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# WITHDRAWAL SHEET

## Ronald Reagan Library

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**Withdrawer**

DLB 3/23/2010

**File Folder** CO054-02 (GERMANY, WEST) (205990) (1)

**FOIA**

S10-306

**Box Number** 77

SYSTEMATIC

425

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
88347	MEMO	JAMES NANCE TO THE PRESIDENT, RE: YOUR TALKS WITH FRG CHANCELLOR SCHMIDT	3	ND	B1
88348	BRIEFING PAPER	INTERMEDIATE NUCLEAR FORCES  <b>R 11/17/2022 DEPT. OF STATE WAIVER</b>	1	12/24/1981	B1
88349	BRIEFING PAPER	EAST-WEST STRATEGIC ISSUES	2	12/24/1981	B1
88350	BREIFING PAPER	EAST/WEST ECONOMIC ISSUES  <b>R 11/17/2022 DEPT. OF STATE WAIVER</b>	1	12/29/1981	B1
88351	BRIEFING PAPER	BILATERAL POLITICAL-MILITARY ISSUES  <b>R 11/17/2022 DEPT. OF STATE WAIVER</b>	1	12/24/1981	B1
88352	BRIEFING PAPER	GOLAN HEIGHTS	1	12/30/1981	B1
88353	BRIEFING PAPER	SOUTHERN AFRICA	1	12/29/1981	B1

**The above documents were not referred for declassification review at time of processing**

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88355	BRIEFING PAPER	POLAND	1	12/29/1981	B1
		<b>R 11/17/2022 DEPT. OF STATE WAIVER</b>			
88356	BRIEFING PAPER	GERMAN ECONOMIC SITUATION	1	12/15/1981	B1
		<b>R 11/17/2022 DEPT. OF STATE WAIVER</b>			
88357	BRIEFING PAPER	INTERNAL WEST GERMAN POLITICAL SITUATION	1	12/23/1981	B1
		<b>R 11/17/2022 DEPT. OF STATE WAIVER</b>			
88358	BRIEFING PAPER	INNER-GERMAN RELATIONS	1	12/23/1981	B1
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2/21

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DEPARTMENT OF STATE



BRIEFING BOOK

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Visit of Chancellor  
and Mrs. Schmidt

January 4-6, 1982

~~SECRET~~

RDS-1,3 (12/31/01)

2/24/10

Visit of Chancellor  
and Mrs. Schmidt

January 4-6, 1982

~~SECRET~~

RDS-1,3 (12/31/01)

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## ISSUES PAPERS

1. Intermediate Nuclear Forces
2. East-West Strategic Issues
3. East-West Economic Issues
4. Bilateral Political-Military Issues
5. Golan Heights
6. Southern Africa
7. Central American Overview
8. Poland
9. German Economic Situation
10. Internal West German Political Situation
11. Inner German Relations



88318

DEPARTMENT OF STATE  
BRIEFING PAPER~~CONFIDENTIAL~~ 4INTERMEDIATE NUCLEAR FORCES

Chancellor Schmidt remains committed to the NATO dual track decision and supports our INF negotiations. Although the situation has improved since your November 18 speech, Schmidt is still having trouble keeping his party in line on INF. We must ensure continuation of this commitment and, through intensive consultations, make clear to him the serious consequences of public statements which suggest we are prepared either to compromise on the proposal to eliminate all INF missiles or to delay INF deployment past 1983. Unwarranted speculation of this kind could undermine our ability to get the concessions we all desire from the Soviets. We also want to discourage statements that the FRG has a special role as "intermediary".

Given its pivotal importance in both East-West and U.S.-Western European relations, INF inevitably will be a major subject of discussion in your meeting, although we recently conducted intensive consultations with our allies on this subject. The Chancellor will be interested in your assessment of the first month of the INF negotiations and the outlook for the future. He will also wish to describe to you his conversations with Brezhnev on this subject.

The discussions in Geneva are still in an early stage, concentrating on statements of the U.S. and Soviet positions based, respectively, on your November 18 speech and on Brezhnev's moratorium offer. The Soviets have also put forward a proposal for reductions to 600 systems (including aircraft) by 1985 and to 300 by 1990.

It would be useful for you to stress to Schmidt the absolute necessity of convincing the Soviets that we will proceed on schedule with the Alliance INF modernization program and of making clear to the FRG public our negotiating objectives. You should bear in mind, but not raise directly, Schmidt's recent statements to NATO SYG Luns and others that two other non-nuclear countries in Europe must accept INF deployments if INF are to be deployed in the FRG. He told us these statements were designed to maintain pressure on the Dutch and Belgians.

You might also note our intent to continue the process of allied consultations through periodic discussions and briefings on the state of play in Geneva. Schmidt and the other allied leaders should inform their people that the U.S. is serious, but that equitable and verifiable results cannot be arrived at quickly on such an important and complicated matter. For our part, we recognize the need for a positive and sustained public relations effort, and will do our best to support our allies.

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December 24, 1981

GDS 12/24/87

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88350

7

EAST/WEST ECONOMIC ISSUES

Even before the imposition of martial law in Poland, the U.S. actively sought to toughen the Western economic stance vis-a-vis the Soviet Union. The key limitation on U.S. policy in this area has been the desire among our European allies, particularly the FRG, to maintain an approximation of the status quo in East/West trade and political relations.

At NATO, the FRG agreed, in the event of Soviet military intervention, to including in the menu of sanctions a prohibition of all new export contracts. However, under present circumstances, the FRG has cautioned against a strong Western economic reaction. In addition to perceiving a stabilizing political effect from dialogue and trade, German leaders have cited the economic benefits available from Eastern trade.

The US stressed in consultations in Europe this fall our concern with the increased Allied dependence on Soviet energy resources which would result from the planned Siberian-West European natural gas pipeline. Despite reservations raised by the U.S., the pipeline commitment by Germany and others held firm. To date, only the German firm Ruhrgas has signed a gas supply contact with the Soviets. Other countries, particularly Italy, might reconsider the project in light of the Polish situation. In addition to the U.S. pipeline-related measures announced, December 29, we will continue to push for European action on energy alternatives and a gas "safety net."

The Polish situation contributes to the importance of the high level COCOM meeting agreed to at the Ottawa economic summit, and to be held in Paris, January 19-20. Strengthening of the COCOM strategic embargo requires unanimous support of allies, including the FRG (although a COCOM "no exceptions" policy for Poland can be observed in the de facto manner already applied to the USSR.)

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December 29, 1981





DEPARTMENT OF STATE  
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88351

BILATERAL POLITICAL-MILITARY ISSUES

Defense spending is the major bilateral political-military issue between us. Although the FRG defense contribution is substantial, Schmidt has placed a higher priority on social and economic problems than on increasing defense programs. Schmidt believes Germany's defense contribution is adequate and equitable, and that major additional efforts must be subordinated to economic policy requirements.

Schmidt ought to be confronted with the negative effects of this policy on other NATO members and on the Alliance. It not only reduces German armed forces defense capabilities, but also reduces the ability of the Alliance to implement critical programs. It places an unfair burden on other NATO governments which are making extra efforts for Alliance defense and sets an unfortunate standard for other NATO members who also wish to reduce defense expenditures.

The points at issue are defense spending, per se, FRG support for U.S. troops in Germany, and NATO infrastructure funding. Under NATO-agreed goals, the Alliance strives to reach an annual three percent real increase in defense spending. The CY 1982 FRG budget will not increase defense spending by the three percent real growth target. We have just concluded an agreement for the FRG to train and equip 90,000 reserve troops which would provide logistical support for ten U.S. divisions in case of war. With this success as a precedent, we hope to begin discussions early next year on the "Master Restationing Plan," a very large program which might be implemented over a 20 year period to improve living conditions and positioning of U.S. troops through the construction of new facilities and housing.

The FRG has refused to go along with an increase in the funding for NATO infrastructure programs essential to ensuring NATO conventional capabilities. Two U.S. initiatives will be affected: (1) programs to enhance U.S. rapid reinforcement of NATO, and (2) programs to sustain U.S. forces if deployed. Infrastructure shortfalls also interfere with our efforts to deploy new weapons systems with capabilities the NATO alliance needs, such as attack helicopters. Secretary Weinberger noted this problem during the recent NATO ministerials and warned that the U.S. would have to review its reinforcement commitment if no solution is reached. There are signs that the Germans would like to resolve this problem, but they have invested much prestige in defending their lonely position in NATO.

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DEPARTMENT OF STATE  
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88354

11

CENTRAL AMERICAN OVERVIEW

In El Salvador, we strongly support the Duarte Government as the best hope for a moderate solution to that country's problems. Plans for the March 1982 election of a Constituent Assembly are proceeding despite the Left's call for a negotiated settlement which has complicated our search for a political solution through the elections. The war with the leftist guerrillas remains deadlocked. Attacks on the economic infrastructure are crippling the economy. We are pressing the FRG to replace its Ambassador in San Salvador.

In Guatemala, indiscriminate violence continues on both sides; guerrilla activity is increasing and the economy is deteriorating. Congressional concern over human rights has stalled our efforts to improve bilateral relations.

In Honduras after years of military rule, a newly elected civilian government will be installed in late January. We are pressing for greater cooperation with El Salvador to stop the transit of arms to insurgents.

Belize gained independence on September 21 without settlement of its territorial dispute with Guatemala. Military and economic vulnerabilities make it the object of Cuban attention, but Prime Minister Price has resisted closer ties.

In Nicaragua, the trend continues toward a Marxist totalitarian regime. The Sandinistas profess fear of possible direct US action but have not responded to our efforts to improve relations. We have stressed that cessation of the arms flow to El Salvador must precede any improvement in relations. With more than 6000 Cubans in Nicaragua, the region is alarmed by the size of the military buildup. Progress has been made recently in aligning FRG policy with our own.

Panama has political uncertainties created by the recent death of General Torrijos. Its economy, while relatively prosperous by present Central American standards, faces longer term difficulties.

Democratic Costa Rica is now bankrupt and experiencing externally supported terrorism. President Carazo's erratic behavior complicates the government's inability to cope with its deteriorating situation.

December 24, 1981

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88355

POLAND

Jaruzelski appears to have more or less eliminated active resistance to his imposition of martial law. He now faces the much more difficult task of overcoming passive resistance made more intense by repressed anger, fear, and skepticism about his intentions. His Christmas Eve speech, moderate in tone, was a bid for understanding. However, he gave no specific indications that he was willing to compromise or relax martial law restrictions in any but a token fashion.

The economic situation in Poland, which has been made worse by production losses under martial law, continues to deteriorate. Coal output is down, and while Poland's Warsaw Pact allies are providing some food assistance, it is doubtful that their contribution will either be enough to feed the whole country or to get Poland through the winter. In fact, the Polish government has introduced a further cut in food rations. Should the situation worsen significantly--which seems the prospect--serious unrest could result and under certain circumstances lead to Soviet intervention.

Walesa continues in government custody, and his health appears to be holding up, although we have no way of confirming this. There are indications that the Church is attempting to convince Walesa to begin negotiations with the government, but he reportedly continues to resist talks with the Polish officials unless his top Solidarity advisors are included.

The Church has adopted a very cautious approach. It is particularly mindful of the volatility of the current situation and the certainty of a Soviet invasion should a civil war occur. As a consequence, it has played down rhetoric in its public statements in favor of quiet efforts to defuse the situation, obtain the release of the detainees and get a dialogue between the government and Solidarity underway.

It is too early yet to know what will be the impact of the sanctions the United States has imposed on Poland. Jaruzelski made an indirect reference to them in his Christmas Eve speech and they have been roundly denounced in the Polish press as unwarranted interference in Poland's internal affairs. There is no doubt, however, that our suspension of consideration of Poland's request for \$740 million in agricultural assistance and our decision to close American waters to the Polish fishing fleet will hurt, particularly if our Allies follow suit or, at a minimum, do not undercut our sanctions.

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88354

13

GERMAN ECONOMIC SITUATION

German economic forecasters have dramatically reduced their previously optimistic estimates for 1982 for real GNP growth and unemployment, now forecast for from one to one-and one-half percent and 1.6 million (approximately 6%) respectively. Inflation appears to be declining and is predicted for next year to be about 4.5%. The current account deficit, which has caused monetary and fiscal problems for the FRG in the past two years, will continue to improve in 1982 provided the export-led recovery continues. These predictions indicate that the SPD/FDP coalition must make additional cuts in the federal budget and increase revenues in order to close the growing budget deficit.

Proposed cuts in the 1982 draft budget include a wide array of social programs. Taxes have been increased on some beverages and unemployment compensation insurance premiums paid by workers has been raised from three to four percent. In addition, profits from the Bundesbank will be turned over to federal government general revenues to help close the gap. Despite these cuts in revenue measures, disputes continue in Germany concerning the management of the budget deficit. They promise to remain contentious between the two governing parties and between the coalition and the opposition.

In two recent conversations with Ambassador Burns Chancellor Schmidt discussed his views about the current world economic scene and the poor prospects for the next 18 months. Schmidt has compared these times with the '30's and is profoundly worried. He considers economic issues a new arena of strategic competition which is equal in importance to the more familiar military and security questions and he openly worries about the fragile social fabric in Germany and Europe.

This mood is likely to become even more pessimistic as unemployment in the FRG grows. Despite the optimistic forecast for declining inflation and improvements on the current account balance, Schmidt's concern remains because, in his opinion, inflationary psychology has not yet been broken. He continues to criticise, although lately somewhat mildly, inflation fighting efforts in the United States which have resulted in high interest rates and reduced fixed capital investments and have contributed to growing unemployment in Europe.

Schmidt's concern is becoming a major preoccupation as the need for closely coordinated domestic economic and monetary policies between the United States and the Europeans becomes more urgent.

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INTERNAL WEST GERMAN POLITICAL SITUATION

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88357

14

Schmidt's Social Democratic Party (SPD) is under considerable and growing strain, a result of personal and policy divisions within the party and among the leadership (Schmidt vs. Brandt), a worsening economic situation, and tensions caused by the current debate over INF deployment in Europe. These strains have heightened tensions between the SPD and its coalition partner, the Free Democratic Party (FDP), which have been intensified by disagreements over the budget during the fall.

The survival of the SPD-FDP coalition depends upon the continuation of a pragmatic alliance between FDP leader (and Foreign Minister) Genscher and the more moderate wing of the SPD headed by Schmidt, against the SPD's left wing which is largely beyond Schmidt's control. Schmidt and Genscher together probably can handle this situation and maintain their coalition. After his serious illness and pacemaker implant in mid-October, Schmidt appears more energetic and assertive than before and talks as though he is committed to remaining in power until the regularly scheduled elections in October 1984.

For now, Helmut Kohl (whom you met in October) is the uncontested leader of the Christian Democratic Union (CDU) Party. He and the CDU have made a clear effort to project a progressive image, especially to youth. All recent polls show the CDU together with its Bavarian affiliate, the Christian Social Union (CSU), able to win a national election by a majority, thus obviating the need for the CDU/CSU to win over the FDP in a coalition, but the CDU seems willing to bide its time until 1984.

The recent peace demonstrations in Germany and Europe have highlighted the sensitivity and divisiveness of the nuclear arms issue. The peace movement is heterogeneous, made up of church groups, youth groups and average concerned citizens, egged on and supported but not controlled by communist groups. It is essential that we continue to address their concerns since the peace movement will continue to have a distinct impact on public opinion and political life in the FRG.

At the same time, we must bring the FRG to take a firmer line in dealing with Soviet and Soviet proxy military interventions, especially in light of the Polish crisis.

December 23, 1981

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DEPARTMENT OF STATE  
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88358

INNER-GERMAN RELATIONS

Events in Poland quickly clouded the hopes for early progress generated by the December 11-13 meeting of FRG Chancellor Schmidt and the GDR's Erich Honecker.

Though Schmidt's sixteen hours of discussion with Honecker produced no formal agreements, it did permit a thorough airing of both sides' concerns. Schmidt used the opportunity to stress his full support for the NATO position on intermediate range weapons and to counter the idea that a wedge could be driven between the U.S. and the FRG over "peace" issues.

Schmidt's participation in the meeting probably bolstered his position and demonstrated to potential critics within and outside his party that he remains committed to the German goal of lessening the hardships caused by the division of Germany. Schmidt doubtless had some hope that East Germany's desire for a continuation of the favorable economic and trade arrangements with the FRG would lead East Germany to reduce its steep increase last year in the amount of money Westerners must exchange for each day they visit the GDR. Though Honecker promised nothing, at the end of the meeting the West Germans believed that a reduction in the minimum exchange rate for pensioners and children might come about in a matter of time.

As an incentive, Schmidt extended for six months the West German "swing credit" of 850 million marks which subsidizes GDR trade with West Germany. At the same time, Schmidt established linkage between renegotiating a new swing credit agreement and favorable East German action on travel and humanitarian issues. Other economic issues of great interest to the GDR were raised, but the West Germans committed themselves only to follow-up talks next spring.

No matter how limited the hopes and expectations of better inner-German relations in a time of East-West tension, the prospects would seem even dimmer in the wake of the imposition of martial law in Poland. Though the troubled East German economy is increasingly dependent on economic and trade ties with West Germany, developments in Poland are likely to make it even more difficult for East Germany to pursue better relations with West Germany or to ease up significantly on travel and increased contacts with Westerners.

December 23, 1981

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DEPARTURE REMARKS

RECOMMENDED PRESS STATEMENT FOR PRESIDENT TO MAKE ON CONCLUSION  
OF JANUARY 5 MEETING WITH FRG CHANCELLOR HELMUT SCHMIDT

Chancellor Schmidt and I have just concluded another of our meetings at a critical moment in world affairs. The primary topic on our minds, of course, was Poland and the imposition of martial law in that unhappy land. We thoroughly discussed the extent of Soviet involvement in the repression being waged against the Polish people and the need for forceful Western measures to induce both the Polish and Soviet authorities to lift the martial law and permit resumption of a national dialogue leading to genuine reform.

In that connection, I reviewed with the Chancellor the series of steps I had announced in my Christmas message and on December 29. I emphasized my belief that a tangible response to the Polish crisis must be made now. Should we fail to insist that the Soviet Union stop pressuring Poland directly and indirectly, the gravest consequences for international relations could ensue.

Our conversations today covered a wide range of related political, security, and economic issues. For example, we discussed the importance of the negotiations on Intermediate Nuclear Forces in Geneva which began on November 30, and our hope that the Soviet Union will avoid sterile propaganda and respond constructively to our zero-level proposal for genuine reduction of nuclear arms.

Other international issues on our agenda included the prospects for Strategic Arms Reductions Talks - what we call START; the situation in Central America, in the Middle East, and in Southern Africa; and the status of the CSCE process, particularly in light of the Polish crisis.

We also reiterated the concern we both feel over the continued Soviet occupation of Afghanistan, and our support for initiatives by the European Parliament and the U.S. Congress to establish March 21 as Afghanistan Day. For its part, the U.S. is releasing today a book which eloquently documents the human face of the Afghan struggle against Soviet invasion forces.

Above all, we agreed on the importance of the U.S.-German partnership and the need for continued close consultations. We hope to broaden and deepen these contacts. We will also make clear to public opinion in both countries, especially the younger generation, the responsibility we all share of maintaining both our friendship and our commitment to the one instrument which has kept the peace for over 30 years, the North Atlantic Alliance.