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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Ukrainian President Leonid Kuchma (U)

PARTICIPANTS: U.S.

The President  
The Vice President  
Warren M. Christopher, Secretary of State  
Robert E. Rubin, Secretary of the Treasury  
Anthony Lake, Assistant to the President for National Security Affairs  
Laura D. Tyson, Assistant to the President for Economic Policy  
William G. Miller, U.S. Ambassador to Ukraine  
Coit D. Blacker, (Notetaker)  
Marta Zielyk, Interpreter

Ukraine

Leonid D. Kuchma, President  
Hennady Udovenko, Minister for Foreign Affairs  
Roman V. Shpek, Vice Prime Minister  
Volodymyr Horbulin, Secretary of the National Security Council  
Serhiy Osyka, Minister for Foreign Economic Relations and Trade  
Yuri Shcherbak (Notetaker)  
Mykhailo Skuratovsky, Interpreter

DATE, TIME AND PLACE: February 21, 1996, 11:15 a.m.-12:10 p.m. EST  
Oval Office

The President: Welcome, Mr. President. I would like to spend most of our time today listening to you, but first, let me thank you for your support in Bosnia and Slavonia. I know you discussed this with Secretary Perry during his visit to Kiev in January. We appreciate your support; it means a great deal to us. (U)

This morning, before the start of our meeting, I called Boris Yeltsin and urged him to support your reform efforts and your independence and stressed to him the importance of equal, even-handed relations between Russia and Ukraine. (U)

President Kuchma: Thank you for those words. I am confident, due to assurances from [Russian] Deputy Foreign Minister Ivanov and others, that President Yeltsin will visit Ukraine and that this visit will not be connected to the Black Sea Fleet issue. I'm now certain that Yeltsin will be coming to Kiev in the near future to sign the Agreement on Friendship and Cooperation. This will influence positively relations between our two countries and Yeltsin's campaign for re-election. I think the majority of people in Ukraine and Russia are opposed to any aggravation of the situation between our two countries. But extremist forces in Russia are trying to use the Black Sea Fleet issue to obstruct relations and Yeltsin's visit. (U)

I appreciate your words because we know that Yeltsin has a tough time ahead. If the elections in Russia were held today, Yeltsin would lose; I think there should be no illusions about this. But he has time. I think this time can be used to galvanize the state apparatus and to secure the support of others in the former Soviet Union. It also won't help Yeltsin's campaign [for the Russians] to apply "outside" pressure on Ukraine. The expression of anti-Ukraine sentiments has resulted in the defeat of several Russian parliamentarians who espouse such views. (U)

Recognizing that our time is short, I would like to inform you about the situation in Ukraine, relations between Ukraine and Russia and the situation in the CIS. (U)

Regarding the situation in Ukraine, we evaluate it as medium -- three balls, no more. This rather mediocre mark, which we give to our domestic situation, is caused by a number of outside forces. This stands in contrast to Poland, Hungary and the Baltic states, where they evaluate their situations by reference to domestic conditions. It is different for Ukraine and Russia; this difference is connected to our histories and to our family and cultural ties. (U)

We have stabilized our own domestic situation through strict monetary control; we financed our expenses last year without hyper-inflation. We managed to liberalize our trade activities, which resulted in an influx of foreign investment. We have proposed an increase in real wages. Bank deposit rates have started to decrease. And the decline in industrial output has been cut by two-thirds. These are but the first steps on the macroeconomic level; we need to take corresponding steps on the microeconomic level. (U)

This relates also to privatization. We have managed to do a lot on this front. The government's share of the economy now stands at 62 percent. We have privatized 38,000 enterprises in the last year. But all of this will amount to zero if it is not supported by a major investment effort, starting with the energy sector. I had good talks with Mr. Gore on this issue. (U)

We need serious, long-term support for the reorganization of our agricultural and energy sectors. A joint [U.S.-Ukraine] commission is required. I'm glad that Mr. Gore supports this. I have just had an idea on this issue. This joint commission should be headed by Mr. Gore and the President of Ukraine. What do you think? (S)

The Vice President: Chernomyrdin said to President Yeltsin, when somebody proposed the creation of another Gore-Chernomyrdin-like commission, "you'll need another Chernomyrdin!" (S)

President Kuchma: You will have long breaks between Gore-Chernomyrdin sessions; so you can do this second commission. (S)

The Vice President: Let's discuss it. (U)

President Kuchma: Mr. President, why delay? Let's agree now. (S)

The President: We'll have to give this a little time. The Vice President is the most overworked Vice President in U.S. history. (S)

President Kuchma: Okay. I can be involved in your election by coming over. (S)

The Vice President: We can work out an arrangement, one that works for everyone. (U)

President Kuchma: All the problems [Ukraine confronts] should be supported in concrete ways; not just by plans and commitments. For example, we worked out the electricity economy with the World Bank. Then came the coal strike and then the suspension of mazut deliveries from Russia. And then delays in the payment of the fourth tranche from the IMF. All our efforts have been reduced to nil; confidence has been eroded. (S)

The situation in Ukraine is related to political developments in Russia. Unfortunately, the left forces in Russia are better organized than the democratic forces. It is the same in Ukraine. There are so many democratic factions that they are difficult to

organize. We have a saying in Ukraine: for every two Ukrainians, there are three hetmen [chieftains]. (X)

Even our Rada chairman has come out against the reform course, saying he had no conflict with the Communist Party of Ukraine on this issue. So you can see, this is all part of a pre-planned attack. (X)

Regarding the situation in the CIS, I am confident that all the countries will continue as independent states -- as long as Ukraine does. Thus, we feel now vigorous pressure from the Russians; they understand how important Ukraine is in this regard. We can withstand this pressure as long as Ukraine gets stronger every day economically. (U)

Any delay in our payments to Russia gives the Russians an opportunity to change their behavior toward us. And honestly, there can be no doubt that this amounts to a trade war between Ukraine and Russia. The IMF understands this. I hope Mr. Camdessus has the chance to discuss this with the Russians when he is in Moscow. (X)

The Russians use their idea of a customs union as a precondition for discussions with CIS countries -- as a kind of shield behind which they pressure others. It isn't direct political pressure because that has failed. But their support for a customs union is politically motivated. The establishment of a customs union would encourage the disappearance of internal borders and border guards and create a new external border at the frontiers of the CIS. What, then, would be the difference between this and the old Soviet Union? It would be even worse in fact; this new union would be more Russo-centric. (X)

Their behavior is quite clear. They have imposed new duties on 108 commodities that are critical to Ukraine. We are less concerned about the prices than we are about advance payments. This will turn Ukraine into an unprofitable market for Russian exporters. With his latest decree, Yeltsin has introduced new excise duties on Ukrainian imports, which will cost us \$500 million. Yeltsin won't accomplish anything with this move; it will only promote illegal trade, through Poland or someplace else. (X)

While declaring in public their friendship and love, the Russians are doing everything possible to suppress us and drive us to our knees. Any delays in our cooperation with the IMF, the World Bank and other creditors will only exacerbate our situation. The Russians provoked the strikes by Ukraine's coal miners; they sent representatives to virtually all Ukraine's mines. But then the Russian miners refused to strike. Our miners, however, were on

strike until February 19. Immediately, then, the Russians disconnected us from our joint electrical system, forcing us to use more natural gas. The frequency of our power plants dropped below 49.3 percent, which is the level needed to function. We had to shut down one-half of our enterprises. (S)

Russia wants Ukraine within the Russian control structure. Russian attitudes today are completely different from just one year ago. In fact, this change in attitude is the direct result of the Russian perspective that we are beginning to make progress on our own. (S)

On elections [in Russia and Ukraine], I would anticipate worse results than we expect to see in the United States. I can imagine that adherence to democratic principles in Ukraine could result in the return of Ukraine to the communist path of development. In Russia, it is possible that events may make it possible for Yeltsin to win. Whatever the outcome of elections, there needs to be a clear, understandable policy regulating relations between Russia and Ukraine. (S)

The Russians need urgently to solve the problem of Chechnya. The full extent of the problem is being hidden by the media. The situation of the common people, the impact of the war on their lives, is very much worse than portrayed. (S)

There are very few ways to solve this problem I have told Yeltsin. I can see only two: leave Chechnya entirely; or deport the [Chechen] population, much as Stalin did in 1943. I don't see any other way, any other solution. The whole nation is fighting there. (S)

Also on elections, I don't see any profit in building up the notion of [Russian Communist Party leader] Zyuganov as a social democrat. For example, Mr. Tikhonov, the Communist Party official responsible for CIS relations, went to Crimea last week, where he declared the absence of any problem [between Russia and Ukraine] because "Crimea belongs to Russia." He said the same about the status of the Black Sea Fleet. Should the Russian communists win [in June], they would have to settle up their campaign accounts by denationalizing or reappropriating parts of Russian industry. (S)

The President: Yeltsin said that the Black Sea Fleet issue is moving, that there will be a mutually satisfactory resolution of the issue. (S)

President Kuchma: What do you mean? (U)

The President: That the resolution would be to both sides' advantage. (U)

President Kuchma: In fact, 90 percent of the issue is settled. There is only one remaining issue: the leasing of Ukrainian territory for use by Russia's part of the fleet. We can't afford to provide this at no cost. We have decided. . . (U)

Secretary Christopher: I regret that we will have to bring this meeting to an end. We will have an opportunity to continue the discussion in Kiev in March and when the President is in Moscow in April. (U)

President Kuchma: I would like to discuss the Moscow meeting. (U)

The President: Tell me what you would like to discuss, and I'll raise it with Yeltsin when we talk again. (U)

President Kuchma: I would ask that you make Chornobyl a separate agenda item in Moscow. (U)

The President: (Nods his assent.) I'm delighted to see you. I know it's a difficult time for you. We have a list of what we might be able to do. We'll do whatever we can to help; we'll do the very best we can. Unfortunately, elections make it even harder to do things; there's even less time. (U)

President Kuchma: Let me wish you one thing, if I may: success in your election. (U)

The President: Thank you. (U)

President Kuchma: Thank you. (U)

-- End of Conversation --