

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: G-7 Meeting with President Gorbachev

PARTICIPANTS: George Bush, President of the United States
 Francois Mitterrand, President of the French Republic
 Helmut Kohl, Chancellor of the Federal Republic of Germany
 Brian Mulroney, Prime Minister of Canada
 Guilio Andreotti, Prime Minister of Italy
 Toshiki Kaifu, Prime Minister of Japan
 Jacques Delors, President of the Commission of the European Communities
 John Major, Prime Minister of the United Kingdom
 Mikhail Gorbachev, President of the USSR

DATE, TIME AND PLACE: Wednesday, July 17, 1991, 2:20 p.m.-6:15 p.m.
 Music Room, Lancaster House, London, England

Prime Minister Major: We're all very pleased that President Gorbachev is here. We are among his well-wishers. We've all heard that President Bush and President Gorbachev have resolved START. We're all very pleased. This is an historic meeting -- the first of its kind. I'm delighted that it's taking place. We've all studied your letter. We agree with much of what you have to say. We have moved from confrontation. We're united behind your efforts. We want to integrate you into the world economy. The USSR has immense human and natural resources. There are immense challenges, but limitless opportunities. We accept your personal commitment to reform. We hope you'll talk in detail, not just on the nature of economic reform, but also how it will be implemented . . . so we can help you. You can also learn what we can do to help out and our inhibitions. (✓)

Our interests: the budget deficit, the money supply, etc.; center-republic relations (including with regard to the deficit and debt); the question of private property -- personal property and private ownership of companies. These seem vital to economic reform. The area where we are best equipped to help is technical assistance, know-how, on macroeconomic and microeconomic reform (e.g., energy). The key is to create a climate of confidence to attract increased investment. Your country needs an irreversible reform process. This is for the Soviet people to do, but we will do what we can to help. The international institutions can help; we need to explore this issue with you. I'd like to invite you to share your thoughts. (✓)

~~SECRET~~
 Declassify on: OADR

~~SECRET~~

DECLASSIFIED
 PER E.O. 12958,
 AS AMENDED
 ON 8/21/2009
 2009-01-25

President Gorbachev: Thank you. I'm pleased to be here with you and all your colleagues. My being here is a symbol of the profound changes which have taken place in international relations. This meeting of state leaders is important. You share a special responsibility because of the role played by your countries. You help shape the world. I understand the real historic context and that this dictates what's possible. But it also dictates the need for a new level of trust. This is a strategic moment. Let me point to some important elements, and also respond to yesterday's Political Declaration. (Ø)

Enormous gains have been achieved in disarmament and in resolving regional conflicts. There is a real chance for progress, but we must be realistic. Dangers arise from the transitional situation in the USSR. This requires special intellectual effort. There is a crucial political choice. We're leaving behind one system of values that regulated relations between states to a new understanding, new methods of achieving security -- collective security versus old alliances. There is also instability, both political and economic. We also see how the legitimate desire for national self-determination has negative implications: nationalism, separatism, sometimes with religious overtones. There are dangers to the political environment. A balanced approach is needed; we have a unique responsibility. (Ø)

Let me share some thoughts on the real dangers that confront us The inviolability of borders; changing international institutions. The USSR wants to be part of the world economy. There are questions about how to organically incorporate it. We believe it is in our long-term interest to integrate ourselves. We will also renew our federation. This will help us move together, with fewer social costs, and to overcome our distorted economy; perhaps the most distorted economy in the world. (Ø)

We expect reciprocating steps from you. Like lifting legislative barriers; letting the USSR participate in international economic institutions; and a number of other steps. I have long lists on each. We need reciprocating steps. Let me be frank: Will you be well-wishers, onlookers, or active supporters? I'll answer your questions, but want you to answer mine. We've decided on irreversible moves. But it will be impossible to move to radical reform outside the world market. So integration isn't a self-serving policy, it's a strategic move. (Ø)

A few words on the economy. We had a dramatic situation late last year and early this year. We had to maneuver between the ultra-radicals and those who would slow down or reverse reform. So we had an acute, critical situation. Even well-tested political leaders broke down under pressure. It was like an earthquake, with the roof shaking over our heads. (Ø)

Let me tell you: Gorbachev was playing for time to save perestroika. The mechanism of self-preservation was not to suspend change, but to radicalize it. This was reflected in the 9+1 process. (Ø)

We arrested the situation. We got some time to implement anti-crisis measures. But we cannot waste time. Dangers still exist. We must address the transitional problems in the second half of 1991 and in 1992. First, our plan is social accord. Second, to radicalize the economy. Third, to seek new international economic cooperation with the industrialized economies. We did reach accord with the republics. We can debate specific elements, but we need all three of these. Also for the social aspect, there is a growth of support (for reform) from below. Some say this is the most important social change. (S)

I agreed with President Bush. His mission came, with Ed Hewett and others. I talked to them, to Hewett, a Special Assistant to the President who knows the USSR, who said that something unprecedented has happened. New people have emerged. In particular, Moscow has changed, but not the provinces; but now they have, too. (S)

Our reforms began from above; now they have support from the people. Democratic forces are more active. There are new democratic groups -- movement is rapid. We have moved toward a new Union treaty based on federalist principles. Eight of the republics have approved it; Ukraine will decide in September. We're looking for the optimal combination of sovereignty and a new, unified state. Let me emphasize the importance of the referendum, in which a large percentage of the population favored maintaining the Union. There will be no change in the direction of the process underway. (S)

It's important to avoid extremes. Before, the republics had no freedom, no oxygen; it was all unity. Now the hotheads want to move to disintegration. There are adventurists, separatists. We can't put 70 million people out of our borders. We're economically interrelated. All our problems must be tackled together. So we can't separate or divide our Union. But we can redistribute authority and achieve a new balance -- a common economic space with unified finances and a central bank. We need a new role for our republics. (S)

President Delors is looking at me very closely because he has many questions. President Kohl, too. I understand this. We need the Union. Take the Yugoslav example. This concerns all of us. It gives us an idea of what could happen if the Union disintegrates. That's why I proposed the referendum; the people supported it. So do 9 republics, with 93% of the people and 97% of the territory of the USSR. The sovereign republics will have broad authority. We will devise a new constitution and then hold elections. There will be new authorities, elected by the people, who have a mandate for reform. This new government will have new terms of reference. As for the other republics, some will hold their own referenda, e.g., Armenia, Moldova, even Georgia. A large majority are for union. Even their polls show 70-80% in favor of a new union. (S)

The Baltics are a special case. We will rely on a constitutional framework. It's up to them to decide. If they want to separate, we'll have a divorce procedure to figure out the way to do so. This is especially important because there are many Russians there, defense interests, infrastructure, etc. We will do this through a constitutional process without violence. The key is self-determination. We have to respect this. (Ø)

On economic matters, we've got 13-15 of the republics. This is a multifaceted process. (Others have these problems, too, e.g., Prime Minister Mulrony is tackling the question of Quebec constitutionally.) We'll do it in the same way. (Ø)

We're radicalizing economic reform. We're in a process of transition, not just declaring our intentions. We're gaining ground, though there are many contradictions. We have legislation on the rights of private property and entrepreneurship. We already have these laws -- did you know that? We have come a long way; it's described in the paper on legislation I gave you. (Ø)

Reform has accelerated over the past six months. There are new, non-state producers, and private initiatives in banking and commodity exchanges. There is debate in the Communist Party about these new sectors. The process also applies to the defense sector. In 1988-90, cooperatives grew by over 200%. These are not collectives, but cooperatives, and they employ 6 million people, with an output of 70 billion rubles. Leaseholders account for 7% of industrial output. Shareholding exists in large enterprises. There are 3,000 joint ventures. Over 47,000 individual firms. 15,000 non-state cooperative banks. Soon we'll adopt anti-monopoly legislation. We need to accelerate more in the next 1-2 years; no more than 2. We're in transition from centralized demand to economic regulation of business. We want to commercialize most of our industry. There is equality and protection of all forms of property. We have laws on foreign investment. There are problems of ruble convertibility. I'll address this later. Step-by-step, we'll liberalize prices. We'll move from a situation in which 35% of our prices are unregulated to one in which 70% are unregulated. We're creating a market infrastructure. We need your help above all on defense conversion. (Ø)

On private property, our legislation permits 100% foreign ownership. Each republic decides on its own. Russia has a communal tradition. The situation is not the same in Central Asia, which is less likely to accept private ownership. Each republic will decide this on its own, probably by referendum. Reselling of leasehold rights is possible if there is interest. (Ø)

Regarding macroeconomic stabilization: This is not the most important issue. I set out our program, with figures, e.g., those required by international economic institutions. We will go as far as socially acceptable. Neither of us would want to see the process become socially impossible. The deficit is being

reduced, to no more than 10% of GNP. It will be covered by bonds and the state banks. We will raise interest rates and will change our tax policy. We will freeze deposits to use to buy shares. There are some 250 billion rubles in the hands of enterprises. Some ask why isn't Gorbachev cutting military expenditures, when he will solve the question of links with Cuba and Afghanistan. I've tried to tell you about the real process of arms procurement. We've cut 29% since 1988. Procurement of APCs is down by a factor of four. I'll cut more. What we've done already has created social tension. The best brains, etc., are in this sector. Now they're idled. This will add to problems in the Army. Now the Army and the defense industrialists basically support us. We will implement the withdrawal from Germany, including with regard to humanitarian and economic problems. We will continue the defense conversion process. (S)

New Economic Cooperation: We're responding. We've created better conditions for foreign investment, and recognize the need for this. We're going to make the transition to ruble convertibility. If we do, many of our problems will take care of themselves. Convertibility is under study. Your involvement can consist of some financing, more likely oriented to specific projects. Paying debts -- we will pay them. We have great potential. With some space, etc., we will earn currency to pay our debts. We accept the rules of the game, but bear great burdens and need solidarity. You have a list of projects, many of which have been developed by your businesses. They want a political signal. We're opening up our defense sector -- 80% of it, our "holy of holies." This is important for you to see. We share the burden and the responsibility. To promote cooperation in investment, we'll accept international groups to monitor certain areas. (S)

This brings me to this question: How shall we complete this meeting? We don't have a lot of time. We need to say something. These are not just the USSR's problems. We need to show we can cooperate, what the mechanisms of cooperation are. All of you say, let's discuss. I am looking to President Bush, hoping he'll say something. We need a follow-up mechanism; we need to create one. We need to say something politically, too. There needs to be follow-up. We need an arrangement around the Chairman, and I'll look to the Chairman. I invite your Economic/Finance Ministers to come to Moscow to follow up on this discussion. This is agreed with the republics. All our debts will be repaid. New relations will come and we will establish an Inter-Republican Committee to develop projects for you. (S)

Finally, the USSR is closely linked to Eastern Europe. We've acted badly. Both. We had a bad divorce. We know we have to cooperate with Eastern Europe. We understand the need for this. There are natural links. The sooner we cooperate with you, the sooner we'll cooperate with them. President Havel said to help the USSR is to help us. A clearing system of accounts -- Chancellor Kohl is working on this. German unification I'd like to thank all. I got carried away. I'll stop. (S)

Prime Minister Major: I'll invite President Bush to speak. (U)

The President: First, I want to note START. This is in the interests of all of us. We're trying to hammer out the details before we get to Moscow. I will go there later this month. This treaty is historic; it's the first sign of a reduction of our massive stockpiles of strategic weapons. I'm not trying to bring this issue into the G-7, but wanted to note it. It sets a good tone. (Ø)

I don't have much to say. (U)

As for a follow-on mechanism, each nation has its own bilateral problems to work out. For example, Prime Minister Kaifu has special concerns. You're right about follow-on. We should have the Chairman of this group coordinate common areas with the USSR; this is the way to do it. We could also discuss the IFIs, which are important as purely economic coordination mechanisms. As you move toward a market, participation in them will be very important. It gives you worldwide contacts. So I'm enthusiastic about a follow-on mechanism. (Ø)

Someone, I'm not an expert, can discuss follow-on with the IFIs. The political push will come through the Chairman. We can do without organizations, so they don't compete with existing ones. So the bilateral issues will be considered separately. This leaves nations with special problems the flexibility to move bilaterally. (Ø)

I'd like to ask a question: Experts raise the question of working out the details of the union treaty. (You are moving in this direction.) It is critical to investment, taxing rules, etc. For example, jurisdiction over offshore platforms, we've found, is very complex. And we've had many years to sort all this out in the United States. But it's critical to attracting investment. It can get you multi-billion dollar energy development; this would overshadow aid. It's the same with food distribution. I've met with our Soviet experts; they all say this is key. Yours was an outstanding presentation. (Ø)

Chancellor Kohl: We all feel this is a most unusual hour. It's historic, and we are grateful to you for coming. Congratulations to Presidents Bush and Gorbachev; your progress on START is a favorable development. We are having an open discussion. We have some questions. (Ø)

I'm grateful to President Bush, and the questions he put about moving to a cooperative system. We don't want bureaucracy. We'll try it out: the Chairman will lead. So there won't be any new structures, but all of the G-7 structures we use now. This is a huge step toward normalcy -- like joining the World Bank; cooperation through the OECD, etc. These are normal institutions, not new ones. Perhaps our Finance Ministers could meet in Moscow. This is a good idea. It would heighten our awareness of your problems. (Ø)

I have some questions:

(1) Will the Union Treaty come about? What guarantees are there? We talked with the Ukrainians. This is key to investment. (Ø)

(2) What about making information public on possible Western consortia, e.g., in energy, modernization of nuclear power plants? There is interest because of Chernobyl. Fear is great. (Ø)

(3) Your moves toward disarmament are a great step forward. Conversion, too. This is important for acceptance of our policy in the West. We want to help, but need to know if we support, (that our aid won't go to Cuba). (Ø)

President Delors: There is awareness of the incredible problems that exist. (1) I think people recognize the union treaty is important. (2) All property needs to be developed on the basis of equality. (3) As for trade and cooperation, the EC agreed to help "fill the shops", and to help maintain "social accord". We've also worked out a technical assistance agreement covering sectors. So there already is cooperation, though it's inadequate. I have some questions: (Ø)

(1) Institutionally, there are two key questions. Your letter asserts there is agreement on a union treaty, but it looks different from the point of view of the Ukrainians, etc. (a) Will the Center have total control over defense policy? Is there to be coordination of each individual budget? Will the center levy direct taxes, or rely on republic assurances of revenues? (b) Will there be a single monetary/financial system? This is essential. Will Ukraine issue its own currency? Without it you couldn't negotiate with the IFIs or make the ruble convertible. (Ø)

(2) Financing level re external solvency. You said you have always paid your debt. But you've cut imports by 40% and there is a decline in currency reserves. How do you see the next few months? Our Finance Ministers need to know this, and to pass it to the IMF. Otherwise, there's no room for maneuver. (Ø)

(3) Is there a link between your internal situation and the reduction in imports from Central and Eastern Europe? If so, we could think of a mechanism to reactivate trade. (Ø)

(4) Re technical assistance: Prime Minister Pavlov has set up a single mechanism. Can you confirm that it will continue? There needs to be a single interlocutor with the IMF, etc. We've worked with the Pavlov group. Will it continue? (Ø)

Your replies will help us move ahead. You have great resources. (Ø)

President Mitterrand: We have no right to doubt expectations. But we have to get over certain doubts. It's the problem of the chicken and the egg: will the USSR establish itself first, or does it need assistance now, recognizing the risk of failure? Consider this question against the background of your actions over the past 5 years. History will remember your actions as extraordinary. We've considered the USSR (as a country) since 1917; since 1924, you've had relations with the satellites. Your perestroyka has made it possible to move to a new system, to free many peoples from their recent occupation. German unification was made possible by your policies. So your actions argue for belief. What you have done is a fact; there is hope for the future. There are great problems. Look at Germany. It has emerged as a great power in 50 years, and it has difficulty assimilating five states. What does this say about the USSR, without the same degree of prosperity, unity, with the system of the Czars? It will be much harder. The alternative is upheaval. We can't settle this in an afternoon. All this is the basis for feeling we're taking the right road. The USSR needs serious, sensible assistance. Conditions are posed: first, political stability, based on a union treaty. Some should have their sovereignty. France and the U.K. never recognized the incorporation of Lithuania into the Soviet Union. An overeager desire for independence makes your task more difficult. The example of one becoming independent could be a model for another republic with longer, stronger historical ties to the center. As President Delors said, be quick. Are you one country in diversity, or several countries? (S)

(He noted: defense, energy, the IMF/IBRD/OECD/EBRD) The mission of these four with direct liaison with the Chairman is the best way. The invitation to the 7 Finance Ministers is a happy idea. They can debate on the spot. Prime Minister Major has a mandate from us. He has authority from us. (S)

I wouldn't say privatize everything. I'm of a socialist temperament; this is true of most of us around the table. There is a happy synthesis between private enterprise and the role of the state. This operates in all states. Some don't admit it. It's not for us to tell you what system to have if we have a common basis, e.g., private property. Investors want their profits. Your country needs a middle path to permit external assistance. You need to take stock of what has worked elsewhere. You have substantial resources and great wealth. But this hasn't always produced added wealth. You have unproductive technology. The distribution system doesn't allow you to get the most out of your resources. (S)

Some of our kings sought wives in Russia. This was not just because they were beautiful, but because of an alliance of interests. In 1492, the first emissary from Moscow reached Florence. This is not the moment to refuse your interest in integrating yourself in our common history. (S)

Prime Minister Kaifu: I agree with many of your comments. We hope perestroyka will be successful. The true worth of reform is

for the USSR to work with us as a partner. There needs to be a firm commitment to the transformation of your economy into a market economy. Having listened to your presentation, I understand what you want to do. On the political level, you need to involve your people. New thinking needs to involve the Asia-Pacific region. We have seen some progress with China and Korea; this is positive. Japan is your neighbor in the Pacific end; improvement in our relations is important beyond the bilateral context. We met and talked about the Peace Treaty. This would be significant for world peace and prosperity. I read your message. You spoke of risk and the need to move carefully. But on economics, half-boiled reforms will increase the costs at the end of the day. You say you'll reduce the military and that this is key for reducing the deficit. I wonder how, specifically, you'll do this, and when you will carry it through. Regarding private ownership, you said it was essential, but also said all forms of property will be treated equally. Is a mixed economy the ultimate goal, or is this a transitional stage? (U)

We will proceed with technical cooperation. (U)

TEA BREAK

Prime Minister Mulroney: You're in a unique situation. It gives you an advantage. You already know history will be favorable to you. Your challenge is to keep going politically and stop those who might reverse you. All of us started with strong economies; you didn't. That's why we appreciate your difficulty, as political figures. You have a rich country with a poor system. It is correctable. This is better than the other way around. The key to your integration with the world economy is to achieve it in the judgment of the marketplace, not (among) us. The marketplace can be brutal. It's not impressed by half-measures. It's nothing personal to you that the market judges so harshly; it doesn't give too many compliments. But the beauty is that once the market is on your side, it can create tremendous wealth. Private investment is the key. (He cited a Canadian firm doing an oil recovery project in the Arctic. It involves about \$1 billion. Multiply this by 100.) The private sector will respond. So the question we ask is how can you attract more private investment, meet voter expectations and consumer demand, and create wealth? Gratitude isn't long in Canada; the question voters ask is what will you do for us tomorrow? (U)

I asked our top investors to visit me, and I asked them what it would take for them to invest in the USSR. They cited three factors: (1) political stability, e.g, clarity as to who has control of resources; (2) currency reform; (3) private ownership/freedom for entrepreneurial activity. Jobs are created by small business. Canadian businessmen are in the USSR with McDonalds. They said getting rights to the land is like dental surgery. The one in Moscow employs 1100, and 2-3000 in its supply network. He wants many more. That's where the jobs are. It's no mystery why U.S., French, and other farmers are productive: they own the land and can pass it on. The

productivity of Saskatchewan farmers would drop like a stone if agriculture were collectivized. (Ø)

The key to market pricing: government authorities have no power to control prices. This requires a psychological leap of faith. You can't do it part way. The debate goes on, but you can't challenge some fundamentals. Federalism allows us to take from one part and give to another for the general welfare. (Ø)

I have two questions:

(1) You said 70% of prices will be decontrolled. Why not 100%? Not right now, but as the objective? (Ø)

(2) You said that cutting military expenditures increases tensions. I understand your point. It serves as a regional subsidy program. You said the Army generally supports reform. Does this mean further cuts could provoke the Army? (Ø)

I recommend that Finance Ministers and Ministers of Small Business go to Moscow. (U)

Also, we have bilateral programs, plus the IFIs. We'll focus on energy, agriculture, nuclear safety. Canada has proposals in these areas. We'll discuss them when we meet tomorrow. So institutional activity doesn't preclude these things. (U)

We believe in what you're trying to do. We want you to succeed -- for you and for us and for the world. (U)

Prime Minister Andreotti: Our colleagues discussed the economy. I'll touch on the political. We started with a horrible economy. We met in CSCE, but now have Japan, too. I think the message to world public opinion is positive. Plus, there's President Bush's announcement. This has educational value for world public opinion. (Ø)

Regarding the substance of the enormous transformations, I recall a complete reversal -- now we're crying for the USSR not to cut off the old Warsaw Pact nations. Its very satisfying. Economic cooperation is based on political cooperation. Certain topics strike public opinion in some nations, e.g., Cuba. Castro is the greatest critic of Gorbachev. Castro says if he loses Gorbachev's protection, the U.S. will eat him up. Don't believe this. All must be aware of Gorbachev's public opinion. He had to struggle with German unification. It's the same with the Japanese problem. It will be better to solve these problems with cooperation. There needs to be a positive message. This can also help in the Mideast; you (Gorbachev) helped with Syria; this could help with Israel. (Asked about Soviet Jews leaving, settlements, a peace conference.) Last year I had the honor of giving you a prize; not because of successes, but because of the actions you're taking. (Ø)

Prime Minister Lubbers: The first step is constitutional reform. We in Western Europe are looking for political union. We're

coming from different poles. We can learn from one another. The second is the economy. You need radical reform. That may answer many questions. Third is integration with the world economy. We want to support you politically and in practice. (He recalled ideas like the Energy Charter, the environment, common infrastructure, especially in transport.) Fourth, is the USSR/EC and the USSR/Central and Eastern European relationship. You spoke of divorce and realizing the need for one another. It would be useful to add to our agenda studying a mechanism for trade with Eastern Europe. Perhaps a special credit mechanism would help. (Ø)

President Gorbachev: I thank you for the atmosphere. It makes it possible to express our common concerns. Thanks for your remarks on your positions; notwithstanding differences, they cast light on the viewpoints regarding cooperation and on world politics at large. This moves us toward our organic integration. (Ø)

There seems to be reason to say, if I understand correctly, that there is not just support, but agreement to set up a specific framework. There is the question of the forms of cooperation. All of what we were doing here is necessary for all of us. (Ø)

The fruitlessness of the command system and state ownership brought us to a state where we can't harness our potential. Logic has driven this home to us. We need the mass of society to understand, and not just at the intellectual level. We need to change our dogma, our psychology, etc., in the Party and everywhere. We are forming new structures, competition, new people in the processes, and new attitudes toward ownership. We need to create confidence in our economy. We're just starting at this, however. We understand the scale, the history, and the burden on society. We're a country of 120 different nationalities. Everything is converging on this moment. We'll travel this path. We appreciate your expressions of support. There won't be any disappointment regarding "new thinking." There is a growing process of mutual understanding. What we need now is a new measure of trust. We want to move into the international economic arena. If we're not admitted into the IMF, the World Bank, GATT and the EBRD, it won't work. We need them to provide oxygen to breathe; we'll fit into the political process. We're talking about mutuality. If I'm going too far, or am too optimistic, then let me know. I hope not. (Ø)

As for your specific questions. You're interested in business. So are we. There can be no stability without radical reform. (U)

On macroeconomic stability, we understand your approach. Let me respond. The Union Treaty covers all major aspects of foreign policy -- with a mechanism. Nuclear power is part of the union's purview, as well as transport, communications and meteorology. (U)

Then there's the broad field of joint response. This includes individual projects where investments might be carried out. (U)

We'll have a single market, a single currency, a central bank, central authority, and federal taxes (among 7 of 9 republics). We're still discussing this with Russia and the Ukraine. Now we're looking at mechanisms. We discussed Hamilton, Bismarck, a range of world experiences. I won't sign the Union Treaty without a federal tax. (Ø)

I want a strong center and strong republics on the basis of distributed power. (Ø)

Regarding the convertible ruble: We need this. Without it, we'll be delayed. McDonald's vice president wants to invest rubles, but he needs dollars for investment. At what exchange rate? It's up to 40 rubles to the dollar. The commercial relationship between the ruble and the dollar doesn't correspond to reality. We face great difficulty on this issue. I have files on projects in the pipeline. The stabilization fund is a technical matter; let our experts examine this. We'll get convertibility anyway without this fund, but lack of it would slow us down. (Ø)

For Prime Minister Mulroney: On price decontrol, we're aiming to decontrol 70% of all prices during 1991-92. This will double the level currently decontrolled. We'll just be keeping 3-4 items controlled. The question is bound up with assessing goals. I'm not saying give us goods. I'm saying for each specific step toward a market, in good time, in sequence, in synchronization. (Ø)

On the pace of reform: I would like to speed it up, but can't go any faster. Society could not stand it. There are always disputes. Economists like Leontief or Galbraith will always say, "why have a ministry to move to a market." But there is no pure, unregulated market economy. We shall move toward reform of property, monetary reform, and private enterprise -- but let society decide. We'll adopt a legislative framework and then give (the republics) the freedom to choose. (Ø)

As for Cuba and Vietnam, our relations have changed radically. We've cut aid to Vietnam three-fold. Aid to Cuba has been halved. We get more from the Cubans than the reverse as of July, e.g., sugar, citrus. Cuba will be gradually integrated into the normal processes. Things are moving. Regarding Vietnam, we helped to introduce big rice producers to the market. Cuba and Vietnam will become normal members of the world community. (Ø)

It is extremely important to tell the world of our brainstorming; not for applause, but to show the fact and the breakthroughs achieved. I hope the Chairman will work for positive contact. We also need a mechanism. (Ø)

Prime Minister Major: Let's consider what we'll say in our press conference. There will be huge interest. We need some message.

It should be a positive one and will be historic. Let me sketch out my views. I will be brief. I'll stress the frank, substantive nature of our discussions in a cordial, free atmosphere. I'll welcome the START agreement and the positive response it received. Regarding dimension and style, I'll emphasize "across the table" not around the table with set speeches; and the questions and answers. I'll say we agreed to promote Soviet integration into the world economy. And I'll discuss some specifics: (Ø)

(1) Special Association with the IMF and the World Bank and the other organizations. I would include mention that this is an enormous step forward, which will bring benefits, expert advice and a wealth of experience. (U)

(2) Ask the 4 major international institutions (IMF, IBRD, OECD and EBRD) to work closely together, especially on creating a market economy. (U)

(3) We'll intensify our technical assistance, especially in energy, defense conversion, transport, nuclear safety, and food distribution -- both bilaterally and through the international institutions. (U)

(4) On trade: I should mention the consequences of the collapse of trade with the USSR's neighbors and that we'd like to see trade reestablished. Also more trade access. (U)

(5) Regarding follow-up, I'd note that this isn't a one-off occasion, but is part of a continuing dialogue. The agreed mechanism would be the Chairman of the G-7 -- to keep in close touch with the USSR, visit it, and maintain liaison with the others. After the visit, we could report on progress. Chancellor Kohl would do the same. And it would be desirable for Finance Ministers and Small Business Ministers to accept the invitation to visit. (U)

These are six particular ways to follow up. This is the beginning, not the end. It's the first step toward helping the USSR become a full member of the international economic community. (U)

I'd like to request comment, beginning with Gorbachev. (U)

President Gorbachev: I'll be positive. This was an important political discussion among statesmen. We determined certain areas as directions for our cooperation. We've not yet exhausted our cooperation, but are started on it. I'd like to thank you all. (Ø)

-- End of Meeting --