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Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01. Cable	Re: Page 02 of 02 (1 pp.)	n.d.	(b)(1)	S
02a. Annex	Re: Proposals for Drafting Economic, Scientific and Technological Cooperation Programs [Unofficial Translation] (31 pp.)	n.d.	(b)(1)	
02b. Annex	Re: Laws (8 pp.)	n.d.	(b)(1)	
03. Letter	President Gorbachev to Prime Minister (23 pp.)	n.d.	(b)(1)	
04. Letter	President Gorbachev to President Bush [Unofficial Translation] (4 pp.)	n.d.	(b)(1)	
05. Cable	To White House Re: Oral Message for Gorbachev (2 pp.)	7/6/91	(b)(1)	S
06. Handwritten Notes	Re: President/Gorbachev (6 pp.)	7/17/91	(b)(1)	
07. Memcon	Re: Meeting with President Mikhail Gorbachev of the USSR (8 pp.)	7/30/91	(b)(1)	S

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Collection:

Record Group: Bush Presidential Records
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WHITE HOUSE SITUATION ROOM

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ABOUT THE POSSIBLE RAMIFICATIONS OF CALLING OFF THE KIEV VISIT. IT WAS ALMOST CERTAIN THAT AT THIS LATE STAGE THE FACT OF THE VISIT'S CANCELLATION AT THE REQUEST OF THE SOVIET GOVERNMENT WOULD BECOME KNOWN PUBLICLY. THIS STORY IN TURN, MAY WELL HAVE NEGATIVE POLITICAL IMPLICATIONS IN THE U.S. AND HERE. IT MAY ALSO RISK BECOMING A CENTRAL FOCUS FOR THE MEDIA, AND COULD LEAD TO JUST THE TENSION PRESIDENT GORBACHEV HOPES TO AVOID. WE HOPED THAT SOVIET OFFICIALS, IN MAKING THEIR DECISION, HAD THOUGHT THROUGH THESE POTENTIAL REPERCUSSIONS FROM THE LATE SOVIET REQUEST TO FORGO KIEV.

MALAYAN DID NOT RESPOND TO THIS POINT DIRECTLY. HE DID NOTE, HOWEVER, THAT IN THE BACKGROUND OF SOVIET THINKING WAS A COMMENT BY THE PRESIDENT TO GORBACHEV AT SOME POINT TO THE EFFECT THAT THE TWO LEADERS SHOULD FIND AN OPPORTUNITY TO GET AWAY FROM MOSCOW FOR TALKS IN AN INFORMAL, QUIET SETTING. THE STAVROPOL PROPOSAL RESPONDED TO THIS COMMENT. FURTHERMORE, MALAYAN NOTED, STOVROPOL IS AN AREA CLOSE TO GORBACHEV'S HEART AND WHERE HE HAS A VERY NICE FACILITY, WHICH HE ENJOYS.

END TEXT.

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**PROPOSALS FOR DRAFTING ECONOMIC, SCIENTIFIC AND
TECHNOLOGICAL COOPERATION PROGRAMS**

We view the Soviet Union's integration into the world economy primarily in the context of mutually beneficial cooperation within a global economic space.

Based on both the national requirements of the Soviet Union and the interests of the international community, we propose cooperation programs in the following fields:

- conversion of defense industries;
- fuel and energy production;
- foodstuffs;
- market infrastructures;
- protection of the environment;
- research and development;
- education and training.

Summarizing existing proposals, including those set forth by individual republics, regions and territories of the Soviet Union, the government of the USSR will coordinate the implementation of such programs by creating incentives for the participation of enterprises therein, giving enterprises freedom of action in choosing partners and specific economic and

technical decisions. Governments of other countries could assist entrepreneurs in the implementation of such programs.

A number of proposed programs would not aim exclusively at commercial benefit and could contribute to the solution of global problems (the environment, fundamental research), or have transnational dimensions (e.g. a single European space for energy supplies). Implementing such program will require participation by interested governments.

Conversion

Cooperation in this field may, in our view, yield reciprocal benefits. They include:

significant political results in the form of accelerated progress towards genuine and irreversible disarmament;

general economic gains due to the release of scientific, material and production resources;

greater opportunities for launching within a short period of time and with comparatively limited additional investment the production of highly advanced and sophisticated items both for meeting Soviet domestic demand and for the international market.

The Soviet military and industrial complex is an large system of industry branches, production facilities and research and development centers forming the most efficient part of Soviet economy.

It is the largest concentration of scientific and technological capabilities in the USSR and the origin of 40 per cent of all Soviet R&D as well as of the best trained technicians, engineers and scientists. It also has received the best material and technical supplies.

Putting this potential to a more effective use in today's circumstances would offer the Soviet Union major new opportunities for the restructuring and modernization of its economy and for coping with its present economic and social challenges.

In terms of the scale and timing of potential activities it would be useful to formulate a short-term and a long-term program for foreign investment in the conversion of defense industries.

The short-term program would center on inviting foreign investors to participate in launching the production of consumer items at defense factories. Preferential treatment would be reserved for those Western companies that would be prepared to start delivering consumer goods immediately upon the signing of contracts, against collateral in the form of future products of Soviet enterprises. Semi-processed goods

and parts may also be supplied on the same basis. The long-term conversion program would be aimed at profound reorientation of a significant number of enterprises now manufacturing weapons and military hardware towards the production of transportation and communication systems, motor cars, farm equipment as well as a broad range of consumer items.

Preliminary estimates place the cost of activities required to convert defense industries to the production of civilian goods and non-food consumer items between 30 and 40 billion dollars, including 10-15 billion dollars in the initial 2 or 3 years. We invite foreign partners to participate in these programs.

Following are several areas of potential large-scale mutually profitable cooperation:

development of more efficient and environmentally clean long-range airliners and business aircraft and helicopters; designing new types of aircraft engines including those using unconventional fuels based on natural gas or hydrogen; the use of foreign-made engines as well as certain navigation, communications and control systems on existing Soviet aircraft;

modernization of air traffic control and navigation systems, including the use of space components, with a view to increasing the capacity of

air routes; establishment of joint ventures to produce modernized support systems for foreign flights via Soviet airspace;

using Soviet launch systems for launching various types of international or Western civilian satellites;

construction of civilian vessels at Soviet shipyards by orders from foreign companies, using Western technologies; restructuring of enterprises and facilities, both existing ones and those under construction, with a view to producing home appliances (TV sets, VCRs, washing and sewing machines, vacuum cleaners etc.), as well as medical and ecological equipment;

setting up joint ventures to produce super large electronic chips, powerful transistors, color tubes for TV sets and computer displays, condensers, and resistors required for the production of non-food consumer items and other civilian products.

converting a number of defense enterprises to the production of equipment for agro-industries and the construction sector;

joint completion of numerous research and design developments to a stage of their commercial application in diverse areas: new types of consumer goods, medical equipment, office equipment etc.;

manufacture of sophisticated oil-pumping and drilling equipment (inter alia, under Western licenses) at defense enterprises for subsequent use in joint development of oil and gas deposits;

participation in the development of telecommunication systems (using communications satellites, electronic telephone switchboards, fiber-optic communications lines), transportation systems and power grids, and in the work to integrate them into global and regional systems.

Apart from commercially oriented cooperation we see possibilities for joint activities with government support from both sides in the following areas:

development of technologies for environmentally safe elimination (utilization) of chemical weapons;

technologies and procedures for the dismantling of nuclear explosive devices and elimination of conventional ones;

dealing with problems of nuclear waste, including that of nuclear submarines;

development of joint ABM early warning systems to prevent unauthorized or terrorist operated launches of ballistic missiles.

Organizational and economic forms of cooperation in the area of conversion could take a variety of forms, including:

direct and portfolio investments into defense industry enterprises being transferred to public ownership and converted to the manufacture of civilian products;

purchase by foreign companies (full or partial) of operating enterprises, as well as those under construction;

establishment of joint ad hoc or permanent scientific-and-technical task forces for specific R&D projects;

establishment of a number of investment trust funds involving both Western and Soviet partners. The objective of such funds would be to combine the capabilities of best Soviet enterprises with the expertise of leading Western corporations in the areas of finance, technology and marketing. Models for such funds exist already, e.g. the October 1990 agreement with the Batterymarch Financial Management Company of Boston, USA, to establish a joint fund of up to 1 billion U.S. dollars for investment in Soviet enterprises.

The Soviet Union is prepared to grant especially beneficial treatment to those foreign companies which, in establishing business partnerships with Soviet enterprises and conglomerates, would assist them in gaining access to

world markets of high-technology products. The Soviet side would establish for foreign investors a regime of openness and most favored treatment.

For enterprises undergoing conversion, a number of additional incentives will be introduced in terms of taxation, licensing, exchange rates etc., aimed at protecting the economic interests of both Soviet enterprises and their foreign partners.

A year or two ago the overwhelming majority of our defense enterprises were not yet prepared to cooperate with foreign partners. Excessive, mainly unjustified, secrecy was a serious impediment. Many obstacles to the participation of foreign capital in civilian production units of our defense enterprises are now being removed. Many defense enterprises possessing advanced technology and highly skilled personnel now have the right to establish independent foreign ties and are vigorously seeking partners in West.

We believe we have reasons to expect the West to join us in removing many, of the barriers which might be described as "atavistic", namely by:

providing state guarantees for credits and investments by Western companies;

removing discriminatory tariff and customs barriers on Western markets;

granting import quotas (in countries where those are applicable).

The COCOM limitations continue to be a serious obstacle to economic cooperation between Soviet enterprises and foreign companies.

This applies, for example, to the international market of civilian space launches, primarily for commercial purposes. The USSR has the complete range of first class highly reliable launch systems with a wide scope of capabilities. Despite considerable interest on the part of a number of companies in using those vehicles to launch commercial and the favorable commercial terms offered by Soviet enterprises, contracts have been concluded yet, since all our foreign partners remain bound by COCOM limitations.

Other projects, such as laying a fiber-optical communications cable across the bottom of Lake Baikal or the establishment of a transcontinental fiber-optical communications link through the entire territory of the USSR (Leningrad-Moscow-Far East-Japan) have been subject to similar prohibitions.

Based on the above approaches to international cooperation in the area of defense industry conversion, the Soviet side is prepared to submit for joint discussion a

list of specific projects for foreign investment in conversion as well as proposals on the practical modalities for their implementation.

Fuel and energy

The Soviet Union could become a major stabilizing factor in global energy supplies, considering, inter alia, their vulnerability to conflicts and crises in different areas of the world.

The Soviet Union produces one-fifth of the world's primary energy resources. Its share in global energy exports exceeds 10 percent. In 1990 the USSR supplied one of every nine tons of oil, one of every three cubic meters of natural gas and one of every ten tons of petroleum products sold in world markets.

Energy consumption in the countries of the Central and Eastern Europe relies in large part on energy resources imported from the USSR.

The export of energy resources and primary materials underlies to a great extent the solvency of the Soviet Union in international transactions and its ability to import goods from other countries.

At present the USSR has no possibility for ever-increasing new investment in fuel- and primary material industries, and the processing of carbohydrates; indeed, such investments have had to be reduced.

This has already led to a significant drop in the production of oil and petroleum products. The production of coal has declined as well, and the growth of the natural gas output has slowed down dramatically.

The degree of processing of oil and other commodities remains low; as a result, we fail to extract several million tons of high quality petroleum products. The specific fuel consumption in the national economy has hardly reduced, so we are forced to cut exports by almost the entire volume of lost oil production. This has also drastically reduced the supply of fuel and energy resources to countries of Central and South Eastern Europe, which receive those resources mainly from the USSR.

As mutually advantageous cooperation with the leading countries of the world is organized and major foreign investments attracted production of fossil fuels may be stabilized and their processing and use made drastically more efficient, thus making available considerable additional quantities for export.

The USSR and its constituent republics have prepared a set of coordinated large-scale projects in the framework of a common strategy for energy development that could be implemented with broad foreign capital participation. These include the following problem areas:

stabilization of oil production, attainable before the end of this year given foreign capital participation. The USSR government, jointly with the leading oil-producing enterprises and representatives from a number of republics and regions, is now nearing completion of a crash program to achieve this goal that could be presented to the heads of state of the Big Seven in the nearest future;

development of fossil fuel production in additional areas of Western and Eastern Siberia, the North of the European part of the USSR, and the Caspian Lowlands, as well in the Caspian, Okhotsk, Barents and Kara sea-shelf areas;

development of gas fields in the Yamal peninsula and the adjacent sea-shelf areas and a system of trunk gas pipelines from the USSR to Western Europe, as well as gas reserves in the Barents sea and a related gas-liquifying plant, to yield a total annual amount of 15 to 20 billion cubic meters of natural gas for export;

reconstruction of the national gas distribution system and more efficient gas use to bring about an additional annual increase of 6 to 8 billion cubic meters in gas exports. Participation by foreign companies is required to satisfy demand in high-efficiency equipment;

modernization of oil refineries in various parts of the country (near the urban centers of Odessa, Kherson, Perm, Saratov, Syzran, Mozyr, Ryazan, Yaroslavl, Omsk, Chimkent, Ufa, Lisichansk, Khabarovsk, Komsomolsk, etc.) with a total fuel oil production capacity of 70 to 80 million metric tons in order to make them yield an additional 30 to 35 million metric tons of refined products a year thanks to deeper oil processing;

modernization of a number of presently operating thermal power plants (Ekibastuz-2, Zmievsкая, Moscow-27, Novokemerovskaya, Gusinozerskaya, and Dobrotvorskaya) that are to accept imported technologies for the removal of sulfur oxides, nitrogen and other pollutants from the flue gases;

development of environmentally safe, efficient technologies for the production of coal bricks, liquid hydrocarbons and other chemicals from coal mined in the Kansk-Achinsk basin, aiming at an output of 1 million metric tons of coal bricks in 1995 to be subsequently increased to 6 to 10 million metric tons on the basis of new technologies and equipment;

setting up of joint production of gas and steam power units in order to considerably speed up construction of thermal power plants and increase their efficiency to 50 to 52 percent while reducing air pollution; development of environmentally safe

equipment for coal, sulfur dioxide and fuel oil combustion, as well as alternative, environmentally safe energy technologies.

Taking into account the size and nature of the prospective cooperation in these problem areas and their individual components it may involve partners ranging from governmental agencies of the USSR, its republics and regions, to various kinds of concerns and associations to individual enterprises and is to comply with the Soviet legislation in force. Inputs in foreign currency may be repaid by energy exports from the USSR.

These projects, if implemented, may make a major contribution to the development of a common European energy space, as proposed by the Netherlands and supported by the CEC.

The USSR has an interest in participating in the preparation and harmonization of long-term policies aiming at developing the energy sector on the European scale and in individual European countries, including an all-European program for environmentally safe nuclear power plants and radioactive waste recycling .

We have a considerable stake in participating in the work of the International Energy Agency (IEA) and the forthcoming European conference on energy.

Underlying our participation would be above all our desire to develop international cooperation in the

restructuring of the fuel and energy sector of the Soviet economy, making it more compatible with the world economy, and integrating it into the world economy on the basis of a market environment.

Food production

We attach priority to developing cooperation in the production of food. The acute character of the food problem, the insufficient supply of foodstuffs constitute a major source of social tension and political instability in the USSR and indeed question the future of political and economic reforms.

With 5.5 percent of the total population of the Earth, the USSR produces 10 percent of world grain, 21 percent of milk, 26 percent of potatoes, 31 percent of sugar beets, and 34 percent of sunflower seed. However, in terms of per capita consumption we are seriously behind many countries. While the USSR virtually equals the U.S. in the volume of primary agricultural output, it actually produces three times less food.

Massive food imports amounting to 10 billion dollars do not resolve, that problem deforming at the same time the Soviet Union's balance of payments and placing limitations on normal mutually advantageous economic ties with Western countries.

What are then the prospects for, and the ways of resolving the food problem in the USSR?

To meet the basic needs of the people we must increase food production by one-third. In our view, this can be achieved mainly through improved utilization of farm produce, reducing losses, better processing, increased output of final products and better quality as well as dramatically increasing the efficiency of the producer--the consumer link known in the West as "distribution". The focus should be on better storage, transportation, processing and marketing of agricultural products. This area has the main potential.

The distribution problem can be resolved in the first place through in-depth transformations in the agro-industrial complex where, alongside with the land reform, privatization will be carried out and a mixed economy introduced, combining various forms of ownership, including cooperatives and private enterprises.

In resolving the food problem the main emphasis will be on small-size enterprises which guarantee quick returns on investment at moderate risks.

At the same time we attach great importance to cooperation with foreign partners. The Soviet side is interested in foreign capital involvement in the following projects:

Modernization of meat processing. The industry has developed too slowly, and relied on backward technology.

One ton of meat yields twice as little final products in the Soviet Union as in the United States.

We propose advantageous cooperation in launching several dozen meat processing plants, in modernizing existing ones, supplying modern equipment and establishing small-size processing enterprises of a modular type as well as turning out refrigeration and compressor equipment and other machinery.

Modernization of dairy industry. Our country accounts for a quarter of world production of milk and yet experiences a shortage of dairy products. Here again the problem lies in the low degree of processing and inadequate quality of end products. The industry promises high returns on investment. For example, an investment of 700 million rubles will in a short time increase the output by 2 billion rubles.

Development of sugar industry. Out of 318 sugar plants more than 100 require major modernization. This will reduce the time needed to process sugar beets to 95-100 days, increase sugar yield by 10-15 percent and its total output by 2 million tons.

About 50 baby food factories and production units could be built, establishing a line of joint ventures with broad reliance on highly efficient imported equipment.

Solving grain problem has special importance as a precondition for the development of the entire food complex. There is a realistic opportunity to achieve a relatively quick buildup of grain resources, improve the grain balance structure and make more efficient use of national grain resources.

We plan to achieve this primarily through cutting grain losses at various stages which now amount to 30-40 million tons a year. This requires a re-equipment of the grain production and hence an adequate development of farm machinery production.

Factories could be in cooperation with foreign companies to produce modern grain and forage harvesters, mower crushers, corn planters, grain drier and cleaner units, loading equipment and pickup presses.

To increase the production of grain including corn, beans, rape and other oil seeds, a program is proposed to establish--together with foreign companies--enterprises and service centers for introducing new technologies of plant growing and setting up seed improvement farms.

Broad cooperation with Western companies may also develop in other problem areas including fruit, potato and vegetable processing, food fats, baked goods and confectionery production, and container and packaging materials manufacture at every stage of production from the agriculture to the final products output to its delivery to the consumer.

A possible downfall in exports of agricultural produce to the Soviet market would be offset by new opportunities for the cooperation of other countries with Soviet partners in the agro-industrial sector.

Market infrastructure

Creation of a modern market infrastructure in the Soviet Union may constitute an important area of cooperation between the USSR and the leading countries of the world.

Investment projects in this sphere may include technically and informatically well-equipped modern business centres, offices, banks, exchanges, hotels and other facilities where foreign and Soviet businessmen could conduct business in accordance with internationally accepted working and living standards.

There are real prospects for economic, scientific and technical cooperation in the sphere of transport.

We could cite as examples of this cooperation establishment of transcontinental rail and air "bridges" via the USSR territory, connecting the Pacific coast with Europe, and implementation of large-scale projects for renovation and development of the existing highway network, ports and other transport systems that in fact ensure effectiveness and flexibility of market operations.

Participation of foreign capital could significantly accelerate the creation of telecommunication systems (electronic mail, radio-telephones, satellite communication system, telefax etc.) that are much needed for a modern market.

The Soviet Union can offer his foreign partners a number of large-scale development projects in the field of

telecommunications and broadcasting, using inter alia, space platforms of various types (e.g. "Marathon-3" project); the implementation of these projects would make it possible to solve major problems relating to the provision of conventional telephone communications, fax and electronic mail and broadcasting for the territory of the USSR itself, as well as to integrate the USSR into the global communication systems.

Within the framework of cooperation with interested countries a satellite system could be created which would permit communications with mobile, remote and not easily accessible objects. This system would be a major part of the infrastructure, which would promote the efficiency of the national economy and international communications by providing services to over 100,000 subscribers in the USSR and abroad. The cost of such a system, including organization of gross production of its components and operational services, is estimated at ca 3,5 billion rubs with the foreign credit component of about 130-150 million dollars.

Of an obvious interest is the project of a transsoviet fibre-optic communications line (TSL) that would close the global ring of such communication line. The length of this line in the territory of the USSR would exceed 14,000 kilometers which would considerably increase the capacity of the whole international communication network. The national part of TSL would make it possible to transmit, through 8,000 digital phone lines, of both traditional and new types of information.

There exist vast possibilities for cooperation in the field of construction and modernization of facilities used for the purposes of international tourism and for providing services to foreign citizens within the USSR.

These projects could be implemented in the major political and economic centres (Moscow, Leningrad, Kiev, Minsk, capitals of other Union republics), in ports (Murmansk, Arkhangelsk, Odessa, Novorossisk, Vladivostok, Nakhodka) and in the centres of international tourism (Sochi, Yalta region, "Golden ring" cities etc.).

Research and development

It is generally recognized that we have done fairly good work in a number of fundamental disciplines and related applications:

In this connection one could cite theoretical physics, lasers, high power electronics, nuclear physics and technology, airodynamics and aviation, rocket and space technology, high temperature superconductivity, creation of new materials.

Over a number of years 70-90 thousand studies had been carried on annually in the USSR but a great deal of new technologies, materials and designs were shelved because of the unreceptiveness of the administrative and command economy to technical innovation.

Also, the fact that the major part of research and development was carried out under veil of secrecy, was not without negative consequences. At present the access to their application has been

drastically eased. The estimates by the Soviet and foreign experts suggest that the joint engineering development of the research products for commercial application is most effective.

In this connection we propose:

to organize international scientific, technological and economic cooperation to study the problem of "high energy physics" bearing in mind joint construction and utilization of the LHC (Berne, Switzerland), YNK (Protvino, the USSR), SSS (Texas, USA) accelerating complexes;

to set up a number of European research centres on material testing on the basis of a cluster of the institutes of the USSR Academy of Sciences, including the Solid state physics Institute, Institute of theoretical physics, Institute of chemical physics, Institute of microelectronic technology problems and highly pure materials; a center of neutron studies using "PIK" research reactor (which is under completion) in the Leningrad nuclear physics Institute of the USSR Academy of Sciences; a center on thin layer technology for superconductive electronics and strong current electronics on the basis of the Institute of applied physics of the USSR Academy of Sciences in Nizhni Novgorod; a center on ultrapowerful magnetic fields (using cumulative generators which were conceived by academician Sakharov) on the basis of a laboratory of the defence complex;

it might be appropriate to establish, under some government control, special centers on transfer technologies in certain Western countries and in the USSR: on application of

lasers and laser technology, on irradiation technologies, space systems, on the development of science intensive small batch chemistry, on application of energy of the explosives to solve energy consuming economic problems, on production of highly effective composites and a wide range of reinforcing and protective coatings etc.

The contribution of the Soviet scientific teams to the development of world fundamental sciences and their applications could be even greater if their research is carried out on orders (contracts, grants) received on a competitive basis under internationally accepted procedures, that is to say on the basis of open project bidding and their scientific assessment.

The positive experience of the cooperation between the USSR and FRG in the field of high temperature superconductivity, gained so far, seems to confirm our point of view.

Environmental protection

Environmental protection forms a major integral part of the comprehensive international security system. Such phenomena as atmospheric and water pollution, influence of human activity on the climate, proliferation of highly toxic and radioactive wastes, deforestation and desertification, transcede national boundaries of any given State and have global impact.

Forests in the USSR are the largest carbon dioxide absorbers in the world and their role as stabilizers of the global climate seem to be not less important than that, for

instance, of tropical forests of South America. The Baikal lake accounts for 20% of the world fresh water reserves. Swamps of Western Siberia are the largest providers of methane for the Earth's atmosphere.

According to Soviet estimates, currently 45 per cent of national territory are not yet affected by human activity. However, without an active international cooperation in the field of environmental protection the situation can change drastically in 10-20 years to come which will have significant negative consequences for the whole world.

In recent years public attention to environmental protection in the USSR considerably increased.

Growth of toxic emissions into atmosphere and water sources has been halted. Specific measures to protect such unique resources, as the Aral sea, the Volga river, the Baikal lake and others, have been taken. A number of ecologically harmful projects (transfer of a part of northern rivers' water resources to the South etc.) has been stopped. Functioning of nuclear reactors has been made much more secure after the Chernobyl accident.

However, the environmental situation in the USSR remains very dramatic.

The Soviet Union is ready to play a more active role in realization of international ecological programs and projects, inter alia, relating to:

- study of problems of global environmental and climatic changes through establishment of a global system to monitor

internationally environmental conditions using outer space monitoring systems;

- study of the causes underlying the Earth's ozone layer depletion and development of a program to reduce emissions causing this phenomenon, based on effective division of labour and direct assistance to the USSR;

environmental protection in such areas as the Danube basin, the Caspian Sea, the Black Sea and the Far East seas of the USSR.

It is of utmost importance to assess jointly the current situation and necessary assistance so that the USSR could comply with its obligations under European and international environmental conventions such as the Convention on long range transboundary air pollution, and protocols relating to it, such as the Protocol on the reduction of sulphur and nitrogen emissions.

Taking into account the percentage of the USSR territory in the global Earth surface, the burden of natural and ecological problems accumulated in the country and the fact that during a period of radical social and economic changes the problems relating to channelling resources to ecological programs inevitably grow more complex, international cooperation in realization of our natural and ecological tasks becomes a matter of highest priority.

We would appreciate our working together in the following areas:

- large-scale technical and economic assistance in environmentalization of the industry in the North-West region of the European part of the USSR as well as in comprehensive solution of the Baltic sea problems;

- technical assistance in solution of the problems of national ecological disaster zones in the USSR;
- financing the development of and provision of additional resources for specially protected territories (preserves, reservations, etc.) which serve to preserve genetic resources and to maintain natural diversity;
- financing of the programs to reorient the industry of the Baikal lake region and to establish there a world center of the international ecologically oriented tourism;
- establishment of and provision of financial resources for the activities of international expert ecological commissions to analyze major national environmentally intensive projects and to study special ecological standards for specific regions in the USSR, in which maintenance of ecological balance is very important for all mankind (Northern, Arctic regions etc.);
- technical and economic assistance in development of networks to monitor environmental conditions, including maximum possible use of scientific and industrial capacity of defence enterprises for ecologically oriented conversion;
- attainment of a higher level of safety in the field of nuclear energy;
- technical and economic assistance in organising integrated utilization of mineral resources and of mining industry wastes and in recycling of communal wastes, organization of joint projects in the fields of recycling and disposal of highly toxic and radioactive industrial wastes;

- methodological and consultative assistance in elaboration of modern environmental and ecological legislation and in creation of payment and insurance system that meets the requirements of transitional period when the national economy is moving towards market forms of management, as well as in its integration into the world economy;
- creation of an international institute to study global problems related to the population and ecological safety in emergency situations and under the impact of technogenic and natural factors.

Human resources

Many experts believe that a purposeful education of managers and experts targeted for market relations is the most cost-effective investment of funds in the program of transition to the market.

The USSR has already embarked on creating an infrastructure for education of managers and experts, mainly in Moscow, Leningrad and some other industrial centers. Some 300 institutes for up-grading of senior administrators and experts, managers schools in the form of state and cooperative structures, joint ventures, and, most recently, small private firms are now operational.

In addition, there are more than 150 special departments in the universities and other higher education establishments for training of managers and experts, as well as over 400 different, mostly short-term, courses. Some 10,000 staff teachers and more than 50,000 scientists and experts on a

part-time basis are involved in the functioning of this system of education.

We extend our gratitude to different governments, many firms, universities and business schools which render great assistance to us in this field. We welcome the initiative put forward in this connection by the Economic Commission for Europe, European Bank for Reconstruction and Development, US Department of Commerce and many other organizations.

After the conclusion of intergovernmental agreements on cooperation in the field of vocational training with Germany, France, Italy, Britain and Finland and overall enhancement of relations between our country and foreign States our managers and experts for the first time were able to study abroad in the best business schools.

About 1,000 students were involved in educational activities under the sponsorship of the Soviet Academy of National Economy alone. Now hundreds of managers and experts are not only enrolled in the training course, but are gaining practical skills during probationary work in a number of leading countries.

As compared to the recent past the progress is evident. But if we assess the current scale of this work in terms of needs, we shall see at once that very much is still to be done.

The administrative structure of Soviet enterprises and organizations now accounts for some 15 million people or almost 13 percent of all employed. The majority of experts, including 70-90 percent of managers in the field of industry, transport

and building, have technical education and know little about economic activities, especially under market conditions. Only less than six percent of managers have economic education.

During the years of perestroika the age of personnel became much younger, and now senior managers in the USSR over 60 years of age account for only three percent. The most typical age of directors of enterprises is 35-45 years. They have a particular need to gain knowledge about market economy and management.

Along with the extension of training of managers and experts it is not less important to improve the quality of this training. It is not practicable to send millions of managers to study abroad, where they can acquire first-hand knowledge about market functioning.

Therefore, while continuing to increase the flow of students, sent to Western business schools, it is appropriate to ensure first priority training of teachers who could later provide mass education in the USSR at a new qualitative level.

It would be desirable to deploy in the shortest possible time, with the participation of Western companies, in the territory of our country regional, sectoral and intersectoral centers for training and retraining of personnel, who would be able to work efficiently under the conditions of market economy integrated into global economic area, to issue manuals on market economy, entrepreneurship and management, and create, in cooperation with leading foreign companies, a modern resource bases of educational processes and joint education centers.

We would like to develop extensively, with the State support, direct contacts with numerous foreign companies, switching from academic education in the field of basic market economy to acquisition of practical skills allowing to work under the market conditions, by sending directly our personnel on probation to foreign banking institutions and companies. Today we already have good examples of this practice.

Thus, the IBM company has supplied to the USSR for educational purposes 13 thousands of personal computers which helped to teach thousands of our experts. In the nearest future this company will open its educational center in Moscow, extending at the same time more invitations to our experts to study in management schools of companies in other countries.

Cooperation in the field of training will not only facilitate and make more effective the transition to the market economy in the USSR. It will promote in a most favourable way the development of economic, scientific and technological relations between organisations of our country and those of Western countries and will contribute not only to better education in the field of business, but also to closer human relations.

All realistic directions and possibilities of economic cooperation are not limited to the specific projects cited in this memorandum. In order to guarantee a more extensive and constructive discussion the Soviet side is ready to propose detailed lists of projects in different fields of cooperation that meet mutual interests.

I. L A W S

concerning legal safeguarding of the
transition to the market

I. Laws adopted by the Supreme Soviet of the USSR in 1989-1991

- | | |
|--|---------------------|
| Basic legislation of the USSR and
the Union Republics on Lease | - November 23, 1989 |
| Basic legislation of the USSR and
the Union Republics on Land | - February 28, 1990 |
| Law on Property in the USSR | - March 6, 1990 |
| Law on the General Principles of
Local Self-Government and Local Economy
in the USSR | - April 9, 1990 |
| Law on Enterprises in the USSR | - June 4, 1990 |
| Law on Rights, Duties and
Responsibilities of State Tax Inspections | - May 21, 1990 |
| Law on Taxation of Enterprises,
Associations and Organizations | - June 14, 1990 |
| Basic Legislation on Investment
Activities in the USSR | - December 10, 1990 |
| Law on the State Bank of the USSR | - December 11, 1990 |

Law on Banks and Banking Activities	- December 11, 1990
Law on Foreign Currency Regulation	- March 1, 1991
Customs Code of the USSR	- March 26, 1991
Law on Customs Tariffs	- March 26, 1991
Law on the General Principles of Citizens' Entrepreneurship in the USSR	- April 2, 1991
Law on the Supreme Court of Arbitration of the USSR	- May 17, 1991
Law on the Procedure of Resolving Economic Disputes by the Supreme Court of Arbitration of the USSR	- May 17, 1991
Basic Civil Legislation of the USSR and the Republics	- May 31, 1991
Basic Legislation of the USSR and the Republics on Personal Income Indexation	- June 25, 1991
Law on the Basic Principles of Enterprises' Destatization and Privatization'	- July 1, 1991
Law on the Industrial Prototypes in the USSR	- July 3, 1991
Law on the Trade Marks and Service Marks in the USSR	- July 3, 1991

II. Draft Laws under Consideration by
the Supreme Soviet of the USSR

Draft Law on Basic Antimonopoly Legislation in the USSR.

Draft Law on Securities and Stock Exchanges.

Draft Law on Enterprises' Insolvency (Bankruptcy).

Draft Basic Legislation of the USSR and the Republics on Pricing.

Draft Law on Commercial and Agency Activities.

Draft Law on the Scientific Intellectual Property and Strengthening of its Protection.

Draft Law on State Scientific and Technical Policy.

Draft Basic Legislation of the USSR and the Republics on Foreign Investments in the USSR.

Draft Basic Legislation of the USSR and the Republics on Insurance.

III. Draft Laws to be developed and submitted to the
Supreme Soviet of the USSR for consideration

Draft Law on Joint Stock Companies in the USSR.

Draft Law on Accounting System and Statistics.

Draft Law on Money Circulation Regulation.

Draft Law on Mortgage Right on Property.

Draft Basic Legislation of the USSR and the Republics on Commodity Exchange.

Draft Law on the Defence Industry Conversion.

Draft Law on Competition.

Draft Law on Small and Medium Enterprises.

Draft Law on Foreign Economic Policy.

Draft Law on Incomes.

Draft Law on the Basic Principles of Budget Management and Tax Policy of the USSR.

Draft Law on Foreign Currency Revenues Taxation, Repatriation of Profits and Foreign Currency.

Draft Law on State Insurance of Commercial, Investment and Currency Risks of Enterprises.

Draft Basic Legislation of the USSR and the Republics on the Social Protection of Citizens.

Draft Law on the Legal Status and Economic Guarantees for Non-Profit Organizations and Budget Institutions.

Draft Law of the USSR on the Responsibility for Disclosure of Information Concerning Commercial Secrets and for Breaking the Procedure of Protecting Such Information.

Draft Law on Management, Material and Criminal Responsibility of Officers and Citizens Concealing Incomes and Evading Tax Payment.

Draft Law of the USSR on Foreign Trade.

II. L A W S

on democratization of social life, safeguarding
of rights and freedoms of the citizens

I. Laws adopted by the Congress of Peoples' Deputies of the USSR and by the Supreme Soviet of the USSR in 1989-1991

Law on the Procedures to Settle
Collective Labour Disputes (Conflicts) - October 9, 1989

Law to Strengthen Sanctions for
Encroachment upon National Equality of
the Citizens and Forceful Violation of
the Territorial Integrity of the USSR - April 2, 1990

Law on the Languages of the Peoples
of the USSR - April 24, 1990

Law on the Free National Development
of the Citizens of the USSR, Who Live
beyond their National and State Entities
or Who Don't Have Such Entities on the
Territory of the USSR - April 26, 1990

Law on the Provision of Pensions to
the Citizens of the USSR - May 15, 1990

Law on Amendments and Additions to
Some Legislative Acts of the USSR Related
to Questions Concerning Women, Family and
Childhood - May 22, 1990

Law on the USSR Citizenship - May 23, 1990

- | | |
|---|--------------------------------------|
| Law on the Press and Other Media | - June 12, 1990 |
| Law on the Liberty of Conscience and Religious Organizations | - October 1, 1990 |
| Law on Social Unions | - October 9, 1990 |
| Law on Trade-Unions, their Rights and Guarantees of their Activities | - December 10, 1990 |
| Law on the General Voting (USSR Referendum) | - Fourth Congress, December 27, 1990 |
| Basic Legislation of the USSR and the Republics on Population Employment | - January 15, 1991 |
| On the Procedures of the Settlement of Individual Labour Disputes | - March 11, 1991 |
| Law on the Basic Principles of the Youth Policy in the USSR | - April 16, 1991 |
| Law on the Social Protection of Citizens Who Are Victims of the Chernobyl Accident | - May 12, 1991 |
| Law on the Procedures of the Exit from and Entry to the Union of Soviet Socialist Republics for Soviet Citizens | - May 20, 1991 |
| Law on the Amendments and Additions to the USSR Law on the Liberty of Conscience and Religious Organizations | - June 4, 1991 |

II. Draft Laws under consideration in
the Supreme Soviet of the USSR

Draft Law on Collective Contracts and Agreements.

Draft Law on Leaves.

Draft Basic Legislation of the USSR and the Republics on Labour.

Draft Legislative Act on Rehabilitation of Victims of Political Repressions and Restoration of the Rights of Those Rehabilitated.

Draft Law on Requests from Citizens.

Draft Law Regulating Changes of Registration of Ethnic Origin in Passports and other Official Documents.

Draft Law on Alternative Service.

Draft Basic Legislation of the USSR and the Republics on Specially Protected Natural Territories.

Draft Basic Civil Procedural Legislation of the USSR and the Republics.

Draft Law on Criminal Responsibility for Crimes against Peace and Security of Mankind.

Draft Law on Criminal Responsibility for State Crimes.

III. Proposed draft laws to be developed and submitted to the Supreme Soviet of the USSR for consideration

Draft Basic Legislation of the USSR and the Republics on Social Security.

Draft Basic Legislation of the USSR and the Republics on Health Protection of the Soviet Citizens.

The Draft Law on Psychiatric Treatment in the USSR.

Draft Basic Legislation of the USSR and the Republics on Public Education.

Draft Basic Legislation of the USSR and the Republics on Culture.

Draft Law on the Aged in the USSR.

Draft Law Aimed at Ensuring Civil Rights for Free Movement and Free Choice of Residence within the Territory of the USSR.

Draft Law on of the Organization of Assemblies, Mass Meetings, Manifestations and Demonstrations in the USSR.

Draft Law on Copyright.

Draft Law on Nature Protection.

PERSONAL MESSAGE
FROM USSR PRESIDENT MIKHAIL S. GORBACHEV
TO HEADS OF STATE OR GOVERNMENT
ATTENDING THE G7 MEETING IN LONDON

Estimable President (Prime Minister),

May I express to you my appreciation for supporting the idea of arranging a meeting between the G7 heads of state or government and the USSR President.

I am pinning high hopes on the upcoming meeting in London. There is every reason to believe that it may mark a turning point in the efforts to bring about the Soviet Union's organic incorporation into the world economy.

Over the past few years, through our joint efforts, we have succeeded in making a radical shift away from confrontation to understanding, from suspicion to trust based on the recognition of the primacy of universal human values and the quest for a balance of interests. We have succeeded in putting an end to the Cold War and in extinguishing the flash points of a number of international conflicts and armed clashes. The process of disarmament has got to a effective start. Much has been done to develop a situation that would rule out aggression as a political means.

But the sphere of economic relations has seen no noticeable change. We feel time is at hand to make resolute steps and take concerted action to develop a new type of economic interaction whereby the Soviet economy with its huge production, research and human potential, its extremely rich natural resources and a boundless internal market could be integrated in the world economic system. This, in turn, would help reinforce positive political developments in international relations.

This view is not motivated by time-serving considerations; nor does it stem from the economic hardships currently experienced in our country. Instead, it serves to reflect our vision of contemporary realities. It is not my intention to cite many arguments to prove that movement toward developing a single, truly world-wide economy would meet our common interests. In this day and age, this is self-evident.

Our approach to the idea of getting the Soviet economy organically integrated in the world economic system is based on the following assumptions:

- above all else, we look forward to mobilizing our efforts and resources to stabilize our economy and have it incorporated in the world economic system;

- we feel it essential to secure "accommodation" between the USSR and the G7 countries so that major economic reforms and opening up the Soviet economy to the outside world can be backed by accommodating measures to facilitate the process;

- we urge that economic cooperation focus primarily on direct market relationships between firms and banks coupled with appropriate government-extended guarantees and the granting of MFN regimes;

- we believe it essential to combine bilateral economic relationships with Soviet vigorous participation in the existing system of multilateral links and activities involving international financial and other institutions.

At the coming London meeting, we could state our commitment to the principles of equitable and mutually advantageous cooperation and our willingness to make accommodating steps toward getting the Soviet economy integrated in the world economic system as well as reach agreement on maintaining working-level contacts to deal with those issues.

The Soviet leadership is aware that successful integration and a qualitatively higher level of interaction would depend, in large measure, on the extent of ongoing changes in the Soviet Union and whether or not they are made irreversible. In this connection, I find it advisable to set out my assessment of the current developments and prospects for political and economic reform in the USSR.

One. Even in the current highly complex situation, the Soviet leadership stands firmly behind the course at renewing the society, consistently democratizing its every sector and pursuing radical political and economic reforms. What it calls for is as follows:

- recognition that the individual's rights and freedoms, including economic freedom, constitute the highest social value;
- radical renovation of the state system and the structure of federal relations;
- transition to a mixed economy and a socially-oriented market system.

The ongoing Soviet reforms have not been imposed from without; nor have they resulted from someone's pressure.

They reflect the choice we have made following a critical scrutiny of our past and the prospects of the evolution of Soviet society toward a new civilization as well as the exploration of ways to renew it. At the same time, we feel it is in keeping with some of the basic international developments.

Initially launched from "the top" and developed by a relatively small group of political leaders and intellectuals, the call to reforms has now been caught up by an overwhelming majority of Soviet people.

Major headway has been made to reform every aspect of the Soviet society. A process to establish a multiparty system has begun. Glasnost has become a reality of life, an irreversible accomplishment of perestroika. The country's legislation on human rights essentially has been brought in line with international legal standards. The demilitarization of the economy and conversion of defense industries have got underway .

Between 1988 and 1991, arms procurement spending dropped by 29 percent in real terms. Over the same period, the output of tanks was reduced by 2.1 times, combat aircraft - 1.8 times, artillery - 2.9 times, AFVs and APCs - 4.2 times.

On the fundamental reform-related issues, there is an increasing measure of agreement among the constituent republics accounting for upwards of 90 percent of the country's population and its leading socio-political forces and movements. Highly indicative in this respect are the

results of a series of "9+1" meetings and a broad-based support they enjoy among Soviet people. Conversely, most people have spurned the attempts to stem the tide of developments and scuttle the ideals of perestroika.

All this has opened the door for further movement along the chosen path, for political accord and consolidation.

As I discuss the perestroika's accomplishments, it is far from my intention to oversimplify the problems or belittle the difficulties we have yet to overcome. But we are firmly resolved to finish the work we have begun.

Two. The signing of a new Union treaty will be of crucial importance for the country's subsequent development. Work on the treaty is all but completed.

It has been agreed that a new Soviet constitution is to be drafted and enacted within six months following the signing of the treaty and that several months thereafter the supreme organs of state power and control are to be formed in accordance with the newly enacted constitution.

A new Union treaty will reflect the will an overwhelming majority of Soviet people expressed at the time of the March 17, 1991, nation-wide referendum to see the USSR preserved as a single federal state. At the same time, the treaty will give fuller expression to the sovereignty of individual constituent republics in line with the declarations and laws they previously have passed.

The Union treaty will clearly define the rights and powers of the Union authorities ceded to them voluntarily by the constituent republics as well as the

areas of competence shared by the Union and republican authorities.

The Union and the republics will pursue a single foreign, defense and foreign economic policy as well as a single financial, credit, monetary, tax and price policy based on a single currency. They will oversee the operation of the energy system and the railroad, air and sea transport infrastructures, enact basic legislation governing nature use and conservation, implement nation-wide programs and carry out fundamental research.

One may ask what will happen to the republics that have refused to sign the new Union treaty. It is our intention to address whatever problems may arise in accordance with law and the constitution and, instead of resorting to force, to act through democratic methods, taking into account the freely expressed will of the population. Economic relations with them, defense, property ownership and other matters will be regulated by agreement, with due regard for the standards and principles accepted in international practice.

Three. Having put doubts and apprehensions behind us, we are firmly pursuing the goal of a radical economic reform. Work to develop a legal foundation for a market economy is close to completion. The process of destatization, privatization and price liberalization has got underway. A network of commercial banks, commodity exchanges and other market infrastructure institutions is being set up.

Aware of the historic responsibility before its people and the world at large, the Soviet leadership feels duty-bound to step up the pace of radical economic transformations.

At the same time, we cannot afford to take unwarranted risks and have to weigh carefully every move we make. We must take into account:

public mood in the country;

the fact that broad sectors of the population are not prepared to embrace market economy;

the existence of a heavily monopolized national economy hobbled by cumbersome and deformed structures, with advanced technologies and highly skilled personnel concentrated predominantly in military industrial complex sectors;

a backward communications system, an underdeveloped service sector and badly neglected agro-industrial complex sectors.

Holding up the progress of economic reform are a serious recession and rising inflation.

In the last six months of this year, produced national income dropped by 11 percent, industrial output - by 5.8 percent, consumer goods production - by 4 percent and retail trade by 12.2 percent in real terms. There is a critical shortage of food, children items and medicines.

The financial and credit system is in disarray, the state budget deficit is growing, export trade and currency earnings have gone down.

Despite the fact that between May and June further production decline was halted, we still face the risk of further recession. The ensuing hardships likely to befall the population may prove too heavy a burden fraught with major social conflicts and pose a threat to democratic transformations.

The situation called for the elaboration of a special anti-crisis program intended to stabilize the country's economy. Its drafters firmly rejected recommendations that transition to market economy be delayed indefinitely and that some other ways to cope with the crisis be tried instead. It is our strong feeling that the crisis can be overcome only if we make a radical shift toward market economy, carry out destatization and privatization of property, remove multiple bans and constraints, stimulate work effort and business activity, support and foster entrepreneurship.

What I wish to stress emphatically is that the program has resulted from a joint effort of the Cabinet of Ministers and the governments of 13 constituent republics. If implemented, it would arrest further collapse of the national economy and normalize the situation, primarily in those sectors that are critically important for the population. The program includes such major steps as:

- macroeconomic stabilization, improvement of the financial and currency situation;
- price liberalization, consumer market normalization;
- production destatization, privatization and demonopolization;
- implementation of land reform;
- opening the economy to world markets.

The program of joint action of the USSR Cabinet of Ministers and the constituent republics is an open-ended and flexible document. Although it is geared essentially to the use of the country's internal potential, the program can be made much more radical under appropriate conditions, especially as we move to attain a higher level in our interaction.

Synchronization of our common efforts would largely facilitate the solution of accumulated problems, ease social upheavals stemming from transition to a market economy and reinforce the gains achieved in the course of democratization. To that end, joint research groups of experts and representatives of international financial institutions could be formed to consider relevant problems and draft appropriate recommendations.

Four. Macroeconomic stabilization of the financial and currency situation is a major top-priority task to be addressed in the immediate future.

Until now, for a number of reasons, the situation in this area has remained unsatisfactory. In the first half of

this year, the country's budget deficit has by far exceeded the target limit.

To improve the financial and currency situation, a set of measures is to be carried out, among them:

- introduction, as of July 1, of a more stringent regime to finance budget spending, real-term reduction of funding of defense-related and other state expenditures and cancelation of individual social programs;

- cutting the number of investment programs, halting construction of projects that are a long way from completion and concentration of resources on major projects in the basic sectors, including consumer goods production facilities;

- measures to reinforce the budget's income base, including a higher tax on factory profits that increased dramatically as a result of the price reform and an excise tax on gasoline and natural gas as well as redistribution of budget-generated incomes to ensure budget-expenditure funding;

- budget deficits are to be covered through the issue of bonds to be floated at market cost among enterprises and individual citizens and also through funding by enterprises of privatization-related costs;

- in 1992, a tax reform is to be carried out by agreement with the constituent republics, designed to define Union and republican competence in matters of taxation, raise the number of taxable subjects, and

introduce a value added tax, additional excise taxes and customs levies; in 1992, total budget deficit is not to exceed 5 to 6 percent of the country's GNP.

The prime rate will be raised to 12 percent and the size of reserve funds commercial banks are required to keep on State Bank accounts will go up to normalize currency circulation. Simultaneously, a ceiling will be imposed on bank credits extended to finance budget deficits.

Price liberalization, including retail price decontrols will help promote further macroeconomic stabilization.

Already this year, the share of prices in the country's total trade turnover that are not subject to government controls will rise to 70 percent from the current 40-percent mark. Price liberalization will entail significant cuts in budget subsidies.

At the same time, we intend to impose more stringent constraints on people's incomes, regulate wages through agreements between the government and labor unions and carry out partial indexation of incomes to offset rising retail prices.

To provide a social safety net mainly for low-income population groups, rationing may be introduced to cover a limited number of basic-necessity items.

Under current conditions, a large-scale price liberalization scheme cannot succeed unless there is "infusion of goods" intended to arrest excessive price hikes, curb panic buying, and stabilize the consumer market. To that end, we will attempt to muster all internal resources that are available. Apparently though, they alone will not suffice, and deliveries from abroad could prove very helpful.

Five. The complex economic and financial situation in our country is due, in many respects, to the growing problem of foreign debt.

Although its total amount calculated in freely convertible currency (upwards of 65 billion dollars as of mid-1991) is not excessively high given the country's size, the fact that short- and medium-term high-interest loans account for almost half of the external debt is a matter of serious concern. Coupled with a reduced export base, this situation has resulted in more than half of our hard currency export earnings being channeled toward debt-servicing. The fact that we

have been compelled to reduce our imports has led to a significant drop in production in the light and food industries, machine-building, oil and gas production as well as the chemical industry.

Unless we address the external debt problem, it will be extremely difficult for us to pull the country out of the economic crisis, achieve macroeconomic stabilization, and undertake major action involving transition to a market economy. Similarly, we would be hard put to normalize economic relations in all areas with East European countries.

We proceed from the assumption that it is primarily through our own efforts that we will have to address our currency and financial problems. We have moved to increase our export trade. Work is underway to make a more rational use of our imports. Measures are being taken to form a currency market, set a more realistic exchange rate for the ruble, and make it convertible.

Whether or not we shall pay back our debts is not at issue. We will meet all our obligations involving debt repayment and credit servicing. On this, we see eye to eye with the constituent republics. At the same time, we look forward to the G7 leaders and the international financial institutions taking a favorable stance on proposals designed to consolidate and restructure our external debt.

We are also prepared to consider other options with a view to resolving the external debt problem, including the

idea of counting a part thereof against foreign capital invested in Soviet territory.

Six. We believe that destatization and privatization of property as well as demonopolization of the economy are of crucial importance in terms of transition to a market economy. The Soviet Union is making extensive use of the experience of other countries that have either completed, or are about to complete transition to a market economy. In the process, we of course take into account our specific conditions and historic traditions.

We have made our choice - we stand for a mixed economy and equality of state, private and all other forms of property ownership. All of them are now protected by law, have been granted equal opportunities, and are in a position to engage in free market competition.

The immediate goal is to carry out "minor privatization" through the sale of state-run shops, restaurants, catering services, small enterprises and

businesses to individuals, cooperatives, work collectives, joint ventures and foreign companies. The state intends to promote this process.

By the end of 1992, it is intended to privatize, in some form or another, nearly 80 percent of the total number of retail outlets, public catering establishments, services and a number of enterprises in other sectors.

"Major privatization" will be conducted primarily through transforming large and medium-size enterprises into stock-holding societies, various joint-stock companies, and collective enterprises. Soviet and foreign physical and juridical persons will be eligible to take part in the privatization process.

In the coming months, we intend to launch commercialization of enterprises. We understand this term to mean the removal of state-run enterprises from the chain of direct administrative command, allowing them to operate on a commercial basis. As a result, the enterprises and businesses enjoying other ownership status will be made fully accountable for their financial performance under market economy rules.

Destatization and privatization will run in parallel with promotion of entrepreneurship, demonopolization of the economy, and increased competition.

Under the Law on Entrepreneurial Activities passed by the USSR Supreme Soviet, juridical persons and individuals will be eligible to engage in such

activities. Employment of hired labor by privately owned businesses has been legalized.

The USSR Supreme Soviet is considering draft basic antimonopoly legislation expected to be enacted this month.

Free market exchanges will steadily grow in scope as the volume of state orders steadily diminishes. The remaining orders will be placed with enterprises on favorable terms and at contractual prices.

In the process of privatization, we also count on foreign capital participation. Foreign companies, firms and commercial banks could contribute financially to the program of destatization and privatization by acquiring shares, securities and property in the Soviet Union. We would welcome the creation of foundations to promote privatization and support Soviet businesses, including small businesses. We are prepared to agree to having these foundations jointly managed by Soviet and Western banks.

Seven. Land reform and radical changes in ownership status and agricultural production methods are high on our agenda. What counts most is that people will be free in making their choice of a particular ownership status. They are free to decide on their own whether they want to continue working on a profitable collective or state farm, or to go private and work their plot of land.

Tracts of land will be made available for a sum of money or leased on preferential terms for unlimited use

with inheritance rights to individual families or small farming cooperatives. Agricultural banks are being set up to provide support and low-interest credits.

I wish to make a special mention of the fact that conditions of land tenure in our country differ greatly depending on what region you are dealing with. On the one hand there are republics with a well-engrained farmstead tradition while on the other hand there is Central Asia with its high density of rural population and irrigation agriculture. Each republic will decide through the expression of will of its population whether land reform will lead to a transition to a long-term lease of land with the right to inherit it, or private ownership of land will be introduced.

International assistance in this field may take the form of consultative assistance, sale of equipment for small farms and agricultural produce processing manufactories on preferential terms and establishment of special funds to support and assist farmers.

Eight. The Soviet leadership proceeds on the understanding that transition to market economy and alleviation of the current difficulties would not be possible unless our economy opens up, foreign trade relations are liberalized, and goods, manpower and capital move freely. We have made certain steps in that direction. Although the process is not yet running smoothly, it is our

firm intention to pursue the course at opening up Soviet economy.

We are going to pursue our current efforts to attract foreign capital. The recently enacted Law on Foreign Investments envisages statutory norms generally recognized in the world community, such as the right to buy shares, 100 percent foreign-owned enterprises, long-term lease of land and natural resources, and concessions. The Law has removed many obstacles which existed previously. A preferential regime is being established for investment in Soviet economy.

In the longer term, we propose a number of major projects related to changing the structure of Soviet economy, which may be of interest to Western companies and banks. Taking into account the Soviet Union's national requirements and the interests of our partners, we propose programs of cooperation in the following areas:

- conversion of defense industries;
- fuel and energy;
- food;
- market infrastructure;
- environmental protection;
- research and development;
- personnel training and education.

In this case we are talking about a wide-scale mutually beneficial cooperation with foreign

capital. If implemented, the above-mentioned programs may strengthen the participants' positions on domestic and international markets and help ensure a stable use of production capacities and considerable profits. Therefore we expect that private corporations and banks will show commercial interest.

As to the governments of the Soviet Union and the countries interested in implementing the above programs, they could support such large-scale projects on the basis of the norms applicable in the world community.

Nine. One major avenue of our integration into world economy is ruble convertibility. As a first step along that road we envisage introduction of a partial convertibility in a move away from the existing centralized system of the distribution of currency reserves to a free currency sale and purchase at a single market rate - a scheme that would also cover profit repatriation.

As to a timeframe for such measures, I will tell you frankly that here, too, we are contemplating two possible scenarios.

Under the first scenario the ruble is to be made partially convertible without reliance on foreign financial support. In that event, the transition will depend on the rapidity and success

of domestic market changes in the economy and on efforts to overcome the crisis situation. Experts believe that this may take several years. This will clearly slow down further steps toward transition to a market economy.

Under the second scenario the ruble will be made convertible with international financial support. In that event partial convertibility of the ruble may be introduced and a foreign trade regime may be liberalized at an accelerated rate beginning with 1992. That form of support might be extended through the setting up by international financial institutions of a special stabilization fund which would be used, as necessary, to maintain an economically acceptable ruble rate and regulate any fluctuations in currency demand and supply. Making the ruble convertible would introduce qualitative changes in the economic mechanism and exert major influence on the internal price-setting and price liberalization process. Therefore, I would suggest the establishment, through participation of experts from international financial institutions and the USSR, of a council to monitor transition to ruble convertibility.

Ten. One component of the process of involving Soviet economy in world economy is participation of the Soviet

Union in the activities of international economic organizations. We take a positive attitude to the fact that our country has been granted an observer status in GATT and has become a founding member of the European Bank for Reconstruction and Development.

In the last few months there have taken place vigorous contacts related to the potential Soviet membership in the International Monetary Fund and the World Bank. We realize that membership in the two organizations, which play a key role in the world financial system, will require that we take some major steps.

We are prepared to provide even now to the IMF the economic information required by international norms, involve foreign experts in efforts to rebuild our economy, and together with union republics offer unconditional guarantees to foreign investors.

In connection with transition to a market economy the development of relations between the Soviet Union, including its constituent republics, and the Organization for Economic Cooperation and Development (OECD) is acquiring particular importance.

We view as very promising the road of developing contractual relations between the USSR and the European Community. We believe that such cooperation is a pivotal element in shaping a future united Europe.

Another priority objective of our foreign economic policy is cooperation with states and regional economic organizations of Asia and the Pacific.

* * *

That concludes my comments about the prospects for a political and economic reform in the Soviet Union and possible areas of international efforts to promote them.

The concept I have described constitutes the synthesis of the results of a broad debate both in the Soviet Union and abroad and the conclusions and estimates of a number of official and independent programs.

In addition to the Program of joint action of the USSR Cabinet of Ministers and republican governments, the concept takes into account the conclusions and recommendations adopted in parliamentary debate in the USSR Supreme Soviet and republican Supreme Soviets, conclusions of experts from the IMF, IBRD, OECD, EBRD and the Commission of the European Communities; a program formulated by a group of Soviet economists with the participation of Harvard scholars; documents of the recent conference of the Council for Interaction (Schmidt, Trudeau, Giscard d'Estaing, Kissinger, Callahan and others), and conclusions drawn from the discussion of perestroika problems

at various levels with prominent foreign statesmen and public figures.

The concept was approved by the top leaders of the nine union republics, and I have been given a mandate, as it were, to conduct negotiations with the G7 leaders.

In conclusion I wish to express the hope that the relationship established between us over the last few years, our personal contacts and a frank exchange of views will enable us to find reasonable and acceptable approaches to the issues under discussion. As to specific solutions, they could be prepared by groups of experts and specialists and subsequently formalized in intergovernmental and other agreements.

Annexed to this message you will find a package of proposals dealing with economic, scientific and technological cooperation programs, and a list of Soviet legislative acts related to the transition to market economy and observance of human rights and freedoms.

With sincere and profound respect,

President of the USSR

M. Gorbachev

PERSONAL MESSAGE
FROM USSR PRESIDENT MIKHAIL S. GORBACHEV
TO HEADS OF STATE OR GOVERNMENT
ATTENDING THE G7 MEETING IN LONDON

Dear George,

I have carefully studied your letter of June 19, 1991 regarding biological weapons.

We have indeed started a frank dialogue on a broad range of subjects in the course of which we were able to reach a number of important decisions. As a result, it became possible to radically change the contents and the spirit of the relations between our two countries, which had a favourable effect on the overall situation in the world. It is important that we sustain and develop our interaction and remove the remaining problems in the relations between our countries.

I must admit being preoccupied by the fact that questions which both our sides have with regard to compliance with the 1972 Convention on the Prohibition of Biological Weapons still remain unresolved. I agree with you that this problem should be settled and that everything should be done to make both sides confident that the Convention is being fully complied with.

I am convinced that the course we have embarked upon this year, one of reaching a high-level agreement on exchanging visits to facilities that cause concern, is the right one. Nothing but openness and straightforwardness will help resolve this complex question. It was in this spirit that we arranged a visit by U.S. and British experts to four of our facilities last January. During that visit our guests had unrestricted access to any buildings at the

facilities and a possibility to talk with the personnel, they were provided briefings on all questions raised concerning operation of those facilities, and were allowed to take pictures and to take and remove samples.

With this degree of openness, it is unclear why the U.S. experts concluded upon departure that "the visit has reinforced rather than diminished U.S. concerns". I do not think we should be too receptive to the reasoning of those who have no interest in promoting trust and openness in Soviet-U.S. relations and who opposed such visits from the outset. I would like to reaffirm that the USSR has no program for developing biological or toxin weapons. We expect to receive confirmation that there is no such program in the United States either.

However there is yet another aspect to this question. Regrettably, we still have no agreement as to the boundary between activities permitted by the Convention to defend against such weapons and prohibited activities aimed at their development. Until such criteria exist, suspicions regarding activities limited by the Convention are likely to arise from time to time. To avoid this, it is necessary jointly to develop such objective standards, taking into account the differences in levels of technological development as well as in the history of biological research in our two countries. This is not an easy task, yet unless we resolve it and on this basis subsequently establish a

verification mechanism for the Convention, any significant progress in removing mutual concerns will hardly be possible.

A return visit by our experts to U.S. biological facilities whose activities give rise to questions on our part would be an important step towards this goal.

In this connection we welcome your reiteration of readiness to host such a visit after the meeting of experts.

For practical reasons we believe that the meeting of experts should be held in the United States before August 15, to be immediately followed by a return visit by Soviet experts to the U.S. facilities. We suggest holding one more meeting of experts from the two countries to discuss the results of the visit to U.S. facilities. It would be desirable to complete these meetings and visits before the start of the Third Review Conference of the Convention on the Prohibition of Biological Weapons.

We also would have no objection to having the questions which you mention in your letter addressed at the meeting. It is our view that the experts should also exchange opinions on such issues as the types of activities permitted or prohibited under the Convention, the types and quantities of microbiological or other biological agents and toxins, as well as instruments and equipment, permitted for protection purposes, and obtain U.S. answers to Soviet questions transmitted in Houston in December 1990.

It goes without saying that in order to set the proposed scheme in motion, it is extremely important for the

Soviet side to receive, at least three or four weeks in advance of its visit to U.S. facilities, data and materials necessary for the immunization of Soviet experts, as well as information on safety requirements at these facilities in accordance with the guidelines agreed in London.

I hope that this schedule of our further exchanges does take into account the specific proposals contained in your letter and is satisfactory to you. I am confident that as we proceed along the road of openness and greater mutual trust we will also be able to resolve the problems pertaining to the implementation of the biological convention.

I would like to take this opportunity and express my hope for a good degree of cooperation and interaction between the U.S. and the USSR delegations this September during the Third Review Conference of the Convention on the Prohibition of Biological Weapons, whose depositaries are the USSR, the United States and the United Kingdom. I think it is necessary to do everything possible for the Conference to help strengthen this important international instrument.

M. GORBACHEV

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
05. Cable	To White House Re: Oral Message for Gorbachev (2 pp.)	7/6/91	(b)(1)	S

Collection:

Record Group: Bush Presidential Records

Office: Scowcroft, Brent, Files

Series: Special Separate USSR Notes Files

Subseries: Gorbachev Files

WHORM Cat.:

File Location: Gorbachev - Sensitive July - December 1991 [3]

Document Partially Declassified

(Copy of Document Follows)

By EX On 4/26/22

Date Closed: 4/27/2009	OA/ID Number: 91130-005
FOIA/SYS Case #: 2009-0275-S	Appeal Case #:
Re-review Case #:	Appeal Disposition:
P-2/P-5 Review Case #:	Disposition Date:
AR Case #:	MR Case #: 2009-1066-MR (504)
AR Disposition:	MR Disposition: Released in Part
AR Disposition Date:	MR Disposition Date: 6/2/2015

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- P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]

NATIONAL SECURITY COUNCIL

06-Jul-1991 10:21 EDT

MEMORANDUM FOR:

FROM:

(WHSR_ROUTER@WHSR)

SUBJECT: MUTHANNA ORAL MESSAGE FOR GORBACHEV

<DIST>

PRT: GATES SCOWCROFT SIT

SIT: GANTT FILE ^{1.4(c)} [REDACTED] IN SIT SUM

<PREC>

IMMEDIATE

<CLAS>

~~SECRET~~

^{1.4(c)} [REDACTED]

<DTG>

061403Z JUL 91

<ORIG>

FM ^{1.4(c)} [REDACTED]

<TO>

TO WHITE HOUSE

<SUBJ>

ORAL MESSAGE FOR GORBACHEV

<TEXT>

ZEM

~~SECRET~~ ^{1.4(c)} [REDACTED] EYES ONLY

QQQQ

PLEASE DELIVER TO GENERAL SCOWCROFT FROM JACK MATLOCK

BEGIN TEXT:

SUBJECT: ORAL MESSAGE FOR GORBACHEV

1. GORBACHEV RECEIVED ME THIS AFTERNOON AT THE DACHA WHERE HE WAS MEETING WITH PAVLOV AND HIS TEAM OF ECONOMISTS, PREPARING HIS PRESENTATION FOR THE G-7.

2. HE RECEIVED ME WITH ONLY CHERNYAYEV IN ATTENDANCE, LISTENED CAREFULLY TO THE POINTS, SAID THAT HE STILL CONSIDERED IT POSSIBLE AND DESIRABLE TO COMPLETE START IN TIME FOR A JULY SUMMIT, BUT ALSO AGREED THAT IT WOULD BE COUNTERPRODUCTIVE TO SEND BESSMERTNYKH TO



DECLASSIFIED IN PART

PER E.O. 13526

2009-1066-MR

28 6/2/15

WASHINGTON NEXT WEEK UNLESS YOU BOTH CONSIDER THE GOAL OF
COMPLETION REALISTIC.

3. WHEN I FINISHED WITH THE PRESIDENT'S MESSAGE, GORBACHEV SAID I
SHOULD CONVEY HIS WARM REGARDS TO PRESIDENT BUSH. HE PROMISED TO
CONSULT WITH BESSMERTNYKN AND YAZOV IMMEDIATELY AND TO GET AN
ANSWER TO US EITHER LATER TODAY OR TOMORROW MORNING AT THE LATEST.
AS WE CONCLUDED THE MEETING, HE SAID THAT THEY WOULD ANNOUNCE THAT
I HAD CALLED ON HIM WITH A MESSAGE FROM PRESIDENT BUSH, BUT WOULD
NOT MENTION THE SUBJECT OF THE MESSAGE.

REGARDS, JACK MATLOCK

END TEXT.

DECL OADR.

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<SECT>

SECTION: 01 OF 01

<SSN>

1357

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P/Gorbachev 7/17/91

- P Welcome.... We will talk here
& then alone for 5 mins or so.
We don't have much time
- G In this day & age that's a lot
- P Thank you for sending B + Morsger
to meet on 5th
I worried about Yeltsin. He behaved
very well but I didn't expect
you to think 2 sides shifting away
from you.
- G Very glad to hear you all. We have
accomplished a lot. We have I
think convinced all that we see
true to our word. I know you
are a very substantive man.
That means when you make a
decision or make a move
seriously. What kind of SV
does US want to see. I think
no final answer to that question
has been given. Until it is
we will have to do a lot of
marking time, waiting for on
specific issues. That is
precious for us. 2 months
ago our security council
debated whether US had
changed its position.

iliship

We were going thru serious
phase 2 now. ago. The 2 members
of SC sitting w/ me here can
confirm I said we need a healthy
strong C-S ~~US relationship~~. Not everyone
likes our evolving relationship & our
policy, but big majority do. Even
if you get doubts, I will fight
it how & in C-S to preserve this
kind of relationship. So I hope on
a question of whether C-S wants
to see a strong, healthy healthy
SC, you will answer as we
have. We want more ~~close~~ ^{close}
on each other. This G-7 meeting
is a good place to state that.
I think a great deal will depend
on your attitude.

In SC, we have come a long
way toward doing. Just a short
time ago we didn't have strong
support for our approach but
now we do. We have also done
a lot of industries, lot even, household,
privatization. We now have
over 1000 small banks, 4000
medium firms. Privatization
is on its way. Even defense
related companies are becoming

stock companies. We are about
to adopt big packaged business
related ideas. We have made a
final choice & must move fast.
So, what is my friend GB going
to do? What does he want? And
when we meet w/ other colleagues
will they say we like what you're
doing? And what about afterwards
will we just be in our
own soup - it will be a common
soup. It is strange to me to
find 100 bil for regional work
but not to make 50 a new
country. We need mutual
understanding & reciprocating
steps. We will pressure & threaten
ourselves but we need a new
kind of coop & less understanding
you mentioned in your letter.
The world is in transition to
a new order & needs US-SU
coop.

Sometimes I miss very much
SU-US engagement but not this
time.

Perestroika we need & will do.
But in our transition if we have
concurrent effort at critical points

... it not just \$, we have 2 tril
economy, it is political push. That
is my piece

7 I feel uncomfortable that your SC
has to meet & consider about SC we
see. We seek democracy, market
oriented, w/ economy integrated
into world economy, resolution of prob
bet. center & republics - essential
for capital flow. And coop on major
global issues. I know your
historical relations w/ Iraq &
appreciate a bold decision you
make on Gulf. The last is
philosophical. People ask me
who is a enemy? I want Am
people to say a SC is not a enemy.
I still think I must sell
you on that (keep w/ blue flag)
To degree your people feel
encircled & we feel insecure
around it NY we feel. So my
first point is to reduce a
level of suspicion. One
practical prob is we see you
modernizing your missiles.
That is a problem by what
you know here in SO &
EEur. 6th point is coop

on regional issues (I don't consider
Iraq ~~regional~~ regional). I mean peace
process, Angola, etc. I want that
unprecedented kind of coop to
continue. We don't seek even
catastrophe in S.V. What do you
mean by political push? I want
look at everything in light of US
interests - and your success is one
of them. If I have projected some-
thing dif, I apologize

C Then how should we end G-7

P ~~was~~ You don't yet have a
market economy, etc. You need
our tech advice & help to aid
in your integration into world
economy. You need a political
push

C And a mechanism to implement
it.

P Yes. I will work w/ G-7 colleagues
to make it work. The last
thing you ~~could~~ do politically
is cut loose - Baltics, Cuba -
don't have time to discuss. But
those are minor - they would
just facilitate. Diff. conversion
George Mitchell & base reduction

C We know our George Mitchell

We must reduce defence - but
avoid a rioting, we have
reduced def budget 28%. Our
def industry has a lot of
everything in it - & we have a
army. We must do it all carefully.

P You are walking a tightrope

G ~~I hope you will~~

to interlocking lobby ...

B So Jewish community is strongly
against. So for now all we
can do is open it up for all.

P A report

G we will work on / report, Gerson,
Poles.

Major Popov raised question of an
Am University in Moscow. Let's
work on it.

Summit, 31 July & 1 Aug?
How about 30-31 July.

B

Ble - Trans to meet before
15 August

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THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Mikhail Gorbachev of the
USSR (U)

PARTICIPANTS: The President
Brent Scowcroft, Assistant to the President for
National Security Affairs

Mikhail Gorbachev, President of the USSR

DATE, TIME July 30, 1991, 10:30am - 12:30pm
AND PLACE: The Kremlin

President Gorbachev: Welcome. We will be doing important and necessary work. My impression is that regular contacts let us get down to business immediately. I haven't counted how many meetings, phone calls, letters. (U)

The President: The more the better. It reduces the chances for misunderstanding. (Ø)

President Gorbachev: I agree. I think this is an important quality of yours. Your approach makes it possible to move forward on the most difficult subjects. (Ø)

Let's discuss how to proceed. Tomorrow we will be at our Camp David. It is a nice place in the country. After the welcome, we will take off our jackets and have relaxed talks. Tomorrow's talks will be about the future, strengthening strategic stability, cooperation in world affairs -- this is what we can focus on tomorrow. In delegation meetings we can discuss bilateral relations. Our ministers can also talk. They did useful work yesterday. What shall we do now? (Ø)

The President: You are the host. (U)

President Gorbachev: First, may I continue something we raised in London. I very much want to be sure that we are predictable to each other, therefore we must say what kind of country we want to see for each other. For you this is of special interest, for you find us in a period of special change. It is understandable that you want to know where it is heading. After London I outlined it to my colleagues and received full support on decisions to move on the path of democratic change and market economy. (Ø)

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We have no illusions about the difficulties of transition to private property, national relations, etc. We know it will be tough. We have come so far there is no way to turn back. That would be a serious error, to reverse course. The intelligentsia know the need first to move forward. Now it is also known by our workers, farmers, peasants. All want the process to go forward, but without affecting them in a vital way. That is not possible. (S)

We have completed work on the Union Treaty -- that is the Ukraine is involved. There is of course a portion against it, but 2/3 to 3/4 is for the Union. The question now is when to sign the treaty. It is possible not all will sign it at once. The process will continue until the Ukraine decides to sign. Then the next step is a new constitution, election of the President and Supreme Soviet, and formation of new government body. (S)

The President: The constitution comes after the Union Treaty? (S)

President Gorbachev: Yes. The constitution will be based on it. It may be integral part of the constitution. Another important event this year -- the Central Committee Plenum decided on a Congress to formulate a new program. Here, too, new changes are taking place. There is growing momentum for change, for reform. This is important because the party has played a critical role in society in the past. The time is ripe for reform, and a democratically-oriented program. There were efforts to avoid facing such a decision, but in the vote only 13-14 voted to postpone such a program. Now all my places will be part of the program. (S)

The President: In the U.S., those opposed are thought mostly to be old guard party and military. Is that accurate? (S)

President Gorbachev: Overall, there is some opposition in all sections of society, but it is lessening. Includes collective managers, military, etc. Some are vociferous and our media pay attention. So we take account of it. But the process of cooperation with the republics is gaining momentum as well. The most difficult period will be the rest of 1991 and 1992. It is good that people begin to do it more on their own. That is good. (S)

In my letter to you I said there were 47,000 separate farms. Now it is 69,000. In two months 22,000 more have started up. People want to farm on their own -- do their own thing. But too many still think the government has to do everything -- large and small. (S)

We determined to accelerate destatization, privatization, etc. to let people get down to work. But we have to learn by the experience of Eastern Europe, including East Germany. Recently a leader in Saxony (sic) They are too weak on denationalization and privatization. That was moving slowly so long as organization created by Kohl was in charge. Now that there are 12 regional groups in charge, it is moving faster. (S)

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I spoke yesterday to Nazarbaev and Yeltsin and we agreed we had to do the same, giving the republics more opportunity to assist in this process. We don't want to impose things on the people, like collectivisation in the past, but it won't happen spontaneously. The people need help. In this we believe help from the West in training, creating market infrastructure, etc. will be important. We have created a government organization to coordinate that assistance which is becoming far reaching. People find their way more easily when there are joint ventures. Fiat and _____, want to set up joint venture, and perhaps over 50% will belong to Fiat. They built the factory and have long-standing ties. (S)

The President: You know Agnelli? (S)

President Gorbachev: Yes. Well. Our conclusion is that we must move faster to get the West's cooperation, to create competition. At the Plenum there was discussion of private property. There was discussion of capitalism and socialism. One Professor Denisov said we should end the stupid debate about which kind of ownership is better and get the right policies to create motivation. It is good that today you recall glasnost. Without it we wouldn't have been able to move ahead. In the beginning the structure was not receptive to perestroika. Now, however, glasnost is sometimes so successful we don't know what to do. (S)

But we have, mostly, to improve people's lives. That will make it succeed. So the three principle areas are: 1) the Union Treaty, 2) financial stabilization, and 3) de-statization. For the coming months those will be the areas of concentration. Yesterday Yeltsin and Nazarbaev said the after the Union Treaty we should have a pause before elections to let the situation stabilize. We must discuss this. If elections were to be held at a certain stage of reform, conservatives could take advantage of it to say, "...look at the chaos reform brings." But we have to move faster on reform. There's something I didn't say in London publicly -- I hope we will get some real and practical support from the West to win this battle. (S)

The President: What kind of real and practical support? (S)

President Gorbachev: As we liberalize prices we will need support, especially food and medicine. Also, convertibility of the ruble. We will be receiving your Minister of Finance. Lamont is coming tomorrow. It has to be well-timed; joint monetary step we'll be taking. We have opportunities here for more consumer goods, but we must modernize plants to take advantage of it. We now have large package of major projects and the groups you plan to send -- food distribution, energy, etc. will have a lot to discuss. (S)

I liked your letter about the G-7 meeting and will prepare papers to discuss with these groups. The dramatic near-term steps--and

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this is the crucial time. This is the key time in the Soviet Union. (S)

The President: This is extraordinarily helpful. But let me get something out on the table. Some here seem to feel there are sub groups in the U.S. who want the demise or disintegration of the Soviet Union. There are some -- in my party -- who do wish just that. There are some on the left who flood you with human rights and want to impose reforms from outside. When you and Yeltsin were in dispute, many people jumped up and said "bet on Yeltsin." Those never were the views of my advisers or the American people. I don't know if I can make this point clear publicly. (S)

President Gorbachev: We saw that position of yours. In the Soviet Union we are aware of your position but we do hear these other voices. Some here would take advantage of those voices to say this is the position of the U.S. and the American people. We must rebuff such attitudes. I make a lot of public statements defending US-Soviet relations. (S)

The President: When we came into office, we were accused of being too prudent and cautious. Now the press has shifted and says Bush is too much in love with Gorbachev. We can't let the press run us. I take no joy in Soviet difficulties. Some European allies think we are dragging our feet and holding them back. (S)

President Gorbachev: Peter Jennings yesterday wanted me to say you were dragging your feet. I refused and said it may be only a matter of style. He really tried to put words in my mouth. (S)

The President: Europeans also want to hide behind the U.S. I take second place to none in wanting to help. WE can do more. We are a most inventive society and wholly behind the changes you wish to pursue. On the republics -- like the Ukraine. On this trip we will do nothing to exacerbate the many problems you have. (S)

President Gorbachev: This is another point Peter Jennings raised. I said I went to Minnesota and California and Bush can go where he wants. He said no comparison. (S)

The President: No, Minnesota voted against. (S)

President Gorbachev: They told me. So I made a point of greeting the republics as well. There is a report that the Heritage Foundation urged you to stimulate separateness in your visit to the Ukraine. (S)

The President: I don't know of any such report. But I will not do any such thing. I insisted that any outside trip have your blessing. I would gladly have gone anywhere. (S)

We do have differences over the Baltics and Landsbergis wanted us to stop there on the way back. A bad idea -- but for us, cutting them loose is the best possible thing. But that is your business. (S)

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But we want to help. When Brady comes, let us see if we can help more on the ruble convertibility and other areas. Union Treaty is one of the best ways to move this forward. I believe one example -- which may not be a good one. (The President discusses the Chevron deal. Over one billion in hard currency which would help other projects (i.e. RJReynolds) to build the Soviet economy. This (Chevron) is bottled up in the center-republic conflicts. Now there are new committees considering it. I have no axe to grind for Chevron.) (S)

President Gorbachev: The focus in Kazakhstan. I am sympathetic with this project as well. We have done a lot to facilitate this consortium. But at the last minute an academic research organization sent us a letter saying this deal is not advantageous for the Soviet Union. Since this was the opinion of energy-knowledgeable people, I sent it for investigation. But I'm in favor. (S)

The President: I'm uneasy talking about Chevron. But it is an example of the problems which can be created. When an academic institute can stop a business deal, U.S. business will say, "What the hell? What can we do?" That deal aside, if the Union Treaty eliminates barriers, it would be seen as a tremendous opportunity for US businesses. Whatever we can do to reduce barriers will be the best thing we can do to support your reforms. (S)

President Gorbachev: When we finally get convertibility, that will really open things up. Convertibility is now a short term - not a future -- task for us. We decided that it is the big requirement. (S)

The President: Chevron-type deals would aid convertibility because they will earn hard currency. (S)

Let us ask a sensitive question. How about securing loans with your gold reserves? Is that too tough? (S)

President Gorbachev: We have done some, but not on a large scale. Our potential here is being exaggerated. The main thing is to adopt mutually practical and profitable ventures. The potential is enormous. (S)

One other point for private meeting. There are promising projects shelved because of COCOM. Trans-Siberian fiber optics would complete the global fiber optics line. Line would be operated jointly by the Soviet Union and U.S. West consortium. It is suspended because of a ban on terminals exceeding 560 megabytes. Under Lake Baikal, French signed a deal to do it. But, component was COCOM, so it is suspended. Mitterrand was astonished. Another venture U.S. businesses would like is space boosters. (S)

The President: I have to get details. Is it because fiber optics projects have military applications? (S)

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President Gorbachev: U.S. companies want to cooperate on space boosters because we have good liquid fuel technology and motors. We could cooperate well here. (President Gorbachev hands the President a paper.) (S)

The President: Let me look into this. Others have a problem with COCOM policy. Iran wants to buy aircraft with US engines. So the whole project is held up. (S)

President Gorbachev: But in boosters we would give some of our technology to you. (S)

The President: There may here be vestiges of cold war thinking. I will look into it. (S)

President Gorbachev: Our two countries could cooperate significantly in space. We have a lot to offer. (S)

The President: I promise to look into it. Should I raise Chevron with Nazarbaev? (S)

President Gorbachev: No need. We have a good understanding. (S)

The President: My only point is one big project moving forward will release billions of dollars. (S)

President Gorbachev: While we are alone, could we avoid that long time period in the IMF. We would like to profit by facilities and a long waiting period will hold us back. (S)

The President: Associate status was not to put the Soviet Union down. (S)

President Gorbachev: I understand. This is not prestige, but pragmatics. But within this status could we get something more concrete and practical than advice? (S)

The President: We were surprised at your letter... [requesting membership in the IMF] (S)

President Gorbachev: I had already signed it before summit. (S)

The President: Lots of things can be done. But before big loans can be made there are certain preconditions. Not U.S. rules, but IMF preconditions. (S)

President Gorbachev: Maybe we can make association more alive than dead. (S)

The President: That we can do. (U)

President Gorbachev: If Bank decides a loan to a full member is bad, it won't be made. (S)

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The President: That is true. I just want to emphasize there is no discrimination. But privately, what is it you really want? If you could wave a magic wand. (S)

President Gorbachev: I think maybe we could discuss Banks involvement in the convertibility structure of debt, involvement in large projects. We want to extricate ourselves from this transition as soon as possible. (S)

We had a big conversation about this yesterday with Yeltsin and Nazarbaev. Here is the major location for these projects. They agree we must move rapidly. We want you all working with us for mutual advantage. (S)

In some areas we would like to enter your market to earn dollars. An example: space satellite launching rocket. I hear that this is a \$12-\$14 billion market. We could launch western satellites. Here too are COCOM and other restrictions. We could think of some guarantees to preserve secrecy and prevent hanky-panky. The dollars we earn would help pay for things like food distribution, etc. Of course there are energy projects to earn dollars, and payments in kind. (S)

Please ask Atwood to discuss space launch cooperation. We need to earn foreign currency. (S)

The President: Our Agriculture Secretary is coming also. There are opportunities here too. (S)

President Gorbachev: Agriculture, not an area we will be selling to you. We need dollars. (S)

The President: True. But it makes you self-sufficient. And in the long run it could earn you dollars. (S)

President Gorbachev: Yes. We could save hard currency by not having to buy. Main thing is opening up and doing some large projects. Once that happens our businessmen will keep it growing. (S)

The President: Yes. We'll look into obstructions to your earning dollars. We have a fundamental problem which won't go away soon. Remember the map you gave me? If your military feel encircled, that is a problem here. When you modernize missiles it creates problems for us. (Congress won't let us do it.) It is so far from the things we are discussing here. (S)

President Gorbachev: Among the people this change is moving faster than in the establishment. Reality is we still have these powerful weapons. So what do we do? I would like to discuss tomorrow. I want it to be philosophical and also practical. The situation has changed so much that we need to talk about where we go. (S)

The President: Neither of us is a fill man on this. These military visits are a good thing -- like Colin Powell. What you

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did on Iraq was enormously helpful. I don't have full (answer ?). COCOM exists because of the past. (S)

President Gorbachev: Our cooperation in security may be even more important than in economic affairs. World affairs may require much more cooperation to channel developments. (S)

The President: You talked about the criticality of 1992. Just for you, I dread it. The rhetoric gets bad. I can tell our people cooperation is good and can get better. But in our politics, differences get accentuated. Like Peter Jennings, many times magnified. It won't be as bad on Soviet affairs as in the past because US people support perestroika. But there will be Helms on one side and human rights on the other, and rhetoric will be inflamed. (S)

President Gorbachev: I understand, and we now have the same general process. I get accused of giving the U.S. on a silver platter what it has been seeking for decades. (S)

-- End of Conversation --

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