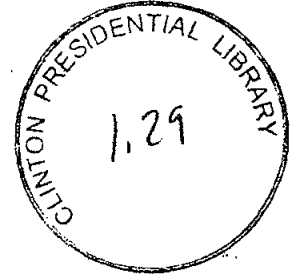


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MEMORANDUM OF TELEPHONE CONVERSATION

PARTICIPANTS: PRESIDENT CLINTON  
BRITISH PRIME MINISTER BLAIR

LOCATION: EAST HAMPTON, NEW YORK

NOTE TAKERS: LARRY WRIGHT, TOM CROWELL, MATT SIBLEY, JOEL  
SCHRADER, JAMES SMITH, STEVE SIMON

DATE/TIME: 31 JULY 1998/1609-1642 EDT

THE PRESIDENT: Tony?

PRIME MINISTER BLAIR: Hi, Bill.

THE PRESIDENT: Hey, how are you?

PRIME MINISTER BLAIR: I'm looking forward to my holiday. I start tomorrow. I've been reshuffling my cabinet this week.

THE PRESIDENT: You have? Who'd you change?

PRIME MINISTER BLAIR: Quite a lot. [REDACTED]  
I'm doing fine. How are things with you?

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: Good.

PRIME MINISTER BLAIR: I'm really looking forward to your visit to Ireland.

THE PRESIDENT: We are trying to work out the final schedule. You and Cherie are coming up to see us, we'll be there together, right?

PRIME MINISTER BLAIR: That is right. We're still trying -- we came through the Drumcree situation, got through a terrible thing. The tragedy of the kids:--

THE PRESIDENT: It sobered them up though, didn't it?

PRIME MINISTER BLAIR: Yes, it did. We still have a lot of problems. [REDACTED]

E.O. 13526, section 1.4(b)(d)

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INTERAGENCY SECURITY CLASSIFICATION APPEALS PANEL,  
E.O. 13526, SECTION 5.3(b)(3)  
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E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: Let me tell you where we are. We are having terrible trouble with Janet Reno. I think the FBI must be working on her. If you know anything about this Starr business, you know law enforcement agencies are not really under direction of the President. What she is saying is that this is coddling terrorists and making concessions to get a trial. That is a policy statement and not her call, and I can disagree. Then she raised all these questions as to whether it was legally sufficient. If you say there is no British or Scottish objection to the character or legality of the trial, it is your law; it's not our judgment to make. What I am trying to get her to do is give me an opinion saying she disagrees as a matter of policy, but Justice can find no fault from the point of view of the law. Then I think we are OK.

PRIME MINISTER BLAIR: Right. E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: You got it. That is where I am trying to go.

PRIME MINISTER BLAIR: E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: E.O. 13526, section 1.4(d)

PRIME MINISTER BLAIR: Bill, a couple of other things. Kosovo. E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: I agree.

PRIME MINISTER BLAIR: E.O. 13526, section 1.4(b)(d)

[REDACTED]

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: The KLA has put us in a tough position.

PRIME MINISTER BLAIR: Yes.

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: Alright.

PRIME MINISTER BLAIR: One other thing, on the Middle East peace process.

THE PRESIDENT: It's very interesting.

[REDACTED]

E.O. 13526, section 1.4(d)

PRIME MINISTER BLAIR: Right. Good. OK, Bill.

THE PRESIDENT: What else do you know?

PRIME MINISTER BLAIR: Not much. I can't wait to go on holiday. I have got the flu this week and am a bit under the weather. Basically, I'm fine and looking forward to my holiday. But I have reshuffled my cabinet and done my spending plan. We will have an economic downturn this next year, and we have to be careful about that. I called Stan Greenberg today.

THE PRESIDENT: Yeah?

PRIME MINISTER BLAIR: Yes, he did some polling for us.

THE PRESIDENT: You know, the funny thing is our growth was down to 1.4 percent this quarter. It was 5.4 percent last quarter, but we lost ½ point on the GM strike and a full point off the Asian downturn already. We have got to do something about Japan. I am very discouraged about what Obuchi and Miyazawa have said. Miyazawa, when he was Prime Minister, he was already about 72 or 68.

PRIME MINISTER BLAIR:

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT:

[Redacted]

E.O. 13526, section 1.4(d)

What they are worried about is not being able to stimulate growth in their economy with tax cuts because they put these curlicues in them and people in Japan take the money and save it, because they don't think they are permanent or adequate. They think if they do all this bank restructuring, in the absence of increased demand and demand for exports, all it will do is just contract the economy and further deflation. What we have to do is try to work with them to get the necessary mix. I have been prepared to eat lower growth this year just to sop up some of their exports so they wouldn't go down, but this whole thing is going to slow what I think would be a boom in Europe and it is going to brake our expansion unless we can turn Japan around. I don't think there is enough money to move Asia there independently, without Japan coming back in Indonesia and all the other places. I just don't see it.

PRIME MINISTER BLAIR: What do you think we have to do?

THE PRESIDENT: What we have to do is find a way to be supportive of them without pushing, nudging them along and not humiliating them so they don't hunker down and turn inward. It's a funny little balance we have to strike but we need a coherent strategy.

E.O. 13526, section 1.4(b)(d)

but if I get an opening I may press him and maybe I'll call you and we can do something. We have to get the Europeans involved. What's going on in Germany? Schroeder is going to win isn't he?

PRIME MINISTER BLAIR: I think so.

THE PRESIDENT: Is Stan polling for Schroeder?

PRIME MINISTER BLAIR: I think he's doing some work along those lines.

THE PRESIDENT: When I was there before I didn't see any -- I think Kohl is where Churchill was at the end of World War II: the people are grateful but ready for a change.

PRIME MINSITER BLAIR:

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT:

E.O. 13526, section 1.4(d)

PRIME MINISTER BLAIR:

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: How long has Helmut been in, 16 years?. That's a hell of a long time.

PRIME MINISTER BLAIR: That's right.

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: Very clever.

PRIME MINISTER BLAIR:

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: If the vote is close enough, he should do that. I still think Netanyahu would have been better off doing that.

PRIME MINISTER BLAIR: Me, too.

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: You ought to tell him what I told you.

E.O. 13526, section 1.4(d)

PRIME MINISTER BLAIR: I agree with you. Just today we had the announcement of job losses here as a result of Asia. It's the first time it's been brought home.

THE PRESIDENT: I am really very concerned about it. The first place it hit us was in agriculture. We export about half our grain and about 40 percent goes to Asia and we are down 30 percent this year.

PRIME MINISTER BLAIR: Gee. Thirty percent.

THE PRESIDENT: And we can't get new markets because of bumper crops and the climate change caused by el Nino. I think with 1.4 percent growth, unemployment will go up a little. I just don't see any set of scenarios where we do better unless we get Japan turned around. I would guess that you're seeing increased flows to Latin America like we are. Thank God for Latin America, they are doing quite well.

PRIME MINISTER BLAIR: Absolutely right.

PRESIDENT CLINTON:

E.O. 13526, section 1.4(d)

PRIME MINISTER BLAIR: I hope not.

THE PRESIDENT: Anyway, I think our first order of business should be to deal with the Japanese government. The Chinese are hanging in there and have not devalued, but their target was revised downward. I feel they will hang in there several more months. There is a limit to the pounding they can take, expectations have been raised. You can see, it is so palpable, they are proud as hell they have stayed strong and have not had to devalue. But at some point, they'll have a hard time hanging on. I think the quicker we could have some sort of EU-US initiative - This was this huge real estate boom, but the Japanese stock market lost 50 percent of its value in the last five years. We're just not getting any reinvestment in growth. The way they have done all tax changes to date, people are saving the money, and they're spending all this money on a world-class big infrastructure that hasn't done anything. I know they are frustrated because, basically, they have taken a whole series of half-measures and it has not helped them. They have dragged Asia down.

PRIME MINISTER BLAIR: [redacted] E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: Talk to Prodi. They've been very good at working with us, by the way. Bob Rubin sent all our best people over there, but their political mechanism is inadequate.

PRIME MINISTER BLAIR: [redacted] E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: [redacted] E.O. 13526, section 1.4(d)

PRIME MINISTER BLAIR: [redacted] E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: [redacted] E.O. 13526, section 1.4(d)

PRIME MINISTER BLAIR: [redacted] E.O. 13526, section 1.4(b)(d)

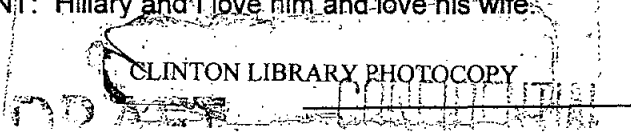
THE PRESIDENT: Yeah, the reform movement had a false birth under Hosokawa. Did you ever meet him?

PRIME MINISTER BLAIR: No.

THE PRESIDENT: [redacted] E.O. 13526, section 1.4(d)

PRIME MINISTER BLAIR: Yes, and maybe not the last. Jospin was here last week. He really loved his time in Washington.

THE PRESIDENT: Hillary and I love him and love his wife.



PRIME MINISTER BLAIR:

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: Well, that's good. France and Brazil are two countries that have permanent governments, for good or bad, but have inbred an anti-Americanism that colors the atmosphere and the left in France had a lot of that, as well as the Gaullist crowd, but I always admired the guy so much from a distance. You had a big influence on him, too.

PRIME MINISTER BLAIR:

E.O. 13526, section 1.4(b)(d)

THE PRESIDENT: I will follow up on Kosovo and get you a briefing on the Middle East. It's a little more ambiguous than the last time we talked. Netanyahu has moved on some issues and there is a chance we can break through. I didn't think he was bargaining in good faith, but now I have seen some change and we might have a shot at it. We'll work out Irish schedule and get the Attorney General to sign off on the legal adequacy as soon as possible.

PRIME MINISTER BLAIR: Again Bill, 101 percent support.

THE PRESIDENT: Thank you, I appreciate it, goodbye.

PRIME MINISTER BLAIR: Goodbye.