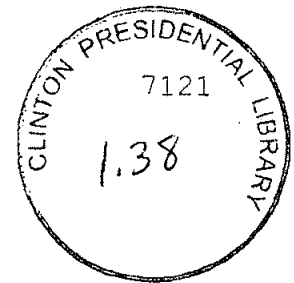


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THE WHITE HOUSE
WASHINGTON



MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telcon with British Prime Minister Blair
(U)

PARTICIPANTS: The President
Prime Minister Blair

Notetakers: Tom Crowell, Liz Rogers,
Robin Rickard, George Chastain, Jim Smith,
Lawrence Butler

DATE, TIME: October 14, 1998, 2:38 - 2:58 p.m. EDT
AND PLACE: Oval Office

The President: Hey, Tony, how are you? (UU)

Prime Minister Blair: Fine, fine, how are you? (U)

The President: Good. It's nice to hear your voice. (U)

Prime Minister Blair: It's good to hear you, too. I saw Mr. Arafat on his way to you. (C)

The President: How did you find him? (C)

Prime Minister Blair: He still thinks it is possible to do a deal. (C)

The President: I think it is. He wants it, I think. In a way, [redacted] What we have to do is keep them from falling into these old habits. I keep telling them if we don't make this deal now, we've got May 1999 staring us straight in the face and I think it will be a disaster. It will be impossible to avoid a bad outcome unless we get this interim agreement now and get into final status talks. (C)

Prime Minister Blair: [redacted]

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

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E.O. 13526, section 1.4(d)

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

The President: Maybe. I think he wants to see how it plays, first.

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This is aggravated by the fact that their economic situation is worse than when they signed on to peace. The Israelis close borders at the drop of a hat and they never concluded all these economic things, the roads and airport and industrial park, they have been on the verge of doing for months and months. (C)

Somehow we have to convince them they have to resolve all that crap. There is a train wreck facing them in May 1999 unless we somehow can give them some breathing room, some progress and confidence in one another's work. If I were in their position, the one interest they have in common is finding some way to live together before they have this horrible train wreck in 1999. (C)

Prime Minister Blair:

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The President: I think it might be important, depending on what each side asks for. During the next four days I might need to call you again a time or two. Where will you be? (C)

Prime Minister Blair: I will be here and anything I can do to be helpful I will, just give me a call anytime. I will speak to the Europeans or anything. (C)

The President: Adams and Trimble are both over here, you know. (C)

Prime Minister Blair: Yes. (U)

The President: My deputy labor secretary participated in the opening of the road show last week and I think it's going pretty

well. I understand de Chastelain's group got the lead on the decommissioning issue, but I heard you think it will have to wait until next spring. If there's anything I can do to help.

~~(C)~~

Prime Minister Blair: Bill, I am going to speak to McGuinness and Trimble in the next few days. It's tricky stuff. Sinn Fein is saying we will decommission, but not just yet.

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At the moment, we're working on it. If it comes to it, and I think you need to speak to people, I will just give you a call. ~~(C)~~

The President: I will do anything you want. I don't know how you are going to solve it, they both seem so dug in. If you can figure out anything I can do, I will. ~~(C)~~

I just cannot thank you enough for the strength you showed on Kosovo. It was fascinating to watch that NAC meeting unfold, compared to where we were three months ago. They all acted as if they were disappointed Milosevic caved. I told my folks here that it bore some of the similarities to Bosnia, where we worked for two years to get everybody off the dime. But it happened a lot quicker, in no small measure because we were in lockstep from the get-go. ~~(C)~~

Parenthetically, we have to do the same on this global financial thing; maybe we can talk about it in the next few days. ~~(C)~~

It was amazing to see how that happened. Here is where our next problem in Kosovo is. I think right now we are in a position where we passed the ACTORD -- this action order -- and are suspending it as we see if he complies.

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And as soon as that happens, he will start cheating, but they'll argue it's not enough. ~~(C)~~

We really need to carefully coordinate our positions to keep maximum pressure on him so we don't have to take military action. We don't want to look weak three months from now. It

looks so good right now, just the right thing being done in the right way. We really, really need to coordinate our positions; I'm convinced we can avoid military action if it is always hanging there. But it would take 3-4 months to try to get everybody where they were. And all the forces of the last 3 months will reassert themselves. Milosevic will cheat a little here and there and undermine the integrity of this thing. That is my only sort of yellow caution light, but otherwise it's terrific. It's good to have some good news. ~~(C)~~

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Prime Minister Blair:

The President: We have to figure out a posture. Some guys will say you can't keep granting 96-hour extensions, and then they will say we ought to say, okay, let's go to one-week extensions, two-week extensions. The point is, we don't want to let them put us in a position where we have to do this all over again. The minute we do that, he will start cheating. ~~(C)~~

Prime Minister Blair:

The President: I like that. ~~(C)~~

Prime Minister Blair: Bill, one thing I want to raise on the global economic stuff. I've got a little bit to report. I think Gordon has done brilliant work on the Europeans.

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The President: On the speed issue, I agree. On any of these finance problems, E.O. 13526, section 1.4(d) they could have done this for a pittance of what they have to. We have two different issues here. The longer we wait, given the amount of leveraged money that is out there, the greater chance of a more serious collapse that will take more money to fix. I do believe we need to have a hardcore bright line to help Brazil and keep Latin America from getting into this. The risks of our not being successful are greater than when we helped Mexico. But the risk will be minimized if simultaneously we have a comprehensive short-term strategy, including these countries but not limited to these countries. (C)

At least have a framework agreement that in the long run will sort of stabilize confidence and make people think this can be made to work. I believe the global version of what we're trying to do in our respective countries is riding on this. If this comes apart at the seams, we'll have hell putting this back together and putting in a coherent social component. That is what I believe. I think it is very, very serious. Much more than what I say in my public remarks, because I have to keep people jollied up here. (C)

We just literally this minute got Gordon's proposals in. Everybody here will be ready to see him by tomorrow and I will

We just literally this minute got Gordon's proposals in. Everybody here will be ready to see him by tomorrow and I will read this personally. I would like to follow up on the suggestion you made to me before. Let's assume pretty good accord among G-7 treasury and central bank people. There should be some meeting of the G-7, and sooner rather than later to realize some momentum here; even the Wall Street crowd, who hate government interference. Every time I give a talk, the market goes up a bit, and they're disappointed we're not doing more. There is an openness to action here in the market community that I think is important. I don't want to meet if we don't have anything to say, but I think you ought to think about it. (C)

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Prime Minister Blair: [REDACTED]

The President: Absolutely. Let me read this. I may call you in a day or so. There's some urgency in timing. If you look at the amount of unregulated, leveraged cash out there and the fact that people on their own are trying to reduce their exposure within emerging markets and in the EU and U.S. already, we already have a liquidity crisis that will affect our economies in less than a year. But simultaneously the amount of risk is so great that the two trends could run head on into each other and cause an even bigger problem. I hope Gordon will come tomorrow, but if there is some problem at Treasury, let me look into that. I don't know about that. Let me have a little time to look over this stuff, but I can't imagine not having him here. (C)

Prime Minister Blair: I'm sure they will be happy to see him.

The President: If you have gotten Tietmeyer and the French central bank moved off where they were at the meeting of 25 countries (G-22) over here where Gordon spoke so well -- it sounded like we'd read the same book just before speaking, we don't want to give them a chance to change again. (C)

Prime Minister Blair: [REDACTED]

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The President: Yes. Let me read this stuff and get back to you, and over the next few days we may have to talk again on the Middle East. (C)

Prime Minister Blair: I'll get Gordon and get him to go through it with him. (C)

The President: Tell you what. Let me call Rubin and let everybody read it. They need time to talk about it and they need digestion time. I've been talking to them and pushing them every day. I feel the same sense of urgency you do, and I will be back in touch. (C)

Prime Minister Blair: In the meantime, just get someone to let Gordon or us know about -- (C)

The President: -- the timing. Yes, I will. (C)

Prime Minister Blair: Okay, that is great. Goodbye. (U)

The President: Goodbye. (U)

-- End of Conversation --