

*thw.* *Mr Whitmore.*  
*Original on: Anglo-German relations.*  
PRIME MINISTER'S TELEPHONE CONVERSATION WITH CHANCELLOR SCHMIDT  
ON SUNDAY 23 NOVEMBER 1980 AT 1115 HOURS

PM: Goodmorning, First, can I say how very much we enjoyed last weekend. I've written to you, but it won't have arrived yet.

CS: Thank you very much. Let me tell you a few of the impressions I had in Washington the day before yesterday. I have the feeling that Ronald Reagan, whom I talked for about 1 hour, and another 2 hours with some of his advisers and my advisers, that Reagan is quite open for a dialogue with the European partners and that he is seeking that.

PM: What does that mean? You mean that he would like a number of bilateral talks.

CS: I don't know what he really means, I think it's just too early to specify for himself. But I have the feeling and he expressed himself quite clearly that he does want, as he put it, to prevent any new surprises between the allies and the United States. So he made it very clear that he wanted closer cooperation or consultation. Secondly I would like to convey a few impressions as regards appointments. He has not given a single hint but other friends to whom I have talked made it rather likely that the Foreign Office, State Department will go to Alexander Haig.

PM: We heard that rumour last Monday.

CS: In that context it seems to me that we have an interest in making it clear for our public that Al Haig is not just a military but an all-round political animal. It looks likely that George Schultz will not join the administration at all.

PM: I'm sorry about that.

CS: So am I. It seems to have something to do with Near East policies but this is not quite clear to me. The personal relationship between the new President and Kissinger seems to be OK. But for the foreseeable number of months I would not reckon with any role of Kissinger within the inner circle.

/ PM:

PM: I'm a bit surprised because he seemed to do quite a lot during the election campaign.

CS: It seems to me that other people in the Reagan camp have great misgivings about Kissinger and that Reagan right now is taking precautions so far.

PM: It's a personal thing, is it.

CS: I think so. It looks likely that finance will go to Bill Simon.

PM: Well I know Bill Simon well and he did it very well last time. He'll be very orthodox, you know, he will get things under control.

CS: Yes, he will be conservative. I heard from Simon himself and also from Arthur Burns and my impression also by Greenspan who ..

PM: Yes, I know him.

CS: ... that they are conscious of the necessity to clear up the different economic targets which have publicly been voiced during the campaign. Number one, they have promised to lower taxation immediately. Number two they are promising to enlarge defence expenditure and number three they want to bring inflation down. How this fits in together will give them quite some trouble for digestion I guess.

PM: Well it just depends. If lower taxation means lower direct taxation, then they can do it by putting up the indirect and switch to the lowering the direct.

CS: My feeling is that, about these economic questions, there will be lots of talks and disputes over the next 8 or 12 weeks in Washington. We might possibly hear more about that and about foreign policy in the near future. Coming back to Ronald Reagan himself. The central point in our talk was that he gave the very clear impression, intentionally gave the very clear impression that he

is prepared to sit down with the Russians on arms control negotiations with great patience but also with engagement and also that to think of himself he would negotiate harder than his predecessors. I have told him that in my view it is important to have the Kremlin get a clear cut profile of his intentions right in time before the Communist Party Conference which will be held in Moscow at the end of February, oncoming February. I have the feeling that a trip of Senator Chuck Pursey, who is going to become the Chairman of the Foreign Relations Committee on 1 January, that a trip of Chuck Pursey to Moscow, I think he'll be travelling tomorrow is of some important. I think he is travelling in connection with the Governor. Obviously for the advisers of Governor Reagan, economic relations with the Soviet Union are a subject of importance, I think they will lay more stress on the questions of the doubts they have as regards transfer of technology.

PM: What, they will try to limit it more?

CS: I think so. It is obvious that in the Republican camp you have different degrees of emphasis on all these questions. For instance, Senator Baker who is the new majority leader in the Senate, said to me they did not want an arms race, they did not want superiority. He just used the term adequacy. Others have, as you may remember, used other terminology earlier on. So I think they are just in a situation of forming their policies. They were very much interested in Poland and were asking what the foreseeable developments could be in Poland. My answer was that as far as I could judge, of course I was in a fog like anybody else as well, as far as I could judge that still the situation in Poland was rather dangerous and that we were not over the top of the hill as regards international difficulties. I got the impression that Reagan will try to improve American relationships with their immediate neighbours in Ottawa and Mexico City.

PM: That'll be marvellous.

CS: I think so.

PM: Did you put that into their minds?

/ CS:

CS: I made remarks to that extent and I had the feeling that they themselves had at least been thinking of whether and how it could be done.

PM: Any news on the defence front? About defence advisers.

CS: No, no. No clear cut or concrete news except that I do think that the economists in the new administration will fight those who want to step up defence expenditure quickly and considerably.

PM: Yes, I think they will. They will insist that they get public spending and taxation under control and the money supply first. Certainly Bill Simon will.

CS: Yes, that's my feeling too. Greenspan was not that outspoken but I had the feeling that they were preparing for quite a fight within the new administration. At the very subject a feeling of mine. The farewell visit to President Carter was nice and kind. He was greatly concerned about the present oil supply in the market and obviously they tried to have the International Energy Agency to pull the trigger. I have contradicted that.

PM: ~~THEY CAN/MOST UNWISE~~ <sup>be</sup> They can/most unwise, I agree.

CS: I have contradicted that. I said regulations will only lead to new regulations and to national domestic regulations. I made it very clear that I don't like that idea but they seem to be rather decided and I, after my return to Bonn, hear that they have started talks in the realm of the International Energy Agency. I have, to some degree, in talks with Governor Reagan, Margaret, mentioned that I had the feeling from listening to you and from listening to Giscard that both you and the French President were like I myself looking forward with confidence to the cooperation with the new government.

PM: Very much so. I think it will be much better, I think it will be much firmer and I think it will be much more widely discussed and I have known Governor Reagan for quite some time and I don't think he got a fair deal from the press in his country.

/ CS:

CS: And not from the press in Europe.

PM: And not from the press in Europe. And I'm really quite optimistic because I think they'll take a hold of things and I think it will be the end of uncertainty and the fact is that no government wants war. Every government wants peace and the question is how do you best go about getting it. And he will be firm, I don't think he'll change his views, he'll make a very cool calculated assessment of the Russian position but he'll be the first to negotiate genuinely on reductions in armaments, as we all are. So I really am quite optimistic and very encouraged, Helmut, by what you've told me. The only thing is I'm sorry George Schultz won't be in.

CS: So am I. I'm really sorry. Because the Middle East thing and the Near East thing must not be dealt with only in terms of military power.

PM: No. He might join later you know. They've obviously got an immediate problem now, as I feared they would have because I think undertakings during the election campaign will limit what they can do for a few months. After that, it'll be the facts and the situation itself which will take over. And then they will look at it with a different view.

CS: Yes, that's possible.

PM: You felt quite cheered by your talks, did you Helmut?

CS: I felt relieved and in a way I had the feeling, well there might be differences as always but the United States will again be on a steady and calculable course after a couple of months.

PM: Yes, I'm sure they will. I think they're taking immense trouble now to get their main strategy line laid down before he comes in.

CS: Yes. He is rather careful now not to commit himself any further in any direction.

/ PM:

PM: I think that's right. And I think that is an optimistic sign too. Well, that's marvellous. And you enjoyed it very much?

CS: I did.

PM: Well, it's very very valuable. I'm off to Rome this afternoon.

CS: Wish you a good trip Margaret.

PM: Thank you very much. Well, if it's as nice as last week and as valuable it'll be wonderful. But, unfortunately the government topples there about every six months and you don't know where you are.

CS: I hope you have good weather in the Holy City and see some of the marvellous things which Rome has to offer.

PM : Well, there'll not be much time. Our Chancellor of the Exchequer is making a big statement in the House on Monday afternoon so I have to be back for that. But still, we can do a lot in a little time. Well, I'm so pleased to have heard from you and thank you very much. I hope you're feeling and keeping fit. Thank you for phoning Helmut.

CS: Yes, all the best.

PM: Goodbye.