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EXPANDED MEETING WITH
RUSSIAN PRESIDENT BORIS YELTSIN
ON ECONOMIC ISSUES

DECLASSIFIED
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CONTEXT OF MEETING

Economic issues will be a major part of this summit meeting, as they were at your two previous meetings with Yeltsin in Vancouver and Tokyo. Economics is also probably the issue Yeltsin wants to discuss with you most intensively given its current importance following the elections and the value he attaches to your leadership in galvanizing international assistance for Russia during the past year. The economic agenda's prominence is in sharp contrast to our relationship with the USSR during most of this century when it rarely mattered at summit meetings. You and Yeltsin have put economics firmly in the center of our bilateral relationship and it is likely to stay there for many years.

You have three major aims in this expanded meeting which will take place on the first day of the summit: 1) to draw him out on his current, post-election thinking on the pace and direction of economic reform and to suggest how we can lead the G-7 and IFIs to produce more effective help; 2) to review the effectiveness of our own bilateral assistance and discuss plans for future aid levels; and 3) to emphasize your common effort with Yeltsin, begun in Vancouver, to expand substantially trade and investment in 1994 following the recent successful meeting of the Gore-Chernomyrdin Commission.

The Future of Russia's Economic Reforms and Western Assistance

Your top objective of the three for this meeting is to engage Yeltsin on his latest thinking on the future pace and direction of economic reform and on what we can do more effectively to help him. The Parliamentary election results were a wake-up call generally, but specifically the Russian people view the government's two-year attempt to begin a historic economic transition from command economics to a "Russian" market economy as harsh and directly responsible for the decline in living standards during this period. Russia's economic reforms have not succeeded on at least two fronts. They haven't established a social safety net for the average Russian and have also not reduced subsidies to large state enterprises. The effect is that the State-owned enterprises are being used as an expensive social safety net without real benefits to most Russians.

Yeltsin told the Vice President that he views the election results as a warning to reformers. While he will stand by the essence of the reform program and his team, he wants to be more confident that the government's efforts are effective and responsive to concerns of average Russians. He and other reform leaders will want, at a minimum, to have a better story to tell

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by the 1996 presidential elections. He will need to unite his government behind a refocused reform agenda (Chernomyrdin and Gaydar are already at odds on it) and build support for it in a fractious parliament.

In addition to drawing him out on this issue, you will want to express your view that only bold reform can deliver progress in time for the 1996 elections and suggest what the West can do to help Yeltsin respond to this challenge. By the time of the summit, we hope to have agreement with our G-7 partners on some new ideas to spur the IMF and World Bank to expand their support for Yeltsin's effort to provide more effective targeted social investment for the Russian population. You could offer technical assistance to improve the design of Russia's social assistance programs and financial support for targeted social infrastructure programs. It will be important to let Yeltsin know that while the West can't fully fund a social safety net (that is Russia's responsibility), we can help to design it and contribute international support.

U.S. Bilateral Assistance for Russian Reform

In the short-term, our substantial bilateral assistance will remain important for Yeltsin and other reformers. You mobilized far more financial assistance for Russia and the other new states in 1993 than any other Western leader. The \$1.6 billion Vancouver package and the additional \$2.5 billion secured from Congress in September are a major part of our overall strategy to provide effective support for reform. Yeltsin has indicated he would like to assess with you in Moscow the status of our current efforts and our future plans. You can report to him briefly on the rapid implementation of the Vancouver package and our plans for the larger program and hand him detailed Russian-language documents on both. You will need to convince him that the \$900 million you will request from Congress for FY-95 does not represent a diminution of U.S. support but is a more "normal" level following 1993 (when you effectively went to the well twice for Russia). In any case, actual flows of U.S. assistance to Russia will exceed \$1 billion during each of the next two years, due to the pipeline from our very large appropriation in 1993.

Expanding Private Trade and Investment

The greatest future challenge in our economic relationship is to shift the focus away from governmental assistance to an expanded commercial relationship through substantially increased American trade and investment with Russia. The key point here for your discussions with Yeltsin is that broadening commercial relations is the best and fastest way to integrate the Russian economy with the West. Your agreement with Yeltsin at Vancouver to use the Gore-Chernomyrdin Commission as a vehicle for expanded cooperation in oil and gas projects, nuclear plant safety and space cooperation was pivotal. The commission has exceeded our expectations. Our cooperation in space, for example, including on the international Space Station, will amount to an additional \$100 million per year for Russia over the next four years. The

Vice President's new relationship with Chernomyrdin, who is now the key moderate figure in Russia's economic reform hierarchy, will be critical to our future success in this area as will Ron Brown's new Business Development Committee. You should engage Yeltsin in Moscow to continue this effort and make concrete advances on several multi-billion dollar oil and gas projects as well as other priority commercial projects. You also need to begin a dialogue with Yeltsin on expanding access to each others' markets -- an issue of great concern to him.

YOUR OBJECTIVES

- o Underscore the critical need to continue bold economic reforms as the only way to create a base for economic renewal in Russia.
 - We stand ready to work with Yeltsin and democratic forces in the new parliament to advance economic reform.
 - We look to Yeltsin to signal how we can best support that process.
- o Acknowledge our understanding that, in light of the elections, the government's economic policy may have to place greater emphasis on social welfare programs.
 - You are leading a G-7 effort to support Russian initiatives in this area.
 - But Russian social programs must be clearly targeted at the most vulnerable groups and be reconciled with a continued commitment to stabilization, liberalization and privatization in the economy. We cannot fully fund the programs -- that is Russia's responsibility -- but we can help design them and attract international support.
- o Review our bilateral assistance programs and their current effectiveness in support of Russian reform.
- o Stress our commitment to build an economic and commercial partnership and to integrate Russia into the world economy through expanded trade and investment.
 - We want to make concrete progress in major American oil and gas investment projects.
 - The Gore-Chernomyrdin Commission should continue to focus on constructing a more stable and predictable environment for foreign investment with a commitment by both the U.S. and Russia to greater access to each others markets through reduced barriers to trade.

CORE POINTS

- o I want to focus our discussion on three broad areas of cooperation: 1) the future of reform and Western assistance; 2) our bilateral economic agenda; and 3) how we can expand private trade and investment.

The Future of Reform and Western Assistance

- o Russian reform following the elections: Want to discuss in more detail your thoughts on future of the economic reform program following the elections.
 - Understand from our phone conversation that reform program and team will stay in place.
 - Do you believe it possible to build a pro-reform coalition in new Parliament?
 - I believe very important to press ahead with reform course: expand privatization, continue to pursue fight against inflation, seek financial stabilization, price liberalization.
 - I've just come from Eastern Europe, where it was clear that the shortest transitions and fastest recoveries are in countries that moved boldly.
 - Continued reform will quicken transition period, help generate new businesses, build a foundation for economic growth and help attract international capital.
 - Also understand you need much greater focus on social benefits to cushion average Russians during difficult transition period.
- o U.S. prepared to lead Western effort to help in this new stage of reform:
 - I want to help you make this difficult transition -- understand how critical this period is for you.
 - I've discussed with G-7 partners new U.S. ideas to help build international assistance, especially with IMF and World Bank, to support these reforms.
 - First, I've asked G-7 leaders to have our senior financial officials meet periodically as a group with you and the IFIs to put some political energy into your collaboration with the IMF and World Bank;
 - Second, we're considering pushing for quick IMF and World Bank loans to support a renewed reform push;

- Third, increased multilateral funding for the G-7's Special Privatization and Restructuring Fund;
 - Fourth, new loans for other NIS states which now have trouble paying for energy imports from Russia;
 - Fifth, a discussion of Russia's debt problems with the G-7. Would appreciate knowing your ideas on this.
- In addition to these steps, we could be helpful in getting you best advice from our own private sector in design of pension and unemployment systems, developing a food stamp program to offset effect of food price liberalization and job training for those leaving the large state enterprises.
 - Want to work these quietly for now with IFIs to insure best possible chance of success.
 - Secretary Bentsen will keep in close touch with your officials.
 - Great challenge is to combine these two priority efforts in a single package -- continuation of broad reform along with greater social protection.
- o We are taking action now to speed support for your reforms:
 - U.S.-Russian Enterprise Fund opening Moscow office next week. Led by your good friend Gerry Corrigan. Will lend to your small businesses. Capitalized at \$300 million.
 - New Fund for Large Enterprise Restructuring (FLER) also beginning operations this month. I've asked former Treasury Secretary Blumenthal to head board. This is new \$100 million fund to help largest firms through privatization.
 - New Director of G-7 office in Moscow: As we discussed in last two meetings, an American, Mike Gillette, will open office here this week. Will resolve problems in G-7 assistance programs and insure their effectiveness.

U.S. Bilateral Assistance for Russian Reform

- o Was one of my top foreign policy priorities in 1993.
- o We succeeded together in putting in place a substantial U.S. assistance program for Russia. I want to make sure it helps reform and meets your needs.

- o Want to summarize briefly what we have accomplished and our plans for 1994.
- o Successful implementation of the Vancouver package
 - After my \$1.6 billion commitment at Vancouver, have obligated 100 percent of funds and expended 71 percent. Plan to complete full expenditure of funds early in 1994. (You should hand Yeltsin Russian-language report of the Vancouver program's progress.)
 - We are distributing this assistance throughout Russia (you can give him a map showing the distribution by region and city).
- o Plans for the additional \$2.5 billion program
 - Just beginning implementation of the larger \$2.5 billion program for Russian and other NIS states (Russia will receive over \$1.6 billion of it).
 - Major focus on privatization, democratization, exchanges, small business creation, housing for military officers, energy. (You should hand him a second Russian-language document on plans for this program.)
 - Housing for military officers a special concern. I convinced Congress to finance in order to help with your withdrawal from Baltic countries. Need your military to provide land and utilities to construct the 5000 units within our \$160 million budget. Project can't proceed without this agreement. Ambassador Pickering is discussing details with your officials. Appreciate your personal intervention on this.
- o Projected future U.S. assistance
 - I need to submit budget to Congress soon -- will request \$900 million for FY-95. This will put Russia and NIS at top of U.S. assistance along with Israel and Egypt.
 - May seem small after past year but is attempt to reach a "normal" level for Russia.
 - I went to well twice in 1993 -- an unusual year. This helped galvanize other countries to contribute to you and spurred international assistance.
 - Because \$2.5 billion program just starting, actual flows of assistance will continue to be quite high -- I expect it to be over a billion dollars in both 1995 and 1996.

o Other U.S. steps to help Russia integrate into world economy

- Cold War Legislation: You requested at Vancouver. Congress passed in November. I signed into law in December. Rescinds over 60 Cold War restrictions. Russia no longer labeled Communist country in our laws.
- Jackson-Vanik: You asked for full graduation. Don't believe Congress would agree, especially in light of the Zhirinovskiy phenomenon. But I am prepared to declare Russia "in compliance" as interim step to full graduation. This will still be controversial but I am willing to defend it. [Need to make final decision after ongoing talks with Russians.]
- G-7 Naples Summit: Want to work with you closely to develop constructive agenda for your meeting with the G-7. Want summit to result in concrete ways to help Russian reform. Will ask Secretaries Christopher and Bentsen to coordinate with your officials.

(If Yeltsin requests Russian membership in G-7: I think membership is premature and would lead to many other countries coming forward. You already have the "G-7 plus one" format. Let's focus on making session a success in Naples.)

Expanding U.S.-Russian Private Trade and Investment

o Most important long-term effort in economic area:

- We need to continue to push our governments to make this a major priority in relationship.
- Key to unlocking major capital and technology flows; you will need to reform economy long-term and grow.
- Gore and Chernomyrdin making excellent progress in their two meetings. Want their close cooperation to continue.
- We are making progress: Russian exports to U.S. tripled in 1993 to nearly \$1 billion. I granted Generalized System of Preferences (GSP) to Russia which will make 4,400 of your products duty free in U.S. U.S. Senate has ratified the Tax Treaty. We are now leading investor in Russia. But we can and should do much better.

o Want to agree on agenda for future. We set new foundation in 1993. Let's build on it in 1994.

- New emphasis should be on improving market access for both countries. Know this is special concern of yours. Let me suggest following steps:

- 1) Secretary of Commerce Ron Brown to lead Presidential Trade Mission by March. Will bring top U.S. CEOs in industries designed to promote investment fastest in Russia.

- 2) Focus our efforts on "Pioneer Projects" in oil/gas area discussed by Gore-Chernomyrdin. All now symbols of Russia's readiness to welcome U.S. investment. Important we make early progress:
 - U.S./Japanese/Dutch consortium to develop Sakhalin offshore oil deposits (U.S. firms are Marathon and McDermott);
 - Texaco's Timon Pechora project.

- 3) Early Russian action to produce a stable tax and regulatory environment to make these projects happen.
 - I am asking Ron Brown to follow up on these actions.
 - Two-way street. Need your help.

- 4) Implement your foreign investment decree and convince your new Parliament to ratify the Bilateral Investment Treaty (BIT). Will send signal of confidence to our business community.

- 5) Launch new dialogue on market access: Know this is major concern for you. It is for me too.
 - We've focussed too long on narrow dumping cases in uranium (glad we have just settled it), steel, aluminum, etc.
 - Want to broaden discussion to look at long-term measures both of us can adopt to increase access to each others' markets.
 - Russia can help by concluding some of "Pioneer Projects" and removing regulatory and other barriers.
 - Very controversial in U.S. We are considering steps we can take at some point to open our markets to your commodities at the same time as we protect the legitimate interests of our industries.
 - Don't want to shut you out of our market. Need to work with EU and Asians as well.
 - Therefore, want to keep this very quiet for now. To start, I already have a senior group studying this issue and will get back to you with ideas.