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# Withdrawal/Redaction Sheet

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
<del>001. memo</del>	<del>Anthony Lake and Robert Rubin to President William J. Clinton re: The Tokyo Economic Summit (3 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>002. paper</del>	<del>Summit Reform (3 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>003. paper</del>	<del>G-7 Plus One Session: Discussion of Political and Economic Issues (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>004. paper</del>	<del>G-7 Plus One Session: The President's Intervention on Political Issues (4 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>005. paper</del>	<del>G-7 Support for Russia (4 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>

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- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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**The Participation of  
President Clinton  
at the  
Economic Summit  
Tokyo, Japan  
July 6-10, 1993  
Briefing Book  
The President**

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**The Participation of President Clinton at the Economic Summit  
Tokyo, Japan, July 6-10, 1993, Briefing Book  
The President**

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SCOPE PAPER

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INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: ANTHONY LAKE  
ROBERT E. RUBIN *He for*

SUBJECT: The Tokyo Economic Summit

Objectives

You have two fundamental sets of objectives for the G-7 Summit. Our immediate negotiating objectives are to secure the \$500 million G-7 commitment to the privatization fund for Russia; a coordinated strategy for stronger domestic growth and reduction of external imbalances; and a market access agreement on industrial products to revitalize Uruguay Round negotiations this fall. In addition, our broader objective is to set the new agenda for economic and political issues for the next four years.

The economic agenda should focus on the increasing importance of concerted macroeconomic policies and the recognition that in mature industrial economies growth alone will not create sufficient jobs. Concrete progress on removing structural barriers to job creation must necessarily go hand in hand with better macro policy. The current mood of pessimism in Europe stems from their belief that macro policies no longer work and, therefore, there is no use in focusing on macro policies. This is partly a tactic to deflect pressure to follow better policies and partly an honest confusion over what's wrong with their economies and why they can't create new jobs. We do not want to overshadow the need for new growth-oriented short-term macroeconomic policies, but we also want to recognize the complexities of structural problems and set in motion a process for discussing and resolving these problems.

The agenda you want to push on the political front focuses on the new challenges of democratization in Russia and the other NIS, nonproliferation, Iran and Iraq, terrorism, bringing South Africa back into the world community and revitalizing/restructuring the United Nations to cope with the new problems and demands placed upon it.

Strategy

Your immediate economic negotiating objectives can best be addressed in the first session of the Economic Summit on Wednesday afternoon when the Heads of State meet alone. You will

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cc: Vice President  
Chief of Staff

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want to lay down markers to be followed up by Secretary Bentsen and Ambassador Kantor in their discussions with their counterparts. Your phone calls to European leaders last Friday and Saturday set the stage for completing the \$500 million G-7 privatization package for Russia. Secretary Bentsen will be nailing this down with other finance ministers while you are meeting alone with the other leaders Wednesday afternoon. We will get you a readout on his discussions as soon as we can Wednesday evening.

On a coordinated macroeconomic policy approach to restimulating growth, you will want to outline for the others what you've done on the U.S. budget deficit during the first session on Wednesday, speak to your understanding of the interconnections in the new global economy and privately urge them personally to commit to policies more aggressively aimed at rebuilding domestic growth. Simultaneously, you will want to urge the others to support more specific language on their commitment to macro policies in the communique. Since we have done a reasonable job so far of establishing modest expectations for the Summit in our press backgrounders, we could capitalize on any improvements in the macro policy commitments as showing the strength of your leadership based on getting our own house in order first, and persuading other leaders to follow suit.

In your private discussions with the other leaders, you'll want to raise their sense of interdependence. As you have noted this week, the importance of moving together is a matter both of economics and public psychology in difficult times. None of us can sustain growth unless we are growing together. Leadership and confidence is critical to market expectations. And we therefore need to change the pessimism that seeps into the communique discussion of economic policies and issues. While we need to recognize the difficult challenges we have, we need to emphasize our human resources, experience, well trained labor forces and government commitments to follow strong policies in a way that will convince our publics that we will succeed in meeting the economic challenges we face, not just bemoaning them. In private conversations, you want to leave the clear impression that we will rise or fall together in our implementation of macroeconomic policies. As you have said this week, we can no longer afford to see this as a zero-sum game.

On the market access agreement, we currently have a limited goal of a solid, if not breathtaking, market access agreement on industrial products. While we will not know the outcome of these discussions until Ambassador Kantor finishes his meeting in Tokyo on Tuesday, we are somewhat optimistic about obtaining this limited goal. A larger market access goal would be based on more movement on our part on textiles and services as leverage to encourage the EC and Japan to be more forthcoming in the final package. This has obvious domestic political costs, and you need to consider carefully your approach.

On microeconomic issues -- the structural problems of labor markets -- you can build on the deep European concerns about

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their inability to create jobs in one of two ways: a modest outcome would be to have the communique recognize the problems and commit to further review of structural issues in multilateral institutions (e.g., the OECD). A more aggressive approach would be to table an initiative for convening a group of representatives from each of the G-7 countries to a meeting or series of meetings to share ideas, analysis and proposed solutions.

The dynamics of a Summit meeting are somewhat akin to turning around a supertanker. The long series of preparatory meetings have produced bureaucratically crafted communique language that inhibits a public communique which attracts positive attention from either the press or our publics. The language usually is stilted and technical. Considerable gains could come from a firm suggestion on your part that the language being recrafted with an eye to public relations. Most other leaders would second your idea, although the usually cautious and now adrift Japanese host government probably will resist. This long preparatory process also hamstringing creativity and new initiatives at the Summit. Moving the language further will require heavy lifting on your part. Other leaders will have to support explicitly any new initiatives in order for them to be added to the communique at this point.

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**ANNOTATED AGENDA**

## G-7 SUMMIT

### SCHEDULE

#### Wednesday, July 7

1:45 p.m. Welcoming Reception and Group Photo.  
2:30 p.m.- World Economy Overview (leaders only).  
5:30 p.m.  
7:30 p.m.- Working Dinner. Main Issues for Political  
9:30 p.m. Declaration

#### Thursday, July 8

9:15 a.m.- Leaders plus Foreign Ministers. Review Political  
10:00 a.m. Declaration.  
10:15 a.m.- Leaders Only. Russia. Reform of Summit Process.  
12:30 p.m.  
12:45 p.m.- Working Lunch. Developing Countries.  
2:30 p.m.  
3:00 p.m.- Leaders plus Foreign and Finance Ministers. Macro  
5:30 p.m. Policy Coordination, Trade, Environment.  
7:30 p.m.- Court Banquet. Non-working.  
10:00 p.m.

#### Friday, July 9

9:15 a.m.- Leaders plus Foreign and Finance Ministers.  
10:15 a.m. Finalize Economic Declaration.  
10:20 a.m.- Leaders only. Unfinished Business.  
11:20 a.m.  
1:00 p.m.- Working level G-7 plus Yeltsin.  
2:15 p.m.  
3:00 p.m.- Leaders plus Yeltsin. Global Political Issues  
6:00 p.m. and Russian Economy.

ANNOTATED AGENDA  
TOKYO ECONOMIC SUMMIT

Wednesday, July 7 - Day One

Arrival (1:50 p.m.)

You arrive at the vestibule of Akasaka Palace to be welcomed by Summit host Miyazawa, and will then be escorted to the Salon with Secretary's Christopher and Bentsen.

Then there will be a group photo session for the 7 leaders. With formalities over, proceed to the conference room for the first session.

First Session (2:30 - 5:30 p.m.)

The first 3 hour session is an overview of economic issues with leaders only. Secretaries Christopher and Bentsen have separate sessions with their colleagues.

Your opening intervention expresses your pleasure at attending your first Summit and touches on the three main issues of the Summit: 1) the World economy and G-7 efforts to improve global growth, 2) successfully concluding the Uruguay Round and 3) supporting reform in Russia. Each of these will be discussed in more detail throughout this first session and the rest of the Summit.

You want to emphasize the inextricable relationship of the economic policies of the G-7 and push growth-oriented policies on the others: Japan to implement multi-year stimulus (including a tax cut); Europe to set the stage for rapid interest rate cuts (especially Germany). You want to emphasize structural problems in economics which hinder job creation (labor rigidities, education, low R&D, etc.). If the market access package isn't finalized, you will want to urge others to come to agreement, as an essential boost to the Uruguay Round and a needed lift to global confidence.

Other economic issues that may be discussed include the developing countries and debt issues with the developing world.

Working Dinner (7:30 - 9:30 p.m.)

The dinner is at the Prime Minister's official residence for the heads of state only. Secretaries Christopher and Bentsen have separate dinners with their colleagues.

The dinner focuses on political issues. Topics at the dinner may include reforming the UN and strengthening international cooperation, conflict management and

peacekeeping, Russia, weapons proliferation, and regional conflicts (i.e., Yugoslavia, Cambodia and the Middle East.)

Your central theme is democratization and facing new post-Cold War security challenges. You should express a willingness to consider bold UN reforms to streamline its structure and make it more flexible and efficient. You want to highlight the need for cooperative action to stop weapons proliferation.

Thursday, July 8 - Day Two

First Session (9:15 a.m. - 12:15 p.m.)

At the Akasaka Palace, Secretary Christopher will join you and the other leaders and foreign ministers from 9:15 to 10:00 a.m. to discuss and adopt the political declaration. The declaration, entitled "Striving for a More Secure and Humane World," has been developed in advance by the G-7 political directors.

You want to nail down and finalize issues we want in the political declaration.

At 10:15 a.m., the subject switches to economic issues again with a focus on Russia and reform of the Summit process which continues until 12:15 p.m.

You want to place in perspective what the G-7 has done to help build democracy in Russia, and its historic value. You should review our assistance to Russia and urge continuing engagement and financial support from the others to the privatization of large-scale state enterprises. On Summit reforms, you want to support less formality and less "pre-cooking" of issues and communiqués in future summits.

Working Lunch (12:30 - 2:30 p.m.)

Discussion of developing countries.

You want to announce our new ability to join the others in providing debt relief for the poorest LDCs and emphasize our concerns about excessive population growth.

Second Session (3:00 - 5:30 p.m.)

Full "plenary session" with Secretaries Christopher and Bentsen. You will receive a report from the Finance Ministers on their efforts to coordinate economic policy to improve global growth.

The report which Secretary Bentsen and Treasury have developed with their G-7 counterparts focuses on macroeconomic policies needed to enhance growth (fiscal, monetary and exchange rates), structural policies to increase employment and growth potential (labor market reforms, investment, health care, trade and others), and the G-7 coordination process.

Following up on Wednesday's discussion of a global growth strategy, you want to emphasize your economic program, its benefits for them and your mutual interest in demand-led growth policies; urge Japan to adopt growth-oriented fiscal policies (e.g., income tax cut); encourage Germany to reduce its budget deficit in order to facilitate rapid interest rate declines. On job creation problems, emphasize the need for structural reforms to increase labor market flexibility. On trade, you will be joined at this point by Ambassador Kantor and, depending of the state of the negotiations, either can make a final push if needed or discuss how to restore momentum to the Uruguay Round in the absence of any concrete and significant progress in Tokyo. On the environment, urge action plans to implement the climate change and biodiversity treaties, development banks to follow sustainable development strategies and strengthening of the Global Environmental Facility as the financial mechanism to help with the new costs of the new conventions.

Formal Court Banquet (7:30 - 10:00 p.m.)

The formal court banquet will be held at the Imperial Palace. Unlike last year, President Yeltsin will be invited. This is intended as a non-working event. The draft toast is attached.

Friday, July 9- Day Three

First Session (9:15 a.m. - 10:15 a.m.)

From 9:15 to 10:15 there is a plenary session with Secretaries Christopher and Bentsen attending to discuss and adopt the economic declaration (known as the Summit communique).

The communique, which has been developed in advance by the sherpas, reflects discussions on promoting global economic growth, completing the Uruguay Round, and assisting Russia. Consensus on environmental issues, debt and developing countries and other issues will be included.

At 10:20, you and the other leaders have the chance to meet alone without any formal agenda.

**This is the last opportunity to make changes in economic declaration and complete unfinished business.**

Announcing the Economic Declaration (11:25 a.m.)

PM Miyazawa will announce the Summit communique with you and the other leaders formally concluding the Summit. This will be broadcast by TV, and press questions and answers follow. Many if not most will be directed toward you.

Lunch with President Yeltsin (1:00 p.m. - 2:15 p.m.)

Though the "Summit" has formally ended, you and the seven leaders (with Secretaries Christopher and Bentsen) proceed to the Hotel New Otani for lunch with President Yeltsin. There is a photo session with the G-7 leaders and Yeltsin as well.

Meeting with President Yeltsin (3:00 p.m. - 6:00 p.m.)

You and the other G-7 will discuss with President Yeltsin G-7 support for economic and political reform in Russia. It will also be a chance to review progress on the G-7 Foreign and Finance Ministers meeting on Russia that was held in Tokyo in May.

PM Miyazawa, as the Chair, will make opening remarks. You will then make a statement on global political issues, which will be followed by a statement from Yeltsin and then discussion. The EC representative substituting for Delors will make a statement on economic issues, which will be followed by a statement from Yeltsin.

After further unstructured discussion, PM Miyazawa will make concluding remarks. Miyazawa and Yeltsin will then hold a press conference.

**You are leading the global issues discussion, emphasizing our focus on democratization -- both in regional problems and the newly independent states. Your aim is to include Yeltsin for the first time in discussions of global problems. Other leaders are likely to follow up with questions about Yeltsin's domestic political situation.**

You will hold an individual press conference following the Miyazawa/Yeltsin joint press conference.

## THURSDAY BANQUET DINNER TOAST

It is truly an honor to join with all of you tonight. We have a great deal to do, and I am delighted with the strong working relationships we are building together.

We could not have asked for a more beautiful or graceful setting for our meeting, nor a greater show of hospitality from our hosts. I would ask you now to join me in thanking Prime Minister Miyazawa and the Japanese people for welcoming us all so warmly.

I don't want to interrupt dinner with a long speech. We are all politicians. We all know that in a contest between rhetoric and dessert, dessert wins -- at least in my book.

I just want to say this: I am convinced that the era we've entered can be the brightest in human history. The movement toward more open societies and economies creates that potential. Now it is up to us to shape what might be into what must be.

The eight of us here tonight represent the greatest powers on earth. And the price of greatness, as Churchill said, is responsibility. Today, people from the suburbs of America to the factories of Japan to the farms of Italy wonder whether their hard work will create the same opportunities earlier generations knew. We don't hold all the answers. But we can make a difference. And history won't forgive us if we fail to try.

We can revive global economic growth. We can unclog the bottlenecks of the world's trading system. We can unleash

trillions of dollars of economic activity. And we can turn to this work with a sense of mission.

For we come here not just as politicians of the moment, but as trustees of an international legacy built by great leaders: Charles DeGaulle, who broadcast his defiant message of resistance to occupied France, and then triumphantly returned. Conrad Adenauer, who led Germany out of the ashes of war and into the bright light of modern prosperity. Harry Truman and MacKenzie King, who helped design the sturdy institutions of postwar peace and prosperity.

These leaders knew not only that they had ended a war, but that they could open a new era of progress. Our times -- and the new global economy -- now demand no less of us.

Robert Browning said that "a man's reach should exceed his grasp -- else what's a heaven for?" In this era, it is incumbent upon each of us to reach, and as leaders, to risk. Our friend President Yeltsin has demonstrated how much can be accomplished by one leader with courage and vision.

So let us draw on our sense of history and our sense of possibility to make this not only the end of the Cold War but the dawn of a New Renaissance. I ask you to join me in a toast to our partnership and to the boundless potential of the era that together we will build. I ask you to join me in a toast to hope.

**CORE SUMMIT ISSUES**

-- CORE SUMMIT ISSUES (Background and Talking Points)

1. Global Economic Growth
2. Uruguay Round -- Market Access Agreement
3. Developing Countries
  - Debt
  - International Commodity Agreements
4. Environment
5. Summit Reform
  - Strengthening International Cooperation

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## GLOBAL ECONOMIC GROWTH

### GOALS

To secure commitments by others to stronger domestic growth and job creation.

- Update others on our budget status and its relationship to their economies.
- Emphasize the interconnections you see among the G-7 in a global economy and the need for concerted policies -- for both economic and public confidence reasons.
- Urge Japan to pursue a multi-year growth stimulus (including an income tax cut) aimed at reducing its large trade surplus.
- Encourage Kohl to tighten fiscal policy in order to provide room for rapid interest rate reduction.

### BACKGROUND

Global economic growth continues to fall well short of potential output and is inadequate to provide work for growing numbers of unemployed or provide resources to address pressing social needs for investment, education and the environment.

- Moderate growth in North America is providing less job creation than needed; Europe and Japan are experiencing slow growth or recession with rising unemployment rates.

Your economic program to reduce U.S. deficits and revitalize the economy is exactly the kind of policies the other G-7 have been urging us to pursue directly or indirectly in communiqués since 1981. In contrast to past years, this gives you extra leverage to push Europe and Japan to do their part for global growth by lowering interest rates in Europe and via fiscal stimulus (eg. an income tax cut) in Japan.

The discussion of microeconomic issues you will initiate is important but should not become a pretext for the others to avoid taking the hard but needed macro steps.

- The global growth context provides a good opportunity for you to articulate your economic program to the world and explain to the public how this foreign trip relates to your domestic agenda.

Treasury predicts growth among the G-7 countries will be a weak 1.7% this year, and only slightly better next year at 2.8%.

- Of the seven, the U.S. has the strongest growth, forecast to be 3.1% this year and 3.3% next year.
- Japan's economy will barely grow 1% this year according to Treasury, and next year will only increase to 2.5%.

- Treasury expects the Germany economy to contract with negative 1% "growth," and a paltry 1.7% next year.
- Elsewhere in Europe growth is slow or negative with
  - 0.3% expected in France this year, no growth in Italy, and 1.5% in the U.K.
- Canada, the smallest economy of the seven, may reach 3% growth this year, and a stronger 3.6% next year.

Aggregate unemployment in the OECD countries will reach record levels, with the OECD secretariat forecasting that over 34 million people will be without work later this year, with the aggregate rate of unemployment reaching the previous record of 8.5% (in 1983). There has been insufficient net job creation in the last 10 years and a large percentage of unemployment is now long-term unemployment with resulting social problems and pressures.

- Much of this unemployment is in Europe (21-22 million) and stems from both cyclical downturns in the economy and structural factors including rigid labor markets, over-regulation, and inefficient subsidies.
- The seven have grown increasingly concerned that structural barriers are lowering their economies potential growth rates. The Finance Minister's report to the Summit draws attention to structural policies and the need to examine labor market reforms, incentives for saving and investment, and other policies relating to health care, the environment etc.

Inflation for the G-7 countries remains moderate, with annual rates of 2.9% for the G-7 this year and 3.0% next year forecast.

- Inflation in Germany, remains unacceptably high by German standards (4.4% for 1993), in part due to wages increases and the costs of financing reunification.

External imbalances continue to plague the world economy. Whereas the U.S. budget deficit stood out in past years, now the major imbalance is Japan's large and growing trade and current account surpluses (which will rise to \$140 billion or 3.4% of GNP this year), compared with deficits in the other G-7 members (ranging from \$1 billion in France to about \$80 billion in the U.S. this year).

Policy stances among the G-7 are moving in the right direction, but more needs to be done in difficult political circumstances. The Summit needs to advance a coordinated strategy of individual country actions to increase global growth where:

- the U.S. reduces its budget deficit,
- the European's (Germany) improve growth through lower interest rates, and

- Japan acts to boost growth through fiscal stimulus and reducing its current account surplus.

With the U.S. and Canada acting to reduce budget deficits over the medium term, you can expect enthusiastic support, but also perhaps some pointed questions about your economic program and real deficit reduction prospects.

In Europe, German interest rates are coming down slowly (1 1/2 percentage points since the beginning of the year) which allows other European countries, linked via an exchange rate mechanism, to also lower rates.

- Interest rates in Europe still are high, given the decline in inflation, poor growth, and high unemployment in many European economies. (Nominal short-term rates in Germany as of July 2 are 7.35% with 10-year rates at 6.64%)

In Japan, the government has announced what it calls a large fiscal stimulus to respond to historically very slow growth. However, the net effect of the package will do little more than make up for weak private consumption and investment.

- Given that Japan has a combined fiscal surplus of over 1%, the government has sufficient room for multi-year fiscal stimulus to promote sustained growth.

More policy action is needed to improve global growth and produce a credible G-7 plan to coordinate macroeconomic policy. Specifically we need commitments to:

- More, and faster, monetary easing in Europe, particularly in Germany.
- Multi-year fiscal stimulus (especially a permanent reduction in personal income taxes) and market opening measures from Japan (which you will pursue bilaterally in your meeting with Miyazawa just before the Summit).

## GLOBAL ECONOMIC GROWTH

### POINTS TO BE MADE

- I know we are all worried about the weak growth outlook, high levels of unemployment and structural rigidities that hamper all of our economies.
- Growth for the G-7 is forecast as a paltry 1.7%, barely enough to address current challenges, let alone reduce unemployment and meet a growing list of new issues.
- Growth is critical to reducing unemployment. There are over 34 million people unemployed in the OECD -- approaching the record level of (aggregate) unemployment 8.5%.
- We expect a growth rate of over 3% in the U.S. this year, and you all know that I have been focusing most of my energy on pushing through a deficit reduction package that will help lower interest rates both in the U.S. and around the world.
- This package will reduce the deficit by \$500 billion over a 5-year period.
- U.S. budget deficits has been a major concern of yours and all of our economic partners. I looked back at prior G-7 communiques and they have pushed the U.S., directly or indirectly, to reduce budget deficits since 1981.
- Global growth is critical for the G-7 and we must do all we can to help improve the outlook. I hope that each of us will look for ways to give the world economy the boost it needs to provide meaningful work and lives to our citizens and the world.
- It is difficult to act in the tough political atmosphere almost all of us face. But if we do not all pull in the same direction of global growth, our individual efforts ultimately will be vitiated.
- There are only three ways I know we can stimulate global growth: coordinated macro-economic policies, more trade and dealing with our structural or micro-economic rigidities. I want to address the second two later, but let me talk now about our macro policies.
- We need to clearly convey to our people a joint commitment to stronger growth.
- They need to have confidence that our governments are acting together to create the job opportunities through higher growth rates, that our being here together this week matters to their lives.
- For each of us the appropriate response is different depending on our respective economic conditions.

- Whether the proper policy is to cut budgets as I have done, lower interest rates which are very high in Europe, or increase fiscal spending where growth is slow in Japan, we need new policy commitments that will lead to more growth.
- I think we need strong commitments from each of us, so that we as the G-7 will be able to present to the world a credible global growth program.
- The appropriate goal is sustained, medium term growth. I am not suggesting that anyone do anything that would kindle inflation or jeopardize fiscal consolidation. But we must be more flexible and more growth oriented.
- We need to act together in doing what I am trying to do at home and intend to pursue over the next four years. Take needed steps to improve global growth, reduce unemployment, and provide a quality standard of living for our citizens and the world.

**NOTE:** Japan will likely be defensive about our push for multi-year fiscal stimulus. They will argue that they have already announced two large fiscal stimulus, and taken needed action. (Miyazawa also is likely to invoke the upcoming election as tying his hands in the communique. However, their fiscal actions to date overestimate their impact on growth, and will not make up for weak private consumption and investment. Japan's huge current account surpluses also are a huge drag on global growth, soaking up inadequate global demand. The other G-7 should be supportive of our push for Japanese fiscal stimulus.

Germany also will be defensive about further interest rate cuts. While interest rates have come down, they are still high, and need to be brought down more quickly. Especially when growth this year is negative. Kohl may demure about the independence of the Bundesbank (central bank) and that inflation is too high (which we expect to fall later this year). The rest of the Europeans are generally supportive of reducing high German interest rates (which keep their own rates high through exchange rates). The Japanese may side with the Germans, at least in solidarity with the other country being asked to make economic policy adjustments.

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THE WHITE HOUSE

WASHINGTON

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: ANTHONY LAKE  
ROBERT E. RUBIN

SUBJECT: The Uruguay Round and the G-7 Summit

SUMMARY

As you leave for the G-7 Summit, the likelihood of reaching a Uruguay Round market access agreement is still uncertain. Negotiations in Toronto last week did not result in substantial progress. Negotiations will resume in Tokyo July 5-6 with the goal of reaching an agreement before the Summit.

At this point, our goal is to reach a detailed market access agreement on industrialized products. The major outstanding issues are: U.S. textile and apparel tariffs, the EC offers on electronics and non-ferrous metals (e.g., aluminum, copper) and Japan's concessions in distilled spirits and wood. The EC has pushed hard for 50% reductions in all U.S. textile and apparel tariffs at or over 15%. Despite a more forthcoming U.S. textile offer last week in Toronto, the EC seems unwilling to move, at least until the end-game in Tokyo.

You already come to the Summit with something in hand: an extension of Congressional fast track authority for the Uruguay Round, which you signed on July 1. You achieved what you originally asked for, a "clean" extension (no amendments). This was a substantial legislative achievement and underscores the commitment of your Administration to the Uruguay Round.

CONTEXT OF THE NEGOTIATIONS

Your talks in Tokyo should repeatedly come back to the importance of reaching a good Uruguay Round agreement. A successful Round could produce major benefits for the U.S. and spur global growth. A good global market access agreement alone (consisting of an average of 33% tariff cuts) would create 2 million jobs in the U.S. over 10 years.

Moreover, the market access agreement is the key to completing the broader Uruguay Round package, which would expand GATT rules to cover the one-third of the world's trade currently not subject to GATT discipline, including the expanding realm of trade in services. Moreover, a Uruguay Round agreement would help protect

cc: Vice President  
Chief of Staff

U.S. industries that currently lose \$60 billion each year due to inadequate intellectual property rights protection. Overall, a successful agreement would contribute an estimated \$6 trillion to the global economy and \$1.1 trillion to the U.S. economy over 10 years.

Reaching a good agreement in Tokyo would provide an important boost for the Round. It would reverse the pattern of the last three years in which the G-7 leaders have come up empty-handed at the Summit. It would also permit the talks to move to the next phase: return the negotiations to Geneva where the talks could conclude by the December 15 deadline. This phase of the negotiations also faces many hurdles; completing G-7 services and agriculture talks not completed by this Summit; persuading the over 100 countries outside the G-7 also to make concessions commensurate with the G-7 agreement; reaching agreement on sensitive issues like dumping and countervailing duty rules. That makes it all the more important that the G-7 talks succeed soon, consistent with the goal of reaching a good agreement.

#### STATUS OF THE NEGOTIATIONS

The talks have now focused on reaching a market access agreement on industrial goods, with agreements on services and agriculture market access likely either to be highly general or not included. Agreement on industrial goods tariffs is very important, however: tariff reductions provide a tangible "bottom line" benefit that U.S. companies can measure easily. The companies that benefit from these reductions would be some of your strongest supporters in a Congressional campaign for a Uruguay Round agreement.

A central element of the industrial goods talks has been to get U.S. and foreign tariffs in key manufacturing industries reduced to zero (the "zero-for-zero" initiative). We have already secured this commitment in some sectors (e.g., pharmaceuticals, construction equipment, medical equipment) and this can provide the foundation for a good agreement.

The sticking point for the U.S. remains textile and apparel tariffs. The E.C. has been pushing hard for 50% reductions of all of these tariffs about 15% (i.e., the "peak" tariffs). In Toronto last week, the U.S. improved its offer somewhat, and USTR believes we have gone about as far as we can go politically on this issue. Any cuts in tariffs come on top of a phase-out of U.S. textile quotas as part of the Uruguay Round agreement, so they are particularly sensitive.

For its part, however, the EC continues to make unsatisfactory offers on areas of concern to us, particularly electronics and non-ferrous metals. The EC had originally offered a 50% reduction, but now is back to a 33% cut. We need to get more than this -- particularly in semiconductors -- where we would like to have at least 50%. In Toronto, Japan did not offer anything meaningful on wood and distilled spirits, but pressure on Japan may be more effective once there is a U.S./EC deal and Japan is the only holdout.

The end-game now moves to Tokyo, where USTR hopes the EC will be more forthcoming. They believe the EC is waiting for the same from the U.S., so action by the heads of state may be necessary to break the deadlock. The entire U.S. team believes we should not accept a bad deal, but we should make a final press to reach an agreement that meets our objectives.

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## DEVELOPING COUNTRIES

### U.S. OBJECTIVES

The U.S. should seek a strong message of support for the developing countries in the communique and stress the importance of integrating them into the world economic system, while emphasizing that developing countries also must take responsibility for their development.

- Encourage the G-7 to enhance the quality and effectiveness of aid (apart from the quantity of aid); focus it on countries which are making strong efforts at political and economic reform; and use it to promote market-oriented reforms, poverty alleviation, human rights, democracy and good governance, and environmental protection.
- Indicate that under your direction, the U.S. is undertaking a thorough overhaul of AID, with a mandate to streamline its effectiveness.
- Reiterate that trade and investment offer great promise to developing countries as does aid.
- Deflect proposals that we oppose, such as targets (percentage of GNP) for official development assistance (ODA), or new institutions for a dialogue with developing countries.
- Endorse G-7 position to renew the IMF's special concessional facility for low income developing countries that are reforming.
- Take credit for your recent debt initiative to provide debt reduction (50%) for the poorest, insolvent LDCs, especially in Africa, and not stand in the way of those who wish to do more, while deferring calls for more generous U.S. debt relief, given our budget constraints.

### G-7 POSITIONS

Miyazawa wants agreement on a "Comprehensive Approach to Developing Countries," which the Japan would pair with its own bilateral development assistance target for 1993-97 (to be announced at or before the Summit and expected to be in the \$70-80 billion range over five year, which plus export credits brings the package to \$120-130 billion). As the only G-7 country with ample budget resources, Japan is likely to use this issue to divert attention from areas where it is unwilling to act (e.g., world growth, Uruguay Round, and Russian assistance).

You can take credit for your debt initiative to join the rest of the G-7 in offering "Enhanced Toronto Terms" in the Paris Club. Enhanced Toronto Terms is a menu of four options for debt relief, three of which involve debt reduction. Previously, we have only chosen the fourth option of rescheduling because this action does not require budget appropriations. Your FY94 budget provides \$21 million over three years to do 50 percent debt reduction for the

poorest, insolvent countries -- about 18 countries, mostly in Sub-Saharan Africa.

Major has warmly welcomed your debt proposal and may now encourage the G-7 to go further to adopt 2/3 debt reduction for these countries ("Trinidad Terms").

Mitterrand favors assistance targets and may press us to agree to reach 0.7% of GNP. The French regularly criticize us for our low aid share, and are the closest to this 0.7% target. Mitterrand (and Major) may press you for 50% debt service reduction for a different group of countries drawn from a set that is called "Lower Middle Income Countries" (Cameroon, Congo, Cote d'Ivoire and Nigeria).

The others do not have strong views, but will want to be constructive without making large budget commitments.

We agree with the basic thrust of the Japanese approach, especially the emphasis on the need for developing countries to adopt sound macroeconomic policies and open trade and investment regimes. However, it contains several specific elements that we oppose. For example, the Japanese want a pledge to increase aid, at a time when our foreign aid budget is shrinking. They also want a commitment not to divert future developing country aid to other priorities, but we want flexibility to help Russia and the other FSU states. In addition, the Japanese approach seeks to set up new institutions for a dialogue with developing countries, but this could undermine the role of the international financial institutions.

#### BACKGROUND

The IMF forecasts 5 percent real GDP growth for LDCs as a whole in 1993 and 1994, with higher growth in those countries instituting market reform.

- Economic policy reforms enabled Chile, Mexico and Argentina to sustain growth and reduce inflation, while countries like Brazil, which have not made progress on reform, have suffered economic decline and hyperinflation.
- Economic policy reform in developing countries also provides U.S. export markets. Between 1985 and 1991, U.S. exports to policy reforming countries increased by 126%, compared to 46% to non-performers.

The U.S. has the lowest ratio of development assistance as a share of GNP (0.2 percent) of all the G-7, using 1991 data. The others countries' ratios are: UK .32 percent; Italy .30 percent; France .62 percent; Canada .45 percent; Germany .41 percent; and Japan .32 percent. (See attached table.)

U.S. development assistance is qualitatively superior to that of other G-7 members. Our aid to the poorest is provided as grants and is heavily concentrated in social and humanitarian support. Others provide less in grants and emphasize commercially-oriented projects.

We can welcome the G-7 agreement to renew the IMF's special facility for low income countries that are undertaking reform (the Enhanced Structural Adjustment Facility or ESAF). The new facility is likely to have \$7 billion to lend to qualified countries over a four year period. Treasury is working out the U.S. financing arrangements, and intends to find a solution that does not require U.S. budget commitments.

On developing country debt, we hope that the Summit will welcome U.S. efforts to join the international community in providing 50% debt reduction under "Enhanced Toronto Terms" in the multilateral creditors group -- the Paris Club. Budget constraints will require us to maintain the current rescheduling option for some countries, however. Rescheduling does not require budget appropriations.

-- Your FY 1994-98 budget envisions a total of \$21 million over three years to enable the U.S. to join in debt reduction for most of the poorest countries. 67% reduction would cost \$48-56 million for this group (\$11.5 million in FY 94).

We would like to do more for Africa, but would have to gain the necessary funding in FY 1995.

We do not have the authorization or appropriations for debt reduction on non-concessional debt for the French and U.K. selected lower middle income countries, and will have to continue to reschedule U.S. debt for these countries.

More generally, budget constraints and lack of public support mean U.S. resources for aid and debt relief will probably decrease in the near term. (Our \$14.3 billion budget request for foreign operations was cut by over \$1 billion in recent House action.)

Table 19. Official development assistance from OECD and OPEC members

OECD: Total net flows a		1965	1970	1975	1980	1985	1988	1989	1990	1991
<i>Million of US dollars</i>										
102	Ireland	0	0	8	30	39	57	49	57	72
107	New Zealand	..	14	66	72	54	104	87	95	100
108	Belgium	102	120	378	595	440	601	703	889	831
109	United Kingdom	472	500	904	1,854	1,530	2,645	2,587	2,638	3,248
110	Italy	60	147	182	683	1,098	3,193	3,613	3,395	3,352
111	Australia	119	212	552	667	749	1,101	1,020	955	1,050
112	Netherlands	70	196	608	1,630	1,136	2,231	2,094	2,592	2,517
113	Austria	10	11	79	178	248	301	283	394	548
114	France	752	971	2,093	4,162	3,995	6,865	7,450	9,380	7,484
116	Canada	96	337	880	1,075	1,631	2,347	2,320	2,470	2,604
117	United States	4,023	3,153	4,161	7,138	9,403	10,141	7,676	11,394	11,262
118	Denmark	13	59	205	481	440	922	937	1,171	1,200
119	Germany b	456	599	1,689	3,567	2,942	4,731	4,949	6,320	6,890
120	Norway	11	37	184	486	574	985	917	1,205	1,178
121	Sweden	38	117	566	962	840	1,534	1,799	2,012	2,116
122	Japan	244	458	1,148	3,353	3,797	9,134	8,965	9,069	10,952
123	Finland	2	7	48	110	211	608	706	846	930
124	Switzerland	12	30	104	253	302	617	558	750	863
<b>Total</b>		<b>6,480</b>	<b>6,968</b>	<b>13,855</b>	<b>27,296</b>	<b>29,429</b>	<b>48,114</b>	<b>46,713</b>	<b>55,632</b>	<b>55,519</b>
<i>As a percentage of donor GNP</i>										
102	Ireland	0.00	0.00	0.09	0.16	0.24	0.20	0.17	0.16	0.19
107	New Zealand	..	0.23	0.52	0.33	0.25	0.27	0.22	0.23	0.25
108	Belgium	0.60	0.46	0.59	0.50	0.55	0.39	0.46	0.45	0.42
109	United Kingdom	0.47	0.41	0.39	0.35	0.33	0.32	0.31	0.27	0.32
110	Italy	0.10	0.16	0.11	0.15	0.26	0.39	0.42	0.32	0.30
111	Australia	0.53	0.59	0.65	0.48	0.48	0.46	0.38	0.34	0.38
112	Netherlands	0.36	0.61	0.75	0.97	0.91	0.98	0.94	0.94	0.88
113	Austria	0.11	0.07	0.21	0.23	0.38	0.24	0.23	0.25	0.34
114	France	0.76	0.66	0.62	0.63	0.78	0.72	0.78	0.79	0.62
116	Canada	0.19	0.41	0.54	0.43	0.49	0.50	0.44	0.44	0.45
117	United States	0.58	0.32	0.27	0.27	0.24	0.21	0.15	0.21	0.20
118	Denmark	0.13	0.38	0.58	0.74	0.80	0.89	0.93	0.93	0.96
119	Germany b	0.40	0.32	0.40	0.44	0.47	0.39	0.41	0.42	0.41
120	Norway	0.16	0.32	0.66	0.87	1.01	1.13	1.05	1.17	1.14
121	Sweden	0.19	0.38	0.82	0.78	0.86	0.86	0.96	0.90	0.92
122	Japan	0.27	0.23	0.23	0.32	0.29	0.32	0.31	0.31	0.32
123	Finland	0.02	0.06	0.18	0.22	0.40	0.59	0.63	0.64	0.76
124	Switzerland	0.09	0.15	0.19	0.24	0.31	0.32	0.30	0.31	0.36
<i>National currencies</i>										
102	Ireland (millions of pounds)	0	0	4	15	37	37	34	35	41
107	New Zealand (millions of dollars)	..	13	55	74	109	158	146	160	185
108	Belgium (millions of francs)	5,100	6,000	13,902	17,399	26,145	22,088	27,714	29,720	26,050
109	United Kingdom (millions of pounds)	169	208	409	798	1,180	1,485	1,577	1,478	1,736
110	Italy (billions of lire)	38	92	119	585	2,097	4,156	4,958	4,068	3,859
111	Australia (millions of dollars)	106	189	402	591	966	1,404	1,286	1,223	1,382
112	Netherlands (millions of guilders)	253	710	1,538	3,241	3,773	4,410	4,440	4,720	4,306
113	Austria (millions of schillings)	260	286	1,376	2,303	5,132	3,722	3,737	4,477	5,861
114	France (millions of francs)	3,713	5,393	8,971	17,589	35,894	40,897	47,529	51,076	38,777
116	Canada (millions of dollars)	104	353	895	1,257	2,227	2,888	2,747	2,882	3,009
117	United States (millions of dollars)	4,023	3,153	4,161	7,138	9,403	10,141	7,676	11,394	11,262
118	Denmark (millions of kroner)	90	443	1,178	2,711	4,657	6,204	6,850	7,247	7,096
119	Germany (millions of deutsche marks) b	1,824	2,192	4,155	6,484	8,661	8,319	9,302	10,211	10,446
120	Norway (millions of kroner)	79	264	962	2,400	4,946	6,418	6,335	7,542	7,037
121	Sweden (millions of kronor)	197	605	2,350	4,069	7,226	9,396	11,600	11,909	11,704
122	Japan (billions of yen)	88	165	341	760	749	1,171	1,236	1,313	1,371
123	Finland (millions of markkaa)	6	29	177	414	1,308	2,542	3,031	3,236	3,845
124	Switzerland (millions of francs)	52	131	268	424	743	903	912	1,041	1,170
<i>Summary</i>										
<i>Billion of US dollars</i>										
	ODA (current prices)	6.5	7.0	13.9	27.3	29.4	48.1	46.7	55.6	55.5
	ODA (1987 prices)	28.2	25.3	29.8	36.8	39.4	44.9	43.6	47.6	45.7
	GNP (current prices)	1,374.0	2,079.0	4,001.0	7,488.0	8,550.0	13,547.0	13,968.0	15,498.0	16,818.6
<i>Percent</i>										
	ODA as a percentage of GNP	0.47	0.34	0.35	0.35	0.34	0.34	0.32	0.33	0.33
<i>Index (1987=100)</i>										
	GDP deflator c	23.0	27.6	46.5	74.1	74.6	107.1	107.5	116.8	121.4

## DEVELOPING COUNTRIES

### POINTS TO BE MADE

- It is vital that we improve the well-being of the poor throughout the developing world by helping them follow policies that support democracy, stability and sustainable growth.
- This is not just a moral responsibility; it is an economic and political imperative. Growth in developing world can help sustain world economic growth. And, as events in Somalia have shown so clearly, the political and security costs of allowing poverty to fester is high.
- I am pleased that Prime Minister Miyazawa has emphasized this issue for the Summit, and agree with many aspects of the Japanese proposal on development. However, I do have some reservations about a few specific elements.
- We must all do what we can to assist in development, within the constraints of our own budgetary limitations.
- One of the best ways to help developing countries is to create the conditions for world growth. Trade and investment hold great promise for developing countries. Therefore, in addition to development assistance, we should:
  - get our economies moving again by putting in place growth-oriented domestic policies,
  - come to successful conclusion on a Uruguay Round this year so that developing countries have greater access to international markets,
  - target our limited aid resources on countries most willing to reform, so that aid is a helping hand, not a form of dependency,
  - improve the quality of our assistance by reforming our development assistance agencies, like we're doing in the U.S., and
  - focus assistance on promoting market-oriented reforms, good governance, democracy, the environment and human rights.
- Believe that both industrial and developing countries would benefit from greater discussion of development issues, including global issues such as the environment, human rights and AIDS.
- Pleased that there is widespread support for renewing the IMF's special facility for low income countries that are reforming (the "ESAF"). Understand our Finance Ministries are working out the details.

## DEBT

### BACKGROUND

- We expect that the Summit will welcome U.S. efforts to join the international community in providing "Enhanced Toronto Terms" 50% debt reduction for the poorest countries. Your budget provides enough funds to do this for a subset of these countries -- the poorest countries that are insolvent, particularly those in Sub or Saharan Africa.
- Legislation that we have introduced into Congress to give us the budgetary and legislative authority for such action is moving well through the House and appears to have strong bipartisan support.
- We will be prepared to reduce the stock of outstanding debt for these countries, as well as interim debt service.
- We believe that this is an important first step to help these countries which are making good-faith efforts to reform their economies.
- UK Prime Minister Major, who initially proposed 67% debt stock reduction ("Trinidad Terms") for this group, has warmly welcomed the Administration's proposal, and may now encourage the G-7 to go further.
- The French are likely to press again for 50% debt service reduction in the Paris Club for selected Lower Middle-Income Countries (LMICs) -- Cameroon, Congo, Côte d'Ivoire, and perhaps Nigeria.
- We do not have the authority or appropriations for such action, but can continue to use the rescheduling option negotiated at the Munich Summit, which does not require budget appropriations.
- Considerable progress has been made under the international debt strategy for addressing commercial bank debt problems.
  - For the banking community and many of the major debtor nations, the debt crisis of the 1980s is over.
  - However, Brazil needs a new IMF program in order to finalize its agreement with commercial banks. (However, agreement to a Fund program is not imminent.)
  - The G-7 should remain firm in insisting to commercial banks that they provide debt reduction for Poland comparable to that granted by the Paris Club creditor nations.

- The Summit should encourage completion of additional agreements on a timely basis. For instance, discussions underway include Bulgaria, Congo, Cote d'Ivoire, Dominican Republic, Ecuador, Guyana, Jordan, Nicaragua, and Panama.

DEBT

POINTS TO BE MADE

- I have asked Congress for authorizing legislation and funding to enable us to offer Enhanced Toronto terms debt reduction to most of the poorest countries that will be eligible over the next three years.
- This legislation is moving well and appears to have strong bipartisan support in the U.S. Congress. However, we may not know the outcome until this fall.
- Our request would enable us to reduce the stock of debt as well as payments as they come due.
- We believe this is an important first step to help those poorest countries which are making good-faith efforts to reform their economies.

**(If Major raises "Trinidad Terms" 67% Debt Reduction Proposal)**

- We're not prepared to go further on debt reduction than the present 50% because of tight budget constraints.
- As you have said, the greatest contribution that the U.S. can make to creating strong global growth that will benefit developing countries is to control our fiscal deficit. This is a difficult undertaking for Congress and restricts our ability right now to increase development assistance; indeed, we must fight to sustain what we've proposed. I have asked Congress for major deficit reduction, involving tax increases and spending cuts.

**(If Mitterrand presses on Lower Middle Income Countries)**

- The U.S. already has provided substantial debt relief to a number of lower middle income countries -- \$844 million in Latin America and \$143 million in Africa, in addition to \$8.6 billion for Poland and Egypt.
- We applaud your efforts to provide additional debt relief, and we encourage you to continue to do so bilaterally. However, we do not have the legislative authority or appropriations to permit the U.S. to reduce non-concessional debt for these countries.

**(If Miyazawa, Mitterrand and Major press you to commit to an Official Development Assistance target):**

- I do not favor setting such targets. It is difficult to compare aid programs only in quantitative terms. U.S. development assistance is qualitatively different. A greater proportion of U.S. programs, for example, is in grants and is directed at basic human needs. Our defense commitments also help enhance global and regional security which also directly supports development.

## INTERNATIONAL COMMODITY AGREEMENTS

### BACKGROUND

The Japanese and French foreign ministers are proposing that the leaders endorse a "Commodities Initiative" at the Summit. A "wisemen's group" representing 20 nations would develop a report for the 1994 Summit proposing international cooperation on commodities exported by developing countries.

International commodity agreements were actively supported by industrial countries during the sixties and seventies. Funds employed a variety of techniques -- purchasing commodities for "buffer stocks" -- in an attempt to stabilize prices. Some tried to raise commodity prices. Historically, these efforts have resulted in large accumulations of government stockpiles of commodities since the participants could rarely agree to sell the stocks.

These efforts have raised costs to consumers which discourage consumption. Over time they have broken down when creditors tired of extending new funds to finance further stock accumulations.

The U.S. should oppose establishing at the Summit a group to consider cooperation on commodities because of the potential for heightened expectations from developing countries for new agreements with economic provisions.

The Japanese proposal complements the LDC policy goals of the French government. The French view international commodity agreements as a means to enhance commodity exports of developing countries through consumer transfers. They see higher prices paid by consumers (usually in industrial countries) as a way to provide assistance to LDCs. The Japanese suggest that their proposal is designed to encourage economic development through a "market oriented approach" without establishing new international agreements containing economic provisions (a code word for industrial country agreement to finance the agreement for "buffer stock" concepts). But it is unlikely that this is achievable. Moreover, a review of commodity problems would provide opportunity for LDCs to push for commodity agreements with economic provisions. Therefore, the Japanese proposal to establish a high-level expert group should not be accepted.

Nearly all international commodity agreements have been renegotiated to decrease their direct involvement in the market through reduced use of economic provisions (e.g., buffer stocks, price bands), after the clear failure of these approaches. As an alternative to price enhancing regimes, most countries now support "study group" activities (i.e., data exchange; research activity coordination). For instance, the International Jute Agreement and the International Tropical Timber Agreement perform largely study group functions and do not use economic provisions. We want to encourage, not discourage, the trend towards less market intervention by government or commodity funds.

## INTERNATIONAL COMMODITY AGREEMENTS

### POINTS TO BE MADE

- We understand the Japanese concern about reduced export earnings from developing countries and the resulting pressure to increase official development assistance.
- A new international commodity initiative (even a study) would falsely raise expectations by developing countries that the G-7 countries would now support agreements that employ buffer stock and other distortive economic provisions.
- The Summit should stress several approaches to greater prosperity. Trade liberalization through the Uruguay Round is one key. Commodity market manipulation will certainly fail to provide lasting stability or increase producer incomes except through costly subsidies.

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## ENVIRONMENT

### GOALS

- We want to secure agreement from others to publish action plans for implementing Climate Change and Biodiversity Treaties.
- Encourage Multilateral Development Banks (MDBs) to assess the environmental impact of their projects and to pursue sustainable development policies.
- Urge others to support actively the 1994 Population Conference in Cairo.

### BACKGROUND

Our four key issues are:

- International Financial Institutions
- Population
- Global Climate Change
- Biological Diversity

### INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)

One of the key post Rio (UNCED) issues is financial assistance to support sustainable development.

We want institutions to assess the environmental impacts of their projects and programs.

- By and large, Multilateral Development Bank projects have not done so.
- MDBs must improve their policies in sectors with environmental impacts, e.g., by promoting least-cost energy strategies that give full consideration to energy conservation and end-use efficiency.

Other G-7 countries have not been as supportive of our efforts.

### POPULATION

The G-7 members participated in the 1989 International Forum on Population in the Twenty-First Century, held in Amsterdam, which produced the Amsterdam Declaration: A Better Life for Future Generations. Although not a UN endorsed document, it has become the rallying call for increased resources for international population programs.

The OECD Development Assistance Council (DAC) has also called on the G-7 nations to increase their commitment to the Amsterdam target of \$9 billion by the year 2000.

While the U.S. and Japan are the leading population donors, contributing \$430 and \$73 million respectively, other donors,

especially France, could do more to support the costs of international population programs, either bilaterally or through other multilateral programs.

We should actively encourage increased resources being devoted to these programs by both the G-7 nations and the IFIs.

Renewed commitments by the G-7 to success of the 1994 International Conference on Population and Development in Cairo should be made; it can be a rallying point for increased financial commitment to international population concerns and making them an international and national priority.

#### GLOBAL CLIMATE CHANGE

With your Earth Day (April 21) commitment to limit U.S. greenhouse emissions to their 1990 level by the year 2000, all G-7 nations now have committed to specific reduction targets.

We now are wrestling with identifying and adopting measures, including energy taxes, to achieve the desired limitation in overall emissions. The Administration has stated that the U.S. action plan for limiting greenhouse gas emissions will be completed by August. Most other G-7 countries also are still considering how to reach their targets.

The G-7 should reaffirm their stabilization commitments and call for other countries to take similar action, specifically calling for the development and implementation of detailed action plans for reducing overall emissions.

#### BIODIVERSITY

Alone among the G-7, the U.S. did not sign the biodiversity convention in 1992 because of concerns over its intellectual property rights (IPR) and funding provisions. On April 21, you announced our intent to sign the biodiversity convention which you signed on June 4. We are working with like-minded donor and technology supplier nations to resolve concerns with the problematic provisions.

#### GLOBAL ENVIRONMENTAL FACILITY (GEF)

The GEF is a special facility of the World Bank to finance environmental projects. The current facility uses a weighted voting scheme which gives creditors the major voice in policy decisions. Following Rio, nations are considering ways to employ the facility to support incremental environmental costs associated with the new climate change and biodiversity conventions.

## ENVIRONMENT

### POINTS TO BE MADE

- Protection of the global environment and slowing rapid population growth are high priorities for me. The G-7 should continue to lead in promoting efforts to address these pressing concerns. Greater environmental protection and global growth do not need to be incompatible goals.

### **International Financial Institutions**

- Financial assistance to support sustainable development will remain a key issue for all of us.
- I believe we should emphasize the importance of ensuring that international financial institutions assess the environmental impacts of their projects and programs.
- Although the MDBs have begun to take environmental considerations into account, more needs to be done.
  - For example, MDBs could be encouraged to promote least-cost energy strategies that give full consideration to energy conservation and end-use efficiency.
  - We should agree to make sustainable development a priority for the MDBs and other IFIs.
- We should also reaffirm support for restructuring the Global Environment Facility (GEF). Restructured it can fund projects with global environmental benefits, including programs agreed to under the climate change and biodiversity conventions.
  - This restructuring should be based on the principles of fair governance, transparency, accountability, and cost-effectiveness.

### **Population**

- I am worried about population growth and inhumane attempts in some parts of the world to slow its growth (e.g. killing babies). We must work together to stem the world's rapid population growth.
  - I hope all of us will be actively engaged in the preparations for the International Conference on Population and Development in Cairo in September 1994;
  - In addition to strong support for comprehensive family planning activities, population issues should be broadly construed to include the enhanced role and status of women, improved health and nutrition for females, universal literacy and other measures which eliminate discrimination against women;
  - We must make population a key component of their national sustainable development plans;

- I wish we could all commit to increased support for population programs.

### **Climate Change**

- Climate change is an important issue for my Administration. I announced in April that we are firmly committed to reducing greenhouse gas emissions to 1990 levels in the year 2000. We intend to complete an action plan by August to achieve this target.
- All countries should ratify the climate change convention.
- Obviously, developed countries should take the lead in addressing this threat.
  - The completion of detailed action plans is the most important next step.

### **Biodiversity**

- I also announced in April our intention to sign the Convention on Biological Diversity.
- We strongly support the convention, but believe we must work together to address ambiguous convention provisions, particularly those relating to the protection of intellectual property rights (IPR).

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SUMMIT REFORM

GOALS

- Urge a less formal, less "pre-cooked" Summit process.
- [We should discuss the idea of inviting the others to an informal Heads of State Camp David retreat next winter. Part of the discussions would focus on problems with job creation.]

BACKGROUND

Originally, the Summits were informal affairs, where leaders could meet in a relaxed environment to discuss issues of mutual concern. Over time the Summits have become increasingly formal events filled with ceremonial welcomes for heads of state, lengthy dinners and omnipresent press.

- They have also become more structured and less focused on substantive policy issues.

In August 1992, PM Major sent a letter to the leaders suggesting that the Summits be changed so that the leaders meet alone without foreign and finance ministers present, that the sherpa preparatory process be cut back and the communique shortened and that the Summits meet only every eighteen months.

We strongly support PM Major's idea to restructure the Summits and make them more informal and substantive.

There is broad consensus among the leaders that the Summits should return to their original informality, but a number of obstacles exist to actually changing them.

- Political problems: Excluding ministers causes problems for some, as Socialist President Mitterrand is paired with Ministers from the Conservative Balladur government. Similarly, Kohl has coalition partners of different parties that are represented by ministers. Any Japanese leader will have factional problems and a resistant bureaucracy.
- Limelight: While leaders agree in principle to a more informal less public affair, when it is their turn to host (once every seven years) it is understandably hard to resist a high profile meeting with a lengthy communique.
- Bureaucracy: Pruning back the bureaucratic process will upset the uneasy balance between foreign/finance/economic ministries and the Presidency in many countries.

The French, while supporting these ideas, are extremely sensitive to any reforms that would further institutionalize the Summit or the G-7 process. In part, this stems from fears that they will be ganged up on by the other leaders or that this might lead to further U.S. dominance.

Consistent with Major's thrust, we have developed a proposal to restructure the Summits that could start by holding an informal retreat with no formal communique. On the positive side, this would change public expectations and ease leaders concerns that they need to produce results. On the negative side, you are committed to a NATO Summit before the end of the year, and we are proposing an APEC Summit at the time of the Ministerial in Seattle in November. Another Summit in early '93 could be excessive. In either case, subsequent annual Summits could be reformed along the following lines (which we would support in other leaders' plans).

- **Less bureaucracy.** The Sherpa process that is designed to assist the leaders now is actually getting in the way. The process involves four or five meetings, preparation of multiple discussion papers, and constant communications, in effect to stage manage the Summit itself. The number of meetings and papers needs to be greatly reduced.
- **Less structure.** The Summits have become highly choreographed with little spontaneity. There is a temptation to avoid contentious issues. The extensive Sherpa process pre-cooks and waters down most of the decisions. There is relatively little time for the leaders to discuss issues (and politics) not identified in advance and constrained by talking points.
- **Leave the Leaders alone.** Foreign and finance ministers sit in on most of the meetings. In the two plus days, the heads only spend minimal time together alone, mostly over meals. The heads need more time alone. Having the heads meet without Ministers would drastically slim down the bureaucracy of the Summit and make it a smaller more intimate gathering.
- **More policy decisions/more substance.** The credibility of G-7 to make policy decisions has been hurt by their inability to boost the Uruguay Round to conclusion, as pledged for three successive years. The need for "success" aside, the Summit discussions have to become more substantive and thoughtful (e.g., this year's discussion of job creation problems will not provide "answers").
- **More informal, less public.** The Summit communique has become overly long, as every country seeks to insert its pet issues, many of which are not Summit-level topics. As pressures to produce "results" have grown, communiqués have included "least common denominator statements" on peripheral issues, producing an unfocused and unconvincing public message. A couple of meetings without a communique would

help decrease expectations for meaningful and substantial results and allow the heads to get together and talk, without the need to create successes.

- **Separate ministerial process.** The Finance Ministers already have a distinct process, meeting regularly on their own and funneling their work back into the Summit process. There is no equivalent process among the foreign ministries. Finance ministries might agree to forgo the Summit, but only if the foreign ministries also agreed not to attend. It might be useful for the foreign ministries to develop some kind of equivalent meetings as way of getting the heads alone.

## SUMMIT REFORM

### POINTS TO BE MADE

- Though this is my first G-7 Summit, I do have some thoughts about this process. I support John Major's idea to make the the Summits more informal and less structured.
- We all are enormously grateful for the excellent job that Prime Minister Miyazawa and the Japanese government have done in organizing and conducting this Summit. My comments are not at all directed to this Summit but to what has become of the Summits generally.
- What we need is to find a way to make the Summits a place where we can get together in a relaxed environment and discuss common problems without the need to feel like we must produce a big success for the media.
- It strikes me that the exchange of ideas, and free-flowing discussion will help give us a collective understanding of vexing problems that we all face.
  - In certain limited cases, our discussions may be the basis for consensus that could be translated into action by our own governments and through existing multilateral organizations.
- I am sensitive to the problem of having the G-7 appear as a rich nation's club that dictates to the world or is seen as a board of directors for the world.
  - Nonetheless, this gathering of elected leaders is a unique forum for us as leaders of democracy and market economies. There are very few problems that any of us deal with that are not shared in some manner by the rest of us.
  - I do think that there are issues where we can more effectively pursue our goals by speaking with a common voice and pursuing a common purpose.
  - Coordination of economic policy certainly is the best example, but in a vastly different world, when the cold war is over, we need to rethink the G-7 process.
- John's idea to make the Summit more informal and less structured is certainly part of that process.
- [To be discussed: I want to invite you all to an informal gathering at Camp David of the G-7 to discuss these ideas further in a retreat like atmosphere with no ministers, little pre-cooked agenda, and no formal press communique.

- We could get together in about six months from now, to informally discuss issues, as a prelude to our meeting in Italy next year, which would continue as planned.]

**NOTE:** **Mitterrand** may note that the G-7 already is too bureaucratic and needs to meet less not more and should not be expanded or institutionalized in any way.

- You might agree that the point is not to institutionalize the G-7. However, the G-7 is a unique forum and the world has changed dramatically and we should not dismiss in a wholesale fashion the need to think about ways in which we can help provide effective responses to the common problems we face.
- **Major**, who originally wrote the leaders, wants to make the Summit more informal, but also wants to meet less frequently.
  - You might note that if the Summits were structured to become more useful to the leaders, we might find it more worthwhile to meet. European leaders meet frequently; it is not the frequency of meetings, but whether those meetings are valuable.
- Ciampi and Miyazawa will be concerned about any reform that might weaken the G-7 Summits and, especially their standing within the G-7, as the G-7 Summits are their only major positions of international leadership.
  - Ciampi will need to be reassured that our reform ideas will not detract from next year's Summit, which Italy hosts.

## STRENGTHENING INTERNATIONAL COOPERATION

### BACKGROUND

- The G-7 countries all have expressed concern that the major international institutions mostly created after WWII have not changed to keep up with the reality that the world has changed dramatically (ie. economic interdependence, the end of the Cold War, technological advances) in the last 40-50 years.
- Sherpa preparations for the Summit indicate that many of the leaders have an interest in discussing international institutions, such as the UN, the World Bank, the IMF, and capacity of the G-7 countries for cooperation in a changing world.
- Discussion of political-security reforms in preparation for the summit have centered largely on the role and effectiveness of the UN (which is soon to have its 50th anniversary) and the need to strengthen international cooperation in areas such as peacekeeping, conflict management and weapons proliferation.
  - All of the seven, especially the Japanese, Canadians, Italians, and Germans have expressed an interest in examining reform of the UN system. UN Secretary General Bhoutrous-Ghali already is leading several UN reforms.
  - Others, such as the British, are concerned that we do not necessarily want to focus on the UN, especially since other institutions have a lead role in key areas (e.g. the World Bank and IMF on economic development).
- In the economic sphere, the institutional issues center on the role and effectiveness of the international financial institutions, including the International Monetary Fund, the World Bank, the GATT (trade), and the OECD (economic cooperation).
  - The Japanese have raised the role of the GATT, noting that many areas of economic activity (such as competition policies and environmental policies) lie outside international trade rules.
  - The role of the financial institutions, the IMF (international finance) and the World Bank (economic development) also have been discussed in the lead-up to the summit. The difficulty in harnessing these institutions to transforming economies in Russia and in Eastern Europe, as well as traditional concerns of the developing world, have provoked interest in reviewing the role and effectiveness of the IFIs.
- Global issues such as environmental degradation, refugees, and immigration also stand out as areas of G-7 concern where international institutions are limited and capacities for formal cooperation may be inadequate.

- The Germans are particularly concerned about refugees and immigration given their central position as a haven from economic hardship in Russia and Eastern Europe.
- We see merit in having the G-7 explore the question of the institutional arrangements for international cooperation. We believe the UN and other institutions would benefit from a review of operations, effectiveness and efficiency.
- We must be sensitive to the problem of the G-7 appearing as the World's Board of Directors, a big French concern.
- We also recognize the danger of growing bureaucratization of the G-7 itself.
- Country positions follow from most positive about strengthening institutional cooperation to least:
  - Japan is the most positive toward creating new multilateral institutions. It has centered its proposals on UN reform. It also wants the G-7 countries to play a greater role in initiating reform of international institutions.
  - The Canadians also favor reviewing international institutions and examining ways to strengthen international cooperation. They have suggested focusing on improving the UN and peacekeeping.
  - The Italians have been open-minded on proposals to strengthen international cooperation, and have mentioned the UN and the IMF in particular.
  - The Germans have shown an interest in UN reform and in population and migration. They are concerned about more bureaucracy and more interested in strengthening the effectiveness of the G-7 by focusing on key issues.
  - The British are interested in strengthening international cooperation, but are reluctant to have the G-7 Summit get involved in the issue. They believe the G-7 needs to reform itself first and become **less** institutionalized, not engage in questions that could expand the G-7's role.
  - The French acknowledge shortcomings in international cooperation, but have shown little interest in pursuing it. In addition, they have sharply opposed discussion of "strengthening international cooperation" by the G-7 leaders. The French believe any such discussion should be done in the UN itself, that any G-7 discussion of this would undermine the UN, and that the G-7 should not take the role of strengthening international order.

## STRENGTHENING INTERNATIONAL COOPERATION

### POINTS TO BE MADE

- There is a tidal wave of change -- economic and political -- sweeping the world and we must make sure that our thinking - and our institutions - deal with it.
- Institutions created decades ago and which have served the cause of peace and prosperity to great effect must also change to accommodate new challenges not even envisioned when they were shaped.
- I see merit in having the G-7 explore the question of strengthening international cooperation. In particular, I believe that the UN and other international institutions would benefit from a review of their operations and effectiveness.
  - I recognize problems with growing bureaucratization and want the G-7 to become less bureaucratic not more so. But exploration of this important topic does not necessarily mean the G-7 will become more institutionalized and we need to take care that it doesn't.
  - I am also sensitive to the problem of the G-7 appearing as the World's Board of Directors. We must be very careful to avoid this, but quite frankly, if we do not lead, who will? I'm also not sure that it is realistic that we expect a body as unwieldy as the UN to produce a meaningful proposal that we would find useful.
- I do not have in mind an executive committee to develop some conceptual design of a new international order. Rather, I think we have a concrete management problems with institutions that can be made more effective. If we could act to focus that process it would be a real contribution.
  - I also think that it would be worthwhile at least to discuss our capacities to cooperate on new challenges, such as the environment, and see if together common approaches arise.
- We should consider discussing this over time. I don't think it is an issue that we will simply discuss and decide on today.
  - I would like to talk more about this the next time we get together and I will put my thought on paper before then and share them with you.

## ECONOMIC OVERVIEW

## ECONOMIC OVERVIEW

(First Session, 2:30-5:30 p.m., July 7)

### POINTS TO BE MADE

- This is the first time that I have the opportunity to meet all of you together, although I have had the chance to talk with most of you in Washington.
- We meet at a time of great difficulty in many of our countries but also a time of extraordinary challenge and opportunity. Many of our economies are weak, but our innate resources and those of our people are strong. The confidence of our people in this G-7 process probably is at an all-time low, but the importance of our working together has never been greater. I hope that, over the next few days, working together . . . talking together . . . we can provide the leadership that begins to lift the spirits and the confidence of our people.
- Many of the problems we face are new -- like helping to build democracy from the debris of the collapse of the Soviet Union or creating jobs even when we have growth in mature industrial economies. But some of these problems are greater than those challenges that have been met by our predecessors. I am optimistic about what we can achieve together, beginning this week.
- Three major issues require our attention:
  - 1) The global economy -- Our collective efforts to coordinate economic policies can improve a weak global growth outlook.
  - 2) The Uruguay Round -- [Now that we have a market access agreement, we need to agree that we will all push hard for a Uruguay Round conclusion by year end.] [I am very disturbed that we have not reached an agreement on market access, even for industrial products. We need to discuss this issue in depth.]
  - 3) Russia -- We can build on the success of the Tokyo joint ministerial to support economic reform and democracy in Russia, protecting the strong interests that we all have in having reforms succeed.
- I know that we will discuss all three of these, and many other issues throughout the Summit, but let me highlight some of my thoughts on these crucial topics.
- We are all worried about the weak growth outlook, high levels of unemployment and structural rigidities that hamper all of our economies.

- Growth is critical to providing meaningful employment for our citizens--there are over 34 million people unemployed in OECD countries.
- We also need growth to generate the resources to deal with a range of new issues about which our citizens are deeply concerned and that we have a responsibility to address, such as the environment, health care, education and others.
- Growth for the G-7 is forecast as a paltry 1.7%, barely enough to address current challenges, let alone reduce unemployment and meet a growing list of new issues.
  - We expect a growth rate of over 3% in the US this year, and I have been making strong efforts to push through our Congress a deficit reduction package that will help lower interest rates, not only in the U.S., but around the world.
- Both our House and Senate have just passed versions of my budget, which is a 5-year program to reduce the deficit by \$500 billion. I am very confident that a conference of both Houses will pass my budget shortly.
- U.S. budget deficits have been a major concern of our economic partners. Tackling our deficit involves some tough sledding. No legislature enjoys raising taxes and cutting programs.
- As we discuss global growth and what the G-7 can do to contribute, each of us must look for economic policies that can boost world growth in mutually reinforcing ways. This requires tough choices from all of us in hard times. But we literally no longer can afford to see ourselves, in this global economy, in a zero-sum game.
  - For each of us, the appropriate response may be different depending on our respective economic conditions. But our goals are the same.
  - Whether the policy response is to cut budgets, lower interest rates, or increase fiscal spending, we all need to commit to new policies that lead to higher growth.
  - Our people want to know we are here for a purpose that matters in their lives. They want to know what we have agreed to that can create and sustain job growth. They deserve an answer.
- We cannot talk about boosting global growth, without at the same time expanding global trade.

- Trade is an engine of growth for all the world. As relatively well-off countries, we ultimately cannot grow our economies unless we create more customers.
- Nonetheless, in difficult times, it is no surprise that actually putting together a market access package and agreeing on other elements of the Uruguay Round has been hard.
- Endorsing an ambitious G-7 market access package, at least for industrial goods, is probably the single most important thing that we could do at this Summit to improve the world growth outlook, and restore confidence in this process.
- One private study showed that a successful Uruguay Round would add almost 4.5% to the real GDP of the G-7 countries and increase employment by 1.3% -- representing 4.4 million extra jobs -- over a 10-year period.
- I know that we have all been working very hard in the run-up to the Summit to reach agreement on a market access package, and that you have all been involved in the difficult decisions that the Round involves.
  - We need a credible G-7 breakthrough on market access in order to convince our other trading partners to come back to the table in Geneva with real negotiating to wrap the deal up.
- The last issue I want to touch briefly on is Russia. The end of the Cold War and an aggressive Soviet Union has changed the world. This moment is no less important than the pivot points of history after World War I and World War II. We cannot afford to have democracy and market reform fail in Russia and the other republics of the FSU.
- In my own meeting with President Yeltsin in Vancouver we reached solid understandings on ways in which the United States could support economic and political reform in Russia.
- G-7 support for Russia still is important for Yeltsin both as a symbol in Russia of his international leadership and for our concrete backing of his economic and political reforms.
- The G-7 joint ministerial on Russia that took place here a few months ago is a good springboard for our discussions on how we can all support reform in Russia and for framing our meeting with President Yeltsin on Friday.
  - The \$28.4 billion in assistance that our Ministers announced earlier, and our efforts to engage the IMF, World Bank and EBRD, are an important part of our support.

- I know we are all feeling the limits of financial support for reforms in Russia. But after spending billions in the decades of the Cold War, it is appropriate to remind ourselves of the gains we will reap from our current support to lock in a democratic and market oriented Russia.
- In the preceding months, our sherpas have been working on a number of ideas to support reform in Russia that we should consider over the next few days.
- One of these is a special privatization support fund to help Russia make the transition to a private economy -- a goal we all share and would benefit from.
  - I know that many of you had concerns about new financial commitments and questions about how such a fund would operate.
  - I believe that we have made meaningful progress in responding to these concerns. We are close to the \$500 million in G-7 contribution, and I would very much like to see us agree to the privatization fund.
  - I think it is critically important to Yeltsin that he come away from our meeting with this tangible expression of our commitment to the success of democratic reform.
- A second initiative on which we need to reach agreement is a G-7 support group in Moscow to help remove bottlenecks in the delivery of Western assistance.
  - After spending billions to assist Russia, we must do everything we can to see that our taxpayers' money is well spent and actually used to support the reform efforts we all seek.
  - I know there are concerns that such an office might expose the G-7 to blame for Russia's economic performance and about complicating existing channels.
  - But I think our officials have found ways to minimize these concerns and, given the size of our investment in Russia, we ought to be able to agree upon a way to coordinate our efforts.
- Finally, we have been considering a multilateral fund to assist the nuclear states of the former Soviet Union in dismantling nuclear weapons that so threaten our citizens.
  - The announcement of joint efforts to safely remove these deadly weapons is something that would advance one of our most critical priorities -- the goal of stemming the spread of weapons of mass destruction.

- There are other issues we will want to discuss, such as the environment and relations with the developing world, but I wanted to touch upon a few issues at the outset.
- I look forward to discussing all of these issues with you over the next few days. We owe it to ourselves and our people to move the ball forward on these and other issues while we are here.



-- RUSSIA

1. International Political Issues (Statement for G-7 and Yeltsin)
2. G-7 Support for Russia
3. Special Privatization and Restructuring Program (SPRP)
4. EBRD Small and Medium Enterprise Fund (SMEF)
5. G-7 Moscow Support Implementation Group (SIG)
6. Nuclear Weapons Dismantling Assistance
7. Nuclear Safety Assistance
8. Non-Proliferation

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G-7 PLUS ONE SESSION

DISCUSSION OF POLITICAL AND ECONOMIC ISSUES

BACKGROUND

This is the principal G-7 meeting with President Yeltsin. The meeting has two parts: 1) a discussion of global political issues in which you will make the lead intervention; and 2) a discussion of Russia's economic relations with the G-7 in which EC President Delors will take the lead.

Your aim in this session should be to make it as cooperative and supportive of Yeltsin as possible. As Yeltsin mentioned to you in your telephone conversation last week, he wants and needs Tokyo to be a success for him at home. He is anxious lest he be accused, as was Gorbachev in 1991, that he was summoned to a G-7 Summit and returned home empty-handed. As you know, Yeltsin wanted to sign the G-7 Political Declaration at Tokyo. He would also like to be invited to join the G-7 on a permanent basis. While we cannot and should not give him those distinctions, we can do our best to assure that his session with G-7 leaders is as cooperative and collegial as possible.

Prime Minister Miyazawa will make opening remarks and then call upon you to give the main intervention to introduce the political discussion. The Japanese had originally intended for the session to focus on Russia's internal politics and relations with other countries of the former Soviet Union. We suggested that it be broadened, instead, to focus on the many regional foreign policy issues in which Russia is a central player with us.

Your political intervention is designed to emphasize our full support for Yeltsin's reforms and his foreign policy. Specifically, it lauds the great change he has brought not only to Russia but to the promotion of security in Europe and Asia. It calls for a continuation of close Russian cooperation with the G-7 countries on regional crises, and also advocates the promotion of Russia's ties with its new neighbors.

We have included at the end of the intervention specific language calling for a rapprochement between Russia and Japan that Strobe Talbott worked out with both governments. This formulation will allow the Northern Territories issue to be raised at the summit, but not by Miyazawa. That will be helpful to the Japanese but in a way that will not be offensive to the Russians. It is important that you use the precise language in the intervention on this issue in order to be faithful to the understanding we have reached with Japan and Russia.

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G-7 PLUS ONE SESSION

THE PRESIDENT'S INTERVENTION ON POLITICAL ISSUES

OVERVIEW POINTS

- Thank you, Mr. Prime Minister.
- I welcome the chance to speak to you and my other colleagues about the principal political developments in the world concerning our countries and the Russian Federation.
- It is fitting that we address this issue in the presence of my friend, President Boris Yeltsin, since Russia has exercised, under his leadership, such a positive and instrumental role in literally remaking the world during these past few years.
- Moreover, the future political and security environment we will all face will depend in no small measure on the future of Russia.

G-7 POLITICAL ENGAGEMENT WITH RUSSIA

- Earlier today, we agreed on an ambitious agenda, including creation of a program to support Russian privatization, a G-7 office in Moscow and a small business enterprise fund.
- We also have applauded the growing cooperation between Russia and the international financial institutions.
- These programs are possible due to the dramatic accomplishments of President Yeltsin and his reform allies in Russia, and the willingness of the international community to work with them to promote democracy and free markets.
- All of us agree on the historical imperative of a collective G-7 effort to support the emerging democracies in Russia, in Central and Eastern Europe and in the other states of the former USSR.
- We should pause to remember how fortunate we are to have the opportunity to work with these new countries on the challenges of economic and political liberalization.
- Since these summits began in France in 1975, our predecessors struggled with the threat posed by the USSR and its effect on our defense spending, our policies in the developing world and our ability to resolve conflicts across the globe.

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- The Cold War divided the world at a time when other economic and environmental factors were making humanity more interdependent.
- This division was apparent from looking at a map of the G-7 itself. The four West European members were separated from Japan not just by eight thousand miles and eleven time zones, but by a vast land mass that was ruled by political leaders hostile to our common values and interests.
- But, thanks to the transformation that swept over the former USSR in 1991, Russia and the other states now have the potential to become a land bridge between the Western and Eastern flanks of the G-7 countries--a bridge to enhance both political and economic cooperation.

COOPERATION ON FOREIGN POLICY WITH RUSSIA

- I would submit that, along with this great change in geopolitics, is another qualitative change that has had a profound effect on our world.
- During the past few summits, we discussed at these seven plus one sessions the steps we could take together to assist the Russian people through challenging economic times.
- While that is one focus of our work here today that [the EC representative] will address in detail, I would like to suggest that there is now another opportunity before us -- to consider how we can work more effectively with Russia, as a full partner, for peace and stability around the world.
- The U.S. and Russia have achieved a partnership in our bilateral relations. I think it is now time that the G-7 countries and Russia achieve a foreign policy partnership based on a common desire to use our power and influence for a more stable and peaceful world.
- I mention this because, along with the great political and economic change in Russia has been an equally dramatic and important change in Russian foreign policy.
- Under President Yeltsin's leadership, Russia is now a full participant in our efforts to end forever the competition for influence on every continent in the world that characterized the Cold War.
- Russia is now with us in the quest for peaceful and negotiated solutions to ethnic and political problems in Europe, Asia and elsewhere.
- As co-sponsor of the Middle East peace talks, Russia is making a major contribution to promote peace in a region long torn by conflict.

- In the UN Security Council, Russia has joined to support the peacekeeping operation in Somalia and to enforce UN resolutions against Iraq and Libya.
- Russia has contributed to the international effort to promote national reconciliation in Angola and Cambodia.
- And even in that most serious and problematic of all regional conflicts, the Balkans, Russia's new role is welcome.
- As we proceed on this basis, we must be mindful that the security concerns of the 1990s are far different than those of just a decade or two ago.
- Russia is now working with other concerned nations and the IAEA to resolve the problem of nuclear proliferation in North Korea.
- Proliferation of weapons of mass destruction is a major security threat that we all face. Russia, as one of the world's great nuclear powers, has a special responsibility to strengthen and uphold the international norms that confront this threat.
- We support the transformation of COCOM to permit greater trade between our countries and Russia. At the same time, Russia must also pursue responsible export policies and implement effective export controls.
- We must harmonize our export control policies to ensure that dangerous capabilities do not spread, particularly to countries like Iran and Libya. We also need to work together to resolve the dangerous situation in North Korea and to prevent Iraq from reconstituting its arsenal.

RUSSIA AND PROBLEMS ALONG ITS PERIPHERY

- Along with our work with Russia to pursue solutions to problems in Europe and Asia, we would also like to work with Russia on the many problems along its border.
- Russia's new neighbors created by the dissolution of the former USSR are struggling to consolidate their independence and to also pursue reform.
- The collapse of a multinational empire has left a residue of ethnic tensions, rivalries and economic decay.
- Russia is rightfully concerned about the welfare of the millions of ethnic Russians living in these countries, and about its economic, political and security relations with the new countries.

- As this process unfolds, Russia and her neighbors must respect each others independence, sovereignty, territorial integrity and right to security.
- Russian-Ukrainian relations, for example, must be grounded in these principles. We should commend President Yeltsin and President Kravchuk who have worked hard and well together to promote better relations.
- We in the G-7 must be ready to do what we can to help consolidate good relations between these two neighbors.
- Russia's relations with the Baltic countries is also an issue of great concern to us. We should encourage Russia and the Baltic countries to build good and lasting relations based on mutual respect and rights for the ethnic minorities, including the Russian minorities.
- We also support the withdrawal of Russian troops from the Baltic countries at the earliest possible time-- and certainly by the end of this year.

Russo-Japan Relations

- Finally, let me conclude with a few words about relations between the government represented by our guest, President Yeltsin, and the one represented by our host, Prime Minister Miyazawa.
- As I have already said, a democratic Russia is in the interests of the entire world. That is why all of us here today support Russian reform.
- At the same time, it is essential for Russia to take its place as a full member of the community of democratic nations, which means continuation of a foreign policy in a spirit of cooperation on a global basis.
- That, in turn, means a foreign policy based on the principles of international law and justice, and it means putting behind us the troublesome legacies of the past. The full normalization of relations between Russia and Japan would be an important step in that direction.

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G-7 SUPPORT FOR RUSSIA

DECLASSIFIED  
PER E.O. 13526  
2016-0133-M(1.05)  
KBM 1/14/2020

BACKGROUND

The Tokyo Summit offers the United States the opportunity to reach agreement with the other G-7 countries on several key initiatives for Russia that will provide significant support for our goals of promoting democracy and market reform in that country. Yeltsin's perception of the United States will be influenced by our ability to mobilize G-7 support on these issues. Thus, our objectives at the Summit should be to:

- Welcome the IMF's \$1.5 billion disbursement under the Systemic Transformation Facility (done on June 30).
- Urge the IMF and Russia to commence promptly negotiations on a full IMF program.
- Ensure the G-7 is delivering on its commitment to establish a \$300 million Small and Medium Sized Enterprise Fund.
- Agree on the creation of a program for privatization and restructuring in Russia with \$500 million in G-7 bilateral contributions.
- Achieve G-7 agreement to establish the Support Implementation Group.
- Show progress in harmonizing bilateral assistance for dismantlement of nuclear weapons in Russia, Ukraine, Kazakhstan and Belarus.

U.S. INITIATIVES

Support for Russian democratic and market reform has been one of the Administration's key foreign policy initiatives. You decided at an early stage that the United States should become more actively engaged in promoting reform in Russia than the U.S. had been previously. At the same time, it was recognized that Russia itself had to take specific measures to promote reform in order to receive increasing levels of support from the United States and multilateral institutions.

The United States has played a leading role in getting the international community to be more active in supporting market reform in Russia. We began the process through the April Vancouver Summit, at which time the United States announced a \$1.6 billion bilateral assistance package for Russia. A few weeks later, at an April meeting in Tokyo of Foreign and Finance Ministers, the United States announced that we would seek an additional \$1.8 billion in assistance for Russia and the other former Soviet Union (FSU) countries. This was to be in addition to the \$700 million in assistance for the FSU countries that we

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had already formally requested in the FY 94 budget process. A key element (\$500 million) of the \$1.8 billion package is our proposed contribution to a multilateral fund to support privatization and restructuring in Russia. (See below.)

U.S. leadership was also key in concluding a \$15 billion debt rescheduling agreement with Russia, and in putting together a \$28.4 billion multilateral package of assistance for Russia, which was announced at the April Ministerial meeting in Tokyo. The multilateral package consists of proposed commitments from the International Monetary Fund (IMF), World Bank, European Bank for Reconstruction and Development (EBRD), as well as financing from G-7 export credit agencies (ECAs). (See attached table.)

#### SPECIAL PRIVATIZATION AND RESTRUCTURING PROGRAM

At the Tokyo Ministerial meeting, the United States proposed the creation of a \$4 billion multilateral fund to provide post-privatization financial and technical assistance to specific medium and large scale Russian enterprises to help them restructure and modernize. As you know, this fund has the strong support of President Yeltsin and his cabinet.

The other G-7 countries agreed that support for the privatization process in Russia is critical, and agreed with the general outline of our proposal. However, there was strong reluctance to provide additional assistance to Russia because of budgetary difficulties in most of the G-7 countries. In response, the U.S. proposed a scaled down version of our original proposal, as an initial "start-up phase", under which the G-7 would provide \$500 million in grants and concessional loans, possibly \$500 million through their export credit agencies, and the World Bank and EBRD would provide about \$1 billion from existing funds. Since your recent calls to Kohl, Delors and Major, support is crystallizing around this proposal, and we believe the G-7 will reach the \$500 million figure in Tokyo.

#### SUPPORT IMPLEMENTATION GROUP

At the Vancouver Summit, you and President Yeltsin discussed the necessity of ensuring that assistance pledged to Russia by the United States and other bilateral and multilateral donors is timely, coordinated and effectively implemented. In response, the United States proposed the establishment of a G-7 office in Moscow to facilitate the delivery of aid to Russia. The office would clear bottlenecks on both the Russian and Western sides. We proposed that the office be headed by a high level person appointed by the G-7, working with a team of technical experts seconded from G-7 countries.

Other G-7 countries were originally wary of setting up a new institutional mechanism for coordinating aid. Japan has recently offered a compromise which appears to be acceptable. It proposed that the G-7 countries designate officials from their embassies to serve in the Support Group. A high level person from the G-7 could be appointed to head the Moscow group for a specified

period of time, working from one of the G-7 embassies. We expect that person would be an American. A second high level official, most likely a German, would be appointed as full-time deputy to the group's head.

EBRD SMALL AND MEDIUM ENTERPRISE FUND

The G-7 \$28.4 billion multilateral package includes a U.S. proposal to create a fund in the EBRD for small and medium sized Russian enterprises. Modeled loosely on the U.S. enterprise funds for Eastern Europe, such a fund would address the lack of commercial financing in Russia for small and medium private enterprises in Russia. The emphasis of this enterprise fund will be on making many small loans in a short period of time, to provide a demonstration effect.

The total size of the fund would be \$300 million, with \$150 million coming from the G-7 countries and \$150 million coming from the EBRD. The United States is asking Congress for \$30 million for such a fund as part of the \$1.8 billion assistance package. Japan has indicated it could match the U.S. contribution.

DENUCLEARIZATION INITIATIVE

We also proposed that the G-7 commit to increase dismantling assistance substantially, and announced that \$1.2 billion would be provided by the U.S. (Nunn-Lugar funds for fiscal years '92 and '93, and our request from Congress for FY94). We also proposed setting up a mechanism for coordinating that assistance. Unfortunately, we've fallen short on both goals. Japan is the only other G-7 country willing to put up new money (\$100 million). Our coordination mechanism, initially misunderstood to involve a multilateral fund, has received mixed reaction. The British and the French believe that new mechanisms are unnecessary given current consultations in the NATO Ad Hoc Group on Nuclear Weapons (which, of course, does not include Japan). At the Summit, you should continue to press for increased assistance and greater coordination, although you should not expect much on the former. On the latter, we want agreement to focus coordination on two areas -- dismantlement of strategic nuclear delivery vehicles and long-term storage of fissile materials derived from dismantled nuclear weapons.

IMF PROGRAMS FOR RUSSIA

In addition to the above initiatives, the United States has been urging the IMF to come to an agreement with Russia on a \$3 billion credit under the new IMF facility for countries in transition (Systemic Transformation Facility). The IMF authorized the release of the first half of the \$3 billion credit on June 30.

With the \$1.5 billion disbursed, we have sought -- with success -- communique language for the Summit to endorse the start of negotiations between the IMF and Russia on a \$4 billion standby

program, which is a key part of the Tokyo multilateral package for Russia. This will be important for demonstrating strong G-7 support for stabilization. Ideally, we would like these discussions completed before October 1. Agreement is dependent upon further, difficult, policy reforms by the Russians.

•

G-7 Multilateral Assistance Package for Russia

Assistance	Amount	Status
<b>New commitments of support in 1993</b>	<b>\$21.4 billion</b>	
IMF Systemic Transformation Facility (STF)	\$3.0 billion	\$1.5 billion approved on July 2.
New World Bank Commitments	\$3.5 billion	Under negotiation. First approvals expected Fall, 1993.
Cofinancing of World Bank loans	\$0.5 billion	\$250 million approved, no disbursements yet.
EBRD small and medium enterprise fund	\$0.3 billion	Under negotiation for Tokyo decision.
Export credits and guarantees	\$10.0 billion	U.S. Exim will sign \$2 billion credit with Russia. Approvals from other G-7 ECAs not known at this time.
IMF standby loan	\$4.1 billion	Should push for start of negotiations at Tokyo.
<b>Renewed commitments of support from 1992</b>	<b>\$7.1 billion</b>	
World Bank loan pipeline	\$1.1 billion	\$200 million out of \$500 mil. rehab loan disbursed. \$610 mil oil loan just approved, no disbursements.
IMF currency stabilization fund	\$6.0 billion	Will begin negotiations after standby loan approved.
<b>Total</b>	<b>\$28.5 billion</b>	

## G-7 SUPPORT FOR RUSSIA

### POINTS TO BE MADE

- Providing support for democracy and market reform in Russia is a major foreign policy priority for each of us.
- Nothing could contribute more to global freedom, security and prosperity than a democratic and market-oriented Russia.
  - We in the G-7 have financial resources and technical expertise which can help support the transition process.
- At the same time, we recognize that reform in Russia is mainly the responsibility of the Russians themselves.
- The United States has recently committed a sizeable amount of resources for Russia, beginning with my announcement of a \$1.6 billion package of assistance at the time of my Summit meeting with President Yeltsin. We have already obligated over half of these funds and intend to disburse all of the money this year.
- We are currently seeking an additional \$2.5 billion in economic assistance from our Congress for this fiscal year and the next. (This includes the \$1.8 billion program before the Senate and an additional \$700 million requested for FY 94).
- I am working hard to convince the Senate to approve these funds, and I am confident we will succeed.
- I seek your support for four specific initiatives that the United States launched at the time of the April Ministerial meeting.

### **Privatization and Restructuring Program**

- First and foremost, we seek your support for our initiative for a Special Privatization and Restructuring Program for Russia.
  - This initiative will help the Russians continue their very successful program of privatization by focusing now on the conversion of the medium and large scale state enterprises that formed the backbone of the Soviet economy.
  - We need to show the Russian people some successes in the private sector, in order to maintain the momentum of reform.

- Our proposal is to create a demonstration effect in many regions throughout Russia, and encourage other sources of financing then to move in.
- The proposal has the strong endorsement of President Yeltsin and other key members of his government.
- I realize the budgetary constraints that many of you are under.
  - This initiative, however, should have our highest priority, because of the potential it offers to provide concrete assistance to Russian enterprises and the impetus it will give to the reform effort at a critical time.
  - As a result of our work during the last week, we are close to our goal of \$500 million in G-7 contributions.

#### **IMF**

- I also think it is important to include language in our communique urging the IMF and the Russians to come to an early agreement on a full IMF program for Russia, now that the IMF has approved the disbursement of the first half of its \$3 billion credit for Russia under its new facility for countries in transition.
  - We do not want the IMF to drag its feet on this critical agreement.

#### **Support Implementation Group in Moscow**

- I also seek your endorsement of the current proposal to create a G-7 Support Implementation Group in Moscow.
  - I appreciate the suggestions made by our Japanese colleagues to help us find some common ground on this issue, and propose that we endorse their proposal.
  - Yeltsin discussed this with me in Vancouver, believes this is a good idea and assured me personally it would receive the support of his government.

#### **Small and Medium Enterprise Fund**

- A third initiative which I hope we make progress on is the creation of a Small and Medium Enterprise Fund in the EBRD.
  - The idea is to help the private sector in Russia succeed through a large number of very small loans within a short period of time, providing a

demonstration effect for others who may be interested in starting businesses or financing them.

- We have committed \$30 million to this effort.
- We are also starting a separate \$300 million U.S. enterprise fund this summer.

#### **Denuclearization**

- Finally, I look to you for agreement on our proposed initiative for denuclearization in Russia.
- The U.S. has committed \$1.2 billion to this effort, and we encourage your governments to commit commensurate amounts.
- It is surely in our common interest to see that the nuclear arsenal of the former USSR is dismantled safely and securely.
- In the denuclearization field, we would like the G-7 to focus particularly on two areas -- dismantlement of strategic nuclear delivery vehicles and long-term storage of fissile materials derived from dismantled nuclear weapons. Both of these are well suited for efforts to harmonize our assistance.

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Folder Title: POTUS Briefing Books-Economic Summit, Tokyo, Japan, July 6-10, 1993 [2]				
Staff Office-Individual: Records Management				
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# Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
<del>001. paper</del>	<del>Nuclear Weapons Dismantling Assistance (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>002. talking points</del>	<del>Nuclear Weapons Dismantling Assistance (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>003. paper</del>	<del>Nonproliferation (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>004. talking points</del>	<del>Nonproliferation (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
005. report	Political Declaration: Striving for a More Secure and Humane World, draft (3 pages)	06/25/1993	P1/b(1) KBH 4/30/2020
<del>006. paper</del>	<del>Meeting with Russian President Boris Yeltsin (14 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
007. report	U.S. Government Report (2 pages)	06/22/1993	P1/b(1)
008. report	U.S. Government Report [incomplete duplicate of 007] (1 page)	06/22/1993	P1/b(1)

**COLLECTION:**

Clinton Presidential Records  
National Security Council  
Records Management  
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**FOLDER TITLE:**

POTUS Briefing Books-Economic Summit, Tokyo, Japan, April 6-10, 1993 [2]

2016-0133-M

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**RESTRICTION CODES**

Presidential Records Act - [44 U.S.C. 2204(a)]

Freedom of Information Act - [5 U.S.C. 552(b)]

- P1 National Security Classified Information [(a)(1) of the PRA]
  - P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
  - P3 Release would violate a Federal statute [(a)(3) of the PRA]
  - P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
  - P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
  - P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]
- C. Closed in accordance with restrictions contained in donor's deed of gift.
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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
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## SPECIAL PRIVATIZATION AND RESTRUCTURING PROGRAM (SPRP)

### BACKGROUND

Russia's privatization program is a huge success, outstripping the achievements made in Eastern Europe. Already over one-half of Russia's small-scale firms are in private hands, and by end-year over one-third of all medium and large enterprises will be. The program is an integral part of President Yeltsin's campaign for democracy and market reform -- it is geared to creating private entities; all Russians received vouchers, giving them a stake in privatization; it is a decentralized program, emphasizing grass roots and federalism.

While the program is achieving ownership transformation, this is not enough to create viable private sector entities. Firms also need:

- Capital, through loans and equity, to help modernize their obsolescent capital stock and restructure operations.
- Transitional support to help shed social services costs they now bear that are inconsistent with a market economy (such as schools, worker housing, health clinics, basic sanitation) and transfer these to local governments.
- Technical assistance to help firms develop business plans and financial statements as well as to assist local governments in restructuring their tax systems to absorb social services costs.

To achieve this objective, the United States proposed at the April G-7 Foreign and Finance Ministers' Meeting in Tokyo the creation of the privatization and restructuring fund, totalling \$4 billion, consisting of \$2 billion in G-7 grants and \$2 billion in co-financing from the World Bank and EBRD. We pledged \$500 million to this fund, provided other bilateral donors mobilized \$1.5 billion in matching grants.

In subsequent discussions, a consensus emerged on the importance of supporting Russia's privatization program and the purposes financing should serve (per above). But other G-7 and the EC were unwilling to provide the necessary financing for the initial U.S. initiative.

In mid-June, we scaled back our proposal to an 18-month start-up phase through the end of 1994, with smaller financing than initially envisaged. Since then, support has begun to crystalize around a \$2 billion start-up fund: \$500 million in bilateral grants; \$1 billion in IFI support; and perhaps \$500 million from export credit agencies. As a result of your calls to Kohl and Delors, we believe the G-7 will reach the \$500 million level at Tokyo.

## SPECIAL PRIVATIZATION AND RESTRUCTURING PROGRAM (SPRP)

### POINTS TO BE MADE

- I strongly urge you to contribute to the Special Privatization and Restructuring Program.
- It is integral to President Yeltsin's campaign for democracy and free markets and it is his highest Summit priority.
- Intensified support is critical for Russia to move forward on economic reform, help it address the rise in unemployment which will follow restructuring, and get firms to stop demanding the large state credits causing high inflation.
- Our experts have already achieved a consensus on the central importance of privatization and restructuring and on the basic purposes and vehicles for such support.
- The United States has already scaled back its initial proposal significantly to meet your concerns.
- We have pared back our financing request substantially from the \$2 billion in bilateral grants initially envisaged.
- We are seeking support for a limited start-up phase, in which we would assess our efforts, and agreement on a larger target with no commitments beyond the start-up phase.
- The proposal has the strong support of President Yeltsin and his government.

### REBUTTAL POINTS

- I recognize that all of us face budget constraints. But this is among the most cost-effective investments we could make.
- We cannot simply rely on existing World Bank/EBRD financing or technical assistance monies to do the job.
- Our bilateral contributions will be needed to provide much of the start-up capital to promote enterprise restructuring.
- Success will require an intensive and focussed effort bringing together bilateral and multilateral contributions.

- A start-up phase, as we have proposed, will be critical.
  - The start-up phase will allow us to help Russian firms begin restructuring, facilitate greater institution-building, and provide a period to test ideas and demonstrate success.
  - Russia is a vast country, and privatized firms throughout it need to begin addressing their restructuring needs now.
  - The transformation of the large state enterprises is the next logical phase in Russia's privatization effort. Yeltsin needs our support for this.

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## EBRD SMALL AND MEDIUM ENTERPRISE FUND

### BACKGROUND

The United States has proposed that the EBRD establish a Fund to finance small and medium enterprises in Russia, similar in some ways to the Enterprise Funds established by the United States in Eastern Europe. The idea for such an enterprise fund was first made by Russia Deputy Prime Minister Fedorov, who strongly supports the current G-7 proposal.

As in Eastern Europe, there is a critical lack of commercial financing to support entrepreneurs in Russia, both in starting up new companies and in transforming newly-privatized enterprises. This is due to the inability of the commercial banking system to respond to the needs of small, private companies. The lending that is done tends to be geared towards established, state-owned companies, and to high yield activities such as trade. Banks also lack a capability for assessing the creditworthiness of small enterprises.

Small and medium enterprises can play a catalytic role in the establishment of a private sector culture in Russia. To the extent that enterprise funds can finance companies which will set examples and have a catalytic effect, their contribution will be in excess of the actual amount of their investments.

The Fund would provide financing in the form of loans, guarantees, leasing and other forms of financing as appropriate for the development and start-up phases of small and medium enterprises. Loans would be in the range of \$1,000 to \$30,000, with an emphasis on the smaller end. Lending would be in ruble form, at an appropriate commercial rate. Some hard currency lending may also be appropriate. The fund would also make technical assistance available, generally on grant terms, for activities such as training people to appraise loans and for managerial training of beginning entrepreneurs.

As currently proposed, a \$300 million fund would be established. Of this amount, \$150 million would come from EBRD resources and \$150 million would be grant financing from individual G-7 countries and other donors. The U.S. is tentatively considering a contribution of about \$30 million. The other G-7 countries and EBRD management have agreed to the Fund, although individual funding levels for most G-7 countries have not been negotiated yet. Japan has indicated it could match the U.S. contribution.

EBRD staff has proposed that a pilot project be set up immediately to test the concept, and modify as necessary for the implementation of the full \$300 million project. The EBRD has indicated that it needs \$7 million from the G-7 to establish the pilot project. The EBRD would contribute \$3 million itself.

EBRD SMALL AND MEDIUM ENTERPRISE FUND

POINTS TO BE MADE

- In addition to our proposal to provide finance to help privatized medium and large enterprises restructure, we have also proposed a G-7 initiative to provide financing to small and medium enterprises.
- This would be a fund administered by the EBRD, with financing provided by both the G-7 and the EBRD itself.
- The idea is to help the newly emerging private sector in Russia succeed through a large number of very small loans within a short period of time, providing a demonstration effect for others who may be interested in starting businesses of financing them.
- The Russian people need visible examples that freer enterprise works . . . that it can make their lives better . . . and therefore resist the voices who would exploit hard times to take Russia backwards.
- Currently there is a critical lack of commercial financing to support entrepreneurs in Russia.
- These smaller enterprises also tend to be too small to be of interest to Western joint venture partners.
- Such a fund would be complementary to the U.S. Enterprise Fund for Russia, which would make somewhat larger loans to private enterprises in Russia (\$300 million over four years).
- Urge that all of us support the EBRD pilot project proposal now, and announce our intention to provide the \$150 million from the G-7 when the fund becomes fully operational.
- The U.S. is prepared to contribute \$30 million.

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## SUPPORT IMPLEMENTATION GROUP

### BACKGROUND

At Vancouver, you and President Yeltsin agreed to work to establish an aid coordinating body to ensure that aid that was promised to Russia was delivered. Much of the West's assistance for Russia has not been delivered, due both to bottlenecks on the Russian side and to Western commitments that were not disbursed.

Since that time, intensive discussions have taken place on the creation of such a body. The United States proposed creation of an office in Moscow, headed by a high-ranking person with experience in the development field, and staffed by representatives from the G-7 countries. The French, Italians, and U.K. resisted such an approach, expressing concern that it would create a formal G-7 body, that it would overlap with ongoing assistance activities and responsibilities for them, and that the G-7 should draw on the expertise of their Embassies.

In subsequent G-7 discussions, support crystallized around a compromise proposal (initially put forth by Japan) for creation of a SIG, which would:

- Monitor implementation of G-7 aid, exchange information on it, and maintain close contact with Russian authorities, with a view to removing obstacles to implementation of aid;
- Have the flexibility to meet with any and all Russian counterpart agencies, as appropriate (versus dealing with one Russian aid coordination agency as desired by Russian Deputy Prime Minister Shokhin);
- Be comprised of representatives of the G-7 Embassies and EC, and headed by a full-time high-ranking person (an American whose Deputy would be a German);
- Report to G-7 Sherpas;
- Review its activities prior to the next Summit.

The United States has supported the view that the high-level person could be from outside the Embassy circles, but could be stationed in the Embassy of his country. We also indicated that the SIG head should have a longer term than one-year for continuity's sake, in contrast with the U.K. and French view.

## SUPPORT IMPLEMENTATION GROUP

### POINTS TO BE MADE

- The creation of the Support Implementation Group will represent a significant achievement of this Summit.
- It directly responds to the request President Yeltsin made to me in Vancouver.
- There have been major bottlenecks to providing aid to Russia, both in Russia and on our sides.
- The Support Group is a vehicle for breaking through these bottlenecks, helping better ensure our aid is delivered, and avoid unnecessary duplication in our efforts.

### REBUTTAL POINTS

- The creation of the Support Group does not represent an attempt to bureaucratize the G-7 process.
  - It is an effort to improve the delivery of assistance, speed the reform process, ensure our monies are well-spent, and do our best to meet the historic challenge of Russia's move to democracy and market reform.
- The head of the Support Group must be an experienced, high-level person with a background in development, who is able to meet Russian officials at a high level and work with them.
  - We should agree on a candidate soon to begin this effort.
  - It would not be sensible to dismiss such a person after one year, if that person were developing a good working relationship with the Russian government and achieving the purposes of the Support Group.

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Divider Title: 6

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NUCLEAR WEAPONS DISMANTLING ASSISTANCE

DECLASSIFIED  
PER E.O. 13526

2016-0133-M (1.04)

KBH 1/14/2020

BACKGROUND

We have two objectives with respect to G-7 involvement in the provision of assistance to Russia, Ukraine, Kazakhstan, and Belarus for the dismantlement of nuclear weapons located on their territory: (1) to generate increased funding for this effort, and (2) to enhance coordination of national assistance programs to heighten efficiency.

At the Ministerial in April, we proposed that the G-7 commit to increase dismantling assistance substantially, and we announced that \$1.2 billion would be provided by the U.S. We also proposed establishment of a mechanism for coordinating that assistance. We fell short of both goals. With respect to funding, the Japanese announced plans to provide \$100 million in assistance, but the other five indicated they would be unable to increase funding above previously set, relatively meager levels (Canada - \$4.5 million, France - \$100 million, Germany \$5.5 million, Italy - \$7 million, UK - \$50 million). Our coordination proposal was misunderstood at first to entail creation of a multilateral fund administered by a new bureaucracy like the IMF to dispense assistance; such an approach was roundly opposed. Once we explained that we had in mind a mechanism for coordinating programs of assistance that would continue to be provided bilaterally by each nation, we received greater support. The British and, in particular, the French continued to object, however, arguing that a new mechanism was unnecessary given current consultations in the NATO Ad Hoc Group on Nuclear Weapons. (This group, of course, does not include Japan.)

In the end, we secured language in the Chairman's statement noting the importance of dismantling assistance and committing the seven "to consider how this work could be furthered." We also got agreement from dismantling experts, who met on the margins of the Ministerial, to coordinate informally their national programs of assistance, beginning with an exchange of data, which has now been completed. These experts met again on July 1 in Brussels for a further exchange.

At the Summit we want to continue to press for increased assistance funding and greater coordination, although we should not expect much on the former. On the latter, we want to get agreement to designate two areas -- dismantlement of strategic nuclear delivery vehicles and long-term storage of fissile materials derived from dismantled nuclear weapons -- as deserving of special attention. Because these two areas are the most important elements of the overall effort, are so costly as to be beyond the assistance any one country can provide, and are ones in which several countries have had an interest, they are naturals for enhanced coordination farther down the road. We have proposed language for the political declaration designating the two areas as priority topics.

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NUCLEAR WEAPONS DISMANTLING ASSISTANCE

POINTS TO BE MADE

- I believe we all appreciate the importance of the effort underway to dismantle nuclear weapons of the former Soviet Union.
- The Chairman's Statement from the April Ministerial in Tokyo had it right when it described this effort as affecting the security of the whole world.
- The assistance our countries provide for such dismantlement is, in turn, one of the most important tasks we can undertake to advance our national interests.
- When one thinks of the resources we have had to devote over the past 40 years to defending against these weapons, it seems like sheer folly to shrink from the much smaller costs of aiding their elimination.
- We think it better to find the funds today to ensure that these weapons are gone forever than to run the risk that we will need to find many more funds in the future to protect ourselves because these weapons once more are being used to threaten us.
- With this in mind, the U.S. has committed \$1.2 billion to dismantling assistance, and we encourage your governments to commit commensurate amounts.
- We recognize, however, that the resources devoted to this assistance are precious, and so we want to ensure that they are used as efficiently as possible.
- We would like the G-7 to focus attention particularly on two areas of assistance -- dismantlement of strategic nuclear delivery vehicles and long-term storage of fissile materials derived from dismantled nuclear weapons.
- We believe that these projects, due to their centrality to the dismantlement effort, their relatively high cost, and the interest they have generated among a number of countries, are particularly well suited for efforts to harmonize our assistance.

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2016-0133-M (1.07)

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Divider Title: 7

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## NUCLEAR SAFETY ASSISTANCE

### BACKGROUND

Multilateral efforts to improve nuclear reactor safety in the Former Soviet Union and Eastern Europe were a focus of last year's Summit. Leaders endorsed a five-part action program for improving operational safety, reducing risks and providing regulatory assistance. The G-7 communique emphasized, however, that each state remains responsible for the safety of its own nuclear power plants. The G-24 was tasked with coordinating the new effort.

The G-7 also requested the World Bank and the International Energy Agency (IEA), along with European Bank for Reconstruction and Development (EBRD), to examine the potential for upgrading the most modern Soviet-designed reactors and of the development of alternative energy sources and conservation measures to permit older reactor types to be shut down.

To address immediate operational safety and technical safety improvements not covered by existing bilateral assistance programs, the G-7 communique called for the establishment of a supplemental multilateral fund, which would be coordinated with ongoing bilateral programs and assisted by the European Bank for Reconstruction and Development. In February 1993, the G-7 agreed on a three-year multilateral Nuclear Safety Account (NSA) to be administered by the EBRD, with current capitalization of 120 million ECU (\$156 million). G-7 contributions are:

- France: 45 million ECU (\$54 million);
- Japan and Italy: 10 million ECU each (\$12 million);
- the EC: 20 million ECU (\$24 million);
- Germany: expect at least 15 million ECU (\$18 million);
- U.S.: 1.5 million ECU (\$1.8 million), the minimum.

We are seeking \$100 million (in our \$1.8 billion package before the Congress) for nuclear safety, including \$15 million for the NSA. This is on top of the nearly \$70 million already committed to the FSU and Eastern Europe in bilateral assistance. Since only 10 countries can be on the operating committee of the NSA, there is no support for a U.S. seat unless we formally pledge to increase our contribution above \$1.8 million. We want a seat at the table to ensure procurement opportunities for U.S. firms.

The Sherpas will likely recommend that the G-7 remain engaged in nuclear safety to address longer term issues. They may recommend a country-by-country strategy to encourage early closure of higher-risk nuclear plants, but caution that we cannot assume

that necessary international financing and internal reform will be forthcoming. A coordinated approach involving donors, recipients and the international financial institutions is needed to secure financing and also meet nuclear safety objectives.

## NUCLEAR SAFETY ASSISTANCE

### POINTS TO BE MADE

- The United States is committed to do what we can to help avoid another reactor accident in the older Soviet-designed models. I reaffirmed this commitment to President Yeltsin in Vancouver.
- However, we also need a coordinated approach to convince the energy authorities in these countries to assign a higher priority to nuclear safety, and to reform their energy sectors to provide resources which may allow replacement of the more dangerous reactors.
- Significant progress has been made in implementing the action plan agreed to in Munich. We should now move quickly to get assistance on the ground to make the necessary near term improvements.

**(If criticized by others on the size of our contribution to the multilateral fund):**

- I am working to increase substantially U.S. assistance for nuclear safety, including increasing our contribution to the Nuclear Safety Account.
- I am asking the Congress for \$100 million in nuclear safety funds for next year.
- Moreover, the U.S. has already committed nearly \$70 million bilaterally to the FSU and Eastern European countries for this purpose.

**(If others suggest that U.S. will not have a seat at the table because of its current, low contribution.)**

- I would expect that as a G-7 member and major bilateral contributor to nuclear safety, the United States will be included in the operating committee of the Nuclear Safety Account.

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Divider Title: 8

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BACKGROUND

In the post-Cold War era, our allies and we agree that high priority needs to be given to preventing nuclear, chemical, biological and missile proliferation. Our G-7 partners join us in strong support for the NPT, the IAEA safeguards system, the Chemical Weapons Convention, and other institutional elements of the nonproliferation regime. We have also made considerable progress in strengthening the export controls coordinated by the Nuclear Suppliers Group, Missile Technology Control Regime (MTCR) and Australia Group.

Previous G-7 summits have included language on nonproliferation in their political declarations. We want to move beyond declarations of common policy to seek coordinated actions and initiatives with our allies and others. To this end, we encouraged the creation of an informal nonproliferation experts meeting involving G-7 members, which met for the first time on June 24. (France initially opposed establishment of a G-7 nonproliferation group, fearing that it would lead to a more explicitly political role for the G-7.)

Areas where greater coordination among the G-7 could advance our nonproliferation objectives include:

- Agreement on multilateral assurances, inducements, and sanctions that could be used to influence potential proliferators, for example a common policy of taking nonproliferation behavior into account when considering development assistance.
- This could help the U.S. escape from the current dilemma of having to impose unilateral sanctions, penalizing U.S. exporters without materially slowing proliferation.
- Common approaches to North Korea, Iran, and other potential proliferators and coordinated efforts to promote nonproliferation in South Asia and other regions of tension.
- Coordination of assistance in the former Soviet Union, Eastern Europe and elsewhere to put effective export controls in place.

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NONPROLIFERATION

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PER E.O. 13526

2016-0133-M (1.09)

KRM 1/14/2020

POINTS TO BE MADE

- Nonproliferation should be one of our highest priorities. The spread of weapons of mass destruction and their delivery systems may be the most dangerous security threat we face in the post-Cold War era. One has only to contemplate a North Korea or Iran with deliverable nuclear weapons to realize how dramatically such proliferation could alter the security landscape.
- We need to work together even more closely, not only to support the global nonproliferation regime, but to develop coordinated approaches to pressing regional proliferation problems like the efforts of Iran and North Korea to acquire nuclear weapons capabilities.
- Regular informal discussions among G-7 members could be very helpful in achieving this improved cooperation.
- We should seek agreement on incentives to encourage responsible nonproliferation behavior and sanctions for those who undercut the international nonproliferation regime.
- We also need to work together to assist the former Soviet states, Eastern Europeans and others implement effective export controls.

(If Mitterrand resists idea of G-7 discussions)

- We are not talking about formal mechanisms, but informal discussions following from those our representatives have already begun.

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**REPORTS /  
DECLARATIONS**

-- REPORTS/DECLARATIONS

1. G-7 Finance Ministers Report  
(Thursday, 3:00-5:30 p.m.)
2. Political Declaration (latest draft)  
(Thursday, 9:15 a.m.-10:00 a.m.)  
-- G-7 and Export Controls for Iran
3. Economic Declaration (latest draft)  
(Friday, 9:15 a.m.-10:15 a.m.)
4. Past Communiques calling for deficit reduction

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DEPARTMENT OF THE TREASURY  
WASHINGTON

Background Paper  
Sherpa Meeting, Tokyo  
June 25-27, 1993

**Finance Ministers' Report to Tokyo Summit**

Issue

The 1992 Munich Summit Communique asked G-7 Finance Ministers to "strengthen their cooperation on the basis of our agreed guidelines and to intensify their work to reduce obstacles to growth and therefore employment", and requested them "to report to our meeting in Japan in 1993."

Status

A draft of the Report was worked out by a subgroup of the G-7 Deputies, mainly under Japanese chairmanship, and has been tentatively approved by the respective Finance Ministries. A copy is attached. It will be discussed at a Finance Ministers' meeting in Tokyo on the occasion of the Summit, and Minister Hayashi plans to make an oral presentation to the Heads on the Report, which would be made available to the public. Sherpas will probably receive a copy of the draft at the June 25-27 meeting as well.

The initial draft of the Report was longer, with a summary. It was decided that Heads were unlikely to read the long version, and that the summary should become the report to the Heads, with the remainder turned into an annex that would be provided for the background use of Ministers but not to the Heads (and would not be made public). Although the working group discussed the annex, the final version will be provided on the responsibility of Minister Hayashi.

Main Features of Report

The Report does not provide an in-depth discussion of the issues. It was not feasible to develop anything more than a set of very general assessments and policy prescriptions.

While the Report calls for appropriate short-term macroeconomic policies and exchange rates, the emphasis is on the need for a medium-term framework for fiscal and monetary policies and, particularly, on structural policies. It identifies eight areas where appropriate structural policies are necessary to enhance employment and growth:

- **labor market:** need greater flexibility in wages, better training and education, fewer disincentives to work;
- **investment and savings:** must reduce fiscal deficits, shift government spending toward productive investment, encourage private investment and savings;

- **multilateral free trade:** take initiatives to conclude Uruguay Round, ensure access to new democracies and developing countries, ensure regional arrangements are open to countries outside arrangement;
- **subsidies:** reduce them, particularly those on traded goods and export credits, as they are inefficient;
- **aging of the population:** should consider measures to control medical costs, pensions and other welfare, increase participation of older workers, and strengthen savings and investment;
- **health care:** as rapid increase of costs is likely to continue, necessary to improve control of outlays, e.g., through a global budget (or, in some countries, direct controls over fees), to review coverage of medical insurance and to encourage competition;
- **financial deregulation:** should continue to deregulate, but pay more attention to asset price movements and level of indebtedness, and ensure regulators and supervisors have adequate powers;
- **environment:** reconcile economic and ecological goals, taking national measures and also cooperating internationally, e.g., following up on Rio conference.

#### Other Countries' Positions

It is unlikely that any country will raise substantive issues related to the Report at the Summit (or at the Sherpa meeting). While differences of view did arise in its preparation, the Report was not seen as the right vehicle to resolve the differences, particularly as many of the structural issues fall partly or wholly outside finance ministers' area of responsibility.

Others, particularly Germany and Japan, resisted U.S. efforts to give more prominence to short term growth problems but accepted some references. Japan sought to emphasize its "special" problem of an aging society (to justify running a fiscal surplus now), and to warn against regional trade agreements. France wanted references to problems of unregulated financial markets.

**ATTACHMENTS:** Draft Report  
Excerpts from Munich Summit Communique

Drafted by: Treasury/IMF  
J. Lister  
6/21/93

Cleared by: Treasury/I: J. Shafer

June 11, 1993

Strengthening G-7 Cooperation to Promote Employment and  
Non-inflationary Growth  
(Draft G-7 Finance Ministers' Report to the Tokyo Summit)

1. Challenges Before Us

1 The Heads of State and Government, meeting at the Munich Summit in July 1992, requested us, the G-7 Finance Ministers, to strengthen our cooperation on sound macroeconomic policies and to intensify the work on structural policies. They also asked us to report to the Tokyo Summit in 1993.

2 Economic growth in our countries has recently been rather weak, averaging around 1.3 percent since 1990, although there are signs of recovery in some countries. More fundamentally, growth rates have undergone a secular decline in most of our countries. The average annual growth rate was 4.8 percent in the 1960s, 3.3 percent in the 1970s and 2.6 percent in the 1980s. Also, our unemployment rate doubled from an average level of just over 3 percent in the 1960s to 7.2 percent now.

3 Sound macroeconomic policies are crucial to our common strategy for sustained, non-inflationary growth. At the same time, it is vital to address structural problems which constitute obstacles to strong economic recovery, to improved longer-term growth potential, and to lower unemployment. Addressing these issues successfully is essential to the objective of fostering full and productive employment of our human resources.

4 The coordination on economic and financial policies that has developed among our countries has grown in importance as the economies become more interdependent. In particular, there were achievements of greater exchange rate stability and improvements in external imbalances. We are now strengthening our cooperative efforts particularly in order to pursue more effectively the reduction of obstacles to growth and employment creation.

2. Stable Macroeconomic Environment Conducive to Sustainable Growth

5 Macroeconomic policies should pay due attention to short-term aspects in order to moderate cyclical movements and help overcome various shocks. Periods of inadequate growth may dampen investment and thus lower the growth path of potential output over time. At the same time, a sound and stable medium-term perspective provides the best environment for efficient resource allocation and appropriate long-term investment decisions, which are prerequisites for sustainable non-inflationary growth.

6 As for fiscal policy, it is essential for our countries to strengthen

their efforts for fiscal consolidation at all levels of governments over the medium term. This will create room for private investment, help keep the stock of public debt manageable and thereby maintain scope for fiscal maneuver.

7 Regarding monetary policy, it should be conducted within a medium-term framework with the objective of price stability. It should be supported by appropriate fiscal policy, and in some countries by wages and incomes policies. Such an approach would help keep real long-term interest rates low enough to provide a good environment for investment.

8 We have been cooperating closely on exchange markets, based on the recognition that misalignment of exchange rates, i.e. divergence from economic fundamentals, and excessive volatility of exchange markets could adversely affect international trade and hamper sustainable growth. Efforts to make exchange rates more stable and better reflect economic fundamentals will be most successful if accompanied by a close coordination of macroeconomic policies.

### 3. Structural Policies Enhancing Opportunities for Employment and Growth

9 There is evidence that structural unemployment has grown, while economic growth has decelerated. Macroeconomic policies alone will not be effective in reducing the structural element of unemployment and fostering long-term sustainable growth. Well-targeted structural policies are needed to enhance opportunities for employment and growth.

10 More attention should be paid to labor market reforms. We need greater wage flexibility. We should move from relying on income support programs to more active labor market policies, especially by strengthening the incentives for education, training, and productive job search. These are particularly important where youth unemployment is high. Industry could be encouraged to increase its investment in training, while government could reallocate funds toward education and programs that invest in human capital. Elements of social insurance schemes and regulations that unduly discourage employment creation should be reexamined. Such actions should improve functioning of labor market and could also benefit allocation of the public spending and reduce it in some cases. We look forward to the conclusion of the OECD study in this area.

11 Investment clearly is a primary factor which influences productivity growth, and national savings are the main source of financing investment. Most of our countries have experienced a decline in gross national savings as a share of GDP over the past decade. In order to enhance investment and savings in each national economy, it is of utmost importance to reduce fiscal deficits over the medium term. It is also important to restructure government spending from consumption to productive investment. Measures to encourage private investment and savings should also be taken.

12 In order to maintain and improve the multilateral free trade system which is a prerequisite for a sustainable world growth, it is necessary for the G-7 countries to take initiatives to bring the Uruguay Round to an early and successful conclusion and to avoid protectionistic measures. Ensuring much increased access to the markets of industrialized countries is essential to improving growth opportunities for Central/Eastern European/FSU countries and developing countries. As for regional trade arrangements, it is important that they remain open to countries outside the region, thereby facilitating multilateral trade liberalization.

13 Subsidies often lead to inefficiency. Also, many subsidies represent an unproductive use of taxpayers' money. Further efforts to reduce such subsidies can increase efficiency, help fiscal consolidation and reduce the dangers of protectionism. Particularly, in the areas of traded goods and in export credit systems, we should intensify within the existing forums the ongoing efforts to reduce distorting subsidies.

14 The aging of the population is progressing rapidly in most of our countries. In order to deal with the rise in public expenditures, measures to control the increasing costs of medical care, public pensions and other welfare programs should be considered. In response to prospective declines over time in the proportion of the working-age population, labor market reforms may have to be considered to promote participation of older workers. In addition, in view of the possible decline in the savings rate in the future, efforts must be made to reduce fiscal deficits, to strengthen private savings, and to make more efficient use of those savings in productive investment.

15 The cost of health care has been increasing rapidly in our countries. In the absence of changes in policies, this trend is likely to continue because of a rise in the proportion of the elderly, the unique association in the health care industry of technological progress with higher rather than lower prices, and other factors. It is, therefore, necessary to better control overall outlays, for example, through "global budget systems" or, in some countries, direct control over fees. It is also necessary to improve efficiency of the health care systems by such measures as reviewing the coverage of the medical insurance and encouragement of cost reducing competition in the provision of medical services.

16 Financial deregulation has contributed to the development of broader and more efficient financial markets, domestic and international, and has benefited consumers. However, in some countries, deregulation may have contributed to excessive indebtedness and asset price movements. While we should continue our efforts of financial deregulation, it may be advisable that monetary policies pay more attention to asset price movements and the level of indebtedness. Regulatory and supervisory authorities should continue to enhance prudential oversight of financial institutions and be assured of the powers needed to perform their task. We will continue to cooperate in this area as necessary.

17 There is a growing insight that the economy and the environment are interdependent. Sustained economic growth requires us to reconcile economic and ecological goals. Although national measures are important for reducing global pollution, international cooperation is also needed. Sustaining and further developing the mutual trust that emerged in the UNCED of June 1992 in Rio de Janeiro, and properly implementing decisions made there, are important steps to making progress on environmental issues.

#### 4. Strengthening Our Cooperation

18 Sound fiscal and monetary policies, with more stable exchange rates that reflect economic fundamentals, are prerequisites to putting our economies back on the track of sustainable non-inflationary growth. For each of us, candid policy discussions within the G-7 Finance Ministers and Central Governors Meetings are important in formulating our domestic policy decisions. We are intensifying our policy coordination through the Meetings. To this end:

- We have focused our discussions on our shared economic concerns, paying particular attention to the way our policies interact.

- We have reviewed the procedures of the Meetings in order to increase the substantive content of the discussions. We have agreed to have more frequent and "informal" meetings with shorter, crisper communiqués or occasionally without them, although at times communiqués indicating coordinated actions could be considered in order to send appropriate signals to economic agents.

- We are also striving to improve the "surveillance" discussions through more effective involvement of the IMF, improved analytical work on macroeconomic and structural issues, and expanded informal participation of central banks in the preparation of the Meetings.

19 As well as macroeconomic policy issues, our report focuses on eight structural areas. As Finance Ministers, we do not have primary responsibility for some of them, but do have a keen interest in all of them. Action in these areas is needed in order to enhance employment and growth over the medium term, reflecting the different circumstances in each country. Impediments in some of these areas, particularly trade, subsidies, financial deregulation and the environment, are more amenable to concerted or cooperative actions, while others should be addressed on a country-by-country basis. In all, however, a concerted effort to improve our understanding would be helpful. In this regard, the OECD's continuing work on structural issues provides valuable information and analysis, which contribute to our understanding.

20 We, the Finance Ministers of the seven major industrial countries, strongly hope that this report will help our governments pursue the macroeconomic and structural policies essential to promoting employment and sustainable non-inflationary growth. Success will improve the well

being of people around the world as well as in our seven countries. We intend to follow up these issues.

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2016-0133-m (1.10)  
KBH 1/14/2020

Draft  
6/25/93  
7:00 p.m.

## POLITICAL DECLARATION

### Striving for a More Secure and Humane World

1. We, the leaders of our seven countries and the representatives of the European Community, reaffirm our commitment to the universal principles of freedom, democracy, human rights and the rule of law. Since we last met in Munich, the process of democratization and economic reform has further advanced. Nevertheless, instabilities and conflicts, many with their roots in the past, still arise. We are determined to work together to create a more secure and humane world by enhancing international cooperation with broader partnership and scope.
2. The international community is actively engaged in improving the instruments for prevention and resolution of conflicts. The UN, which is vital to maintaining international peace and security, must be further strengthened, adapting itself to the changing international circumstances. We, therefore, support the ongoing efforts in the UN to improve its efficiency, and in particular to develop more effective institutional capacity for preventive diplomacy, peace-making, peace-keeping, and post-conflict peace-building in the context of the Secretary General's "agenda for peace."
3. We strongly support regional cooperation in promoting peace, democracy and stability. We welcome the more active role played by the countries of the Asia-Pacific region in the promotion of regional security dialogues. Regional organizations in Europe, Africa, and the Americas are making significant contributions.
4. The increased number of refugees and displaced persons as well as the problems of uncontrolled migration and difficulties confronted by national minorities require urgent attention by the international community, and should be tackled taking account of their root causes.
5. In promoting our partnership of cooperation, reforms in the former centralized economies should be further encouraged. We look forward to democratic, stable and economically strong societies in those countries. We firmly support the determined reform efforts by Russia under President Yeltsin and his government. We also look to Russia to promote its diplomacy based on the principle of law and justice and to continue to play constructive and responsible roles in the international community. We also support the reform process in Ukraine and hope that the recent meeting between

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Presidents Yeltsin and Kravchuk will provide a basis for further improvement of relations between the two countries.

6. Enhanced cooperation is necessary in combatting the danger of proliferation of weapons of mass destruction and missiles. In particular, we:

- urge North Korea to retract immediately its decision to withdraw from the NPT, and to fully comply with its non-proliferation obligations, including the implementation of IAEA safeguards agreement and the joint declaration on denuclearization of the Korean Peninsula;
- encourage the countries concerned of the former Soviet Union to ensure rapid, safe and secure elimination of nuclear weapons in accordance with current agreements, providing effective assistance to this end;
- urge Ukraine to ratify the START treaty, and Ukraine and Kazakhstan to accede to the NPT as non-nuclear weapon states.

We also continue our efforts to strengthen the non-proliferation regimes, including the establishment of effective export controls. We reiterate the (importance) (objectives) of universal adherence to the NPT as well as the treaty's indefinite extension in 1995 and nuclear arms reduction. We also call on those countries that have not done so to sign the chemical weapons convention and to accede to the biological weapons convention.

7. (Reference to the former Yugoslavia.)

We welcome the successfully held election in Cambodia, and support the establishment of a new government on the basis of a new constitution to be enacted in accordance with the Paris agreements. (Possible reference to the establishment of a provisional government.) We continue our support for its construction and lasting peace based on national reconciliation.

We fully support the efforts to achieve a comprehensive, lasting peace settlement in the Middle East, and call on Israel and the Arab states to take further steps for confidence-building. We reiterate that the Arab boycott should end. We call on Israel to respect its obligations with regard to the occupied territories.

We are determined to keep up the pressure on Iraq and Libya to implement all relevant UN Security Council resolutions in full.

(Possible reference to Iran, depending on the discussion of the Heads/Foreign Ministers.)

8. In an interdependent world, partnership is the key to building global peace and prosperity. We commit ourselves to a new effort to help shape a more secure and humane world, and urge others to join us.

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Divider Title: 3

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Strengthening Collective Engagement

1. We, the Heads of State and Government of seven major industrial democracies and the representatives of the European community, met in Tokyo for our nineteenth annual Summit. Progress around the world toward liberal democracy and open, market economies surpasses our most optimistic expectations of only some years ago. To reap the full benefits of recent historic transformations our societies must respond to a number of these challenges: achieving economic recovery and job creation, successfully concluding the Uruguay Round this year, integrating countries in transition into the world economy supporting the developing countries, and reconciling global growth and environment objectives. We are determined to address these challenges on the basis of our shared values of democracy and market economy. We renew our commitment to extend international cooperation, in particular by strengthening multilateral institutions.

World Economy

2. We are concerned about insufficient growth and inadequate job creation in our economies. Recovery is continuing in North America, but remains modest. Europe is still in a marked recession, although there are signs of recovery in a few countries. Japan's economy is over the worst, and some recovery is now in sight. Many Asian and Latin American economies are growing, some rapidly, and playing more important roles in the world economy.

3. We are particularly concerned with the level of unemployment. More than 23 million people are unemployed in our countries: that is unacceptable. Much of the recent increase is attributable to the present economic slowdown, but a significant part of the current level of unemployment is structural in nature. Reducing unemployment, therefore, requires a double strategy: prudent macroeconomic policies to promote noninflationary sustainable growth, and structural reforms to improve the efficiency of markets, especially labour markets.

4. We will consult closely in our concerted strategy so that our national policies can be mutually reinforcing and compatible with our shared goal of a strengthened and recovering world economy.

Europe is carrying out vigorously the Growth Initiative agreed in Edinburgh and strengthened in Copenhagen. Europe is firmly committed as a matter of overriding importance to implementing appropriate budgetary and other measures in order to ensure that the conditions for [rapid] reduction in interest rates are created.

In North America, policy will continue to be implemented that will ensure substantial and steady reductions in fiscal deficits over the medium-term, higher level of domestic savings and investment, and lower long-term interest rates.

Japan has taken a series of stimulative policies including the most recent comprehensive package. Japan will, as necessary,

implement fiscal and monetary measures to ensure strong domestic demand-led growth keeping in mind the need for medium-term fiscal prudence. This, in turn, will contribute to the reduction of external imbalances.

Successful and rapid conclusion of the Uruguay Round will also boost the confidence of investors and consumers, thus be an important contribution to recovery and growth.

We are confident that these policies will put our economies back on track for sustainable non-inflationary growth. We welcome the improved cooperation by Finance Ministers which needs to be actively pursued.

5. To enhance opportunities for employment and growth, it is essential to address structural issues which constitute obstacles to strong economic recovery and to longer-term growth potential. In this context, we endorse the report of our Finance Ministers focusing on a broad range of structural reforms, inter alia;

- greater labour market efficiency,
- improvement in education and training,
- enhancement of savings and investment,
- maintaining and improving the multilateral trading system,
- reduction of subsidies,
- addressing economic impact of aging population,
- controlling overall outlays of health care,
- deregulation in financial markets while ensuring their stability,
- developing international cooperation on environment.

We commit ourselves to addressing these issues, together with issues of innovation and of improving the "quality" of budgets and increasing efficiency of the public sector, and we will review progress at the next Summit.

6. We welcome the OECD's interim report on employment and unemployment. We request the OECD to intensify its work, including that on impact of structural changes, and put forward its policy recommendations for our next Summit.

### Trade

A.

7. We are determined to curb protectionism in all its manifestations and agree that no recourse should be made to measures that threaten to undermine the multilateral open trading system. We also confirm that any regional integration should be complementary to and supportive of the system.

(1)

[We welcome the recent progress made on market access on goods and services as a great step to lead the way to an early resumption of multilateral negotiations on all dossiers and the successful conclusion of the Uruguay Round negotiations. These

efforts must be matched by comparable market opening measures by other major producers and exporters. The important issues, however, remain to be solved. We renew our determination to resolve these issues with all our partners and to bring about a balanced and successful conclusion of the Uruguay Round by the end of this year.]

(2)

[We welcome the recent progress made on the identification of the main elements of a large market access component in goods and services as a great step to the immediate resumption of multilateral negotiations. We urge all our trading partners to return to Geneva to negotiate constructively on all subjects recognizing that nothing is agreed until everything is agreed. There remain important issues to be resolved. We renew our determination to resolve these issues and to achieve with all our partners, a global and balanced agreement before the end of the year.]

B.

[7. Maintaining and expanding the multilateral trading system is essential for world growth. We are determined to curb protectionism in all its manifestations. Our highest priority is a successful conclusion to the Uruguay Round. We are pleased that we have within reach the largest, most far-reaching market access agreement in history. These efforts must be matched by comparable market opening measures by other major producers and exporters. Many important issues remain to be resolved. We renew our determination to resolve them, and urge all our trading partners to return to Geneva at the earliest possible date for multilateral negotiations in order to achieve agreement before the end of the year.]

8. Environmental issues remain a high priority on our policy agenda. We welcome the successful first meeting of the Commission on Sustainable Development and the progress made towards implementation and ratification of the Framework Convention on Climate Change and the Convention on Biological Diversity. We renew our determination to secure environmentally sustainable development through an effective follow-up of the fruits of the UNCED, including the commitment to publish national action plans by the end of this year. We will encourage the multilateral development banks to become more transparent and to focus more intensively on the sustainability of development and will work to ensure that the Global Environmental Facility, with necessary improvements, functions as the financial mechanism to help with the incremental costs of the global environment conventions.

as of 11:30 a.m., June 27

#### Russia and the Other Countries in Transition

9. We reaffirm our support for the reform efforts in the countries in transition including the CEECs, the Baltic States, the NIS and Mongolia, based on the principles of help for

self-help and partnership. The success of their reform and their full integration in the world economy are essential to world peace and stability. We will continue to work with these countries constructively and responsibly in international affairs. Encouraging first signs of economic recovering are visible in those countries of CEEC where reform is most advanced. We welcome the development of economic cooperation and trade with us and urge stronger cooperation among the countries in transition themselves.

10. We welcome the further progress made by Russia since Munich in its courageous reform efforts under the leadership of President Yeltsin and supported by the Russian people in the recent referendum. We urge Russia to intensify its efforts to reduce inflation and the budget deficit, and to take all the necessary legal and administrative measures to build on strong start in privatization and promote further structural adjustment. The G-7 Joint Ministerial Meeting held in Tokyo in April set out a framework of support to Russian people's self-help efforts. We welcome the progress made in each area. We welcome the creation of the IMF Systemic Transformation Facility and its first tranche disbursement to Russia. We urge both Russia and the IMF to commence immediately negotiations toward a stand-by arrangement. [Official creditors have provided tangible support for the reform process through the generous debt rescheduling. We expect the Russian Government, banks and uninsured suppliers to negotiate comparable solutions.] We also welcome the recent approval of the World Bank's oil rehabilitation loan amounting to [\$610 million], and the efforts by the EBRD in close cooperation with us to establish a \$300 million fund for the promotion of small and medium sized enterprises. We recognize the importance of trade for economic progress in Russia, and accordingly, will work with Russia as it proceeds towards the accession to the GATT [, and towards the common goal of free trade]. In this connection, we will intensify efforts to adapt export controls to the post-Cold War era. Recognizing that the privatization and enterprise reform are at the heart of Russia's transformation into a market economy, we agree to create a Special Privatization and Restructuring Program, in cooperation with international financial institutions, consisting of enterprise restructuring support, technical assistance [and oblast support], focusing on an initial period to the end of 1994. In total this program is expected to mobilize [\$ ]. [We agree to establish [SIO/SIG] in Moscow to facilitate implementation of our support to Russia. In turn, we urge strengthening of the Russian implementation efforts.]

11.(a)

[(UK proposal) We welcome the progress made in the nuclear safety programme, including the establishment of the multilateral fund, in which we encourage broader participation. The urgent safety measures, coordinated through G24, need to be implemented rapidly including strengthening of independent regulatory authorities. We invite the World Bank, IEA and EBRD to continue the dialogue with the countries concerned to support them in developing longer term energy strategies, which make possible early closure of

higher risk reactors. Nuclear safety must be given higher priority in all the countries concerned.]

[(German proposal) We welcome the progress so far in the nuclear safety programme agreed at Munich. It is now important that the various mechanisms developed lead to actual safety improvements in the respective nuclear power plants still causing great concern. To this end we also encourage broader participation in the Nuclear Safety Account. The states concerned bear the primary responsibility for respecting the fundamental principles of nuclear safety including the closure of higher risk reactors as soon as possible. We all continue to support the process of improving nuclear safety on the basis of the energy studies produced by the World Bank, IEA and EBRD in cooperation with these institutions. We agree on producing a framework leading to detailed practical options including effective mobilization of funds developed on a country-by-country approach. We will review the progress made in 1994.]

[(French proposal) (to be suggested)]

(b) We emphasize our concern over the ocean dumping of radioactive wastes by Russia.

#### Developing countries

11. While encouraging changes in policy reforms and performance are taking place in many developing countries, many are still confronted with major economic and social difficulties particularly in Africa. We recognize that their sustainable development and their integration into the world economy as well as their cooperation in addressing the global challenges to mankind are essential for peace and prosperity of the world. We will continue to strengthen our support to their self-help efforts based on the principle of good governance. We will also encourage them to follow sound and open economic policies to create a solid basis for sustainable economic growth.

12. To end this, we will pursue a comprehensive approach, covering not only ODA but also trade, investment and debt strategy, and a differentiated approach, tailored to the needs and performances of each country at its particular stage of development and taking environmental aspects into account. [Under such an approach, we will make all efforts to enhance development assistance both quantitatively, and qualitatively, and to meet ongoing needs for concessional development assistance while responding to new requirements.] [Under such an approach we shall strive to ensure that our assistance brings the maximum benefits to developing countries in order to respond to ongoing needs as well as new requirements.] The poorest countries deserve special attention. Accordingly, we support the succession to or the renewal of the ESAF. We also look forward to a successful outcome of the International Conference on African Development in October this year. We confirm the validity of the international debt strategy and [invite the Paris Club to continue reviewing debt relief for the poorest, highly indebted countries] [encourage the Paris Club to consider more generous terms for debt relief for the poorest countries]. [We

will also address the question of primary commodities on which many developing countries depend for their export earnings.]

13. We welcome the initiatives taken by developing countries to establish a more constructive partnership and dialogue on issues of our mutual interest. We will work for the success of the International Conference on Population and Development in Cairo next year which is important in addressing the linkages between rapid population growth and the goals of sustainable development.

#### Future Summit

14. In order to meet the challenges we face, we are determined to strengthen international cooperation in the existing fora and seek better coordination and efficiency. Having this in mind we exchanged views on how our Summit, in the new era, may focus its attention on the most significant issues for the world community, assure proper policy coordination for our shared objectives and, when necessary, discuss the scope for cooperative action among ourselves, bearing the original spirit of our Summit in mind.

[We have concluded that: while avoiding bureaucratization and institutionalization, 1) our Summit be less ceremonial and more issue-oriented; 2) our Summit be a forum for consensus building among the Heads, 3) our Summit need a steady follow-up, and 4) our Summit as a process throughout the year].

[We have concluded that: 1) our Summit should provide a forum for an exchange of ideas and consensus building, 2) our Summit should identify problems and suggest ways forward, with follow-up in the appropriate bodies; and that we should aim for: 1) greater informality, shorter, more focussed communique and a reduction in documentation; 2) more time for informal discussion; 3) meetings in future to be confined to Heads of Government and the President of the Commission.]

We have accepted the invitation of the President of the Council of Ministers of Italy to meet in \_\_\_\_\_, Italy in \_\_\_\_\_, 1994.

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## Clinton Presidential Records Digital Records Marker

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Divider Title: 4

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Excerpts from Economic Summit Declarations

Ottawa, 1981

para. 5: We need in most countries urgently to reduce public borrowing; where our circumstances permit or we are able to make changes within the limits of our budgets, we will increase support for productive investment and innovation.

para. 6: For these reasons, most of us need also to rely on containment of budgetary deficits, by means of restraint in government expenditures as necessary.

Versailles, 1982

para. 3: In order to achieve this essential reduction of real interest rates, we will as a matter of urgency pursue prudent monetary policies and achieve greater control of budgetary deficits.

Williamsburg, 1983

para. 3 We renew our commitment to reduce structural budget deficits, in particular, by limiting the growth of expenditures.

London, 1984

para. 5: Not the least of our concerns is the growing strain of public expenditure in all our countries. Public expenditure has to be kept within the limits of what our national economies can afford.

Bonn, 1985

para. 5: Each of our countries will exercise firm control over public spending in order to reduce budget deficits, when excessive, and, where necessary, the share of public spending in Gross National Product.

Tokyo, 1986

para. 5: In each of our own countries, it remains essential to maintain firm control of public spending within an appropriate medium-term framework of fiscal and monetary policies. In some of our countries there continue to be excessive fiscal deficits which the governments concerned are resolved progressively to reduce.

Venice, 1987

para. 5: Deficit countries, while following policies designed to encourage steady low-inflation growth, will reduce their fiscal and external imbalances.

Toronto, 1988

para. 7: Fiscal, monetary and structural policies have been undertaken to foster the adjustment to more sustainable economic and financial positions in the context of non-inflationary growth. Efforts in those directions, including continued reduction of budgetary deficits, will continue.

Paris, 1989

para. 6: In countries with fiscal and current account deficits, including the United States of America, Canada and Italy, further reductions in budget deficits are needed. Action will be taken to bring them down. This may help reduce the saving-investment gap and external imbalances, contribute to countering inflation and encourage greater exchange rate stability in a context of decreasing interest rates.

Houston, 1990

para. 9: Countries with sizeable current account deficits should contribute to the adjustment process by the reduction of fiscal deficits, and undertake structural reforms to encourage private saving and increase competitiveness.

London, 1991

para. 6: We therefore commit ourselves to implement fiscal and monetary policies, which, while reflecting the different situations in our countries, provide the basis for lower real interest rates. In this connection, continued progress in reducing budget deficits is essential.

Munich, 1992

para 10: With this in mind we have agreed on the following guidelines:

- to continue to pursue sound monetary and financial policies to support the upturn without rekindling inflation;
- to create the scope for lower interest rates through the reduction of excessive public deficits and the promotion of savings;

- to curb excessive public deficits above all by limiting public spending. Taxpayers' money should be used more economically and more effectively.

Tokyo, 1993

para. 1 To fulfill our promises from Summits past which we have not had the political courage to undertake.

**PRESS MATERIALS**

**PRESS STATEMENT  
TO BE PROVIDED**

PRESS Q'S AND A'S - TO BE UPDATED

Economic Growth

Q: What did the G-7 agree to do to stimulate global economic growth?

A: -- We are naturally concerned at the lingering effects of recession on global employment and low economic growth, though we are doing better in North America, than in Germany and Japan. We agreed that we must work together to restore strong, sustainable growth of our economies. We will pursue appropriate monetary and fiscal policies, reducing budget deficits over the medium term and improving the efficiency of our public sectors.

-- We are focussing special attention on structural reforms in labor markets, savings and investment, reduction of subsidies, coming to grips with the impact of an aging population and containing health care costs, while progressing with financial deregulation.

-- We paid special attention to recent trends in current account imbalances which could, if unchecked, yield protectionist pressures. Successful efforts on macroeconomic problems should have a positive impact on external imbalances.

Trade

Q: What are the prospects for concluding the Uruguay Round this year?

A: -- We were able to note important progress in market access on goods and services which signals a great step towards concluding the Uruguay Round. We reaffirmed that we will work through the remaining issues to conclude the Uruguay Round by year's end. We also agreed that regional integration, such as NAFTA and EC enlargement, should expand the possibilities for economic development and complement, not compete with, the multilateral trading system.

Development Assistance

Q: How will the G-7 promote development for LDCs with so much assistance being diverted to Russia and the NIS?

A: -- Assistance for Russia and the NIS has come almost entirely from new funds. Very little aid has been diverted from developing countries. We recognize that sustainable development is essential for peace and prosperity in the post-Cold War era; the poorest countries in particular deserve special attention.

-- We will adopt a comprehensive approach to development assistance that will include trade, investment and debt strategy, tailored to the unique needs of each country. We will strive to improve the quality of assistance to assure greater returns for developing countries.

- We will actively engage in practical, constructive dialogue in appropriate fora on issues of mutual interest. We look forward to successful outcomes for the Tokyo International Conference on African Development this October, and for the International Conference on Population and Development in Cairo next year.

### Environment

Q: What did the G-7 do about sustainable development and the environment?

A: -- The issue of global environment remains a high priority on our policy agenda. In particular, we welcomed the successful holding of the inaugural meeting of the UN Commission on Sustainable Development.

- We renewed our determination to promote and attain sustainable development on a global scale through a steady follow-up on the agenda laid out at UNCED. Further, we reaffirmed our commitment to publish national plans by the end of 1993.

- We also will work to ensure that the Global Environmental Facility, with necessary improvements, functions as a major financial mechanism.

### G-7 Summit Reform

Q: Did the Summit produce any changes in the way the G-7 will operate in the future?

A: -- We agreed that we would continue to use existing forms of international cooperation and not create new institutions. We will strive for better coordination and efficiency within the summit process. Future summits will involve less ceremony and concentrate more on the issues at hand.

### Bilateral Contacts

Q: What were the key issues that you raised in your bilateral meetings with your G-7 partners?

A: -- A wide range of issues were raised during our bilateral meetings with our G-7 partners, including:

- the importance to the world economy of concluding the Uruguay Round;
- the latest developments in former Yugoslavia;
- democratic and market reform efforts in Russia, the NIS, Central and Eastern Europe and other developing countries;
- the environment; and
- the Middle East.

Political Issues

Q: What were the principal political issues raised during the Summit talks?

A: -- As you can imagine, a number of key political issues were discussed, including:

- the latest developments in former Yugoslavia;
- market reform and democratization in Russia, the NIS, Central and Eastern Europe and other developing countries;
- the Middle East peace process;
- U.N. reform;
- non-proliferation of arms; and
- Iran and Iraq.

A Successful Summit

Q: Do you consider the Summit a success? What did you accomplish?

A: -- Yes, we are pleased with the outcome of the Summit.

- G-7 leaders reached agreement on measures to increase global growth and strengthen the G-7 coordination process.
- Progress was made in moving closer to agreement on market access on goods and services, which is an important step toward concluding the Uruguay Round.
- Discussions on Russia were extremely fruitful. Strong G-7 support for economic and political reform was reaffirmed.
- We also took this opportunity to coordinate with our G-7 partners on key political issues, including non-proliferation, former Yugoslavia, the Middle East and Persian Gulf. These exchanges were very productive and highlighted the importance of the close cooperation among the industrial democracies in promoting peace and stability in the post-Cold War world.

Russia: Discussions

Q: Are you pleased with discussions on Russia? and Mr. Yeltsin?

A: -- Yes, we were pleased by the broad recognition among our G-7 partners of the critical importance of assuring the success of Russia's reforms.

--- President Yeltsin's participation here in Tokyo demonstrates the new partnership between Russia and the West, based on a shared commitment to democratic values and economic cooperation.

-- This Summit, and my personal meeting with President Yeltsin have built on the momentum of Vancouver and the Tokyo ministerial to deliver additional support to Russia.

Russia: Aid

Q: Are you frustrated by differences with other governments and the IMF on how best to aid Russia? Has this slowed disbursement?

A: -- There has been broad support among the G-7 on the importance of prompt disbursement of the multilateral assistance proposed last April at the Tokyo ministerial.

-- The IMF has negotiated a Systemic Transformation Facility (STF) program with Russia and the Fund's Executive Board recently approved on a program to permit disbursement of the \$1.5 billion first tranche.

-- As you know, that disbursement took place shortly before the Summit.

-- We and other G-7 governments have encouraged the IMF to begin early negotiations for a Standby Program that will allow Russia to build on the STF and intensify its support for a full macro-economic stabilization program.

Russia: New Measures

Q: Do (did) you agree on any new measures to assist Russia?

A: -- The G-7 agreed to create a Special Privatization and Restructuring Program to be financed by the G-7 and the IFIs. This program goes to the heart of the reform effort by providing financing and technical assistance to privatize Russia's largest state-owned enterprises.

-- The G-7 also agreed to establish a new Special Implementation Group in Moscow to improve coordination of our multilateral assistance and remove any "bottlenecks" to implementation.

-- The G-7 welcomed the initial implementation of IMF and World Bank support announced in April and we agreed to urge Russia and the IMF to begin negotiations on an IMF Standby arrangement, to provide IMF support for broader economic reform.

Uruguay Round Discussions

Q: Were your discussions on the Uruguay Round successful? Why doesn't the market access package include more market opening for industrial goods, agricultural goods and services?

A: -- We never expected to finish the Uruguay Round negotiations at the Summit. Our talks have helped to move the process forward. While a great deal of work remains to be done, we have succeeded in restoring momentum to the Round. The recent extension of fast track negotiating authority by the U.S. Congress sent a clear signal to our trading partners that the United States is ready to conclude the Round.

-- The U.S., the EC, Canada, and Japan have come a long way toward working out a package of mutually beneficial market opening measures. While fine tuning on the package of tariff cuts continues, we will work with the EC, Canada and Japan to get other countries to make the necessary improvements in their tariff offers.

-- United States is also continuing to work hard to convince our trading partners to liberalize access to their services sectors, including financial services. The U.S. services sector is one of the most open in the world, and we are prepared to open it more as part of a balanced package. At the same time, we are not prepared unilaterally to grant benefits to those countries which will not allow U.S. service providers into their markets.

Completing the Uruguay Round

Q: Do you think that you will be able to complete the Uruguay Round by year end as you had hoped? Isn't the Uruguay Round dead?

A: -- The Uruguay Round is not dead. Our talks have helped to move the process forward. A great deal has already been accomplished, but more needs to be done. It is quite possible to complete the Round by December if the participants in the negotiations return to the table in Geneva ready to make the tough decisions which will be needed. The United States cannot do it alone, but we are more than ready to do our part.

Market Access

Q: Is the market access package a done deal and do you consider it as an American concession to have any deal?

A: -- The market access package is not a done deal. The U.S., the EC, Canada, and Japan have come a long way toward working out a package of mutually beneficial market opening measures. Fine tuning on that package continues. The participation of many other countries will be needed to finalize this outline of a large market access package. We will work with the EC, Canada, and Japan to

seek additional concessions from the other participants in the Round in order to bring the negotiation to a successful conclusion.

- There can be no free riders in the Uruguay Round, and it would be foolish for the United States to make concessions just to have a deal. All of the participants in the Round took on an obligation to open their markets as part of this negotiation, and we expect them to live up to that commitment.
- I have no intention of submitting the final Uruguay Round package to the Congress for approval unless I am convinced that it is a fair and balanced package which will benefit the U.S. economy and create jobs for American workers.

#### Macro Policy Coordination

Q: Communique doesn't say much about actual policy coordination, hasn't the G-7 failed to achieve any ability to take coordinated action in the face of lower global growth?

- A: -- No. Important policy actions aimed at both near-term economic recovery and sustainable growth and job creation over the medium term have already been taken by the G-7 countries. This has taken place in the context of continuous close consultations and despite different conditions in each country.
- Furthermore, Summit leaders have agreed to continue to work together in a concerted manner so that national policies can be mutually reinforcing and support the common goal of a strong, sustainable global recovery.
- The Communique underscores the G-7 commitment to pursue appropriate trade, monetary and fiscal policies, as well as to implement structural reforms -- reviewed in some detail by the Finance Ministers' report -- such as improving the functioning of labor markets.

#### German, Japanese and American Policies

Q: Was there U.S. pressure on the Germans to lower interest rates and the Japanese for further fiscal stimulus? Did the others express skepticism about the U.S. economic program?

- A: -- Summit leaders agreed that they have a shared responsibility to pursue appropriate policies. They recognize that only by ensuring and sustaining the recovery of their own economies can they achieve the key objective of strong global growth.
- The U.S. economic program was well received by other G-7 countries that have, in the past, urged the United States to reduce its budget deficit.

- Actions by others were also reviewed, including the need for sustained Japanese efforts to strengthen domestic demand and reduce Japan's external surplus. The desirability of easing constraints to European growth, including further reductions in relatively high German interest rates, was also discussed.

#### U.S.-Yen Exchange Rate

- Q: Do you believe the dollar should depreciate further against the yen to reduce Japan's current account imbalances?
- A: -- I don't believe that it is appropriate for me to comment on the U.S.-yen exchange rate.

#### U.S. Budget

- Q: Hasn't the President's inability to get his own budget through Congress yet undercut his credibility with the other G-7.
- A: -- To the contrary, U.S. credibility has been enhanced by recognition that we actually moving to implement a significant budget reduction.
- The President's budget package is well through passage in both Houses of Congress, and moving faster than any budget in recent years.
  - Although there are differences in detail between House and Senate versions, both incorporate the President's original goal of reducing the cumulative growth of the budget deficit by more than \$500 billion over the next five years.
  - This is the largest deficit budget reduction undertaken in years and in exactly in line with the long standing desires of our G-7 partners.

#### One Big Photo Op

- Q: Isn't the G-7 really just one big photo-opportunity for a meeting of leaders who are not strong at home?
- A: -- No. The Summit provides an opportunity once a year for the leaders of the major industrial nations to meet, discuss and seek solutions to economic and political issues that affect the lives of millions of people all over the globe.
- As the head of state or government of his or her country, each Summit leader is accorded and receives the respect owed to that country. Individual political ups and downs are not relevant.

Weak Leaders

Q: Did the weakness of all the G-7 leaders interfere with the Summit?

A: -- No. The Summit leaders, regardless of the ups and downs of their individual domestic political fortunes, effectively represented their nations in addressing important global economic and political issues.

Collapse of Miyazawa Government

Q: Did the collapse of the Miyazawa government just prior to the summit prevent Japan from participating fully or undercut the effectiveness of the summit?

A: -- Japan was a full and effective participant in summit deliberations. I am sure that my G-7 colleagues agree that Prime Minister Miyazawa and his government did an outstanding job in organizing and hosting this summit.

-- The G-7 set an ambitious agenda for the summit, one which included a host of some of the most pressing global issues. The success that we have had in addressing these issues is due in significant measure to the careful planning and good organization of this meeting by Japan.

U.S.-Japan Economic Framework

Q: Did you reach bilateral agreement with the Japanese on an economic framework as you announced with Miyazawa in Washington in April?

Answer 1:

-- We have not yet reached agreement on a framework. We have offered flexible proposals for the establishment of joint goals and for the joint review of progress.

-- We believe that a framework based on these ideas would offer substantial benefits not only for the U.S. and Japan's other trading partners, but also for the Japanese economy and Japanese consumers.

Answer 2:

-- Thanks to the hard work of both governments, we have agreed on an economic framework to address the economic issues on our agenda.

-- But the Framework is only an outline of the structure to address our economic agenda. We must follow up our Framework agreement with specific agreements on the issues under the framework and move quickly to finalize these agreements.

New Initiatives

Q: What was new at this Summit? Did you offer any new initiatives?

- A: -- The value of the annual Economic Summit is that it provides a unique opportunity for the leaders of the major industrial democracies to get together to discuss economic and political issues of global importance.
- This year Summit leaders discussed and made progress on a number of important subjects.
- Agreement was reached on measures to increase global growth and strengthen the G-7 coordination process.
- Progress was made in moving closer to agreement on market access on goods and services which is an important step towards concluding the Uruguay Round.
- Discussions on Russia were extremely fruitful. Strong G-7 support for economic and political reform was reaffirmed.
- Exchanges on key political issues were timely, productive and served to promote G-7 objectives to promote peace and stability in the post-Cold War world.

**BILATERAL MEETINGS**

-- BILATERAL BRIEFING MEMORANDA

1. Meeting with President Yeltsin  
Fact Sheets on Russia
2. Meeting with Prime Minister Campbell
3. Meeting with Prime Minister Ciampi

**MEETING WITH  
PRESIDENT YELTSIN**

~~SECRET~~

MEETING WITH  
RUSSIAN PRESIDENT BORIS YELTSIN

DECLASSIFIED  
PER E.O. 13526  
2016-0103-M (1.11)  
KEH 1/14/2020

I. OBJECTIVES

- Reaffirm strong U.S. support for reform and a close partnership with Russia.
- Push for further Russian economic reform to permit continued support from the International Financial Institutions and the G-7 governments.
- Describe our efforts to fulfill commitments made in Vancouver to eliminate Cold War restrictions, transform COCOM and close the highly-enriched uranium deal.
- Encourage close cooperation on energy and space issues, and more favorable conditions for foreign investment.
- Encourage full Russian adherence to international nonproliferation norms.
- Urge greater Russian flexibility and speed in withdrawing its forces from the three Baltic countries.
- Discuss our interest in helping to promote improved Russian relations with Ukraine.
- Emphasize the importance of better Russo-Japanese relations.

II. BACKGROUND

Your primary objective in meeting Yeltsin is to maintain the momentum in the U.S.-Russian partnership that you established in Vancouver and in your conversations and actions since. You can do that in three ways. First, you should review with him the many requests he made of you in Vancouver and the action you have taken since to respond to them. This is important to demonstrate that our support is concrete and not just rhetorical. Second, you will need to discuss with him some important and sensitive issues that are currently central to our relationship -- the missile sanctions disagreement, the prospect of a Gore-Chernomyrdin meeting that could provide a breakthrough on trade and investment and space cooperation, and foreign policy issues like withdrawal of troops from the Baltic states and Russia's relationships with Ukraine and Japan. Third, you can use your joint press conference following the meeting to highlight publicly the advantages to both countries from our close relationship and our continued strong support for Yeltsin's reforms.

~~SECRET~~

Declassify on: OADR

This element of the summit is important to both of you: your contribution to Yeltsin's revived prospects are your most important foreign policy success to date, and Yeltsin needs a helpful summit to burnish his credentials as a world leader whose engagement is beneficial to Russians.

Yeltsin will arrive in Tokyo a far stronger and more confident political leader than the man you met in Vancouver. Since your summit meeting in early April, Yeltsin engineered the successful nationwide referendum vote later that month and then orchestrated the historic Constitutional Conference that could provide for a stronger executive and an end to Russia's nearly paralyzed political structure in the future. As a consequence of these two events, Yeltsin's foes have been weakened and are on the defensive. The Russian economy has even improved slightly, with hyperinflation receding as a real threat. The result is that Yeltsin stands once again as the premier political and reform figure in Russia.

Despite this positive turn of events, Yeltsin still appears uneasy about his participation in the Tokyo proceedings. As he mentioned to you on the phone last week, he is anxious that he not return home empty-handed from the G-7 meeting, as Gorbachev did in 1991. He views the Japanese as unhelpful and perhaps out to embarrass him and the Europeans as inward-focussed and preoccupied. Yeltsin clearly regards the U.S. under your leadership as the heart and the engineer of the western assistance effort.

Since the meeting will only last one hour, we would suggest you focus on three sets of issues: 1) the major bilateral issues you discussed with him in Vancouver; 2) several key issues that remain undecided, such as missile sanctions and the Gore-Chernomyrdin Commission; and 3) the importance of improved Russian relationships with Japan, Ukraine and the Baltic countries.

**Vancouver Bilateral Issues:** You can begin by reviewing for him the progress we have made in providing assistance on bilateral issues raised in Vancouver. You can describe the U.S. leadership role in the G-7 to fashion a credible multilateral program of support for Russia. You can reiterate briefly our rapid implementation of the \$1.6 billion Vancouver assistance package and our hope to win Senate approval of the \$1.8 billion program this summer. You can also describe for him our efforts to meet his request for an elimination of most Cold War laws that impede U.S.-Russian trade. We are confident the Congress will act this term to remove nearly all of these impediments, although most are only of symbolic importance. On Yeltsin's request that you fully graduate Russia from the Jackson-Vanik provisions, you can follow up your telephone conversation on this by giving him our list of "refuseniks". You can say that if Yeltsin will act to resolve the cases this year, and he establishes a mechanism for future review

of such cases through implementation of his emigration law, then you will support full graduation.

You will also want to review briefly the progress we want to make with Russia and our allies on COCOM, our desire to complete an HEU deal and to move forward on the dismantlement and destruction of nuclear missiles. You will want to explain to him your new policy on nuclear testing, and seek his pledge to keep active the Joint POW/MIA Commission which is an important symbol in the U.S. of your determination to stand by the families. Finally, you will also want to mention our continued hope that Russia might cooperate to return the Lubavitch community library to its rightful owners here in the U.S.

**Current Priority Bilateral Issues:** While the core of our relationship with Russia remains solid, we have had major disagreements on key issues during the past month. The missile sanctions issue has produced the first serious disagreement with Russia on an important issue in your Administration. This issue must be managed carefully since the Russians view our attempt to constrain their rocket engine deal with India as evidence that we want to deny them access to world markets for their products. We need to convince them that our real concern is to deny India an intercontinental nuclear delivery capability. Your telephone conversation with Yeltsin and your decision to send Strobe Talbott to Moscow elevated the issue. Unfortunately, Strobe's mission to Moscow this past week ended with no progress. This issue will now be a major part of your meeting with Yeltsin against the July 15 deadline when the waiver of sanctions against the Russian firms expires. We will also be working with the Indians to pursue a solution to this disagreement.

The missile disagreement has forced us to postpone the visit of Prime Minister Chernomyrdin for the first meeting of the Joint Commission on Energy and Space, which you established with Yeltsin in Vancouver. Given Chernomyrdin's pivotal role in business and technology issues, his work with the Vice President represents the best hope we have for a major expansion in American trade and investment in Russia's oil and gas sectors. If we can break down some of the many barriers that currently impede U.S.-Russian trade, particularly in energy, it will translate into enormous advantage for American companies. It will also provide Russia the capital it needs to invest in its oil industry with large potential balance of payments benefits. The Russians also are anxious to cooperate with us in the manned space station and other space projects. If it works right, this Commission could be one of the most important developments in U.S.-Russian relations during your Presidency. Our aim now should be to clear away the missile sanctions issue and allow the Commission to get to work.

**Foreign Policy Issues:** We have achieved a remarkable degree of cooperation with Russia on global foreign policy problems during the past few years. Since you took office, we have enhanced our cooperation even further on difficult issues such as Bosnia and Iraq, for example. Still, Russia's problems with countries important to us, such as the Baltic states, Ukraine and Japan, threaten to become impediments to our larger efforts to assist Russia on economic assistance. Russia's continued military troop presence in the Baltic states, for example, presents possible future obstacles to Congressional approval of U.S. economic assistance. And Russia's problems with Japan make it difficult for the Japanese to join us in promoting G-7 assistance to the Yeltsin government.

You should review briefly our willingness to help improve Russia's ties with these countries. We could use our good relationships with all concerned to promote greater cooperation and avoid misunderstandings that could cripple our attempts to create global support for Yeltsin's reforms. The Baltics currently are a hot issue in Russia. Yeltsin and other Russian officials have criticized harshly Estonia and Latvia for their refusal to grant full and immediate citizenship to the sizeable ethnic Russian minorities in both countries. You should counsel Yeltsin to demonstrate patience and greater cooperation with the Baltic countries. In return, we are using our influence to convince Estonia and Latvia to recognize Russia's sensitivities.

Russia's relations with Ukraine are complex. Given our clear interest in moving Ukraine towards a non-nuclear future, we must use our influence with the Yeltsin government to convince it to meet Ukraine halfway on issues such as sharing proceeds from the HEU sales to us and early deactivation of nuclear weapons in Ukraine. In addition to Ukraine, you should also mention our hope that Yeltsin will use Russian influence to stop the civil war in Georgia.

We are working with both Russia and Japan to find ways to allow the two to cooperate on economic assistance despite the continuing disagreement over the future of the Northern Territories and the unfortunate misunderstandings and miscommunications that have characterized Yeltsin's relationship with Miyazawa. You should encourage Yeltsin to understand Japanese sensitivities, while promising that we will continue to seek a greater Japanese role in promoting economic aid and expanded trade.

[Finally, you should discuss with Yeltsin his invitation to you to make a State visit to Russia. Given our full agenda with him, you might accept in principle to visit in November while leaving for later the exact dates.]

III. POINTS TO BE MADE

**INTRODUCTORY**

- We have limited time today. I suggest we review outstanding issues from Vancouver, current priority issues such as missile sanctions and the Gore-Chernomyrdin Commission, and key foreign policy concerns.
- Vancouver was a turning point in our relationship. The success of our meeting, and your referendum triumph in April, gave momentum to our new partnership.
- I want to assure we maintain our close ties.

**VANCOUVER ISSUES**

Economic Issues

- Vancouver was a historic meeting because it emphasized the importance of economic issues in our relationship as no other summit had before it.
- Let me review the steps we have taken since Vancouver to respond to some of the issues you raised:

Multilateral Economic Assistance

- We look forward to working with you to assure the success of the Privatization Program and G-7 Office in Moscow -- both agreed here in Tokyo by the G-7.
- The \$1.5 billion disbursement from the IMF for your initial steps toward stabilization is also a good start.
- You will need to move quickly now with the IMF to qualify for additional assistance and to begin negotiations for a Stand-by agreement.
- I urge you to intensify your reform effort to bring inflation down further and continue privatization.
- This will enable you to tap fully the resources of the IMF, World Bank and EBRD.

Bilateral Economic Assistance

- As I mentioned on the phone last week, we are fulfilling the commitments we made to you in Vancouver:
- The \$1.6 billion I pledged at Vancouver is being implemented. We have made available more than 60 percent of the funds, and will obligate all funds by the end of the year.

- The Russian-American Enterprise Fund which will make loans to new businesses is ready to begin, and its Board of Directors has been selected, chaired by Gerry Corrigan.
- We are planning our housing project for your military officers (460 units by summer 1994).
- All of the more than \$900 million in food shipments should arrive this summer.
- The additional \$1.8 billion I have requested from Congress this year, along with \$700 million more for next year, has passed the House and I am confident of approval by the Senate in August.
  - These funds will allow for an expansion of our assistance in housing (5000 units), nuclear power safety (\$100 million) and exchanges (we hope to bring 25,000 Russians to the U.S. during the next two years for training and education).

Cold War Legislation

- In response to your request, I am working with the Congress to eliminate nearly all legislation passed during the Cold War that impedes our economic relationship.
- Congressional leaders have issued a statement of support for this effort.
- I expect to have a bill passed during this session of Congress by the end of the year.

Jackson-Vanik

- We discussed last week your request for full graduation of Russia from the Jackson-Vanik provisions.
- As we agreed, I will recommend to the Congress full graduation once your government has given us assurances that the remaining refusenik cases have been resolved, and you have established a permanent review process for future cases. It would help, in this regard, if you could implement the 1992 emigration law.
- Unfortunately, we believe there are more than the 15 cases you mentioned to me on the phone last week. We believe there are 34 cases.
- I will have Ambassador Pickering follow up with your officials next week.

You should hand Yeltsin our list of refuseniks.

- As soon as we can clear up these cases, I will be prepared to move.

COCOM

- We took very seriously your request to us on COCOM at Vancouver. I issued a statement supporting the transformation of COCOM so that it would no longer be a Cold War institution.
- We have consulted with our COCOM allies on a plan that would lead to removal of many COCOM restrictions against Russia, immediately, while we transform COCOM into a different kind of institution focused on non-proliferation objectives we all share and not on an East-West rationale.
- We are prepared to take near-term action on liberalizing export controls in three areas: computers, machines tools and some telecommunications equipment.
- In the months ahead, we will work with our COCOM partners and with you to transform COCOM. As restrictions are loosened, it will be particularly important that you have effective export controls in place.
- Of course, just as you have some technologies that are too sensitive to transfer to us, we will continue to have some technologies that will remain subject to tight controls even after liberalization takes place.

Highly Enriched Uranium (HEU)

- We discussed the highly enriched uranium deal at Vancouver and our representatives have made great progress since then.
- This deal would earn about \$12 billion for Russia over the next 20 years.
- In addition, it would provide a strong incentive for Ukraine to fulfill its commitments on START and NPT.
- But there is one outstanding issue we need your personal direction to resolve: reimbursement to Ukraine and Kazakhstan for the value of HEU in the weapons on their territory. We should push our negotiators to conclude this deal by August 1.

Nuclear Testing

- I wanted to thank you for the support you have shown for our decision on nuclear testing.

- The upcoming consultations in Moscow will be a very important preparation for Comprehensive Test Ban negotiations.
- You suggested in Vancouver an extension of the moratorium until January 1, 1994. I have also come to the conclusion that an extension of the moratorium was the right way to proceed.
  - My proposal is that it be extended until September 1, 1994.
- The United States will resume tests during this period only if another state does so first.
  - I doubt Britain and France will test.
  - Are your scientists assisting the Chinese test program in any manner?
  - If so, it would be unfortunate if such support contributed to an early end to the moratorium.

#### Submarine Incidents in the Barents Sea

- You asked me to look into this in Vancouver. I ordered a review by our military.
- As Secretary Aspin told Minister Grachev last month, we will alter our practices to avoid such incidents in the future.

#### Nuclear Safety, Security and Dismantlement

- At Vancouver, we announced three new agreements providing \$215 million in U.S. assistance to Russia for dismantling nuclear weapons.
- This is one of the largest single elements of the Vancouver package, but I am afraid that we have not been able to spend these funds so far.
- Your government has not yet been willing to sign these agreements, which is a necessary step before we can begin to provide the funds.
- Since you and I agree that safe and secure dismantlement of nuclear weapons should proceed, I hope that you can move promptly to sign these agreements.
  - In that way, we can quickly finish implementation of the Vancouver package and move forward to our new programs in FY 94.

POW/MIA

- Our joint commission on POW/MIA issues has made solid progress in uncovering the truth about American POWs held in the Soviet Union after World War II, and those Americans killed or captured during the Cold War era.
- I want to keep the Commission going until we have resolved all issues to our mutual satisfaction.
- I do want you to know that we continue to believe that parts of your bureaucracy are resisting our mutual efforts to uncover the truth about our missing servicemen.
- We will provide details on these concerns to General Volkogonov and hope you will give this your personal attention.

Lubavitcher Library

- As you know, I remain committed to a return of the books to its rightful owners in the U.S.
- I would appreciate your efforts to help us achieve this aim.

**CURRENT PRIORITY BILATERAL ISSUES**

Nonproliferation/Missile Sanctions Issue

- At Vancouver, we discussed proliferation threats in such dangerous regimes as Iran and North Korea.
- We remain concerned about Iran and hope you will continue to avoid sales of natural uranium reactors of any size there. These reactors are ideally suited to nuclear weapon production.

Missile Sanctions Dispute

- I was pleased to accept your offer at Vancouver to transfer only hardware but no technology for the Indian space program. We lived up to our part of the bargain by agreeing to a commercial space agreement with your negotiators in May.
- I am therefore deeply disappointed that our negotiators, including my personal emissary Strobe Talbott, were unable to resolve the issue of missile technology transfers to India.
- You must understand that we have no more flexibility, either on time or on the law.

- I fully appreciate the difficulty of your position, and your desire not to appear to break a contract.
- On the other hand, you could explain to India the pre-eminence of international norms, and the greater commercial and technological benefits afforded to nations that respect them.
- But let me be clear: if this issue is not resolved by July 15, the sanctions will become final, and could severely disrupt our plans to afford Russia commercial access to space launches as well as tremendous opportunities for a fruitful partnership in space.
- I am willing to work until the last moment to avert this outcome but, at this stage, I believe only your personal intervention will work.

Gore-Chernomyrdin Commission

- We agreed in Vancouver to accelerate trade and investment, particularly in energy.
- I hope we can reschedule Prime Minister Chernomyrdin's visit for later this month, since he and Vice President Gore can work to facilitate business cooperation in oil and gas, nuclear power safety and space.
- If we cannot resolve the missile sanctions dispute, we would still favor a meeting on energy issues.
- There are a number of American investment deals that would help to send a signal that you and I want our companies to do business.
  - The \$10 billion Sakhalin Island oil venture, which includes the American firms McDermott and Marathon, is the biggest and most important.
  - Texaco also has a major new venture which will require your support.
  - I would appreciate your efforts to help bring this deal to fruition soon. We ought to move forward on them regardless of our disagreement on the missile issue.
  - The U.S. private sector can deliver substantial help to restore your energy sector. But you will need to create a favorable investment climate and enact further reforms to attract them.
- We should also move forward on Space Cooperation if that we can resolve the missile sanctions issue.

- We would like to work with you to develop an interim program of cooperation based on our Shuttle and your MIR I.
- Over the next few months, we would also like to explore longer-term cooperation on the Space Station.

**FOREIGN POLICY ISSUES**

- Nowhere has the partnership and cooperation that we have developed over the last six months been in greater evidence than in foreign policy.
- I want to assure you that we will continue to consult closely on these issues.
- I was particularly grateful for your quick support of our action against Iraq. I know this was controversial in Russia.
- Today, I wanted to review briefly just a few of them.

Russian Troop Withdrawal from Baltics

- We welcome the considerable progress you have made in withdrawing Russian troops from the Baltic countries.
- I know this is not an easy issue for you or your military.
- Many members of Congress, however, are sympathetic to limiting or restricting aid to Russia based on the continued presence of Russian troops in the Baltics.
- I want you to know that Congress has acted to limit the release of our Freedom Support Act funds in October unless a timetable for withdrawal has been established with each of the three Baltic countries.
- More importantly, there is a possibility of an even stronger amendment on the \$1.8 billion package now before the Congress. U.S. aid to Russia could be restricted unless your talks with the Baltic countries yield a timetable for a full withdrawal.
- I know you have concerns about the treatment of ethnic Russians in these states.
- We have conveyed these concerns to the Baltic governments and have supported involvement of the international community, especially the UN and CSCE, in addressing these problems.

- The CSCE has recommended that Estonia's citizenship law be revised. I believe the Estonians will be responsive.
- We are advising Estonia and Latvia to be sensitive to your concerns. I would recommend quiet, constructive diplomacy rather than public threats.
- We are also expanding our commitment to construct housing for returning Russian soldiers from the Baltic countries -- we plan to build 5,000 units in 1994-95.

Ukraine

- I greatly admire the way you and President Kravchuk have defused tensions between Russia and Ukraine.
- We want to see stable, friendly relations between Ukraine and all of its neighbors, especially Russia.
- We share your concerns regarding Ukrainian delays in ratification of START and adherence to NPT.
- We believe Ukraine's security is best achieved through full integration into the international community -- not through nuclear weapons.
- We have outlined to the Ukrainians a relationship -- extending beyond security issues and embracing cooperation in almost all areas -- that can flourish once Ukraine ratifies START and adheres to NPT.
- Secretary Aspin raised with Ukrainian officials the possibility of deactivating missiles in Ukraine and moving the warheads temporarily to secure storage where they could be overseen by Russian, U.S., and Ukrainian monitors.
- Warheads would subsequently be transported to Russia for dismantling and transfer of the highly enriched uranium to the U.S. for conversion and sale.
- The preliminary Ukrainian response to this proposal has been positive.
- We need to move to implement this rapidly since this proposal is a good way to meet the concerns we share about control of nuclear forces in Ukraine.
- Finally, we need to find a way to help counter the argument that the world will ignore Ukraine once the weapons are gone and that Ukraine needs them to preserve its independence and territorial integrity.
- One way to do this would be to extend the Lisbon process by proposing that, once START and NPT have been

ratified by all parties to the Lisbon Protocol, the foreign ministers of the five countries meet and establish a forum for consultations on matters related to the treaties and the security assurances.

### Georgia

- We discussed the situation in Georgia during our Vancouver meeting.
- We are very concerned about the breakdown of the cease-fire between the Shevardnadze government and the Abhaz separatists.
- I urge you to encourage the Abhaz to negotiate with the Georgians and to use Russian influence to end the civil war.
- Shevardnadze remains an important friend of ours in the Caucasus, and we want to help him continue his reform effort there.

### Japan

- I know your relations with Japan are difficult. I would like to be helpful in bridging some of your differences, if possible.
- Japan has been a key player in the G-7 process. Its contributions -- in both financial and leadership terms -- have been critical to the success of G-7 endeavors.
- These steps have been difficult for the Japanese government to take, given the territorial dispute and other strains between the two countries.
- It is important to keep Japan engaged in international efforts to support Russia and the newly independent states.
- I understand, and the Japanese understand, that the political environment in Russia today does not permit you to resolve definitively the question of the disputed islands. But it is nonetheless critical that you and the Japanese agree upon a mutually acceptable formula for continuing a serious dialogue on this issue.
- We stand ready to help in any way you and they think appropriate.
- In order to keep Russo-Japanese relations moving in the right direction, it will be important to get your plans to visit Japan back on track.

{VISIT TO MOSCOW

- In Vancouver, you invited me to visit Russia this year.
- I would be prepared to visit in November if that is convenient for you.
- I would suggest that we announce this in our joint press appearance and have our staffs set the specific dates.}

# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
007. report	U.S. Government Report (2 pages)	06/22/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

### FOLDER TITLE:

POTUS Briefing Books-Economic Summit, Tokyo, Japan, April 6-10, 1993 [2]

2016-0133-M  
kh1774

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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008. report	U.S. Government Report [incomplete duplicate of 007] (1 page)	06/22/1993	P1/b(1)

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## YELTSIN BILATERAL STATEMENT

President Yeltsin and I have just concluded a very productive and successful meeting. We reviewed our common efforts since the Vancouver Summit to build a new partnership between the United States and Russia. We come away pleased with our progress, and determined to press on. There is no foreign policy priority more important to the United States than the success of reform in Russia and the other new independent states.

Since I last met President Yeltsin in Vancouver, the Russian people have voted in an historic referendum to continue their march toward democracy and markets, and have taken bold steps to create a new Constitution. As Russia's leader through these historic times, President Yeltsin deserves great credit for the enormous strides forward his nation has taken. I want to take a moment to say how much I admire his leadership.

But these remain challenging times, and I would not want to underestimate the work needed to consolidate this second Russian revolution. I hope all Russians know that the international community is determined to help their reform movement succeed.

Democratic and market reforms in Russia promise not only to improve life for the Russian people but also to be an important source of security and prosperity for our own people as well. That's why since I took office in January, the United States has acted to turn its promises of support into concrete deeds. At Vancouver, I pledged \$1.6 billion in economic assistance to Russia. We have now obligated over 62 percent of those funds in

just three short months and will obligate all of the funds by the end of this year. We have sent off promised humanitarian food shipments. We have delivered support for Russia's state privatization effort. And loans to create new Russian businesses and jobs will soon be on the way through our Russian-American Enterprise Fund.

After Vancouver, I announced an additional \$1.8 billion in American bilateral assistance to Russia and the other new independent states of the former Soviet Union. I am pleased to report that the House of Representatives has approved this request by an overwhelming margin, with strong support from both political parties. I will work hard this summer to achieve similar support in the Senate as well, and then final approval by the full Congress.

I have also been working with the leadership and members of both parties in Congress to revise or eliminate hundreds of obsolete Cold War restrictions that still impede U.S.-Russian trade, scientific and cultural contacts. I believe we will pass legislation this summer that will accomplish this goal and that will clear the way for a lasting partnership between our peoples.

That partnership is already yielding dividends. Together, we are working to bring peace to the Middle East. Together, we hope to use our combined influence to curb the spread of terrorism and drugs around the world, and to enhance the global environment. Together, we are destroying nuclear weapons and working to stem the specter of nuclear proliferation. There is much to do

together and we are anxious to move forward. [I was therefore pleased to accept President Yeltsin's invitation to me to pay a State visit to Moscow in November.]

Mr. President, based on what we have accomplished together in just six short months, I leave Tokyo today with a sense of hope that our nations can usher in a new era of stability, prosperity and progress. I remember warmly our walk through the woods and our other discussions in Vancouver, in which we agreed to build together a new partnership between the United States and Russia. I know that you are committed to building a better life for your great nation. And I hope you will always remember, Mr. President, that the American people stand with you and the Russian people.



**THE SECRETARY OF COMMERCE**  
Washington, D.C. 20230

July 2, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Ronald H. Brown 

CC: Robert Rubin

SUBJECT: Breaking the Commercial Logjam with Russia

In advance of your meeting with President Yeltsin at the G-7 next week, this memorandum is to update you on U.S. - Russia commercial relations and the current status of the U.S.-Russia Business Development Committee, which I co-chair with Deputy Prime Minister Shokhin.

Your meeting with President Yeltsin next week could be vital to a breakthrough in commercial relations with Russia. In recent weeks there have been some disturbing signs that the Russian government has become less committed to Western business involvement in its economy and has failed to move forward on much needed economic reforms.

The G-7 will provide us an opportunity to demonstrate both the visible moral support and tangible assistance now needed for Russia's transition to a market economy. Your determination that the United States must provide leadership and creative ideas is absolutely right. I am confident that you will be able to establish a mechanism for effective implementation and coordination of multilateral assistance.

President Yeltsin must be convinced that Russia must do more to attract the private investment needed to ensure a growing economy. American companies already lead the West in investment (even though this amounts to only an estimated \$400 million -- one-fifth of U.S. investment in Hungary). However, the Commerce Department has identified more than \$4 billion in investments that U.S. companies are ready to initiate within the next year if Russia improves its investment climate. I have met with many of the CEOs of companies interested in investing in Russia. They relate horror story after horror story of their attempts to do business there.

The low level of foreign investment is a poor "report card" on Russia's economic reform. To reverse this trend, the Russians must establish a banking and legal regime that builds investor confidence. U.S. and other foreign companies will not risk large sums in the absence of such vital underpinnings as reliable business and contract law, property ownership rights, a decisionmaking system to approve deals, stable and predictable taxes and fees, and a convertible currency. To improve the "report card", Russia should be urged to move quickly to: 1) ratify the Bilateral Investment Treaty that

has been approved by the U.S. Senate, and 2) pay off more than \$225 million in arrears owed U.S. companies for goods and services already delivered to Russia. This relatively small sum would yield vast dividends in business confidence and new contracts and investment.

President Yeltsin also should be encouraged to focus on cooperation with the United States in the energy sector. No other sector can provide so quickly a significant payoff in increased hard currency earnings. But only leadership from the top can break the logjam in the Russian energy establishment, overcome the resistance of the bureaucracy and some of the old line oil field generals and enable projects to be implemented and begin earning revenue. In refining alone, by upgrading Russian facilities to U.S. levels, American companies could increase Russian export earnings by \$3.6 billion without requiring any increase in extraction of Russian oil. Similar gains are possible across the full spectrum of oil and gas operations.

Two initiatives already have been offered to Russia that could produce immediate results: (1) implementation of the Eximbank Oil and Gas Framework Agreement which would support financing of as much as \$2 billion in oil and gas equipment and services for Russia; and (2) an Eximbank Project Incentive Agreement which would enable financing for business deals without requiring the Russian government to provide sovereign guarantees. Neither has been accepted by the Russian Government.

Additionally, Russia can gain immediate benefits by facilitating initial major projects for which the groundwork has been laid, but which are held up by a lack of decisionmaking. For example, Prime Minister Chernomyrdin met early in June with the American, Japanese and Dutch partners in the \$10 billion Sakhalin project and promised to name the Russian negotiating partner required to complete the project agreement. However, the companies have as yet to receive a sign that anything is happening.

The bilateral U.S.-Russia Business Development Committee, which Deputy Prime Minister Shokhin and I initiated by executive session in April, is the key governmental mechanism to build improved conditions for business. More importantly, the Committee is ready to accelerate its work. I have given Mr. Shokhin documents on 6 projects that could get investment moving in several sectors, while our Oil and Gas Group put on a conference with 40 Russian oil and gas executives in Houston in May and, at the request of our Russian counterparts, is planning a conference on comparative tax systems. Our Defense Conversion Subcommittee is already providing hundreds of U.S. firms information on potential business partners in Russia and is ready to begin work with the Russian government.

What we need is the commitment, with appropriate decision and action, from the top of the Russian government that it wants U.S. investment and that it is ready to take reasonable steps to make its investment climate more attractive. I plan to go to Russia later this year with a delegation of U.S. business leaders for a meeting of the U.S.-Russia Business Development Committee, which I am confident can help us reach our goal of expanded U.S. commercial ties and investment.

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# Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
<del>001. paper</del>	<del>The Georgian Abkhazian Conflict (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>002. paper</del>	<del>Regional Conflicts in the Former Soviet Union (2 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>003. paper</del>	<del>Meeting with Canadian Prime Minister Kim Campbell (6 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
004. report	U.S. Government Report (2 pages)	06/22/1993	P1/b(1)
005. report	U.S. Government Report [incomplete duplicate of 004] (1 page)	06/22/1993	P1/b(1)
<del>006. paper</del>	<del>Meeting with Italian Prime Minister Carlo Azeglio Ciampi (6 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
007. report	U.S. Government Report (2 pages)	05/17/1993	P1/b(1)
008. report	U.S. Government Report [incomplete duplicate of 007] (1 page)	05/17/1993	P1/b(1)
<del>009. paper</del>	<del>Meeting with British Prime Minister John Major (3 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
010. report	U.S. Government Report (2 pages)	06/22/1993	P1/b(1)
011. report	U.S. Government Report [incomplete duplicate of 010] (1 page)	06/22/1993	P1/b(1)
<del>012. paper</del>	<del>Meeting with French President Francois Mitterrand (3 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
013. report	U.S. Government Report (2 pages) <i>Partial release - KBH 9/3/2017</i>	06/18/1993	P1/b(1)

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2016-0133-M

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**RESTRICTION CODES**

Presidential Records Act - [44 U.S.C. 2204(a)]

Freedom of Information Act - [5 U.S.C. 552(b)]

- P1 National Security Classified Information [(a)(1) of the PRA]
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- RR. Document will be reviewed upon request.

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014. report	U.S. Government Report [incomplete duplicate of 013] (1 page) <i>Partial release - KBH 9/8/2017</i>	06/18/1993	P1/b(1)
<del>015. paper</del>	<del>Meeting with German Chancellor Helmut Kohl (2 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1)</del> <i>KBH 4/30/2020</i>
016. report	U.S. Government Report (2 pages)	06/22/1993	P1/b(1)
017. report	U.S. Government Report [incomplete duplicate of 016] (1 page)	06/22/1993	P1/b(1)
018. report	Biography (2 pages)	06/21/1993	P1/b(1)
019. report	Biography [incomplete duplicate of 018] (1 page)	06/21/1993	P1/b(1)
020. report	Biography (2 pages)	06/02/1993	P1/b(1)
021. report	Biography [incomplete duplicate of 020] (1 page)	06/02/1993	P1/b(1)
022. report	Biography (2 pages) <i>Partial release - KBH 9/8/2017</i>	06/01/1993	P1/b(1)
023. report	Biography [incomplete duplicate of 022] (1 page) <i>Partial release - KBH 9/8/2017</i>	06/01/1993	P1/b(1)
024. report	Biography (2 pages)	04/06/1993	P1/b(1)
025. report	Biography [incomplete duplicate of 024] (1 page)	04/06/1993	P1/b(1)
026. report	Biography (2 pages)	06/10/1993	P1/b(1)

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
027. report	Biography [incomplete duplicate of 026] (1 page)	06/10/1993	P1/b(1)
028. report	Biography (2 pages)	06/22/1993	P1/b(1)
029. report	Biography [incomplete duplicate of 028] (1 page)	06/22/1993	P1/b(1)

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Fact Sheets on Russian Issues

U.S. Assistance to Russia

Status of G-7 Multilateral Support Package for Russia

Nuclear Safety, Security and Dismantlement

Highly-Enriched Uranium Negotiations

COCOM

U.S. Russian Cooperative Space Station Activities

Review of Cold War Legislation and Regulations

Baltic-Russian Relations

The Georgian-Abkhazian Conflict

Regional Conflicts in the Former Soviet Union

## Implementation of Vancouver Initiatives

At the Vancouver Summit, The U.S. announced a \$1.6 billion package of assistance for Russia for FY 1993.

### Progress on Obligations

To date, the United States has obligated over 62 percent of the Vancouver assistance package, i.e., just over \$1 billion of planned programs are under full implementation. (Obligations are based on formal contracts, grants, or cooperative agreements signed between the U.S. Government and the Russian Government, U.S. firms, nongovernmental organizations, or universities.)

### Highlights of Program Obligations

- Grant Food Aid and Concessional Food Sales: The agreements for grant food aid and the \$700 million Food for Progress credit sales have been signed. Under the \$194 million Grant Food Aid initiative, additional agreements between governments and with private voluntary organizations totaling \$73.7 million have been signed. Contracts for grant food aid for mothers and children also are signed and actual delivery of commodities begins July 1.
- Medical Partnerships: Of three additional planned partnerships, one has been signed for Vladivostok and another signed for Stavropol. The third agreement with the Moscow Medical Center will be signed in July.
- Privatization: A.I.D. is providing technical assistance for the implementation of the Russian Government's National Voucher Auction Program, which is privatizing 500 medium- and large-scale enterprises each month. In addition, A.I.D. contractors are assisting in the privatization of small retail shops in the transport, wholesale, and distribution sectors.
- Bankers Training: U.S.-based training for 240 Russian bankers began June 20, with eight weeks of hands-on training involving 116 U.S. banks across the country.
- Eurasia Foundation: Since mid-May when the grant agreement was signed with A.I.D., the Eurasia Foundation has awarded five grants in the areas of management training and democratic institution-building.
- Farmer-to-Farmer Program: In response to specific requests, 218 volunteers have been placed in Russia. They have completed assignments in areas such as food production, processing, wholesaling, and distribution.

- Democracy Summer (Exchanges): The United States Information Agency (USIA) has completed recruitment of candidates for its high school exchange programs: 350 Russians will participate in four- to six-week programs, and 617 will study in American high schools for a full academic year. Selection of candidates for the university programs has also been completed: 200 graduate students will enroll in one- and two-year graduate programs, and 450 undergraduate students will begin one-year programs in U.S. universities this fall.
- Environmental Non-Governmental Consortium: A.I.D. awarded a cooperative agreement in May to ISAR to administer a non-governmental organization small grants fund. This program is being expanded to bring in Russian NGO consortium partners.
- Trade and Development Agency Grants: Grant agreements totaling the \$3.8 million contained in the Vancouver package were signed with seven Russian organizations and several feasibility studies already are underway.
- Eximbank Loan: Eximbank completed an \$82 million loan to finance the sale of Caterpillar pipeline construction machinery for Gazprom. The equipment will be used on construction of a gas pipeline in the Yarnal Peninsula region of Russia.
- OPIC Guarantees: The \$50 million loan guarantee supporting Conoco's Polar Lights project was signed in Moscow on May 25.

## U.S. Assistance to Russia and the Other Newly Independent States

Vancouver Initiatives. At the Vancouver summit, the U.S. announced a \$1.6 billion package of assistance for Russia for FY93. The package represents monies that had already been authorized as well as new monies for concessional food sales. To date, the United States has obligated over 62% of the assistance package.

- The Vancouver package includes \$690 million in grant technical and humanitarian assistance, \$700 million in concessional food sales and \$230 million in other credits.
- The package was designed to support Russia's most important economic priorities: immediate humanitarian food and medical assistance, help in promoting the private sector and in restructuring the Russian economy, and support for trade and investment.

Tokyo Assistance Package. During the G-7 meeting of Foreign and Finance Ministers in Tokyo, the U.S. announced an additional \$1.8 billion bilateral package for Russia and the other newly independent states (NIS). The House of Representatives has approved the Administration's request, with consideration now in the Senate. The package includes:

- Up to \$655 million for private sector development, including \$500 million in a U.S. challenge grant for a multilateral Special Privatization and Restructuring Program that would support the privatization of state enterprises in Russia. The U.S. contribution for the start-up phase of the program is likely to be \$125 million.
- \$500 million in grant bilateral technical assistance focusing on key areas of democracy support and exchanges (\$220 million), housing (\$165 million) and energy and environment (\$125 million).
- \$270 million in export and investment grants and credits (leveraging over \$1 billion).
- \$75 million in humanitarian assistance consisting of emergency medicines and medical supplies.
- \$300 million for grant bilateral assistance to the NIS.

FY94 Regular Request. In addition to the Tokyo package, the Administration has asked Congress for \$704 million in FY94 funding to support humanitarian and technical assistance programs in all twelve states of the NIS and \$400 million FY94 funding to support denuclearization programs. This latter amount is in addition to the \$800 million appropriated for these programs in FY92 and FY93.

Combined with the Tokyo package, the Administration has asked for a total of \$2.9 billion in supplemental FY93 and regular FY94 funding for Russia and the other newly independent states.

U.S.-RUSSIA EXPANDED COOPERATION  
(\$ Millions)

	<u>Vancouver Initiatives</u>	<u>Tokyo Package</u>
Private Sector Development	148	655 (a)
Trade and Investment	243	270 (b)
Democracy Corps Initiative	48	220
Support for Troop Withdrawal	6	165
Energy and Environment	38	125 (b)
Humanitarian	925	75
Security Assistance (c)	215	0
<b>TOTAL RUSSIA SUPPORT</b>	<b>1,622</b>	<b>1,510</b>
Other NIS	0	300
<b>TOTAL VANCOUVER &amp; TOKYO PACKAGE REQUEST</b>	<b>1,622</b>	<b>1,810</b>
FY94 Regular Request		704
Additional FY94 Nunn-Lugar Request		400
<b>TOTAL FY94 ADMINISTRATION REQUEST FOR NIS SUPPORT</b>		<b>2,914</b>

(a) Total includes up to \$500 million for G-7 Special Privatization and Restructuring Program. The U.S. contribution for the start-up phase of the Program is likely to be \$125 million.

(b) Trade and investment total includes financing for energy and environment commodities and equipment.

(c) Assistance for nuclear weapons safety, security, and dismantlement.

Status of G-7 Multilateral Support Package for Russia  
As of June 30, 1993

	<u>Planned</u>	<u>Approved</u>
I. <u>Initial Stabilization Support</u>	<u>\$4.1 billion</u>	<u>\$2.0 billion</u>
<b>IMF Systemic Transformation Facility (STF)</b>	<b>\$3.0 billion</b>	<b>\$1.5 billion</b>

In response to U.S. encouragement to help Russian reform, the IMF created the STF to provide early support for stabilization in the transforming countries and to serve as a bridge to a full stabilization program. Now, Russia has taken key policy steps to earn \$1.5 billion from the STF (the IMF Board approved the disbursement on June 30). These steps include Russian efforts to rein in the fiscal deficit, including sequestration of spending and slashing import, coal, and grain subsidies. Also included are controls on the growth in credit and an increase in the central bank's interest rate toward positive real levels. This \$1.5 billion under the STF will provide Russia with new money that will help underscore the commitment of major countries to support President Yeltsin and Russian reform.

<b>World Bank Import Rehabilitation Loan</b>	<b>\$1.1 billion</b>	<b>\$0.5 billion</b>
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Last year, the World Bank approved a \$600 million import rehabilitation loan for Russia to provide hard currency for essential imports. By the April 1993 G-7 Ministerial, however, disbursements under this loan totalled only \$100 million. At Tokyo, the U.S. urged the Bank to accelerate the use of this loan and to prepare a second import rehabilitation loan. The Bank has now obligated the full amount of the first loan and disbursed half, with the remainder to be disbursed by the end of the year. In addition, the Bank has advanced negotiations on the second \$600 million import rehabilitation loan and expects to complete negotiations this Summer.

II. <u>Support for Full Stabilization Program</u>	<u>\$10.1 billion</u>	<u>\$0</u>
<b>IMF Standby Loan</b>	<b>\$4.1 billion</b>	<b>\$0</b>

The Tokyo multilateral support package envisaged that with the support of the STF, Russia would move towards putting in place a full economic stabilization program. This program would be supported by an IMF Standby loan. Now that Russia has taken its initial steps towards stabilization and received IMF support in the form of the STF, it should be possible for Russia to intensify its stabilization effort. At U.S. urging, the Tokyo summit communique notes that Russia and the IMF should now commence prompt negotiations on the standby arrangement.

**IMF Currency Stabilization Fund      \$6.0 billion      \$0**

Last year, major creditor countries agreed, in response to a request from President Yeltsin, to establish a \$6.0 billion currency stabilization fund to support the external objectives of Russia's reform program and promote confidence in it. Work on designing the fund was completed, however, the fund was not activated due to inadequate Russian policies. At the Tokyo G-7 Ministerial, it was agreed that the stabilization fund would be reactivated, when Russia had shown its ability to implement a tough standby program for several months.

III. Support for Structural Reforms and Essential Imports      \$14.3 billion      \$1.07 billion

**World Bank Sectoral Loan Commitments      \$3.4 billion      \$0.61 billion**

At Tokyo, the U.S. urged the World Bank to develop an accelerated lending pipeline for Russia that would provide financing for Russian sectoral reform, especially for energy, agriculture, private sector development and infrastructure. To date, the World Bank has approved a \$610 million oil rehabilitation loan (increased from \$500 million). The World Bank has also incorporated its enterprise reform and social safety net loans (\$500 million each) into the Special Privatization and Restructuring Program. Additional World Bank Board approvals of loans are expected beginning this fall.

**Co-financing of World Bank Oil Sector Loan      \$0.5 billion      \$0.42 billion**

The EBRD Board has approved \$250 million co-financing for the World Bank oil rehabilitation loan. Russian oil producer associations will contribute another \$170 million.

**EBRD Small and Medium Enterprise Fund      \$0.3 billion      \$0**

Responding to a request from Deputy Prime Minister Fedorov, the United States proposed and secured G-7 approval for this initiative, intended to complement our own Russian-American Enterprise Fund and our proposal for a multilateral privatization and restructuring program. Under this initiative, G-7 countries and the EBRD each will provide \$150 million in order to provide small loans of \$1 - \$30,000 for emerging entrepreneurs who otherwise would have no recourse to financing under the Russian financial system. This initiative, therefore, will support private sector development in Russia by demonstrating that such enterprises can succeed and will provide jobs and better services. The negotiations on the Small and Medium Enterprise

Fund are nearing completion. We expect summit endorsement of the fund and commitments from G-7. The EBRD will seek Board approval for the first phase of this program July 26.

**Export Credit Agency Credits  
and Guarantees**

**\$10.0 billion    \$0.4 billion**

G-7 export credit agencies (ECAs) are a major provider of support for Russian reform. Thus, at Tokyo it was agreed that ECAs could provide credits and guarantees for viable projects in the range of \$10 billion and that these programs should be better coordinated to support Russian reform. The United States is doing its part. The U.S. Export-Import Bank has negotiated a \$2 billion framework for lending to the oil and gas sector. This framework is slated for final signature in July. Exim also has made \$44 million in approvals since April.

IV. Official Debt Rescheduling      \$15 billion      \$15 billion

In April, Russia's official creditors reached agreement on a debt rescheduling that would afford Russia \$15 billion in relief from payments otherwise due in 1993. The United States and Russia have begun discussions on a bilateral agreement to implement our portion of the debt rescheduling agreement.

TOTAL

\$43.5 BILLION    \$18.07 BILLION

## Nuclear Safety, Security and Dismantlement

The United States has committed more than \$400 million in Nunn-Lugar funds to assist the nuclear dismantlement effort in Russia.

The largest portion of this, \$215 million, is planned for three projects:

- \$130 million for strategic nuclear delivery vehicle dismantlement,
- 75 million for assistance in constructing a nuclear materials storage facility,
- \$10 million for control of fissile materials.

Agreements to implement these projects were concluded just prior to the Vancouver summit, but the Russian government has as yet been unwilling to sign them.

- The delay has been blamed on the need to review the agreements in Moscow and consult the Russian legislature.
- The current Russian legislature has sometimes been hostile to dismantlment assistance.

Comments on the agreements have recently been received from the Russian side. With this impetus and added impetus from the U.S. side, we hope to make rapid progress to conclude them.

Implementation of existing agreements has moved forward.

- By June 15, the U.S. had completed delivery of 2520 protective armored blankets.
- The program to deliver emergency response equipment is on track, and should be completed by March 1994.
- We delivered 10 prototype fissile material storage and transportation containers to Russia in April. The target date to complete delivery of the first 10,000 containers is December 1995.
- U.S. participation in the design of the nuclear material storage facility continues and should be completed in December 1993.
- We have completed a number of technical exchanges to determine cooperative programs for safety and security enhancements to guard and cargo railcars for moving nuclear weapons.

## Highly-Enriched Uranium Negotiations

The United States and Russia are now close to completion of a series of agreements on the conversion and sale of highly-enriched uranium removed from nuclear weapons. These agreement will have major financial and non-proliferation benefits for both our nations, and will open the way for the transfer of nuclear weapons located in Ukraine to Russia for dismantling and sale of the nuclear materials.

**HEU Contract.** The text of an HEU contract is complete and is being reviewed in Moscow. The contract provides for:

- conversion of 500 metric tons of HEU removed from nuclear weapons into commercial reactor fuel,
- transfer to the United States for sale to customers we have under long-term contract,
- and return to Russia of approximately \$12 billion over 20 years.

**Transparency Agreement.** The text of a transparency agreement is also complete and is being reviewed in Moscow. This agreement provides for measures to assure both sides that the material transferred to the U.S. is derived from HEU removed from nuclear weapons and is used for peaceful purposes only.

**Agreement to Reimburse Ukraine.** On June 7 the United States provided to Russia a draft text of an agreement between the U.S., Russia and Ukraine to resolve the question of reimbursement to Ukraine for the value of the HEU in the nuclear weapons on the territory of Ukraine. We are awaiting a concrete response from Russia to this draft. The U.S. will then raise this issue with Ukraine.

Once agreement is reached on the question of reimbursement for Ukraine and Kazakhstan for the value of the HEU in nuclear weapons on their territory, we will be prepared to sign the HEU contract and transparency agreement and to implement them promptly.

## COCOM

COCOM, the Coordinating Committee for Multilateral Export Controls, is an informal organization of seventeen nations (NATO minus Iceland, plus Australia and Japan) that was established in the early 1950s to prevent the transfer of militarily significant technology to the Warsaw Pact. COCOM controls items on three lists, covering nuclear technology, conventional arms, and dual-use industrial items (e.g., computers, machine tools, telecommunications). Over the past forty years, COCOM controls have also been used to control sensitive exports to countries in sensitive regions outside the Warsaw Pact, such as South Asia and the Middle East.

The end of the Cold War has eroded the East-West division that provided COCOM with its ideological underpinnings. To respond to these changes, as well as the increasing availability of COCOM-controlled technologies from non-COCOM partners, in 1990 COCOM undertook an overhaul of its control lists. The result of this "Core List" exercise was to reduce the items subject to COCOM controls by two-thirds.

Even that reduction of controls has failed to keep pace with the rapid transformation of East-West relations, as democratization and economic reform sweep through Eastern Europe and the newly independent states. By the time of the Vancouver meeting, President Yeltsin, the U.S. Congress, and many COCOM partners all sought further reduction of COCOM controls. Your statement of April 23, calling for the transformation of COCOM, captured these sentiments and seized the initiative to shape the future of this system of export controls.

In response to your statement, the interagency process has developed a plan that would transform COCOM to address new strategic concerns, such as proliferation, while preserving such COCOM assets as a secretariat in Paris, extensive lists of sensitive items and common rules of enforcement. While the outcome of consultations recently begun with our allies is still uncertain, some elements of a transformed COCOM can already be traced:

- A transformed COCOM will direct its efforts away from targeting countries on the basis of ideology (such as the former Soviet Union) and toward threats from controlled items reaching dangerous end users, wherever they are.
- Once they satisfy conditions of membership -- including effective export controls and adherence to nonproliferation regimes -- we expect to invite Russia and other emerging democracies to join a new regime based on a goal of stopping the sale of dangerous technologies to entities of concern.
- COCOM operates by consensus of its seventeen constituent governments; we therefore need to work closely with others in developing our ideas for its transformation.
- In the interim, we are also proposing immediate decontrol action by COCOM on certain technologies such as machine tools, computers and some telecommunications equipment, with a view to helping Russian economic and democratic reform along with American competitiveness.

## U.S.-Russian Cooperative Space Station Activities

The Advisory Committee on the Redesign of the Space Station (Dr. Vest's Committee) has provided their assessment of NASA's redesign activities. A selection has been made of one of the redesign options, the modular design referred to as Option A. NASA has initiated a transition to the new station. This transition will be completed by September 1993. The House of Representatives has had two votes, one on the NASA authorization bill and, most recently, a vote on the NASA appropriation bill. Both endorsed the redesigned station.

There are benefits to both countries if the redesigned station is undertaken as a truly international space station with full Russian participation. Discussions have been held with the Russian Space Agency outlining a possible cooperative program. The program would include interim activities involving the space shuttle flying missions to the present Russian MIR station. These missions would allow the U.S. and Russia to accomplish meaningful science and technology activities. They would also involve using the space shuttle to enhance MIR's performance and capabilities, as well as help extend its useful orbital lifetime.

The Russians have written and proposed a draft joint statement providing for a study on the feasibility of a cooperative human space flight program, to be completed by August 20, 1993. This would allow the study results to be considered in the transition to a redesigned station.

Discussions also have been held with the Russians on the possible funding of Russia for the interim program involving the shuttle and the MIR.

The funding for this effort is projected to be approximately \$400 million over a four-year period. The initial funding could start as early as August or September of this year with subsequent funding on the order of \$100 million per year (with the \$400 million funding modified as needed to support the schedule for the planned missions). The U.S. would obtain the use of MIR during this interim and Russia would benefit through the availability of the space shuttle to assist MIR refurbishment and operations. The redesigned space station could in a similar fashion, make use of Russian systems and capabilities. The Soyuz spacecraft would be modified to extend its lifetime. Other systems could be procured to support the redesigned space station. Where appropriate, we will consult with our current international partners regarding these Russian systems and capabilities.

This total effort could be further defined in consultation with the Russians and an overall plan developed in early July, supporting funding as early as August of this year.

A cooperative program could result in cost savings to the U.S. -- such savings would be identified during the course of this summer's study.

## Review of Cold War Legislation and Regulations

At the Vancouver summit, President Clinton and President Yeltsin discussed the desirability of reviewing and updating U.S. laws and regulations to reflect the end of the Cold War era and the new partnership between the U.S. and Russia. On April 23, the President ordered an Executive review of the laws and statutes that may affect our relations with Russia and the other independent states of the former Soviet Union, as well as laws still affecting Eastern Europe.

Following an interagency review led by the NSC, we have presented our initial recommendations to Congress and are preparing draft legislation. We will present the legislation as soon as possible to ensure passage this Congressional term. In tandem with legislative revisions, each agency is reviewing and will be tasked to revise its implementing regulations. A separate review of COCOM legislation also is underway.

The Freedom Support Act conducted a similar review of legislation focusing on provisions which blocked U.S. government assistance to the then-Soviet Union. For example, it removed the Soviet Union from a list of "Marxist-Leninist countries" which were prohibited from receiving Exim Bank loans.

The current review will affect over 60 legislative provisions and numerous agency regulations. Recommended legislative changes generally fall into three categories: (1) to reflect the breakup of the Soviet Union -- in some cases simply replacing the phrase "USSR" with "the independent states of the former Soviet Union"; (2) to eliminate onerous language or whole statutes that reflect an adversarial relationship with the Soviet Union and Eastern Europe; or (3) to remove applicability to Russia and the newly independent states of laws related to communist states -- these laws will continue to apply to Cuba and other communist states. Many laws referring to the USSR in an historical context will not be removed if they do not have negative political connotations or current operational effect (for example, legislation which cites the Soviet occupation of the Baltic states).

President Yeltsin specifically asked that the President remove Russia from Jackson-Vanik provisions. Russia's MFN eligibility is now contingent upon annual waivers of the Jackson-Vanik amendment which certify its compliance with free emigration requirements. Graduating Russia from Jackson-Vanik would not provide any tangible economic benefit to Russia but would be an important symbolic gesture.

Nonetheless, because of our continuing concerns about Russia's emigration practices and opposition to graduation from all major Jewish groups and many members of Congress, consultations with Congress on this issue will proceed on a separate track. As a first step, we will give Yeltsin in Tokyo an Administration list of refuseniks. We will then work with the Russian government to resolve as many cases as possible and institute an adequate emigration regime. We can better assess our options for changing Russia's Jackson-Vanik status at that time.

## Baltic-Russian Relations

Russian denunciations of Estonian and Latvia minority policies have increased sharply over the past month. Although troop withdrawals from the region continue, negotiations with Estonia and Latvia remain deadlocked. Russian-Lithuanian relations have proceeded more smoothly, and Moscow is adhering to the 31 August 1993 troop withdrawal timetable, but differences over compensation issues and military transit rights have hindered efforts to negotiate an overall political accord.

**Estonia.** Yeltsin's threat to use "all necessary measures" to protect ethnic Russians from Tallinn's proposed alien registration law marks the most serious crisis so far in Moscow's tense relations with Estonia. Highly emotional rhetoric from senior Russian officials reflects their belief that the international community has not pressed Estonia hard enough on human rights issues and that Estonia views continued withdrawals in the absence of a formal agreement as a sign of Russian weakness.

- Moscow opposes the use of political criteria that could be used to deny a residence permit, such as those that would exclude members of the Russian military who retired in the Baltics after the August 1991 coup or former KGB employees. Particularly objectionable to Moscow are the open-ended provisions allowing residency permits to be revoked if the alien "compromises Estonia's national interest."
- Russia's harsh response also underscores Yeltsin's fear that withdrawal talks will not result in agreed timetables by this fall, potentially affecting U.S. aid to Russia. Moscow may hope that highlighting Estonian human rights "violations" will demonstrate that Russia is not responsible for the deadlock.
- Estonian President Meri is looking for a way to avoid a confrontation with Russia. He has deferred approval of the alien registration law pending review by the Council of Europe and the CSCE. He also sent a letter to Yeltsin which was conciliatory in tone and urged dialogue to resolve the dispute.

**Latvia.** Russia has offered to withdraw from Latvia by the end of 1994 but seek access to the Skrunda radar site, Ventspils SIGINT facility and the port of Liepaja for several years. Latvia believes establishment of a pullout timetable should precede consideration of social guarantees for servicemen, and rejects linkage of human rights issues to troop withdrawal negotiations.

- While the new moderate nationalist parliament in Riga has yet to create a government to formulate its Russian policy, we expect that once named it will continue its predecessor's hardline stance on relations with Moscow and toward ethnic Russians. Negotiations with Russia could be delayed because a new negotiating team has not yet been selected.

- One of the first priorities of the new government will be to pass a citizenship law and to develop a long-term strategy for dealing with its large Russian community. Riga will probably pass the same alien registration law that Estonia adopts to avoid a repeat of the controversy with Russia.

**Lithuania.** Russia has proposed a summit with Lithuanian President Brazauskas in an effort to break the deadlock in relations and demonstrate its goodwill, but no date has been set. Moscow also hopes to use any progress at a summit as a means to encourage Estonia and Latvia to compromise on outstanding issues.

- Vilnius is taking a somewhat conciliatory approach to Moscow, in large part because it is not saddled with ethnic minority problems -- ethnic Russians make up only 10 percent of the population, in contrast to 34 percent in Latvia and 30 percent in Estonia.
- President Brazauskas and Foreign Minister Gylys have made improved ties to Russia one of their top priorities and have remained quiet over the latest tensions in Estonian-Russian relations, probably fearing that publicly agreeing with one side would damage relations with the other.

The Georgian-Abkhazian Conflict

Since August 1992, the Georgian government has been embroiled in a conflict with its breakaway autonomous republic Abkhazia. Although the Russians and Georgians agreed to a ceasefire arrangement in Abkhazia after the Yeltsin-Shevardnadze May 14 summit, it did not hold and the conflict worsened.

- The Georgians have offered to negotiate with the Abkhaz and have not revoked Abkhazia's autonomous status.
- The Abkhaz refuse to negotiate and insist on independence. The Abkhaz have been able to continue pressing for independence largely because of Russian support.
- The Russians have given the Abkhaz only enough support to continue the conflict but not win it. Russia opposes Abkhaz independence because Russia would lose part of its territory to an independent Abkhazia. As a result, Russian-Abkhaz relations are not always smooth.

The Russian objective appears to be continued destabilization of the region to prevent Georgia from pursuing a more independent stance in its domestic and foreign affairs. Russia is particularly concerned about recent Georgian-Ukrainian discussions on relations with Russia. To accomplish its objective, Russia has:

- provided arms and military support to the Abkhaz movement
- cut off all rail lines between Russia and Georgia
- blocked natural gas deliveries to Georgia
- imposed a trade embargo on Georgia.

Russia has floated the idea of using Russian peacekeepers in the region allegedly to stabilize the situation. Russia's collusion with the Abkhaz obviously make Russian peacekeepers unacceptable to the Georgians unless the Russians were under international command and control.

The goal of U.S. policy in the region is to convince Russia:

- to stop fomenting instability in Georgia
- to negotiate in good faith with the Georgians
- to encourage the Abkhaz to negotiate
- to avoid the use of Russian peacekeepers

Regional Conflicts in the Former Soviet Union

General:

- Ethnic conflicts in Georgia and Moldova, civil war in Tajikistan, and the continuing war over Nagorno-Karabakh (Azerbaijan) provide political ammunition for Yeltsin's opponents, who claim the President has failed to safeguard Russian security interests along its borders and the well-being of ethnic Russians in neighboring states.
- Russia has asked for our support for use of CIS peacekeeping operations in the former Soviet Union and proposes the creation of a voluntary UN fund to support such actions. We have discussed these proposals with the Russians, stressing that CIS peacekeeping forces must be welcomed by all parties to a conflict and receive an international (UN, CSCE) mandate.

Georgia:

- An effort by South Ossetia, a region of northern Georgia, to leave Georgia and unite with North Ossetia in Russia ignited a conflict between Georgians and Ossetians. The conflict created thousands of casualties and sent tens of thousands of refugees fleeing to North Ossetia before a 1992 ceasefire.
- In June 1992 Russia and Georgia signed an agreement recognizing each other's territorial integrity, providing for a joint Russian-Georgian-Ossetian peacemaking force, and calling for a political resolution of South Ossetia's political status.
- The peacemaking force was deployed in July 1992 and has succeeded in curbing much of the violence. Little progress has been made, however, in reaching a political solution.

Moldova:

- Following Moldovan independence, ethnic Russians in Trans-Dniester (eastern Moldova) attempted to set up an independent republic, claiming a need for cultural, economic and physical protection from the Moldovan (ethnic Romanian) government and asserting the right to remain separate should Moldova unite with Romania. The Russian 14th Army, which is based in Trans-Dniester, supports the separatists.
- A ceasefire concluded last year between Moldovan and Transdnistrian officials has -- with the help of Russian peacekeeping troops (not part of the Russian 14th Army) -- ended the fighting. The Russian 14th Army, however, exacerbates tensions, bolsters the separatists, and hampers efforts to reach a political settlement.

- We have no evidence of Moldovan mistreatment of ethnic Russians and are pressing Russia to withdraw the 14th Army from the region. Yeltsin has agreed to this in principle but is linking withdrawal to a political settlement granting Trans-Dniester broad autonomy within Moldova.

Tajikistan

- The Russian and Uzbek-backed Rakhmanov government replaced a Democratic-Islamic regime in November 1992 in a bloody struggle, which involved Russian troops. All parties involved in the civil war have committed human rights abuses and atrocities.
- UN Special Envoy Kittani's mission to negotiate a sharing of political power and economic assets among rival clans is expected to propose a UN peacekeeping force in July.
- The Russians reportedly support UN peacekeeping, hoping that internationalizing the CIS forces will help stabilize the situation on the Afghan-Tajik border.

Nagorno-Karabakh

- Ethnic Armenians in the Nagorno-Karabakh region of Azerbaijan claim the right to independence from Azerbaijan and for the past five years have been fighting Azerbaijani forces. Armenia has provided the Nagorno-Karabakh Armenians with diplomatic, military, and substantial economic support.
- We have been active in the CSCE-sponsored Minsk Group's efforts to find a negotiated resolution. All sides recently accepted a proposal for a ceasefire, partial withdrawal of forces, lifting of blockades, and inauguration of a negotiating process leading to a political resolution of the dispute. Implementation of the proposal has been delayed by armed insurgency and the toppling of the democratically elected government in Azerbaijan.
- Russia generally has cooperated with our attempts to move the CSCE peace process forward, though Moscow has recently attempted to increase its own role in the process and diminish that of Turkey. We continue to encourage Moscow to lend its active support to the CSCE-sponsored peace process.

MEETING WITH  
PM CAMPBELL

MEETING WITH  
CANADIAN PRIME MINISTER KIM CAMPBELL

DECLASSIFIED  
FER E.O. 13526

2014-0133-7 (1.14)  
KBH 1/14/2020

I. PURPOSE

Demonstrate your commitment to maintaining an effective, close partnership with Canada.

KEY POINTS

- Reaffirm your commitment to NAFTA and to securing side agreements on worker protection, the environment and effective enforcement provisions in order to obtain Congressional approval.
- Stress that your Administration's decision to target Canada's wheat export market to Mexico under our EEP program was taken after intense review, and suggest greater bilateral consultations on the issue.
- Highlight the need for continued progress on market access, with the goal of bringing the Uruguay Round to a successful conclusion by December.
- Emphasize your commitment to support President Yeltsin's reform efforts.
- Outline your views on next steps in Bosnia while reaffirming your commitment to protect Canadian forces in UNPROFOR.
- Make clear your determination to use the NATO Summit to adapt the Alliance to new security challenges in Europe.
- Underscore our desire to work closely with Canada in support of UN/OAS efforts to restore democracy to Haiti.

II. BACKGROUND

Your key objective in your meeting with Campbell is to demonstrate your willingness to continue a close partnership with Canada. Campbell's key objective is more complex: to demonstrate that she can gain Washington's attention to Canada's concerns, and to defend Canadian interests. The latter goal is difficult to define, but will become the key focal point in the post-Mulroney era: many Canadians believe that Mulroney did not stand up to the U.S. to "protect Canada." This belief can be traced back to two statements Mulroney made when he entered office in 1984: that Canada was open for business, and that it would give the United States the benefit of the doubt in foreign affairs; controversial statements in a country whose ethos often

equates agreement with the U.S. as tantamount to surrendering Canadian sovereignty. Thus, with Campbell forced to go to the polls this fall, she will attempt to change the style of Mulroney's politics without changing the substance of his policies. In particular, she will press for White House oversight of the trade relationship to ensure that Canada gets a fair hearing at the top levels of your Administration. By contrast, the opposition Liberal Party has pledged to entomb what they have called Mulroney's practice of "toadying" to the United States.

In the past this penchant to carve out distinct Canadian policies has been manifested in foreign policy -- particularly in such areas as advancing disarmament, and condemning South Africa -- and bilaterally in such areas as trade and the environment. The end of the Cold War has deprived Canada of the opportunity to play a significantly distinct role in foreign policy, while constitutional reform, the economy and electoral politics have led Canadians to turn inward. As a result, the Canadian debate over its relations with the U.S. has been dominated by trade. We recommend you tell Campbell that you intend to maintain high level attention to the bilateral relationship and to heading off or resolving as expeditiously as possible trade disputes between the two countries.

NAFTA/FTA. Campbell made her mark in the Mulroney Cabinet by her strong support for the FTA and NAFTA. A majority of Canadians continue to blame the FTA for the depth and length of the recession and chronic high levels of unemployment (11 percent). On NAFTA, the Canadian Senate ratified the agreement on June 23, but Canadian officials have announced that it will not be implemented until passage is secured in the US and Mexico. (The last round of talks was held in Washington June 8-9 with no date set for the next round.) Campbell has not yet signalled whether she is prepared to soften Canadian opposition to our trade sanctions proposal or our idea of setting up independent NAFTA commissions with permanent expert staffs on the environment and labor. (Many Liberals oppose the FTA less out of ideological conviction than to tap into smoldering Canadian resentment, while their leader, Jean Chretien, has seen his criticism of the FTA partially undercut by your own commitment to securing side agreements on labor and the environment.) We recommend you reiterate your commitment to NAFTA, while stressing that absent meaningful side agreements on workers, the environment and effective sanctions provisions, Congressional approval may not prove possible.

EXPORT ENHANCEMENT PROGRAM -- WHEAT. In announcing the 1993/94 wheat authorizations on June 24, Secretary Espy indicated that we will be targeting Canada's wheat exports to Mexico. The decision was taken after senior level review and consensus that Canada unfairly subsidizes its wheat exports. Campbell will almost certainly raise this issue both to demonstrate new Canadian assertiveness and to

protect her Conservative Party base in the Western, wheat-growing provinces without whose support she stands little chance of winning the fall election. We recommend you reiterate that the decision was taken after an intensive review, that our action was limited to the Mexican market and that officials from both countries should meet to discuss each other's concerns.

URUGUAY ROUND. The Canadians, while supportive in general of the need to secure successful conclusion of the Round by the end of the year, have not played a leadership role, principally because of a desire to protect some of their own equities: the Canadians have yet to accept comprehensive tariffication in agriculture and have not been as forthcoming as we would like on market access. We recommend you tell Campbell that you are committed to an agreement by December 15 -- your "fast track" deadline -- and that you urge Canada to accept comprehensive tariffication and to support broadening the agreements on market access.

ASSISTANCE TO RUSSIA. Canada has been one of the strongest supporters of G-7 assistance to Russia, and we would like to see that continue under Campbell. We will need Canada's cooperation and support to move forward on our bid to increase G-7 assistance. We recommend you request a Canadian contribution to the Privatization Fund and agreement to establish a G-7 office in Moscow. Canadian support could help us in our efforts to bring the other G-7 partners along.

BOSNIA. With Western admission that the Vance/Owen plan is dead, Campbell may solicit your views on the idea of a partition of Bosnia, including what role you envision for the United States. We recommend you tell Campbell that while we continue to favor a multi-ethnic sovereign Bosnian state, we would consider any agreement reached among all the Bosnian parties. We will not press Bosnian's Muslims to adopt any plan. Your proposal for lifting the arms embargo still remains on the table for consideration. You may also want to reaffirm your commitment to help Canadian forces if they face imminent danger.

NATO SUMMIT. The Canadians supported your call for a NATO Summit to look beyond Bosnia and chart the course of transatlantic relations. They are particularly eager to see NATO expand its cooperative programs with the new democracies in the East and to develop its peacekeeping capabilities, although Canadians remain neuralgic about any derogation of U.N. authority. You may want to tell Campbell that you are determined to do all you can in cooperation with your fellow NATO allies to adapt NATO to the new security environment in Europe, including developing strong links with the new democracies and ensuring that NATO has the means to respond to such critical demands as peacekeeping.

HAITI. Recent coordination with Canada on resolving the crisis has been good on issues ranging from deployment of an international security presence in Haiti to the successful campaign to win UN Security Council sanctions June 16. We want to continue that close cooperation as we use sanctions to leverage negotiations. (Although Mulroney pressed for a naval blockade in his "farewell" breakfast with you, we do not know if Campbell will take the same line.) We and the UN also will look to Canada to help staff the international security presence which is a key component of our strategy to restore and consolidate Haiti's democracy.

III. POINTS TO BE MADE

Relations

- I want to maintain a close, effective partnership with Canada.
- We should feel free to contact each other directly on pressing issues or when urgent and important problems arise.

NAFTA

- I would like to congratulate your government on final parliamentary approval of the NAFTA implementing legislation.
- We both recognize that the side agreements are politically sensitive for all three parties. For us, these agreements are essential if we are going to win Congressional approval -- especially in the House of Representatives, where anti-NAFTA sentiment is strong.
- Enforcement has become a critical question for us. That is why we proposed a process that -- as a last resort -- would allow trade sanctions if a neutral panel finds a persistent and unjustifiable pattern of non-enforcement of national laws.

Trade Disputes and Trade Relationship

- I intend to ensure that there is effective management of the trade relationship on this side.
- Our overall trade relationship is a strong one. Nevertheless, there are areas of contention, for example, Canadian practices on wheat exports and provincial trade barriers to U.S. beer sales.
- Our two governments need to work harder together to resolve these problems and to remind our publics that the vast bulk of our trade is unaffected by these disputes.

Canadian Wheat/Export Enhancement Program

- I understand your concerns. We also have serious concerns about the impact of Canadian subsidies and trade practices on U.S. wheat export.
- We took the decision to target Canada only after intense deliberations, and our action against Canadian exports is limited to Mexico.
- We need to have our officials sit down and discuss the concerns of both of our countries as soon as possible.

Global Growth/Uruguay Round

- I understand you have some recent good economic news. Canada's rate of growth for 1993 is expected to be the highest among the G-7 nations.
- We need to encourage our colleagues in Europe and Japan to take steps to boost global growth. A successful conclusion to the Uruguay Round would be the best way to boost the global economy.
- Conclusion of the Round depends on a good market access package. We look to Canada and particularly Japan to broaden the agreements in such a way as to encourage developing countries and others to offer concessions. Canada must accept comprehensive tariffication in agriculture.
- We had hoped to achieve significant progress on market access at the G-7 Summit. This would send a strong signal to other GATT members that we are serious about concluding an agreement by December 15, my "fast-track" deadline.

Assistance to Russia

- I appreciate Canadian efforts to support Russian reform.
- We believe that support for the privatization of Russian enterprises will be one of the most effective ways of encouraging economic reform in Russia.
- President Yeltsin and Deputy Prime Minister Fedorov have asked for this kind of help to alleviate the social and economic dislocations associated with privatization.
- Your contributions to this Fund will also be essential to making it a success.
- In addition, I hope you will agree to the U.S.-Japanese proposal to establish a G-7 office in Moscow.

Bosnia

- We greatly appreciate the role that Canada has played throughout the crisis in the former Yugoslavia. Canada has contributed generously to humanitarian relief, sanctions enforcement and peacekeeping efforts.
- We understand and share your concern for Canadian peacekeeping forces serving in the Balkans. That is why we have publicly enunciated our commitment to protect UNPROFOR forces if they are attacked and request such assistance.

NATO Summit

- I want to work with my colleagues in NATO to ensure that the Alliance is ready to respond to the new challenges and opportunities in Europe.
- We can use the NATO Summit to develop our peacekeeping capabilities and deepen our cooperative relations with the new democracies in the East.

Haiti

- If Caputo succeeds in bringing the two sides together, we will need to press both sides hard to make the decisions needed for a lasting solution.
- We want to work closely with you and in the international assistance effort that will be needed to protect Haiti's democracy, once restored, and to rebuild its economy.

# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. report	U.S. Government Report (2 pages)	06/22/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

### FOLDER TITLE:

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M  
kh1775

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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## CANADA: ECONOMIC OUTLOOK

The Canadian economy, partly because of its close ties to the US, is sharing in a moderate economic recovery, after a more severe recession than in the US during 1990-91. Very good progress has been made in containing inflation, but unemployment is very high and the budget deficit at both the federal and provincial levels is large and growing.

Newly chosen Prime Minister Kim Campbell has revealed very little of her economic plans. However, she has pledged to reduce Canada's federal deficit to zero in five years, mostly by downsizing the federal government.

Canada's recovery has been powered largely by exports, particularly to the U.S., and by residential housing. Nonetheless, Canada's 1992 current account deficit jumped to a record 4.2% of GDP, as the services balance (e.g., tourism and interest on foreign debt) rose.

Unemployment has remained stuck at about 11% of the workforce since March 1992. This reflects the permanent shedding of jobs by Canada's manufacturing sector. Also, despite recent government attempts to tighten eligibility, generous unemployment insurance may be inhibiting job-seeking.

The Bank of Canada and the Department of Finance have been pursuing a joint "zero inflation" policy designed to achieve 2% annual inflation by 1995 to promote long-run price stability and competitiveness. In fact, Canada's inflation rate in 1992 was the lowest in the G-7. The government and central bank are now being criticized for excessive restraint during the recent period of slow growth.

Although the GOC has pursued a policy of fiscal consolidation through expenditure cuts since 1984, overall deficits and government debt have continued to grow, as the faltering economic recovery has kept recent revenues below expectations. Provincial governments are also facing major fiscal problems; their aggregate deficit in 1992 was almost as large as the federal deficit.

During 1992 the Canadian dollar fell significantly (nine percent) against the U.S. dollar. Constitutional anxieties and concern about the weakened economy mostly accounted for the decline. Since January the C\$ has risen slightly against the US\$.

**MEETING WITH  
PM CIAMPI**

MEETING WITH  
ITALIAN PRIME MINISTER CARLO AZEGLIO CIAMPI

I. OBJECTIVES

- Reaffirm our partnership with Italy and assure Ciampi that we applaud his courageous efforts to promote political and economic reforms.
- Stress our commitment to the Atlantic Alliance -- highlighting the upcoming NATO summit -- and reiterate our support for European integration.
- Express appreciation for Italy's role in the Bosnia crisis.
- Urge Italian support for the Russian privatization fund.
- Encourage Italian support within the G-7 and EC for an early Uruguay Round agreement and welcome recent progress on Intellectual Property Rights.
- Address Italian concerns about UN Security Council expansion.
- Encourage Italy to lease F-15's or F-16's.

II. BACKGROUND

POLITICAL SETTING: Italy's political upheaval began in earnest in April 1992, when regional and protest movements scored heavily against traditional parties in national elections. Since then, Italy has been rocked by corruption scandals, popular revulsion against the Mafia, landslide passage of electoral reform referendums and the June 1993 local elections which brought further gains for reformers at the expense of the ruling parties -- especially the Socialists and Christian Democrats. By the end of this summer, the Senate and Chamber of Deputies, under intense pressure from voters and Prime Minister Ciampi, are expected to reach agreement on sweeping political reforms that in most districts will substitute majority voting for proportional representation -- the system responsible for Italy's traditionally fragile governments and byzantine patronage network. National elections under the new system could take place as early as the fall, although spring is more likely.

It is difficult to predict where this political "cleansing" will lead, but most reformers hope Italy will emerge with center-right and center-left blocs, giving the country a true alternation in power for the first time. Meanwhile, Ciampi is pursuing economic restructuring as well: spending

cuts, tax increases, privatization and deregulation designed to unleash the full potential of the fifth largest OECD economy. Ironically, Prime Minister Ciampi and his cabinet -- nearly all of whom are forward-looking technocrats and economists -- are likely to be go down in history as the last government of the old era.

In the long run, a more democratic, efficient and productive Italy will benefit Europe and the United States. But during the transition, some Italian leaders may be tempted to turn inward. Ciampi will want to assure you that Italy remains a reliable partner, especially now that his government is assuming the G-7 presidency and CSCE Chair. He will insist that Italy's peacekeeping commitments in Bosnia, Somalia and Mozambique will be honored. Ciampi would value a statement of support from you. (Ciampi may also mention two pending appointment requests: his own to see you this summer in Washington; and that of President Scalfaro, to call on you in October.) We recommend that you applaud Italy's domestic reform efforts and encourage Italy to remain engaged internationally.

NATO AND EUROPEAN INTEGRATION: Italy is a staunch supporter of NATO and often looks to the U.S. to lead in security affairs. At the same time, the Italians, who have just concluded a term as WEU president, are enthusiastic about European integration, including a security component, and believe strongly in cooperation among the WEU, CSCE and NATO. Italy chairs the CSCE "Minsk Group," which is trying to end the conflict in Nagorno Karabakh. We recommend that you reiterate our support for European integration -- highlighting Italy's role -- while reassuring Ciampi that we remain strongly committed to NATO. You may wish to tell Ciampi that we will consult closely with Italy in the run-up to the NATO summit.

BOSNIA: The late-May killings of three Italian relief workers in Bosnia fuelled public pressure for greater Italian action. The government has raised the possibility of contributing forces to UNPROFOR, even though in December 1992 the UN turned down Rome's troop offer. Italy is greatly concerned about spread of the conflict and applauded your decision to send troops to Macedonia. Refugees are an increasing Italian worry. The Italians want to work closely with us on all aspects of the Bosnia crisis and have provided No-Fly-Zone AWACS support and bases for NATO operations. They were stung by their exclusion from the Joint Action Program meetings. We recommend that you express appreciation for Italy's role in Bosnia and assure Ciampi that we will work closely with Italy on next steps.

AID TO RUSSIA: Ciampi agrees on the need to send a positive signal from Tokyo and wants to cooperate on the privatization fund, but is worried about Italy's budget. He may raise the idea of a pilot program in conjunction with the IFI's. Italian officials have expressed concern that a

G-7 office in Moscow would duplicate other efforts. You should press Ciampi on the need for strong G-7 action to support Yeltsin, especially through a privatization fund.

G-7, URUGUAY ROUND AND IPR: Ciampi, former Governor of the Bank of Italy, believes strongly in greater G-7 macroeconomic coordination. He is an ardent free-trader and wants an Uruguay Round agreement this year. Italy has swallowed its objections to the oilseeds and corn gluten accords, but wants to protect subsidies on Mediterranean products. Italy is not inclined to stick its neck out to oppose the French on a market access agreement, even though it wants one. On Intellectual Property Rights, Italy used to be the main European pirate of U.S. videocassettes, but this year the government has passed a tough law and seized 400,000 tapes. We recommend that you urge Italy to weigh in strongly in the G-7 and EC for an Uruguay Round agreement this year. You may wish to thank Ciampi for Italy's progress on IPR protection.

UN SECURITY COUNCIL EXPANSION: Italy believes that German and Japanese membership will undermine the G-7 process, leaving only two players -- Italy and Canada -- outside the UNSC sanctuary. Moreover, Rome points out that Germany and Japan have not stepped up to the plate on peacekeeping. We recommend that you tell Ciampi we recognize Italy's contributions to peacekeeping and will work closely with the Italian government as this issue is debated.

F-15'S and F-16'S: Italy is looking for an interim air defense aircraft to replace its aging F-104's until the European Fighter Aircraft (EFA) comes on line -- no earlier than the year 2,000. The government is considering leasing British Tornados or U.S. F-15's or F-16's. The Air Force wants American planes, but Italian industry has a piece of the Tornado maintenance line and is putting pressure on the government to select the British aircraft. Defense Minister Fabbri has stated publicly that he will not allow Italy's defense needs to take a backseat to industry considerations. A lease deal is worth about \$800 million. We recommend that you tell Ciampi that either U.S. plane is well suited to Italian air defense needs.

SOMALIA: Italy has made a major contribution to UNOSOM (2,400 troops), but there have been command and control problems related to Italy's role in the campaign against Aideed. Secretary Christopher was to raise this with Foreign Minister Andreatta June 25. If the issue is not resolved, points will be provided for your meeting with Ciampi.

III. POINTS TO BE MADE

Bilateral

- Our partnership with Italy is very important to us -- in NATO, UN peacekeeping, international trade and many other areas.
- I applaud the political and economic reforms you are spearheading in Italy. Your steady hand has won much admiration at home and abroad.
- I hope the reform process will not detract from your valuable international role.
- I look forward to coming to Italy for the 1994 G-7 Summit.
- (If raised) I would like very much to see you in Washington, schedules permitting. I also would like to have the opportunity to meet with President Scalfaro.

NATO and European Integration

- I want to assure you that we remain committed to a U.S. presence in Europe and to the Atlantic Alliance.
- As you know, we have proposed a NATO summit later this year to discuss the Alliance's critical role in post-Cold War Europe. We look forward to consulting with Italy on this. I would like to see a summit that accelerates peacekeeping programs and NATO's outreach to the East.
- I also strongly support European integration, including a security component.
- We appreciate Italy's vital role in the Alliance and welcome your efforts to seek creative and cooperative approaches to European security questions.

Bosnia

- Italians have paid with their lives in Bosnia. I salute the courage of those working to bring in humanitarian assistance.
- Italian bases are critical to NATO's Bosnia operations. We greatly appreciate your support.
- (Bring Ciampi up to date on our latest efforts in Bosnia.)
- What are your views on the situation in Bosnia? What about Kosovo and Macedonia?

-- How do you see the refugee situation?

Aid to Russia

-- It is critical that the G-7 send the strongest possible signal in support of Yeltsin's reforms.

-- We all have budget constraints, but I urge you to find a way to contribute, even with technical assistance.

-- I urge Italy to take a leadership role on this issue within the EC and as G-7 president.

G-7, Uruguay Round and IPR

-- I know you are committed to an Uruguay Round accord this year.

-- This is another area where the G-7 presidency provides a powerful pulpit. I encourage you to use it to press your EC colleagues to make progress on outstanding issues.

-- We both need an Uruguay Round to help revitalize our economies.

-- I want to thank you for the great strides you have made to crack down on video piracy. This is very important to our industry.

UN Security Council Expansion

-- The Security Council for the first time is beginning to fulfill the role envisioned for it. It is critical that we do nothing to undermine it.

-- At the same time, the Council's ability to act effectively depends on its continued widespread support among UN members.

-- Japan and Germany should be considered for permanent membership, fully recognizing that they should become more active in global peace and security activities. But we need to do this in ways that are consistent with the effectiveness of the Council.

-- We recognize Italy's contributions to peacekeeping and other UN activities and understand your concerns about expansion. We want to work closely with you as this debate unfolds.

F-15'S and F-16'S

-- I understand that you are nearing a decision on selection of an interim air defense aircraft before the European Fighter Aircraft becomes available.

- I encourage you to give the U.S. F-15 and F-16 every consideration. Either is well suited for Italy's air defense needs.

Somalia

- We applaud Italy's contribution to peacekeeping and humanitarian assistance, which is critical to the UN's effort.
- (Other points to be provided if necessary.)

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
007. report	U.S. Government Report (2 pages)	05/17/1993	P1/b(1)

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2016-0133-M  
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## ITALY: ECONOMIC OUTLOOK

Given its preoccupation with its own grave political and economic problems, there is little Italy will be able to do to contribute to global economic recovery. However, Prime Minister Ciampi's technocrat government is moving quickly to continue economic reforms designed to strengthen Italy's fiscal situation and growth prospects over the medium term. He must also implement the major electoral reform called for in the April 18 referendum.

Restoration of fiscal discipline is of number one importance to the future success of the Italian economy and Italy's meeting its EC economic convergence criteria. Despite a large package of 1993 deficit reduction measures implemented by the previous government, lower revenues from lower than expected GDP growth have forced the Ciampi government to adopt a second package of fiscal measures to safeguard the 1993 deficit target of about 9½% of GDP. Italy must meet this target in order to receive the second tranche of an EC loan. By late July, the Ciampi government is expected to present a 1994 Budget and Financial Law that will include additional deficit reduction measures. The government is also accelerating the privatization of Italian state enterprises, not only to reduce government subsidies to them, but also to make the economy more efficient and raise revenue to finance the huge public debt (107% of GDP in 1992).

This necessary fiscal austerity could not come at a worse time: Italy, along with the rest of Europe, faces a bleak economic outlook for 1993, with growth forecast at about -¼%. An export-led recovery, with growth rising to about 1 3/4%, is expected in 1994, partly reflecting Italy's enhanced competitiveness as a result of the sharp fall of the lira in 1992-93.

Tight monetary policy brought the 1992 inflation rate down to about 5½% from 9% in 1991, despite the drastic depreciation of the lira (e.g., 25% against the DM) since last September's currency crisis. Since leaving the ERM, the GOI has steadily eased interest rates, leading, among other things, to substantially reduced interest payments on the public debt.

The Ciampi government must also restore its credibility with the international financial markets, shaken by the currency crisis, delays in repayment of government guaranteed loans, a very uncertain political outlook and widespread corruption investigations, and a recent downgrading of government foreign debt by Moody's.

**CONTINGENCY  
BILATERAL MEETINGS**

-- CONTINGENCY BRIEFING MEMORANDA

1. Prime Minister Major
2. President Mitterrand
3. Chancellor Kohl
4. President Soeharto

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Divider Title: 1

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MEETING WITH  
BRITISH PRIME MINISTER JOHN MAJOR

I. OBJECTIVES

- Stress the importance of breaking the impasse on market access in order to bring the Uruguay Round to successful conclusion by the end of the year.
- Press Major to support the Special Privatization and Restructuring Fund (SPRF) for Russia.
- Inform Major that the debt reduction relief (Trinidad Terms) you have proposed to the Congress is the maximum you can do at this time.
- Emphasize that you are studying the implications of the partition of Bosnia, while reminding Major that your proposal to lift the arms embargo remains on the table.
- Reassure Major that you want to ensure the effectiveness of the UN Security Council even as you consider the issue of expansion.

II. BACKGROUND

Prime Minister Major arrives in Tokyo besieged by a torrent of criticism of his leadership, now reinforced by charges that foreign countries clandestinely provided funds to the Conservative Party. Chancellor of the Exchequer Lamont's devastating resignation speech in which he accused the government of giving "the impression of being in office but not in power" reflected the angry mood in Britain, with Major's support at 21 percent, a historic low for Prime Ministers. The very qualities Major was praised for -- collegiality and quiet stewardship rather than the contentious leadership of his predecessor -- are being characterized today as indecision and ineptitude.

Major wants to return from Tokyo with significant progress on the Uruguay Round, and a united G-7 position on helping President Yeltsin that does not commit HMG to costly new initiatives. Major believes that early conclusion to the Uruguay Round could boost Britain's export-led recovery and pave the way for reduced unemployment. As such he will press on market access, looking to you to do the same with Japan and to Kohl to press the French on agriculture. On aid to Yeltsin, Major has expressed skepticism of the Special Privatization and Restructuring Fund based on budgetary constraints as well as genuine policy differences as to whether extra funds are required at this time.

Major will likely use the meetings to push for reform of the G-7 process arguing that the Seven can ill afford to

continue the elaborately choreographed yet substantively sterile meetings. He may also want to discuss the debt reduction issue (Trinidad Terms), seeking commitments for additional assistance. Major was pleased by your debt initiative to join the international community in offering 50 percent reduction for most of the poorest countries that will be eligible for Paris Club reduction.

Outside the G-7 context, Major will be anxious to minimize differences with us over Bosnia; he does not want to face a Washington-Bonn call to lift the embargo. He will want to hear your views on next steps, including the degree to which you would support a proposal to partition Bosnia. He may also raise with you HMG objections to expanding the number of permanent members on the UN Security Council.

### III. POINTS TO BE MADE

#### URUGUAY ROUND

- I know we agree on the importance of using this Summit to push hard for a conclusion to the Uruguay Round.
- France's insistence on renegotiating the Blair House Accord remains an obstacle to concluding the round. Ultimately, the EC will have to bring the French along. What are your thoughts on how to proceed?
- We need to work together to ensure that the Uruguay Round is successfully concluded by year end to provide new impetus to world economic growth and a sound multilateral trading system.

#### RUSSIA AND THE NIS

- We value your support in promoting the international effort to aid Russia and the NIS, and your close cooperation in our joint denuclearization and dismantlement work.
- In addition to these efforts, we have significantly modified our proposal for support to Russia, and hope you will now support the Privatization Fund and the establishment of a G-7 support office in Moscow. These steps can be a powerful signal of G-7 commitment to promoting reform.

#### DEBT REDUCTION (TRINIDAD TERMS)

- I'd like to do more, but cannot commit to go further than what I have already proposed to the Congress.

FORMER-YUGOSLAVIA

- We hope the parties can reach a sustainable agreement in Bosnia. But we will not strong-arm the Bosnian government.
- Even if agreement is reached, we still need to address the difficult issues of implementation, reconstruction, and security guarantees.

G-7 REFORM (IF RAISED)

- I appreciate the energy and thought you have devoted to proposals to reform the G-7 process. Realistically, we can only make a modest start in Tokyo, and work together for more progress over the next two years in Italy and Canada.

UNSC EXPANSION (IF RAISED)

- I want to maintain and even enhance the effectiveness of the UN Security Council as we consider the issue of expansion. I am committed to working closely with you toward this goal.

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010. report	U.S. Government Report (2 pages)	06/22/1993	P1/b(1)

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## UNITED KINGDOM: ECONOMIC OUTLOOK

Following two years of recession, the principal economic problem now facing British policy officials is how to sustain economic recovery without reigniting inflation or escalating the already high budget deficit which is forecast to measure 8.3% of GDP in Fiscal Year 1993-1994.

With recovery underway, the UK economy will be a relatively bright spot among its other European G-7 partners, with GDP projected to increase about 1.5% in 1993. Unemployment remains high at 10.4% of the labor force and PM Major's Tory government is currently under attack from party conservatives who are opposed to European monetary union and from others who wish to cut social spending. Dissatisfaction with the Major government prompted the appointment of Kenneth Clarke as Chancellor of the Exchequer on May 27 to replace Norman Lamont.

Sterling's withdrawal from the Exchange Rate Mechanism (ERM) in September 1992 has allowed monetary easing, with short-term interest rates falling substantially, from 10% before the ERM crisis to their current level of 6%. Inflation has decreased considerably due to weak demand, reduced mortgage interest rates, and cuts in local taxes. Existing excess capacity will likely counteract any upward pressure on prices from the pound's devaluation following its exit from the ERM. The current account deficit remains at higher levels than should be the case with a weak economy, and is raising fears that even a modest recovery would expand external deficits to untenable levels.

Fiscal policy had already become significantly more expansionary prior to the 1992 exchange crisis. The large deficit is the chief impediment to further policy action to sustain the recovery. Firm fiscal measures, including tax increases put in place for Fiscal Year 1994, are being implemented to reduce future public sector borrowing.

Consumer confidence remains weak, despite lower interest rates. Fear of job losses and high levels of personal debt are preventing any strong resurgence in spending. Plummeting house prices have left one in five homeowners with negative equity positions.

While the UK will continue monetary policies aimed to accommodate the resumption of real economic growth, recovery will remain tentative until the UK's main trading partners on the Continent also begin to register stronger growth.

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MEETING WITH  
FRENCH PRESIDENT FRANCOIS MITTERRAND

DECLASSIFIED  
PER E.O. 13526  
2016-0133-M (1.25)  
KBM 1/14/2020

I. OBJECTIVES

- Reiterate the need for France to work out its difficulties on Blair House within the EC and underscore the importance of a successful conclusion to the Uruguay Round this year.
- Encourage French contributions to the Russian privatization fund.
- Emphasize our commitment to the Atlantic Alliance -- highlighting the upcoming NATO summit -- and welcome greater French participation in NATO's military side.
- Explain where we are on nuclear testing policy.
- Review the situation in Bosnia.

II. BACKGROUND

You received Mitterrand at the White House March 9 and Balladur June 15. A bilateral in Tokyo gives you a chance to reiterate the points you made to Balladur on the Uruguay Round and aid to Russia. Balladur has spoken highly of his meeting with you, but the French have not budged on the outstanding issues.

URUGUAY ROUND: Paris continues to press for renegotiation of the Blair House accord. The June 21-22 EC summit called for an Uruguay Round accord by the end of the year, but Balladur claimed that France won a "decisive success" in reducing its isolation on agricultural issues because EC leaders said that all subjects, including agriculture, must be negotiated together in Geneva. Some French advisers have implied that France is not committed to a year-end conclusion of the Uruguay Round and that the positive economic effects of the Round should not be exaggerated. They assert that economic recovery in the U.S. would do more for world growth than completion of the Uruguay Round. Still, France remains under pressure from other Europeans, especially the Germans, to sign on to the Blair House accord and move the Round forward. We recommend that you underscore the benefits to France (approximately \$270 billion over 10 years) and to the world economy (approximately \$6 trillion) of a successful Uruguay Round.

AID TO RUSSIA: France continues to state that while it supports the Special Privatization and Restructuring Fund, it has severe budget constraints. Mitterrand might show more sympathy -- during his March visit to Washington he called for a special G-7 summit on Russia. We recommend

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that you remind Mitterrand that you both agreed in March on the urgency of supporting Yeltsin's reforms.

NATO AND EUROPE: France gradually is re-joining NATO's Military Committee, and a government white paper to be released later this year is expected to endorse closer French ties to the Alliance. The Bosnia crisis has also encouraged French pragmatism: France participates in No-Fly-Zone enforcement and has agreed to a joint NATO/WEU command for UN sanctions enforcement in the Adriatic. Mitterrand is less enthusiastic than Balladur about France's warming to NATO, but he has not opposed it. Balladur cleared his "European security initiative" with Mitterrand before going public with it. We recommend that you offer to work with France as it strengthens its relations with NATO. You may wish to reiterate your desire to consult closely with France on the upcoming NATO summit. If Balladur's security initiative is raised, you should continue to welcome the spirit of it while expressing caution about details until the Europeans have fleshed it out. You might ask how the initiative would relate to existing CSCE mechanisms.

NUCLEAR TESTING: As Balladur indicated to you, Mitterrand calls the shots on this issue. The center-right government wants to resume testing, but Mitterrand opposes resumption unless others move first. The French put great stock in consultations with us. You could review for Mitterrand the elements of your position and emphasize the importance of moving quickly on establishing negotiations towards a CTB.

BOSNIA: France is increasing its 5,000-troop UNPROFOR contingent by 800. The new troops will be deployed in Sarajevo, bringing to 2,000 the number of French forces in the capital. French General Jean Cot is replacing Sweden's Wahlgren as UNPROFOR commander. France continues to oppose lifting the arms embargo -- Foreign Minister Juppe has called it a "Pontius Pilate solution" -- but privately some French officials echo Mitterrand, who in late May said if negotiations and other efforts fail, "How can we prevent the Bosnian Muslims from defending themselves?"

### III. POINTS TO BE MADE

#### Uruguay Round

- There is a limit to what we can do unilaterally to restore growth in our countries. We need a boost in world trade. A successful Uruguay Round accord would provide that.
- The benefits an accord would bring far outweigh the differences that remain on the table.

- France is the second largest exporter of services in the world. It has much to gain from a successful Uruguay Round. France's economy is expected to reap \$270 billion over 10 years as a result of a good agreement.
- As I said to Prime Minister Balladur last month, if we were to agree to re-open Blair House, our farmers would ask for changes that would take us in the opposite direction you want. I urge you to resolve this within the EC.
- I was pleased that the EC Summit called for a successful Uruguay Round agreement by the end of the year. I urge you to use France's leadership in the EC to make this happen.

#### Aid to Russia

- We agreed in March on the urgent need to support Yeltsin's reforms. The privatization fund is an excellent way to do it.
- We all face budget restraints, but this issue is so important that we must look for ways to contribute.
- The U.S. has set aside \$500 million, but that is contingent on contributions from Europe and Japan.
- I urge you to do what you can and encourage your EC partners to do the same.

#### NATO

- As I said in March, we remain committed to a U.S. presence in Europe, to the Atlantic Alliance and to a European security identity.
- We are eager to work with you, at your own pace, as you develop closer ties to the military side of NATO.
- In the meantime, I want to consult closely on the goals of the upcoming NATO summit, which should accelerate peacekeeping programs and outreach to the East.
- (If raised) We welcome the spirit of Prime Minister Balladur's security initiative, and will be anxious to see how the EC fleshes out the proposal. What relationship do you see between this initiative and CSCE mechanisms on borders and minorities?

#### BOSNIA

- We commend your UNPROFOR reinforcement, including the beefing up of troops in Sarajevo.
- (Review situation in Geneva and on the ground.)

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
013. report	U.S. Government Report [partial] (2 pages)	06/18/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
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### FOLDER TITLE:

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M

kh1775

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

Freedom of Information Act - [5 U.S.C. 552(b)]

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1.4c, 3.5c

**Francois MITTERRAND**  
(Phonetic: meetairRAHN)

**FRANCE**

*President (since 1981)*

*Addressed as: Mr. President*



The first president in the history of the Fifth Republic to win two consecutive terms by popular vote, Francois Mitterrand marked 12 years as leader of France in May 1993. An eloquent speaker, he has said that "like wine, the ability to govern improves with age." [redacted] 1.4c, 1.4d

[redacted]

[redacted] Criticism of his policies intensified during the runup to the legislative elections in March. [redacted] 3.5c

Following the overwhelming defeat of the Socialists that month, Mitterrand embarked on his second "cohabitation" experience, sharing power with Prime Minister Edouard Balladur, a member of the neo-Gaullist Rally for the Republic (RPR). Both men have endeavored [redacted] 1.4c, 1.4d to avoid the contentious relations that characterized the previous power-sharing arrangement (1986-88) between Mitterrand and RPR leader Jacques Chirac [redacted] 1.4c, 1.4d

[redacted] The President still meets with foreign leaders and presides over weekly cabinet meetings [redacted] 1.4c

[redacted] He has generally supported Balladur's policies, [redacted] 1.4c, 1.4d

[redacted]

[redacted] 1.4c, 1.4d

[redacted] 1.4c, 1.4d, 3.5c

[redacted] 1.4c, 3.5c

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2016-0133-M (1-26) (continued)  
2/27/2017 KBH LDA M 93-12947

1.4c, 3.5c

1.4c, 1.4d

The President campaigned vigorously to gain support for the Maastricht treaty on European integration, which was approved in a popular referendum in September 1992 by a paper-thin majority. He continues to lobby for approval of the treaty by other European countries. 3.5c

Under Mitterrand's leadership, France has taken the lead among European countries in trying to bring humanitarian relief to the former Yugoslavia and in searching for a resolution to that crisis. Mitterrand is also determined that Paris have a major voice in the peacemaking efforts in the Middle East. 1.4c, 1.4d, 3.5c

[Redacted]

**Career and Personal Data**

Mitterrand was born on 26 October 1916. His father worked in a low-level position for the railroads for many years before assuming a white-collar job. Moving well beyond his humble origins, the future President ultimately graduated from the prestigious School of Political Science with degrees in sociology, literature, and law. During World War II he was a prisoner of war but escaped and went on

to become a leading figure in the Resistance. He was elected to public office in 1946 and held 11 cabinet posts during 1947-57. He ran for the presidency three times before gaining the Elysee in 1981. 3.5c

Mitterrand is an avid reader and has written 13 books. Born and raised in rural France, he enjoys walking in the woods and raising roses and camellias at his vacation residence in southwestern France. He resides on the Left Bank in Paris and uses the Elysee Palace only as an office and reception venue. Mitterrand understands English. The President is affectionately called *tonton* (uncle) by his admirers, but satirical critics call him *Dieu* (God). 3.5c

Mitterrand is married to the former Danielle Gouze, whom he met while hiding in her relatives' home during the war. 1.4c, 1.4d

An independent woman of strong socialist convictions, Mrs. Mitterrand heads the France-Libertes Foundation, which mobilizes assistance for Third World countries and promotes human rights. The Mitterrands have two sons and several grandchildren. One son has been a deputy in the National Assembly; the other served until recently as an adviser for African affairs on the presidential staff. 3.5c

18 June 1993

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
014. report	U.S. Government Report [incomplete duplicate of 013] [partial] (1 page)	06/18/1993	P1/b(1)

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kh1775

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18 June 1993

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PER E. O. 13526

2016-0133-M (1.27)  
2/27/2017 KBH

## FRANCE: ECONOMIC OUTLOOK

Prime Minister Balladur's conservative faction won resoundingly in the March 28 legislative elections largely because of the former Socialist government's failure to improve the economy. The conservative victory created a "cohabitation" between the conservative government and Socialist President Mitterrand.

The sluggish French economy is likely to enter the worst recession in 20 years with an OECD estimated 1993 growth rate of less than 1%. The number of unemployed has risen to a record level of over 3 million people, or 10.9% of the labor force. In addition to the effect of the recession on employment, France has a more fundamental problem of low job creation because of high social insurance charges, extensive long-term unemployment benefits and a mismatch of job skills.

On the positive side, former Prime Minister Beregovoy's "strong franc" policy of adhering to a fixed FF/DM exchange rate did bring inflation below that of Germany and strengthened French credibility in financial markets. Nonetheless, France has been forced to keep its interest rates high in response to tight German monetary policy in order to maintain a fixed FF/DM exchange rate. The French growth outlook has been hurt by these high rates and by weakened export performance, as some of France's trading partners have devalued their currency against the FF.

Prime Minister Balladur faces a formidable challenge to strengthen growth and reduce unemployment, with limited room for fiscal and monetary policy changes. Although it has been possible to reduce French interest rates somewhat because of increased investor confidence following the election and recent German monetary easing, French interest rates remain high.

Balladur's government has also inherited a much worse fiscal situation than previously realized, i.e., a deficit/GDP ratio of almost 6%, or double the earlier estimate. The government has proposed a modest package of revenue and spending changes and large-scale privatization of France's extensive state owned sector. However, the overall effect of the budget package is unlikely to improve short-term growth prospects.

The government remains concerned about declining competitiveness because of the recent appreciation of the franc against some European currencies and the dollar. Former Prime Minister Beregovoy implied that the U.S. had deliberately weakened the dollar to improve U.S. competitiveness, but the Balladur government has been silent on this issue. (Traditionally, the French have favored fixed exchange rates and a French external surplus.)

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~~CONFIDENTIAL~~

MEETING WITH  
GERMAN CHANCELLOR HELMUT KOHL

DECLASSIFIED  
FER E.O. 13526  
2016-0133-M (1.28)  
KBH 1/14/2020

I. OBJECTIVES

- Encourage the German government to reduce its deficit as a necessary step toward lowering interest rates and stimulating European recovery.
- Press Kohl to agree to a \$500 million German contribution to the Special Privatization and Restructuring Fund (SPRF).
- Stress that a breakthrough on market access is critical to the success of the Uruguay Round. Germany should use its influence within the EC to ensure French cooperation.

II. BACKGROUND

Chancellor Kohl is looking to the Tokyo summit to provide a lift to global growth, especially with elections looming in 1994. A reduction in the German deficit and a lowering of interest rates will help stimulate a recovery in Europe. Because of its export-led economy, Germany has much to gain from a successful conclusion of the Uruguay Round. In his March meeting with you, Kohl made clear that he wanted a breakthrough on the Round by the summit. To this end, Germany has worked in EC councils to implement the Blair House Accord and move the Round forward. Kohl is also anxious to maintain G-7 unity on aid to Russia. German fiscal problems, largely due to the costs of unification, constrain Kohl's willingness to provide major new funding. Nevertheless, Germany continues to be supportive of U.S. efforts to support Russian democratic reforms.

III. POINTS TO BE MADE

Global Growth

- Germany faces many difficult economic challenges and I understand that your efforts to cut your deficit are politically difficult. We believe that efforts to reduce spending by cutting subsidies and other programs will encourage the Bundesbank to ease interest rates.
- Such cuts in German interest rates would have a very beneficial effect on the economies of your European trading partners and would speed the recovery in Germany itself. The U.S. is doing its best to promote an economic upturn, but cannot be the locomotive of global growth on its own.

~~CONFIDENTIAL~~

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- A further cut in German rates would send a clear signal to markets that Germany is committed to doing its part to promote global growth. It is the most important action Germany can take to support the G-7 growth program.

Russia

- We value the contribution you have already made to multilateral efforts to support political and economic reform in Russia and the NIS.

Uruguay Round

- As you told me during your visit to Washington and in our phone conversation a few weeks ago, the G-7 cannot afford to let another summit go by without having a conclusion to the Uruguay Round in sight. We look to Germany to use its leverage within the EC to secure implementation of the Blair House Accord and announcement of a market access package.
- Germany has a special role to play in pressing France to cooperate. Do you have any thoughts on what the EC can do to bring the French along?
- Looking down the road, we need to work together to ensure that the Uruguay Round is successfully concluded by the end of the year. Concluding the Round will provide impetus to world economic growth and a sound multilateral trading system.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
016. report	U.S. Government Report (2 pages)	06/22/1993	P1/b(1)

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**COLLECTION:**

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

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**FOLDER TITLE:**

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M  
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017. report	U.S. Government Report [incomplete duplicate of 016] (1 page)	06/22/1993	P1/b(1)

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## GERMANY: ECONOMIC OUTLOOK

The current German situation is marked by continuing recession in western Germany, where the economy has recently been described as in a "free fall," with only a very modest economic expansion in the former East Germany. Real GDP in the West fell at a 5.6% annual rate in the first quarter of 1993, and little if any growth is expected later this year or until well into 1994. Recently, the German Economic Minister has publicly stated that the west German economy could shrink by 2% or more this year. This, together with only modest expectations for east German growth, suggests that for Germany as a whole, the economy is now likely to decline by over 2% in 1993 and experience only a modest recovery next year.

Accompanying this dismal prospect is rising unemployment, both in the West, where it is over 7%, and in the East, where unemployment is now about 30 percent and economic restructuring continues to take a toll on jobs in excess of the meager employment opportunities created as a result of new manufacturing and services investment. West Germany is belatedly facing up to a major wave of industrial restructuring to combat its declining international competitiveness. At the same time, employment in the east is constrained by labor costs well in excess of productivity. Therefore, overall unemployment is unlikely to decline anytime soon.

Despite the weak growth and employment outlook, German monetary policy remains restrictive, reflecting the traditional strong German fear of inflation. The central bank has been engaged in a very cautious policy of slowly reducing interest rates from last year's mid-summer peaks, but insists that it cannot accelerate this process because inflation -- up 4.2% (yr/yr) in May -- is still too high. The bank also remains concerned about money growth, and a growing budget deficit. In fact, monetary growth, although erratically lower, is not yet clearly on a downward path. Wage settlements this year have declined substantially but a credible program to cope with the rising government deficit (due to the weak economy and increasing reunification costs) is lacking.

High interest rates in Germany are transmitted to other European countries through EC exchange rate links, although less so in the United Kingdom and Italy since the pound and lira were de-linked from the DM, and have a restrictive impact on economic growth prospects in these countries as well.

Germany's external accounts continue to be in a small deficit position, as exports have been weak in reflection both of Germany's reduced international competitiveness and of the poor economic health of Germany's major markets.

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018. report	Biography (2 pages)	06/21/1993	P1/b(1)

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019. report	Biography [incomplete duplicate of 018] (1 page)	06/21/1993	P1/b(1)

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020. report	Biography (2 pages)	06/02/1993	P1/b(1)

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021. report	Biography [incomplete duplicate of 020] (1 page)	06/02/1993	P1/b(1)

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Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

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**FOLDER TITLE:**

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M  
kh1775

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**RESTRICTION CODES**

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
022. report	Biography [partial] (2 pages)	06/01/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

### FOLDER TITLE:

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M

kh1775

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Presidential Records Act - [44 U.S.C. 2204(a)]

Freedom of Information Act - [5 U.S.C. 552(b)]

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- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

1.4c, 3.5c

**Beniamino ANDREATTA**

(Phonetic: ahndrayAHtah)

*Minister of Foreign Affairs  
(since April 1993)*

*Addressed as: Mr. Minister*

ITALY

DECLASSIFIED IN PART  
PER E. O. 13526

2016-0133-M (1.35)  
2/27/2017 KBH



In his first several weeks as Minister of Foreign Affairs, finance expert Beniamino Andreatta has brought [redacted] 1.4c, 1.4d to the business of international affairs. Andreatta, a veteran leftwing Christian Democratic Party (DC) member and well-respected economist [redacted]

[redacted] 1.4c, 1.4d, 3.5c

©  
privatization plan and has long argued for austerity measures to improve the economy. [redacted]

[redacted] 1.4c, 1.4d

**His First Test: Yugoslavia**

Andreatta has seized upon the challenges of the former Yugoslavia and is determined that a Western-led, international solution be quickly applied. A strong backer of the Vance-Owen plan,

[redacted] 1.4c, 1.4d

[redacted] He strongly supports the idea of European Economic and Monetary Union (EMU) and asserts that the recent tensions in the European monetary system demonstrate the need to quickly attain EMU. In addition, he maintains that a larger Europe is the best way to avoid the dangers of nationalism. Andreatta also favors an independent European central bank modeled on Germany's Bundesbank. As Treasury Minister, he was instrumental in making the Bank of Italy more independent of the Ministry. [redacted]

[redacted] The Foreign Minister responded with obvious anger to radical Serbian threats in May 1993 to launch missile strikes against Italian civilian targets and recently reiterated Italy's willingness to commit ground forces to a UN peacekeeping effort if the ban on using neighboring countries' forces is lifted. [redacted] 3.5c

**His Game: Economics**

Andreatta has extensive economics experience and definite views on budget and finance issues. He served as Budget Minister in 1979 and as Treasury Minister during 1981-82; he is currently DC Secretary Mino Martinazzoli's top economic adviser. Andreatta supports the government's

[redacted] 1.4c, 1.4d, 3.5c

[redacted] 1.4c, 3.5c

1.4c, 3.5c

1.4c, 1.4d, 3.5c

parliament's lower house during 1983-84. In addition, he was president of the Senate Budget Committee during 1987-92. Andreatta is president of the DC's Economic Legislative and Research Division. He has been a professor of economics and financial policy at the University of Bologna since 1963. Andreatta is married and has four children.

3.5c

**Early Life and Career**

Andreatta was born on 11 August 1928 in the northern city of Trento. He received a law degree from the University of Padua in 1950 and studied economics at Cambridge University. He was a member of the Budget and Finance Committees in

1 June 1993

# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
023. report	Biography [incomplete duplicate of 022] [partial] (1 page)	06/01/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

### FOLDER TITLE:

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M

kh1775

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

Freedom of Information Act - [5 U.S.C. 552(b)]

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C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

1.4c, 3.5c

1.4c, 1.4d, 3.5c

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2  
1.4c, 3.5c

DECLASSIFIED IN PART  
PER E. O. 13526

2016-0133-M (1.36)  
2/27/2017 KBH

# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
024. report	Biography (2 pages)	04/06/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

### FOLDER TITLE:

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M  
kh1775

### RESTRICTION CODES

#### Presidential Records Act - [44 U.S.C. 2204(a)]

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# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
025. report	Biography [incomplete duplicate of 024] (1 page)	04/06/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

### FOLDER TITLE:

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M  
kh1775

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
026. report	Biography (2 pages)	06/10/1993	PI/b(1)

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**COLLECTION:**

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

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**FOLDER TITLE:**

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M  
kh1775

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**RESTRICTION CODES**

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# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
027. report	Biography [incomplete duplicate of 026] (1 page)	06/10/1993	P1/b(1)

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**COLLECTION:**

Clinton Presidential Records  
National Security Council  
Records Management  
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**FOLDER TITLE:**

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

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# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
028. report	Biography (2 pages)	06/22/1993	P1/b(1)

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**COLLECTION:**

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

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**FOLDER TITLE:**

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M  
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# Withdrawal/Redaction Marker

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
029. report	Biography [incomplete duplicate of 028] (1 page)	06/22/1993	P1/b(1)

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**COLLECTION:**

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

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**FOLDER TITLE:**

POTUS Briefing Book-Economic Summit, Tokyo, Japan, July 6-10, 1993 [3]

2016-0133-M  
kh1775

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# MIR MARKER

This is not a textual record. This is used as an administrative marker by the Clinton Presidential Library Staff.

**Folder Title:**

POTUS Briefing Books-Economic Summit, Tokyo, Japan, July 6-10, 1993 [4]

**Staff Office-Individual:**

Records Management

**Original OA/ID Number:**

868

Row:	Section:	Shelf:	Position:	Stack:
43	1	10	1	V

# Withdrawal/Redaction Sheet

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. report	Biography (2 pages)	03/22/1993	P1/b(1)
002. report	Biography [incomplete duplicate of 001] (1 page)	03/22/1993	P1/b(1)
003. report	Biography (2 pages)	04/29/1993	P1/b(1)
004. report	Biography [incomplete duplicate of 003] (1 page)	04/29/1993	P1/b(1)
<del>005. paper</del>	<del>World Economic Outlook and Policy Coordination (2 pages)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>006. paper</del>	<del>European Community (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>007. paper</del>	<del>The Former Yugoslavia (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>008. paper</del>	<del>Arab League Boycott (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>009. paper</del>	<del>Non-Proliferation and Export Controls (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>010. paper</del>	<del>Iran (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>011. paper</del>	<del>Iraq (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>012. paper</del>	<del>Cambodia (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>
<del>013. paper</del>	<del>North Korea (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1) KBH 4/30/2020</del>

**COLLECTION:**

Clinton Presidential Records  
 National Security Council  
 Records Management  
 OA/Box Number: 868

**FOLDER TITLE:**

POTUS Briefing Books-Economic Summit, Tokyo, Japan, July 6-10, 1993 [4]

2016-0133-M

kh1776

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- C. Closed in accordance with restrictions contained in donor's deed of gift.
- PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
- RR. Document will be reviewed upon request.

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# Withdrawal/Redaction Sheet

## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
<del>014. paper</del>	<del>Middle East Peace Process (1 page)</del>	<del>00/00/1993</del>	<del>P1/b(1)</del> KBH 4/30/2020

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

### FOLDER TITLE:

POTUS Briefing Books-Economic Summit, Tokyo, Japan, July 6-10, 1993 [4]

2016-0133-M

kh1776

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

# Withdrawal/Redaction Marker

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. report	Biography (2 pages)	03/22/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Records Management  
OA/Box Number: 868

### FOLDER TITLE:

POTUS Briefing Books-Economic Summit, Tokyo, Japan, July 6-10, 1993 [4]

2016-0133-M  
kh1776

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. report	Biography [incomplete duplicate of 001] (1 page)	03/22/1993	P1/b(1)

### COLLECTION:

Clinton Presidential Records  
National Security Council  
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OA/Box Number: 868

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## Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. report	Biography (2 pages)	04/29/1993	P1/b(1)

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**FOLDER TITLE:**

POTUS Briefing Books-Economic Summit, Tokyo, Japan, July 6-10, 1993 [4]

2016-0133-M  
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-- BACKGROUND PAPERS (Resource Materials)

History of the G-7 Process

U.S. Economy

World Economic Outlook

European Community

International Trade/Uruguay Round

Developing Countries

    Official Development Assistance to the Developing World

    Central and Eastern Europe

    Developing Countries

    Former Yugoslavia

Environment and Other Global Issues

UN Management Reform

Arab League Boycott

Non-Proliferation and Export Controls

Migration and Refugees

Regional Political Issues

    Iran

    Iraq

    Libya, Pan Am 103

    Cambodia

    South Africa

    North Korea

    Middle East Peace Process

## HISTORY OF THE G-7 PROCESS

The G-7 process, launched in 1975 in Rambouillet, France, by the leaders of the seven leading industrialized nations, was born from the need for a forum to coordinate international economic policies among the major economic powers.

While initially focussed on monetary issues in the wake of the breakdown of the Bretton Woods system of fixed exchange rates, the G-7 has expanded its scope over time to broader economic issues and, more recently, to political issues of common concern.

- Macro-economic coordination remains central to the G-7 process. Finance Ministers and their Deputies meet regularly to discuss developments in their economies and the evolution of policies. Exchange rates are included in the discussion.
- The G-7 also addresses trade policy, development assistance, debt, environment and other economic issues, including the sharing of the costs of the Gulf War against Iraq. In recent years, the G-7 has taken on a growing number of political issues, including Iran, Iraq, Libya, non-proliferation, and the Arab Boycott.

Organizationally, the annual G-7 Summit of heads of state remains the centerpiece of G-7 activities. "Sherpas" meet regularly to prepare the economic agenda for the Summit and monitor Summit decisions. Political directors also meet periodically to discuss political issues. Issue-specific working groups have been set-up on occasion.

There have been growing complaints that the G-7 process has become overly rigid and bureaucratic in recent years, and that the Summit Communique no longer reflects the actual Summit discussions.

- Last year, British Prime Minister Major proposed streamlining the process, with a heads-only meeting and a short Communique reflecting the discussion by heads. The U.S. supports moving in this direction.

## THE U.S. ECONOMY

### BACKGROUND

The U.S. economic expansion slowed sharply in early 1993, but recent indicators suggest at least moderate improvement in the second quarter. Latest labor market report for May showed employment growth was stronger than expected, and price reports for the month show earlier inflation bulge has eased.

Real GDP edged up at an annual rate of only 0.7% in the first quarter (marked down a little from last month's 0.9% estimate), following a 4.7% rate of increase in the fourth quarter.

- All of the first-quarter increase reflected greater inventory investment. Real final sales declined at a 1.2% pace. Slight gains in consumer spending (0.8%) and residential construction (1.4%) and a large jump in business fixed investment (13.1%) were more than offset by falling government spending and a sharp deterioration of the real net export deficit from \$49.0 billion in the fourth quarter to \$70.3 billion (largest since 1989).
- First-quarter slowdown partly reflected severe weather, as well as idiosyncrasies of GDP accounting, which resulted in a steep falloff in defense spending.

Growth over the eight quarters of recovery has been only a sluggish 2.1% pace, compared to 4.8% averaged over comparable periods of other post-World War II recoveries.

Administration's economic forecast will be reassessed as part of the July Mid-Session Review of the Budget. May be marked down to take account of the slow start in the first quarter.

- April budget document forecasted real growth of 3.1% this year and 3.3% during 1994 (measured fourth quarter to fourth quarter), little different from the April 10 Blue Chip consensus of some 50 private economists which contained forecasts of 3.1% for 1993 and 3.0% for 1994.
- Latest Blue Chip forecast of June 10 shows figures marked down to reflect evidence that the economy was weaker early this year than originally thought. Growth for 1993 was revised down to 2.4% and for 1994 to 2.9% (measured fourth quarter to fourth quarter).

Early evidence on the second quarter suggests some improvement from the weak first quarter.

The unemployment rate edged down to 6.9% in May from 7.0% in each of the previous three months. Payroll employment rose by 209,000 in May, following a 216,000 advance in April. (Note: June

figures available on Friday, July 2.) Both were up from increases averaging 162,000 during the first quarter.

- Strength in May was centered in construction and services. Manufacturing employment fell for a third straight month and is down 133,000 since February.
- Revisions to historical data showed the recession job loss was shallower than originally estimated and that job gains recently have been more robust. Even so, growth in total payroll employment during the first 26 months of the current recovery was only 1.5%, compared to 7.0% averaged over comparable periods of other post-World War II recoveries.
- Combination of workhour inputs and other indicators suggests stronger real output growth in the second quarter than the weak 0.7% advance in the first.

Consumer spending appears to have strengthened in the second quarter, despite continued erosion of consumer confidence. Uncertainty about future financial conditions led the declines this year in both the Conference Board and University of Michigan indexes of consumer confidence. The Conference Board survey for June posted the fifth decline of the past six months and was at its lowest level since last October. The early June Michigan survey showed some improvement in consumer mood.

- Real personal consumption expenditures rose 0.9% in April, another 0.1% in May. So far in the second quarter, spending is up at a 2-1/2% annual rate from the first quarter, assuming no change in June from the May level. Consumer spending rose only 0.8% in the first quarter.
- Sales of cars and light trucks have been especially strong, rising in May to a 14.4 million unit annual rate for domestics and imports combined -- the best in more than three years. Through the first twenty days of June, sales of domestic model cars and light trucks averaged an 11.9 million unit annual rate -- close to their high May reading of a 12 million pace.
- Housing starts increased 2.4% in May after an 8.1% jump in April. Starts are at their highest level since December. New home sales results have swung widely recently and in May plunged by 21%, wiping out a similar gain in April.
  - Mortgage interest rates have fallen below 7-1/2% for conventional 30-year mortgages and affordability conditions (home prices and mortgage interest rates, relative to median family incomes) are the best in more than two decades.

- Despite favorable conditions, the industry reports that some potential homebuyers are having difficulty accumulating the downpayment necessary to qualify for a mortgage.

Inflation was low during 1992 but accelerated over the first four months of this year, partly the result of a variety of special factors, including severe weather. Price pressures appear to have eased in May.

- Producer prices for finished goods were unchanged in May after increases averaging 0.4% in the first four months of this year. So far this year, finished goods prices have risen at a 3.7% annual rate compared to 1.6% during all of 1992. The "core" rate (less food and energy) edged up 0.2% in May and was up at a 3.2% annual rate during the first five months of the year compared to 2.0% for all of last year.
- Data on May consumer prices were also very favorable after a bulge earlier in year. Prices edged up a narrow 0.1% after increases averaging 0.3% over the first four months of the year. During the first five months of 1993, consumer prices have increased at a 3.8% annual rate compared with 2.9% during all of 1992. Core rate has been 4.1% so far this year versus 3.3% in 1992.

The fundamentals affecting inflation remain good. There is no evidence of wage pressure. Over the four quarters ending in 1993-I, compensation per workhour in the nonfarm business sector rose 3.1% -- down from 4.4% in the comparable year-earlier period. Unit labor costs have increased only 1.7%, as productivity advanced 1.4% over the year, despite a drop in the first quarter. In the manufacturing sector, where productivity has risen by 5.2% over the past year, unit labor costs have actually fallen by 1.6%.

Interest rates are favorable for continued economic growth, and passage of a strong deficit reduction package should help assure that they remain low.

- Short-term rates fell in response to a combination of monetary policy ease in 1991 and 1992, and reduced demand for funds. Long-term rates reacted favorably when Clinton plan raised the expectation of a lower federal deficit. Short-term rates have declined about 330 basis points since early 1991, long-term rates more than 150 points, of which about 100 points have occurred since the Presidential election.
- There was some concern in the financial markets late in May about inflationary pressures and the possibility of a Fed

move toward restraint. Price reports for May eased those fears and reduced the likelihood at least for the time being of a tightening move by the Fed.

- The yield on the 3-month T-bill is a little above 3% and on the 30-year bond about 6.7%, as of June 29. The rate for the bond was the lowest in its 20-year history. The T-bill had been as low as 2-3/4% in mid-April.

Overall, interest rates remain favorable. Inflation appears to have stabilized. Resolution of budget issues should help restore confidence in consumer and financial markets and help pave the way for continued moderate growth.

CONFIDENTIAL

WORLD ECONOMIC OUTLOOK AND POLICY COORDINATION

Moderate growth (although with inadequate job creation) now seems underway in the United States and Canada -- and probably also in the UK. But most of the other industrial countries are facing **very grim real GDP growth prospects**, with recovery in 1994 hoped for but uncertain. Aggregate growth outside the United States could well be the lowest in over 30 years. (Aggregate G-7 growth was 0.1% in 1991 and 1.6% in 1992, and is likely to be about 1-1/2% this year.) Aggregate **unemployment** in the industrial countries will reach record levels, and 8-3/4% of the industrial country labor force will be without work by late 1993.

Europe as a whole is in recession this year. The German recession is likely to be the worst since the end of postwar reconstruction (a fall in GDP of 1-1/2% to 2% for unified Germany is projected). Growth in Japan will be under 1% despite a substantial fiscal stimulus program.

**Inflation** continues to remain moderate, at early 1960s rates in the aggregate for the G-7 (2.7% in the year to April). German inflation has remained above acceptable levels (4.2% in the year to May), but should decline significantly later this year.

Japan's **external imbalances** have grown to high levels, and have become a drag on world recovery. The Japanese current account surplus is projected to reach about \$140 billion (3.4% of GDP) this year, reflecting both relatively strong Japanese export markets in East Asia and North America and very weak Japanese import demand as the economy languishes. If Japanese surpluses are to fall, the current strong yen must be complemented by more rapid growth of Japanese domestic demand. Achieving this higher growth will require further fiscal stimulus in JFY 1994. U.S. trade and current account deficits are also rising somewhat, as our imports grow with U.S. recovery and our markets in Japan and Europe grow slowly or not at all. The dollar remains at competitive levels.

**More action is needed to strengthen G-7 growth.** While Japan has put in place a substantial fiscal stimulus program for FY 1993, further action will be needed to keep growth going over the medium term. German interest rates have come down, but need to move further to relax the growth constraint in other European countries. Structural reforms are also needed, especially in European labor markets, to reduce disincentives to employment.

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OECD SECRETARIAT ECONOMIC FORECASTS

	<u>1992</u>	<u>1993</u>	<u>1994</u>
<u>Real GDP Growth</u>			
U.S.	2.1%	2.6%	3.1%
Japan	1.3	1.0	3.3
Germany	2.0	-1.9	1.4
France	1.4	-0.7	1.5
Italy	0.9	-0.2	1.7
UK	-0.6	1.8	2.9
Canada	0.9	3.1	4.5
G-7	1.6	1.3	2.8

Inflation (CPI % change)

U.S.	3.0%	3.0%	3.1%
Japan	1.6	1.2	1.4
Germany	4.5	4.4	3.1
France	2.3	2.5	2.8
Italy	5.4	5.1	6.1
UK	3.8	2.7	3.9
Canada	1.5	2.5	2.0
G-7	3.0	2.9	3.0

Current Account Balance (\$ billions)

U.S.	-\$66	-\$81	-\$93
Japan	+118	+139	+150
Germany	-26	-29	-30
France	+3	+1	-1
Italy	-25	-21	-19
UK	-21	-27	-31
Canada	-24	-21	-19
G-7	-42	-39	-42

General Govt. Budget Balance (% GDP)

U.S.	-4.7%	-3.8%	-2.9%
Japan	+1.8	+0.1	-0.1
Germany	-2.8	-4.1	-4.1
France	-3.9	-5.7	-5.8
Italy	-9.5	-9.5	-8.3
UK	-6.7	-8.3	-7.4
Canada	-6.4	-5.8	-4.5
G-7	-3.5	-3.9	-3.4

Forecasts are early June OECD Secretariat projections (inflation forecasts are Treasury); Germany is unified Germany.

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EUROPEAN COMMUNITY

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PER E.O. 13526  
2016-0133-M (1.48)  
KRM 1/14/2020

The European Community is our largest trading partner, our largest export market, a major economic competitor, an aspiring player in the formation of world macroeconomic policy and an important partner in dealing with regional and global problems. The U.S. and the EC have \$200 billion invested in each other's economies and major U.S. and European corporations have substantial, integrated operations on both sides of the Atlantic. The EC includes four of the G-7 states and the President of the Commission and EC Council President attend G-7 summits. Our interactions with the EC are not confined to issues of trade and economic policy. Member states are gradually moving toward greater cooperation on foreign and security issues.

The EC is in one of its periodic troughs. Burdened with high unemployment (11% area-wide) and low growth (zero for the EC in 1993), European leaders are faced with a discontented electorate and find it difficult to exert the leadership necessary to advance European integration. Member states have sought to stimulate growth through macroeconomic policies, but continue to be hampered by large budget deficits, high interest rates and the constraints of the European Exchange Rate Mechanism. Efforts to ratify the Maastricht Treaty have revealed widespread public ambivalence about economic and political union.

These economic and political conditions have led to protectionist pressures against Central and Eastern Europe, fostered nationalist, anti-immigrant pressures and checked progress toward European integration. They have also made the EC and its member states difficult negotiating partners. Although Germany has modestly reduced its interest rates in recent months, further reductions are necessary to fuel recovery in Europe. Individual members and the EC Commission have failed to contribute to Russian assistance at the levels we had hoped for. So too have negotiations on market access, government procurement, steel and the Blair House Accord on agriculture fallen short of our expectations. The French have been particularly intransigent on agricultural issues and expect the EC to compensate their farmers should France make concessions.

Despite the EC's growing pains and its unresolved disputes with the U.S., EC member states -- both individually and collectively -- remain vital partners. The process of political integration embodied in the EC guards against the renationalization of economic and foreign policy in Western Europe and ensures that Germany remains embedded in larger European structures. Cooperation with the EC is essential to stimulating global growth. Recent differences of opinion over how to respond to the war in Bosnia mask the shared geopolitical interests that ground the transatlantic relationship. Our challenge is to support and facilitate the process of integration within the EC while pressing its members to make the short-term political sacrifices necessary to stimulate global growth and fuel reform in Eastern Europe and the former Soviet Union.

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Declassify on: OADR

International Trade/Uruguay Round

to be provided

OFFICIAL DEVELOPMENT ASSISTANCE TO THE DEVELOPING WORLD  
G-7 COUNTRIES, 1990-92

<u>Donor</u>	<u>Net Disbursements (\$ millions)</u>		
	<u>1990</u>	<u>1991</u>	<u>1992*</u>
Canada	2470	2578	2518
France	7194	7388	8288
Germany	6320	6890	6907
Italy	3395	3347	3778
Japan	9069	10952	11149
United Kingdom	2638	3201	3202
United States	11394	11262	11656

\* Figures for 1992 are preliminary and have not yet been made public; they will be released by the OECD Development Assistance Committee (DAC) on June 24.

EXPLANATORY NOTES

- o Amounts shown are at current prices and dollar exchange rates.
- o Data include U.S. forgiveness of military debt valued at \$1.2 billion in 1990, \$1.85 billion in 1991, and \$0.89 billion in 1992.
- o 1992 data include official development assistance to five Central Asian Republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan). Assistance to several other countries that are being "graduated" from the DAC list will be excluded after 1995.
- o The 1992 increase in U.S. ODA reflects contrary developments. Bilateral debt forgiveness by the U.S. fell sharply, since most 1992 debt forgiveness agreements become effective only in 1993. However, U.S. contributions to multilateral development banks rose \$2 billion as both FY92 and FY93 payments were deposited in calendar year 1992. Final 1993 ODA figures will also be heavily influenced by the timing of various aid flows.

G-7 ECONOMIC ISSUES: CENTRAL AND EASTERN EUROPE

Central and Eastern European (CEE) states have implemented significant political and economic reforms, and have realized rapid growth of the private sector. Nonetheless, the combined effect of transformation to a market economy, collapse of the CMEA trading system, and recession in western Europe has been a sharp contraction of output, increased unemployment, relatively high inflation, and a decline in living standards. Severe droughts are aggravating the situation. There is widespread discontent with the burden of reform.

- A key objective for CEE states is membership in the EC, as well as NATO. CEE access to EC markets in steel, textiles and agricultural products is a sensitive issue. The EC Commission has been wary of bold initiatives.
- We support closer CEE ties with the EC, but not if they unfairly disadvantage US interests, as occurred when Poland raised its tariffs on certain non-EC imports.

The Northern Tier countries continue to set the pace for economic stabilization and reform. Free trade agreements are in place among them and are being finalized with the EFTA countries. Association Agreements with the EC have been agreed as a step toward full EC membership.

- Poland is expected to have a second year of slight GDP growth in 1993. Frustration with reform measures contributed to a vote of no-confidence in June; new elections are scheduled for September. Hungary's projected fiscal deficit has forced the government to propose a tough new budget. This year's expected stagnation or further decline in GDP could dominate next spring's elections. The Czech Republic is continuing with reform. Political infighting has hindered Slovakia's efforts to deal with its economic problems. Inter-republic trade has dropped sharply with the split of Czechoslovakia.

In the Southern Tier, domestic political difficulties in Bulgaria and Romania impeded progress, but both new governments appear committed to reform. Both are renegotiating IMF Stand-by Arrangements. The EC concluded Association Agreements with them and a trade and cooperation agreement with Albania. Romania eliminated remaining consumer price subsidies in May. Bulgaria has moved on agricultural reform, but other aspects of its privatization program have stalled. Albania is fast becoming the IMF's "star pupil" in the region; positive growth in GNP is projected for 1993. Trade losses as a result of UN sanctions against Serbia are mounting.

The Baltic States -- particularly Estonia -- have made much progress with inflation and output stabilization, but their economies remain intertwined with that of the NIS. The significant ethnic Russian minority complicates reform, especially in Latvia. Lithuania's new government of former communists has pledged to continue reform.

## DEVELOPING COUNTRIES

A key Japanese initiative for the Summit is to gain G-7 endorsement for a "Comprehensive Approach to Developing Countries." The GOJ is expected to pair its initiative with the announcement of its 1993-97 ODA target, reported to be in the \$70-80 billion range.

We agree with the basic thrust of the initiative -- integrating developing countries into the world economic system. However, we oppose several specific elements, including "enhancing" (increasing) the quantity of aid; promising not to divert future aid to other priorities (i.e. the NIS); and setting up new institutions for a dialogue with developing countries.

The U.S. has long opposed quantitative targets as a poor measure of the impact of development assistance. In contrast to that of other donors, our aid is provided as grants largely for development and humanitarian support.

We support the initiative's stress on the need for developing countries to follow sound macroeconomic policies and open their economies to trade and foreign investment.

-- Developing countries that consistently follow economic policies supporting macroeconomic stability, outward oriented trade regimes, and market systems have grown most rapidly and reduced inflation.

The IMF forecasts 5 percent real GDP growth for LDCs as a whole in 1993 and 1994, with higher growth in those instituting market reforms.

-- Economic policy reform have enabled Chile, Mexico, and Argentina to sustain growth and reduce inflation, while countries like Brazil have suffered economic decline and hyper-inflation.

Annual average inflows of foreign direct investment to developing countries doubled during the 1980s and promise to grow faster than foreign aid in the 1990s. Trade liberalization and hospitable investment climates will permit developing countries to attract foreign capital, service their debts, and enjoy economic growth.

-- Open trade regimes foster structural improvements and encourage more competitive and efficient economies, technology transfer and long-term cooperation with multinational corporations, thus enhancing commerce, growth, and development.

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A number of steps have been taken to put into place the Joint Action Program announced by the U.S., Russia, the United Kingdom, France and Spain on May 22. At the United Nations, the Security Council has moved to establish a War Crimes Tribunal and has passed a resolution creating "safe areas" to protect isolated enclaves in Bosnia. The U.N. Secretary General has issued a plan for implementation of the "safe areas" resolution which calls for the deployment of an additional 7,500 UNPROFOR forces. (The Security Council must now consider a new resolution endorsing this plan.) The Security Council has further adopted a resolution calling for the UNSYG to develop a plan for the deployment of international monitors on the borders of Bosnia-Herzegovina.

The United States has agreed to use its air power, along with the NATO Allies, to protect UNPROFOR forces (including those in the "safe areas") that are attacked and request such assistance. We have also indicated that we would be prepared to provide air transport assistance for other countries contributing forces to UNPROFOR's protection of the safe areas.

In accordance with the Joint Action Program, the United States has further offered approximately 300 troops to the UN to augment the existing UNPROFOR forces now stationed in Macedonia. These troops will provide tangible and symbolic evidence of U.S. involvement and our commitment to prevent spillover of the conflict. The Security Council is currently considering a resolution authorizing the increase in UNPROFOR forces in Macedonia.

Talked in Geneva continue, albeit with great difficulty. The Vance-Owen plan to create a multi-ethnic Bosnie of ten provinces has given up to a core idea of a 3-part Bosnia held together in loose confederation. The Bosnia Presidency, now divided, do not favor this plan -- but frankly, have limited options at this point. With Milosevic having proposed the plan and Tudjman now reportedly on board, the Bosnian Serbs and Croats are probably not far from acceptance.

Tudjman also declared that Croatia would support a renewal of the UNPROFOR mandate in Croatia -- which expires at the end of June -- for one month and stated that a further extension would require that the mandate be strengthened to include UNPROFOR control of Croatia's borders with Bosnia and Serbia.

Fighting continues on the ground in Bosnia, although yet another ceasefire has been called for beginning June 18. In the meantime, UN observers finally arrived in the enclave of Gorazde and reported finding "considerable destruction."

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## ENVIRONMENT AND OTHER GLOBAL ISSUES

### BACKGROUND

The United States should pursue specific objectives on the following four issues at the Tokyo G-7 summit: international financial institutions, population, global climate change and biodiversity.

### INTERNATIONAL FINANCIAL INSTITUTIONS

Perhaps the most important post-UNCED issue for the G-7 is financial assistance to developing countries to (1) support sustainable development and (2) provide assistance in achieving the goals of global environmental protection in areas such as climate change, biodiversity, and the protection of international waters. Given budget constraints, it is essential to align existing funding with this agenda, and to ensure that our international financial institutions are structured to meet this objective.

We strongly support a G-7 statement that makes the goal of promoting environmentally sustainable development a priority of the multilateral banks; that ensures that all institutions involved with international technology cooperation and finance are transparent in their operations and committed to assessing the impacts of environmentally significant projects and programs; and that urges the multilateral banks to improve their policies in sectors with global environmental impacts, for example by promoting least-cost energy strategies that give equal consideration to investments in energy conservation and end-use efficiency.

Many of these principles have been on the U.S. agenda in the past, and some of our appropriations bills condition U.S. spending and voting on transparency requirements and the conduct of environmental impact assessments. Yet we have received little support from others in the G-7 for the adoption of these principles. The World Bank is now moving slowly towards improved policies in all of these areas, but more needs to be done. For the World Bank, implementation is the key, whereas for the other multilateral banks policy reform is not yet on the horizon. A strong statement from the G-7 will improve the chances that these reforms are made and implemented.

All nations are now involved in the restructuring of the Global Environmental Facility (GEF), the multilateral financial mechanism for assisting developing countries in achieving the goals of global environmental protection. The United States is committed to restructuring based on the principles of fair governance, transparency, accountability and cost-effectiveness, and has won the support of developing countries and developed countries other than the G-7 for its specific proposals. Most of

the G-7 countries are resistant to our proposal for more democratic governance and for more independence from the World Bank, particularly the United Kingdom, Japan and France. It is useful to point out that if these principles are not the basis for the restructuring of the GEF, developing countries may advocate the establishment of separate financing mechanisms for each of the global environmental conventions. This is not an acceptable outcome for any of the G-7, and it is therefore important to have the G-7 endorse the principles on which the U.S. proposal is based.

#### POPULATION

Rapid population growth is one of the most serious problems the world faces today, and the Administration has taken a number of steps to deal with this issue, including reversing the Mexico City policy and proposing increases in U.S. population assistance. However, while the U.S. and Japan are actively supporting international population programs, other G-7 donors, especially France, could do more either bilaterally or through multilateral mechanisms.

In light of this, the United States should actively encourage the G-7 to devote increased resources to population programs, and to make the 1994 International Conference on Population and Development a priority. The Japanese will clearly support this view, and others are not likely to quarrel with it. In addition, we support a strong G-7 statement making population issues a component of national sustainable development plans, and broadening the definition of population issues to include the enhanced role and status of women, improved health and nutrition, universal literacy which eliminate discrimination against women, as well as the whole range of reproductive healthcare services including family planning.

#### GLOBAL CLIMATE CHANGE

With the Administration's decision to limit greenhouse gas emissions to their 1990 levels by the year 2000, all G-7 nations have now committed to specific reduction targets. The EC countries have adopted carbon dioxide targets, although they have recently indicated that they may have difficulty meeting those targets. The Japanese have adopted a per capita carbon dioxide target. All G-7 countries are now considering possible measures to achieve these targets. The U.S. action plan for meeting the year 2000 target will be completed in August, which is substantially faster than other G-7 countries.

It would be desirable for the summit communique to reaffirm the G-7 stabilization commitments, and to call for the timely development and implementation of action plans. The G-7 should also commit to beginning a process to consider longer term

approaches to the climate change issue, while maintaining economic growth.

#### BIODIVERSITY

With the June 4 signing by the U.S. of the Biodiversity Convention, all G-7 countries have now signed the accord. Prior to ratification, we intend to continue working with like-minded countries to resolve remaining concerns over the convention's provisions on intellectual property and financial assistance. Other than Japan, which has indicated its support for most of our interpretations, the G-7 has not been forthcoming in working with us on specific language. The EC is proposing a general statement that deals broadly with intellectual property and financing interpretations as they are fearful of the response a specific statement might elicit. Although we are somewhat flexible, reaching an agreement is important to us prior to submittal of the treaty to the Senate for advice and consent. It would therefore be helpful if the G-7 communique reaffirmed its commitment to biodiversity preservation along lines that respect intellectual property rights.

## ENVIRONMENT AND OTHER GLOBAL ISSUES

### INTERNATIONAL FINANCIAL INSTITUTIONS

#### POINTS TO BE MADE

- Financial assistance to support sustainable development is perhaps the most important post-UNCED issue for the G-7.
- We believe the G-7 should emphasize the importance of ensuring that the multilateral banks adopt sustainable development as a priority, and ensure that they assess the environmental impacts of their projects and programs.
- Although the MDBs have begun to take environmental considerations into account, more needs to be done in this area. For example, MDBs could be encouraged to promote least-cost energy strategies that give equal consideration to energy conservation and end-use efficiency.
- The G-7 should also reaffirm its support for restructuring the Global Environment Facility (GEF) so that it can fund projects with global environmental benefits, including programs agreed to under the climate change and biodiversity conventions. It is important that the G-7 commit to a restructuring based on the principles of fair governance, transparency, accountability, and cost-effectiveness.

### POPULATION

#### POINTS TO BE MADE

- The G-7 should encourage common efforts to stem the world's rapid population growth.
- We should all be actively engaged in the preparations for the International Conference on Population and Development in Cairo in September 1994;
- In addition to strong support for comprehensive family planning activities, population issues should be broadly construed to include the enhanced role and status of women, improved health and nutrition for females, universal literacy and other measures which eliminate discrimination against women;
- In light of the linkages between population, environment and development the G-7 support making population a key component of their national sustainable development plans and actively support increasing bilateral and multilateral resources for population programs.

GLOBAL CLIMATE CHANGEPOINTS TO BE MADE

- Climate change is a priority issue and we have now committed to reducing greenhouse gases emissions to 1990 levels by the year 2000.
- We intend to complete an action plan by August outlining the specific programs we will implement in order to achieve this target.
- The G-7 should call for all countries to consider ratifying the climate change convention as soon as possible.
- It is particularly important that developed countries take the lead in addressing this threat in order to set an example for the rest of the world. It is important that the communique include a commitment for us all to complete such plans at the earliest possible date.

BIODIVERSITYPOINTS TO BE MADE

- As you know, the United States signed the Convention on Biological Diversity on June 4.
- We strongly support the convention, but believe the G-7 must work together to address ambiguous convention provisions, particularly those relating to the protection of intellectual property rights (IPR).
- We believe the G-7 should call for countries to consider ratifying the biodiversity convention in a manner that is fully consistent with adequate and effective IPR protection.

## UN MANAGEMENT REFORM

Last year the UN Secretary General (UNSYG) began his tenure with an impressive commitment to reform/restructuring that included the elimination in March 1992 of 13 high level posts and the streamlining of some functions within the UN Secretariat. At that time, the UNSYG announced that reform/restructuring would be a continual process until such a time as he was satisfied that the UN Secretariat was functioning at "full efficiency." We strongly supported the UNSYG's initial efforts, believing that the momentum for reform would accelerate later in the year as the UNSYG announced subsequent phases of his overall reform program. However, we have been somewhat disappointed by the lack of significant follow-up to the initial efforts. Of concern was the UNSYG's announcement last December that a restructuring of the UN's social and economic sectors would increase (by two) the number of high-level posts in the UN Secretariat.

As part of the overall restructuring, the U.S. has suggested the establishment of an Inspector General or similar oversight mechanism in the UN. This would improve the UN's management of scarce resources and ensure that adequate controls are in place to help prevent waste, fraud and mismanagement. The UN's existing oversight mechanisms, e.g., the Joint Inspection Unit and the UN's internal evaluation unit, are weak and largely inadequate in providing effective oversight.

Although we have suggested the creation of an Inspector General system, we are not wedded to specifics. What is essential is putting in place an effective oversight mechanism that will ensure full accountability of management performance both to the UN Secretary General and the UN member states. Such a mechanism is of some urgency in view of the UN's ever increasing responsibilities and costs.

Related to UN management reforms is the UN budget process. The UNSYG is currently formulating his draft 1994-95 UN budget for the 1994-95 biennium which will be considered by the General Assembly this autumn. We would expect that the budget will reflect a range of significant measures necessary to improve the management of the UN, including provision for creation of an effective oversight mechanism.

Ambassador Melissa Wells (U.S.) recently assumed the position of UN Under Secretary General for Administration and Management. We are hopeful that Ambassador Wells will play a key role in moving the reform efforts forward, especially at an accelerated pace. Moreover, her active involvement will help ensure that UN reform/restructuring remains a high priority issue within the UN.

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ARAB LEAGUE BOYCOTT

A vigorous antiboycott statement in the 1993 G-7 Political Declaration would affirm G-7 solidarity against the boycott, support the Middle East peace process, enhance prospects for harmonized antiboycott legislation among the G-7, and serve notice to states which apply the boycott that the world's major trading nations oppose it. This statement is a part of our two-pronged strategy to urge our trading partners to take antiboycott steps and to urge Arab League states to end their boycott enforcement.

The July 1991 G-7 Political Declaration stated, "We believe that the Arab boycott should be suspended as should the Israeli policy of building settlements in the occupied territories." At the 1992 G-7 Summit in Munich, we were unable to get antiboycott language into the Political Declaration.

Congress and US Jewish organizations are pressing increasingly for action on the boycott issue. We are making steady progress. On June 7, Kuwait announced publicly that it would no longer enforce the secondary and tertiary aspects of the boycott, which discriminate against US and other third-country firms. We are urging other Arab League states to make similar statements. Saudi Arabia and Kuwait are deleting boycott clauses in many commercial documents in response to our requests. However, a formal end to the boycott, including its primary aspect, which is directed at Israeli products and firms, awaits much further progress in the peace process.

Only Canada has explicitly agreed to support the inclusion of boycott language without linking boycott and settlements. Other states, including the UK, may seek linkage between the boycott and settlement activity. The French have told us they do not necessarily rule out G-7 boycott language. We may have stronger support from Germany than previously because it recently implemented antiboycott regulations and favors EC-wide antiboycott legislation. In late 1992, Japan called for an end to the boycott as it affects Japanese firms.

We seek to strengthen a weak boycott reference which is already under consideration for the 1993 Political Declaration. We should press for an end to the boycott's secondary and tertiary aspects, emphasizing the damage they cause firms from G-7 countries. We do not want to link Israeli settlements policy to the boycott's end, which is justified on its own merits. Further relaxation of this barrier to commerce would help US and other foreign firms to expand their operations into both Israel and the Arab world.

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U.S. INITIATIVE ON G-7 NON-PROLIFERATION CONSULTATIONS

As strong supporters of non-proliferation and providers of economic and security assistance, the G-7 countries carry major political weight in international forums; as key suppliers of arms and related technology, their concerted actions can have meaningful effects against proliferation.

The U.S. believes the G-7 provides a useful multilateral forum for the western industrialized nations to discuss broad non-proliferation strategies and coordinate their efforts.

Such discussions, which are inappropriate or politically unacceptable in the broader international forums -- International Atomic Energy Agency (IAEA), Chemical Weapons Convention (CWC), Nuclear Suppliers Group (NSG), and Missile Technology Control Regime (MTCR) -- could lead to coordinated and effective measures to enforce and supplement existing non-proliferation efforts.

Germany, the UK, Italy, Canada, and especially Japan, have expressed strong support for G-7 consultations on non-proliferation. France has expressed reluctance to attend such consultations in its desire to keep the G-7 strictly focused on its economic mandate.

EXPORT CONTROLS AND FUTURE OF COCOM

We are conducting a thorough review of our COCOM policy in order to respond to the objections raised by President Yeltsin to COCOM's continued multilateral control of exports to Russia.

Our reform proposal will provide a roadmap for Russia and other COCOM-proscribed countries to qualify for removal from COCOM controls and will seek Russian partnership in a new institution that will coordinate sensitive exports to other destinations of concern.

The new export control regime that we are proposing will attempt to build on previous G-7 export control discussions on the harmonization of export policies to Iran. We will seek a general policy of denial of sensitive items to Iran, Iraq, Libya, and North Korea, and a mechanism for prior consultation for exports to other regions of concern.

The USG will likely present our initial thoughts on this issue to several key allies during the next several weeks.

At the same time, the U.S. and other COCOM members are continuing efforts to assist Russia and other countries of the former USSR to develop and implement effective export controls.

## MIGRATION AND REFUGEES

Issues related to the movement of people across borders, be they refugees or economic migrants, are making their way up the domestic political agendas of the G-7 nations.

Europeans are extremely concerned with increasing migration flows to the developed world. Refugees from the fighting in the former Yugoslavia are intensifying pre-existing tensions over immigration policy and asylum abuse.

-- This is not just an issue for Germany. Across Europe, social heterogeneity is a new phenomenon, and many are uncomfortable with cultural diversity. High unemployment is exacerbating xenophobic sentiments.

In the United States, the Departments of Justice and State are working with Congress to reform our asylum system to address problems posed by Chinese, Haitians and others. Migration is important in the NAFTA context.

In Russia, the U.S. is assisting with citizenship and immigration programs to help facilitate the integration of returning populations.

The U.S. wants the G-7 to highlight the need to tackle the root causes of uncontrolled migration: conflict, persecution, and gross economic disparities between key migrant source and host countries.

-- On the political side, the European Community, the Conference on Security and Cooperation in Europe (CSCE), the Council of Europe and several other multilateral groups are working on the thorny legal and conceptual problems associated with uncontrolled migration.

-- On the economic side, the U.S. wants greater high-level policy consideration given to the relationship between migration and development. The Organization for Economic Cooperation and Development (OECD) is beginning to examine the migration issue.

The U.S. leads other nations in humanitarian assistance worldwide. Major resource demands for Bosnia are compounding a severe worldwide humanitarian funding gap.

Repatriation is the preferred durable solution for refugees. Getting refugees back to their homes in Mozambique, Afghanistan, Eritrea, Ethiopia, Somalia, and Guatemala is thus a high priority, but is expensive: estimates run over \$150 million.

IRAN

USG principals have recommended that our Iran policy focus on unacceptable behavior. Our approach is not "anti-Iranian" or "anti-Islamic," and it does not seek to change Iran's form of government. G-7 members agreed informally in September 1992 to a common set of principles, proposed by the U.S., to which we would all hold Iran responsible. These call on Iran to:

- Abandon in word and deed its support for terrorism;
- Abandon all efforts to obtain or develop weapons of mass destruction and other destabilizing weapons systems which posed a risk to regional security;
- Respect the basic human rights of all its citizens;
- Demonstrate meaningful commitment to the Nuclear Non-Proliferation Treaty;
- Cease support for and advocacy of violence against the Arab-Israeli peace process;
- Respect the integrity of other states and abstain from intervention in their domestic affairs.

Obtaining Iran's compliance to the principles enunciated above requires coordinated international pressure, but does not rule out the potential for improved relations should Iranian behavior change. The U.S. is seeking G-7 support for a strong statement on Iran in the final political declaration. The language we will propose is based on the common set of principles listed above and the text agreed to by the G-7 counter-terrorism experts at their Tokyo meeting in May.

We seek Iranian adherence to the above principles, but believe that Tehran will not alter its behavior unless the economic and political price of pursuing its policies is made unacceptably high. Our efforts to increase the pressure on Iran include measures being taken in the G-7 and the EC. The Secretary raised the issue of economic constraints most recently with the EC on June 9, and obtained agreement to further meetings and exchanges of information. In the G-7 forum, we have had only limited success in pressing allies to adopt stringent export control policies on dual-use items to Iran and other countries of concern. At the end of June, we will approach our European allies with a proposal to transform COCOM from a Cold War export control organization targetted at the communist world into an institution which focuses on new countries of concern, such as Iran.

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IRAQ

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While Iraq has avoided major challenges to the UN and coalition since January, Baghdad has turned up the heat recently in a number of areas, and retains the ability to make a dramatic move on short notice. We are in continuing touch with key partners (i.e., the UK and France among the G-7) on managing issues which have arisen in recent weeks and possible future challenges.

Iraq recently began escalating the level of its resistance to the United Nations Special Commission (UNSCOM), the UN agency charged with dismantling Iraq's weapons of mass destruction program. UNSCOM is also tasked with establishing long term monitoring measures to make sure Iraq does not revitalize its arms industry. In January, the Coalition used force when Iraq refused to comply with its obligations to UNSCOM under these same UN resolutions. We have, along with our P-4 partners at the Security Council, reaffirmed our strong backing for UNSCOM's activities, implying a readiness again to use force if Iraq does not meet its obligations.

Another potential flash-point is in northern Iraq, where over 50 percent of Iraqi ground forces are deployed facing Kurdish-held areas. While these forces have been in an enhanced state of readiness for over a year, we see no evidence to suggest planning for sustained operations at this time. U.S., U.K., French and Turkish forces under Operation Provide Comfort have helped deter Iraqi military adventurism in the North since April 1991. However, should Iraq mount a sustained ground attack, present strength Coalition forces could not halt its advance. Basing rights for Operation Provide Comfort operate on a mandate which is reviewed by Turkey's parliament every six months. Renewal of Provide Comfort in late June appears on track.

Despite US and international efforts over this past winter, the humanitarian situation in northern Iraq continues to deteriorate. Measures by Baghdad to apply pressure on the Kurdish areas, and UN economic sanctions designed to pressure the regime, have both taken their toll. We are taking the lead with the UN and private relief agencies to pull together as effective a relief program as possible in the months ahead.

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LIBYA, PAN AM 103

UNSC Resolution 748 imposed sanctions upon Libya because of its non-compliance with Resolution 731, which demanded:

- Libya's surrender of the two suspects in the Pan Am 103 bombing to U.S. or U.K. justice;
- Libya's cooperation in the international investigations of the Pan Am 103 and UTA 772 bombings;
- payment of appropriate compensation to the victims; and
- the end of all Libyan support for international terrorism.

We are pushing for additional sanctions in discussions with the UK and France. The UK favors an oil equipment embargo but opposes an asset freeze. France is proposing a limited asset freeze and refinements of existing sanctions. We have made a counterproposal, adding an oil equipment embargo and modifications to the French asset freeze to avoid disrupting the financial affairs of several friendly nations. A trilateral meeting is tentatively scheduled for late June, at which we hope to develop a common recommendation to the UNSC for the August review of the sanctions regime.

Libya's ongoing attempts to negotiate the repeal of sanctions and an end to its international isolation through intermediaries and compromise proposals are disingenuous efforts to avoid compliance with the UNSC demands.

U.S. sanctions, imposed in 1986 and including prohibitions on direct trade and commercial contacts with Libya, are aimed at compelling Libya to:

- end its involvement in destabilization (and terrorist) activities,
- abandon all efforts to achieve chemical warfare or any non-conventional warfare capability, and
- reduce purchases of weapons systems with long-range offensive capabilities.

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CAMBODIA

Nearly 90% of those registered voted in the UN-sponsored elections May 23-28. The high turnout was a defeat for the Khmer Rouge (KR) who had denounced the elections. The UN has certified the elections as free and fair.

Prince Ranariddh's party, FUNCINPEC, won 45% of the votes and 58 seats, followed by the Cambodian People's Party (CPP), the political party of the Phnom Penh authorities, with 39% and 51 seats, and Son Sann's Buddhist Liberal Democratic Party (BLDP) with 4% and 10 seats.

The constituent assembly is to adopt a new constitution and form a new government by late August.

An immediate issue is whether and how the current Phnom Penh regime (the State of Cambodia - SOC) will cede power.

- Although the SOC has not officially accepted the election results, they are participating in the constituent assembly.
- On June 10, hard-line SOC elements threatened to lead a secession of several provinces from Cambodia. However, the secession has collapsed.
- At its first meeting on June 14, the constituent assembly voted to recognize Prince Sihanouk as head of state. We have welcomed this move, and encouraged the parties which participated in the election to work together to form a broad coalition.

Another key issue is the possible inclusion of the KR in a coalition.

- Despite SOC opposition, there could be an effort to include the KR in a broad coalition government to avoid further fighting.
- The KR is likely to pose a military threat to any government which does not include them.
- We have said it is up to the elected Cambodian leaders to decide on the composition of the future government. However, we have stressed that we would have difficulty supporting a government with a KR presence.

Finally, the P-5 and core group countries are discussing ways to provide assistance to the new government to help address its long term security and economic problems.

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NORTH KOREA

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The U.S. has made it clear to the DPRK that relations cannot begin to improve until it: facilitates progress in the North-South dialogue; resolves the nuclear issue satisfactorily; renounces terrorism; regularizes procedures to fully account for all U.S. military personnel missing in action during the Korea War, and demonstrates greater respect for human rights. We have also noted to them our grave concern about their exports of ballistic missiles and related technology.

In support of ROK President Roh's initiatives designed to draw North Korea out of its isolation, the U.S. announced in 1988 a "modest initiative" toward the DPRK that allows:

- unofficial, non-governmental visits and exchanges between the DPRK and the U.S. for academic and cultural purposes;
- humanitarian trade involving "basic human needs"; and
- substantive discussions between U.S. diplomats and their DPRK counterparts, mostly in Beijing. Since January 1989, our political counselors in Beijing have met 33 times, most recently in May 1993.

The DPRK subsequently joined the UN in 1991, signed the North-South Non-Aggression and Reconciliation pact at the end of 1991, and the Joint Denuclearization Declaration in January 1992. The DPRK then signed a nuclear safeguards agreement with the IAEA, as it had pledged in 1985 when joining the NPT, and allowed IAEA inspections to begin in June 1992.

These positive developments and continuing progress in the North-South dialogue were abruptly reversed in late 1992 and worsened rapidly when North Korea refused in January 1993 to allow the IAEA access to two possible nuclear waste sites. On March 12, the DPRK announced that it would withdraw from the NPT.

The U.N. Security Council on May 11 passed a resolution that urged the DPRK to cooperate with the IAEA and to implement the North-South denuclearization accord. The U.S. held talks with the DPRK in early June that led to North Korea "suspending" its withdrawal from the NPT. The talks will continue, aiming for a comprehensive resolution of the nuclear issue. North-South talks are scheduled to resume in early July.

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MIDDLE EAST PEACE PROCESS

The recent sessions of the bilateral talks of the Middle East peace negotiations have produced intensified engagement on substantive issues but no breakthroughs. It is vital for the continued viability of the talks that tangible progress result soon. Progress in the Palestinian and Syrian talks is the key to movement across the board. With the Syrian talks deadlocked, we are focusing our efforts on the Israel-Palestinian track.

U.S. Role: Playing the role of full partner, the U.S. has worked intensively with all parties to narrow differences and offer ideas, including a U.S.-drafted document (in the Israel-Palestinian track during the May session). Arabs harbor some doubts about U.S. evenhandedness. They believe the US should do more to "enforce" the terms of reference of the negotiations.

Palestinians-Israel: Palestinians, hampered by a divided, weak delegation, and under pressure from both the PLO in Tunis and the population in the occupied territories, have insisted they need improvements in the situation on the ground in the territories before engaging on the substance and details of interim self-government. Israeli security forces killings of Palestinians and the closure of the territories, especially Jerusalem, remain serious problems for the Palestinian delegation in maintaining credibility with its constituency.

Frustrated by the Palestinian pocketing of previous human rights gestures, the Israelis are unwilling to make further concessions, including unilateral gestures on the ground, without evidence of Palestinian seriousness at the table.

We have stressed to the parties the need for tangible results. The U.S. draft joint statement of the May session incorporated elements from draft declarations of principle both sides had offered. The U.S. paper attempted to capture the substantive progress the parties have made and focus them on a way ahead. We are pushing both sides to work toward a joint statement of principles based on an enhanced version of the US paper.

Jordan-Israel: Israel and Jordan have agreed ad referendum on the text of a joint agenda for their talks. However, the Jordanians are adamant that they need political cover -- progress in the Palestinian talks -- to approve the agenda formally and move forward. The Jordanians have also identified repatriation of some Palestinians ("family reunification") as necessary before progress can be made on bilateral issues.

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