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SUMMARY RECORD OF A TELEPHONE CONVERSATION BETWEEN THE
PRIME MINISTER AND THE CHANCELLOR OF THE FEDERAL REPUBLIC
OF GERMANY AT 2100 HOURS ON 14 JANUARY, 1982.

Chancellor Schmidt said he was deeply relieved that the Prime Minister's son had been found safe and well in the Sahara. He wanted to give the Prime Minister an account of his recent talks with President Reagan and President Mitterrand.

His talks with President Reagan and Mr. Haig had gone extremely well. Despite the impression created by the Press, the Americans were as pleased as the Germans with the results. His discussion with Weinberger had been less good but he had had very satisfactory talks with a number of old friends in the Congress. There had been two main subjects: (a) Poland and the complex of ~~East~~ West relations; (b) economic matters. On Poland, he had found that the attitude of American public opinion towards Germany was not very favourable but he was confident that his visit had helped to correct this impression. On the substance, there had been a clear mutual will to reconcile positions, as the joint press release showed. Reagan had taken a firm decision to maintain the arms control negotiations, despite voices to the contrary heard in Washington. This was very important to the Federal Republic. Also, Haig had decided to maintain his meeting with Gromyko at the end of January. Again, this was important. The West must never give the impression of unwillingness to negotiate with the Soviet Union. It was immensely reassuring that Reagan had absolutely made up his mind on this point. The Prime Minister commented that President Reagan was very good on the big things. She had very considerable confidence in his decisions on these. Chancellor Schmidt said he shared this confidence. Reagan had the merit of not complicating matters or of bringing too intellectual/^{an} approach to them. "I have come really to like him."

Chancellor Schmidt said that the Americans obviously wanted all the Europeans to adopt sanctions. But they agreed in private

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that this was more a matter of political demonstration than of making a real economic impact on the Soviet Union. The Prime Minister agreed. It was not a question of sanctions so much as one of sending a signal to the Soviet Union.

Chancellor Schmidt then turned to the economic subjects discussed in Washington. He had argued that American economic policy was not just a domestic affair but a pace-setter for the rest of the OECD countries. As far as America was concerned there was no such thing as a national credit system or a national interest rate. He had made plain that it was absolutely necessary to reduce the level of interest rates and therefore reduce the budgetary deficit. Reagan had agreed. A hint of this could be found in the Communique. The American Ambassador in Bonn had since confirmed that Schmidt's arguments on these points had made an impact. The public borrowing requirement in the 1983 Federal budget could be expected to be reduced. Of course, this depended partly on Congress but Schmidt had obtained the impression from his contacts with Congress that the public borrowing requirement was widely regarded as too large. The Prime Minister commented that all this was good news. Schmidt said it remained to be seen whether the Americans lived up to their statements. But Mitterrand shared the German and British view that it was important that they should do so. He (Schmidt) had told Reagan that it was a question of strategic importance. Social disturbances in the West could mean a strategic weakening of the Alliance.

Chancellor Schmidt said he had met Mitterrand and French Ministers the previous day for two hours of discussion. No difficulty had arisen. They had broadly agreed on the steps to be taken with respect to Poland and East/West relations. They had noted that there was a difference in the accentuation of the presentation of views to the public in Germany and France but this reflected certain basic differences between them. He told Mitterrand that Germans had sent more than two million individual parcels to Poles in recent weeks to express their compassion. The French had expressed their feelings in different ways. He had agreed with Mitterrand that anything the West did on Poland must

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be politically effective and not just talk. No opportunity should be missed of enabling Poland to develop an acceptable national solution. Much depended, and would continue to depend, on the Catholic Church in Poland and on the Pope. It was clear that the Polish Archbishop and the Pope were now more concerned about the situation and had changed the accent of their comments on the Polish leadership and the situation generally. The Prime Minister said she was convinced that the change was due to the Pope himself. She did not see how a Communist system could ever co-exist with a source of power outside the Government. The spark of freedom could not co-exist with a Communist regime. Chancellor Schmidt said that on Christmas Eve he had written to Brezhnev to make clear that he held the Russians, not just Warsaw, responsible for what was going on.

He had also discussed with Mitterrand the economic situation, the next meeting of the European Council and the prospects for the Economic Summit in June. He had impressed on both Reagan and Mitterrand the desirability of Reagan visiting several European countries at the time of the Economic Summit. These should include London and Bonn. The Prime Minister said we had also invited him to London.

Chancellor Schmidt said that it would be good if Reagan met Brezhnev at an appropriate time. He believed Brezhnev would understand Reagan. (The Prime Minister agreed.) Reagan was personally contemplating such a meeting but others in Washington were rather reluctant. The Prime Minister expressed the view that Reagan would hold such a meeting and that he would handle it well.

The Prime Minister said that Chancellor Schmidt had clearly been having a busy and interesting time. Chancellor Schmidt said he had, but it had not been pleasant. He had been made the scapegoat in the American press for the European failure to act. The Prime Minister said that his friends knew the truth. Recent developments had been encouraging. The Alliance had made it plain that it would not drift apart. Our own stance on Poland was that the Polish people and not the Military Government should

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be helped. Chancellor Schmidt enquired whether food could not be sent to the Government. The Prime Minister thought that all such aid should be held up until we could see what was happening. If Jaruzelski made progress towards meeting the three conditions laid down by the West, well and good. But otherwise we could really only send humanitarian aid to help the people of Poland. Schmidt said that he was inclined to think that financial assistance for Poland would have to go ahead as well. The Prime Minister said that Polish default on its debts would certainly have serious consequences. Chancellor Schmidt said that President Reagan was well aware of this. There was a possibility of chain reactions in the banking world.

The Prime Minister told Chancellor Schmidt that she had just received a letter from President Reagan about COCOM. We would consider this. Chancellor Schmidt said that he would go a long way to prevent high level technology being passed to the Soviet Union and thereby endangering Western interests.

The Prime Minister said that the paramount need was to keep alongside the United States. Chancellor Schmidt agreed and thought the Americans now recognised that there must be consultation before action. The Prime Minister said that, reflecting on their conversation, she was particularly pleased by Chancellor Schmidt's account of his discussion of economic matters in Washington. American economic policy was of the greatest importance to us. Chancellor Schmidt suggested that some British comment to Reagan on interest rates might be helpful. The Prime Minister said that we would like to get our own interest rates down but with rising US interest rates this was difficult. Chancellor Schmidt said he had his own problems. Seasonally adjusted unemployment figures were now at their highest for 30 years.

In a brief reference to arms control, the Prime Minister said that the bulk of British opinion favoured multilateral, not unilateral, disarmament. Chancellor Schmidt said that the situation in Germany was the same. Most Germans were not deluded

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by the so-called Peace Movement. This had little significance in most sectors of public opinion and was fuelled mainly by very young people.

A.F.C.

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