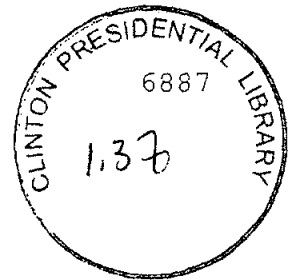


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THE WHITE HOUSE
WASHINGTON



MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telcon with British Prime Minister Blair
(U)

PARTICIPANTS: The President
Prime Minister Tony Blair

Notetakers: Mariana Papadimitriou, Doug
Bayley, Matt Sibley, Joe Schrader and
Lawrence Butler

DATE, TIME: October 6, 1998, 9:44 - 10:05 a.m. EST
AND PLACE: Oval Office

Prime Minister Blair: Hello Bill. (U)

The President: Hey Tony how are you? (U)

Prime Minister Blair: I'm fine. I'm in China. (U)

The President: Are you having a good time? Is it hot there?
(U)

Prime Minister Blair: It was until we got here, but we brought
some British weather with us. (U)

The President: I just wanted to check in with you on Kosovo.
Yeltsin called me yesterday, as he called you, to say Milosevic
got the OSCE to come in and now everything is going to be all
right. I think it would be a real mistake for us to take the
pressure off now. Kofi's report is going to be filed today and
it is a graphic account of Milosevic's continued defiance of the
UN and the International Community. (U)

I believe we have to maintain momentum and keep building a
consensus for the NATO decision to authorize force. Dick
Holbrooke is there and is still meeting either in Belgrade or
Pristina. Fighting has been in a lull for the past few days,

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Classified by: Glyn T. Davies

Reason: 1.5(b,d)

Declassify On: 10/07/08

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INTERAGENCY SECURITY CLASSIFICATION APPEALS PANEL,
E.O. 13526, SECTION 5.3(b)(3)
ISCAP APPEAL NO. 2013-090, document no. 35
DECLASSIFICATION DATE: October 14, 2015

but Milosevic hasn't withdrawn or agreed to measures that would make the end of hostilities verifiable or durable. (C)

You know I would like to find some way to get the Russians on board.

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We can't force Yeltsin into a veto.

E.O. 13526, section 1.4(d)

We have got to tell Yeltsin, look, if you are right and we are wrong then Milosevic will be in full compliance. If he lied to you one more time, then we are going to do it. This is an issue that to me seems to be a real mistake to let pressure up now. (C)

Let me mention one other thing.

E.O. 13526, section 1.4(d)

That may be necessary but it is a terrible time for me to deal with it with this Congress of mine. They are always willing to give more money to the military and then do not want to do anything with it. There is a really strong block in the Republican party that wants to do that and I have worked to get them to continue to support SFOR in Bosnia. And we really do have a readiness problem. (C)

Keep in mind this is the same group that took eight months to approve IMF funding. If we have to do this publicly, it will be a real problem for me. I don't want to do anything to undermine my ability or encourage them to try some eleventh hour measure to stop these air strikes. They will be gone in a week. (C)

Prime Minister Blair: I totally understand that Bill. On the first point I am in complete agreement.

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E.O. 13526, section 1.4(b)(d)

The President: I completely agree with that. I am just saying injecting that now into the public debate would be a problem.

(C)

Prime Minister Blair:

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The President: It also might create problems with some other NATO allies and get them to vote against it and we don't want to complicate our business with NATO. (C)

By the way, Gordon Brown did a hell of a job here yesterday. He met with the Finance Ministers and Central Bankers about international finance issues. I went over and met with him. He was terrific, you would have been really proud of him. (C)

Prime Minister Blair: Bloody bright, isn't he? (C)

The President: Yes, he is great. (C)

Prime Minister Blair: I will tell him today when I go to talk to him. How are we going to go on this now Bill. (C)

The President: I hope we can get support for the G7 plan. The G7 met after we talked last time to endorse the idea of keeping the crisis from spreading to Latin America. We will have IMF funding by the end of next week and can proceed with the emergency plan. (C)

Gordon said what I have been saying all along. We have got to modify the Bretton Woods convention and implement some sort of bank regulatory system that has the effect of doing what bank regulation does in each of our countries and the stock market regulatory systems do, so that we can control the boom and bust

cycles on an international scale. Bretton Woods dealt with how to have sufficient money to deal with trade and services but didn't anticipate independent financial forces, which leveraged financial instruments, and that trading in money itself would have an effect on the global economy. (S)

Bretton Woods assumed 50 years ago that no matter what, the issue would be to find enough money to facilitate trade and investment -- not that money flows themselves would become a greater force of nature in the global economy. We have got to find a way to set up systems to replicate national systems that prevent depressions by limiting boom and bust cycles. There are two ways to do it. You can do it outright or have some sort of oversight mechanism that requires countries to make those changes. (S)

I think that is where we are going, but we still have to decide. I tried last night, but had a little wrinkle. I tried to get this group of 22 -- I counted 25 around the table -- to accelerate the reporting process. The working group of the deputy finance ministers reports in December/January after which we would have a meeting of world leaders. (S)

I think we can do one of two things. If you and Prodi and I want to have a meeting earlier than that they can accelerate the reporting process, which we can meet and validate. Or the alternative, based on this meeting, we could have a larger meeting, or a G7 meeting, and endorse this central idea, that is precisely [REDACTED] (S)

There is another wrinkle. [REDACTED]

[REDACTED] Europe is doing quite well and the forecast is for growth. The big three countries in Europe are going to do well also. (S)

I didn't want to confuse people and scare them about a worldwide recession, but I wanted to say that Europe has a bigger stake in Latin America than the United States does right now. We have seen bigger credit strictures and a tightening of credit here because of so many bad loans in the global economy. Regulators are cutting off good credit risks because of problems our banks are having elsewhere. (S)

I can understand it, but I did not place a lot of stock/

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But they did not disagree with the central idea that was succinctly put in Gordon's comments, which is what we have all been trying to say. I think there is still a chance we can do something more quickly if we want. The big front line test now is what happens to Brazil. Cardoso won the election but he has a lot of people in the run-off elections, three weeks from Sunday, or whenever. They have less than \$40 billion in cash reserves now, and I don't think he can stall for three weeks without saying what his reform proposal is. If Brazil goes south we are all going to suck eggs big time. (C)

I want to go give my speech today -- it is consistent with what you and Gordon said -- and then see what the status of the group is. Then, we'll see if we should have the G7 or some other group meeting where everybody gets together and endorses the idea. The developing countries were there and not one spoke against it. The Thais were there and they're doing quite well. They seem to be in harness on interim measures and suffering contractions because of it. (C)

They need a dramatic increase in World Bank investment to build a social safety net, but the problem is financial institutions are running short of money, not just the IMF. The World Bank is worried about having so many bad investments out and that its credit rating will go down. The longer we wait to get consensus, the worse it will be. We can have consensus in the long term. I don't know enough yet, but my instinct is to move sooner rather than later. But I need to let today pass to see where we are and get back to you. You should ask the Chinese where they stand. They have been champs in not devaluing their currency. They have taken some hits for it, but the benefits outweigh the burden. Anyway, I wanted to say that's where we are. In 48 hours we will be in a place to decide whether to get the leaders together sooner rather than later. I am for it but my Treasury department is against it. (C)

Prime Minister Blair:

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The President: Do you think we will get any grief for not having the Russians there? ~~(C)~~

Prime Minister Blair:

[REDACTED]

~~(C)~~

The President: But they would probably go along? ~~(C)~~

Prime Minister Blair:

[REDACTED]

The President: I agree. That is why I want to go in there today and be very aggressive. If Europe and Japan will support this and we have a united G7 front, we will be in pretty good shape.

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Prime Minister Blair:

[REDACTED]

The President: They might like it if we could put outside pressure on them without appearing to. That would be the best of all possible worlds. I need to go over now and give a talk. I will be back to you within 48 hours to let you know where we go from here. How long are you going to be in China? ~~(C)~~

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Prime Minister Blair: A few days here and then in Hong Kong.
~~(C)~~

The President: Back on Kosovo, we will be in touch with the French. If the Contact Group meets Thursday we have to go forward with the ACTORD no matter what the Russians say. We will tell them we won't have to do this if your deal works. This guy, all he understands is pressure and he lied before, and pressure will increase the chances that the deal will work. ~~(C)~~

Prime Minister Blair: I agree Bill, I'll talk to you in a couple of days. (U)

The President: Okay, goodbye. (U)

-- End of Conversation --

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