

PRIME MINISTER'S

PERSONAL MESSAGE

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TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND CHANCELLOR SCHMIDT : TUESDAY 24 FEBRUARY 1981 AT 2020 HOURS

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Subject: Filed on Germany: Anglo-German Relations July 1979

Ka. Schmidt

Prime Minister Hello

Chancellor Schmidt Hello Margaret

PM Hello, how are you?

CS All right, thank you very much. How are you?

PM Oh I'm fine, but I have to be fine. There are so many problems that I have to keep fit to tackle them. Helmut, I was ringing because I am going to the United States tomorrow to see President Reagan and we'll be talking about the big international issues. I wondered if there was anything you would like to advise me on, to be either forthcoming or to be reticent. We will of course be talking about big things like the Middle East, about their attitude to Southern Africa, about their attitude to arms control and East/West relations generally, and particular to Brezhnev's speech. And also I think he will probably want to say to me something about their approach to El Salvador and Central and Southern America. I doubt whether they will have worked everything out yet but I was wondering, I really am seeking your views Helmut, on anything that I should say or that I should avoid.

CS Let me try to answer the points that you have mentioned so far Margaret. One of my main concerns right now is the impression that we are dealing with a world depression, much more than just a recession, that is much bigger than '75 and that the leaders of the free world and the biggest economy in the United States just do not understand what we have at hand. I have no recipe so far but my feeling is that never since the middle of the 70s has economic consultation been more important than just now. And my feeling is that we are in a dangerous situation. If any of us plays it cool and with benign neglect to the growing figures of unemployment and inflation at one time.

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PM. Yes I have that.

CS I have no recipe, but I think that it is appropriate that leaders like you and Ronald Reagan should exchange preliminary thoughts on that. I have the feeling that in the next three months or so we have to become rather active in consultation, otherwise we will be tempted to go at it alone, each of us, and possibly lapse into protectionism of beggar my neighbour policy.

PM Yes. If I might say something, I think one of the problems is that neither the United States nor we have had over the years your measure of financial discipline and therefore we are not down to the levels of inflation which are common to you. We are trying to get down to them, you have already reached them. In the process of getting down to them we have very high interest rates, and that is aggravating the exchange rate problem.

CS And the high exchange rate is of course detrimental to capital expenditure and private investment.

PM Yes. I don't think you could advise us not to tackle inflation.

CS No, certainly not. But I am concerned, I am rather sorrowful, I must say. As regards arms control and East/West, I haven't seen the full text of Brezhnev's speech - I have seen a rather cautious public evaluation by Alexander Haig. Both Genscher and I have made some noises about it. I think one should not, as a head of Government or a head of State, one should not into the details of that speech, but taken by his words where he says he wants to negotiate arms control, I think it is necessary that the United States of America makes it clear that this is just what they want to do. Another question is when, where and about what subjects but the Western world needs a very strong statement by Ronald Reagan and by you - a joint statement I think - saying we are for negotiations and arms control with the broad balance between East and West.

PM

PM Yes I think it is precisely that which is in issue - it is precisely the balance point that is in issue, because when you have a very powerful adversary, who has become very powerful on nuclear weapons, it suits him to have a moratorium now. And particularly when he is in Afghanistan. I am very wary, but I recognise the political point with which you have to deal, and we all have to deal - that we must respond but make certain that they actually come down on the amount of arms they have already.

CS I think the concept of equilibrium ... on military power are to be mentioned and underlined very strongly. Also as regards the so called ^{concrete} ~~Dublin~~ decision of NATO of December '79, please tell Ronald Reagan that he can rely on the German Government despite I would stick to that decision and make it stick. But please in order to make it stick I have to be sure that the United States and the rest of our allies .. would stick to the words of that decision. Number one to the deployment of such weapons in Europe and number two to the invitation and the will of the West towards the Soviet Union to negotiate mutual balance - ceilings - or whatever you call them. Both are necessary and the Americans must not give the impression to the European public, neither to the Dutch, nor the Belgians, nor the Germans, nor the Italians that the second half of the decision does not really matter and ~~just~~ what matters is ^{just} the first half. This would make it very, very difficult to get this 'swallowed' domestically. I almost predict that it will not be swallowed in this country, as it will not be swallowed in Belgium or in Holland. It is a very important thing. I have just called, in front of my Parliamentary Group, I have called it the typical element of NATO's grand strategy as a whole - on the one hand to make for equilibrium in military means, that is the first half of that decision, and secondly to try to stick, to ^{stabilize} ~~civilize~~ it, by negotiation and if we fail to realise that decision I think NATO will suffer a major blow from which it might not easily recover.

PM I got the point Helmut, and certainly I understand in particular your problem - this is all our problem - we all have to get these two things, the balance and the agreement to stabilize the balance. But is there anything particular apart from Ronald Reagan, with

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the Community, because I saw an account of what you and Oliver Wright talked about and I am very concerned that we have some very big decisions ahead of us in the Community on fish and agricultural prices and on the budget and we really must make some fundamental decisions and not just resort to tinkering with the problem.

CS I think these subjects including agriculture prices do not now raise major questions between the EEC and the United States of America. I think that they are more subjects to be dealt with among ourselves, especially fish which is a subject of very sour emotions in Germany and perhaps I might take the opportunity to tell you that I don't understand why ^{for} 1500 tonnes of cod fish you cannot allow the Canadian agreement to become valid, but all the other points which you mentioned including fish - I do not see any necessity to mention them viz a viz Reagan. Earlier on you mentioned El Salvador and I would be very much interested in hearing Margaret your judgement on Salvador and Nicaragua.

PM I think that the views that our American friends take is that they do not want any further penetration of either Soviet forces or Cuban forces in Central America or Southern America. Neither would I and they would take the appropriate steps to prevent that happening and that is the view that we must keep in mind because it might mean that they supply arms or assistance to regimes that you and I would not necessarily like, but in politics the question is what is the alternative. And if the alternative is Cuban or Soviet influence in Central or Southern America, then I would in fact expect our American friends to react to try to prevent that and I could understand that.

CS I have listened carefully to Mr. ^aEgelburger and as far as I can see these talks went rather well at least in Bonn, and there is one point I would like to add. While fully accepting Margaret what you have just stated, I would like to add that in order to prevent Communist overtaking and Soviet influences it is not necessary and not really desirable to link oneself up with extremist reactionary forces on the right wing of military governments because this in the long run is a provocation for the Communists and would serve

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as a provocation for uprisings from the left. In other words I hope our American friends are able to distinguish between Communists on the one hand and the rest of the political spectrum which in itself in most of these countries is a different grain and shape. At least this seems to be true in Salvador and it may be true in Nicaragua. I think there is an underlying tendency in some Americans to judge Central American and Caribbean problems just by 2 different yardsticks. Either somebody is white or black and there's nothing in between. And there is a little danger that they are excluding possibilities and possible developments in between. I don't really wish to be put in positions to choose between communists and military dictators.

PM The view that I take is that just as you know your problems, living fairly close to the Warsaw Pact border, so I think Reagan probably knows his problems with the communists in Central America fairly close to him, and I would expect that the view that he would take would be that he does not want either the Soviets or the Cubans to make a great advance in Central America.

CS I fully agree. I doubt whether they have a clear picture of the situation because they are rather new in office. But they may get a better picture from week to week. I wouldn't have made my remarks if you hadn't mentioned Salvador.

PM I think it's going to be raised with me.

CS Let me come back to EEC. There might perhaps - one point has come to my mind Margaret - one point as regards the trade relations between the United States and Japan in connection with the trade relations between the EEC and Japan. There's a certain danger I am told that the people in the United States would like to solve their Japanese import problem at the expense of the European Community. I don't know how much of this is true, but I'm told there's a certain danger. Perhaps you're going to talk about Japan. I wanted to talk about this line with you.

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PM Yes. I know you keep/very open trading system. But you have problems with/^{our}Japanese friends and so do we. But they are being now monitored by the Commission for 3 months. I think the problem that
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many of us have is that those who preserve an open trading system do not necessarily meet with the same openness from other countries.

CS The Japanese ought to be put under pressure for opening up the country.

PM Right. Otherwise the burden on those of us who try to preserve and open trading system is intolerable, and we get the unemployment.

CS I do agree.

PM I don't want there to be any question that being pro-American means being anti-EEC. I want to say that I think that we all have to stick together both within Europe and between Europe and the United States. And I think that is our only hope. And so to me there is no difference between the two.

CS I understand you. I have nothing to add or to criticise.

PM Good. We are trying to do our best to try to get an agreement on fisheries and on agricultural prices, and we'll return to that when we meet in March.

CS When do you come back from America?

PM I'm back on Sunday and will let you know what happened.

General chat and farewells.