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LESLEY STAHL: After two days of intense meetings here in Washington, both Secretary of State Shultz and Soviet Foreign Minister Shevardnadze indicated that a summit this year is still a possibility. That is, if a certain cloud can in some way be removed.

SECRETARY OF STATE GEORGE SHULTZ: The cloud that hangs over all this is the fact that Nicholas Daniloff is not free to leave the Soviet Union.

STAHL: Shevardnadze was outright optimistic about Daniloff and the case of the accused Soviet spy, Zakharov.

TRANSLATOR: My conclusion is that there is a real chance to resolve those questions. I stress there is a genuine chance for that.

STAHL: During the week, the Reagan Administration continued to send mixed signals.

PRESIDENT REAGAN: No, we haven't blinked.

STAHL: The President came under unprecedented criticism from his own conservatives, who called his response to the Daniloff case Carteresque and wimpy.

MAN: Mr. President, at some point we're going to pay the price for this kind of weak, pusillanimous response to serious world developments.

STAHL: In response, White House officials put out the

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word that the President had been tough when he met with Shevardnadze on Friday.

DONALD REGAN: He was quite candid in telling the Foreign Minister that we viewed the Daniloff matter with a great deal of seriousness here.

STAHL: And the Administration ordered the expulsion of 25 Soviets from their missions at the U.N. But at the same time, there were concessions at arms talks in Stockholm on reducing the threat of conventional war in Europe; and the Geneva arms control meeting reconvened on schedule, with both sides moving forward with counterproposals.

LARRY SPEAKES: We seek to strengthen strategic stability, and truly diminish the risk of nuclear war.

STAHL: But given the fact that reporter Daniloff is still facing a Soviet trial, will there be a Reagan-Gorbachev summit this year? We'll ask the spokesman of the Soviet Foreign Minister, Gennady Gerasimov. Should there be a summit? We'll ask Republican Congressman Jack Kemp of New York and Senator Christopher Dodd, Democrat of Connecticut.

U.S.-Soviet relations: How can the damage be repaired? An issue facing the nation.

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STAHL: In two separate news conferences last night, Secretary of State Shultz and Soviet Foreign Minister Shevardnadze agreed that their meetings improved the prospects for arms control and a superpower summit. But they said that Daniloff and the case of the accused Soviet spy Zakharov must be settled first.

Here are some excerpts.

SECRETARY SHULTZ: I think it is difficult to think of a fruitful summit without these cases being resolved, because they're going to wind up consuming great blocks of the time.

MINISTER SHEVARDNADZE [translated]: I believe that the Daniloff-Zakharov case question can be resolved.

We have decided, with the Secretary of State, that our contacts will be continued in New York.

REPORTER: Do you believe that you made enough progress on arms control and other issues at these meetings so that, if the Daniloff case is resolved, you would then be able to set a date for the summit?

SECRETARY SHULTZ: Well, there's real progress made. And I think there is the potential for good work in Geneva. There are quite a few items that seemed to be insouble a year ago that are working themselves out.

MINISTER SHEVARDNADZE: The negotiations have shown that on some questions, some very important security issues, certain prospects are emerging for reaching an agreement. The agreements that we believe could be signed at the summit, if, of course, sufficient substantial preparatory work is done beforehand.

STAHL: Shevardnadze said the stumbling block to a summit isn't Daniloff, but the planned U.S. expulsion of Soviets from the U.N.

MINISTER SHEVARDNADZE: Someone's malicious hand tried to block the further removals up ahead. If the U.S. side adopts an illegal decision to expel Soviet staff members, then the Soviet side has to react. What the response might be, will be, I cannot state.

REPORTER: Did he tell you what that retaliation might be?

SECRETARY SHULTZ: No. I don't know what actions they'll take. But I do know this. The President's powder is dry.

STAHL: With us from New York, Soviet Foreign Ministry spokesman Gennady Gerasimov.

Welcome to Face the Nation, Mr. Gerasimov, again. You were with us two weeks ago.

Yesterday in his news conference, Foreign Minister Shevardnadze hinted very strongly that a resolution to the Daniloff case is fairly imminent. He said that perhaps, even, there could be some resolution as soon as next week. Is that the impression he meant to leave, and exactly what was he talking about?

GENNADY GERASIMOV: As far as I see, it's not a time-consuming process, this resolution. It's just the question of will. It's not very difficult.

STAHL: Well, what is the resolution? What's going to happen?

GERASIMOV: Some kind of diplomatic accommodation.

STAHL: Well, like what?

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GERASIMOV: Well, I don't want to be too specific. It's premature specificity. At least as we see it, it's not a very big problem at all.

STAHL: But tell us what the resolution will be. You know, for our side, it seems to be a very difficult problem. Obviously, the subject consumed a great deal of the time that was spent t these meetings in the past two days.

GERASIMOV: Too much, to my taste.

STAHL: Well, what is the resolution? What are you talking about?

GERASIMOV: Well, he is -- I mean Mr. Daniloff. He's under investigation. He's charged. And usually, he's going to be put to trial. But because we don't want this particular case to be an obstacle in our relations, we can find some kind of solution and let him free.

STAHL: And let him free.

Are you still...

GERASIMOV: Which doesn't mean that he's not guilty, in our eyes.

STAHL: Well, is he guilty, in your eyes?

GERASIMOV: Well, he's not guilty until he's proven guilty in the court. But he is charged.

STAHL: Let me ask you something. President Reagan wrote a letter to Mr. Gorbachev and said that Daniloff is not a spy. Mr. Gorbachev, after that letter, went out and said he is a spy. But yesterday, when Mr. Shevardnadze spoke to the press, he didn't call him a spy again.

Where do you stand on that? Is he a spy or isn't he a spy?

GERASIMOV: He is charged. And, of course, there is an assumption of innocence until it is proved in the court. But the case against him is very strong, indeed.

And also, we gave to the American side some of the evidence which we possess. Not all of it.

STAHL: Now, when you talk about a resolution, is it possible that some Soviet dissidents, perhaps Mr. Sakharov and his wife Elena Bonner, might be allowed to leave the Soviet Union, something like that?

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GERASIMOV: We have Zakharov. Why should we put Sakharov into the picture?

STAHL: Well, what about Sakharov and Elena Bonner? Is that a possibility? Is that being discussed?

GERASIMOV: No, I don't think so. It's a case completely separate. It's a separate thing, separate cases.

STAHL: Let me try to pin you down here. A resolution. Are you and the Americans talking about a specific idea to resolve this? Is there some absolute proposal on the table that could...

GERASIMOV: Well, there are several ideas in the air. Now, when we are on the air, there are several ideas in the air.

STAHL: That the American side has let you know would be acceptable, and so we're that far along.

GERASIMOV: Well, I don't understand the question. What's the question?

STAHL: You said there are ideas in the air that perhaps were discussed between Mr. Shultz...

GERASIMOV: Of course. They are discussed, they were discussed, and they can continue to discuss. And as soon as they end their discussions with some kind of an acceptable solution, acceptable to both sides, the better.

STAHL: And do you...

GERASIMOV: I want this case to be behind us, together with other cases.

STAHL: Together, I assume there, with other cases, you mean the question of whether 25 Soviets have to leave the Soviet Union.

GERASIMOV: Yes.

STAHL: Mr. Shevardnadze suggested -- I'm sorry. Whether they have to leave the United Nations.

Mr. Shevardnadze indicated if that is pressed, then the Soviets will retaliate. How would you retaliate?

GERASIMOV: Well, we want to keep you a little bit in suspense.

STAHL: I see.

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STAHL: I have to go back to the Daniloff situation. Do you expect this to be resolved this week in New York? Is there a meeting between Shultz and Shevardnadze scheduled for New York at which you believe this will finally be resolved and Mr. Daniloff will come home to the United States?

GERASIMOV: Well, I don't see any big obstacles in finding the solution to this particular problem.

And as to the meeting of your Secretary of State and our Foreign Minister, it is not yet on the calendar of our Foreign Minister. But, of course, we can always find time to squeeze it in.

STAHL: I see.

Do you expect it to be resolved this week, yourself, in your own mind?

GERASIMOV: I said I hope, and I see no big obstacles.

STAHL: Okay.

Do you think Mr. Daniloff will come home soon?

GERASIMOV: Well, if it's resolved, then he is going to come home.

STAHL: Okay. You're not telling us that much.

Tell us about the progress that your side believes was made at these meetings on arms control. Both sides indicated in their news conferences that great progress has been made and that a serious summit could possibly be held.

GERASIMOV: That's the main result of the meetings, that we registered some movement forward in certain fields which can bring us closer to the summit. And as I understand, both sides are cautiously optimistic in evaluating the results of this particular meeting in Washington.

STAHL: Was any progress made on an issue that I know your side is deeply concerned with, and that is SDI, or Star Wars?

GERASIMOV: Not to my knowledge. Well, this is the favorite idea of your President, and I'm not sure he's ready to part with it or modify it. This is one of the biggest problems.

Also, I can put into the -- I can also say that the other obstacle is your unwillingness to join us and to stop nuclear tests.

STAHL: Well, if you didn't resolve that, what was the main progress? Was it just, in fact, the medium-range missiles in Europe? Was that the main, and perhaps even the only, progress that was made?

GERASIMOV: We want to see the next summit just not as another handshake session, but as, if I can say it, put-our-heads-together session which can produce some kind of results.

The best result, in our view, is that we can stop nuclear testing and begin negotiating and to conclude nuclear test ban treaty, comprehensive test ban treaty.

Well, you're not yet ready. Then we can find something else. Something else may be missiles in Europe.

STAHL: And that would be enough, as far as Mr. Gorbachev is concerned, to come to a summit?

GERASIMOV: Well, we don't think that we must have a special -- a very specified list of concrete results. I think that one or two results of this kind is very good and it is going to continue the process which we began in Geneva. And it will build a little bit more trust between us and it will be easier to get something else at our summit number three.

STAHL: Summit number three, the next year in Moscow. You're already starting to predict there'll be a third summit.

GERASIMOV: My idea is that if we have summit number two, it will be easier to get to summit number three.

STAHL: The American side has said all along that it doesn't want a summit to be just devoted to arms control. They want to talk about human rights. They want to talk about regional issues.

Was any progress made on human rights, specifically on the question of Jewish emigration, which has hit a very low level this past year?

GERASIMOV: Well, we can discuss anything under the sun, anything which has some relation to Soviet-American relations.

As to the Jewish emigration, well, we had big figures, and now we have figures which are not so big, simply because those who wanted to leave have already left. And there are several separate cases when we must deal with these cases on an individual basis.

For instance, I was driven to your studio at CBS by a

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Russian who came from Moldavia, of Jewish origin -- I mean Soviet citizen of Jewish origin. He works as a driver at a limousine service.

STAHL: Yes? Well, there are many...

GERASIMOV: We talked in Russian.

STAHL: There are many Russians of Jewish background, we all know, who would like to leave the Soviet Union. Did you give some indication to Mr. Shultz that you would be willing to allow more to leave as something that could perhaps be agreed upon at a summit?

GERASIMOV: You see, when some figures are quoted, they are not substantiated. For instance, I've heard about the figure of 370,000 Soviet citizens of Jewish origin want to leave. This is not really true.

STAHL: Yes, but did you come to some understanding that more could be let out and that this could be agreed to at a summit?

GERASIMOV: Well, everybody who wants to leave can leave, if he meets two specifications. If he is not in possession of certain state secrets, and if there are no objections on the side of his relatives, whom, for instance, he want to support. For instance, if you want to leave, but you have a father or mother to support, then you must have the permission of your father or mother. This kind of thing. This is very concrete cases.

STAHL: Mr. Gerasimov, I'd love to pursue that, but we have very little time.

Could you, in just a very short sentence, describe the atmosphere of the meeting, the tone between Mr. Shultz and Shevardnadze? Was it chilly?

GERASIMOV: Well, it was businesslike. It was business-like. And it produced some kind of optimism for our future in our relations.

STAHL: Thank you very much, Mr. Gerasimov.

We will be back with more.

* * *

STAHL: Joining us now, Republican Congressman Jack Kemp of New York; and in New York, Senator Christopher Dodd, Democrat of Connecticut.

Let me first ask Congressman Kemp.

You had said that Shultz and Shevardnadze shouldn't even meet, as long as Danilooff was still in the Soviet Union. But now it looks as though that situation might be resolved, and we might have a summit as well. Were you wrong?

REP. JACK KEMP: Well, I said earlier, Lesley, that no summit is as important as the principle involved in the relationship between the U.S.S.R. and the United States with regard to the Soviets creating a hostage, framing a U.S. journalist, which creates the potential for them to do that to any tourist, any businessman or -woman, or any future journalist in the Soviet Union. That there were no talks that could be successful, predicated upon a deterioration of that very important principle that we want to establish.

So, from my standpoint, since the pre-summit talks have gone on, I was glad to see that George Shultz made that very uppermost. And now we hear the Soviet spokesman suggest that we are the stumbling block to better relations with the Soviet Union. It's an outrage. They frame up Danilooff, and now we're the stumbling block?

STAHL: Yeah, but was it a mistake to have this meeting? Now he might get out, we might have a summit.

REP. KEMP: Well, we don't have any progress. We have the words of a Soviet spokesman who is so disingenuous as to suggest that there are no Soviet Jews left who want to leave the Soviet Union. I can give him a list of 400,000 Soviet Jews who want to leave. And I know Chris Dodd could probably match it or give him more.

But it's outrageous that we are doing business as usual with the Soviet Union at a time when they are engaging in such conduct.

STAHL: Well, let's turn to Senator Dodd and ask him if he thinks that the meeting was a good idea, bad idea, what?

SENATOR CHRISTOPHER DODD: I think it was a good idea. But I would suggest something else, Lesley. I don't think there's going to be a summit. I think the Soviets don't want a summit right now. And I think they've used, unfortunately, my good friend Jack Kemp and others as a very effective tool in that goal of theirs.

They're going to come out of this thing with the best of all worlds. They don't want a summit right now, and we're going to be the ones that look as though we avoided having a summit

because of the linkage we've insisted upon with the Daniloff case.

Let me tell you why. One particular fact has gone almost unmentioned over the last several days. Gorbachev gave a very significant speech in Vladivostok very recently. I happen to believe the Soviets right now don't want a summit with the United States, at least in the short term. What they want to try and do is achieve some sort of an agreement with the People's Republic of China. That is very important to them.

But they don't want to delay the summit, at least be perceived of delaying the summit with the United States. So they power-play, use the Daniloff case. Here you have Gorbachev going on television, almost on a nightly basis, declaring Daniloff to be a spy. They know that there's no way, as long as they insist upon that, and as long as Jack Kemp and others mandate and absolutely insist there be linkage between the Daniloff case and summitry, then it seems to me we play right into the Soviets' hand and we make a tremendous mistake.

REP. KEMP: What kind of a summit would it be if the United States were to talk to the Soviet Union about compliance on previous agreements and upon arms reduction and upon human rights, and not suggest that the Daniloff case is important?

I disagree with Chris -- let me finish my sentence, Chris. The Soviets need us more than we need them. They need access to Western credit. They need access to Western markets. They need access to Western technology. Their economy are a shambles. Their proposals for Third World economic and other development, politically, is a joke, even in the Third World. They need us more than we need them, from my standpoint. And we ought not to allow them to hold a U.S. journalist, or any American citizen, hostage.

SENATOR DODD: No one's suggesting, and you know I'm not suggesting, that the Daniloff case is an insignificant one. But the problem is we've got -- you've got just as serious cases. My Lord, 250 people died in the Korean Air Lines crash. You've got Afghanistan. You've got terrorism that the Soviets support around the globe. If we're going to insist that before we can have any kind of meaningful arms control, that the Soviets are going to have to somehow stop their outrageous behavior, which we know they've engaged in and will continue to engage in, then we do exactly what I think, unfortunately, Jack, you and too many people want to have happen, and that is no arms control at all. You falsely see arms control as some gratuitous favor that we provide for the Soviet Union.

And frankly, the Soviets, I think, are now using that as

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a way to buy some time so that they can get the agreement with the People's Republic of China, then use the China card, if you will, when they come back to meet with the United States.

So, I would predict to you there will not be a summit, and the Soviets will actually use this to their advantage.

REP. KEMP: Well, I disagree. I think there will be a summit. There's been progress, or pseudo-progress, in Stockholm, Geneva, MBFR talks. And, of course, the way Shevardnadze and Shultz are talking right now, it looks to me like there is almost an inexorable course towards a summit.

So, I think Chris is way off base.

SENATOR DODD: Not in the short term. Not in the short term.

STAHL: Let me ask Congressman Kemp.

Do you think there should be a summit?

REP. KEMP: Oh, I think it's always essential that the two sides talk. But I'm suggesting there has to be some preconditions sent on a summit, lest we walk in and simply talk and then build up hopes and then have those hopes dashed in front of the world, where the Soviets can take advantage of that propaganda forum that we give them.

STAHL: Well, do you think, Senator Dodd, that for the Soviets this whole thing was a charade? You know, they had an excuse not to come, which was our threat to expel 25 of their people from the U.N. Mission. In fact, in a way, Shevardnadze lost a little face by coming over here with that threat over their heads. Wasn't that a good way to break it off if that's what they really wanted to do?

SENATOR DODD: They could have done that. But I think the plans had already been made for him to come and meet with Secretary Shultz. I think for him not to have met, I think, would have then, from a public relations standpoint -- and the Soviets are getting very good at this -- made it look, in terms of the world court of public opinion, that they were in the wrong.

What I would suggest to you here -- and again I emphasize the fact that you've had Gorbachev every night now declaring Daniloff to be a spy. They know that makes it more and more difficult for the President and those around him who really want to insist upon linkage, for them not...

REP. KEMP: There is linkage, Chris. There is linkage.

Moynihan has suggested there's linkage. There are members of your own party that suggest there's linkage.

And there's one other aspect of this. The Soviet Union Foreign Minister, Shevardnadze, is suggesting that the United States is blocking a successful summit by expelling 25 U.N. diplomats of the Soviet Union.

SENATOR DODD: That makes my point, Jack.

REP. KEMP: Should Ronald Reagan allow the Soviets to spy with immunity at the United Nations?

SENATOR DODD: Of course not, Jack. Jack, of course not.

REP. KEMP: But they're saying that's the stumbling block.

SENATOR DODD: If you're going to insist that every time the Soviets do something that you and violently disagree with, that we're going to stop all movements on arms control -- there is an equation here you've got to compare. Clearly, the Daniloff case is a serious one. Certainly spying is a serious one. Arms controls are also very vitally important.

Richard Nixon understood that better than probably anyone else. And unfortunately, his voice is not being listened to here.

REP. KEMP: I would make the case that we didn't get arms control. What we got is a huge arms buildup by the Soviet Union.

SENATOR DODD: Well, that's another matter, Jack. That's another matter.

STAHL: Can I interrupt for one second? I must ask Congressman Kemp.

Why are the conservatives going after President Reagan in such a personal way?

REP. KEMP: They're not going after the President in a personal way.

STAHL: They are. They're calling him weaker than Carter.

REP. KEMP: Let me make a point. Some are. I'm not suggesting that. What I'm suggesting, it's not a question of

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left-right, conservative-liberal. It's a question of what is right. How do you deal with the Soviet Union, absent unconditional progress towards...

STAHL: But why are you going after President Reagan?

REP. KEMP: I'm not going after President Reagan.

STAHL: Not you, the conservative...

REP. KEMP: Again, there are -- I must speak for myself. I can't speak for every conservative. And my view is that there should be no summit that is more important than certain principles of relationship between ourselves. And the Soviets should unconditionally release Daniloff, and we should expel all of those spies in the U.N. Mission of the Soviet Union.

STAHL: Gentlemen, I am very sorry. We have run out of time.