as retaliation against the Kosovar population. It would be difficult to protect them through air strikes. It would be difficult to send ground troops. We could find ourselves in this difficult predicament. The Kosovars could ask us to come protect them. Are we ready for that? It is not a simple issue. If we are not ready, what will be the consequences? A great number of refugees. A humanitarian tragedy. (C)

Samuel Berger: To underscore what the President said, we face this dilemma either way. If Milosevic says no, and we say there are no consequences, then there is no deterrence on him, he has called our bluff, we walk away, he has a free ride to Pristina. The alternative is to threaten him clearly before there is a failure in the negotiations and then to follow through if there is one that he's responsible for. That would make it more likely to deter him from an assault because he knows that the consequences would be very serious. (C)

Prime Minister D'Alema: Again, I share this view. If the Serbs say no to peace, we can't sit back and watch. Otherwise, any other actor on the international scene might say no. But we must be ready for the consequences. These might imply the requirement for ground troops because we cannot sit back and watch a massacre. These strikes could cause a chain reaction that would require this action. It is not like bombing a country. If we withdraw KVM and bomb, who will stop the Serbs from cutting throats in every Albanian village in Kosovo? What

CLINTON LIBRARY PHOTOCOPY

then? We must move to consequences. God forbid we have this predicament. (C)

The President: Thank you, Mr. Prime Minister -- I know we will all keep talking about this in the days ahead. If I may, let me say a couple of brief words about NATO. I read your article in the International Herald Tribune. I thought it was very good. I want to restate my strong support for ESDI and the open door. I hope we can find language to bridge the difference of opinion with the French on the need for a UN sanction of NATO action. We believe in acting consistent with UN principles and purposes. But we don't want to see it become a requirement. Keep in mind that the Charter says that a threat to one is a threat to all. Now especially with expansion, the threat to the security of one NATO member could come even more easily than before from attacks from beyond NATO's borders. I hope and believe we can get around this problem. I believe that we will. (C)

Prime Minister D'Alema: I am convinced that we need a flexible position. We cannot paralyze NATO, especially in dealing with the danger of humanitarian catastrophe or emergency situations. Of course, at the same time, we should strongly state that NATO will act in the spirit of UN principles. Maybe we should also say that a lot depends on how the UN functions. As long as decisions can be paralyzed by veto, it's hard to be flexible. But if the UN through reform proves it can play a role more flexibly, things could change. These two situations are related. But in the present situation, we cannot consent to paralyzing action. (C)

This is also related to another issue that I want to discuss with you. Another source of legitimacy for NATO is the fact that it is an Alliance of major democracies. Actions and decisions within the Alliance by major democracies should be based on the values and interests we share. To some extent international legitimacy is rooted in internal operations. And it also depends on how consistent our actions are. And so I must raise with you the issue of Turkey. (C)

Let me first say that Italy has worked very hard to integrate Turkey. And we maintained this position even during the recent crisis. In Turkey, they were boycotting Italian products while at the EU, Italy was supporting the position that we give assistance to Turkey. But we have a problem, that is both one of ethics and civil and humanitarian rights. You see our shores are day after day reached by rafts with refugees. Recently, they have been either Kosovars Albanians, or Kurds. We have put

CLINTON LIBRARY PHOTOCOPY

in place special centers to host them with special sections for each. We can tell the Kosovars that we are doing our best. But we cannot say the same to the Kurds. This is not right. (C)

We must put pressure on Turkey to ensure that it seeks a peaceful solution to the conflict in the southeast. We support its territorial integrity. But the Kurds should be able to speak their own language, have democratic institutions, there should be no illegal arrests, torture, extra judicial executions. American pressure can make a major contribution. Europe must courageously maintain an open attitude toward Turkey. We are in favor and we tell them that we are ready to receive them. I am very well aware of how important this is and how useful it is to integrate Turkey in a common system of alliances and civilization. (C)

That was the basic point in the background of the Ocalan affair. Now they have him. It is a great opportunity to give him a fair trial under the eyes of the world. And the right time for a more open policy toward the Kurds. I hope they seize this opportunity. (C)

The President: First of all, I agree with you that we must do more. We have tried within our means to protect the Kurds from repression. Turkey has been able to use PKK terror as an excuse for otherwise indefensible actions. I hope as you do that they seize this opportunity to show to the world their rule of law and take steps on the human rights front. (C)

The paradox of the Turks from the perspective of the West is that the military is the best guarantor against Islamic extremism but also the most stubborn obstacle to human rights. It embodies both our hopes and our fears. I am convinced after six years of dealing with this problem that the only solution is a big deal. The U.S. can commit to security, partnership, supplies and aid for Turkey. Europe should commit to take Turkey in, but only if it satisfies the world on human rights with the Kurds and agrees to a process with deadlines for resolving the problems in the Aegean and on Cyprus. This might also require a small fix on immigration issues by the EU. The problem is that without a big deal none of us alone can do enough to get the military to do more. (C)

What bothers me is this: put yourself in the place of an average Turkish citizen who is living a difficult life. If Islamists are the only ones you know who are prepared to help you with your every day problems -- to help you with food, with

CLINTON LIBRARY PHOTOCOPY

clothing and housing and schools, and traffic and garbage collection, you would probably vote for them. It has nothing to do with foreign policy. If an American president criticized you for voting for these people you would simply hate him. It is about the life of your family and your children. The military risks a real disconnect with its people too. The internal contradictions will grow. That is why I pushed the Greek Prime Minister to change policy. So I agree, we need to do more to push on human rights. But after six years we need a big agreement we can get the Greeks to buy into that protects the Kurds. I know this is complicated by the relative instability of Turkish politics -- they keep turning over governments. I am going to raise this with Blair and Schroeder who have a better position on this than Kohl. With you and with the new faces in Germany, I think there is an opportunity. So I will do more to get Turkey to be better to the Kurds, but we need to be able to show them what the puzzle will look like at the end. (C)

Prime Minister D'Alema: I agree with you that a global deal that offers something to Turkey is the best way to precede. But you said the U.S. has just a little influence. I think you have great influence. But especially in the case of Turkey. After the elections in April, when the political picture is clearer, it would be important for the United States and Europe to take a look and have a position. Shortly after the elections we will all be in Washington with the Turkish leader and possibly the current Prime Minister will win -- that would not be the worse result. He is not the worse person on the scene. It would be the right time to talk to him with you chairing the meeting. (C)

The President: Let's think about that. It is an interesting idea. Now if you don't mind a few words about Libya and Iran. (C)

The President: Let me first say on Libya that we think we have an agreement on PAM 103 but the Libyans have yet to act. If they do act, we will suspend sanctions. Then there will be 90 days for the United Nations to issue a report on further action. We have come along way on this. I hate to see us fall short, especially with all the other problems in the region. I hope you can help us with this. (C)

Prime Minister D'Alema: We are doing our best. As I understand it, most of the outstanding questions and issues such as the place of detention in Scotland, the possibility for visits, monitoring and other issues have been worked out. It seems to

CLINTON LIBRARY PHOTOCOPY

me that all the problems can be worked out. The only problem left on the table is sanctions. (C)

Samuel Berger: The big problem on the table is that the Libyans have to turn over the suspects. (C)

Prime Minister D'Alema: Of course, I understand. (C)

The President: Let me make clear that this is not a game or some kind of American obsession. Settling this would help stabilize North Africa. It would be good psychologically. (C)

Let me also say a word about Iran. I know that President Khatami will be coming to Italy next week. The local elections are encouraging. So far the conservatives have not upset the results. From America's perspective, Khatami's election and the popular support that he has is both an opportunity and a dilemma. The opportunity is obvious. But there is also a big problem. Not just Israel but lots of other countries consider Iran to be the biggest long term security threat in the Middle East and indeed around the world through terrorism, the spread of weapons of mass destruction and missile technology, the efforts to acquire chemical and biological weapons. Now, of course, there have been some dramatic changes. The Presidential election that Khatami wins. Then there is lots of backlash but he moves forward. Now the local elections with even better results. And now he is coming to you to start opening to the West and you have done this investment deal. (C)

Let me just say on that last point that as you know in order to wave the sanctions under our law, we must continue to see a clear unambiguous effort to stand up against weapons of mass destruction and terrorism. You know the requirements of the law, and I presume you will do all that you can to fulfill them. (C)

After the visit, I hope you will call me and give me a report. Khatami has to be very careful how he deals with us. We offered high level contacts, but he is nervous. The best we could do is an exchange of wrestlers. If he calls me, it could cause his downfall. We are in a difficult position. We like him and what he is doing but he does not control some of the critical levers of power including those involved in terrorism and weapons of mass destruction. Iran is like a two-headed monster; you want to kiss one but slam the other. Unlike you, if we say something nice it could hurt him. But I would ask you to push him hard on weapons of mass destruction and terrorism and the Middle East

CLINTON LIBRARY PHOTOCOPY

peace process, but also of course to hear his ideas on where we are going from here. So long as Iran continues to support terrorism and weapons of mass destruction and tries to undermine the Middle East process, it is impossible for us to support them. But of course, "them" doesn't necessarily equal Khatami. So this is a problem but also an opportunity. But if you can hear him out and also send him that message I would appreciate it. (S)

Prime Minister D'Alema: Mr. President, you should know that we have a problem. That problem concerns serving wine at the table because of Iranian protocol. French protocol says not to do so is an unacceptable infringement on French civilization. Since he is coming to us first, we must settle this issue. Maybe we will serve a liquid that looks like wine and then send the photograph of the bottle to Chirac. (S)

The President: I grew up in a church where people were not allowed to drink alcohol. We had communion with grape juice and so we would wink at the fact that Jesus drank wine. You become an expert at social hypocrisy. (S)

Prime Minister D'Alema: One thing I want to say clearly is this: we don't want to play games with Iran or act behind your backs. Of course our companies have interests. That is normal. Politicians must have principles as well as interests. We have analyzed the situation and we have concluded that Khatami is a noteworthy change that we must encourage. Of course, this analysis will only be proved if he acts accordingly. The major contradictions are that there are a lack of human rights within Iran. There is terrorist action in the Middle East -- although I don't think this as Khatami; he is just not strong enough to prevent it or perhaps he just doesn't want to -- the weapons of mass destruction problem, the relations with the United States. I will clearly say all of this to him, very frankly, and then I will inform you. (S)

The President: Tell him we are very enthusiastic about his success. We are happy to applaud him or condemn him -- whatever would help. (S)

There is one small remaining bilateral issue that I would like to raise -- intellectual property rights. I was briefed about this before our meeting. I know there is a bill pending before your parliament. I would appreciate very much your support in pushing it through. This is something that means a lot to us. (S)

CLINTON LIBRARY PHOTOCOPY

Prime Minister D'Alema: It would be good for us too. We agree on this legislation. I think it will pass. But what about your position on bananas? (C)

The President: I hate this. It has been going on for 10 years. We have won this case four times, twice since I have been President. I know that a major problem is European responsibility to the Caribbean Islands which are vulnerable to drug traffic. We have that responsibility too -- I just sent legislation to Congress to ask them for substantially more money for the Caribbean. We have a responsibility to these countries. We must help them diversify their economies. And so I think the United States and countries like France and others with colonial history should take the lead to help diversify these economies and raise the standard of living. I think we can do this with relatively small investments. Keep in mind I have to fight both the left and the right on protectionism in this country. If we don't protect the WTO process, we're going to lose that fight. (C)

Prime Minister D'Alema: There is lots of protectionism in Europe too. We also need to fight it. We are one of the strongest supporters of reforming the CAP -- the common agricultural policy. Others resist, but we will pursue this. (C)

Mr. President, thank you so much for this wonderful lunch. There is one matter I also wanted to raise before we finish and that is the Silvia Baraldini case. I believe you are aware of it. (C)

The President: Yes, I know about the case. (C)

Prime Minister D'Alema: I hope that our two justice ministers could discuss this. (C)

The President: I agree that this is an issue for our justice ministers and that they should talk. (C)

-- End of Conversation --