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ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

30 JUN 1973

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INTERNATIONAL
SECURITY AFFAIRS

MEMORANDUM OF CONVERSATION

SUBJECT: Conversation between Mr. Schlesinger, SecDef Designate, and
Minister of Defense Leber (U)

Time: 0800-0900 hours, Thursday, 7 June 1973

Place: Brussels Hilton, Brussels, Belgium

Participants:

United States

Secretary of Defense-designate James R. Schlesinger
U.S. Ambassador to NATO Donald Rumsfeld
Assistant Secretary of Defense (ISA) Robert C. Hill
Assistant Secretary of Defense (PA) Jerry W. Friedheim
U.S. Defense Advisor, U.S. Mission NATO, Mr. William B. Prendergast
Military Assistant to SecDef-designate RADM William L. Read
Deputy Director, European Region, OASD(ISA) Col Frederic Ackerson

Federal Republic of Germany

Minister of Defense Georg Leber
FRG Ambassador to NATO Franz Krapf
Director, Political Military Affairs, MOD, RADM Herbert Trebesch
Chief, Planning Staff, MOD, Dr. Hans Wieck
Personal Assistant to MOD, Dr. Stuetzle
Interpreter, Mr. Freudenstein

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1. ~~SECRET~~ "Year of Europe."

Following introductory remarks, Mr. Schlesinger asked what reaction
Minister Leber had to Dr. Kissinger's address and the "Year of Europe."
Leber replied that it is necessary to discuss the US-Europe relationship,
and it would be wise if this broad subject were not left solely to the
Defense Ministers. Ministers of Foreign Affairs, Economic Affairs, and
Finance also must share the burden. Leber stated that this was not a

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tactical comment on his part, as it is his basic conviction that the problem was broad in nature. He held that the existence of the west is based on the Alliance; and, while the members of this family may frequently have different interests, any resulting conflicts should not be permitted to become divisive or to affect the Alliance but rather should be resolved in a friendly atmosphere.

As for the economic aspects of Dr. Kissinger's address, Leber said that his personal view was that this should be discussed directly between Finance Minister Schmidt and Treasury Secretary Schultz. He noted that as Defense Minister he spends his money, and the Finance Minister should be allowed to spend his. Mr. Schlesinger replied that Leber's point was well taken, and said that military issues, insofar as they relate to Alliance defense, should not be tied to trade, commercial or monetary arrangements. It must be recognized, however, that defense does have its monetary aspects, and to that extent, they are inevitably related. However, he stated that this relationship should not be carried too far; and just because the US provides certain types of forces, it should not use this to exploit trade and financial arrangements. As Defense Ministers, the relationships between them must concern us, and we must make our own views known to the Finance Ministers.

2. ~~(S)~~ US-FRG Bilateral Offset.

Minister Leber agreed that defense expenditures had a direct and immediate economic effect, and Defense Ministers must deal with them. He noted that this relationship was being demonstrated in Germany through the FRG-financed US barracks rehabilitation program which had been underway for the past two years. He noted that next week he would be attending a joint ceremony with General Davison to publicize the direct cooperative effort between our two countries. Leber added that this was the type of program we ought to be discussing under the forthcoming offset discussions. He realized that as the US changed its force structure, placing its reliance on a voluntary force, there will be a resultant increase in the number of US families in the FRG. This will obviously create problems which must be discussed between our two nations prior to the influx of these families. He felt that the Treasury and Foreign Ministers should take the first step in solving these financial problems.

3. ~~(S)~~ Dr. Kissinger's 23 April Speech: Burden Sharing.

Minister Leber noted that he had read Dr. Kissinger's speech four times, and the question arose as to whether Dr. Kissinger was addressing only Germany or the Alliance as a whole. He held that even though German forces totalled more than all of its European partners together, the FRG can neither solve the US problem itself, nor can the FRG approach the other Europeans to develop a solution. Mr. Schlesinger replied that one aspect must be underscored - there is a defense burden which must be shared by all. Furthermore, the FRG is one of the few surplus nations; and therefore, to that extent alone, his tentative judgment is that more of the message was directed to the FRG than to others. Leber replied

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that Dr. Kissinger's idea of interaction between economic, political and military problems was worth addressing; however, experts must examine the actual money figures themselves to insure they correspond. After that he felt that overall discussions should be left to the other ministries. Even though US troops are stationed in Germany, they are there for the defense of the Alliance as a whole, and thus the FRG is not the only one responsible for the solution of problems relating to their maintenance. Leber noted that during the 6 June EuroGroup discussions, to which the FRG actively contributed, no one said "let's not discuss the problem" or "the FRG should go it alone." The general consensus which evolved was that if we are friends, we must recognize the problems of our other friends who are not present and discuss them together.

Leber continued that as far as the FRG was concerned, his room for maneuver was very small. After expressing the hope that the FRG defense budget had been approved by the Bundestag on 6 June, he stated that approximately 23.1% of the budget was devoted to defense. Added to this, however, were the FRG payments to the US and FRG military procurement from the US under offset and the frozen accounts in the US. By placing all these items together, Leber contended that the FRG defense contribution is on the order of 28-29%; furthermore, there were no other countries doing that much. Even so, the FRG is still willing to discuss the ways and means of aiding the US in its current problems.

Mr. Schlesinger replied that we can certainly discuss the ways and means, and that he is happy to leave the technical discussions to the treasury ministers. However, he wished to underscore one problem which involved defense, economic and political considerations. Besides the allocation of the burdens of defense among our partners, we do have the peculiar US problem of the balance-of-payments. However, this was not solely a US problem, and it must not be only the Defense Ministers who seek a solution. Mr. Schlesinger noted that if we cannot solve the balance of payments problem, he was still fearful that at this time the US Congress, in its present mood, may move to terminate the US commitment in Europe. He felt, however, that this was a passing phenomenon which may be around for only a short time -- possibly a year to 18 months -- during which we will be faced with these neo-isolationist pressures which are being expressed by fairly powerful Congressional voices. The US has moved from cries of "out of Vietnam" and "let's get on with more important things" to the more inward-looking cry now of "let's get out of NATO." The tendency has been to seize the balance-of-payments issue, tie it in with economic issues and thereby create a powerful alliance. Until this atmosphere passes, we are hopeful that we do not give critics enough ammunition to bring down the US commitment in Europe. Leber replied that he understood the US problem, but at the same time he felt that the US public did not realize that Europe is being defended by the whole Alliance and not only by the US. Eighty to 90 percent of the defense effort is European. In addition to others, George Meany had contended to him that this was a true picture of American thinking. Leber

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continued that, although he is not an authority, his information is that defense expenditures were only a small part of the US BOP problem. He could see this in his own constituency where Opel -- a General Motors European subsidiary -- was investing an additional 600 million DM this year in Germany. Such actions were a drain on the US BOP, and finance ministers must address these problems. Mr. Schlesinger agreed that the BOP effects of military activities had been grossly exaggerated, but they are there. Critics are seizing this issue and holding it to be an unnecessary drain on our balance of payments. Therefore, during this period of emotional turmoil, we must deny this issue to the critics of defense expenditures; and overseas expenditures must be insulated from the overall BOP effects. If this can be accomplished, the rest of the BOP problem can be left to the ministers of finance and economy. Colleagues in these ministries must be encouraged to insulate this category of expenditures from normal BOP activities.

4. ~~(S)~~ Future of the Alliance.

Mr. Schlesinger stated a solution of this problem will then bring us to a much more important issue - the future of the Alliance. A common set of concepts must be agreed upon by the Alliance so that three to five years from now, if the Soviets become less friendly, the military posture of the Alliance will be such that the USSR can be deterred throughout the whole spectrum of conflicts. Unfortunately, right now the Alliance is falling short of attaining such a posture. It is particularly disappointing because it is not a matter of money. Europe itself outspends the USSR and the European expenditure of \$32-35 billion combined with \$15 billion US direct expenditures and \$20 billion indirect expenditures dwarfs the USSR effort. He held that there is little comfort in these figures because our resources are not being used effectively. Although we have been able to live with this in the past, as US superiority lessens, we must move towards a better defense posture in order to continue to deter the Soviets three to five years in the future. Mr. Schlesinger held that this challenge to develop a workable defense concept is even more important than MBFR, other frictions or economic problems. It must not only deter the Soviets, but we must sell it to the people and to our parliaments. Mr. Schlesinger noted the current US problems in selling the defense program to the Congress, particularly to provide large sums for a conventional deterrent, when the Alliance does not believe that such a deterrent will work. With such an attitude on the part of the Alliance, some in Congress wish to cut US conventional forces. Thus, we must develop a persuasive defense concept based on requirements, rather than on historical legacy. This is a major requirement -- all else is ancillary -- and is absolutely necessary in order to preserve the West. Minister Leber commented that critics of defense expenditures do not live only in the US.

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