

OR
Subject filed: Germany: Anglo-German Relations Pt 2.

Translation

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T161/82

~~CONFIDENTIAL~~

The Federal Republic of Germany
The Chancellor

Bonn, 15th August 1982

The Rt. Hon. Margaret Thatcher, MP
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland

London

Dear Margaret,

While still on holiday, I should like to inform you in more detail about the talks I held during my recent trip to the United States, supplementing the information you have received via our offices. With the exception of Secretary of State Shultz, all of those I talked with, particularly the American businessmen, were very sceptical with regard to economic developments. This applies to both the outlook for the American economy in the coming months and particularly to an effective reduction in the level of interest rates. Milton Friedman expects the economic situation to improve in about 18 months, but he does not foresee a reduction in long-term interest rates. He suggested that the Europeans should attempt to decouple their interest rates from those in the United States.

My scepticism regarding the coming winter and the first two quarters of 1983 was not lessened by these talks. In all of them I pointed out the negative lead given by the United States' deficit and high interest rate policy.

In discussing East-West relations, Mr. Shultz upheld the familiar two-track West-East policy, emphasizing that the West needs both a firm defence and the willingness to see a constructive relationship with the Soviet Union emerge. I pointed out the necessity of maintaining East-West contacts, and emphatically supported the idea of a personal meeting between President Reagan and General Secretary Brezhnev. I advised Mr. Shultz not to burden such a meeting from the outset by expecting concrete results, but to focus on the opportunity it affords for an exchange of views between the leaders of the two world powers. I informed Mr. Shultz that my Government would maintain its contacts with the Soviet leadership.

I also told him that, in my opinion, the INF negotiations in Geneva are currently central to West-East relations and that, if these negotiations did not achieve results, Start and other West-East negotiations on disarmament would have no prospect of success either. In view of the commencement of deployment agreed upon for the end of 1983, I underlined the importance of the time factor in the Geneva negotiations.

Discussing the Polish situation, Mr. Shultz said that the United States did not intend to declare Poland to be in default, and added that American banks also had no interest in seeing that done. He pointed out the great restraint shown by the United States regarding the rescheduling of Poland's debts. I expressed the view that the West should at some time specify the incentives for a normalization of the situation in Poland.

I expounded in detail on the West's interest in the CSCE process. In that connection, I called particular attention to our appreciation of the political presence of the United States and Canada and to the significance of confidence-building measures covering the whole of Europe. I went on to point out that it was thus particularly important for us for the CSCE follow-up meeting in Madrid to result in a mandate for a conference on disarmament in Europe that would include all of Europe, from the Atlantic to the Urals.

I expressed criticism of the most recent American proposals within the ECE, and underscored the importance of West-East co-operation, particularly in the sphere of energy.

Since my visit I have received a letter from Mr. Shultz saying that the United States had by no means withdrawn from the ECE as a whole, but merely wished to refrain from participating in certain meetings (West-East co-operation in the field of energy). This was intended to demonstrate that the US administration was not willing to carry on "business as usual" after the events in Poland, and Mr. Shultz voiced the opinion that this would profoundly affect the Warsaw Pact countries, since they had profited to a much greater extent than the West from co-operation on energy.

I expressed my strong support for Gymnich-type meetings within NATO. Discussing the NATO two-track decision, I pointed out the necessity of synchronizing the stationing of Pershing II in the Federal Republic of Germany and that of cruise missiles in the other countries concerned. The Federal Republic of Germany should not be singled out, even on a temporary basis, in connection with this essential question.

As regards the power relationship between West and East, I spoke out against an inferiority complex on the part of the West since that would not further the cause of the unity of the Western alliance nor the morale of its armed forces. Mr. Shultz later informed me that he had passed this on to President Reagan, who was apparently quite impressed with this thought. Regarding the question of the out-of-area responsibilities of the partners in the Alliance, I emphasized that the Federal Republic must not become the main base of the rapid deployment force. In this question, too, the German partner must not be singled out. In our discussion of Turkey, Mr. Shultz said that Washington believed the Turkish leadership was making considerable progress. Regarding developments in the field of human rights, my own assessment is somewhat less optimistic. I told Mr. Shultz about the indirect contacts that have taken place through Secretary General Luns and myself

between Papandreou and the Turkish leadership. Following talks with Greeks and Turks, I consider it conceivable that

- the Cyprus problem might be declared a problem of the United Nations and of the two national communities on the island,

and

- the question of sovereignty in the Aegean air and sea space might be left unsettled for a few years,

if NATO can arrive at a formula expressing the - obvious - fact that the purpose of the Alliance is our joint defence against the Soviet threat, and that it excludes any threat by one partner in the Alliance against another. Mr. Shultz described these thoughts as very interesting.

Of the roughly twelve American business leaders with whom I held talks, there was none who supported the position of the American administration concerning the expansion of the American embargo against the natural gas pipeline deal. Mr. Shultz' comments on this matter were very cautious. He repeated the arguments during the hearing before the Senate Foreign Relations Committee. Like the President, Mr. Shultz used the term "family dispute" in discussing this issue. He apparently assumes that the gas pipeline will be built, albeit with some delay. I cautioned against calling European companies before American courts, by extending the scope of American legislation to Europe.

With regard to European-American trade relations, Mr. Shultz voiced dismay over Mr. Olmer's comment that the United States might call its participation in GATT into question. Mr. Shultz is determined to make every effort to ensure that free trade is not irreparably damaged.

We did not discuss details of the European-American steel dispute. Discussing the overall complex of trade restrictions, Mr. Shultz and I were agreed that disaster was imminent if no political action was taken.

I presented to Mr. Shultz in detail our view of the Third World and its problems, underscoring the importance of true non-alignment and the special role played by the countries of the Third World within the United Nations. I pointed out that the Europeans had special opportunities of exerting influence in various regions of the Third World, and that the United States was by no means forced or expected to bear the whole burden of action in that part of the world.

Concerning the situation in Central America, Mr. Shultz was convinced that large weapons shipments from the Soviet Union were being sent to Cuba and from there to Nicaragua and other Central American countries. While he considers it proper to attempt to maintain reasonably good relations with Nicaragua, he feels that it has a very negative influence on El Salvador and Guatemala. He said that the United States would continue its arms shipments to El Salvador, and emphasized that the United States' 350 Million Dollar programme for the Caribbean was a serious endeavour.

Mr. Shultz brought up the topic of Namibia. He said that the Cubans would have to leave Angola, and that when Nujoma and his forces were established in Namibia, and after the South Africans had left, Angola would dismiss the Cubans.

I gained the impression that Mr. Shultz will have considerable influence on U.S. policy on the Middle East. He showed great understanding of the rights of the Palestinians and said that stronger influence should be brought to bear on Israel. However, he was not thinking in terms of direct talks or of recognition for the PLO, but his objective was to integrate Jordan and Saudi-Arabia into the Middle East process while ensuring the participation of Egypt. I voiced strong support for this position. We were in agreement that Somalia needs assistance if it is not to fall back under Soviet influence, and Mr. Shultz told me that the United States is currently supplying weapons to that country.

In California I also met with Prime Minister Lee Kuan Yew, who gave me an impressive view of the situation in Asia. Lee believes that the imbalanced treaties between the Soviet Union and China will continue to prevent rapprochement between Peking and Moscow. He foresees slower development in China and expects that it will take that country about 60 years, or 3 generations to achieve the industrial standard Japan enjoys today. However, he has no doubts whatsoever that China will eventually reach such a state of development.

In the presence of Mr. Shultz and Dr. Kissinger, Prime Minister Lee emphasized that the American administration must be more careful to allow the Chinese leadership to save face, but that this need not impair the substance of American positions. For Peking, the Soviet presence and influence in Vietnam and Cambodia continued to be unacceptable. It would continue to support actively the re-establishment of the former states in Indochina, with governments that are as independent as possible.

During our meeting in Ottawa, I informed Prime Minister Trudeau of the impressions I had gained in California. Apart from that we concentrated essentially on bilateral topics.

Yours sincerely,

(sgd.) Helmut Schmidt