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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
153616	PAPER	RE. YUGOSLAVIA <i>R 6/2/2015 M452/2</i>	10	ND	B1
153619	REPORT	RE. EAST EUROPEAN HIGHLIGHTS: OCTOBER 1982 <i>R 6/2/2015 M452/2</i>	16	11/16/1982	B1
153620	REPORT	RE. YUGOSLAVIA	18	11/22/1982	B1
153621	NOTE	TO NORMAN BAILEY	1	11/22/1982	B3
153622	MEMO	[ATTACHED TO DOC. 153621]	2	11/18/1982	B1
153623	PAPER	RE. SIG MEETING ON YUGOSLAVIA <i>R 11/27/2017 M452/2</i>	2	11/26/1982	B1
153624	LIST	RE. SIG MEETING	1	ND	B3

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ECONOMIC ASSISTANCE

FOREIGN ASSISTANCE

NATO

IG

SUBJECT: DISCUSSION PAPER FOR YUGOSLAVIA 9 NOV IG MTG

ACTION: FOR RECORD PURPOSES

DUE:

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November 5, 1982

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Interagency Group No. 29

TO : OVP - Mr. Donald P. Gregg
NSC - Mr. Michael O. Wheeler
Agriculture - Mr. Raymond Lett
CIA - Mr. Thomas B. Cormack
Commerce - Mrs. Helen Robbins
Defense - COL John Stanford
EXIM Bank - Mr. William H. Draper, III
OMB - Mr. Alton Keel
Treasury - Mr. David Pickford
USTR - Mr. Dennis Whitfield

SUBJECT: Interagency Group on Yugoslavia

A meeting of the Interagency Group on Yugoslavia is scheduled for Tuesday, November 9 at 2:30 p.m. at the Department of State, Room 6226. A representative from each addressee agency is invited to attend. Attached is a paper for your consideration before the meeting.

L. Paul Bremer, III
L. Paul Bremer, III
Executive Secretary

Attachment:

As stated.

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Dept. of State Guidelines, July 21, 1997
BY RW NARA, DATE 2/7/13



SECRET/SENSITIVE
DISCUSSION PAPER:

YUGOSLAVIA-- CONSIDERATION OF ASSISTANCE MEASURES

Yugoslavia is in deep economic trouble. Two and one-half years after the death of Tito, the country is at a political and economic crossroads. How we respond now to Yugoslavia's pressing economic problems and related political concerns will be critical factors in whether U.S. interests in this key strategic country can be sustained in the near and medium term.

This paper is designed to provide the basis for a comprehensive strategy for dealing with U.S.-Yugoslav relations over the next few years. It reviews the economic/political problem; our strategic interests; and measures we could take in the economic, military and political fields. Ultimately it will become an NSSD for Presidential consideration and decision.

ECONOMIC SITUATION

The Yugoslav economy is in a severe liquidity crisis and may be approaching default on its international obligations. Industrial output is sharply falling, energy consumption is being rationed and a sharp decline in short-term and medium-term lending by major international banks has dried up liquidity essential to the normal functioning of the economy. U.S. bankers and other close observers seem agreed that, barring a massive rescue effort, Yugoslavia may have to face general rescheduling of its Western debt - perhaps in early 1983.

External borrowing to finance burgeoning current account deficits in the late 1970's pushed Yugoslavia's convertible (hard) currency debt to nearly \$20 billion. The GOY has acted decisively to correct internal and external imbalances, signing on to a \$1.8 billion, 3-year IMF standby in 1980. Moreover, the Yugoslav debt service ratio, at 25%, is not excessive. However, the ripple effects of the Polish crisis and sloppy GOY foreign exchange management (failure to deal effectively with commercial bank arrears) has sparked an abrupt decline in private lending, including the withdrawal of short-term deposits/lines of credit, and resulted in a swift depletion of official foreign exchange reserves.

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Western European and Kuwaiti banks continue to provide to Yugoslavia modest amounts of medium term funds--about \$500 million in CY 1982. The UK and Canadian banks are standing back. The GOY may soon regain access to US and Japanese markets. A \$200 million Citibank-led syndicated loan should be concluded soon, subject to the elimination of small remaining arrears of a major Croatian commercial bank, Privredna Banka Zagreb (PBZ). However, the difficulty experienced in scraping the package loan together, and the fact that the participation of the New York agency of a Yugoslav bank was necessary to put the loan over the top, will dilute the hoped-for image of improved market receptivity and the positive catalytic effect on other private lenders.

The financial strain will not abate in 1983. Even if the full year current account is in balance, as expected, Yugoslav financing needs will exceed \$4.0 billion. Due to the seasonal pattern of the Yugoslav balance of payments, the entire financing requirement for the year appears in the first half. The IMF estimates first half needs of \$4.25 billion--a current account deficit of \$1.25 billion; and principal payments of \$3.0 billion, of which \$1.8 billion is on short-term debt. The IMF figures are consistent with BIS and CIA projections.

The only readily identifiable source of financing for 1983 is the expected IMF/IBRD disbursement of about \$1.0 billion. Continued private lending at 1982 levels (about \$700 million) and a rollover of all short-term debt would be necessary to reduce the Yugoslav financing gap to \$750 million. The risk is that Yugoslavia could rapidly accumulate arrearages in the first half of 1983, scuttling the IMF program, and shattering what is left of private market confidence. The immediate next step would be a general debt rescheduling.

POLITICAL ASPECTS OF RESCHEDULING

Yugoslav top political leaders remain adamantly opposed to any major rescheduling. This point was made forcefully by Yugoslav Foreign Secretary Mojsov in his October 4 meeting in New York with Secretary Shultz. The reasons are more political than economic. While we may not agree with all the Yugoslav reasoning, the political implications for the West of a worsening Yugoslav economic crisis are serious.

Yugoslavia's decentralized economic and banking system would make a general rescheduling a complex and intrusive undertaking. It has complicated efforts to implement economic reform. The existing system of autonomous regional banks reflects Yugoslavia's delicate internal political balancing act. GOY leaders are now convinced that regional financial

transactions must be better coordinated and backstopped. There is also serious attention being given to the need to restructure the Yugoslav economy to be more efficient and competitive -- more market-oriented. The Yugoslavs' ability to carry out structural reforms of this magnitude depends on getting over the near term debt hump, since in current circumstances the GOY cannot afford the luxury of adopting a long-term focus. It is hoped to achieve all this without turning the clock back on decentralization in general, which has become a Yugoslav political hallmark. The current leadership is caught in the middle. It wants to exercise increased central control over fiscal matters in a way which does not spill over into other areas. There is concern that a general rescheduling would be accompanied by outside pressures for central controls going beyond what is politically tolerable. (Obviously, even without general rescheduling, outside assistance to Yugoslavia will be conditioned, as it already has, on meeting international lending criteria.)

As a coalition of historically-warring national groups and economically-disparate regions, Yugoslavia is not easy to govern - especially by committee - even in good economic times. Growing economic strains could interact with the latent nationality problem, leading to increased domestic unrest. The choices before the top Yugoslavs over the next few months pose a serious test of the post-Tito leadership and perhaps the greatest challenge since the 1948 break with Stalin. If the present market-oriented leaders are discredited, the old-style, directed-economy types would be in a position to pose a serious challenge, threatening to undo progress over the years in that country's gradual democratic evolution.

The Yugoslav leaders are also concerned about the broader implications of reaching an economic nadir in which rescheduling becomes necessary and of what is seen in Yugoslavia as a Western refusal to help. We are already hearing comments from influential Yugoslavs that the West has decided to "abandon" Yugoslavia. Some of this is a form of pressure, but most of these persons are well-disposed to the West and all of them want Yugoslavia to remain truly nonaligned and politically and economically independent of the USSR. GOY leaders have watched with concern the expansion of the Yugoslav trading relationship with the Soviet Union, as Yugoslavia's ability to buy and sell in Western markets has stagnated or diminished.

For all of these reasons, the Yugoslav leaders view the prospect of general rescheduling not as a new beginning or fresh start but as a formal admission of failure. Directives from outsiders regarding conditions to be met for rescheduling

would be a serious blow to Yugoslav pride. One cannot predict how serious the "abandonment" syndrome will become, or how this will change attitudes within Yugoslavia toward the West and the U.S. in particular. The top leaders are deeply worried, however, that rescheduling will be widely interpreted outside Yugoslavia as symbolizing the failure of the vaunted Yugoslav alternative to traditional, centralized communist control. It would also, in their view, project economic and leadership weakness so serious as to leave the country vulnerable to outside pressures. Foremost, of course, is concern over potential Soviet pressures for concessions in political and military areas.

YUGOSLAV ADJUSTMENT EFFORTS

GOY top political leaders still hope that something can be done to give their economy a boost and avoid reaching the point where general rescheduling is unavoidable. Unpopular domestic measures have been taken. The GOY has acted firmly to compress the domestic economy and to reduce the current account deficit. In the past two years, it has adhered to the conditions of its three-year IMF stand-by agreement and is in the process of negotiating the terms of the third and final leg. Setting the stage for the third year of the IMF program, the GOY has devalued the dinar by a further 20%, raised interest rates and taken further steps to control the growth of credit and nominal incomes. Gasoline has been rationed and politically-explosive disincentives have been placed on travel abroad and withdrawals from individual hard currency accounts.

However, private markets remain unconvinced of the GOY's capacity to manage this situation, and with good reason. Frequent payments delinquencies and uncoordinated requests for mini-reschedulings by some regional commercial banks (especially PBZ), together with the GOY's failure to provide timely and accurate economic information, have turned off private lenders. The primary constraint on improved Yugoslav performance in this area is, as noted above, the Yugoslav domestic political situation and structure.

Moreover, GOY requests for official financial assistance, at least in their initial form, lack realism. The Yugoslavs recently approached the BIS informally concerning their interest in obtaining \$500 million in four-year money. Central bankers, stressing the short-term nature of BIS arrangements (Mexico and Hungary obtained maturities of only three and six months, respectively), reacted negatively and suggested that, when a formal request is made, it be more realistic. The GOY has not yet come back, awaiting first the completion of the current IMF review assessment.

The Yugoslavs recognize that their independence hinges on internal stability and the country's economic viability. They also believe that American perceptions and interest coincide with their own in this respect. This seems to explain why the leadership, despite its suspicions and desire to avoid dependence on either "super power", has turned first to us. Examples include then-President Kraigher's meeting with the President at Cancun, Foreign Secretary Mojsov's Westward-looking inaugural foreign policy address this summer, and President Stambolic's July letter to the President asking that he support Yugoslavia's loan effort.

U.S. INTERESTS:

Yugoslavia's unity and stubborn independence of "blocs" serves our strategic interest in the Balkans and Mediterranean as well as our political interest in encouraging the attenuation and eventual dissolution of the Soviet empire:

a. Geopolitical

The Adriatic is an open sea, the Warsaw Pact is denied bases there, and the Soviet threat to NATO allies Greece and Italy and to the Middle East is, as a consequence, substantially less. Yugoslavia controls the only air corridor from the Warsaw Pact to the Mediterranean and the Middle East through non-NATO airspace. The Soviets are denied Adriatic airfields. Thus they have no tactical air support for the Soviet Mediterranean Fleet. The Yugoslav ground defense is primarily geared to repelling an attack from the Warsaw Pact. It is presumably determined to block any move through northern Yugoslavia by Pact forces seeking to enter northern Italy via the Gorizia Gap.

b. Economic

U.S. economic interests in Yugoslavia are substantial. The Yugoslavs have purchased billions of dollars worth of U.S.-made industrial equipment, agricultural products, and manufactured goods (\$6.3 billion since 1965). The presence of well-known U.S. and other Western products throughout the country constantly underscores the efficacy of the industrial democracies in producing a rising standard of living and the material well-being associated with Western life. Seeing this, the Yugoslavs have continued to work toward a market-oriented economy, seeking to stimulate their firms to greater efficiency through competition with foreign firms both in export and domestic markets. Foreign private investors are welcomed, and the U.S. is the largest foreign equity investor in Yugoslavia. Yugoslavia is a full member of the GATT, the IMF, and the World Bank. All this takes place under a system

that is nominally socialist, greatly magnifying the Yugoslav example's impact on its neighbors to the East.

c. Political

Yugoslavia, the prize that eluded Stalin in 1948, has not been forgotten in the Kremlin. The U.S. gave Tito the help that was essential to keep Yugoslavia independent while he began the slow process that has resulted in opening Yugoslavia to the West and permitted evolution in the direction of pluralism, and fostered receptivity to Western attitudes and culture. As a result, Yugoslavia is now well along a course that is the envy of the Eastern European countries of the Warsaw Pact (with the partial exception of Hungary), and has made significant progress toward liberalization. What happens in Yugoslavia has obvious implications for future developments with respect to Romania and other Eastern European countries.

A protracted Yugoslav economic crisis accompanied by a loss of faith in the West could lead that country in several possible directions, none of them in our interests. At a minimum, the Yugoslav model would stand as a less powerful example of the benefits of pluralism for the communist world. A prolongation of Yugoslavia's problems could threaten that country's independent course and seriously weaken Yugoslavia's ability to withstand Soviet pressures for political and military concessions.

OVERALL POLICY

In sum, it is in the strategic interest of the United States to preserve the independence and territorial integrity of Yugoslavia, and to promote its gradual liberalization and integration into the West. This has been our basic policy for three decades. We now face a critical juncture in ensuring its success.

There is only so much that the USG can do to help the Yugoslavs economically and to bolster their confidence in our general support. Much depends upon the U.S. and international commercial banking community, over which we have no control. Other Western countries have as great a stake as we do in preserving Yugoslavia as an independent bulwark and as an alternate model for the communist world. There are, nevertheless, certain areas in which the USG is already involved and require urgent attention:

a. Economic/Financial

-- U.S. support for a Bank for International Settlement (BIS) facility. The Yugoslavs have informally raised the question of a \$500 million BIS facility. Pursuit of this request must await an IMF approval of the next IMF tranche, anticipated following a visit within the next several weeks to Yugoslavia of an IMF team.

-- Commodity Credit Corporation (CCC) credits could ease the hard currency burden for needed imports this year of wheat, cotton, soy beans, vegetable oils, and soybean meal.

-- Eximbank facilities. Eximbank programs available for Yugoslavia at this delicate juncture play a crucial role. Curtailment of any of them would be read by the Government of Yugoslavia as a hostile signal.

-- Reprogramming of Eximbank loans. Three of Yugoslavia's most financially troubled projects (the Krsko nuclear power plant, the DOW/INA petrochemical complex, and the Feni nickel complex) were constructed with Eximbank loans and the most modern U.S. technology. Debt service for these projects represent the bulk of approximately \$460 million due as interest and payments to Eximbank in 1982-84. We should consider being prepared to respond sympathetically to requests for a payment stretch-out for all U.S. official debt. The Germans, French, British, and Japanese would readily agree to do the same for their official debts in the "Paris Club" context.

b. Military Cooperation

--- Procurement of U.S. weapons systems. A significant group within the GOY leadership is concerned by the degree to which Yugoslavia is dependent upon the Soviet Union for military hardware. U.S. policy has sought to assist the Yugoslavs in the procurement of specialized weapons systems based on the premise that diversification of supply would strengthen Yugoslavia's dependence from Moscow. Yugoslavia's severe financial constraints have compromised our efforts to develop a meaningful military sales program. There are, however, a number of areas where we see scope for close military cooperation with the Yugoslavs over the long run, and where major purchases would not take place for a number of years.

--F5-G and release of the PW1120 aircraft engine. Discussions for the purchase of the F-5G are at a relatively advanced point. The next step is to obtain NDP approval. If Washington approval for release of classified information and an eventual sale is forthcoming, a possible sticking point will

be financing for the aircraft and the degree of offset purchases that Northrop may be willing to accept. We may wish to encourage Northrop to be flexible in this area, but as a matter of policy the USG does not become involved in the specifics of commercial offset arrangements. We may also wish to explore the possibility of FMS credits, although this approach does not look promising during the FY 85 budget cycle in view of current budget stringency. (Heretofore the Yugoslavs have seen FMS credits as inconsistent with their nonaligned status.) The planned visit of Secretary Weinberger to Belgrade in early December will provide an occasion for discussions on this topic.

--IMET Training. While not a substitute for expanded cooperation in arms procurement, an expanded IMET program in FY 85 would provide an important signal to the Yugoslavs and enable us to monitor more effectively attitudes in the Yugoslav armed forces. Our access to the upper echelons of the Yugoslav military should be enhanced as officers with exposure to the U.S. military move up the command chain. Our current program for FY 83 and 84 will fund about six students. We should be able to give Yugoslavia a high priority if IMET funds become available late in FY 83 for reprogramming.

c. Bilateral High-Level Dialogue

Visits by senior U.S. officials can complement the measures listed above and have an intrinsic value of their own because they visibly give value to and stimulate the bilateral relationship. The recent conversation in New York between Secretary Shultz and Secretary Mojsov is a good example of the worth of high-level talks. The GOY expects, however, that material support will be linked with these exchanges. In other words, there must be substance to bilateral exchanges, such as the prospective visit of Secretary Weinberger, in order to achieve the desired impact.

d. Encouraging the NATO Allies

Our own bilateral measures need to be in a larger framework of actions by others. The Allies should be encouraged to initiate bilateral actions of their own, namely debt relief, bilateral trade, as well as joint Franco/Anglo/German initiatives to alleviate EC trade restrictions which have hampered Yugoslav trade with western Europe. We will need to consult closely with our key allies regarding multilateral measures as well.

U.S. OPTIONS

The measures above can contribute to the U.S. policy of maintaining Yugoslav independence (and encourage Allied help). However, although the BIS facility, maintenance of Eximbank facilities, and CCC credits are all significant steps, these measures by themselves are not adequate in all probability to stave off the need for general rescheduling. A debt rescheduling is inevitable absent official financial support, a resurgence of confidence among private lenders and further significant actions by the GOY. Thus, we have three options: (1) take the lead in marshalling official assistance at a level sufficient to insure Yugoslavia against the need to reschedule its debts, (2) arrange a more modest support package, hoping that a concrete demonstration of Western governments' commitment to Yugoslavia would induce a change in private sector lending behavior; or (3) candidly inform the GOY that their financial problems appear to have reached the point where a "more permanent" solution is necessary, stating that the US would accede quickly to a GOY request for an official rescheduling. These options are discussed below.

(1) Provide financing, in coordination with other Western governments, sufficient to insure against a rescheduling. IMF sources estimate that Yugoslavia will require, at a minimum, \$750 million from the BIS and a \$1.0 billion consortium loan from governments to "avoid default" in the first half of 1983. Our assessment is that official financing at this level would be overkill if the banks continue to lend at last year's level and hold constant their short-term exposure; it would be inadequate if private credit dries up. Increasing the amounts to cover the worst-case scenario would constitute a "bail-out" of the banks. Moreover, any package with a US share much above \$150 million would require a supplemental appropriation.

(2) Arrange a more modest package--\$750 million - through the BIS. The US portion would be \$150-200 million, roughly consistent with our share of Yugoslavia's external debt. The sources of funds would be the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve swap line with the BIS. This would decrease, but still not eliminate, the probability of rescheduling. On the assumption that such a concrete demonstration of Western governments' political and economic support for Yugoslavia would induce a substantial change in private lending behavior, rescheduling might not be necessary. Some US banks have suggested to us that they would welcome such a signal from Western governments. In addition, the BIS loan to Hungary was apparently a factor in inducing banks to reverse their withdrawal of funds.

In return, we should require much more extensive financial information than we are now receiving, before proceeding with an official assistance effort. We will be compiling a list of specific types of information which we should require the Yugoslavs to provide and look at other measures in such areas as foreign exchange management--which could have a beneficial effect.

We should expect significant action on economic reform from the GOY, although imposition of performance conditions should ideally come from the IMF, BIS or other international "club". We may also insist on collateral--the BIS has indicated that most of the GOY's \$800 million in gold is unpledged (which will need to be verified). GOY actions would also be essential to spark a positive catalytic effect in the private sector, and thus would be critical to the success of the exercise.

The costs of US participation in a loan package for Yugoslavia are reduced flexibility to respond to similar crises in other countries and the risk of non-repayment. (Collateral would insure us against non-repayment.) Rescheduling would reduce the non-repayment risk as it would release substantial amounts of foreign exchange. The BIS funds would not be rescheduled.

(3) Candidly inform the GOY that their financial difficulties have reached the point where a "more permanent" solution is necessary, noting that the U.S. would accede quickly to a GOY request for an official rescheduling. Because of the serious political implications, this alternative would seem a first choice only "by default," i.e. only after having reached the conclusion that rescheduling is an unavoidable foregone conclusion. Our present projections indicate that, given some outside assistance, rescheduling is not inevitable because Yugoslavia's debt service ratio is only 25%, the maturity structure of the debt is favorable, with the short term component only 10% of total outstanding obligations and economic policy is moving in the right direction. We are currently updating the balance of payments forecasts, and seeking a detailed maturity schedule. We are also seeking from the GOY detailed information on the size and location of gold and foreign exchange reserves.

Obviously Option 2 may fail, either because of a shortfall in private lending or on the current account. Rescheduling may still be necessary. If so, we should encourage the GOY to face reality, stressing that a buildup of arrears would lead to a broken IMF program and thus to an extended period of financial uncertainty.



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(U) EAST EUROPEAN HIGHLIGHTS: OCTOBER 1982

Summary

(C) With the decision to outlaw Solidarity and all other existing trade unions, Polish Premier Jaruzelski embarked on a risky test of his ability to control hostile Polish reaction. But he antagonized most of the population and the church and even failed to appease party hardliners and Moscow, who apparently faulted him for not restoring the party to its leading role. The results of his gamble should become apparent in November.

(C) The Warsaw Pact foreign ministers and Military Council met in routinely scheduled meetings. Items on the agenda apparently included Poland and tactics to be followed when the follow-up meeting of the Conference on Security and Cooperation in Europe (CSCE) resumes in Madrid in November.

(S/NF) Romania held a series of meetings with US officials, while continuing to shift party officials. Yugoslavia introduced a series of economic restrictions designed to avoid rescheduling its hard-currency debt and to fight energy shortages, unemployment, and inflation.

* * * * *

(C) Poland: Regime Wins a Round By Dissolving Solidarity ...

Some 10 months after the introduction of martial law, the Jaruzelski regime took the risky step of outlawing Solidarity, evidently calculating that worker reaction would be manageable. The move ending Solidarity's legal existence sparked protests at home and abroad. More importantly, it pushed Solidarity's long-divided underground leadership into direct confrontation with the regime. By

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Report 499-CA
November 16, 1982

month's end, Jaruzelski was bracing for a showdown with the underground resistance movement and simultaneously trying to fend off renewed pressure from party hardliners over his policies. With the Catholic Church becoming more critical about Solidarity's ban and Moscow showing signs of renewed concern over the Polish party's continued eclipse, Jaruzelski seemed more isolated than ever.

The regime submitted the highly controversial bill to the Sejm (Parliament) at the October 8-9 session after long and intense debate within the leadership and, presumably, Soviet pressuring. An earlier version of the bill, worked out in 1981 with Solidarity experts, was intended to place Eastern Europe's first independent union on firm legislative footing. Ironically, it came to serve the opposite purpose. While setting up a framework for trade union structures, the new law explicitly outlawed all existing trade unions, prohibited the restoration of the "suspended" Solidarity in any form, and even outlawed its name.

The bill's provisions, effective January 1, 1983, limited creation of new trade unions initially to factories. The establishment, under close party supervision, of national craft unions would follow by the end of 1985. Regime propaganda made much of the argument that the new unions would be "autonomous" and free from both government and factory control. It also made clear that the unions would not be allowed to become political organizations (hence no regional structure linking various trade and professional organizations) and that they would have to form a "partnership" with the party as the country's leading force.

The bill limited strictly the function of the new unions to looking after the "welfare of the workers," ruled out strike pay, and placed severe limits on the right to strike (making it possible only after a lengthy and complex arbitration process). Moreover, it permitted the Sejm to suspend the right to strike (for economic motives only) for a "necessary period" in "exceptional circumstances justified by a critical state of the economy." Enterprises controlled by the ministries of defense, energy, interior, food production, and distribution, as well as the entire state administration, were barred from striking. Violators of the new law were liable to one year of imprisonment and/or the equivalent of a US\$500 fine.

Indicating the regime's concern over the new law's likely impact, the text of the bill was not released until after it had passed the Sejm. With some 100 deputies absent, 10 voted against and 9 abstained. By East European standards, the vote reflected substantial opposition. According to one deputy, even some members of the majority PUWP (communist party) faction resisted, although PUWP members were under direct orders from the Politburo--

for the first time in 10 years--to vote for the new trade union law. Two independent deputies, speaking from the floor, denounced the bill in unusually sharp language, pointing out that it was sprung on the country without genuine debate and that it would not contribute to social peace. Indeed, the deputies received a copy of the bill only three days in advance, with strict orders to keep it confidential.

Public reaction was a mixture of anger, disbelief, and resignation. The possibility that the regime would move on the long-delayed trade union legislation--one of the unfulfilled regime promises dating from the 1980-81 Solidarity period--still existed after the imposition of martial law. As recently as the July 21, 1982, special parliamentary session, Deputy Premier Rakowski indicated that the regime was weighing the relative merits of three options: postponing the decision indefinitely, reviving Solidarity in a much tamer form than it had prior to last December, or outlawing all "suspended" trade unions--the so-called zero option. Although the actual reasons for the speed with which the regime rushed into the "zero option" are not clear, pressure from the Soviets as well as Polish hardliners, together with the impact of the August 31 protests, must have influenced Jaruzelski's thinking. He also may have calculated that the expected underground protests would not present major difficulty.

(C) ... But the Contest Is Not Over

Although it is too early to tell whether the regime's gamble will succeed, the outlawing of Solidarity set in train repercussions both at home and abroad that may, in time, significantly undermine Jaruzelski's position. Among them:

- President Reagan suspended, effective October 27, Poland's most-favored-nation (MFN) status;
- the Polish Catholic Church, including Primate Glemp, adopted a much more critical line against the regime;
- spontaneous strikes and disturbances occurred on the Baltic coast and in a number of factories in the south; and
- underground leaders, divided over tactics and strategy as long as Solidarity was only "suspended," were pushed toward a more radical posture.

Thousands of shipyard workers in Gdansk, birthplace of Solidarity, struck on October 11 and 12 in the hope that workers in other factories would emulate them. Scattered job actions took place in factories along the coast. But the majority of the workers elsewhere were thrown into confusion by the underground

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leaders' appeal, disseminated on October 10, for a nationwide four-hour strike on November 10, the second anniversary of Solidarity's legal registration. The underground leaders comprising the so-called Temporary Coordinating Committee (TKK) appeared disorganized; the arrest on October 3 of one of their members, Wroclaw regional leader Frasnyniuk, may have prevented them from meeting to take charge of the fledgling strike movement in Gdansk. In any event, the regime effectively broke the Gdansk strike by militarizing the yards on October 13.

The security forces used tear gas, water cannon, and flare bombs to disperse the thousands of demonstrators in Gdansk, Szczecin, Wroclaw, Sopot, and Gdynia. But the most serious clashes occurred in the steel city of Nowa Huta (near Krakow), where protestors, including many steel workers, battled riot police for much of the week beginning October 11. One worker died, shot by an underground policeman. All of the protests were met with determined police resistance and revealed that the TKK was unable to exploit what might have been a rare opportunity to compel the regime to take the underground more seriously. Above all, the TKK seemed out of touch with rank-and-file sentiment.

Smarting from misreading the workers' mood, the TKK during the weekend of October 23-24 issued a series of statements calling for:

- an eight-hour (instead of the four-hour) strike nationwide on November 10 and demonstrations on November 11, Poland's pre-World War II independence day;
- workers' protests between December 13 and 17 in memory of workers killed since 1956; and
- establishment of clandestine strike committees throughout the country in preparation for a general strike next spring.

In leaflets disseminated in many parts of the country, the TKK accused the Jaruzelski regime of leading the country toward "catastrophe" by refusing all dialogue. It rejected the dissolution of Solidarity as illegal, arguing that only members of Solidarity and their elected leaders could dissolve the union. The TKK appeals constituted the most extensive elaboration of Solidarity's goals since the imposition of martial law and a timetable of actions designed to achieve those goals. It also marked the first time that the fugitive leaders have called for a general strike. TKK leaders always considered a general strike as the "supreme weapon" to be used only as a last resort because of the far-reaching consequences it could have for both the union and the country regardless of its failure or success.

The announcement of underground plans for a new offensive came just days after a government spokesman boasted to Western reporters that the opposition groups were no longer able to muster significant worker support. Although the TKK's ability to carry out its plans remained to be tested, the regime took no chances and prepared for any eventuality. The authorities evidently had been caught by surprise by the intensity of the spontaneous strikes in mid-October and realized that they would have faced a dangerous situation had the strikes spread to other factories.

Jaruzelski's determination to crush any disturbance was stiffened by criticism from party hardliners at the October 27-28 party plenum. Central to the tenor of the plenum was a highly critical, open letter allegedly written by a former Politburo member (and a favorite of the party's dogmatic faction), Tadeusz Grabski. The letter advocated using the strongest possible force to crush the underground, purging the party of its fellow-travelers of all shades "alien to Marxism-Leninism," and combating the Catholic Church in its alleged attempt to replace Solidarity as an active opposition force. Grabski, who was instrumental in ousting former party chiefs Gierek and Kania, implicitly accused Jaruzelski of having misused martial law to delay the party's resumption of its traditional "leading role" in national affairs (e.g., for failing to consult the Central Committee before the Sejm passed the new trade union law on October 8). Grabski also criticized the leadership for pushing ahead with economic reforms, which in many respects were those advocated by Solidarity and which allegedly harmed the working class.

Grabski's attack was echoed by a number of Central Committee members, including Polish Ambassador to Moscow Kociolek, whom Jaruzelski had recently removed as Warsaw party chief. Although Jaruzelski weathered the attack, his leadership position seemed less secure than earlier and could have become more vulnerable if the planned underground protests had proved more difficult to contain than in the past.

Although there was no evidence to indicate that Moscow was behind Grabski's attack, it undoubtedly reflected Moscow's long-held reservations about many of Jaruzelski's policies, particularly his half-hearted effort to revive the party.

(C) Warsaw Pact Foreign Ministers and Military Council Meet

The Pact's Foreign Ministers Committee met for a two-day (October 21-22) session in Moscow, while its Military Council, consisting of deputy defense ministers, convened in Warsaw (October 20-22) under the chairmanship of Pact Commander in Chief Kulikov. Both were routinely scheduled events.

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The foreign ministers' communique contained no surprises: it reiterated previous Pact positions on CSCE and nuclear arms reduction and reaffirmed Pact support for a "socialist" Poland. On CSCE, the ministers called for: "positive results" at the conference, which resumes in Madrid in November; a "balanced" document on both security and human rights issues; and an agreement on a mandate for a Conference on Confidence-Building Measures and Disarmament in Europe. They also endorsed Bucharest as the site for a CSCE follow-up conference. The communique featured Brezhnev's proposals on no first use of nuclear weapons and on intermediate-range nuclear forces (INF), and his recent call for a parallel declaration by NATO and the Warsaw Pact renouncing out-of-area activities.

The communique announced that the next meeting of the ministers would be held in Prague, but gave no date. Nor did it refer to the upcoming Pact summit, to be held in Prague.

Last year's foreign ministers session in Bucharest contained controversy over Romanian President Ceausescu's INF proposal calling for a "halt in the emplacement of new nuclear weapons and the destruction of existing missiles in Europe." This year's meeting apparently went smoothly. There were no indications that Foreign Minister Andrei raised either that item or Romania's other proposals to broaden INF negotiations by the participation of other European countries and to prohibit major military exercises for five years near the borders of CSCE states. Ceausescu nevertheless repeated his proposal before an international colloquium on CSCE on October 13; he added that such "missiles, no matter where they start from--either from the West or from the East--do not choose their victims by political...conceptions." (He also repeated his controversial proposals during his meeting in Bucharest with Greek Premier Papandreou, October 28-29.)

The communique on the Military Council session was terse as usual, noting only that it discussed the "current activities of the joint armed forces...in the spirit of...firm unity of the fraternal armies." Initial Polish News Agency (PAP) reports on the meeting were unusually cryptic and later were withdrawn. (The reports had confused the foreign ministers meeting in Moscow with a Defense Ministers Committee meeting to be held later.)

The emphasis on "firm unity of the fraternal armies" was a departure from past formulations and suggested that the discussions included the implications for Pact cohesion of the Polish situation. This much seemed borne out by a PAP news release on Kulikov's briefing of Jaruzelski on the session. The Polish leader, in turn, stressed that the Pact was a "decisive factor for stability and security in Europe and in the world...and that Poland and its armed forces are an important link in that coalition."

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(C) CEMA Summit Preparations

Plans for a summit meeting of the Council for Mutual Economic Assistance (CEMA) got under way. Moscow sought to preempt several of its economic partners by publicly staking out its own position on key issues. Pravda on October 15, while claiming credit for the summit idea (which actually was proposed by Romania in 1980 prior to Brezhnev's espousal of it at the CPSU congress in 1981), stressed the need for closer economic integration and for progress in self-sufficiency to counter Western economic leverage in the form of sanctions. It reaffirmed, however, that CEMA countries should not close themselves off from mutually advantageous economic relations with the West. The Hungarians have privately interpreted this latter statement as reassuring. Others, like the Romanians, have predicted that the summit will be difficult and noted that Pravda ignored other issues, e.g., the inequity in charging Romania higher prices for energy and denying exporters increases in agricultural prices.

The Pravda article made no reference to the long-dormant (since March 1981) negotiations between CEMA and the European Community (EC). On October 13, however, the European Parliament at Strasbourg had adopted a resolution on relations between EC and CEMA countries, stating that CEMA recognition of the Community was essential for further development of trade. The resolution welcomed steps by Hungary and Romania in this direction, but charged the EC Commission with the drafting of proposals to serve as the basis for future trade relations.

(S/NF) Romania: Contacts With US Increase; Domestic Turmoil Continues

In a flurry of high-level US-Romanian contacts, Bucharest sought to gauge US intentions toward Eastern Europe while Washington explained the implications for Romania of the US policy of differentiation toward the region.

- Foreign Minister Andrei met at the UN with US Secretary of State Shultz (October 5). The Romanian media described their first meeting as taking place in an atmosphere of "sincerity and understanding." Andrei subsequently met with National Security Adviser Clark in Washington.
- Assistant Secretary of State Abrams visited Bucharest (October 5-7) for talks aimed at alleviating some of the Romanian emigration practices that have threatened to undermine US renewal of Romania's MFN status.
- Deputy Defense Secretary Carlucci, the highest level Pentagon official to visit Romania, held discussions with the defense

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and foreign ministers (October 11-12). An expected meeting with Ceausescu was canceled at the last minute by the Romanians.

Other bilaterals included US Assistant Secretary of Commerce Waldmann's chairing of the US delegation to the US-Romanian Joint Economic Commission session in Bucharest, and meetings of Ceausescu's son (and emerging political protege) Nicu with US officials in Washington.

Although the Romanians are clearly interested in boosting relations with the US, their human rights practices have continued to spark controversy. Shortly after Bucharest manifested a somewhat forthcoming attitude on emigration practices during the discussions with Abrams, the Council of State decreed (according to a Scinteia October 23 announcement) that prospective emigres must repay the state for some of their educational costs--a development against which the US had made repeated warnings to Bucharest. The Romanians, in turn, expressed private displeasure with the fact and nature of Abrams' subsequent interview with Radio Free Europe.

These mixed signals occurred against a backdrop of continued Romanian political turmoil and economic crisis. A Romanian Communist Party Central Committee plenum (October 8) announced more personnel changes--highlighted by the appointment of former Prime Minister Verdet to the party's secretariat, and the expulsion of former Foreign Trade Minister Burtica from the Central Committee. Earlier, Ceausescu had sacked a number of officials, blaming them for food supply inadequacies noted during his tour of Bucharest markets. And the Central Committee plenum announced that a national party conference--held between regular party congresses--has been set for December 16-18. The prospect of another major forum for Ceausescu's idiosyncracies will no doubt heighten the uncertainty and edginess that currently pervade Romania.

(C) Yugoslavia: Emergency Economic-Financial Measures Enacted

Forced to cope with huge foreign debts (some \$20 billion), energy and consumer goods shortages, high unemployment and inflation, etc., the Yugoslav Government in October initiated a series of austerity measures designed in part to avoid rescheduling its foreign debts as Romania and Poland were forced to do.

On October 14-15, the Federal Executive Council (cabinet) adopted restrictions on private and public/official consumption of gasoline, diesel fuel, heating fuel, and electricity; sharply limited foreign-currency expenditures for imports and travel abroad; and imposed restrictions on withdrawals from certain private foreign-currency accounts. On October 21, the Council devalued the dinar 20 percent against the US dollar and other hard

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currencies--a move clearly intended to increase Yugoslav exports to the West and to encourage tourism from hard-currency areas.

According to the deputy premier who introduced the measures in the parliament, the government's goal was to "...overcome current economic difficulties by the end of the year and create conditions for a more complete economic stabilization over the next year." Regime leaders--aware of increasing public criticism of their inability to manage the country's economic problems and of the grumbling and dissatisfaction among those struck hardest by the latest emergency measures--maintain that these measures reflected sound fiscal policy and were necessary at this time, whatever their potential negative effects. Moreover, these leaders warned the population that Yugoslavia would continue to face economic difficulties for some time and that, in effect, things would get worse before they got better.

Developments in Brief

--(C) Inner-German atmospherics took a buffeting when East Germany denounced FRG Chancellor Kohl's October 13 policy statement to the Bundestag. The GDR authorities took umbrage at Kohl's references to "all Germans" and to "all of Germany, on this side of the wall and beyond." They also objected to his speaking of the "unsolved German problem." (At the same time, the Chancellor clearly had linked progress in inner-German trade to a "retraction of the increase" in the East German minimum currency exchange requirement for Western visitors, a point the GDR media touched only by indirection.)

East German leader Honecker was quick to retort that the German empire was dead and Bonn was ignoring the reality of the two German states that emerged after World War II. A Neues Deutschland editorial (October 14) said Kohl's speech raised the specter of Bonn deviating from official inner-German agreements in a wave of anti-communist nationalism. It also took Kohl to task for charting a "more Atlantic than European course" in placing relations with the US and NATO at the center of FRG national interests. The sweep of the East German counterattack suggests that the GDR hierarchy was concerned that dealing with the new conservative government in Bonn would be difficult.

--(C) Evangelist Billy Graham carried his religious crusade to East Germany (October 15-25) and Czechoslovakia (October 29-November 3). He was well received in East Germany, but not with the enthusiasm that marked his earlier visit to Hungary nor with the controversy that surrounded statements he made in a recent visit to the USSR. He avoided politically sensitive issues, such as the role of churches in East Germany's

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unofficial peace movement. Some Lutheran clergy were critical of the extent to which Graham's organization cooperated with the state in setting up and conducting his itinerary. But the general feeling was that his presence contributed to the modus vivendi between East German believers and communists. In Czechoslovakia, Graham conducted services in Prague, Bratislava, and Brno. During his October 31 sermon, which stressed the theme of peace, Prague's largest Baptist church--with a capacity of about 1,200--was full, with scores of persons standing outside to hear him through open windows.

--(U) Hungary's Cardinal Lekai assessed church-state relations as "good" but acknowledged that continuing "difficulties must be solved jointly with endurance and patience." The Cardinal's remarks, in a television interview on October 17, were in the context of a report on his recent visit with Pope John Paul II. Lekai said that the Pope had commented on the "pleasing phenomena" in Hungary. The Pope reportedly was also satisfied with the "good" Hungarian priests who have "the fate of the believers at heart." This was an apparent expression of support for Lekai, who has had a running controversy with "fundamentalist" priests critical of his "collaboration" with the Hungarian regime. Lekai noted that since party chief Kadar's visit with Pope Paul VI in 1977, a Catholic theological school has opened in Budapest, as have homes for the aged, blind, and mentally retarded. Scheduled for opening next May is a Jesuit-operated facility for meditation and teaching by 1,500 men and women. (The Jesuits were proscribed some 30 years ago.)

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Chronology

October

- 4 (U) US Secretary of State Shultz and Yugoslav Foreign Secretary Mojsov met at the UN to exchange views on bilateral relations and topical international issues.
- 4-7 (U) Afghanistan's President Karmal visited Budapest, conferred with party chief Kadar and other officials, and concluded a Treaty of Friendship and Cooperation.
- 5 (U) Romanian Foreign Minister Andrei met with Secretary Shultz at the UN and subsequently traveled to Washington for talks with National Security Adviser Clark.
- 5-7 (U) US Assistant Secretary of State Abrams visited Romania for discussion of Romanian emigration policies.
- 6 (U) Polish Primate Cardinal Glemp canceled his visits to Rome and the United States in anticipation of new protests by the underground against the pending dissolution of Solidarity.
- 6-9 (U) A high-level Soviet military delegation led by Defense Minister Ustinov visited Czechoslovakia and conferred with President Husak, Defense Minister Dzur, and others. The terse communique gave no details on their discussions.
- 7 (U) Following his attendance at the UN General Assembly, Polish Foreign Minister Olszowski made a quick trip to Colombia and Venezuela.
- 8 (U) The Polish Sejm (Parliament) enacted new trade union legislation which effectively disbanded all trade unions, including Solidarity. Two deputies spoke against the bill, and the vote included 10 nays and 9 abstentions. At the same time, the regime announced the impending release of 308 internees, but not Walesa or other Solidarity leaders.
- 8 (U) A Romanian Communist Party Central Committee plenum announced more personnel changes--including the appointment of former Prime Minister Verdet to the party's secretariat and the expulsion of former Foreign Trade Minister Burtica from the Central Committee.

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- 8 (U) Hungary's Interior Minister Horvath characterized the country's political situation as "stable." He claimed that there were no political prisoners, but that "adequate watchfulness, requisite patience, and necessary decisiveness" continued as policy guidelines regarding dissidents.
- 9 (U) President Reagan announced his intention to suspend Poland's most-favored-nation (MFN) status.
- 10 (U) The canonization of Polish Nazi victim Maksymilian Kolbe took place in Rome; thousands of Poles, but not Primate Glemp, attended. Pope John Paul II used the occasion to decry the banning of Solidarity. Glemp, in a sermon in Poland, appealed for moderation, but came out clearly in favor of Solidarity and against the regime's most recent actions.
- 10 (U) Underground Solidarity leaders issued an appeal for four-hour nationwide strikes on November 10, the second anniversary of Solidarity's legalization.
- 11-12 (U) US Deputy Secretary of Defense Carlucci visited Romania, where he held discussions with the Romanian defense and foreign ministers.
- 11-13 (C) Spontaneous demonstrations to protest the abolition of Solidarity broke out in Gdansk, Gdynia, Sopot, Szczecin, Nowa Huta, and Wroclaw. Riot police used water cannon, flares, and tear gas in running pitched battles to break up the crowds. Telex and telephone lines with some of these areas were cut to isolate the disturbances. Spearheaded by the Lenin shipyard workers in Gdansk, uncoordinated strikes also erupted in a few factories along the Baltic coast. The regime militarized the yards on the 12th, which effectively broke the fledgling Baltic strike movement before it had a chance to spread.
- 11-18 (U) East German leader Honecker visited Syria (11-13), Cyprus (14-16), and Kuwait (16-18).
- 12-14 (U) Romanian leader Ceausescu met with his counterpart Zhivkov in Bulgaria. The joint communique stressed the "historic necessity" of Romanian-Bulgarian cooperation and urged further development of trade relations.

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- 14 (U) Hungary's Council of Ministers convened and, inter alia, approved measures giving shop managers (small-scale enterprises) and restaurants additional decisionmaking authority in order to improve profitability and efficiency.

- 14 (U) East Germany's party daily, Neues Deutschland, sharply criticized FRG Chancellor Kohl's first government statement to the Bundestag as a return to cold-war rhetoric and reopening of controversy over the "German question."

- 14-15 (U) Yugoslav's Federal Executive Council (cabinet) adopted various measures intended to save energy and to improve its foreign-exchange balance. The measures include restrictions on consumption of oil and electricity and on foreign travel.

- 18 (U) Hungarian Catholic Church sources announced that the Jesuits would open a house for "meditation and teaching," the first such facility in the country in more than 30 years.

- 18 (U) Six ethnic Albanian professors at Pristina University in the Yugoslav autonomous province of Kosovo were fired from their positions and expelled from the faculty, together with 19 students, for "organized hostile activity."

- 18-19 (U) US Assistant Secretary of Commerce Waldmann led a delegation to Romania for the Joint Economic Commission discussions.

- 18-20 (U) East German Premier Stoph paid a "friendly working visit" to Bulgaria and met with his counterpart Filipov and party leader Zhivkov. Bilateral trade and economic matters dominated the discussions, with standard praise for the USSR and condemnation of the US also figuring in the joint communique.

- 20 (U) The funeral in Nowa Huta for the young worker killed the previous week by an undercover policeman drew an estimated 20,000 mourners and took on the air of a passive pro-Solidarity demonstration. Massive riot police virtually occupied the city to forestall trouble.

- 20 (U) Gasoline and diesel fuel rationing (via coupons) began in Yugoslavia. Private motor vehicles were

October

limited to 40 liters per month; other limits were placed on taxis, tractors, and other vehicles. Diplomatic missions and foreign correspondents were exempted from restrictions.

- 20 (C) Czechoslovak security authorities searched and detained for some three hours the US Defense Attaché assigned to Prague and an Italian diplomatic colleague. The US protested the incident, which took place near Kosice in eastern Slovakia; Czechoslovak authorities rejected the protest and charged the attaché with "espionage."
- 20-22 (U) Warsaw Pact Commander in Chief Kulikov chaired in Warsaw a regular semiannual session of the Military Council which reviewed current activities of the joint armed forces.
- 21-22 (U) Warsaw Pact foreign ministers met in Moscow and reaffirmed previous Pact positions on the Conference on Security and Cooperation in Europe (CSCE), European security issues, and support for "socialist" Poland.
- 22 (U) The Yugoslav Government devalued the dinar by 20 percent vis-a-vis hard currencies.
- 23 (U) Romania's party daily Scinteia announced a Council of State decree requiring prospective emigrants to repay the state for some of the cost of their education.
- 23 (U) The 26th anniversary of the start of the Hungarian revolt passed without incident.
- 24 (U) During a TV program, Austrian Foreign Minister Pahr said that the latest travel restrictions imposed by the Yugoslav Government contradicted the Helsinki Final Act. He declared that Austria would "take appropriate steps to protest the travel obstructions."
- 25 (U) Romanian leader Ceausescu and his wife arrived in Yugoslavia on an "official and friendly" visit.
- 25 (U) The Western press reported that the Charter 77 human rights group had demanded the release of all political prisoners in Czechoslovakia in view of the resumption of the Madrid CSCE follow-up conference in

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October

November. The group also appealed to the Czechoslovak Government to stop the trials, police harassment, and discrimination against human rights activists.

- 25 (U) US Evangelist Billy Graham ended a 10-day visit to East Germany where he had avoided the political controversies that marked his earlier visit to the USSR.
- 25-31 (LOU) Primate Glemp traveled to Rome to consult with the Pope over Poland's tense domestic situation, deterioration of church-state relations, and prospects for a papal visit in 1983. Subsequently, Glemp accompanied the Pope for part of his 10-day trip to Spain before Glemp's scheduled return to Warsaw on November 4.
- 26 (U) The Polish Sejm adopted a law on "social parasitism" ostensibly designed to combat "work dodgers," alcoholics, and juvenile delinquents. The Episcopate and other regime critics objected that the law could be used against Solidarity activists.
- 26 (U) Hungarian Defense Minister Czinege concluded a seven-day (19-26) visit to Angola with the signing of a general military cooperation agreement. Details of the agreement were not published, but Czinege stated that the talks had included discussions on the "training of cadres."
- 27 (U) President Reagan signed a proclamation suspending Poland's MFN status.
- 27 (U) The US Defense Attaché in Prague was again detained by Czechoslovak authorities, this time for more than five hours in Vanovice (Bohemia). In its protest note, the US Embassy insisted that "no further incidents of this kind" occur.
- 27-28 (U) The 10th plenum of the Polish party's Central Committee was devoted primarily to economic problems. A number of hardliners echoed the criticism of Jaruzelski's policies which was contained in an open letter from Tadeusz Grabski.
- 27-30 (U) Yasir Arafat, chairman of the Palestine Liberation Organization, visited Yugoslavia (27-28) and Romania (29-30).

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October

- 28 (U) Czechoslovak leader Husak arrived in East Berlin for a "friendly working meeting" with his East German counterpart Honecker.
- 28 (U) Hungarian State Secretary for Foreign Affairs Nagy visited the US and conferred on US-Hungarian relations with Under Secretary of State Eagleburger and other administration officials.
- 28-29 (C) Vehicles belonging to three US Embassy members were vandalized in Prague. The Embassy delivered a diplomatic note expressing concern over the incidents and requested Czechoslovak assistance in increasing security at US installations.
- 29 (U) Billy Graham arrived in Czechoslovakia, where he is scheduled to conduct services in Prague, Bratislava, and Brno.

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153620	REPORT RE. YUGOSLAVIA	18	11/22/1982	B1

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153622	MEMO	2	11/18/1982	B1

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Senior Interagency Group No. 29

TO : OVP - Mr. Donald P. Gregg
NSC - Mr. Michael O. Wheeler
Agriculture - Mr. Raymond Lett
CIA - Mr. Thomas B. Cormack
Commerce - Mrs. Helen Robbins
Defense - COL John Stanford
EXIM Bank - Mr. William H. Draper, III
Federal Reserve - Mr. Charles Siegman
OMB - Mr. Alton Keel
Treasury - Mr. David Pickford
USTR - Mr. Dennis Whitfield

SUBJECT: SIG Meeting Summary of Conclusions

Attached is the Summary of Conclusions for the SIG Meeting on Yugoslavia held on November 23, 1982.


L. Paul Bremer, III
Executive Secretary

Attachments:

1. Summary of Conclusions
2. List of Participants

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United States Department of State

Washington, D.C. 20520

November 26, 1982

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Senior Interagency Group No. 29

PARTICIPANTS: See List Attached

DATE AND TIME: November 23, 1982, 3:00 p.m.

PLACE: Deputy Secretary's Conference Room 7219, State Department

SUBJECT: SIG Meeting on Yugoslavia, November 23

SUMMARY OF CONCLUSIONS

The SIG convened to discuss the draft IG memorandum and NSDD on Yugoslavia. Three points emerged from the discussion.

On the issue of technology transfer, a difference of view exists between State and Defense on the likelihood of compromise of high technology sold to Yugoslavia. Chairman Eagleburger asked the two agencies to produce alternate language for decision in an NSC meeting.

On the issue of short term credit measures versus long term bilateral policy toward Yugoslavia, it was Treasury's view that the immediate credit crisis faced by Yugoslavia should be dealt with in the SIG-IEP in parallel with similar credit issues involving other countries. Treasury therefore objected to the appearance in the NSDD of detailed financial prescriptions for the Yugoslav problem. State and NSC took the view that an overall study and NSDD had been mandated in NSDD 54 and were due the White House. Yugoslavia's condition increased the urgency of this task. After an animated discussion, it was decided to remove the details of the short-term financial prescriptions from the draft NSDD and redirect this issue to the SIG-IEP for consideration in a meeting to be held Monday, November 29. The draft NSDD would be revised to focus on the larger policy questions, including the need for a major financial effort to help Yugoslavia, and would be circulated to the SIG membership for approval as soon as possible.

On the issue of CCC credits for Yugoslavia, Agriculture took the position that the CCC program was being improperly used in the NSDD as the centerpiece of a financial relief program. The CCC

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mandate allowed it to lend to expand markets or reduce risk, but not for general foreign policy aims. In rebuttal, the NSC noted that CCC credits had been approved in 1981 for another East European country on political grounds and that the President had the option of so deciding. The SIG had a duty to set forth the options available to the President. State and Agriculture agreed to develop language to address this issue.

Chairman Eagleburger closed the meeting with the hope that the credit-related work in the present texts would be useful in the SIG-IEP meeting November 29. He also stressed the urgency of getting on with a U.S. financial package and consultations with key allies.

ACTION ASSIGNMENTS

1. State and Defense are to insert alternative language on the subject of technology transfer.
2. State will remove the details of the short term credit package from the NSDD and study package and rework the package along larger policy lines.
3. State and Agriculture will develop language on the role of CCC in U.S.-Yugoslavia relations.
4. Treasury and State will move ahead on the financial package as a matter of urgency, including early consultations with key allies.

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