SECRET

MT

PART 3A

CONFIDENTIAL FILING

PM's MEETINGS WITH CHANCELLOR SCHMIDT IN GERMANY

GERMANY

PT1 JUNE 1979

PT3 NOV 1981

S 807

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~20.11.81~~							
~~15.2.82~~							
~~20.7.82~~							
~~23.7.82~~							
2.10.82							
—ENDS—							

PREM 19/766

Dd 533270 5M 2/78 8362633 JET

PART 3 ends:-

Bonn tel : 821 of 2/10/82

PART 4 begins:-

FCO to RTA tel of 6/10/82

GRS 135

CONFIDENTIAL

FM BONN 021050Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 821 OF 2 OCTOBER

INFO IMMEDIATE OTTAWA (FOR SECRETARY OF STATE'S PARTY)

INFO ROUTINE BMG BERLIN

INFO SAVING WASHINGTON PARIS UKREP BRUSSELS UKDEL NATO

GERMANY

N Pods

IMMEDIATE

ADVANCE COPY

ANGLO-GERMAN SUMMIT 28-29 OCTOBER.

1. CHANCELLOR KOHL MENTIONED IN TELEVISION INTERVIEWS LAST NIGHT THAT HE HAD RECEIVED A CONGRATULATORY TELEPHONE CALL FROM THE BRITISH PRIME MINISTER, AND THE POINT WAS PICKED UP IN OTHER MEDIA REPORTS. HE WENT ON TO SAY THAT THE ANGLO-GERMAN SUMMIT WOULD GO AHEAD.

2. THE PRIME MINISTER'S TELEPHONE CALL WAS CLEARLY APPRECIATED BY THE NEW CHANCELLOR. NO CALL FROM ANY OTHER HEAD OF GOVERNMENT WAS MENTIONED, ALTHOUGH KOHL ADDED THAT THE GERMAN-FRENCH SUMMIT (A WEEK BEFORE OURS) WOULD ALSO GO AHEAD.

3. WE HAVE NOT RECEIVED PRESS ENQUIRIES ABOUT THE SUMMIT SINCE KOHL REFERRED TO IT. I SUGGEST THAT, IF YOU OR WE DO RECEIVE THEM, THE REPLY SHOULD:-

(A) CONFIRM THE SUMMIT AND THE DATES

(B) EXPRESS HMG'S PLEASURE AT THIS EARLY OPPORTUNITY TO CONFER WITH THE NEW GERMAN GOVERNMENT

(C) SAY THAT DETAILED PLANNING FOR THE SUMMIT WILL NOW GO AHEAD.

FCO PLEASE PASS TO SAVING ADDRESSEES.

TAYLOR

NNNN

SENT AT 021111Z CMR

file

bc: Miss Stephens

Germany

10 DOWNING STREET

From the Private Secretary

23 July 1982

PRIME MINISTER'S VISIT TO GERMANY

Thank you for your letters of 16 and 22 July.

The Prime Minister is prepared to extend her visit to Bonn for the Anglo-German Summit on 28/29 October in order to include a visit to Berlin. She was also prepared to stay on until 30 October in order to take up Chancellor Schmidt's invitation to call on him privately in Hamburg. But I see from your latest letter that Chancellor Schmidt has now discovered that he has an unbreakable engagement on that day. I therefore agree that Sir Jock Taylor should be asked to speak to the Chancellor's Office on the lines suggested in paragraph 2 of your letter of 22 July, and that detailed arrangements should be made after the holidays.

A J COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

22 July 1982

Dear John.

When I wrote on 16 July about the possibility of the Prime Minister visiting Berlin after the Anglo-German Summit on 28/29 October, I also reported that Chancellor Schmidt had suggested in a talk with Sir J Taylor that he would like to invite her to his house in Hamburg. We have since heard from Herr Schmidt's office that the Chancellor had spoken without having his diary commitments clearly in mind. He has an engagement on the afternoon of 29 October which could be cancelled if necessary, but on 30 October - the day the Prime Minister might most conveniently visit Hamburg if she also goes to Berlin - he has a commitment to attend a Party Conference in Saarbrücken.

In the circumstances the best thing to do might be to ask the Ambassador to tell the Chancellor's Office that the Prime Minister much appreciated the Chancellor's invitation to visit him in Hamburg, that she would very much like to do this if it proves practicable on this occasion and if not perhaps sometime in the future, and go on to suggest that we should see after the holidays how best to make arrangements.

Yours ever,

Frank Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

(1)

PRIME MINISTER

Visit to Germany: 28/29 October

You wished to see the diary in order to consider whether you could extend your visit for the Anglo-German Summit (28/29 October) to visit Berlin and then, at the private invitation of Chancellor Schmidt, Hamburg. This would involve you staying on until Saturday, 30 October.

The diary in October is quite light at the moment, apart from the Party Conference from 5 - 8 October.

On the other hand, you have the Opening of Parliament on 3 November, the Lord Mayor's Banquet on 15 November, a State Visit from 16 - 18 November, and a major speaking engagement in Glasgow on 26 November.

It still appears possible for you to spend the period 28/30 October in Germany, taking in Berlin and Hamburg. Since Chancellor Schmidt seems particularly keen that you should pay a private visit to his home in Hamburg, are you content to stay on until Saturday, 30 October?

Yes [illegible] A.J.C.

21 July, 1982.

10 DOWNING STREET

Caroline

Could Spl. have a note of relevant diary commitments?

A. L. C. 20/7

MR. COLES

Possible visit by the Prime Minister to Berlin

You asked me about the Prime Minister's diary for October. The diary in October is quite light at the moment other than the Party Conference from 5-8. The Prime Minister is quite right that November is heavy in that she has the Opening of Parliament on Wednesday 3rd; the Lord Mayor's Banquet on Monday 15th; a State Visit 16-18th and a further major speaking engagement in Glasgow on Friday 26th.

But I still feel a visit to Berlin and Hamburg would be possible on Saturday 30 October.

CD.

20 July 1982

Prime Minister

Following the Anglo/German summit in Bonn do you wish to visit:-

(a) Berlin

(b) Hamburg - to see Chancellor Schmidt privately?

(no diary difficulties).

A.J.C. 19/7

Let me have a look at the diary. We have 2 meetings + meeting at Def. Also

Foreign and Commonwealth Office

London SW1A 2AH

16 July, 1982

Dear John,

Possible Visit by the Prime Minister to Berlin

In my letter of 11 February I passed on Lord Carrington's suggestion that the Prime Minister pay a short visit to Berlin after the autumn Anglo-German Summit. You replied on 15 February that the Prime Minister would bear the possibility in mind but did not wish to commit herself at that stage. As it has now been confirmed that the Summit will take place from early evening on 28 October until about lunchtime on 29 October, my Secretary of State would like to suggest that the Prime Minister give further thought to the possibility of paying a visit to Berlin thereafter.

As I said in my earlier letter, high level visits continue to be an important demonstration of the Allied commitment to Berlin. Since I wrote, President Reagan has visited the city and it is likely that President Mitterrand will also visit in 1983. Yet it is eleven years since a British Prime Minister went there. A visit would be particularly welcomed by the CDU Governing Mayor, Dr Richard von Weizsaecker, whose call on the Prime Minister on 2 April had to be cancelled at the last minute owing to the invasion of the Falklands.

The Prime Minister may also wish to consider the opportunity offered by Berlin as a forum for a major speech to a German audience. For example, HM Ambassador Bonn has suggested that in the wake of the Falklands conflict we could with advantage remind the Germans of some of the lessons about Britain that the crisis has highlighted. Although a suitable public platform could no doubt be created in Bonn for a speech on this theme, Berlin would be a more appropriate setting. A speech there could be expected to have maximum impact.

Chancellor Schmidt suggested to our Ambassador in Bonn on 14 July that the Prime Minister should visit him privately at his house in Hamburg after the Anglo-German Summit either on her way back from Berlin - if, as he very much hopes, she is able to go - or otherwise direct from Bonn. This is a marked and welcome invitation, and would be a useful chance to consolidate the gains of the Summit. Mr Pym very much hopes that the Prime Minister will agree to do this. If she does, we can consider timings in more detail later; one possibility would be to fly from Bonn to Berlin in the early afternoon of 29 October, spend the night in Berlin

/and

and return to London via Hamburg the next day.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

A J Coles
Private Secretary
10 Downing Street

HL

CONFIDENTIAL

15 February 1982

Possible visit by the Prime Minister to Berlin

The Prime Minister has seen your letter of 11 February, containing the Foreign and Commonwealth Secretary's suggestion that Mrs. Thatcher should pay a short visit to Berlin after the Anglo/German Summit in the autumn.

The Prime Minister will bear this possibility in mind but does not wish to commit herself to such a visit at present.

JOHN COLES

G

Francis Richards, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

①

Prime Minister
Agree to visit Berlin briefly after Bonn in the autumn?
A.J.C. 11/2

Foreign and Commonwealth Office

London SW1A 2AH

11 February 1982

Bear it in mind without committing ourselves at present not

Dear John.

Possible visit by the Prime Minister to Berlin

My Secretary of State would like to suggest that the Prime Minister pay a short visit to Berlin after the autumn Anglo-German Summit. It is 11 years since a British Prime Minister last visited the city (Mr Heath in 1971).

For over three years the situation in and around Berlin has been quiet and the city has remained largely insulated from the East/West tension created by developments in Poland. But normalisation has brought its own problems. As Berlin fades from the public eye it becomes even more important that the allies continue to show their interest in its future. High-level visits remain a valuable demonstration of our commitment to the city. Sir Ian Gilmour visited in 1980 and Lord Carrington in 1981. A visit by the Prime Minister in 1982 would be a logical and natural next step.

A visit would be particularly welcomed by the present Governing Mayor, Dr Richard von Weizsaecker, who in May 1981 became the first CDU Governing Mayor for 25 years. The Prime Minister has agreed to see Dr von Weizsaecker on 2 April during his first official visit to London and the Governing Mayor can be expected to extend an invitation during his call.

The most convenient timing for a visit would be immediately after the autumn Anglo-German Summit in Bonn; the Prime Minister could fly on to Berlin in the evening and return to London the following day. For the Germans this arrangement would give the visit added significance as a demonstration of the ties between the FRG and Berlin. If the Prime Minister agrees to visit the city, we shall need to bear this in mind in fixing dates for the autumn summit.

Yours ever.

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

Germany

HL

CF

Bonn Visit

20 November 1981

I only got the briefest glimpse of you at the airport, but no doubt your hand was behind all the arrangements for the visit on Tuesday and Wednesday.

With one rather obvious exeeption, everything seemed to go very well. I should be grateful if you could convey the Prime Minister's appreciation to those who, no doubt, worked very hard to make it all possible.

MICHAEL ALEXANDER

A.J. Hunter, Esq.

SECRET

10 DOWNING STREET

From the Private Secretary

20 November, 1981.

Anglo-German Summit: Arms sales to Yugoslavia

The Prime Minister saw your letter to me of 17 November on this subject, but did not raise the question with Chancellor Schmidt.

I am sending a copy of this letter to David Omand (Ministry of Defence).

M. O'D. B. ALEXANDER

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

SECRET

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File

10 DOWNING STREET

From the Private Secretary

20 November 1981

Anglo/German bilaterals

As you know, the Prime Minister has invited Chancellor Schmidt to visit this country in March for the next Anglo/German bilateral. I have discussed the dates with the Chancellor's office and we are agreed that the most suitable day would be Friday 19 March. The visit will begin that morning: the Germans will let us know later whether Chancellor Schmidt will stay on until the morning of 20 March.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

SECRET

cc HMT
CO
MOD
MAFF
DOT
DOI
D/Emp

HL

10 DOWNING STREET

From the Private Secretary

20 November 1981

Prime Minister's visit to Bonn

I enclose the records of the Prime Minister's discussions with Chancellor Schmidt in Bonn on Wednesday. I should be grateful if these records could be given an extremely limited distribution. They should be seen only by those who genuinely need to see them.

I am sending copies of this letter and all the enclosures to John Kerr (H.M. Treasury) and David Wright (Cabinet Office).

I am also sending a copy of this letter together with the record of the tête-à-tête and appropriate extracts from the record of the expanded discussion to David Omand (Ministry of Defence). I am sending copies of extracts from the expanded discussion to Kate Timms (Ministry of Agriculture, Fisheries and Food), John Rhodes (Department of Trade), Ian Ellison (Department of Industry) and Richard Dykes (Department of Employment).

M. O'D. B. ALEXANDER

Brian Fall, Esq.,
Foreign and Commonwealth Office.

SUBJECT
o.K. Mark

SECRET

NOTE OF A MEETING HELD BETWEEN THE FEDERAL CHANCELLOR AND THE PRIME MINISTER IN THE FEDERAL CHANCELLERY, BONN, AT 0910 HOURS ON WEDNESDAY 18 NOVEMBER 1981

Present:

Prime Minister
Mr. C.A. Whitmore

Chancellor Schmidt
Herr Otto von der Gablentz

Visit of President Brezhnev

The Prime Minister asked Chancellor Schmidt what he thought President Brezhnev's objectives would be when he came to Bonn at the weekend. She supposed that his main purpose would be to sound out Chancellor Schmidt and, through him, the West more generally, before the US/Soviet talks on theatre nuclear forces began on 30 November.

Chancellor Schmidt said that President Brezhnev was now a very old man. When he had met him three years ago, he was very frail and needed help in answering his questions. He questioned how great President Brezhnev's influence in the Politburo still was. The other members of the Politburo would go on using him as a front as long as he lived. They could exploit his popularity both in the Soviet Union and in the rest of the world and they were using him to postpone the inevitable struggle over the succession to him. On the other hand, President Brezhnev was, in his view, one of the few trustworthy leaders of the Communist world. He conformed to the conception of a Russian which he, Chancellor Schmidt, had gained from reading Russian literature when young. President Brezhnev came out of the pages of Tolstoy, Dostoievsky and Pushkin. He was capable of great sentimentality. But was equally capable of being brutal and devious. Above all he wanted peace badly. This was his 7th meeting with President Brezhnev and he now had "a certain feeling for him". He was deeply afraid of war and he always came back in conversation to what he had experienced in the Second World War. He was now too old to be ambitious for himself and he knew that he would not live much longer. His quest for peace was plain.

/ While in Bonn,

While in Bonn, President Brezhnev wanted to sound out the West as a whole. He did not understand the West. He had dealt with three former US Presidents - Presidents Nixon, Ford and Carter - on SALT II. All three had appeared to the Russians to be negotiating seriously, but in the end they had all shrunk back from finalising the Treaty. President Brezhnev was now dealing with his fourth American President - and one who had originally said that it made no sense to negotiate strategic arms limitation agreements but who was now saying that it was right to negotiate. What was the Soviet Union to make of it? Even though President Brezhnev almost certainly did not believe that the Americans wanted to go to war, they must appear very devious to him. Moreover, just as he could not read the West, nor could President Reagan read the Russians, even though he was now talking in a more sophisticated way than he had done 12 months earlier.

The Prime Minister said that the Soviet Union did not understand the constraints under which the democracies had to work. In the United Kingdom, for example, the Government could no longer count with complete certainty on the approval of Parliament for its actions. When her predecessors had negotiated international agreements in the 50s and early 60s, they could be sure that Parliament would ratify what they had done. Today the composition of the House of Commons was very different, with many younger Members who were making a profession of politics and who had no outside experience. They could not be relied upon to support the Government in the way their predecessors had done.

Chancellor Schmidt agreed that the Russians did not understand the Parliamentary limitations under which the governments of the West had to work. Nor did they understand that the media in the West were free and could say what they liked. They also found incomprehensible some of the quick changes in government which they saw in some Western countries. They had "a sympathy for continuity in their partner countries". They had got used to President Giscard after dealing with him for 7 years; and they were now familiar with him now that he had been Federal Chancellor for 7 years. He knew that President Brezhnev regarded him as honest and candid. He had "some limited trust" in him and so President Brezhnev would listen to him when he came to Bonn and so would his people.

/ Chancellor Schmidt

Chancellor Schmidt went on to say that Mr. Gromyko was one of the few members of the Politburo who understood the West. But his standing was not significant. He had joined the Politburo only three years ago after a lifetime of service in the Government. There was only one military man in the Politburo, Mr. Ustinov. He did not know how influential Mr. Ustinov was but when he had last been in Moscow, he had had talks lasting 2½ hours with him and Marshal Ogarkov and he had found them both very competent and very self-assured. "In their moderation they had scared him."

The Prime Minister said that she could not understand why the Soviet Union, which needed so much military strength to give itself self-assurance, then denied the same military strength to the West as a whole and to the United States in particular. She also wondered whether the Russians were becoming as worried as the West about the rapidly growing cost of sophisticated military equipment. If they were, that was the hope for the future.

Chancellor Schmidt said that he thought that the Russians were become more alarmed at the increasing cost of their defence capability. But they were equally worried about the planned deployment of American GLCMs and Pershing 2s in Europe. The fact that they had the SS20 did not reassure them. "Their SS20s were not aimed at Russian cities." This would be the first time since President Kennedy withdrew Thor missiles from countries like Turkey that NATO missiles in Europe were targetted at Soviet cities. The Russians would go a very long way - even as far as dismantling part of their own capability - to remove this threat. But he did not believe that they could agree to a mutual zero outcome of any arms limitation negotiation. They would have to keep some missiles deployed against China and they might argue that they needed some to counter-balance French ground-launched missiles, though they could not claim that they needed ground-launched missiles to offset the UK's Polaris missiles, since they could counter-balance those with their SLBMs.

The Prime Minister said that the Russians appeared to over-estimate the Chinese threat.

/ Chancellor Schmidt

Chancellor Schmidt agreed but said that the Russians nevertheless had a very deep fear of China. He had once discussed with Chairman Mao recent Russian leaders and he had branded them all as traitors to Communism, except, of course, Stalin. He had also had 10 hours of private talks with Chairman Hua two years ago and he had boasted quietly of Chinese ability to destroy Moscow with its missile forces. What, above all, gave the Chinese confidence in dealing with the Russians was their numerical superiority.

The Prime Minister said that two things underlay the strength of China's position. First, they shared with the Russians a disregard for human life, and this gave them a similar approach to politics to that of the Soviet Union. Second, they were so much more numerous than the Soviet Union. Their attitude to the Soviet Union was their value to the West.

Chancellor Schmidt said that Moscow saw the opening up of the West's relationship with China as a great offensive against the Soviet Union. When he saw President Brezhnev he would explain to him that the West felt threatened by the 200 SS20s which the Soviet Union had now deployed. He would tell him that these missiles had to be done away with. But he would warn him that he could not count on the so-called peace movement in Western Europe. Nor should he meddle in the internal affairs of Western countries. Any other government that might possibly succeed his in Bonn would adhere to NATO's double-track decision. He would tell President Brezhnev that he must reckon that theatre nuclear forces would be deployed at least in the Federal Republic and the United Kingdom. He had only until the summer of 1983 to negotiate an arms limitation agreement on TNF. He would make clear to President Brezhnev that if there was no agreement by then, GLCMs and Pershing 2s would be deployed in the autumn of that year. He would also urge him to meet President Reagan: only in this way would they realise that they were both human beings and not warmongers.

Chancellor Schmidt continued that there would also be some discussion with President Brezhnev on bilateral Soviet/German relations. The Soviet Union wanted to export raw materials and gas to the Federal Republic, and Germany wanted to supply machinery and other manufactured goods to the Soviet Union. Trade between

/ the two

the two countries was still relatively small and its main value was that it created contact between the two nations.

Above all, he thought that President Brezhnev would want to project himself to the West as "the great peace lover". His visit would be "an attempt by the old man to stabilise peace", but it would be on his terms and not ours. He, Chancellor Schmidt, was at risk here and so he would make a speech at the dinner he was giving for President Brezhnev which would be frank rather than friendly and would give nothing away. He would report on his meeting with President Brezhnev to his colleagues in the Community at the European Council meeting in London and he would send an envoy to report to President Reagan.

The Prime Minister said that she thought President Brezhnev might be surprised when he met President Reagan. He might find that they understood each other more easily than he might have expected.

Chancellor Schmidt reiterated his hope that President Reagan would meet President Brezhnev fairly soon. After President Brezhnev left the scene, there could be a long power struggle in Moscow which meant that the Soviet Union ceased to operate effectively in the outside world, possibly for a period of years.

World Economy

Chancellor Schmidt said that he believed that the United States' budget deficit in 1982 would be in the region of $95-100 billion. President Reagan's economic policies would not work, and the Administration appeared to be leaving the fight against inflation to the Federal Reserve Bank. As interest rates rose, private enterprise in the United States would be starved of funds. Investment would fall and this would lead to rates of unemployment which they had not seen since the war. The United States Administration had to change the course of its economic policy. Even if the economic policies of the British and German Governments were successful - and he had to admit that his own was not going very well at present - they would nonetheless be "infected" by what was happening in the United States. We were on the brink of turning world recession into world depression. Never before had

/ Europe

Europe had such high interest rates while at the bottom of a recession. If the Americans had to borrow some $100 billion in 1982, interest rates were bound to go up still further. He did not believe that the United States Administration understood that when they decided on domestic United States economic policy, they were also deciding the economic fate of the world.

The Prime Minister said that many people did not grasp that a big deficit made not for boom but for a big depression.

Chancellor Schmidt agreed. It was possible to have a deficit and boom if a country did not need to borrow money from overseas and was able to have an autonomous interest rate policy. But neither the Federal Republic nor the United Kingdom - any more than the United States - could exist without foreign money. So as the United States borrowed more and its interest rates went up, we should have no alternative but to follow.

Middle East

The Prime Minister said that she was also very worried about American policy towards the Middle East. There was a real danger that another US President would be gone and nothing done to move towards a solution to the problem of the Middle East. Mr. Begin's position seemed to be getting stronger, and he plainly felt more free than ever to act in what he saw as his own interests. The United States appeared to have no realistic ideas about what to do next after the Israeli withdrawal from Sinai. The Arab world was, to put it mildly, disillusioned with the United States. The whole situation was a gift to the Russians who would do all they could to stir up trouble.

Chancellor Schmidt said that he shared the Prime Minister's pessimism. The Americans were not being nearly subtle enough in their policy. But they never had been. In his view Camp David had been a mistake from the beginning. It had never left a door open for the Soviet Union to come in again and to revive the Geneva talks. And it had been as much a slap in the face for the moderate Arabs as for the Soviet Union. He was particularly worried about Egypt after the death of President Sadat. She was in great

/ economic

economic difficulties and he doubted whether the government would be able to feed the people this winter. Saudi Arabia still had no relationship with Egypt: this was an impossible situation when Egypt needed Saudi money so badly. Any Egyptian ruler who wanted to satisfy the people of Egypt had to have a close political and financial relationship with Saudi Arabia.

The Prime Minister said that when she had recently seen King Hussain of Jordan he had said that it would, in his view, be disastrous if President Mubarak became engaged in wholly artificial autonomy talks. It would vitally undermine his position in Egypt. King Hussain had put his views to the Americans.

In response to a question from Chancellor Schmidt, the Prime Minister added that it was true that King Hussain had his own dealings with the Soviet Union but basically he was very loyal to the West.

Chancellor Schmidt said that he did not doubt King Hussain's attachment to the West. But he was "a little King of a weak country with no oil". So far he had manoeuvred very well through the shallow and deep waters of the Middle East, but it was significant that he had had to open up a relationship with the Soviet Union. If Prince Fahd of Saudi Arabia disappeared from the scene, the West would have no more friends in the moderate Arab world. If Prince Fahd was not there what hope would there be of Saudi financial help for Egypt? It would be a major mistake to try to keep Egypt separate from the rest of the moderate Arab world. After the Israeli withdrawal from Sinai, the aim should be to restore Egypt's relationship with the other moderate Arab countries.

The Prime Minister said that this would not happen if the United States went ahead with the autonomy talks. An agreement resulting from those talks which created an artificial autonomy would put President Mubarak in a false position.

Chancellor Schmidt said that if President Mubarak went into these talks, all he would have to offer would be a promise not to attack Israel. But this would not impress Mr. Begin because he

/ would see

would see President Mubarak for what he was, a man in a weak position fighting for survival. What President Mubarak had to do, above all, was to find some-one to finance the Egyptian economy, and that some-one had to be Saudi Arabia.

The meeting ended at 1020.

18 November 1981

CONFIDENTIAL

JS

10 DOWNING STREET

From the Private Secretary

20 November, 1981

Dear Brian,

ANGLO/GERMAN BILATERAL MEETING

I attach a copy of the record of the plenary session of the Anglo/German Ministerial discussions held in Bonn on Wednesday, 18 November.

I am sending copies of this letter, and of the record to John Kerr (HM Treasury), David Omand (Ministry of Defence), Kate Timms (MAFF), Ian Ellison (Department of Industry), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

Yours ever,

Mike Whitmore.

Brian Fall Esq
Foreign and Commonwealth Office

CONFIDENTIAL

SUBJECT
de Marlin

CONFIDENTIAL

RECORD OF A PLENARY DISCUSSION BETWEEN BRITISH AND WEST GERMAN MINISTERS HELD IN THE FEDERAL CHANCELLERY, BONN, AT 1530 HOURS ON WEDNESDAY 18 NOVEMBER 1981

Present:

The Prime Minister	Chancellor Schmidt
Foreign and Commonwealth Secretary	Herr Genscher
Chancellor of the Exchequer	Count Lambsdorff
Secretary of State for Defence	Herr Matthoefer
Minister of Agriculture, Fisheries and Food	Dr. Apel
Secretary of State for Industry	Herr Ertl
Secretary of State for Trade	Herr Hauff
	Herr Gscheidle

* * * * * * * *

East/West Relations

The Foreign and Commonwealth Secretary said that he and Herr Genscher had discussed the forthcoming visit to Bonn of President Brezhnev. They expected that the subject most in the forefront of his mind would be the negotiations between the Soviet Union and the United States on Theatre Nuclear Forces which were due to start on 30 November. He would no doubt try to use his visit to drive a wedge between the allies. All members of NATO wanted the negotiations on TNF and, later, on strategic arms limitation to be successful. Public opinion in the West required successful talks.

He and Herr Genscher were also agreed upon the need for a satisfactory outcome to the talks now going on in Madrid. They wanted to see the French proposals for a Conference on Disarmament in Europe accepted. This would allow the West to show to its own public that it was actively seeking arms limitation agreements.

Herr Genscher added that he and Lord Carrington had specifically discussed the zero option in relation to the

/forthcoming

forthcoming TNF negotiations. Federal Ministers would tell their Soviet visitors that cruise missiles and Pershing IIs would be deployed by the end of 1983 if no agreement on these missiles had been reached by then. An approach of this kind was the only way to get the Soviet Union to negotiate seriously.

The Prime Minister added that East/West relations had dominated her tete-a-tete conversation with Chancellor Schmidt that morning. They had discussed the essential need for balance in the military capabilities of East and West and had agreed that, if possible, this balance should be maintained at a lower level than now. They had also given a good deal of attention to ways and means of having even closer links between the United States and the European allies than existed at the present time.

Herr Genscher then summarised the speech on arms limitation which President Reagan had given earlier in the day. His four main proposals were very much on the lines which the Federal Republic had been advocating for a long time. The Federal German Government would therefore welcome warmly the President's speech and they would urge President Brezhnev during their talks with him to take the American proposals seriously and to respond positively to them.

Chancellor Schmidt said that he and the Prime Minister would endorse President Reagan's proposals at their Press Conference immediately after the plenary session. He was well satisfied with what the President had said. The tone of his speech had been firm, polite and forthcoming. There was, however, one point about it which was not altogether clear. He was not sure whether the President's proposals embraced short-range nuclear weapons, including, for example, the Soviet SS22 and SS23. We must avoid a recurrence of the situation we had got into with SALT II which dealt with intercontinental weapons and omitted Euro-strategic systems. We must make sure that in the forthcoming negotiations we did not include the SS20 only to leave out the SS22 and 23.

/The Foreign Secretary

The Foreign Secretary said that putting forward the zero level option had placed the West in a good position politically, but we should recognise that the prospect of achieving such an outcome or indeed any concrete result from the negotiations in the foreseeable future was very remote. The course which the West was now embarked upon would undoubtedly help with public opinion in the Federal Republic and the UK, but it would be a serious mistake to raise expectations too high, for they would most certainly be disappointed later. We should therefore make clear the difficulties that lay ahead.

Chancellor Schmidt said that he agreed with the cautious note struck by the Foreign Secretary but we should take care not to weaken our position before the negotiations with the Soviet Union had started. Public attitudes in the Federal Republic were very different from those in the United Kingdom. The UK had its own deterrent. The Federal Republic did not and saw itself threatened by other people's decisions. He would say to his public that we had to make responsible use of the time available for negotiations on Theatre Nuclear Forces. He would make it clear that we had only until mid-1983 to conclude an agreement. If by then the negotiations had not reached a successful outcome, the deployment of cruise missiles and Pershing IIs would have to start later in that year. And once deployment began, many things in East/West relations would change but in the meantime he had to show the German public that serious efforts were being made to limit the numbers of land-based weapons systems on both sides. In the judgement of ordinary German people there was more at stake for them in these negotiations than for other Europeans.

Middle East

The Foreign Secretary said that he and Herr Genscher had discussed the difficulties which the Community was experiencing over the participation of forces from Britain, France, Italy and Holland in the Sinai Multinational Force. They hoped that it might be possible to overcome the present problems in the next day or so.

/Herr Genscher

Herr Genscher added that it was very much in our interest to see a stable Egypt. He expected President Mubarak to try to reduce the misgivings of other Arab countries about Egyptian policies while maintaining his country's existing commitments.

Defence

Dr. Apel said that as well as talking about the NATO double track decision on TNF, he and Mr. Nott had discussed the problem of preserving an adequate defence capability in the face of mounting financial pressures. They had agreed to keep in the closest touch so that we shared our experience in tackling this problem. They had in particular discussed the Tornado programme, which was taking up as much as 30 per cent of the German equipment budget. They were looking for an adjustment which would stretch the programme without unacceptable consequences.

Economic Affairs

The Prime Minister said that she and Chancellor Schmidt had discussed the prospects for the world economy. Many nations were facing a situation, particularly as regards the level of unemployment, which they fervently hoped would never be repeated. The immediate question was how to give people hope that the problems could be tackled successfully. Neither she nor the Federal Chancellor was certain that they had the answer. They were both clear that we could not hope to return to the high growth of the 1960s. Both Governments would like to spend more on capital projects but this meant reducing current expenditure, and the public did not like this. There was a very real difficulty for Governments in selling the economic answers to these problems to their peoples, and in particular to the young.

Count Lambsdorff said that he and the Chancellor of the Exchequer had discussed the danger that members of the Community might drift apart in their economic policy goals, and that a similar divergence might occur between the Community and the United States. They were agreed that such a development was to be avoided. This could be done if all the countries applied budgetary

/discipline

discipline, gave priority to investment and restrained public expenditure. The IMF, the World Bank and the OECD all shared this view. There was a real need for the Community to discuss medium term economic policy at the political level. We should also intensify our efforts with the Americans to promote co-ordination at the international level. It was, however, important to do this in a way that was not critical of the United States.

Count Lambsdorff went on to say that he had given his British colleagues a brief account of Federal economic policy. 1981 had been a difficult year. The Consumer Price Index at 5.5-6 per cent was higher than had been expected, and GNP had dropped. The current account deficit, though declining, was very large. He expected to see an improvement in 1982 when there would be real growth in the economy, however moderate. The rise in the Consumer Price Index was expected to be lower, possibly an average of 4.5 per cent for the year. The current account deficit would probably be, at Dm 15 billion, half of the 1981 figure. He hoped that interest rates would be lower. It was, however, difficult to make forecasts with any confidence when the world economic situation was changing so rapidly. Unemployment would remain a major concern. It would go on rising, partly because of demographic factors and partly because improvements in productivity would outstrip the rate of real growth.

The Chancellor of the Exchequer said that he agreed that the social and economic burdens of unemployment were not likely to diminish in the near future. The UK economy was moving, nonetheless, in the right direction. We expected to see some growth in 1982, and although progress in reducing inflation had been checked for the time being, he believed the downward trend would be resumed next year.

/He had discussed

He had discussed with Herr Matthoefer and Count Lambsdorff the impact of the American economy on the economy of the rest of the world. The recession in the United States would continue and this was bound to have an effect on interest rates not only in the United States but elsewhere. This prospect underlined the need for all countries to undertake fiscal as well as monetary restraint in order to avoid the consequences of high borrowing. The Community must be ready to emphasise to the Americans the importance of controlling their deficit, if necessary by means of higher taxation. If they did not bring their deficit under control, we would all continue to be faced by high interest rates. We must put our views to the Americans not stridently and publicly, but positively and firmly and in private. Above all, we had to get over to them the effect that their actions had on the rest of us.

Chancellor Schmidt said that he agreed totally with what the Chancellor of the Exchequer had said. We had to make our position known to the American Government, but it was essential to do it in a way which meant that nobody lost face.

Community Affairs

30 May Mandate

The Foreign and Commonwealth Secretary said that the Communiqué following the forthcoming meeting of the European Council would have to report on more than just the 30 May Mandate. It would need to cover, among other things, arms control, the world economy and the German proposals for a "European Act". But the discussion on the Mandate would be the centrepiece of the meeting and all the indications were, following the meeting of the Foreign Affairs Council in Brussels earlier in the week, that it would not be an easy discussion.

/ The Prime Minister

The Prime Minister said that she and Chancellor Schmidt had also discussed the Mandate earlier in the day. She wanted to see progress being made in parallel on all three Chapters. Nonetheless, there was some reluctance in some Member Countries. This was disappointing, but we could only go as fast as the Community as a whole. Both the UK and the FRG made net contributions, and it was important to devise lasting arrangements which would prevent the present situation continuing indefinitely. It was important that any budgetary settlement took account of the size of the present German contribution as well as dealing with the British problem. If this was not done, it might give rise to growing public resentment in both countries.

Herr Matthoefer said that he and the Chancellor of the Exchequer had also discussed the Mandate earlier in the day. He had pointed out that according to the latest estimates from the Commission the British contribution in 1981 would now be 900 million ecus lower than had been assumed in the 30 May settlement. [illegible] If there was no correction to the contribution the Federal Republic was making to that settlement, this could give rise to a chain reaction of unforeseen consequences. The Chancellor of the Exchequer had explained to him his view that in future Member Countries' contributions to the Community budget should be determined in accordance with national prosperity. He was ready to consider this approach but, in turn, he had explained his misgivings about a nil net contribution to the UK. Nonetheless, they had agreed that the main objective must be the removal of the present disequilibrium in the budget. This meant above all that agricultural expenditure had to be contained.

The Chancellor of the Exchequer added that there was a lot of common ground between him and Herr Matthoefer on the Community budget. The UK's starting point had been that net contributions should be limited by reference to relative prosperity. The Federal Republic believed their contribution should be limited: it was unacceptable to them to see other Members no less prosperous than themselves, and in some cases more prosperous, receiving net benefits at the

/expense of

expense of the German contribution. Both of them had agreed that the solution to the budget problem had to be found within the one per cent VAT ceiling. More generally, they wanted arrangements which did not damage the Community and which would last. The time had passed when we could make do with interim, ad hoc answers. The Community needed to agree on a solution within a framework of some kind. The UK had certain ideas and he had mentioned these to Herr Matthoefer. We would like to produce guidelines based on these suggestions.

Chancellor Schmidt said that we needed to play down the expectations in the Press of what next week's meeting of the European Council would achieve on the budget. It would be premature for the European Council to try to deal in specifics: instead, it should concentrate on agreeing on guidelines. He wished to emphasise that the Federal Republic could not agree to being the one net contributor. He was prepared to be the biggest net contributor, but the size of the contribution could not be unlimited. It was not only for economic and financial reasons that he adopted this position but it was also necessary because of psychological considerations. If all the other members of the Community, regardless of their standard of living, benefited from a German net contribution, this would lead to an adverse public and Parliamentary reaction in the Republic. He did not want to make a great fuss about this in London. He was grateful for the understanding of the German position which the UK had shown, and he hoped his other friends would be equally sympathetic.

Herr Ertl said that he and Mr. Walker had discussed reform of the Common Agricultural Policy, which was a key element in restructuring the budget. This was going to be a very difficult matter to resolve, since the principles of the CAP meant different things to different Member Countries. They had agreed that the Community should pursue a prudent price policy on all major commodities. The Federal Republic wanted to keep the co-responsibility levy on milk, though some countries were now seeking exemptions

/ for small farms.

for small farms. On cereal substitutes, he and Mr. Walker had agreed on the need to continue talks with third countries. They had also agreed to make a joint effort to have more discipline introduced in the use of national aids in order to avoid distortion of production and competition. He hoped that the European Council would not make any concrete statements on increased support for Mediterranean products. Generally he and Mr. Walker had agreed that expenditure on agriculture should in future increase more slowly than Community expenditure as a whole.

The Minister of Agriculture said that he wanted to emphasise the relationship between export restitutions and the budget. If a Member country was not a net contributor to the budget and then used national aids to increase its agricultural production, that additional output was then subsidised by the budgetary contributions of other countries. French national aids, for example, were seven times those of the UK, and their agricultural production had gone up significantly in the last two years, whereas that of the UK and the FRG had remained more or less static. This use of national aids had an effect on the whole of Europe's agricultural financing. He agreed with Herr Ertl on Mediterranean products. If we tried to solve the problem of farm incomes in the Mediterranean area by means of the CAP, it would involve us in unlimited expense.

Fisheries

Herr Ertl said that he and the Minister of Agriculture had touched on the fisheries problem in their earlier discussions, and Mr. Walker had made it clear that the United Kingdom would like the earliest possible settlement of the dispute. But they had acknowledged that, in view of the forthcoming elections in Denmark, it was unlikely that the matter could be brought to a conclusion before the end of the year.

/ Oil Subsidies

Oil Subsidies

Herr Matthoefer said that he and the Chancellor of the Exchequer had discussed the question of subsidies on oil consumption. The FRG wanted to abolish tax relief on oil consumption in a number of fields such as domestic/air transport, internal waterways traffic, agriculture, and refineries and petro-chemical plants. It had been agreed at the recent Finance Council that the Community should study the effects of the subsidies, and he was grateful to the United Kingdom for the support they had given the FRG on this.

The Chancellor of the Exchequer agreed that he was content for the Commission to study this issue. We now awaited the outcome of their work.

Insurance

Herr Matthoefer said that he, the Chancellor of the Exchequer and the Secretary of State for Trade had agreed that it should be possible to make progress towards agreeing a worth-while directive. on insurance, though to protect the consumer, the FRG would have to insist on certain conditions.

The Chancellor of the Exchequer agreed that the British and German positions on this matter were beginning to come together. We had to establish liberal trading conditions for insurance within the Community. Free trade in services like insurance was as important as free trade in goods.

Duty Free Shops

Herr Matthoefer said that he had explained to the Chancellor of the Exchequer and the Secretary of State for Trade that the Federal Government was not taking a unilateral decision to abolish duty free concessions on travel within the Community, and he had agreed that the Commission should be asked to look at this issue, with a view to producing an agreed and common position.

/ The Chancellor of the Exchequer

The Chancellor of the Exchequer said that the British concern of this subject was a simple political one. Duty free shops had existed for many years and if the Community now took a strictly logical view and abolished them, people in Britain would simply not understand why they could continue to enjoy duty free concessions when travelling between London and New York but not between London and Frankfurt. The removal of this concession - which also had the advantage of subsidising the operation of airports and sea ferries - would not be regarded as one of the Community's achievements in the UK.

Steel

Count Lambsdorff said that he and the Secretary of State for Industry had agreed that steel should be one of the main subjects to be discussed at the forthcoming meeting of Industry Ministers in London. They had agreed in their talks that morning that the Commission should be urged to see that all Member countries followed the new rules for state aids which Ministers had agreed in June. Because of the political difficulties in some Member countries, like France and Belgium, there were signs that the Commission might be reluctant to enforce the aids decision as thoroughly as they should. The FRG had told the Commission that if it became necessary, they were ready to go to the European Court of Justice on this matter.

He and Mr. Jenkin had also agreed on the need to take action to deal with steel imports from third countries such as Brazil and South Africa. It was essential that the Community should give priority to its own steel industries.

The Secretary of State for Industry said that his discussions with Count Lambsdorff had been a very useful preliminary to the forthcoming meeting of Industry Ministers in London. There were uncertainties surrounding the pricing mechanism for steel which had been adopted in June and the UK and the FRG were agreed that we must stand by the existing rules. They wanted the London

/ meeting

meeting of Industry Ministers to reaffirm this. It was important that Member countries had a European standpoint on steel rather than a series of national positions. This was the only way the European steel industry would prosper in the modern world.

Tin

Count Lambsdorff said that he and the Secretary of State for Industry had discussed the question of the accession of the Community to the World Tin Agreement, in the light of the American decision not to participate. It also appeared that Bolivia, which was one of the main producers of tin, might not accede. It was important that any new arrangements took into account the interests of both the producers and the consumers.

Trade with Japan

Count Lambsdorff said that he had discussed the question of trade with Japan with the Chancellor of the Exchequer and the Secretaries of State for Industry and Trade. He believed that a common Community policy on trade with Japan was desirable. We did not want a Community policy which consisted of individual Member countries taking steps of the kind which had been taken on imports of Japanese cars last year. He thought that the aggressive policies of Japanese car exporters had already reached their peak and were now lessening. The FRG did not have any reservations about Japanese car imports at present. They wanted to encourage Japanese investment in the Federal Republic. He and his British colleagues had also agreed on the need to step up their efforts to convince the Japanese that they must open up their domestic markets, and the proposals which the UK had put forward in the Community were a good starting point for discussion of this subject.

The Secretary of State for Trade said that he welcomed Count Lambsdorff's support for the encouragement of Japanese

/ investment

investment in the Community. He had been interested to learn that the understanding on Japanese car exports to Germany had been concluded on an informal, government-to-government basis.

Multi-Fibre Agreement

Count Lambsdorff said that it was essential to give the Commission a mandate for the final round of negotiations between the developed and developing countries on the renewal of the MFA which was due to start that day in Geneva. The UK had entered a reservation in the discussion on the Commission's mandate which had taken place in the Foreign Affairs Council the previous day, and he had asked Mr. Biffen to reconsider the British position urgently.

The Secretary of State for Trade said that the UK wanted to see a tough successor agreement to the MFA. The reservation which we had entered at the Foreign Affairs Council had not been made likely, though we would reconsider our position very rapidly, as Count Lambsdorff had requested.

Air Transport

Herr Hauff said that he and the Secretary of State for Trade had discussed, on the basis of proposals by the Commission, measures to allow airlines access to services between regional areas in Community states, and they had agreed that steps should be taken in this direction where there was demand. They had also agreed, however, that this development should not give rise to the introduction of new subsidies.

Telecommunications and Postal Matters

Herr Gscheidle said that he and the Secretary of State for Industry had discussed a number of matters of mutual interest in the telecommunications and postal field. They had exchanged

/ views,

views, in the light of the recent abolition of the monopoly in telecommunications in the UK, on the promotion of competitiveness in this area. They had agreed on the importance of cooperating on technical standardisation in the field of optical telecommunications, where the Federal Republic would be investing some DM 80m. They had also decided that there should be more sharing of experience derived from the studies on digital telecommunications networks which were going on in both countries. Finally, they had agreed on the need to strengthen European cooperation on the development of viewdata systems. The Federal Government was about to invite tenders for a public service viewdata system, and the UK was amongst those competing.

The Secretary of State for Industry added that he hoped that the Federal Government would accept the joint bid for the Bundespost's viewdata system which had been submitted by British Telecommunications, GEC and Aregon in association with AEG/Telefunken, in preference to the bids of ITT and IBM. There was a good opportunity here to encourage European industry in this field, rather than to allow the American companies to take the lead.

Next Meeting

The Prime Minister and Chancellor Schmidt agreed to hold the next Anglo/German bilateral meeting at Chequers towards the end of March 1982.

The meeting ended at 1700 hours.

TAW.

20 November 1981

Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES.

Reference: CC(81) 37th Conclusions, Minute 2

Date: 19 November 1981

Signed C Wayland Date 30 August 2012

PREM Records Team

GRS 370

UNCLASSIFIED

FM BONN 191630Z NOV 81

TO ROUTINE FCO

TELEGRAM NUMBER 925 OF 19 NOVEMBER

INFO UKREP BRUSSELS UKDEL NATO

INFO SAVING DUBLIN PARIS ROME LUXEMBOURG COPENHAGEN THE HAGUE EMBASSY BRUSSELS ATHENS

ANGLO-GERMAN CONSULTATIONS: PRESS REACTIONS

1. THE CONSULTATIONS ARE WELL AND POSITIVELY REPORTED IN THIS MORNING'S PRESS. FOUR LEADING DAILIES (FRANKFURTER ALLGEMEINE ZEITUNG, DIE WELT, STUTTGARTER ZEITUNG AND SUEDDEUTSCHE ZEITUNG) HAVE FRONT PAGE ITEMS (THE LAST WITH A PHOTOGRAPH). MOST OF THE REGIONAL PRESS IS NOT PUBLISHED TODAY BECAUSE OF YESTERDAY'S HOLIDAY.

2. THE JOINT REACTION OF THE PRIME MINISTER AND THE CHANCELLOR TO PRESIDENT REAGAN'S SPEECH IS THE LEAD ITEM IN THE FRANKFURTER ALLGEMEINE ZEITUNG (FAZ) UNDER THE HEADLINE QUOTE SCHMIDT AND MRS THATCHER WELCOME REAGAN'S INITIATIVE UNQUOTE. FAZ MENTIONS THE PRIME MINISTER'S REFERENCE TO QUOTE A REMARKABLE INITIATIVE UNQUOTE AND HER WARM GREETING FOR THE PRESIDENT'S INTENTION TO SEEK A MASSIVE REDUCTION IN NUCLEAR WEAPONS. FOR DETAILED GERMAN REACTIONS TO THE PRESIDENT'S SPEECH SEE MIPT.

3. THE STUTTGARTER ZEITUNG (STZ), UNDER THE HEADLINE QUOTE ANXIETY FOR THE EUROPEAN COMMUNITY UNQUOTE COMMENTS ON THE CONSIDERABLE IDENTITY OF VIEW BETWEEN BONN AND LONDON, IN PARTICULAR THAT MEMBER STATES' NET CONTRIBUTIONS SHOULD IN FUTURE BE LIMITED. IT ALSO REFERS TO THE PRIME MINISTER'S DENIAL THAT THE UK WAS IN ANY WAY NEGATIVE ABOUT THE GERMAN/ITALIAN PROPOSAL FOR A EUROPEAN ACT. FAZ SAYS THAT THERE WAS ONLY GENERAL DISCUSSION OF THE COMMUNITY BUDGET PROBLEM, BUT THAT THE CHANCELLOR MADE IT CLEAR THAT THERE

/ WAS NO

WAS NO PROPOSAL TO GET THE UK TO PAY BACK PART OF ITS REFUND. THE PRIME MINISTER DID NOT SEE A SOLUTION TO THE BUDGET PROBLEM UNTIL NEXT YEAR, WHILE THE CHANCELLOR THOUGHT IT WOULD BE SUFFICIENT FOR AGREEMENT ON GENERAL PRINCIPLES TO BE REACHED AT NEXT WEEK'S EUROPEAN COUNCIL.

4. THE BRITISH COMMITMENT TO BERLIN IS THE LEAD IN DIE WELT WHICH REPORTS THE CHANCELLOR'S REMARKS AT THE LUNCH ABOUT THE ESSENTIAL ROLE OF THE ALLIES TO THE DEFENCE AND FREEDOM OF THE CITIZENS OF BERLIN. THE SUEDEUTSCHE ZEITUNG (SZ) PICKS UP THE CHANCELLOR'S PRAISE FOR THE ROLE OF THE BRITISH FORCES IN GERMANY.

5. THE JOINT PRESS STATEMENT IS WIDELY REPORTED. THE SZ HAS THE HEADLINE QUOTE BROAD AGREEMENT WITH LONDON UNQUOTE AND STRESSES THE BREADTH AND DEPTH OF ANGLO-GERMAN RELATIONS AS CONFIRMED BY THE JOINT STATEMENT. IT ALSO QUOTES THE WISH OF THE HEADS OF GOVERNMENT THAT THESE SHOULD BE DEVELOPED FURTHER.

6. NONE OF THE GERMAN PAPERS MAKE ANY REFERENCE TO THE CONTROVERSY FEATURED IN THE BRITISH PRESS ABOUT THE PRIME MINISTER'S SPEECH AT THE LUNCH.

FCO PLEASE PASS SAVING ADDRESSEES

UNWIN

[REPEATED AS REQUESTED]
[THIS TELEGRAM WAS NOT ADVANCED]

FCO/WHITEHALL

WED

Private Secretary

Copied to: PUS
HM Ambassador

SINAI

1. Mr Hurd telephoned at 1115 to make two points:-

(a) he was afraid that the continued delay was damaging the credibility of Britain's Middle East policy as a whole. We were in the role of St Sebastian and our position was starting to become awkward (in domestic political terms, I think he meant, as well as internationally);

(b) Sir J Graham and the Middle East side of the Office took quite seriously the risk that, if the Sinai affair was not settled this week, the extremists among the Arab States might force through some warning statement at the Arab Summit which would make the task of the Ten even more difficult.

2. Mr Hurd's advice therefore was against taking it calmly, allowing things to blow over, waiting for the Christmas mood etc.

3. This is also the conclusion to which we have been coming round at the PUS's talks with State Secretary von Staden. We see the risk of an unholy alliance of the United States, France and Greece in favour of no statement by the Ten. We and the Germans think this would be unacceptable. We also agree in finding the French position as hard to understand as that of the Greeks. The Germans seem disposed to use their

/influence

influence in Paris and Athens, especially Paris. Perhaps you could encourage this idea with Herr Genscher, and promote it at the Head of Government level also ?

J L Bullard

18 November 1981 J L Bullard

SUBJECT
cc Martin

CONFIDENTIAL

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE CHANCELLOR OF THE FEDERAL REPUBLIC IN BONN ON WEDNESDAY, 18 NOVEMBER AT 1015 HOURS

Present

The Prime Minister
The Foreign and Commonwealth Secretary
Sir Jock Taylor
Mr. M.O'D.B. Alexander

Chancellor Schmidt
Herr Genscher
H.E. Dr. Jurgen Ruhfus
Herr Zeller

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Joint Press Statement

Chancellor Schmidt asked if the Prime Minister was content with the terms of the joint press statement which it was proposed should be issued in their names. The Prime Minister confirmed that she was. In response to a question from Chancellor Schmidt, Dr. Ruhfus said that Herr von Haase was taking an interest in the question of increasing co-operation in the field of television, particularly where news broadcasting was concerned.

Sinai

The Prime Minister asked about the present position on the Sinai MFO. The Foreign and Commonwealth Secretary said that the Federal Republic, although not providing a participating contingent, had been extremely helpful during the discussions within the Ten. Regarding the current difficulties, he had come to the conclusion that the text of the statement to be made by the Ten was relatively unimportant. European participation in the MFO had now been discounted by most of those interested. His only remaining concern was to ensure that whatever statement was issued did not give the Israelis an excuse to torpedo the whole exercise. Most of the previous day's discussions in the European Council had been sterile. However there seemed a reasonable chance that a high level French intervention with the Greeks, perhaps from President Mitterrand to Mr. Papandreou personally, would result in a satisfactory compromise being achieved. There would then

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be an agreed European statement, even though the Americans might not like it very much. There could be no question of changing it any further to meet American concerns.

If however the Greeks refused to shift, one would be faced with a choice of going ahead without them, going ahead with no statement by the Ten, or putting the problem on one side for two or three weeks in the hope that it might solve itself. None of these outcomes would be satisfactory. It would be better to try to ensure that the Greeks accepted the compromise language under discussion. Was there any possibility that the Federal Government could bring pressure to bear on Papandreou? Chancellor Schmidt at first expressed some doubt as to whether his Government had much influence in Athens but, after a whispered exchange with Herr Genscher, agreed that there was a member of the SPD who was an old friend of Mr. Papandreou and who would probably be prepared to speak to him on the telephone in the course of the day.

Chancellor Schmidt enquired about the closeness of Anglo-American contacts on the Middle East. Were the Americans consulting us regularly and closely? The Foreign and Commonwealth Secretary said that they were not. Chancellor Schmidt said that his Government were fully behind what HMG had been trying to achieve in recent months.

Policies of the new Greek Government

Chancellor Schmidt speculated that Mr. Papandreou was one of those politicians who made sweeping and unrealistic statements when in opposition but who learnt rapidly on the job. Was there yet any indication that the learning process had started? The Foreign and Commonwealth Secretary said that if the performance of Greek representatives in the various Ministerial Councils of the Community were any guide, the process was not yet under way. As regards the policies of the Greek Government, he thought they would ask for a renegotiation of the terms of their membership of the Community but would not withdraw. On the other hand, Mr. Papandreou probably would insist that the NATO bases were withdrawn from Greece. Both the Prime Minister and Chancellor

/Schmidt

Schmidt stressed that the withdrawal of the bases would inevitably result in reinforcement of Turkey's military position. Could this not be got across to Mr. Papandreou? Chancellor Schmidt added that Mr. Papandreou really ought to be able to see that throwing the United States out of Greece would be a disservice above all to Greece. The Foreign and Commonwealth Secretary remarked that Greek attitudes towards Turkey would not be improved by the imminent prospect that the Council of Europe would expel Turkey. Chancellor Schmidt expressed impatience at this. Military and civilian regimes had always alternated in Turkey. By the time the Council of Europe got round to taking action, there would probably be a civilian regime in Turkey again.

The Prime Minister said that sadly the prospect of Mr. Papandreou coming to power had complicated the task of getting talks going on the Cyprus problem. The Foreign and Commonwealth Secretary commented that Mr. Papandreou's attitude had improved somewhat. In opposition he had taken the position that there should be no talks so long as the Turks were occupying part of Cyprus. Since coming to power, he had said that he supported the talks.

The European Council

The Prime Minister said that Mr. Papandreou would want to make a statement to the European Council about his Government's position. It seemed unavoidable that any such statement would have to be made at the outset of the meeting. The Danish Prime Minister would also probably have to make a statement. Would Chancellor Schmidt want to make a statement about his discussions with President Brezhnev? Chancellor Schmidt confirmed that this would be his intention and that he would want to speak at the Heads of Government dinner or immediately afterwards rather than at a formal meeting. He thought there would be advantage in Foreign Ministers being present and wondered therefore whether Foreign Ministers could join the Heads of Government after they had finished eating. The Prime Minister thought this an excellent idea. Chancellor Schmidt said that he would want no-one other than the Foreign Ministers to arrive. He thought that 21 people in the room would be quite enough. The Prime Minister agreed.

/Chancellor

Chancellor Schmidt said that he intended to make a general statement about Germany's role at some early stage in the Council Meeting. He would say that countries like Belgium and the Netherlands with a large GNP per capita could not expect other countries, notably the Federal Republic, both to support their standard of living and be responsible for their nuclear defence. If only the Federal Republic and Italy of the non-nuclear states were to accept cruise missiles, the arrangements previously envisaged would not work. The German Government would not accept the "singularization" of the Federal Republic in this way. There were the strongest reasons of foreign policy and security for this. He recognised that Mr. van Agt was an honest man. He would have to keep his country's promises.

30 May Mandate

The Prime Minister said it was essential that progress should be made at the European Council on the implementation of the 30 May Mandate. It was highly undesirable that the Community should get itself into a position where progress would be seen to be impossible on specific problems until members were up against a deadline such as that provided by agricultural price fixing. If decisions were postponed until the Spring, the European Council Meeting then would be long and very difficult and probably acrimonious. Britain would, of course, not be in the Chair! The Community faced fundamental problems. It would be a great pity if they could only be dealt with as subjects for horse trading. Lord Carrington had been struggling in recent weeks to make progress. She herself had reminded the President of the Commission of the need for him to be active. But little seemed to be happening. She could hardly present absence of progress next week as a victory for the Community.

At the Prime Minister's request, the Foreign and Commonwealth Secretary summarised the outcome of his discussions in the last two days. He had discerned no disposition on the part of anyone to look at the fundamental problems. (The Prime Minister referred to this as a "tragedy".) It might not be all that difficult to agree on Chapter 1, though even here the French were likely to seek to insert difficult language on matters such as the length of the working week. Chapters 2 and 3 were much harder, the problems

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of the CAP being particularly difficult. Chancellor Schmidt expressed some scepticism as to whether any of the Heads of Government understood the CAP.

The Foreign and Commonwealth Secretary said that the Community was fundamentally divided about the CAP. Some countries took the view that there had to be a ceiling on agricultural expenditure and that the rate of growth on agriculture should be markedly less than that on other elements in the Budget. Britain and Germany were among those who supported this line. However it was absolutely unacceptable to France, Ireland, Italy, Greece and Denmark. The Community was also deeply divided on the question of Mediterranean products. The Southern Europeans considered themselves badly treated in comparison with the Northern producers of dairy products and cereals. The Federal Republic was absolutely opposed to giving them satisfaction. Thirdly there was the question of milk. This was at heart a social problem. Those member states with a large number of small farmers wanted to see small farms exempted from the Community's levies. On the other hand those countries with large intensive milk producers considered such an exemption, for social reasons, quite wrong.

As regards the 30 May Mandate itself, everyone agreed there was a British problem which had to be tackled. Not everyone agreed that there was a German problem. The position of the Commission was that the Federal Republic's difficulties should be looked at in the light of the outcome of the negotiations on the British problem. Early progress on the latter seemed unlikely since both the scale and method of possible solutions were in dispute. The French position, as presented by Messrs.Chandernagor and Beregovoy, was that they would not pay any more. If there was to be no progress on Chapter 3 and Chapter 2 of the Mandate, there would certainly be no progress on Chapter 1. The problems of Britain and Germany would then be permanent. Chancellor Schmidt said that he would be making it very clear that he did not intend to allow the present position to continue. The constant growth in the Federal Republic's contribution could no longer be tolerated. The Prime Minister recalled that M. Thorn had told her that the German Government were willing to go on contributing at the present level but that

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Federal Republic would not accept any growth in their contribution. She had told M. Thorn that it was wrong for the Federal Republic to be contributing so much more than anyone else. Chancellor Schmidt said that the present situation would undermine the cohesion of the Community, lead to alienation within it and to a loss of support in the Federal Republic.

The Foreign and Commonwealth Secretary said that at the end of what had been a dispiriting meeting the previous day, he had asked his colleagues to reassemble on 19 November. The best he was hoping for from the meeting was agreement to go for a set of guidelines which could be submitted to Heads of Government next week and which would lay down a basis on which work could continue thereafter. The Prime Minister expressed some scepticism as to whether satisfactory guidelines could be agreed. After all three of the participating countries did not have proper governments. Perhaps it was time to start preparing the press for a failure to agree, using the argument that the fact that three governments "lacked a mandate" made progress difficult. Chancellor Schmidt asked whether it was necessary to get very far with the Budget next week. The Prime Minister said it would be necessary to make progress with all three chapters of the Mandate at the same time. Chancellor Schmidt asked whether the Budget was yet approaching the 1% ceiling. The Prime Minister said that the Community was not approaching that ceiling as rapidly as had been expected and that this had removed one of the incentives to action. In the absence of the discipline provided by the 1% ceiling, one had to look forward to the agricultural price fixing. The press were likely to be very critical of a failure to produce results at the London meeting. She wondered whether the fact that Chancellor Schmidt intended to make his position plain would introduce additional realism into the discussions. Chancellor Schmidt repeated his intention to speak clearly, adding that he might well mention that in some circumstances it "could happen that someone would not pay their full contribution". The Foreign and Commonwealth Secretary said that no-one in Brussels the previous day had believed there was any urgency about the matter. They did not accept that the '13th hour' (which was the only time the Community moved) had yet arrived. Perhaps it would help if the Prime Minister and Chancellor Schmidt made it clear that things could not go on as at present. Chancellor Schmidt said that he intended to speak

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softly but to be brief, clear and firm. He hoped that no-one would take offence. The Prime Minister said she could see nothing in what the Chancellor had said at which anyone could take offence.

The Prime Minister asked whether Chancellor Schmidt favoured the Commission's scheme for implementing the Mandate or whether he favoured an approach based on limiting contributions or on restructuring the Budget completely. Chancellor Schmidt said that he was unfamiliar with the Commission's scheme and asked Herr Genscher whether he could speak on it. Herr Genscher declined. The Foreign and Commonwealth Secretary said that it was, after all, a matter for Finance Ministers. It would in any case only be feasible under present circumstances to go for guidelines. Chancellor Schmidt wondered whether it would not be wise to envisage guidelines being agreed initially between London, Paris and Bonn. The Foreign and Commonwealth Secretary said that some drafting had been done in London and that we would send representatives to discuss them in Bonn and Paris before the European Council. The Prime Minister expressed scepticism as to whether France would agree.

The Prime Minister repeated her concern about the way the press would treat the outcome of the Council. They would focus on the disagreements. The Foreign and Commonwealth Secretary said that he had already begun to damp down expectations about the Council. Chancellor Schmidt said that he thought other subjects were more important than the 30 May Mandate and that the press would recognise this. The matters about which the public really wanted to hear from their Heads of Government were Transatlantic relations, East/West relations and the economic prospects for the world as a whole.

Economic Prospects

The Prime Minister agreed that the economic prospects were a source of general concern. It was clear that Western economies were unlikely ever to get back to their previous rates of growth. Chancellor Schmidt said that he agreed: the consequences would be higher rates of unemployment. He doubted whether people in the long run would accept this. There was therefore a credibility problem for all governments. In his view people generally would

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within a few months begin to draw parallels with what had happened between 1930 and 1932. Europe had, after all, not seen unemployment at present levels since 1946. The US rates were the highest since the early days of President Roosevelt's Administration. Things were not going to get any better. He did not believe that governments had yet recognised the gravity of the imminent depression. Certainly no-one was ready to take the necessary measures. The Prime Minister said that the parallel with 1930 was often drawn but did not stick. The numbers looked large but the percentage of the working population at present unemployed was much lower. The out of work were better looked after. The cash economy was on a much larger scale. Of course there were very real problems. Parents were, for instance, worried that their children might not find jobs. Therefore they sought to keep them longer in education and argued that more apprenticeships were needed. This resulted in added costs e.g. on manufactured goods, which were not borne by the newly developed countries where the expectations of the working population were much lower. Nonetheless overall the analogy with the Great Depression did not hold water.

Chancellor Schmidt said that there was no need to convince him of the point. The difficulty was with public attitudes. Soon there would be a "homogeneous public opinion" in Western Europe. If the German trade union movement were to go for a radical solution to the present crisis, one could be sure that trade unions elsewhere would abandon moderation. He had very close links with the German trade union movement. It was clear to him that the moderates in the German trade union movement were losing their nerve. If they did so there would be a general "quest for relance" i.e. for printing money. Governments would have to give in. The Prime Minister said this would only make things worse. Chancellor Schmidt agreed and added that it would undermine the confidence of people in the future of the European Community. That was why he thought that people would want to hear the opinion of Heads of Government on this question rather than on the price of milk. Whether or not the figures justified it, memories of the Great Depression were going to revive.

/Chancellor Schmidt

Chancellor Schmidt said he did not know the answers. But he was clear that it was essential for the United States to bring down interest rates. The Prime Minister said that she assumed by this that he meant a fall in interest rates would stimulate production of capital equipment and the like. Unfortunately industry was now less labour intensive than had once been the case. How was one to keep people occupied? We in the United Kingdom did not even have the draft, which kept young people occupied for 15 months, or apprenticeship schemes on the scale of those in the Federal Republic. Chancellor Schmidt said that the draft was no help. Merely keeping people occupied did not solve the problem. Unemployment in the Federal Republic was at present 1.4 million. The prospect that it might rise further was making people nervous. The gap between people's expectations and reality was bigger than it had been for 20 years. The CDU had no ideas. He did not blame them for this: he did not know whether the Federal Government's ideas would work either. The US Administration was likely next year to have the biggest deficit of all time. It would be of the order $95/100 billion. American saving rates were quite inadequate to finance this. The Prime Minister wondered whether President Reagan would abandon his programme of tax cuts. Chancellor Schmidt said that whatever he did he did not have much time left.

Chancellor Schmidt went on that it was impossible to believe that the Soviet Union would fail to exploit the present situation. Economic weakness was leading to social weakness and this would lead, in turn, to instability. The Soviet Union could afford to feed their people less and to build up their military power. They would seek at the same time to undermine the stability of the "political set-up" in the West. This was a major strategic problem. The growth of influence of the Communists in the trade union movement and the protest movements in Germany over the last 12 months had been noticeable. There might well be a similar development in France once the post-election honeymoon was over.

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The Foreign and Commonwealth Secretary said that while the situation was certainly bad in the West, it would be wrong to overlook the terrible problems in Eastern Europe. Chancellor Schmidt said that, of course, he agreed. Poland's GNP had dropped by 25%. Romania and Czechoslovakia were almost as bad. The GDR was running into trouble. The Russians were not fulfilling their plans. The Federal Republic had spent vast sums in guaranteeing Polish debts and providing credits that would never be repaid. They could not go on doing so on the present scale. However, the troubles in Eastern Europe would not "lead the Communists to undermine themselves". The Prime Minister said that this might be so. But the fact was that the situation, e.g. in Poland, was already highly unstable. Chancellor Schmidt agreed that there was more fluidity in the international situation than was desirable. East-West relations were acquiring a new dimension.

Chancellor Schmidt then reverted to the question of interest rates. He thought that the present interest rates in the United States could be justified at the height of a boom, but not in the depths of a recession. The Prime Minister observed that inflationary expectations were now world-wide. People and countries were determined not to allow their money to lose its value and therefore sought high interest rates. The Chancellor agreed that there was a risk of "protectionism" in money markets as well as in international trade. In the latter context he was particularly worried about the position in the steel industry. No single steel mill in the Federal Republic was making profits. The banking system was "a house of cards". No bank of European dimensions was profitable: they all had too many bad debts. There had been 10/12 thousand bankruptcies in the Federal Republic in the last twelve months; each one of those meant a loss of money to one bank or another. There was a possibility of a domino type failure later in the winter. The European financial system, and indeed Europe generally, was more vulnerable than at any time since he had entered politics. He was not being a pessimist, merely a realist. Governments had no plans for cooperation. Instead they spent their time arguing about the price of milk and M. Thorn's proposals. The problems

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that were about to hit Western Europe were of a different order of magnitude. The Prime Minister observed that British banks were making profits. Chancellor Schmidt said that he did not believe it. The Prime Minister should try to have a private talk with her top bankers and ask them about their real balance sheets as opposed to those which they published.

The Chancellor said that he admired the Prime Minister for pursuing her policies stubbornly, but "deep down" he felt that the recipes at present being tried were not working and would not work. The Prime Minister said that her policies were designed to bring the country through the depression with the least damage and the most hope for the future. If, for instance, she were to resort to exchange controls, money would in fact pour out of the country. Chancellor Schmidt said that he was not thinking only of the United Kingdom. He was thinking of the broader picture. If unemployment in Germany reached 3 million, the European Community would collapse. If the U.S. refused to exercise self-discipline, the countries of Europe would not do so. The present fluctuations in exchange rates were helping to generate wide-spread uncertainty. Chancellor Schmidt asked about the present level of the PSBR in the U.K. and, on being told the answer, said that it was too much. The comparable figure in Germany was about half: even so, the German Government were cutting Government expenditure hard. The suggestion that the German Government should match the recent increases in the United States defence budget was impossible. The Americans had to show greater awareness of the implications of their leadership of the West. It was a self-deception on their part to suppose that they could take decisions only for the United States. The Prime Minister commented that in February there had been unanimity that the economic programme of President Reagan was about right. Chancellor Schmidt evinced some scepticism but added that even if this had been so, it was certainly gone now. What, it seemed to him, was needed was an international financial community on the lines of the international defence community of which he himself had been a member some 25 years ago. There was no

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forum in which "the young geniuses" could meet together and discuss international economic problems. Governments dealt with tomorrow but not with next year or the next decade. He himself could think of two or three Germans, some officials and some not, who were, while having sound judgement, prepared to "think exotic thoughts". He was conscious that if people like Keynes and Schacht had been listened to earlier, the great crises of the 'Thirties might never have occurred. Was there someone around at present whose voice was not being heard? The Prime Minister commented that the difficulty about such discussions was that they tended to be excessively theoretical. Exotic thoughts were all very well, but the world needed something which would work in the next two or three years.

The Prime Minister asked whether, when the European Council discussed the world economic scene, Chancellor Schmidt would be prepared to take the lead. Chancellor Schmidt said that he would not. He was "full of sorrow" but had no counsel to offer except that the United States should lower interest rates. The Prime Minister observed that this might result in President Mitterrand taking the lead. Chancellor Schmidt, agreeing that this was possible, expressed some concern about the impact of President Mitterrand's economic ideas. He wondered, however, whether it would be possible to make the idea of a 35 hour week workable. If, for instance, all the members of the Community agreed to implement the 35 hour week simultaneously,on the basis, of course, that workers were paid at a rate appropriate to a 35 hour week, he himself was not convinced that this need necessarily be all that damaging. The Germans for instance already worked fewer hours per year than almost anyone else in Europe, although their production was higher. He thought the 35 hour week might be a major topic of discussion in the coming year. The Prime Minister commented that if overall productivity was the same with a 35 hour week, no more jobs would result. Moreover, she saw no prospect whatever that British trade unions would be prepared to accept the implied cut in income. They would expect the same total weekly wage. Nor did she wish to put additional constraints on management in the United Kingdom at the very moment when they were beginning to turn the corner.

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If, by some chance, it was agreed that the reduction in the working week should be used to create more jobs, there would of course be extra overheads, extra social security charges, etc., all of which would serve to reduce our competitiveness. Chancellor Schmidt said that he did not intend to propose a 35 hour week. But he regarded it as the most likely of President Mitterrand's ideas to attract support. He believed that German workers could probably be brought to accept the 35 hour week on the basis he had earlier proposed.

Chancellor Schmidt wondered whether a meeting between German trade unions and entrepreneurs and their British equivalents to discuss the economic situation might not be helpful. He envisaged about twenty participants from each side. The meeting would not be a secret one, but its deliberations would be conducted in private. It could perhaps be financed by the Anglo-German Foundation. The Prime Minister and the Foreign and Commonwealth Secretary both agreed that such a meeting might serve a most useful educational purpose in the United Kingdom. It was agreed that the idea should be pursued. (Dr. Ruhfus mentioned that the Bundesanstalt in Nuremberg might be prepared to finance such a meeting).

US/Europe

The Prime Minister said that since the dominance of the U.S. economic situation was so obvious, it might be helpful to get President Reagan to visit Europe early next year and to let him see at first hand the difficulties being experienced here. Chancellor Schmidt said that he entirely agreed. Indeed he had already urged the President to make the journey. He had written him a letter "a couple of days" previously. This had been devoted partly to President Brezhnev's visit and partly to the economic situation in Germany. The Prime Minister said she thought it was important to keep open personal channels of communication with President Reagan. It seemed likely that things were kept from him by his staff. As had been clear in Cancun he was himself prepared to take clear and sensible decisions when matters were put to him. He was probably still

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under the impression that his economic policies were directed at solving the problems of the Europeans as well as those of the United States. Chancellor Schmidt said that the Prime Minister might well be right: if so, President Reagan was deceiving himself. He himself was going to the United States in January, partly to take a holiday in Florida, and partly to see the President. The visit had not yet been announced.

The Foreign and Commonwealth Secretary said that the earlier discussion on international economic problems had, of course, a bearing on relations between the United States and Europe. There was a generation growing up in Europe which no longer gave the benefit of the doubt to the United States. They were inclined to make judgements between the Soviet Union and the United States in a way which the previous generation had not done. Chancellor Schmidt commented that the same could be said about attitudes towards Europe in Washington. The Foreign and Commonwealth Secretary went on that a recent poll in the United Kingdom had shown that while the great majority of British voters accepted Britain's nuclear deterrent, as many as 50% of them wanted to close American bases and to ensure that U.S. nuclear weapons in the United Kingdom were controlled by HMG. Chancellor Schmidt said that the United Kingdom was of course in a better position than the Federal Republic because we had our own deterrent. The Germans did not like being in the hands of the Americans any more than did the British. 75% of the West German electorate were still in favour of the alliance with the United States. But the uncertainties created by the recent contradictory statements in Washington had been "devastating". Chancellor Schmidt said that he had the feeling that Mr. Haig understood Europe better than his colleagues in Washington, but that it was by no means clear that he was in charge of foreign policy. The Foreign and Commonwealth Secretary said that the influence of Mr. Meese, unlike that of Mr. Allen, was very strong. Herr Genscher said Mr. Baker was also a significant figure in foreign policy discussions.

/ Defence Subjects

Defence Subjects

The Prime Minister, recalling Chancellor Schmidt's remarks about the difficulty of matching American defence expenditure, said it was a pity we were inhibited from exporting some of the weapon systems we were manufacturing. Chancellor Schmidt retorted that he would never again enter into the joint production of any weapons system. It invariably resulted in doubling of the cost. Moreover, the partners spent all their time asking for the addition of this or that refinement. The Prime Minister agreed that the Tornedo had become extremely expensive. Nonetheless, the cost had to be met. It could be reduced if the Tornedo could be sanitised and exported. Herr Genscher said that the unfortunate fact was that the Federal Republic could veto the sale. Chancellor Schmidt said that HMG would have to put the Federal Government under very strong pressure. They would then have to go to the Bundestag and tell them of HMG's intentions. The mood there was strongly against exports of weapon systems like Tornedo outside NATO. It would be a re-run of the AWACS debate with the difference that the Federal Government would be heavily defeated.

European Council

Resuming the discussion of what should come out of the European Council meeting, the Prime Minister said that it would be of prime importance to avoid magnifying any disagreements among the participants on world economic questions. Chancellor Schmidt's report on his meeting with President Brezhnev could be highlighted. The Foreign and Commonwealth Secretary said that there would have to be a statement on the Middle East. Chancellor Schmidt said that the opening of the TNF talks in Geneva and President Reagan's statement should be welcome. The emphasis should be on the fact that U.S. - Soviet arms control negotiations were in Europe's interests. (Chancellor Schmidt noted in passing that he thought the Irish would not make difficulties about such a statement. Indeed he believed that if they were given satisfaction on matters such as agriculture, they would probably be prepared to join NATO. The Prime Minister expressed scepticism). The Foreign and Commonwealth Secretary said that the German/Italian initiative

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on European union ought to be mentioned. Herr Genscher added the CSCE to the list. The Foreign and Commonwealth Secretary thought Portugal and Spain would need a paragraph in the conclusions about enlargement. (This led Chancellor Schmidt to comment that the Community was developing into a "club of unsatisfied gentlemen asking for more money"). The paragraph would have to be a harmless one: France would not agree to anything substantive unless progress had been made with Chapter 2 of the Mandate. (At Chancellor Schmidt's request, the Foreign and Commonwealth Secretary described the present situation on the negotiations with Spain over Gibraltar. It had been made plain to Spain that there could be no question of her joining the Community while the border was closed and that the obvious time for them to make a move was at the moment of their joining NATO). The Prime Minister closed the discussion about the conclusions of the European Council by reiterating that she was not prepared to have matters referred to in them which had not been discussed by Heads of Government.

The discussion ended at 1250.

19 November 1981

CHECK LIST OF POINTS FOR THE PRIME MINISTER TO RAISE DURING TETE-A-TETE WITH CHANCELLOR SCHMIDT

1. COMMUNITY ISSUES

a) European Council

Essential for something positive to come out of November Council. At very least a set of agreed guide-lines

b) Budget

UK and FRG have common interests. Want to reach agreement on common position. No justification for UK being substantial net contributor. German intentions?

c) CAP Reform

Common interest in reform. Essential element in budget restructuring under 30 May Mandate. European Council must endorse clear guide-lines.

2. EAST/WEST RELATIONS

Welcome US/Soviet talks. Important not to leave propaganda field free for Soviet exploitation. Assessment of Brezhnev's visit to Bonn? German views on Poland?

All have difficulties in dealing with US system and its divided voices, but in practice close consultation is being maintained - particularly on arms control. Essential there should be no misunderstanding on US side of what European opinion really is (US fears of neutralism).

Inner German Issues.

Brezhnev. Lic. Co-operation

- Nuclear deterrent - Skin

Operup Position - Zero-sum

Min Lisichenko Requirements:

3. ECONOMIC ISSUES

a) North/South

Useful discussion at Cancun. Valued Herr Genscher's role. Glad that Community has been able to evolve a balanced position on Global Negotiations. Do not want to lose momentum.

b) International Economic and Monetary Questions

No sign yet of a strong recovery in major economies. But glad to see most countries persevering with firm policies. Wage moderation vital. Important that US should curb budget deficit. Prospect of some easing of US interest rates should increase European room for manoeuvre. Welcome Hungarian and Polish approaches to IMF and World Bank.

c) Management of UK Economy

Reduction of inflation requires strict adherence to firm monetary and fiscal policies. Success takes time to achieve, but there are now first signs of improvement. Equally concerned with reducing both inflation and unemployment.

4. BILATERAL RELATIONS

Continue to attach importance to collaboration within the European Space Agency. Hope FRG will give support soon to operational meteorological programme there. Regret FRG not participating in ESA's advanced telecommunications project L-SAT.

- Insurance

Air Transport - Opening up licensing system.

- Protectionist.

MFA. — GATT.

Full access on existing quotas.

Steel - Prices

- Attitudes to Jap investment.

- Aids to Industry.

Liberalising Telecommunications T.C's.

Nuclear ① - Nuclear.

② Tornado. — Can we sell it.

52-46.

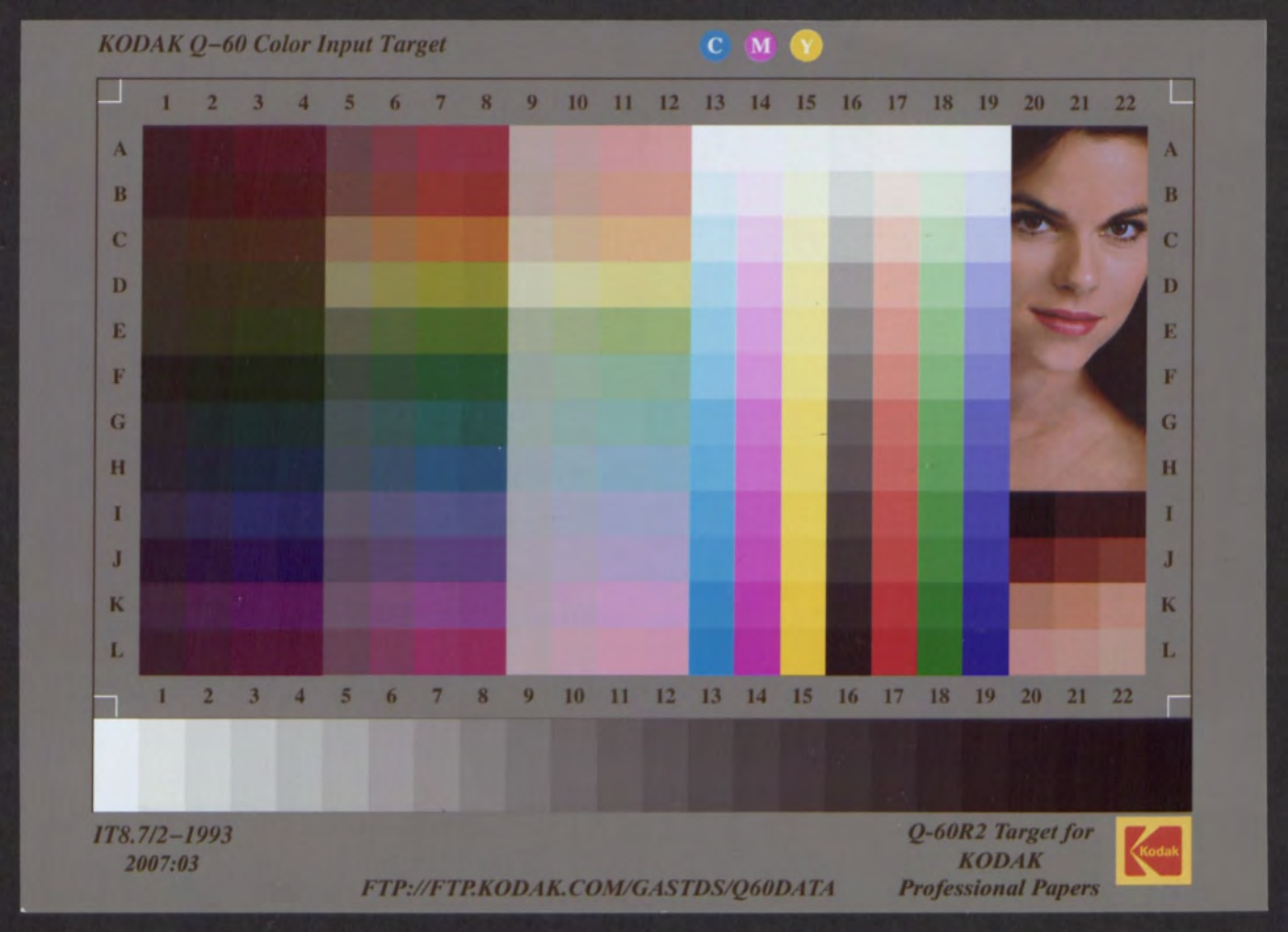
③ Boeing — May. Spent more in absolute terms than Germany

PART 2 ends:-

Joint Press Statement 18.11.89

PART 3 begins:-

Checklist of Points to raise at Tête à Tête - Mrs Thatcher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