

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

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

PARTICIPANTS: The President
James A. Baker, III, Secretary of State
John H. Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President for National Security Affairs
Jack F. Matlock, U.S. Ambassador to USSR
Marlin Fitzwater, Assistant to the President and Press Secretary
Reginald Bartholomew, Under Secretary of State for Security Assistance
Robert Zoellick, Under Secretary of State for Economic Affairs and Counselor
Dennis Ross, Director, Policy Planning Staff, Department of State
Ed A. Hewett, Senior Director for Soviet Affairs, NSC Staff (Notetaker)
Interpreter

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Mikhail Gorbachev, President
Nursultan Nazarbayev, President of Kazakh SSR
Valentin Pavlov, Prime Minister of USSR
Aleksandr Bessmertnykh, Foreign Minister
Mikhail Moiseyev, Chief of General Staff of Armed Forces
Valeriy Boldin, Chief of Staff
Anatoliy Chernyayev, Advisor to the President
Aleksey Obukhov, Deputy Foreign Minister
Viktor Komplektov, USSR Ambassador to the US
Interpreter

DATE, TIME July 30, 1991, 1:28 - 2:07pm
AND PLACE: Official Residence Dining Hall, Kremlin

Secretary Baker: President Nazarbayev, what are the four outstanding issues in the Chevron deal? (S)

President Nazarbayev: The fifteen areas were reduced to four by negotiation. Now there is criticism of this deal because it is supposedly contrary to the interests of the Soviet Union, mainly because profits are too high. (S)

First, the rate of return is 27.9 percent, while Chevron gets 22 percent world-wide. (S)

Second, there is the issue of royalties. President Bush and Secretary Baker know the oil industry - 7.5 percent royalties are too low. (S)

Third, the Soviet Union has spent \$850 million developing the Tengize oil field. The U.S. side owes us 50 percent of that sum. Chevron has agreed to that. (S)

Fourth, this is a rich, complex oil field. In addition to oil, there are by products, for example, one million tons of sulphur, as well as polyethylene. We want Chevron to help us attract other companies to develop those products, since Chevron is clearly reluctant to develop them. (S)

This is a huge deal: twenty-five years, renewable up to forty. Over the first forty years the total revenues will be \$169 billion, from an investment of \$86 billion, with a new profit of \$65 billion. (S)

President Gorbachev: In general, the negotiations are going "normally." There is nothing insurmountable. (S)

The President: This is very helpful, very interesting. It is difficult to pin profits down to dollars and cents. To a degree, a deal is a deal, and the contract should go forward. Holding to that principle will attract business. They feel that they had a deal, then a committee was formed. I am glad to hear it is on the way to being resolved. (S)

How do we attract capital? When we say there is a deal, then there is a deal. (S)

We're not lecturing. I don't have all the answers. Even in our country, businesses have problems with bureaucracy. (S)

President Gorbachev: As the Secretary of State will appreciate: no matter what, we will reach an agreement with the Japanese. (S)

The President: Let me tell you a personal story from thirty years ago. I was the president of a small offshore drilling company. We pioneered the use of three-legged mobile drilling platforms. We worked out a deal with the Japanese. The Japanese wanted to work out a consulting contract. We'd build the rig, called the "White Dragon." We would show them how to put it together. They held out the hope of further business. We were the first to drill offshore in the Sea of Japan. The Japanese followed us around and took notes. They were very thorough. We completed the first rig. They then said "Sayonara." No more business. But they did fulfill the contract. (S)

President Nazarbayev: When I met Secretary Baker on March 16, we had no problems with Chevron. Probably by the time we meet again there will be no problems with Chevron. (S)

President Gorbachev: Right. By next meeting, probably there will be no problems. (S)

President Nazarbayev: I put the deal back on the table after people were afraid it would collapse. The deal is in the national interest. But there was lots of press about it. I decided we needed 40-60 days to finish it up. We called on the services of our experts to make sure all concerns are cleared up. (S)

The President: It is very important to get it down. I am not carrying water for Chevron. But this is a wonderful example of partnership. It would stimulate other deals. (S)

President Nazarbayev: Sure, I know. I met with Johnson and Johnson. (S)

President Gorbachev: Now, back to the Japanese, if I may. When we met with Kaifu we spent 1-1/2 hours in the hall debating one word in the final communique. (S)

President Nazarbayev: One word with Yeltsin took three hours. "Federal tax." Finally Yeltsin agreed. (S)

The President: Let's get rid of communiques. I'm talking about the G-7 communiques. This is my proposal for better relations - ban communiques. (S)

President Gorbachev: We've lost communiques, which has improved the dialogue. But the foreign ministers love communiques. (S)

Secretary Baker: No, the foreign ministries love communiques. (S)

The President: I hope you feel as good as we do about work on the [START] treaty. (S)

President Gorbachev: It took ten years. Such work! I knew we had it done when neither our scientists or experts understood the remaining details. So I said, "...put them aside and sign it." (S)

The President: I told the experts: "I'll impose my view on shroud, telemetry, etc." I looked around and I knew more than they did. (S)

President Gorbachev: Exactly! I'm sure we'll all benefit from the treaty. Imagine the amount of beer our negotiators consumed. (S)

General Moiseyev: I should have bet Bartholomew during the last meeting. I asked him, "...will there be a summit or not? He had his doubts." (S)

Under Secretary Bartholomew: I said there would be no summit unless you went farther in your position. (S)

President Gorbachev: I offer a toast to our negotiations. (U)

President Nazarbayev: Why not come by Alma-Ata? See Baikonor. (U)

The President: There just isn't time. (U)

President Gorbachev: You have a choice of where to go. (U)

The President: We are very free. The problem is time. (U)

President Nazarbayev: I'm sure we'll see you. I hope we'll see Secretary Baker. I'm good friends with Matlock. Matlock promised to hunt. (U)

President Gorbachev: Can Scowcroft hunt with a rifle, or just missiles? (U)

President Nazarbayev: We have all types of climatic zones in Kazakhstan: deserts, mountains, steppe, arid areas. We grow grain. (U)

President Gorbachev: It is a very tough climate. There are nice areas. (U)

President Nazarbayev: We ship ten million tons of grain to other republics. We produce 60-90 percent of non-ferrous metals in the Soviet Union - 140 million tons of coal and 26 million tons of oil. We could increase oil output to 100-150 million tons a year, while our needs are only 12 million tons a year. (U)

President Gorbachev: Of course, preservation of the environment should be discussed. There has been lots of mismanagement in agriculture for decades. We are at the very beginning [in addressing environmental issues]. (U)

President Nazarbayev: We had considerable oil reserves around the Caspian Sea. We're not poor. U.S. business will find proper conditions. (U)

The President: What are you doing with the sulphur? (U)

President Gorbachev: We buy it. We're importing sulphur now. (U)

Ambassador Komplektov: It belongs to the joint venture. We will collect no taxes for the first five years, then 50 percent of the normal tax for the next five years. (U)

-- End of Conversation --