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MEMORANDUM

May 8, 1979

TO: President Carter

FR: Edmund S. Muskie

SUBJECT: European Mission

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The Mission was described as an opportunity to represent you in countries which you would like to visit but which could not be accommodated in your current schedule; to present your perspective on certain pressing multi-lateral and bi-lateral issues; to seek out attitudes and concerns of leaders of the countries visited; and to present the congressional perspective on domestic and international political issues.

As you requested, I traveled to Portugal, Spain, Poland and the Federal Republic of Germany. In my capacity as Chairman of the Senate Budget Committee I also met with NATO and European Community Leaders in Brussels.

In general, I found U.S. relations with each of the countries visited healthy and productive. Without exception, I found a genuine interest on the part of the leaders of each of these countries in improving their ties with the U.S., so long as there is a willingness to accept political and social differences. Implicit, however, was a genuine concern that the U.S. maintain its leadership role -- in fact enhance its leadership role -- in each of these nations. To the extent there were differences they involved the perception of unevenness of the application of U.S. policy. At the same time, each national leader viewed the U.S. (and you, Mr. President) as elemental to stability.

I was impressed by the quality of statesmen with whom I met. All feel you have significantly improved in your world posture -- in some cases as a function of the Middle East peace initiative and in other cases because of what is perceived as a more consistent direction in policy.

My visit and the special recognition it implied were appreciated by all. There was little need for me to initiate policy discussions. President Eanes of Portugal, known as a reserved, tacturn executive, took advantage of my presence

to press a variety of issues, and passed on some very sensitive information about Angola. Our meeting ran 40 minutes longer than scheduled.

The King of Spain provided little opportunity for me to raise any issues but covered most of those on my agenda on his own initiative. That meeting was scheduled for 10 minutes and lasted nearly two hours. And in Poland each of my meetings ran overtime, including two hours with First Secretary Gierek.

There follows a brief summary of my visits: the people with whom I met, and my impressions on the critical issues which you asked me to raise or which came up in the course of events.

PORTUGAL

I met with President Eanes, Prime Minister Moto Pinto and leaders of the Social Democratic Party, the Socialist Party and Center Democrtic Party.

ISSUES:

1) STABILITY OF THE DEMOCRATIC INSTITUTIONS

The President perceives that the country is in political crisis, a view shared by party leaders. The President was preoccupied with the inability of the political parties to become cohesive forces in the country, with their apparent commitment to ideological issues rather than national issues; and by their inability to form the coalitions necessary to provide a democratic majority in the Parliament.

This inability does not apparently stem from substantial ideological differences. Party leaders are almost without exception young, intelligent, eloquent and absolutely committed to democracy. Conflicting personalities, political inexperience, Eanes' inability or unwillingness to communicate on a personal level with party leaders, his perceived distance and aloofness, and the absolute conservative opposition to any government in which the agrarian-based Communist party has a voice, all contribute to political instability. The Portuguese people may be less interested in the right of free elections than in a government which improves their lives. President Eanes is considering three options:

(a) calling a parliamentary election; (b) forcing the hand of the political parties by going to the country with his own program; and (c) as a last resort, resigning and going to the country as a candidate himself with his own program, a move the Socialists regard as formation of a President's Party. All the political parties feel a parliamentary election is preferable to either of the other alternatives.

Economic austerity and perceived ineptitude among the political class have produced early signs of popular disenchantment.

The military is identified as beginning to become vocal about the performance of the government. There is no doubt the military would not stand by idly if the system were to deteriorate much further without signs of positive corrective action.

Eanes is willing to provoke the parties, if necessary, into a stable coalition; a major speech April 25 marked the opening of this attempt.

2) NATO/MILITARY

Portugal remains committed to NATO, for military and domestic political reasons.

The President believes it essential that the military have a role in NATO to divert them from interference in domestic politics. He also believes that U.S. aid to upgrade military quality is imperative to assure this objective.

In addition, it was made clear that Portugal might withdraw from active NATO participation if obsolete hardware made an effective Portuguese presence in NATO impossible. This is a question of national pride -- a pride threatened by the phaseout of our Military Assistance Program.

It is my impression that our military relationship is safe but the price we pay for air facilities on the Azores will go up. There was no hint of linkage between our access to the Azores and our Middle East requirements.

3) ECONOMIC

The crisis which led to the designation of a non-party

government persists. The Socialists, who supported austerity in the past, have lost confidence in the President and no budget has been approved. All "democratic" parties agree a budget will be approved although they differ on budget priorities. The President thinks the U.S. should put pressure on the IMF to reduce demands. Meeting IMF criteria, according to Eanes, will mean a cutback in social services of \$200 million "which could result in social unrest." Clearly Portugal is trying to maintain economic discipline within the context of the current political situation and is reaching for help.

European Community membership, while valuable in the long term, is too far in the future to affect the current political situation unless European Community loans and grants precede actual Portuguese membership. The Portuguese face a situation in which they need to demonstrate stability to gain financial help, but need the help to stabilize.

SPAIN

I met with the King, the acting Foreign Minister and the First Vice President (the Prime Minister and Foreign Minister were in Algeria), the Governor of the Central Bank and leading economic ministers.

ISSUES:

1) STABILITY OF DEMOCRATIC INSTITUTIONS

My impression is that, unlike Portugal where the threat is from the conservative/military elements of society, Spain faces potential instability from the Left. Municipal elections have resulted in 70 percent domination by the Left due to a coalition of the Socialists and Communists, with the Communists holding a number of mayoral positions. However, the conventional wisdom, in part confirmed in my meeting with Socialist Party officials, is that the two would not coalesce at the national level. The King seems to have a very strong hold on the Right (and the military) and is committed to democracy.

So far there has been a widespread desire among the political parties to "cooperate" in the maintenance and development of democracy. Political unrest, military discontent and economic malaise all have the potential to dissolve that cooperation.

Spain is attempting to move toward a Federal system to satisfy demands for more autonomy, particularly from the Basques.

Whether it can do so successfully is an open question. Terrorism is a more immediate and destabilizing question than the strength of the Communists. Controlling it without resort to the tactics of Franco will test the new democracy.

2) NATO/MILITARY

Like Portugal, there is a consensus that the military needs a new role, but a difference as to the nature of that role. The Socialists want to maintain and improve bilateral relations with the U.S. The King and the Premier want to take Spain into NATO. The Socialists have not been willing to focus on the value of giving the military a new mission. However, it is my view that the King and the Party leadership will move to NATO irrespective of political opposition. The military is still very strong -- residual Franco elements are only beginning to be phased out as longtime staff officers reach retirement age.

I perceive that bases will be a major problem -- with much stronger linkage to military aid than in the past. Mellado, the Vice President, feels we have not honored past agreements and we could bend a little more to accommodate Spain's real needs.

Mellado cited violations of prior base agreements and appealed for more favorable treatment of our "great and good friend and ally." (Mellado is very anxious to move to NATO and understands the need to give the army something to do.)

3) ECONOMIC

All discussions revealed remarkably similar views on the need to continue the austerity program in order to limit inflation to a target of about 12-13 percent this year, compared to 26 percent last year, and improve Spain's balance of payments problems. All expressed confidence that Spain would continue to make progress in each of these areas. For example, Governor Rendueles reviewed recent bank actions to liberalize banking practices to encourage foreign banks to enter Spain for the first time. And Minister Leal emphasized the steps Spain has taken toward a market economy to replace

the Franco-era monopolies in Spanish industry which limit its full productive potential.

In addition to succeeding within the austerity program, the Bank Governor stressed the need to give Spanish employers greater flexibility to lay off or fire workers. Present Spanish practices make Spanish industry more a guarantor of jobs than an engine of production. Present work rules discourage new business investment.

Finance Minister Anoveras stressed the role of large wage demands in fueling inflation and the political difficulties his government faces in pursuing its austerity program in the face of large, unmet social demands and high unemployment. Yet he saw the need to stabilize inflation at a rate of about 8 percent per year as a prerequisite to dealing with social programs and entering the European Community. He warned that unless Spain could control inflation it might prove impossible to preserve Democracy or avoid a return to dictatorship.

Each of the ministers expressed satisfaction with recent U.S. economic developments but all remain concerned about our energy consumption, inflation and balance of payments problems. Like many others we talked to in Europe, these Spanish financial officials see an economically strong America as very important to their own countries. But they also resent the amount of oil we purchase from abroad because it assists OPEC in the maintenance of high oil prices.

All agreed that Spain would enter the European Community as scheduled, between 1981 and 1983. Spain could compete effectively in manufactured items, although achieving the full potential of agricultural exports might be hampered by protective European Community rules.

4) MIDDLE EAST

The Foreign Minister expressed very real concern about the position of the Saudis. While Spain wants to help and finds President Carter's initiative very positive, Spain would prefer a global solution along the lines of the U.N. resolution. The Minister considers the Lebanese situation very dangerous and expressed worries about King Hussein. However, the Spanish are disposed to do their best to create the proper ambience, bearing in mind their very special relations with the Arabs. The Spanish are impressed by Sadat's courage and will do their best.

NATO/EEC

We met with General Haig, EEC President Jenkins and Secretary General Luns of NATO, as well as U.S. NATO staff, led by Charge' Glitman and Ambassador Hinton.

ISSUES:

1) EUROPEAN PERCEPTIONS OF THE U.S.

With the exception of General Haig, all agreed the U.S. position in the NATO Alliance is both economically and politically strong.

General Haig uniquely presented the view that the recent decline in confidence in the U.S. dollar was linked to our military position. Hinton, Glitman and Secretary General Luns all disagreed.

Haig described the European perception of the U.S. in the bleakest possible terms, saying that U.S. prestige is at its lowest ebb in his experience since World War II.

The contrast with Luns was striking. Luns was particularly upbeat about the current European impression of the U.S. as a reliable partner.

All agreed, however, that U.S. handling of the decision against deployment of the neutron bomb was seriously damaging to our credibility in NATO and said ripples from that decision continue to be felt.

For example, Luns emphasized concern that the TNF issue be negotiated privately within NATO councils and not publicly as was the case of the neutron weapon. Matters which could be agreed upon and successfully implemented in traditional NATO channels would be jeopardized if thrown up to individual nations' parliaments and public opinion, especially since U.S. determinations on nuclear matters had always been considered with NATO to be definitive until the neutron bomb issue.

In short, it was Luns' view that the U.S. has come a long way back from the days of the dollar decline and the neutron bomb, but that careful, consistent handling of current issues was vital to keeping U.S. prestige on an upward curve.

2) NATO DEFENSE -- THE 3 PERCENT COMMITMENT AND SALT

Haig and U.S. NATO staff were emphatic about the need for the U.S. to meet the three percent commitment in order to encourage reaching it throughout the Alliance. Luns said the U.S. is perceived as meeting the goal, although he called the NATO-wide 3 percent increase barely adequate for proper modernization.

General Haig presented a refreshingly candid insight into the origin of the 3 percent commitment (that it was quite accidentally arrived at), but also made a forceful argument for going even further in force improvement.

None expressed concern that the defense budget approved by the Senate in its recent Budget Resolution would be taken as less than a fulfillment of our share.

All agreed that Soviet deployment of the SS-20 -- which Luns described as "blood chilling" -- presented a significant new complication in stabilizing the arms race and in the defense of Europe which would need to be dealt with by further arms control negotiations through the MBFR or SALT III channels as well as by improvements in NATO theater nuclear forces.

Luns also said the Federal Republic of Germany would accept medium range TNF missiles, provided that some arrangement could be worked out so that it was not alone in doing so. There appeared here and elsewhere to be little debate about the wisdom of new TNF deployments; the debate centered on the politics of placement.

Luns and Haig both noted the importance to NATO cooperation of the "two way street" in arms production but suggested interoperability might be a more appropriate goal in some cases, since governments are willing to spend more for arms produced domestically than for those purchased abroad.

It was suggested that the ratification debate over SALT II be cast in terms of what the agreement might prevent U.S. from doing that we wanted to do. This approach has the disadvantage of conceding to liberals in the Senate that the agreement is worthless. A better approach might be to describe SALT II as a step in the process of arms control, rather than the end of the road.

3) THE FEDERAL REPUBLIC OF GERMANY

Luns stated his belief that the Soviet Union is trying to neutralize the FRG role in NATO by holding out the prospect of reunification on the one hand and on the other cautioning against Germany's becoming the "lead man" in NATO developments. Elements within Schmidt's own SPD party, led by Wehner, the Floor Leader, were sympathetic to the Soviet line, complicating Schmidt's parliamentary elections next year even though Schmidt does not agree with Wehner on this issue. Luns expressed his own view that reunification was unlikely both because the Soviets could not offer FRG attractive enough terms and in light of opposition to a reunified Germany in both the Warsaw Pact and Western Europe, especially France.

4) FRANCE

Luns stated his belief that France's nuclear ballistic missile capacity, both in hardened silos and submarines -- a "terror weapon" targeted on Soviet cities--represents a real deterrent against the Soviets. He also said France was cooperating "quietly" (and it must remain so) in NATO planning and could be counted on for European defense.

5) TURKEY

Luns and Haig stressed Turkey's need for financial aid and said the serious economic condition of that country is affecting its ability as a NATO ally.

6) CONFUSION REGARDING U.S./NATO MATTERS

We found disconcerting confusion between the evaluation of the U.S.-NATO mission and that of General Haig on several points: European confidence in U.S. leadership; the actual objectives of U.S. defense policy in Europe; and the origins of the 3 percent spending commitment to NATO. These are bothersome discrepancies. Although the first area might be ascribed to a difference in points of view between military and civilian authorities, the second is disturbing and the third inexplicable.

As noted above, Haig uniquely believes U.S. prestige and European confidence in the dollar have been eroded by concern about weakness in our leadership and defense posture.

General Haig's view is not shared by Luns or the U.S. officials in Brussels to whom we talked.

On the other hand, the personnel of the U.S. mission to NATO seemed to suggest that the purpose of NATO defense policy is to be prepared -- if need be -- to fight and win a conventional war in Europe. Yet in answer to my direct question, "If conventional war broke out in Europe today, how long would it last and who would win?" Haig said unequivocally that the NATO could not win such a conventional war. He said a predicate of NATO policy is that at least theater nuclear forces would be involved in any outbreak of war. In fact, he said it would be economically and politically unsupportable for western nations to attempt to match Warsaw Pact conventional forces weapon for weapon. Instead, our policy is directed toward a defense so strong that breaking through it would require such an employment of mass that the Warsaw Pact would have to calculate that the inevitable result would be a major war.

On the third point, Haig reviewed the history of the Brussels meeting in 1977 which produced the 3 percent commitment and said flatly the "commitment" was in fact the accidental result of a press conference by the West German Defense Minister who said it had been agreed to, even though it had not been discussed at the Ministerial level prior to that point. The press reports sparked a general consensus in the meeting by generating such a public relations stake in reaching such a consensus that it actually occurred. Charge' Glitman, who had earlier defended the 3 percent commitment in the terms in which it is normally defended in Washington -- as somehow scientifically arrived at based upon real defense needs -- later said he had not previously heard General Haig's explanation.

These discrepancies in the American conception and presentation of our NATO role and NATO policy are troublesome.

7) ECONOMICS OF THE EUROPEAN COMMUNITY

In their separate meetings, Hinton and Jenkins both emphasized Community concern that the MTN be approved by Congress without change. Jenkins expressed concern that a change had already occurred in the draft legislation with the deletion of the "material" qualification of the "injury" test.

Jenkins and Hinton reported broad European Community support for recent U.S. domestic economic steps, especially your decision to decontrol oil prices, which Jenkins agreed required political courage.

Here and elsewhere I attempted to bring home the point that America is "shrinking" in energy terms, but that 50 years' reliance on the automobile for transportation will take time to reverse.

POLAND

In Poland I met with First Secretary Gierek; the Finance Vice Minister; the Vice Premier; the Acting Foreign Minister; the Archbishop of Krakow; and some local party and municipal leaders. I also had an opportunity to spend a couple of hours with three leading Catholic dissidents and had a number of conversations with other political people.

ISSUES:

1) POLITICAL STABILITY

Poland's external economic problems are considerably less significant than her internal political instability. The leadership people with whom we met were universally optimistic about Poland's capacity to solve its economic problems (discussed below). However, from conversations with the Archbishop and the dissidents (the latter of whose judgments I would tend to discount unless otherwise confirmed) from private conversations, and from the undercurrent of the discussion with Mr. Gierek, I believe there is real need to pay special attention to Poland.

The Papal visit will not likely result in a serious problem between the Government and the Church. Gierek has moved to accommodate the Pope and may be using this event to normalize relations between the two. In any event they are talking (which is new), and have established mechanisms to handle aspects of the visit jointly. I perceive the Polish leadership is deeply concerned about a Czech-type Soviet move. This concern is shared by the Archbishop and others.

2) GERMANY

Both Gierek and Jagielski spent an unusual amount of time expressing concern about the re-arming of FRG and their fears of its threat to Poland. Gierek took pains to point out the problem and then said it was not "a paramount issue." I took the opportunity to press home the fact that the SS-20 was escalating the arms race. Gierek assured me that the Soviets and the Poles had better places to spend money than on arms, and there is a passionate commitment to SALT II in Poland. The overtures to Russia from the FRG are of great concern.

3) HUMAN RIGHTS

As you requested I made human rights -- the so-called reunification of families question -- a centerpiece of each discussion and it met with increasing antagonism as I went up the line of leadership. Jagielski was adamant, and Gierek was much more vociferous than the Embassy staff anticipated. Gierek let it be known in no uncertain terms that some types of people would not receive passports because of what he regards as their unacceptable moral behavior. At the same time he and Jagielski promised an expedited review of pending visa applications. I reinforced your concern but did not change any minds.

There is evidence that the Poles encourage temporary emigration for employment motives under tourist visas and prefer "divided families" on economic grounds. An emigre whose family remains in Poland provides hard currency which is repatriated upon his return.

4) ECONOMY

The Poles are placing great emphasis on their capacity to be a good credit risk. A major part of each meeting was devoted to the revised agriculture policy, including expansion of the size and productivity of private farms; the improvements to be made in production and availability of farm equipment; the new availability of fertilizers; and the hope for better weather. Agriculture is seen as the soft spot in the economy and the means by which the Poles will restore their international credit rating. At the same time heavy emphasis was placed on their capacity to pay their bills, offering up a steel mill capable of retiring their entire debt and, in the case of Gierek, pointing out

that they have a \$25 billion capital budget which could be diverted to debt service if needed. However all officials are anxious for new CCC credits. I see this issue as elemental to the Poles' perception of their political stability. Gierek and others see a major need to manage the Vistula to avoid future floods; clean up a very serious and growing pollution problem; and most of all add an additional 6 to 8 million housing units.

The Poles must be adroit at balancing the Soviet perception of Poland's economy and the tendency of individual Poles to resist a modernization which puts them at the mercy of a poorly functioning industrial system. The independent farmer, (most of whom farm fewer than 10 acres, but provide the bulk of Poland's food production), prefers horses that work to tractors that do not. He wants a tractor that works. The government is feeling the pressure of his demands. Soviet demands are a drain on the economy both in terms of resources the Russians expect to receive and in terms of the limits the Soviets subscribe to the means of reaching the goals Gierek outlined. Labor problems, including absenteeism caused by workers holding two jobs, and alcoholism are internal hindrances.

COMMENT

There is by Soviet standards an increasing level of entrepreneurial activity in Poland. Gierek is trying to improve the domestic economy and is looking to the U.S. for help. The Church sees the situation as delicate and sees itself as the only stable influence in Polish society a point with which few were willing to quarrel. Poland plans to expand rather than contract private enterprise especially in agriculture and some Poles see this as threatening to the Soviets and to controlling interests in other satellite countries.

I perceive this current leadership seriously threatened and the Church, while willing to help, incapable of moving out of the traditional role.