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DEPARTMENT OF DEFENSE

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SECT 01 OF 84184

ACTION  
DISTR FILE SVC CJC8 DJ8 SJCS(03) J3(08) J4(08) J5(02) NMCC  
SECDEF(04) SECDEF: ASD:IL(04) ASD:ISA(10) ASD:COMP(01) ASD:ISA(01)  
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FM AMEMBASSY BONN  
TO RUEHC/SECSTATE WASHDC 8403  
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RUDTLN/AMEMBASSY DUBLIN 572  
RUFNPS/AMEMBASSY PARIS 6945  
RUFHRO/AMEMBASSY ROME 6071  
RUFHGG/AMEMBASSY LUXEMBOURG 2848  
RUESPNO/AMEMBASSY COPENHAGEN 2106  
RUEGPO/AMEMBASSY THE HAGUE 4697  
RUFHBS/AMEMBASSY BRUSSELS 6633  
RUESRH/AMEMBASSY WARSAW 1450  
RUFHBS/USMISSION EC BRUSSELS 618  
RUFHNA/USMISSION NATO BRUSSELS 1412  
RUFNPS/USMISSION OECD PARIS 250  
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Office of the Secretary of Defense 505-13552  
Chief, RDD, ESD, WHS  
Date: 10 Sep 2018 Authority: EO 13526  
Declassify: ☒ Deny in Full: \_\_\_\_\_  
Declassify in Part: \_\_\_\_\_  
Reason: \_\_\_\_\_  
MDR: 10 -M- 2052

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TAGS: PFUR, EFIN, ECON, EAGR, ETRD, EC, GW, XH, XF  
SUBJECT: SCHMIDT-STOESSSEL TOUR D'HORIZON

1. SUMMARY, FINANCE MINISTER SCHMIDT EXPRESSED  
ESPECIALLY OUTSPOKEN VIEWS IN DISCUSSION OCTOBER 20 WITH

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ASSISTANT SECRETARY STOESEL ON OFFSET, INTRA EC RELATIONS, THE MID-EAST CRISIS, EC ECONOMIC AND MONETARY UNION, INTERNATIONAL MONETARY REFORM, THE CAP, FRG EXPORT CREDITS TO THE EAST AND THE FRG DOMESTIC ECONOMIC OUTLOOK. SCHMIDT WAS HARSHLY OPPOSED TO THE USE OF FRG BUDGET FUNDS TO IMPROVE OFFSET OR BURDEN SHARING OFFERS - HE WOULD FIGHT AGAINST "ANY MORE CONCESSIONS" TO THE US. HE EVENTUALLY YIELDED SOME GROUND, BUT ONLY TO THE EXTENT OF OFFERING "MEDIUM TERM OR LONG TERM" BUNDESBANK LOANS AT "MODERATE" INTEREST RATES TO BRIDGE THE WIDE GAP BETWEEN CURRENT US REQUEST AND FRG OFFER. END SUMMARY.

2. IN A WIDE RANGING DISCUSSION OVER ONE AND ONE HALF HOURS, ASSISTANT SECRETARY STOESEL, ACCOMPANIED BY ECONOMIC MINISTER WOOTTON, COVERED THE FOLLOWING SUBJECTS WITH FINANCE MINISTER SCHMIDT:

(A) ATLANTIC DECLARATION. SCHMIDT EXPRESSED HOPE THAT EC AND NATO WERE AT LEAST MEETING SUBSTANTIAL PORTION OF US WISHES ON ATLANTIC DECLARATION. FOLLOWING STOESEL'S STATUS REPORT, SCHMIDT COMMENTED "IT'S SO HARD TO KNOW TO WHOM TO SPEAK", ADDING THAT THIS PROBLEM WAS DIFFICULT ALSO FOR GERMANY. FOR EXAMPLE, THERE WAS WHAT POMPIDOU SAID AND THERE WAS WHAT WAS IN THE BACK OF HIS MIND. WHATEVER POMPIDOU'S VIEWS, GISCARD'S WERE DIFFERENT. AND THEN THERE WAS ALSO THE COMMISSION, WHICH SCHMIDT DISMISSED AS DEVOID OF POLITICAL SOPHISTICATION, EXCEPTING SOAME S AND ORTOLI.

(B) OFFSET. US AND FRG POSITIONS ON OFFSET AND BURDEN SHARING WERE DEBATED AT SEVERAL POINTS IN THE DISCUSSION. SCHMIDT TOOK ESPECIALLY HARD LINE, STATING ON SEVERAL OCCASIONS THAT HE WOULD OPPOSE ANY ADDITIONAL BUDGETARY CONCESSIONS TO THE US. HE INSISTED THAT PRESENCE OF US TROOPS IN EUROPE WAS AS IMPORTANT TO US SECURITY AS TO EUROPE'S AND IF US DIDN'T THINK SO, US SHOULD WITHDRAW THEM. HE ARGUED THAT IF US SENATE WISHED TO FORCE WITHDRAWAL IT WOULD DO SO, AND NOTHING FRG WOULD DO WOULD CHANGE SENATE ACTION. FOR HIM TO GIVE WAY, SCHMIDT CONTENDED, WOULD MEAN HIS POLITICAL DEMISE, AND HE WASN'T ABOUT TO COMMIT POLITICAL HARA-KIRI. NO GOVERNMENT WOULD REDISTRIBUTE BUDGET FUNDS



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AFTER THEY HAD BEEN ALLOCATED IN HARD CABINET INFIGHTING; TO SEAK TO DO SO WOULD CREATE MAJOR CABINET BATTLE WHICH COULD RUIN HIM POLITICALLY. FUTURE DEVELOPMENTS WERE STRICTLY TO BE THRASHED OUT BETWEEN AMBASSADOR HERMES AND UNDER SECRETARY CASEY; HE WOULD HAVE NOTHING MORE TO DO WITH OFFSET. SCHMIDT SAID HE REGRETTED HE HAD NOT SPOKEN OUT MORE OPENLY ON THE OFFSET QUESTION; HE WOULD WELCOME A PUBLIC DEBATE WITH US CONGRESSIONAL SPOKESMEN. HE HAD TALKED TO US SENATORS AND HE WAS SINGULARLY UNIMPRESSED. SCHMIDT REFERRED REPEATEDLY TO GERMAN CONTRIBUTIONS TO SUPPORTING DOLLAR, AND LOST HIS COMPLETE COOL ONLY WHEN SPEAKING OF DM 20 BILLION RESERVE LOSSES FRG CLAIMS TO HAVE SUSTAINED ON DOLLAR DEPRECIATION THIS YEAR. AFTER MUCH DEBATE, SCHMIDT CONCEDED (1) FRG COULD COMMIT ADDITIONAL BUDGET FUNDS TO IMPROVE CURRENT DM 2.6 BILLION OFFSET OFFER IN FRG FY 75 BY MODEST AMOUNT OF DM 100-200 MILLION, BUT NOT BY ANY SIGNIFICANT AMOUNT AND (2) HE WOULD BE PREPARED TO BRIDGE GAP BETWEEN US AND FRG POSITIONS BY "MEDIUM TERM OR LONG TERM" CRODITS AT "MODERATE" INTEREST RATES EXTENDED BY

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Note 27



INTERNATIONAL  
SECURITY AFFAIRS

ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301

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In reply refer to:  
1-26227/73

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Offset and Burdensharing Negotiations (U) - ACTION MEMORANDUM

You are scheduled to meet with Secretary Shultz and Under Secretary Casey on Friday, 2 November to discuss the US/FRG offset negotiations. You may wish to make the following points:

- NSDM 214 specifies that financial arrangements will be used if necessary to obtain a full, i.e., 100 percent offset. - DoD agrees.
- Problem has an economic dimension but this is dwarfed by the political problem which impacts directly on our national security - offset is primarily a political problem.
  - 100% offset is necessary (a) to obtain Congressional support for maintaining force levels in Europe until a MBFR Agreement can be negotiated, (b) Jackson-Nunn Amendment requires 100 percent offset or compensatory troop reductions (c) for the long run amelioration of Congressional opposition to forces in Europe.
- Current FRG offer is far below 100% offset (a deficit of approximately \$2 billion) and there is little likelihood that this problem will be overcome. (See TAB A)
  - The required 100 percent offset is \$3.3 billion over a two year period. The FRG has offered \$1.04 billion over the same period.
  - DoD wants as much hard offset as possible - but when maximum hard offset has been negotiated difference must be made up with financial measures.
- Financial measures
  - Jackson-Nunn couches troop withdrawal in terms of BOP offset.
  - Loans will be a necessary part of the offset, and must be long term (40 - 50 years), with as much new money as possible.
  - Interest rate should be zero or concessionary and subsidized by FRG (DoD position at TAB B).

CLASSIFIED BY ~~0400 (15A), 0400 (15A)~~  
SUBJECT TO GENERAL DECLASSIFICATION SCHEDULE OF  
EXECUTIVE ORDER 11652 AUTOMATICALLY DOWNGRADED  
AT TWO YEAR INTERVALS. DECLASSIFIED ON 12/21/80

SEC DEF HAS SEEN

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- Schmidt has indicated that loans must be used to fill out the offset (TAB C).
- No economic or legal reason why FRG cannot provide the required loan.
- The same type of financial measures will be required in any multilateral burdensharing agreement.
  - FRG offset should be used as an approximate model for an immediate burdensharing agreement.
- After this burdensharing agreement has been reached, we must press forward with a new mechanism that will provide a true multilateral system with a more automatic balance of payments adjustments.

*Robert*

Enclosures - 3

No Coordination Required

Prepared by Col Parr, Eur Reg, 54812

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