

BY BAG

FROM BONN

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FRAME ECONOMIC

TO FCO TELNO 2 OF 19 JANUARY 1982

COPIES TO WASHINGTON, WARSAW, MOSCOW, UKDEL NATO,
PARIS, UKREP BRUSSELSFRG ECONOMIC INTERESTS IN THE EAST: THE BACKGROUND TO THE
SANCTIONS DEBATE

1. Approximately 0.7% of the FRG's external trade is with Poland and approximately 2.2% with the Soviet Union. Trade with COMECON accounts for nearly 6.2% of the FRG's external trade overall (cf 6.5% for trade with UK). In 1980 exports to Poland were valued at DM2.7 billion and to the Soviet Union at DM7.9 billion (taking the two figures together - approximately $\text{DM}4.6$ billion). (See memorandum circulated under cover of Unwin's letter to Bridges of 18 March 1981 for more detail.) German banks have assets of approximately US $\text{\$}4.5$ billion at risk in Poland of which only a half (US $\text{\$}2.8$ billion) is covered by Hermes guarantees. In addition, the Federal Government is owed DM4.5 billion (US $\text{\$}2$ billion).

2. Trade with the East is important politically for the Germans. They regard its development as an essential part in the process of developing and maintaining better political relations with the East. Their expectations of the economic benefits to be gained from Ostpolitik and détente have, to some extent, been disappointed but their hopes that expansion can continue remain as strong, as instinctive and deeply rooted, as ever. The West Siberian gas pipeline is the largest but by no means the only indicator of the kind of business the FRG can hope to do with the Soviet Union. For historical, geographical and cultural reasons the East is a natural theatre for German economic activity. Objectively, economic prospects for

● The FRG in the East must be regarded, in the long term, as good. For all that, the Government as well, of course, as businessmen recognise not only the economic but also the political limitations with which trade with the East has to be conducted and in consequence the hard fact that for a long time yet aspirations will run a long way ahead of reality. The aspirations do, however, exist.

3. For the present, the current value of German trade with the East is by no means insignificant. The pattern is also favourable. Germany exports modern technology but also less sophisticated items eg. textiles, from sectors which are not fully competitive in international markets and where, as a result, jobs are vulnerable. Furthermore, the disparity in development between the economy of the Federal Republic and the economies of the East means that there is a certain beneficial complementarity in the trade - from Germany a range of manufactures from the sophisticated to the routine and from the East, overwhelmingly hydrocarbons (70% imports from the Soviet Union) and other raw materials. The Soviet Union has proved to be a reliable source both of oil and gas for many years past, valued particularly by the Germans because it enables them to diversify away from the Middle East.

4. At the present juncture there is an underlying concern here that any serious and long drawn out interruption of the FRG's economic links with the East would be a set back not only to prospects and hopes for détente but also reasonable hopes for worthwhile economic developments. In addition, useful exports would be lost and vulnerable jobs placed at risk. At a time when economic prospects world wide are so uncertain and when the Federal Republic is more than ever dependent on an improving export performance, disruption of economic links with the East would be particularly unwelcome. There is also the situation of the German banks. The big banks are not very heavily exposed in relation to their overall assets. But for some of the smaller ones the position is considerably more serious and there is a risk that some of them might declare the Poles in default. The Germans are very concerned about the knock on effect. Coming after two years of poor trading profits for the German banks it would be very bad news psychologically and financially. It is against this background that the Federal Government are considering

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President Reagan's appeal for sanctions and efforts within the Alliance to concert positions vis à vis Poland and the Soviet Union on economic matters.

5. The Germans continue to work on the assumption that the West Siberian pipeline will go ahead. They are taking the line that American sanctions will not significantly affect it but accept that non-delivery of caterpillar equipment and, more especially, non-delivery of General Electric rotors will delay things. There is so far little concern here about the impact on US-FRG relations of going ahead with the pipeline. And the Germans do not seem to be worried lest delays falsify some of the financial assumptions underlying the deal and thus place the whole thing at risk. For the rest, they are taking the line that the American licensing restrictions on exports will not harm other current business with the East, nor do they consider these restrictions should apply to products manufactured by European subsidiaries under American licensing.

6. With regard to the examination of future economic and commercial relations with the Soviet Union (para. 4 of UKDEL NATO telno 15), official opinion is sceptical about the effectiveness of sanctions, anxious not to damage German economic interests but concerned to maintain Alliance solidarity. Officials expect to find some measures to offer to the NATO follow up meeting but the indications are that they will be rather modest. The Germans will not be keen to interrupt imports from the Soviet Union but for Alliance reasons will feel compelled to do something. The Maritime Agreement between the Soviet Union and the Federal Republic has a 12 month break clause: abrogating it would thus have no immediate consequences. They are however considering postponing the start of discussions with the Soviet Union on a roll on roll off ferry link between Luebeck and Memel (Bonn telno 916 of 17 November). Action on the air services agreement is under consideration as is the question of restricting Hermes guarantees. Another step under consideration is licensing arrangements on road freight from the Soviet Union to the Federal Republic. Action on this would be likely to complicate rather than check trade flows. As regards CCCC, the Germans are likely

/to find

to find tightening up there less unpalatable than any significant attempt to curtail existing business.

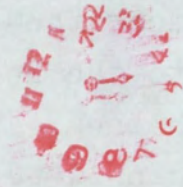
7. As for Poland, within the Government the emphasis still seems to be on trying to offer inducements to the Poles to keep to their promises rather than to seek to punish them. See the Government motion for the debate in the Bundestag on 14 January (my telno 26). In the same debate the Federal Chancellor repeated the earlier suggestion (made by Genscher on 6 January - Bonn telno 89) that substantial aid might be available to Poland if renewal could be restarted. Lautenschlager told me recently, with reference to the report in the Herald Tribune on 9 January alleging that Chancellor Schmidt and Genscher had proposed to President Reagan a US \$5 billion aid programme for Poland, that no specific proposals or figures had, in fact, been mentioned but that, as Genscher had explained in Stuttgart on 6 January, the Germans felt that the idea of an offer of significant financial and economic assistance was something that the Alliance should consider in addition to sanctions. He added that even if the idea were accepted it was not clear where the money could be found: and the Finance Ministry here can be relied on to oppose bitterly any major new demand for Federal funds. According to a gloss from the Federal Chancellery Genscher's stress on economic aid is tactical. Even if the money could be found it was doubtful that the Soviets would allow the Poles to accept. The important thing was to give the Polish regime some incentive for liberalisation. But, tactical or not, I do not think the Germans will let go at all easily of the concept of seeking to use the carrot in preference to the stick.

TAYLOR

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[THIS TELEGRAM WAS NOT ADVANCED]

20 JAN 1952



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REPORT

FROM THE FEDERAL REPUBLIC OF GERMANY

Jan. 18, 1982.

GENSCHER SPEAKS ON POLAND

Herr Hans-Dietrich Genscher spoke in the Bundestag debate on Chancellor Schmidt's policy statement on Jan. 14. The following is the text of the Foreign Minister's speech:

The process of internal renewal and reform initiated by the Gdansk Agreement of August 1980 has been abruptly interrupted by the military council's assumption of power. Until now, the expectations have proved unfounded which the Polish people felt they could link -- and indeed had to link -- to what the military leadership promised: a return to the process of reform and renewal.

The whole world has until now waited in vain for signals by the Warsaw military council that the course of reform is being resumed. We cannot ignore the fact that developments have not changed for the better. In fact, there are now many signs that a long-term development is to be initiated, leading away from the course of reform and renewal.

In its evaluation of developments in Poland, the Federal Government has from the outset attached importance to the assessment by the Catholic Church. The Federal Government shares the deep concern at the development that has now occurred, as voiced in such deeply-moving fashion by Archbishop Glemp in his sermon of Jan. 6 and as also expressed in the statement made by the Pope last Sunday.

The Federal Government expressed the same concern as Archbishop Glemp did, albeit not on exactly the same day, but I am at all times fully aware of the fact that it is far easier for us to comment on Polish developments from here than for those who hold responsibility there and are among the few who by dint of their position -- such as the Primate -- are able to make such a public statement.

Easing of the martial law in individual cases cannot dispel our concern. The military government's readiness for genuine dialogue is also being called in question by the talks with unnamed and evidently not legitimate representatives of the Solidarity trade union.

Until Dec. 13, 1981, our fellow-countrymen followed the events in Poland with particular sympathy and hope, and since then they have viewed the developments with great concern and uneasiness.

There can be no doubt as to where we stand with regard to Poland. The Federal Chancellor made this clear on a number of occasions. We are on the side of the Polish citizens, for whom a free trade union is the expression of their will for reform and renewal.

We Germans are profoundly aware of the tragedy of the Polish fate. Poles and Germans are linked to one another by an eventful history. After a past full of suffering they have arrived at mutual understanding marked by efforts for accommodation and reconciliation.

I gladly add for the sake of those who can hear us in Poland and elsewhere: there were fierce debates here in the Bundestag in connection with the treaties concluded with the East, but despite these fierce debates, one must not ignore the fact that for the overwhelming majority of the German people, and also for the members of the Bundestag from all parties, the question of reconciliation with Poland was never at issue.

The Warsaw Treaty reflects our determination to break the vicious circle which, owing to wrongdoing followed by further wrongdoing, force followed by further force, plunged Europe from one war into another.

The Warsaw Treaty documents a new start not only in the relations between Germans and Poles but also in the will of the peoples of Europe to shape their future in peace. We Germans know the special responsibility which the shared history imposes on us.

Those people abroad who felt they had to criticize the reaction of the German public -- and now I am not speaking about

the Government -- should remember that this history is perhaps the reason why the Germans are deeply moved by what is happening in Poland and that their bitterness and indignation is perhaps expressed differently than might be appropriate elsewhere. Their indignation, bitterness and concern are undoubtedly of no lesser magnitude than elsewhere in Europe and the world.

Our citizens' spontaneous readiness to help is indeed impressive. Over 2,000,000 parcels -- in other words over 2,000,000 spontaneous decisions by individual people to help -- this is a clear demonstration which says more about the concern at events in Poland and sympathy for the Polish people than many a strong word.

The will to help the Polish people as well as firmness and levelheadedness have also marked the policy pursued by the Federal Government since Dec. 13. Our demands are quite clear: the lifting of martial law, release of the detainees, and resumption of a genuine dialogue by the Polish leadership with the Catholic Church and the Solidarity trade union.

These demands are not tantamount to interference in the internal affairs of Poland. They are based on the Helsinki Final Act. Every signatory state is entitled to admonish another signatory to observe the commitments contained in it. To us, the fulfilment of the three demands would be proof of the Polish leadership's serious will to return to the course of reform and renewal.

The Polish leadership has publicly expressed this will not only to its own people. It has also professed it on various occasions to the Federal Republic of Germany and our allies and partners. It is not us who, by invoking these declarations, are interfering in Poland's affairs, it is those who seek to prevent from outside the course of renewal and reform in Poland who are interfering in Poland's affairs.

In its policy the Federal Government has not confined itself to statements. It has also sought to bring influence to bear by means of direct talks and contacts. We have not disrupted the dialogue with the Polish leadership. We have sought

the possibility of taking the military council at its word when it pledged a return to the course of reform.

This was the purpose of my talks with Deputy Prime Minister Rakowski and of the letter sent by the Federal Chancellor to General Jaruzelski.

The decision of the Foreign Ministers of the European Community of Jan. 4, the joint statement of the Federal Chancellor and the American President of Jan. 5, and the results of the Ministerial session of the North Atlantic Council of Jan. 11 have demonstrated the West's capacity for joint action and unity.

The demands for the lifting of martial law, the release of detainees and the resumption of the dialogue were included in our initiative in the EEC and Nato declarations and were reaffirmed by the Federal Chancellor and the American President.

At the ministerial session of the North Atlantic Council, the joint Western policy was developed further into a clear political strategy. And I would like to see the members of the Opposition, who will speak later on, stating whether they intend to support and pursue together with the Federal Government this joint political strategy of the Western Alliance arrived at after a joint analysis.

We must learn that debates in the Bundestag should not only serve to reaffirm everybody's own position, which is known anyway, but also -- if they are to merit the quality and title of "debate" -- evolve in a direction where, I hope, we can jointly state: all the parliamentary groups in the Bundestag support the goal jointly set by the Federal Government and all its partners in the Western Alliance.

This joint strategy which we want to discuss today is designed to help reopen the course of renewal and reform with the means at our disposal. The Nato declaration could acquire considerable importance because a reaffirmation of it by all the parliamentary groups in the Bundestag would show once more that we concur in the goals. The same holds true for the decisions and proposals of the alliance in the economic sector. Here it must be made quite clear that it is essential not only, as you,

Herr Lenz, rightly stated in your draft resolution, to continue the humanitarian aid -- in fact it must also be stepped up.

The Federal Government yesterday adopted a positive position, also with regard to the elimination of postal charges, so as to provide an additional impulse. It is also essential to make it clear that, in addition to humanitarian aid, public food aid, which is not contained in your draft resolution, must be continued because we do not want the Polish people to have to suffer from a policy pursued by their Government against their will.

In its decision, the Alliance expressly mentions not only humanitarian aid but also -- as a special point -- public food aid. It is very important that all the assistance should actually reach those for whom it is intended -- the population of the Polish People's Republic.

As far as the decisions of the U.S. Administration are concerned, the Federal Chancellor has already stated that we regard them as a clear political signal vis-a-vis the Soviet Union. I consider it important that, when speaking about economic and financial measures -- and here the Alliance made it very clear what we expect in Poland and from the Soviet Union -- we also make it very clear that we are ready to do our utmost to assist Poland financially once it returns to the course of reform and renewal.

Our operative and political strategy must involve not only saying "no" but also opening up positive perspectives. We can but hope that the military leadership in Poland will soon realize that it is in the interest of its own people to accept this offer of the West.

Everyone must realize that a continuation of the conditions in Poland can lead to a dangerous situation resulting from the increasing repercussions on the overall network of our relations with the Soviet Union and all other eastern states.

Particularly for this reason, too, we view with especial concern the continuing pressure exerted by the Soviet Union on the development in Poland.

Together with its allies, the Federal Government will continue its policy aimed at exerting a favourable influence on the situation in Poland. When the Madrid CSCE negotiations resume, the subject of Poland will be at the top of the agenda. All of us have a commitment to the Final Act of Helsinki. That should not be underestimated in Warsaw and in Moscow.

The continued oppression of the Polish people is a severe setback for confidence-building between East and West. Thus the Soviet Union bears a heavy burden of responsibility for what is happening in Poland. It is hindering the efforts towards development and reform that correspond to the legitimate aspirations of the people there. My colleague, Herr Ehmke, quite rightly pointed out this inability to accept renewal, since this matter goes beyond the interests of the people directly affected. This inability to respond to efforts at renewal is increasingly becoming a destabilizing factor in international relations.

In the policy of the Federal Government, the awareness of the Soviet Union's responsibility was also voiced in the Federal Chancellor's letter to General-Secretary Brezhnev. It has often been asserted -- here, too -- that the Chancellor did not want to recognize the responsibility borne by the Soviet Union. With all due respect for what others have said: I would have been pleased if the Chancellor had not been the only one in the European Community in December 1981 to address himself not only to Mr. Jaruzelski, but also to Mr. Brezhnev in the matter of Poland, and he did not do that because Mr. Brezhnev had nothing to do with the matter, but because Mr. Brezhnev's responsibility was the subject of his letter.

There is no doubt that the events in Poland are revealing the failure of the Communist system. For this reason, they are of fundamental significance. The inability of that system to adjust to new developments is becoming only too clear. These new developments are equally obvious. They are reflected in the strong will of people to maintain and strengthen their own identity. In Europe, the consciousness of the European identity is in fact growing ever stronger -- regardless, incidentally, of the respective political order.

The Final Act of Helsinki points out how very differently structured systems can adjust to that. For the Final Act of Helsinki is not a vote for a particular governmental and social order. In the future, too, such decisions must be made by the peoples concerned. We have never regarded the Helsinki process as a momentary programme. Rather, we have always considered it to be a long-term process, but also a dynamic process that reveals the perspectives for the formation of national identity, European will to peace, individual rights and social progress.

It is precisely in this perspective that the Polish process of reform and renewal is to be seen. When I say that it is to be seen in this perspective, that expresses the historic dimension. When I say it is to be seen in this way, that means that it is not a thing of the past. Whatever the military leaders in Poland do now, the world will never be the same as it was before August 1980. If we see the developments in Poland in this historic perspective, then we must also be conscious of their impact on the East-West relationship. In this connection, the appeal to Warsaw and Moscow is based on the Final Act of Helsinki. This Final Act of Helsinki, the fulfilment of the act, requires no more from anyone than that to which he committed himself in 1975.

The fulfilment of the Final Act of Helsinki does not impair anyone's security interests -- on the contrary. The fulfilment of the Final Act of Helsinki could give Europe more stability and thus provide more security for all. Here, too, Herr Ehmke is correct: those who respond to the will for individual liberty by imposing repression will create more instability than those who show a willingness for reform, as hard as they may find it to do so.

Co-operation in Europe is threatened by measures such as those that were taken on Dec. 13 in Poland, and by no means by those who call for the termination of such measures. It is equally certain -- and I am addressing this to those who wanted to and did criticize the fact that we received Mr. Rakowski here -- that inaction in foreign affairs, mere protest and cutting off the channels of communication would achieve nothing at all.

That would be immobilism. Only those who are very consistent and active in supporting détente, co-operation and dialogue can have the means and instruments of helping the Polish people, however difficult and problematic that might be.

It is -- and this should also be taken very seriously in Warsaw and Moscow -- also our concern about East-West relations, détente and co-operation that leads us to call upon those responsible to recognize the dangers inherent in interrupting the process of reform and renewal and to allow that process once again to take its course.

It is in this light that our three demands and expectations for the Polish people should be seen. Our demands reflect a concern for that long-suffering people, and for stability, co-operation and détente in Europe. Everything that we are doing, and everything that we will do in the future must be evaluated solely according to the criterion of whether or not it serves that goal.

I can only repeat that those who fear a dialogue deny themselves important instruments and great opportunities. Thus the Federal Government expressly welcomes the fact that the American Secretary of State is maintaining his intention of meeting with the Soviet Foreign Minister at the end of January.

The achievement of our goals requires a great deal of solidarity in our own country, in the European Community and in the Western Alliance. We call on those responsible in Warsaw and Moscow to return to the foundation laid by the Final Act of Helsinki and to ensure that the process of co-operation between East and West is not impaired.

The Geneva negotiations on intermediate-range missiles commenced on schedule. In view of the great importance of arms control and disarmament in our highly-armed continent, we are determined, along with our partners in the Alliance, to continue our policy aimed towards concrete and effective arms control agreements. In this connection, the basis of trust could be improved by a return to the course of reform in Poland.

In the past few weeks, however, something else has also become evident. Europe can only do justice to its task of helping to maintain the peace if it remains firmly allied with the democracies of North America. Only in the alliance with the United States and Canada can the equilibrium in Europe and the world that is necessary for peace be secured.

The results of the Nato Ministerial session impressively demonstrate our unity. If I were part of the Opposition, I would not underestimate this, and I might even voice my approval. As we know, above and beyond all of its vital common interests the Alliance is first and foremost a community of shared values, a community of fate based on liberty.

The Federal Republic of Germany should never forget its responsibility for that community. It will always have an active role to play in the Alliance as regards politics, disarmament and defence. We are also aware that, as far as the East-West relationship is concerned -- Herr Ehmke put it very clearly -- a relapse into the cold war would not affect anyone more severely than us Germans here in the West, and, for that matter, the Germans in the GDR.

We would seriously violate our own interests if we were to overlook for a single minute that we can only defend our national interests by working together with our partners and allies. Or, to put it another way, our weight in the Western community also determines our weight in the East-West relationship.

Building on this foundation, the Federal Government will unswervingly continue its policy based on the statement by the European Foreign Ministers, the joint statement of the Federal Chancellor and the American President and on the strategy drawn up jointly by the Nato Foreign Ministers.

It will endeavour to make a contribution to helping the Polish people in their efforts towards renewal and reform, in order to bring relations between East and West back onto a constructive course. I repeat: at the end of his speech the Federal Chancellor certainly made an attempt to re-establish communication with you.

Now let us turn to the topic with which we are primarily concerned today, namely the question of what kind of Western policy will be able to help the Polish people in their desire for some small additional measure of freedom, reforms and social progress. Or what kind of Western policy might help to overcome the difficulties of current developments so that progress can become possible in Poland and co-operation and détente can continue in the East-West relationship.

This is the concern that we as Germans must have. This is the concern that we as Europeans must have. This is what we must strive for here. This is what we must discuss frankly.

We must recognize the importance of the fact that, in spite of all the voices of disbelief that were heard earlier, the Western Alliance arrived at a joint statement on Jan. 11 that is more than a mere manifestation of protest, but a joint statement expressing a political strategy on which we intend to act.

For this reason I appeal to the Opposition to vote in favour not only of their own motion, but also of that of the Coalition parties, which would like to give their support to this joint policy of the Western Alliance.

