

THE SECRETARY OF STATE
WASHINGTON

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MEMORANDUM FOR: THE PRESIDENT

From: Cyrus Vance

Subject: Visit of Chancellor Helmut Schmidt
of the Federal Republic of Germany,
July 13-15, 1977

I. OBJECTIVES

Your talks with Schmidt present a major opportunity to improve our bilateral relationship on the personal, substantive and public levels. Specifically, we want to:

--inform him of our perceptions and plans in East-West relations in order to reduce his fears about the effects of our Soviet and human rights policies;

--reassure him that our goals in the security field are compatible, and discuss our intentions on such issues as nuclear proliferation, SALT, cruise missiles and MBFR;

--review with him the full range of economic and trade issues, in order to harmonize US and FRG positions on the key economic problems the Administration wants solved.

Schmidt's agenda virtually matches ours, although he especially wants to discuss economic and trade issues. For the Chancellor a successful first visit to Washington since you became President is supremely important in order to advance his policy objectives and to buttress his sagging political fortunes at home. He wants to

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ensure that the Federal Republic continues to benefit from a close consultative relationship with us. We believe that specifically Schmidt will aim to:

--examine closely your views on economic and trade policy, conveying not only his own concerns but those of the European Community;

--review all pertinent aspects of East-West relations to help him develop strategy for Brezhnev's planned fall visit to Bonn;

--seek your support for special German concerns in the area of human rights, Radio Free Europe/Radio Liberty, and Berlin.

II. SETTING

Schmidt is coming to Washington in a troubled and uneasy mood. He has reason. His political position at home is weak, his coalition with the Free Democrats is under pressure and his own Social Democratic Party is beset by internal wrangling. The FRG economy, of which Schmidt has been so proud over the years, is stagnating. It will fall short of its projected 5% GNP growth rate in 1977. A figure of 4.5% is more probable, and the final result may be slightly lower. Inflation is holding around 4%, but unemployment remains stubbornly near the one million (4.6%) level. The Chancellor's stimulus program is spread over 3-4 years, and will not have too great an impact, least of all in 1977. He is aware of the need for some action, since current predictions for 1978 indicate that growth may fall below 4%, with a resulting increase in unemployment. The economy's sluggishness is related largely to lagging consumer demand and weak capital investment levels. Exports are booming, however, and both the trade and current accounts will be in surplus.

On the international scene, he is worried by the weakness of his West European neighbors, none of whom possesses a strong and viable government. He is especially concerned about the prospects for leftist

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successes in France and Italy, fearing that a rightist backlash in West Germany would result from such developments. The current cool atmosphere in East-West relations also provides cause for concern, since the FRG's geopolitical situation in the middle of Europe is directly affected by any change in the temperature between Moscow and Washington.

But the area of perhaps greatest attention for Schmidt in the foreign affairs field concerns the FRG's relations with the United States. Here, too, he is bothered, partly by the feeling that the FRG no longer enjoys the position of the favored ally of recent years, and partly by the Administration's new foreign policy initiatives in human rights and non-proliferation. He also resents strongly the Administration's criticism of his economic policies. Recent comments by Secretary Blumenthal at the OECD meeting in Paris brought forth a barrage of sharp retorts from Bonn. Finally, Schmidt, a confirmed free-trade advocate, is worried about protectionist trends developing in the US, and spreading to Europe.

In sum, Schmidt's habitual irritability and thin skin, combined with his tendency to view the world in very gloomy terms, are even more in evidence than usual as he prepares for this visit. The almost euphoric mood in which he left London after the Summit has almost disappeared as he has had to come to grips with the practical problems that confront him, none of which is susceptible of easy solution.

III. KEY ISSUES

A. POLITICAL

1. East-West Relations

US Objectives: To assure Schmidt of our continuing desire to consult closely with the FRG on East-West problems and to coordinate our policies, especially at a time when the Soviets are seeking to play on different interests in the West; reassure him that in spite of current strains in US-USSR relations, active negotiation continues.

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Schmidt's Objectives: To be kept fully informed of US thinking on East-West relations in general, and US-Soviet relations, in particular, to make certain that the USG understands at the highest level the importance which the FRG assigns to good relations with the East.

Essential Factors: FRG Foreign Minister Genscher was in Moscow June 13-15 and met privately with Brezhnev and Gromyko to agree on the dates for Brezhnev's visit to Bonn (tentatively late September) and give impetus to a further warming in bilateral relations. While the Soviet press played up the visit, no progress was made on three proposed German-Soviet accords which (because of the question of their application in Berlin) remain an obstacle to improved FRG-Soviet relations. Like the French, Genscher commented that Brezhnev came across as an old, sick man only partly in control of events. As during the French visit, hard-line Gromyko appeared to be the grey eminence--at least in the area of foreign affairs.

The Russians utilized the Genscher visit to seek (unsuccessfully) more favorable credit treatment through reduced interest rates and to pass on messages to us, i.e., that a Brezhnev meeting with you depends on a SALT agreement. The Soviets heavily stressed atmospherics during the Genscher visit--i.e., Soviet-FRG friendship--as a warning to us that they have alternate detente partners. The West Germans refused the bait. Barring some give on Berlin issues, the Soviets are unlikely to make much headway with Bonn.

Points to be Made:

--In spite of the current strain in US-USSR relations, we continue in active negotiation in a constructive atmosphere.

--The Administration continues to be interested in improving US-Soviet relations, presuming reciprocity from the Soviet side. Negative signals to the contrary, we are now engaged with the Soviets in the broadest range of arms control discussions undertaken in the postwar period.

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--The three-part SALT framework provides a mechanism for agreement, though probably not until after expiration of the Interim Agreement.

--The West should coordinate carefully its credit and technology transfer to the East in the light of Soviet efforts to play upon differences within the West.

--We have the impression that the Soviets are approaching issues on their respective merits, despite irritation with our human rights stand.

--How does Schmidt see the future of FRG-Soviet relations in light of Genscher's visit to Moscow and Brezhnev's planned visit to Bonn, and how does he assess Moscow's view of East-West relations in general and US-Soviet relations in particular?

--What are Schmidt's impressions of Brezhnev's health and Gromyko's role in the negotiating sessions in Moscow?

2. Human Rights and CSCE

US Objectives: We have reached broad agreement in NATO on our approach to human rights in Belgrade in the fall. We wish to assure Schmidt, who just attended EC Nine discussions on the issue, that we seek a constructive session in Belgrade, and seek his support for a thorough review of Final Act implementation.

Schmidt's Objectives: Schmidt can be expected to express concern that US emphasis on human rights could color the proceedings at the follow-up meeting and prove to be generally counterproductive to the development of East-West relations.

Essential Factors: The current preparatory meeting in Belgrade is going relatively well. The NATO Allies and Western neutrals are essentially agreed on the technical questions for the main meeting

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in the fall, and some hard bargaining is taking place with the Soviets and Eastern Europeans on the follow-up meeting agenda. The Germans agree that there should be a thorough review of human rights in the fall, but believe that undue stress on the human rights debate could adversely affect the development of detente.

Schmidt's sense of personal achievement in furthering increased German emigration and East-West travel/contact possibilities influences his view of the big picture. Unless this meeting clears the air, Schmidt's sniping at our human rights policy is likely to continue.

The Germans wish to discuss North-South questions under Basket II at the fall meeting as a device to get the Soviets more involved in aid to the Third World; this idea has gained little support among the other Allies who do not wish to see the East-West thrust of CSCE diluted at Belgrade.

Points to be Made:

--We have made very clear that we approach the follow-up meeting in a constructive manner and do not seek confrontation.

--Our primary interest at the main meeting should be a balanced but thorough review of implementation of the areas covered by the Final Act, including human rights. The object of the review should be to encourage further implementation. We should put forward a few new proposals with the same aim in mind.

--We believe the Soviets recognize the importance which the Western democracies and their peoples attach to humanitarian questions, and will be prepared for the review.

--(if raised by Schmidt) We agree that we should try to involve the Soviets more in aid to the Third World, but believe that at Belgrade we should keep the focus on East-West issues of interest to us.

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3. Nuclear Proliferation

US Objectives: To ensure deferral of reprocessing transfers to Brazil; and to gain FRG cooperation in implementation of the Treaty of Tlateloco by Brazil and Argentina, with full-scope safeguards.

Schmidt's Objectives: To preserve the Brazilian nuclear agreement and associated transfer contracts in toto, while avoiding renewed confrontation with the US on this issue.

Essential Factors: We reached agreement in principle at the Summit to undertake an international nuclear fuel cycle evaluation (INFCE) and related studies that would address the interlinked problems of nuclear energy availability and the threat of nuclear weapons proliferation. The FRG announced on June 17 a temporary ban on new reprocessing transfer commitments. The Germans also have joined with the French in asserting that their domestic reprocessing and breeder research programs should not be interfered with during the duration of INFCE. This has delayed initiation of the evaluation effort. Schmidt is convinced that Germany, a uranium-poor country, must pursue such programs. However, the German domestic nuclear scene has become highly controversial and court tests have effectively halted construction starts on new reactor projects until adequate waste disposal plans are developed.

Meanwhile, we have learned that Argentina is proceeding with wholly indigenous construction of an unsafeguarded reprocessing plant. Mrs. Carter has obtained indications that Brazil's nuclear policies are directly influenced by Argentine programs and capabilities. We have begun to block out a strategy which would seek acceptance by both Brazil and Argentina of full-scope safeguards through mutual implementation of the Treaty of Tlateloco and mutual deferral of reprocessing, balanced by incentives in the form of assistance at the front end of the nuclear fuel cycle. At some point we will need German cooperation in carrying out this plan.

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Points to be Made:

--US remains concerned about sensitive transfers.

--US welcomes FRG statement of June 17 barring new reprocessing transfers and supporting international nuclear fuel cycle evaluation (INFCE).

--US looks forward to early resolution of problems which arose in the June 8-9 Summit experts meeting in Paris on the ~~INFCE~~ terms of reference study, and hopes Bonn will urge France to get on with INFCE.

--US is concerned with sensitive nuclear (especially reprocessing) activities in Latin America, heightened by Silveira's expressions of concern about Argentine activities to Mrs. Carter, and indications that Argentina is pushing ahead on an unsafeguarded indigenous reprocessing plant.

--US hopes Brazil and Argentina can be brought to implement Treaty of Tlateloco with attendant full-scope safeguards while avoiding premature reprocessing program development.

--To attain these goals, incentives in the form of appropriately controlled assistance to both countries at the front end of the fuel cycle may be needed.

--We want to coordinate any further approaches with you and will present more specific proposals as they develop.

--Because this subject is so important, I have designated Gerard Smith as Ambassador at Large and Special Representative for non-proliferation issues. I will be asking him to visit Bonn in the near future to talk to your representatives to harmonize our policies.

4. SALT

US Objectives: To strengthen Schmidt's support for US SALT goals, underlining the importance of a good SALT agreement for detente, and making clear that the

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US approach takes full account of broad Western political and security interests.

Schmidt's Objectives: To convey personal support for US SALT efforts as a contribution to stability and detente and to underscore the need to give full consideration to European views and interests. He may seek reassurances on particular points of European concern, including cruise missiles.

Essential Factors: The Germans have a strong interest in the continuation of detente and the conclusion of a SALT II agreement, but some are concerned that SALT could place Europe at a political and strategic disadvantage. They have been particularly concerned by Soviet theater nuclear deployments, especially the SS-20, and by the possibility that cruise missile limits might be set so low as to preclude their being used as a European-based counterweight. It is evident that the FRG and other Europeans have not fully thought through the SALT problem, and their positions on what kinds of limits are acceptable for Western security are not firm. The US needs to emphasize the importance of SALT for Western security and detente and our continuing ability to provide effective political and strategic support, so as to head off a narrow focus on particular aspects (like the cruise missile).

Points to be Made:

--SALT is of major importance for detente and Western security. It is not just a US interest. Because of this we have consulted intensely in NATO in recent months.

--We are not under pressure to meet the October deadline. We are working for the right kind of agreement which will contribute to stability and long-term detente.

--The fundamental US commitment to European security, manifested by the range of US conventional, theater nuclear, and strategic forces, will not be altered

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by SALT. By capping the strategic arms race, and hopefully setting the framework for reductions, we will be limiting the dangers to the Alliance as a whole.

--We need to regard particular issues of concern to both of us (like cruise missiles) in the broad context of the contribution SALT can and should make to detente and strategic stability.

5. Cruise Missiles

US Objectives: To convince Schmidt that the FRG should not become fixated on cruise missiles and lose sight of the broader context of SALT and overall East/West relations; and to assure him that our cruise missile approach holds open our future options. This should be helpful to him in fending off internal pressure for a hard FRG line on cruise missiles.

Schmidt's Objectives: Schmidt will probably say that long-range theater cruise missile options should be protected in SALT. He may argue that NATO needs long-range cruise missiles as a political and military counterweight to the Soviet SS-20 and Backfire threat, and as a visible and unambiguous sign of US commitment to nuclear deterrence in Europe.

Essential Factors: There is increasing concern in the FRG about the growth of Soviet theater nuclear capabilities and the political and military implications of a theater imbalance under conditions of strategic parity. Long-range ground launched cruise missiles (GLCMs), of at least up to 1500 km, deployed in Europe appear to many Germans as the potential systems to enhance NATO's theater capabilities, to strengthen the coupling of the US strategic forces to Europe, to provide a military and political counterweight to the SS-20 and possible leverage in any future negotiations on theater nuclear systems. Defense Minister Leber has said the minimum range the FRG could support was 1500 kilometers. We have argued that the SS-20 does not present a significant new threat to Europe

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and have tried to place the theater cruise missile argument in a more balanced perspective. As part of that effort, and to avoid crystallization of a firm European position in favor of long-range GLCMs, we presented a discussion paper to the NAC last May on some of the advantages and disadvantages of theater cruise missile options, as well as alternatives to cruise missiles.

Points to be Made:

--In the broader context of SALT and the future of East-West relations, the West must focus on the role of SALT in maintaining detente and the overall strategic balance. We cannot hold these basic arms hostage to any one issue and we both must consider our cruise missile choices in this context.

--The framework of our present proposal is designed to hold open cruise missile options and to give us time to think about whether and how cruise missiles might fit into Western defense.

--Our position gives flexibility in the present negotiations, the conclusion of which is an essential component of detente.

--Cruise missile options will still be available for future leverage and/or deployment; our current negotiating approach is tailored to permit technological progress in and development of US cruise missiles with no change in our present schedule.

--We presented a paper to the NAC in which we sought to take an even-handed look at some advantages and disadvantages of cruise missiles options. We are prepared, of course, to discuss the issue further.

6. MBFR (if raised)

US Objectives: To reaffirm our support of basic Western negotiating objectives, to explore Schmidt's

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thinking on the future development of MBFR and to stress the importance we give to FRG views.

Schmidt's Objectives: For the last year, Schmidt has been making public statements about the need for progress in MBFR, but has provided few specifics either in public or private. His flexibility has been limited by domestic politics, and he may not be ready to propose any initiative now. Chancellor Schmidt has had under consideration the possibility of making a concession on the subject of the scope and timing of non-US Allied reductions. He may be prepared to discuss such a move when he meets Brezhnev. While such a German move may be highly desirable at some point, it would be premature to encourage it now.

Essential Factors: Since you last saw Schmidt in London, we have made a series of efforts to reach a compromise with the FRG on the tabling of data. A compromise has now been agreed, and we should soon have a new proposal to the East for data exchange. However, serious negotiation on substantive issues has all but stopped in Vienna. The talks will be recessing about a week after your conversation with Schmidt and would resume in late September.

On the Western side, there is agreement that the original Western negotiating objectives remain valid. Most Allies would support any reasonable US initiative for movement towards these basic objectives but will not press us. A German initiative, if one occurs, would stress protection of the FRG from specific national limitations, which would go against a major FRG political interest. It is important to stress the value we put on continued close US-FRG consultations.

Points to be Made:

--The FRG compromise proposal on data releases the Alliance from an embarrassing situation, and if the East accepts it, should let the data discussion proceed. We appreciate the FRG's efforts to help the Alliance develop a common position on this subject.

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--We would hope for more active negotiations in Vienna next winter, for example, if our proposals on data lead into a further discussion of this issue. How do the Germans see prospects for the talks? What course might the West take if the data discussion proves unproductive?

--The US believes that the present Western negotiating objectives, stressing a parity outcome, collective obligations and pointing toward a militarily significant agreement, are sound. However, some compromises will doubtless have to be made if we are to obtain an agreement.

--Both the US and the FRG should begin thinking about what steps we might be able to take. The views and suggestions of the Federal Republic will play a critical role in any review of MBFR policy, and we should maintain a continuing and close dialogue on the subject.

7. Conventional Arms Transfers

US Objectives: To obtain Schmidt's commitment to continue the process of attaining multilateral cooperation on arms transfer restraint which was begun in a Quadripartite meeting in Bonn on June 22 and which will continue with the Soviets this fall.

Schmidt's Objectives: Schmidt agrees with our goal. Germany itself has a strong record of restraint. Schmidt will probably seek further clarification of US multilateral objectives and stress the importance of enlisting Soviet and French support.

Essential Factors: At the quadripartite meeting the FRG and UK responded positively, agreed that Western collaboration is in our mutual interest, and intend to consult further about developing common sales guidelines. The French agreed to respond to the US through diplomatic channels.

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Points to be Made:

--We regard the Four-Power meeting held in Bonn as a useful beginning. We are grateful to the German Government not only for hosting this meeting and taking such a constructive position, but also for agreeing to host future meetings.

--The US is well aware of the complexity of the problem but determined to make headway. We must strike a balance between the legitimate uses of arms transfers and the need to exercise control over unrestricted arms flows.

--Western cooperation will strengthen our hand in dealing with the Soviets. We have consulted fully with our allies on our approach to the Soviets and will continue to do so. Our approach will emphasize adoption of the guidelines discussed in Bonn:

- No first introduction of advanced equipment
- Limitations on sensitive weapons systems
- Controls over co-production
- Restraints on retransfer.

B. ECONOMIC

1. FRG Economic Growth Policy

US Objectives: To encourage Schmidt to meet a 5% growth target by taking further stimulatory measures.

Schmidt's Objectives: To maintain economic growth along with a low rate of inflation.

Essential Factors: In London Schmidt indicated the FRG would aim for a 1977 growth target of 5%. German reluctance to initiate new stimulatory measures is based primarily on fear of kindling inflationary pressures, despite expectations that the inflation rate will be below 4% in 1977 and that unemployment will remain high by German standards.

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Points to be Made:

--Consistent with the summit consensus, Germany should consider additional stimulatory measures focused specifically on domestic demand.

--We will have difficulty defending the US current account deficit as essential to sustain the international payments system when Germany, Japan and others have large surpluses.

--The political situation in countries like Italy, France, Spain and Portugal limits the severity of the stabilization programs they can implement. They need significant help through stronger export demand.

2. US Steel and Zenith Cases on Indirect Tax Rebates

US Objectives: To assure our trading partners that we recognize the serious implications of the US Steel and Zenith cases for international trade and are committed to avoid trade disruption.

Schmidt's Objectives: To stress the threat these cases pose to trade and highlight the potential economic and political effects which an adverse outcome would have in Germany and the European Communities.

Essential Factors: The issue before the courts is whether the rebate of indirect (e.g. sales) taxes on exported goods is a subsidy. If so, Treasury would be obliged to reverse its longheld position and impose offsetting duties. The outcome of the USG appeal of an adverse Customs Court decision in Zenith is expected at any time. The US Steel case against the value added tax rebate on steel continues toward a December 6 trial. A Working Party under the General Agreement on Tariffs and Trade said in June that imposition of countervailing duties under the Zenith decision would "constitute a prima facie case of nullification and impairment" of trade concessions, opening the US to retaliation by other countries. The US representative noted the views of others but reserved the US position because the case is still in the courts.

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Points to be Made:

--We are keenly aware that adverse court decisions in the US Steel and Zenith cases could result in extensive trade disruption.

--My Administration will do everything possible to avoid such an outcome. We are hopeful that we will win a reversal of the Zenith decision. If we do not win in the courts, we will have to assess our options carefully, including that of seeking new legislation.

C. BILATERAL

1. Berlin and Inner German Matters (if raised)

US Objectives: To reassure Schmidt of the firmness of the US commitment to Berlin; to solicit his assessment of Soviet and GDR intentions regarding the city and prospects for progress in West-East German relations.

Schmidt's Objectives: Schmidt would appreciate a restatement of the US commitment to Berlin and may seek your views on the current situation there.

Essential Factors: The Soviets appear inclined to avoid difficulties with the West over Berlin at present. They have not pressed the issue of Allied patrols in East Berlin since the firm Allied rejection of the Soviet demand that such patrols be ended. Soviet press commentaries on the May 9 Summit Declaration on Berlin were relatively moderate. Despite Soviet and GDR protests against a West German opposition party rally in Berlin to commemorate the 1953 uprising in East Germany, there was no interference with surface access to the city.

Chancellor Schmidt prefers a low key political stance on Berlin which will not impede Bonn's dealings with the Soviets and East Germans, but the opposition sometimes makes this difficult. The FRG hopes soon to begin negotiations with the

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GDR on practical improvements in transit to Berlin and on humanitarian issues. In recent months Schmidt has also placed considerable emphasis on improving the economic situation of West Berlin.

Points to be Made:

--The US remains fully committed to the freedom and viability of Berlin. Vice President Mondale made this clear during his visit to Berlin in January, and this was underlined by the May 9 Summit Declaration on Berlin.

--Western firmness on Berlin, as expressed in the Summit Declaration, has had a salutary effect on the Soviets and East Germans.

--We must continue to stress that further progress in detente is not possible if there are serious difficulties in Berlin.

--How do you assess the Berlin situation and the prospects for progress in your upcoming negotiations with the GDR?

--We agree that attention should be paid to the economy of West Berlin.

2. Radio Free Europe/Radio Liberty (RFE/RL) Operations in the FRG (if raised)

US Objectives: To augment some of our international broadcasting facilities in the FRG which provide an irreplaceable flow of information into the Soviet Union and Eastern Europe.

Schmidt's Objectives: At a minimum, to seek closer US-FRG consultation over our radio operations; ultimately, to have us move the RFE/RL facilities away from the FRG.

Essential Factors: Schmidt has expressed concern both publicly and privately that continued use of FRG soil for RFE/RL broadcasts could cause difficulties with the Soviets and Eastern Europeans over such

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issues of direct FRG concern as West German television broadcasts to East Germany and German emigration. Schmidt is upset that he was not consulted before the Administration released its March 22 report to Congress on increasing our broadcasting facilities. While Schmidt prefers to see RFE/RL operations in the FRG cease altogether, this is a highly sensitive domestic issue for him as well as us, and he would come under strong attack if he proposed that publicly.

Points to be Made:

--We regard the continued operation of RFE/RL in the FRG as essential to our goal of accurately informing the peoples of the USSR and Eastern Europe, and thereby contribute to our long-range, mutual goal of a greater degree of autonomy and responsiveness of the East European governments.

--A reduction or withdrawal would be perceived by the Soviets, the US public and Congress, as well as other Western governments and people as a lessening of US and West German commitment to the freer flow of information, and as a retreat in the face of Soviet pressure.

--The West should stand firmly to our commitments at Helsinki and not accept Soviet arguments that such broadcasts are contrary to CSCE.

--We plan to increase US broadcasting facilities because our transmitter capacity is inadequate. We do not intend any increase in the number of transmitters in the FRG, but simply want to raise the power of existing, out-dated facilities to 250 KW, half that of your own Deutsche Welle's 500 KW transmitters. I understood that an increase in power had been approved in principle by the FRG Ministry of Posts.

--I urge you to continue your strong support for our international broadcasting effort, and I assure you that we will consult closely with FRG authorities on developments regarding RFE/RL.

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