



United States Department of State

From the desk of
George Bush



BRENT

~~SECRET~~

MEMORANDUM OF CONVERS.

Date: Friday, May 1
Time: 11:00 am - 4:
Place: Kremlin

PARTICIPANTS:

U.S.:

USSR: Mikhail Gorbachev
Eduard Shevardnadze
A. Chernayeb, Notetaker
Interpreter

1. Here with the only copies
+ copy of my prelim ~~note~~
2. I will take original
to Kipov. I can
share with Gates, tho
he was there -

Gorbachev: I am glad to see you again in Moscow. Our meetings provide a chance to build on the capital in our relationship.

You know that capital likes to be expanded and I think given the fact our meeting is happening in a certain context we can see that there is a certain potential for expansion. Our relations are characterized by a greater dynamism, more than they were in the past. What happened in the past is that we inserted actual problems as they occurred and were not, as a result, in a position to deal with those problems. After all, we would see certain problems and as a result of the problems there'd be a slow down or a contraction in our relationship. The problem if anything would make dialogue more difficult. Today because of our new relations and dynamism we have the potential to increase our dialogue when there are problems.

At the same time, I have to tell you that as I watch your country it seems to me that the process about deciding about the Soviet Union is a process that is not fully complete yet. One looks at a time like this, a time of great change, and you cannot afford to look at it from the standpoint of one or two Presidential terms. If you do, you will not really understand what's going on. What we're talking about now is about developing a long-term foundation for the whole world. We are developing an architecture for the whole world. And that's not just for the life of one President's term or two terms; it has a much longer term significance.

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PER E.O. 13526
2011-0837-MR
SCS 2/25/13



United States Department of State

Washington, D.C. 20520

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MEMORANDUM OF CONVERSATION

Date: Friday, May 18, 1990

Time: 11:00 am - 4:00 pm

Place: Kremlin

PARTICIPANTS:

U.S.: Secretary Baker
Dennis B. Ross, Notetaker
Interpreter

USSR: Mikhail Gorbachev
Eduard Shevardnadze
A. Chernayeb, Notetaker
Interpreter

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You're probably bothered, it seems to me, by two problems. One, you're being very closely involved and identified with Gorbachev and you may ask yourself if it is worth it. We see the public debates in your country and I know there are many advisors who want to advise you on how to deal with this, how to deal with me. Let me tell you that for the time being I believe that you and the President are showing amazing restraint in terms of sticking to your position. The second problem is that I have the impression that we have been formulating a mutual understanding in terms of how to build our relations at this stage of world development. I believe that one of the central understandings that we have agreed upon is that we both have a very strong interest in a strong and confident United States -- politically, economically and militarily -- and we both have a strong interest in a strong and confident Soviet Union -- politically, economically, and militarily.

You know we began predicting two or three years ago, maybe even eighteen months ago, that we were on the verge of a major regrouping of forces in the world. We even saw that our interaction was not only useful to the two of us, but in fact useful for the world. My feeling now is that sometimes we still see a philosophy that suggests maybe there can be a repeat of the past. Maybe some of the political actions that dominated the past have not totally been put behind us. As I watch the critical points of our relations, sometimes I have a sense that you want an edge, you may seek an advantage. In the past I would note this and I would watch this. Now I think our relations are such that I have an obligation to share my view with you. That our relations have brought us to the point where that kind of candid discussion is very possible. What do I have in mind when I say this? First, I say this because I think that you are a man of very clear ideas and understanding and that's why I feel I can talk this way to you and that you'll take note and understand what I am saying.

Well, for example, let's take Eastern Europe. Everything that's happening there we have discussed with you and we are acting in accord with what I said we would do. But I have information that a part of your policy is driven by trying to disassociate Eastern Europe from the Soviet Union. You know my attitude is if these countries seek to disassociate themselves, if that's what they want, let them do so. That's okay. But it's not okay if they are being pushed in this regard.

Let's take another example, on the question of a united Germany. Your position on this I believe is contradictory. I don't know what the origin of that is, maybe you fear a united Europe. But I think that both in Europe and here in the Soviet Union we recognize the need for US presence. It's very clear to us, it is very clear to Europeans that there has to be a US presence. ~~It doesn't necessarily have to be a military presence but there has to be a US presence in all European processes.~~ That's the way I view things and it's the only way to view things, I believe.

You've said to us that both Germanies want peace, they both want democracy, and therefore, they pose no danger. But let me ask you if they pose no danger, if this is so, and I have said it to President Bush when I talked with him on the phone, then why not let the Germans go and become a member of the Warsaw Pact. I believe when I said this, President Bush was dismayed. Perhaps you would say that we could trust the Germans, that they have proved themselves. But I would ask you, if you trust the Germans why do you feel it's not necessary to include them in NATO? So when you are talking about a united Germany and you say that if Germany is not in NATO, it would create problems, what you are really saying is that you don't believe Germany can be trusted.

You know I could understand it if you offered a realistic analysis that said if Germany is out of NATO that would seriously undermine the infrastructure of NATO. That's an argument I could understand. But if you are saying that, then there's a problem. Because then you're saying you continue to need a bloc even when the other alliance is disappearing. We shouldn't have one alliance displace the other. What we need is a new security structure in Europe and you're saying that NATO is necessary for now, and the future because the Soviet Union still has large military forces. But if that's the position you premise NATO on now then I think that's really not consistent, I think it's contradictory. I just don't see how that is consistent with the principle that we're now trying to build our relationship on -- and this is a relationship of mutual understanding. It shouldn't be one that is driven by a sense of a Soviet military threat.

In developing this argument, perhaps I've spoken too long, but I believe it's important. A united Germany in NATO, that's going to mean a very serious development in the strategic balance; it's going to mean a serious shift in the balance. I think you have to ask what's going to be the next logical step for us. You are a man of logic and I ask you what's the next logic step for us? Well, one step might be for us to suspend all talks and to think about how this development is going to affect our doctrine, how it's going to affect our forces; what effect it should have on our approach to the Vienna talks. I say this not because I am playing games, not because I want to engage in a level of political squabbling. I say it because I really believe this is a serious problem for us.

Sometimes I have the impression that you are tempted to take advantage of our process of change and renewal. Now you know that process is not easy; you know it has many difficulties. I do know that trying to take advantage would be a great mistake. To sum up, let me just say that we have shared with you our plans for perestroika, for new thinking. We have laid out our designs for our country and how it should relate to the world. We have talked of our determination to

accommodate with the West, how we seek to meet the US half way, how we seek to integrate our country economically, and culturally with the world -- all of this is something that I think will benefit not only us but also you. And central to our ability to do so is the new relationship with the United States. Is the United States really for this? Is the United States really for building this kind of new understanding? Do you really favor a mutual understanding of our two countries?

Let me tell you how I see things from Moscow now. I believe I have a good understanding of a number of your positions and the nuances of your position. And I must say there are many positive aspects. But I also have to say that there are some elements that worry us. The important factor that shapes us for the near term is the economy. What's it going to be like? How are we going to develop our economic basis and how is it going to affect the political life of our country? How is it going to affect the mentality of our people in inter-ethnic affairs? And how is it going to affect our country in its relations with the outside world? Now we are approaching a time when we have to begin a transition to a regulated market economy. It is the most important thing for perestroika to succeed. It is a fundamental change in our society. It means de-emphasizing state property; it means emphasizing anti-monopoly companies. It means pushing and developing private property, shareholders; it means changing our banking system; it means a new tax system; it means a new price system and a safety net. The sum total of all of this is a radical turn-around. This is a critical time, there's no mistaking that. In fact this is the most critical time for perestroika.

Now, let me ask you are we entitled to expect solidarity and support from our partners? Should events in Nagorno-Karabakh or Vilnius really take up more time in our relations than perestroika and change in our colossal country? At this time of great change we need not just understanding but mutual action. Now what is the United States doing? The US said that it welcomes perestroika. The Secretary of State says this, that he welcomes it. He engages in serious nuances and sophisticated discussions on perestroika. I have seen how you've talked about it in detail -- it's very sophisticated, you're very knowledgeable. At the same time you've also been out there warning everybody against helping the Soviet Union. What's worse you say that any help will actually slow down perestroika. I don't understand the arguments for this position.

I really suspect that instead of doing something and sharing in our problems, and expressing solidarity, this approach is more like saying we'll let them go it alone. Let them go it alone with their problems, if it becomes worse, well maybe that's okay for us. I am saying all this before we meet

in Washington and at Camp David because I think we need to ask questions. Are we going to continue to work together? Is there going to be a change in our role, in the positions of our two countries? We're at an historical juncture. Are we going to work closely together? I had thought that we had finally made our choices in this direction -- both you and we. I really felt that we had already gotten beyond the question of do we want to go forward or not. But as I look at certain events I wonder whether or not that choice on the directions we're going to go is still before us and still to be made. That's why I wanted to meet with you alone first. I wanted to have this discussion, not in front of a larger group, but just with you. I want to have this discussion with our Ministers and with the President.

Baker: I'm glad you decided to do it in a small session like this and I'm glad you decided you should raise these kinds of concerns with me. Because it gives me an opportunity to respond to your questions and they are legitimate questions. And it will give the President a chance as well when he reads this transcript to focus on these issues -- and these are good issues for discussion.

First, there was a period of time at the beginning of the Administration when we were thinking about how to sort out our relations with the Soviet Union. There were a lot of questions about what our relationship should be. But that ended about a year ago. It really ended after my meeting with you here and with Eduard. After that, the President has made it clear that we would no longer be in the position of deciding what our relationship should be with the Soviet Union. We know what it should be like. I have stated it since Wyoming. I said then and I believe now that our relationship is moving from one of competition to one of cooperation and dialogue across the entire range of our relations. Now, obviously the character of our relations at any given time is going to depend upon the actions of not only the United States but also the Soviet Union. Let me assure you that there is no debate in the upper reaches of the U.S. administration about whether we should be closely involved with the efforts that you're making on perestroika. We made that decision last year. The President made that decision last year and we're firmly committed to it.

I said in a speech in October that we seek opportunities that would be mutually advantageous to both our countries. That we need to seek points of mutual advantage, that's what I called it. There is a lot of debate in the U.S. about whether you are going to be successful. There are indeed some who would prefer that you not succeed. I refer to them as old cold warriors -- their old habits die hard. There are some, quite a few, who criticize the President, criticize me for relying too much on our hopes that you'll succeed and for taking action that assist you in your efforts.

I thank you for taking note of the fact that the President has not yielded to the pressure, particularly in the aftermath of Lithuania. I have told Eduard on several occasions that it is not certain that we'll be able to maintain things as we have in the aftermath of Lithuania. We have a fundamental disagreement on this. You know, we have never recognized the forcible incorporation of the Baltics in the Soviet Union, and as a result the Baltic flags fly in the State Department today. I first raised the Baltics and nationalities as a possible problem on the airplane out to Wyoming. This is why we're so anxious to see some sort of discussion develop that could lead to a resolution of this problem. But the last thing we're interested in seeing is instability in the Soviet Union. We make that clear every time we speak. The President has been extremely clear on this. The President has also made it very clear that we don't seek unilateral advantage from changes that have taken place. We're not looking for an edge; and we're not engaging in political game playing.

In a moment I would like to speak more specifically about German unification to give you the benefit of our thinking in that regard. I want to do that because it will also give me a chance to outline how we have been sensitive to your problems and have tried to take your concerns into account. People have asked me, well, what is the United States doing to contribute to the success of perestroika. And one of the things I say is that we are doing a lot to contribute to the stability of the international environment. And a stable international environment, as you yourself have often noted, is critical to the success of perestroika inside the Soviet Union.

The last three times that I testified before Congress I spent a lot of time being hammered on Lithuania and I spent a lot of time defending our policy approach in the face of great criticism. The President and I have both been accused of abandoning principles. Now I say that our commitment to support the aspirations of the Baltic people is not inconsistent with the support for perestroika. We have major interests at stake with the Soviet Union. It's important that there be conventional arms reduction agreement in Europe. It's important that we have a strategic arms reduction that reduces the risk of nuclear war. It's important that we cooperate on regional conflicts around the world the way we have in the last few years. Our policy of moving from competition to cooperation doesn't mean we are going to agree across the board. I already mentioned our differences of view on the Baltics. That's a fact and also a function of history. I know that you are concerned about having the Baltics become a precedent for other republics. But from our vantage point these republics are different. There is a different juridical basis on which to judge them. Another issue on which we don't agree is Cuba. Now I know and understand that you say you have obligations there, and you've told us about them. But it is one on which we disagree. It is an issue on which we have a problem, and really don't understand your position. That doesn't mean that we don't want to move from competition to cooperation overall.

I am very aware of the difficult issues facing you and the pressures that must exist. I look at what you're doing after 70 years of a political, economic and social approach that requires a fundamental overhaul. It's no easy thing for any leader to do that. I really do believe and I know the President does as well that what you're doing is really courageous and we support it. And I think we have been able to move public opinion in the United States in the last 15 to 16 months to support you. But you need to recognize that there is a vocal minority that wants to fight the Cold War and it doesn't trust the Russians. And with what's going on in Lithuania and the economic blockade that you have instituted, they say that Bush and Baker, you are just being naive. You don't recognize that the bear is still there.

Now, let me ask a word about your comments about warning people not to help the Soviet Union. After that I would like close with a comment on Germany. I presume you must be talking about the European Development Bank. Our position is that we could not justify the use of U.S. taxpayer dollars to provide subsidies for state-owned institutions in the Soviet Union. Indeed, even with you being in a position that you could only borrow back the capital that you paid in, we will still have a major battle with the Congress. And this stems from the fact that you continue to allocate, at least according to our information, up to 14 to 15 billion dollars for support to regimes around the world that are supporting subversion in other countries. Like, for example, Cuba. So our Congress says how could you draw on taxpayer dollars when the Soviets continue to use their own resources to support Cuba? How can we, in effect, help subsidize the Soviets when they are subsidizing an aggressive country like Cuba. I had this discussion with your Finance Minister when he came and he raised the issue of direct loans from the United States.

Gorbachev: He told me about that discussion. He said the Secretary of State categorically rejects providing direct loans, though other Western countries are prepared to support the idea. You really put a dam on this effort. I recently visited Sverdlovsk and I visited a defense factory there that is in the midst of converting itself to producing civilian products. That plant has good workers, good designers, good technology and research and development. But in order to convert it's going to need two to three years. Right now their financial situation is awful. Previously because of a lot of defense orders it used to be a thriving plant. Now they have found a partner for themselves -- the Phillips Corporation. Phillips has an interest in the scientific development of this plant. But they weren't sure they should invest in this plant. Because, as you know, the Germans are rather cautious. But when they actually saw the plant they apologized for their hesitancy and signed an agreement to participate. In two years time the products from that plant are going to be competitive with any in the world. So the Germans are saying to us that

you know there's some interesting research and development possibilities -- let's get together. And I've been thinking all the time that you can't really build a good U.S.-Soviet relationship if it is not underpinned by a good economic relationship.

Baker: I agree with that.

Gorbachev: But while you seem now to want to mark a little time, that's going to impose a cost. Our existing cooperative ties will be reduced as a result of that. A process like that can be dangerous. The Supreme Soviets and our deputies want and are insisting on new economic relations with all countries. And they feel that should be based upon our new economic principles. That's not going to happen over night. We certainly don't want to see the ups and downs in our economic ties, we don't want to have to go through another grain embargo with you.

Baker: That was a big mistake. Let's just keep things in perspective. Six months ago President Bush suggested a much broader range of U.S.-Soviet economic ties. We don't disagree with the need for broader economic ties. That's just also an existing political fact of life. Given the history between us we aren't likely to grant loans or use taxpayer dollars to, in effect, help subsidize the Soviet Union if at the same time the Soviet Union is continuing to subsidize countries around the world that jeopardize U.S. interests. But the fact is we do want to support you. Look at what we did yesterday. Yesterday the U.S. voted for your observer status in the GATT.

Gorbachev: Yes, but you hesitated for a long time and everyone else agreed.

Baker: Well, the Japanese hesitated, and in fact they only came around because we did. The fact is there is a distinct division of opinion in the U.S. as whether getting you more into the international economic system is the right course to follow. There are lot of people that don't agree with that. There is a debate. We have to deal with that debate.

Gorbachev: We have a similar situation. For example, we are told that we are abandoning or betraying the entire developing world. We're turning the whole Third World over to the capitalists, putting them in a position where they are going to be bought by the capitalist. Well I ask people who say this, what are we a welfare state for the Third World? Now I'm told I betray the Arabs, that we are helping the Israelis. That in effect we are allowing Soviet citizens to go to Israel and settle in Palestinian territory. That's a real provocation. There are others who say that the Soviet Union is

conceding everything unilaterally. There's a lot of resistance but we are moving forward and we expect you to move forward as well and not just wait for the apples to fall into the barrel.

Baker: We aren't.

Gorbachev: First we have to produce a few apples, don't we?

Baker: Well, if there aren't apples at the end of the road, we're both going to be in trouble. Just yesterday I proposed to Eduard that the Soviet Union should consider joining the G-24 efforts to assist Central America and the Caribbean, much like the G-24 has assisted Eastern Europe. Now we have produced 14 billion dollars in that effort when we got together. In Wyoming in September I suggested a process of economic and technical cooperation. That's something that is happening and I think it will be of benefit to both of us. That's something I can defend in the Congress because it doesn't require you to talk about taking U.S. taxpayer dollars. I said yesterday that you've embarked in a new effort and anything that we can do to be helpful, any advice we can give as you go through this transition period, any information or expertise we can provide, we are prepared to do and we want to do it.

Gorbachev: Well, I will discuss that with the President. You know there is a radical turnabout as we try to move to a market era. And it is very important to us to have temporary support. I will emphasize this to him especially because we are going to need some allocation from the West to help us get through this transition period. A transition to a market economy is, as you know, very difficult. In our country there is a very serious clash. I think the best way to put it is that we need some oxygen. We are not asking for a gift. We are asking for a loan; we are asking for specifically targeted loans for specific purposes. For example, there are some defense-oriented ministries that have their own factories and if they have 100 to 200 million dollars to invest they could produce goods worth one to two billion dollars within one to two years. Of course, the problem is what will we do in the interim during that one to two year period. We don't have the money. As we try to move to the market, it creates a very tense situation and it puts us in a position where we need credit. We need credit to provide commodities. We also need credit and loans to invest in the factories that we want to convert. What I will say to the President is that we're going to need 15 to 20 billion dollars to tide us over.

The truth is that is peanuts for a country like ours, but we will pay it back in seven years. Circumstances demand it. We have already dismantled the command economy. Unfortunately,

there is nothing there to replace it right now so we really don't have much choice but to move faster. Because of this we haven't been able to accumulate enough resources to maneuver. We just don't have it now. Please tell the President about this request of ours. We want an understanding in Europe that I think exists and we want an understanding in the United States. What is at stake is a great deal, really too much. On May 25th in the Supreme Soviet we will announce a move to a market.

Baker: The President is familiar with your interest in direct loans because I told him of the substance of my conversation with your Finance Minister when he was here. But, of course, I will tell him of the conversation that you and I are having right now.

Gorbachev: After the Finance Minister returned from your country we sounded out German attitudes. We also sounded out the attitude of others in Europe. And it was good, it was positive, but we need more understanding on your part. If we are to reach agreement on arms reductions we will both save a substantial amount of resources and money. For now we are in a special situation. I oppose very much our being a debtor country but we have a special situation and we need help from the outside.

Baker: I anticipate that you will have very little problem of securing loans from the West as a whole particularly if you are prepared to secure the loan you are seeking with some of your collateral.

Gorbachev: We are willing to collateralize.

Baker: I'll make certain the President understands this and make certain that he understands that you are willing to collateralize your loans as well.

Gorbachev: Yes, indeed. See our position is really one of being able to use the external resources to buy consumer goods and invest in industries that are converting to producing consumer goods.

Baker: I'll also make sure the President understands the political significance you put on the participation of the United States in this effort.

Gorbachev: Absolutely. It will be difficult to explain to our people why we are pushing and promoting U.S.-Soviet relations and then find that in this situation of a need there's no response from the United States. Recently I saw a

documentary here that looked at U.S.-Soviet relations over the last century. Last Saturday Raisa and I watched it and as I watched the faces and I saw the developments and the vacillations in our relations I couldn't help but feel there were a lot of opportunities that had been missed. I almost had the sense that frequently we were passing each other and I wonder whether we will miss another opportunity. I'm afraid that if we're not able to implement what's going on now and help develop what's happening in this country, that once again we will miss an opportunity.

Baker: I will make the point to the President. Please understand there is a political problem of our diverting loans to the Soviet Union or loans to the European Development Bank, if it takes place in a negative context. For example, if Lithuania is being squeezed economically, or if your subsidies to Cuba are unchanged, it will be very difficult. There are still many voices in our society who will say why now, why loan dollars to the Soviet Union when it continues to supply MIG-29 aircraft to Cuba. And why provide money to the Soviet Union when it is engaging in economic coercion in the Baltics.

I know you will ask how can Vilnius or a couple of MIG-29's be more important than success of perestroika in the Soviet Union? That's a valid question. But I'm trying to point out to you that the atmosphere that prevails is going to have a big impact on the body politic of the United States. The Senate has already voted three to one to suspend economic relations with the Soviet Union pending a resolution in the Baltics. And I am sure you know what kinds of passion Cuba arouses in the United States.

Now if I might let me try to response to some of your comments on Germany.

First, we don't seek to divide East European countries from the Soviet Union. That is something we might have tried to do in the past, we're not trying to do that any more. What we seek is an integrated and stable Europe. That's what we want to see built and we are prepared to participate with you in this exercise. Now you ask if you trust Germany, why does Germany need to be in NATO? And I might reverse that question and say if you trust Germany, why can't you let them choose. We're not forcing Germany into NATO. But we do think it's important that Germany be a part of NATO, not out of any fear of the Soviet Union but because we think unless we find a way to truly anchor Germany to European institutions we will sow the seeds for history to repeat itself. You remember the League of Nations. It's great to talk about a Pan-European security structure and CSCE -- but CSCE today and that

structure are a wonderful dream but today they are only a dream. NATO on the other hand exists. And NATO will mean that Germany will rely upon NATO for security.

Gorbachev: Why NATO?

Baker: Well, I'm talking about the existing institutions of the West -- NATO, the EC.

Gorbachev: That organization existed in one situation only, and the situation is now changing.

Baker: If you don't have Germany anchored to the existing institution, then what you are going to have is a powerful new entity concerned about developing its security measures. First, it is going to think about developing its own nuclear measures. In NATO it relies upon the U.S. nuclear umbrella. It is far easier for the Germans to renounce the development of nuclear, biological and chemical weapons as long as it is a part of NATO. I know this presents difficult psychological and political problems for the Soviet Union.

Gorbachev: What about militarily, isn't that a problem? What we have now is the Warsaw Pact simply deteriorating as a military alliance and becoming purely a political alliance. And at the same time what's going to happen to NATO. It's going to be strengthened because it's going to be adding a unified Germany.

Baker: Maybe so in the near term but we are talking about adapting NATO, making it more of a political alliance. We recognize the importance of limits on Bundeswehr to you. The difference between us that we disagree on how and where to get at such limits. We have thought a lot about your concerns and we've been developing approaches and ideas with those concerns in mind. As I have said before, we have no desire and haven't sought any unilateral advantage. We want stability in Europe and we want perestroika to succeed. We have fought two wars as a consequence of instability in Europe, we're not looking to recreate it. What I'd like to do is to give you some examples of how we have moved in a very practical way to try to take account of your concerns. I have nine such examples in mind:

First, we suggested that there should be limits on Bundeswehr and that they should be addressed promptly in CFE II negotiations. What I'm saying is that we should lock up CFE I agreement quickly. We ought to get it behind us, and then we can immediately go to CFE II and in those circumstances in that context, you will see reductions in Bundeswehr as well as other forces. I've talked with the Germans about this and I know that they are agreeable.

A second step that we've taken is that the President announced and proposed that we should move up the time for SNF negotiations. Here again we are taking a step that will change the military climate and security environment in Europe and it will lead to very different kind of nuclear posture on our part in Europe.

Third, we proposed and the Germans have agreed that they should recommit themselves to not develop, possess or acquire nuclear, biological or chemical weapons.

Fourth, we proposed that there should be no NATO forces in the GDR for some agreed transition period.

Fifth, we have the Germans believe that there ought to be a similar transition period for Soviet forces in the GDR.

Sixth, we have made it clear that NATO has to adapt politically and militarily. When we say that it has to adapt militarily what we're saying is that it needs to adapt both its conventional and military postures to conform to the new reality. And we know that NATO's strategy is going to have to change because the Warsaw Pact has changed and because there have been big changes in your forces as well.

Seventh, we have also worked with the Germans to emphasize the importance of getting an agreement on borders. Borders of a new Germany that would only involve only the FRG, the GDR and Berlin. This is something that is important not only to the Poles but we know also to you.

Eighth, we have emphasized the importance of developing CSCE. CSCE can be a new institution in Europe. It can be developed into an institution. It can create a sense of inclusion not exclusion in Europe. It could create a role for both the Soviet Union and the Eastern Europeans. We know that if you are going to develop a unified Europe based on common values there has to be a vehicle to get us there. Institutionalizing CSCE is one possible vehicle and I see it as being a cornerstone over time in the development of a new Europe.

And ninth, we know that you are very concerned about GDR economic obligations to you and one of the things that we see and proposed is that Germans need to work out a whole course and range of economic relations with you. Quite frankly we can see how that arrangement, the new economic arrangements with Germany, can be extremely beneficial for perestroika.

All of this is not to say that we don't recognize the problem that you face with a unified Germany in NATO. On the contrary, the very reasons that we are developing ideas to try to deal with your concerns is precisely because we do recognize the problems a unified Germany in NATO presents you. But again I come back to the point that the best way to ensure long term stability in Europe is to be sure that Germany is anchored in the existing security institution and the other institutions in the West. In anchoring Germany in this way we will, in Genscher's words, see "a new European Germany".

I want to add one other point, maybe a couple other points on Germany. I know you have certain concerns about NATO, but the reality is that a unified Germany in NATO is not only going to be a different Germany but there is also going to be a different NATO. And that again is very much a function of the changes that have taken place in Eastern and Central Europe. Let me add one final point. If Germany doesn't want to be in NATO it's not going to be in NATO. It's not a question of trust. The issue here is what's going to afford the greatest stability in Europe. I'm not thinking of the East-West dimension. Much of the instability in Europe is not the result of the East-West issue. The fact is that Poland, Czechoslovakia and Hungary all support the unified Germany NATO, not because of U.S. diplomacy but because they see that it has a value in and of itself. They understand the importance of a unified Germany with long-term stability in NATO. So in short I just wanted you to know that we have been very sensitive to your concerns. We believe that your concerns are legitimate and I have taken some time to lay out our thinking as a way of explaining how we have attempted to take some of your concerns into account.

Gorbachev: You know you may be prophetic. What if one day a unified Germany says they want to be out of NATO. What will we do then?

Baker: Well, that's a little bit like my asking you if you don't want Germany in NATO, what do you want?

Gorbachev: Well, that's why I said we really need to talk more about this, we need to think about these things. We have negotiations underway and we really ought to approach this question sooner and not later. What you're arguing for is based on just one premise and that's it. Though you are saying that it is going to happen, what if it doesn't happen? There's a real possibility that the premise that you're adopting is wrong. Mr. Secretary let's assume at this moment that one day Germany decides to withdraw from NATO. If that happens we would have lost our ability to affect events. We won't have

done anything in the interim period to try shape the new system. Currently we have the Four-Power rights, the unification process -- these give us a means to do something. These give us a means to help develop a new system, a new structure. Maybe a system based on de-militarization. Maybe you can document all the points you've mentioned to me in a final settlement. Maybe you can formalize that and other issues. If that happens we'll have a better situation. Still the Germans are still going to be closer to you but there would be better balance.

Baker: Well in this document that you talk about, would that document have to say that Germany would not have the right to remain in NATO.

Gorbachev: Yes. It is outside and it should be outside a military grouping.

Baker: Are you talking about a neutral Germany?

Gorbachev: I don't know if I'd call it that. Maybe I'd call it non-aligned. There are lots of different kinds of non-aligned. Look at status of France, for example. Let me just try to wind this up in a conceptual way. I will think very carefully about everything you just said and I will also ask you to please consider what I've said and I'd like very much to continue our discussion with the President. Let me just add that if in the end we aren't able to persuade you of our argument, then I will say to the President that we want enter NATO. After all you said that NATO wasn't directed against us, you said it was a new Europe, so why shouldn't we apply.

Baker: I got that question in the news conference in Bonn.

Gorbachev: Well, it's not such a hypothetical question. It's also not so far-fetched.

Baker: Let me offer a couple of comments. First, there are a number of countries that are neutral and non-aligned, but they are neutral and non-aligned by choice, not because it's been forced upon them.

Gorbachev: Well maybe Germany would want this. I think we have to reserve this option and not just assume they want to be in NATO.

Baker: Well I assume they want to be in NATO because they say they want to be in NATO. Neutrality or non-alignment cannot be forced upon a nation. You shouldn't contemplate that as a condition for releasing our Four-Power rights and

responsibilities. It runs counter to the very principles of Helsinki. Helsinki makes it very clear that every country will have the right to participate and to chose its own alliance. Now if you are going to say that Germany doesn't have that right then you are singularizing Germany in a way that I think is going to be a source of instability for the future. That's the very result we don't want.

Gorbachev: Well, why would there be that resentment if Germany were not a part of either Western or Eastern military organization.

Baker: The resentment would arise out of singling Germany out for special treatment or requirements. The resentment would arise in having someone else impose their will on the Germans. If they want to join the Warsaw Pact, it might be a different situation.

Gorbachev: But what if they do. Can I note from your statement that you say it would be okay if they join the Warsaw Pact?

Baker: Helsinki says that any country can choose its own alliance.

Gorbachev: Well, am I specifically to conclude that if a unified Germany wanted to be a member of the Warsaw Pact the U.S. would say okay.

Baker: Our position is that the best prescription for stability is that a unified Germany ought to be a part of NATO. But in the end that's a matter of choice for the Germans.

Gorbachev: In principle, you're for free choice for the Germans, a right that is fundamental in international relations. So if Germany wants this you will treat it with understanding.

Baker: Well, again I say that from our standpoint the best prescription for stability is for Germany to be a part of NATO. We don't see any other approach that is likely to produce stability. But you have to respect the Helsinki principles.

Gorbachev: Well, I'm pleased by this argument for I think it strengthens my position. We say for example from our standpoint that a unified Germany in NATO will threaten the stability that has existed for the last 45 years.

Baker: Well we have a fundamental disagreement.

Gorbachev: We have got to find a way to match our positions. We have to find a way to see if we can be compatible. Whether or not we can find a solution on a basis that reflects a balance of interests. Let's see if we can act together -- maybe we won't be able to.

Baker: Well, let me ask you a question. Will you accept Germany having free choice to remain a member of NATO?

Gorbachev: As I have said to you frankly we cannot accept a unified Germany as a member of just NATO or the Warsaw Pact because that's going to have a basic effect on the strategic balance in Europe and the world. You really should not leave us isolated at this crucial moment. We may have unusual moves to make.

Shevardnadze: Let me add two points. First, when you say Germany will be in NATO you forget all about the Potsdam agreement. And in Potsdam there were a number of things that were agreed not only that there should be de-Nazification and de-militarization, but a number of other things that were agreed that give us the right to sort of see how things unfold with Germany. You say that all we should do is simply divest ourselves of these rights. Well that's very one-sided and it doesn't take account of our rights. You're right to note public opinion in your country. But if there is a unified Germany in NATO it going to mean the end of perestroika. And people will say that we are the losers, we're not the victors. I also don't share your assessment of CSCE. CSCE is not just a dream. We don't need to have military blocs all over Europe we should do without them. If we are to achieve a new Europe without blocs then it is not such a fantasy to think that the Soviet Union might apply to NATO.

Gorbachev: Why not have a grand coalition of states? We did before during the war. Why couldn't we do that again?

Baker: I understand what you are saying on not being isolated. And that's why we made the suggestion that we have made -- to develop the process -- I mentioned this earlier. That's the reason we came up with the Two-Plus-Four mechanism. We recognize that you have a need to be seen as managing with us the process of German unification.

Gorbachev: Absolutely, that's absolutely correct. Where we are a little concerned is that the process will become one plus four.

Baker: Why did we come up with the Two-Plus-Four process? We did so because we knew that everybody had to be at the table

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equally. And also we did so because we understood very well your domestic needs.

Gorbachev: Bear in mind that it is increasingly one versus four.

Baker: When I say CSCE is a dream I mean it is a dream right now. But I've made specific suggestions on how to build it into something more than just a dream. But for the interim it is important to have Germany anchored to the existing institutions so that they don't feel a need to seek security on their own. You know we have an anchor in the EC and we support that even though we are not a member of the EC. We support German association with other institutions in Europe precisely because we saw what happened in the past when there was an independent neutral Germany.

Shevardnadze: Well we would like to see the Two-Plus-Four decide Bundeswehr limits and then have those limits inscribed in CFE. First we could have agreement among the six. Why do we need it? Well, isn't the military capability of Germany a legitimate question for the external unification of Germany? Doesn't that come up as part of the external unification of Germany?

Gorbachev: Let me sum up. We bandied about our thoughts. And you see in me someone who just had to read-out a report to the country on the 45th anniversary of the war. Now let's just think about what we have lost. I didn't even mention that before now. We lost 27 million people on the front lines and as POWs. They were the best part of our nation, the most active, the most dynamic. We had 18 million people injured. The health of millions of our people was affected because they were hungry, ill-clothed, ill-fed. This was a shock to the entire nation. So you can not have a simplistic approach to the situation we face today. Not just us, but you too have a stake in this. Our people say that the United States can't be trusted if they can't understand this. So let me support the key point you made -- we should manage this process today and tomorrow. Beyond this, let me just say you should tell anyone who tries to suggest that the Soviet Union is seeking to push the U.S. out of Europe that they're just wrong -- don't believe them. Without the U.S. in Europe nothing good could happen. Then we really will see some of the conflicts of the past repeat themselves.

Well, let's now get go on to other subjects, and invite our other colleagues in.

(There followed an one and one-half hour discussion on START. At its conclusion, the Secretary met with Gorbachev and Shevardnadze again without the delegations.)

Baker: Thank you very, very much for taking so much time and spending it with me. You know I have had a number of conversations with Eduard on Lithuania. We have worked hard to get the Lithuanians to moderate their position. We have taken the same position with our allies and urged them also to urge the Lithuanians to move in the right direction. We had indirect contact with Landsbergis, when I was talking to Eduard, and we know that we should be the last ones to try to mediate especially in this situation. But we are trying to understand your situation and we are hoping that neither you nor the Lithuanians will get locked into difficult positions that are hard to back away from. And we know this a very difficult problem. That's one of the reasons that we are very pleased that the Lithuanians said that they were prepared to suspend some of their actions and to come to Moscow.

Now I'm going to see Prunskiene while she is here in Moscow. The President saw her and I'm going to see her. If I were to tell her that if Lithuania suspends its declaration by announcing it's prepared to come to Moscow and begin a dialogue, would I be able to say that a dialogue would begin. I can tell you that if you are talking to them when you are in the United States it will make for a much more productive Summit. I'm only stating this as a political fact of life.

Gorbachev: Well, I met her yesterday. I'd say that our room for maneuver is quite limited. The situation takes a lot of very deft handling and it takes deft handling in very narrow context -- very little ability to be flexible or to maneuver. I'm not going to go into detail of our arguments. The point is that we favor a political solution. Yesterday she agreed with me that she would go back to Vilnius and try in the Supreme Soviet to get some formula for suspension of the laws and the declaration.

Baker: Did she agree to that?

Gorbachev: She did agree to try to persuade the Supreme Soviet. The fact is the situation is pushing both them and us to try to do something. Now we had decisions made by the Congress of Peoples Deputies that it validates her decision, her declaration. As President, I have to approach the independence declaration as something that is null and non-existent. But I will make an effort to prove that the freeze will mean going back to March 11 and we can, therefore, go ahead and start a dialogue. I will be over-ruling the

majority of our people who want me to invoke direct Presidential rule. And I told her that she too would have to make a big effort much the way I would be if we were going to get out of this impasse. Now I know if they are forced to revoke or cancel their declaration, that that's going to look as if Moscow brought them to their knees and that's too much for them to have to accept. That's why I'm saying that I am prepared to accept the suspension; that's a compromise. In any case she told me she would try to go and persuade the Lithuanian Supreme Soviet; if the decision is taken by the Lithuanian Supreme Soviet to suspend the declaration then we would have an immediate dialogue and the committee would begin meeting to discuss all the issues that will come up. We will engage in a normal process and all of the sanctions would be cancelled immediately.

Baker: What if they were to say that the declaration stands but it's a declaration of intent -- as the declaration of their aspirations to have independence?

Gorbachev: Well that is somewhat different. If they freeze the declaration, then we can begin the discussion with the Center and we can begin the discussion on the entire spectrum of problems associated with implementing their right to self-determination. It's possible to negotiate an acceptable outcome from a number of different points of view. From the Center's standpoint I think there ought to be a referendum. If they decide that they want to leave, so be it. But let's have the decision by referendum and then if they decide they want to leave we have to get together, we'll have to work it out, we have to decide how people are going to live and work. There are 800,000 non-Lithuanians who live in Lithuania. Several days ago ethnic Poles who want their part of Lithuania to become a member of the Russian Federated Republic came and saw me. They want to withdraw from Lithuania. Others like the Belorussians believe that they should also get territory back that had been taken from them and given to Lithuania. You know I hear frequently that if the US is so determined to rescue even one of its citizens that has been taken hostage that I too as the President has to be more active in protecting Russians, especially Russians that are living in a places like Lithuania. Let's look at independence -- it took France ten years to give Caledonia. The process of divorce is not easy. Our economies are intertwined. We must work out new economic arrangements. We have missiles there. The problems go on and on.

We want a normal and constitutional process. We have no irreconcilable differences with them. If they want to leave, do it the right way. Be real people about it.

You know it was new for me to find out that when Stalin incorporated the Baltics into the Soviet Union he also gave Lithuania several districts from Belorussia.

Baker: In my testimony I mentioned that there were several districts that had formerly been part of Belorussia and are now part of Lithuania.

Gorbachev: I know, I know that. I saw that you said that in your testimony. Stalin gave them the port. You know all of this is in the air. The Belorussians have come to us as a result of Chernobyl where they've had to evacuate certain areas around Gomel and they have said they need to be compensated for the land we've lost. And they have passed a resolution now saying they want the land, these five districts back, that were given to Lithuania. I told Lithuania that this is a mess that you have created. What we propose to them was real economic autonomy -- a special status for Lithuania as a state. Maybe they could have a confederal relationship with us. In any case all the issues related to human rights, territories, security, all of these would have to be removed and we are going to do our best to untie this knot.

Baker: Do you think that Prunskiene will be successful in getting the Lithuanian Supreme Soviet to go along with what you have offered.

Gorbachev: I think so, there is already a split.

Baker: Is she with Brazaukis?

Gorbachev: Yes. We appreciate your position because we know that you are trying to find a way out of the situation. Please understand that we are not blood-thirsty in this situation and we want a constitutional way to resolve it. In Lithuanian villages, I might add, they are really for staying with the Soviet Union, for staying with Moscow. It's in the cities where the attitude is somewhat different, but in the countryside they understand there is a certain value in staying in the Union. For one thing all the villagers get their feedgrain at a very favorable price. In any case I think the current Lithuanian leadership fears referendum.

Baker: We are hopeful to see that this situation will be resolved. It really does have an effect on our ability to move our relationship forward.

Gorbachev: We understand that. And we also know that we've committed ourselves to pursuing democracy and moving things forward. If we were it committed in that way we would have done things differently in Lithuania. I can tell you that

I'm under very heavy pressure in this country to act -- I am under a lot of pressure because many are saying look you have become president and you're not acting, why not? I've gotten all these telegrams, I've got telegrams from all over the country -- maybe I'll show them to President Bush. Because what they do is protest and say American Presidents act very quickly to protect American citizens, why don't you as the Soviet President act quickly to protect Russian citizens in Lithuania. So I am under a lot of pressure but I want to resolve this peacefully and I'm determined to do that.

End of conversation

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