

PREM19

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GERMANY

(Meetings with Chancellor
Schmidt) (May 1979)

(Part 1)

SECRET

— * Part One * —

Confidential

Chancellor Schmidt's Visit, to UK
May 1979.

Germany

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
7-5-79							
11-5-79							
17-5-79							
25.5.79							
Part 1 ends →							

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PART 1 ends:-

Bac to Reute 25. 5. 79

PART 2 begins:-

Fco to Bac 13. 8. 79

Germany

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JS



10 DOWNING STREET

From the Private Secretary

25 May 1979

I was most grateful for your kind letter of 21 May and for your kindness in sending me the splendid gramophone record as a memento of our work together on the preparations for Chancellor Schmidt's recent visit to London.

Like all my colleagues here, I was very glad to be able to play some part in such a successful and historic occasion.

With every best wish,

B. G. CARTLEDGE

His Excellency Herr Hans Hellmuth Ruete, GCVO

ABD

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND

Hans Hellmuth Ruete

London, May 21st, 1979

Mr. B.G. Cartledge,
Private Secretary
to the Prime Minister,
10, Downing Street,
London, S.W.1

Dear Mr. Cartledge,

On my return to London after a week's absence I would like to express my thanks for the splendid organization work you did in view to the Anglo-German consultations of May 10th and 11th.

Your preparations were an essential contribution to the meeting becoming a success. I therefore wish to thank you very much indeed.

Yours sincerely,

H. Ruete

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FM BONN 171524Z MAY 79

TO PRIORITY FCO

TELEGRAM NUMBER 222 OF 17 MAY

INFO ROUTINE EEC POSTS WASHINGTON UKDEL NATO

Prime Minister

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PM

ANGLO-GERMAN SUMMIT MEETING: OFFICIAL GERMAN REACTIONS

1. QUOTE THE PROSPECTS LOOK GOOD FOR EUROPE AND GOOD FOR THE ALLIANCE UNQUOTE. THIS WAS THE SUMMING UP OF THE FEDERAL GOVERNMENT'S VIEW AFTER LAST WEEK'S MEETINGS IN LONDON BY A SENIOR OFFICIAL WHO WAS PRESENT. CHANCELLOR SCHMIDT IS REPORTED TO HAVE TOLD HIS CABINET THAT QUOTE THIS IS A GOVERNMENT WITH WHICH WE CAN DO BUSINESS UNQUOTE. LAMBSDORFF TOLD ME LAST NIGHT THAT BOTH THE CHANCELLOR AND GENSCHER WERE DELIGHTED WITH THEIR VISIT TO LONDON.

2. GERMAN MINISTERS WERE PLEASANTLY SURPRISED THAT THE PRIME MINISTER SHOULD IN FACT HAVE GONE THROUGH WITH THE SUMMIT MEETING WITHIN HER FIRST WEEK IN OFFICE, IMPRESSED BY THE MASTERY BY BRITISH MINISTERS OF THEIR BRIEFS WITHIN SUCH A SHORT SPACE OF TIME, AND DELIGHTED BY MANY OF THE INDICATIONS WHICH THEY OBTAINED OF NEW ACCENTS IN A NUMBER OF POLICY FIELDS. THERE IS NO DOUBT THAT THE CHANCELLOR WAS IMPRESSED AND FLATTERED BY THE PRIME MINISTER. THE ATMOSPHERICS OF THE VISIT WERE CLEARLY AS GOOD OR BETTER THAN COULD HAVE BEEN EXPECTED. THE FEDERAL AMBASSADOR IN LONDON, RUETE, TOLD ME IN BONN THIS WEEK THAT THE CHANCELLOR'S BACKGROUND BRIEFING TO GERMAN CORRESPONDENTS IN LONDON HAD BEEN UNUSUALLY BRIEF SINCE THE CHANCELLOR HAD NOT FOUND IT NECESSARY TO SAY OFF THE RECORD ANYTHING DIFFERENT OR ADDITIONAL TO WHAT HE HAD SAID ON THE RECORD AT THE JOINT PRESS CONFERENCE WITH YOURSELF AND THE PRIME MINISTER. THIS HAS NOT ALWAYS BEEN THE CASE IN THE PAST. IT IS OBVIOUS TO ME THAT THE PRIVATE VIBES ARE AS GOOD AS THE PUBLIC ONES.

3. ON POLICY QUESTIONS THE GERMANS RECOGNIZED THAT EXCHANGES WOULD BE FAIRLY GENERAL. BUT THE TACTIC OF GIVING THEM CLEAR SIGNALS ON A SELECTED NUMBER OF IMPORTANT SUBJECTS HAS PAID OFF. THE MESSAGE THAT HMG WERE DETERMINED TO ADOPT A MORE CONSTRUCTIVE APPROACH TO THE COMMUNITY WHILE FIGHTING HARD FOR BRITISH INTERESTS, WAS THE SALIENT POINT WHICH THE GERMANS BROUGHT BACK WITH THEM.

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hesitant!
Sue H

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THE CHANCELLOR HAS SAID THAT THE FRG IS LOOKING FORWARD TO MORE DIRECT COOPERATION WITH BRITAIN AS A FULLY COMMITTED MEMBER OF THE COMMUNITY. HE SHARES A GREAT DEAL OF THE CONCERNS AND WORRIES OF HMG ABOUT SOME OF THE WORKINGS OF THE COMMUNITY AND SPECIFICALLY HAS ASKED FOR A STUDY TO BE DONE ON THE BUDGET FIGURES ABOUT WHICH THERE SEEMS TO BE FAIR CONFUSION WITHIN THE FEDERAL GOVERNMENT. THE CHANCELLOR'S OFFICE RECOGNIZE THAT PARADOXICALLY IN A NUMBER OF FIELDS THE RENEWED BRITISH COMMITMENT TO PROGRESS IN THE COMMUNITY WILL MAKE LIFE MORE DIFFICULT FOR THE FEDERAL REPUBLIC; OBJECTIONS BY HMG IN THE PAST COULD IN PART AT LEAST HAVE BEEN BRUSHED ASIDE ON THE GROUNDS THAT THESE WERE SPOILING TACTICS. THEY WOULD HAVE TO BE TAKEN MORE SERIOUSLY IN THE FUTURE AND THIS COULD BE PARTICULARLY PAINFUL FOR THE FRG.

4. THE GERMANS WERE ALSO PLEASED BY THE EMPHASIS PLACED ON THE UK'S COMMITMENT TO THE ALLIANCE, AS WELL AS BY THE PRIME MINISTER'S ENDORSEMENT OF THE CHANCELLOR'S SUPPORT FOR SALT II. THEY RECOGNIZED THAT THERE WERE DIFFERENCES OF EMPHASIS BETWEEN THE TWO HEADS OF GOVERNMENT ON DETENTE BUT THE CHANCELLOR DID NOT FIND MRS THATCHER'S SOMEWHAT HARDER POSITION ON EAST/WEST RELATIONS IN ANY WAY DISTURBING.

5. THE ONLY AREA OF POLICY WHERE THE GERMAN SIDE FORESAW PROBLEMS WAS SOUTHERN AFRICA, AND IN PARTICULAR RHODESIA. THE CHANCELLOR IS REPORTED TO BE EAGER TO LEARN THE OUTCOME OF THE GOVERNMENT'S REVIEW OF AFRICAN PROBLEMS. BUT THE GERMANS, WHILE SOMEWHAT APPREHENSIVE, ARE IN NO WAY SEEKING TO RUSH BRITISH MINISTERS ON A MATTER WHICH THEY REALIZE IS COMPLEX AND HIGHLY SENSITIVE POLITICALLY AND ON WHICH THEY ACKNOWLEDGE THAT IT IS FOR THE UK IN THE FIRST PLACE TO MAKE UP ITS MIND.

6. ALL IN ALL, THE SECOND THOUGHTS IN BONN ARE AS FAVOURABLE AS THE FIRST IMPRESSIONS IN LONDON.

WRIGHT

FEO WHITEHALL

WED



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15th May 1979

NBPM
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Dear Bryan,

CHANCELLOR'S BILATERAL MEETING WITH HERR MATTHOEFFER
11TH MAY, 1979

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I enclose a record of the Chancellor's bilateral discussion on Thursday, 11th May with Herr Matthoeffler, the Federal German Minister of Finance and other members of his party. I am sending copies of this to George Walden in the Foreign & Commonwealth Office and Martin Vile in the Cabinet Office.

Yours ever,
Tony Battishill

(A.M.W. BATTISHILL)

B. Cartledge, Esq.,
No.10, Downing Street



VISIT OF CHANCELLOR SCHMIDT OF THE
FEDERAL REPUBLIC OF GERMANY
10TH-12TH MAY 1979

NOTE OF A DISCUSSION BETWEEN THE CHANCELLOR OF THE EXCHEQUER
AND THE MINISTER OF FINANCE, OF THE FEDERAL REPUBLIC OF
GERMANY, AT 11, DOWNING STREET AT 18.00 ON THURSDAY, 11TH MAY 1979

Present:

Chancellor of the Exchequer
Mr. K.E. Couzens
Mrs. M.E. Hedley-Miller
Mr. M.J. Michell

Herr Matthoefffer, Federal
Minister of Finance
Herr M. Lahnstein, Under
Secretary of State
Dr. V.W. Heck, Assistant
Under Secretary, Federal
Minister of Finance
Dr. G. Massion, Embassy
of the Federal Republic
of Germany

After an initial exchange of courtesies, Herr Matthoefffer opened the discussion by asking about the Government's economic priorities. The Chancellor in reply emphasised Ministers' total commitment to reductions in both the uniquely high level of United Kingdom personal taxation and in public expenditure and the public sector borrowing requirement. Lower direct taxation and improved incentives were required to regenerate the supply side of the economy and reverse the decline in industrial performance.



Herr Matthoefffer asked how far the Government's policies allowed for some Government support for industry and more general incentives to encourage investment. Government help in the FRG had given a good deal of encouragement to successful medium and smaller sized companies. Also, schemes like the coal gasification programme could not have succeeded without Government initiative. The Chancellor said that schemes for industrial support were liable to waste large amounts of public money and the Government preferred to concentrate on motivating the private sector in other ways.

The Chancellor then turned to performance of the monetary aggregates. The UK money supply was running very close to the top of the 8-12 per cent range, which had remained unchanged for two years. Herr Matthoefffer replied that in the FRG the money supply was well within the 6-9 per cent target. Interest rates paid by industry for long term borrowing were little over half those prevailing in the UK.

Discussion then moved on to Community matters. The Chancellor began by recalling a conversation he had had with Herr Willy Brandt some years previously when the latter had suggested that the most significant contribution to be made by the UK to the vigour of the EEC lay in improving the performance of its own economy. The Government were determined to see that improvement come about.

Herr Matthoefffer then invited the Chancellor's views on UK participation in the European Monetary System (EMS). The Chancellor said that the Government would naturally wish to re-examine this whole question: whilst our partners should not expect early decisions, he recalled that in the debate in the House of Commons in December he had indicated a greater disposition than the Labour Government to see the UK participate more fully in the new arrangements. His expressed doubts had



been of a mainly technical kind, relating to the adequacy of machinery for making parity adjustments within the EMS and to whether sufficient progress had yet been made towards economic convergence in the participant countries. Taking up the first point, Herr Matthoefffer suggested that parity adjustments, with goodwill, were no more difficult in the EMS than they had been in the snake. Since December the exchange rates of the EMS countries had shown remarkable stability even before the system formally came into operation. The unexpected feature had been the strength of sterling. If the UK joined the exchange rate mechanism in due course would the Government want the usual 2½ per cent margin for sterling or the wider margin allowed to the Italian lira? The Chancellor said it was too soon to be firm about details, but he reaffirmed the Government's willingness to look sympathetically at the whole question of UK participation in the exchange rate mechanism.

Discussion then turned to the Regulation to be discussed at the meeting the following Monday of the EEC Finance Council covering the interest rate subsidy for Ireland and Italy. Herr Lahnstein recalled the history of the discussions of this subject since December. The United Kingdom, though regarded as a "less prosperous country", was not included in the provisions of the present Regulation which applied only to those participating fully in the EMS, including the exchange rate mechanism. The Italians and the Irish were anxious to see the Regulation approved and he hoped the Chancellor would be able to acquiesce in it. Replying, the Chancellor said he naturally did not want to take up a rigidly hostile position on the matter. He understood why the Regulation had to be confined at this point to Italy and Ireland. Nevertheless, he would expect the Finance Council to record its explicit recognition that there was room for further consideration of our access to interest rate subsidies in the event that the UK joined the exchange rate mechanism. Whilst this could not form part of the Regulation, it would need to be formally recorded.



Replying, Herr Lahnstein assured the Chancellor of the general recognition that the UK could not be excluded for all time from access to the facility. He suggested that when the Finance Ministers meet informally in Brussels on Sunday night proposals should be put to the French Presidency for a formula which would safeguard the UK position. Mr. Couzens suggested that this would need to include an undertaking to reconsider the total financial provision for interest rate subsidies if the prospect of future UK participation were not to imply a reduction in the available help for the Italians and the Irish. Herr Lahnstein, whilst expressing German sympathy, felt that the French would not depart from their entrenched opposition to accepting the UK as a "less prosperous country". It might be better to look for a flexible formula which would satisfy everybody.

The Chancellor then turned to the problems presented by the transfer of Community resources. Recalling his participation as Solicitor-General in a previous administration in drafting the UK Treaty of Accession, he had been surprised to discover how the position had worked out in practice. Whatever the reason for the present imbalance, the present and prospective scale of the UK net contribution to the EEC budget threatened the Government's public expenditure plans, burdened the balance of payments and could not be justified any longer to the British people. It was, moreover, a serious impediment to the Government's plans to regenerate the British economy. Our present £800 million net contribution was simply not commensurate with our relative economic prosperity. Replying to an intervention by Herr Lahnstein, the Chancellor disagreed that the argument turned essentially on the treatment of MCAs. Whatever the basis of calculation, the United Kingdom remained a large net contributor both in terms of national accounts and in resource terms when the cost of imported food was properly included. Compared with the size of our contribution, the total provision for interest rate subsidies was very small. Moreover, he had been struck by the inconsistency between the aim of stability underlying the EMS and the persistent tendency



of the EEC budget to increase economic divergence. A solution was needed which was compatible with the well-being of the Community.

Herr Matthoefffer's response was to stress the importance of holding firm to the 1 per cent ceiling on the "VAT tranche" of contributions to the Budget. This might well be reached early in the 1980's and providing the ceiling was maintained this would act as a strong incentive to restructure the Community's expenditure. The Chancellor, whilst acknowledging this, suggested that maintaining the 1 per cent ceiling would of itself do no more than prevent the present imbalance from getting worse. Even with that, and assuming progress on the CAP, the UK still finished up with a large disproportionate net transfer of resources, to which it was essential to find a solution. Herr Matthoefffer interjected to say that he had always been critical of the CAP, especially in regard to milk production. But in Germany, this was a coalition problem. The French were intransigent: the CAP was essential to President Giscard's position. The Chancellor replied that the budget problem was quite separate from the CAP and needed to be addressed as a separate issue. Mr. Couzens added that maintaining the 1 per cent VAT ceiling could arguably make it more difficult to restructure Community expenditure away from the CAP and towards the Regional and Social Fund. Herr Lahnstein said that his Government were convinced that any readjustment had to come from the expenditure and not from the contributions side of the Budget. That is why they placed such importance on holding to the 1 per cent VAT ceiling. A budgetary squeeze would be bound to put a brake on farm price policies. However, he agreed that restraining CAP would not automatically provide more resources for disbursement through the Regional and Social Fund.

Concluding this part of the discussion, the Chancellor said that he could not see any means of removing the present disproportionate UK contribution unless the Community were



prepared to undertake some more fundamental reconsideration of its financial structure. This was not a question of renegotiating the terms of membership; any more than it was a claim to establish a "juste retour". It could involve looking again at the financial mechanism which applied at present only to the member-countries' gross contributions and not to their net contribution.

Herr Matthoeffler then turned predictably to the level of the UK contribution to Turkey, contrasting it unfavourably with the very much larger contributions offered by France and the FRG, and with those of the smaller countries like Austria and Belgium. In reply, the Chancellor expressed a common anxiety with Herr Matthoeffler to contribute to the help for Turkey. But this was coupled with a similar anxiety that offers of help had so far singularly failed to persuade Turkey to follow a disciplined economic programme to put its own house in order. The Chancellor said Ministers would naturally look at the position again, but would have to have regard to their commitment to reduce public expenditure. He assured that Chancellor Schmidt would also be raising this subject with the Prime Minister in their discussions. Herr Matthoeffler and Herr Lahnstein both acknowledged the importance of Turkish acceptance of a proper financial discipline. The FRG contribution would certainly not be pledged before there was an assurance that Turkish discussions with the IMF were proceeding satisfactorily. Whilst that still seemed some way off, he hoped it would be possible for swift and adequate action to be taken once progress had been made. In this respect, he emphasised that other potential contributors would take their lead from the UK.

The meeting ended with a brief discussion in which Ministers agreed upon the value and importance of close

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collaboration among the major industrialised countries on international economic and monetary affairs.

The discussion ended cordially at about 19.15 p.m.

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(A.M.W. BATTISHILL)

11th May, 1979

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16 MAY 1979

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Prime Minister

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INFO EEC POSTS, WASHINGTON, TOKYO, UKDEL OECD, UKDEL NATO

FEDERAL CHANCELLOR'S VISIT TO LONDON: GERMAN MEDIA REACTIONS

1. THE GERMAN MEDIA GAVE ENTHUSIASTIC AND EXTENSIVE COVERAGE WITH PICTURES TO THE FEDERAL CHANCELLOR'S VISIT TO LONDON LAST WEEK, AND THE OVERWHELMING CONSENSUS IS THAT THE MEETING BETWEEN THE TWO HEADS OF GOVERNMENT WAS A SUCCESS. THE AFTER-DINNER SPEECHES AND THE EXCHANGES AT THE CONCLUDING PRESS CONFERENCE WERE FULLY AND FAIRLY REPORTED. INTEREST WAS HEIGHTENED BY THE OCCASION OF THE PRIME MINISTER'S FIRST FOREIGN OFFICIAL VISITOR (MR LYNCH'S VISIT TENDED TO BE OVERLOOKED) AND HER FIRST ENCOUNTER WITH HERR SCHMIDT AS PRIME MINISTER.

2. NEARLY ALL NEWSPAPERS DESCRIBED THE MEETING AS HAVING ESTABLISHED QUOTE THE MUTUAL RESPECT UNQUOTE OF THE TWO LEADERS FOR ONE ANOTHER AND AS HAVING TAKEN PLACE IN AN ATMOSPHERE OF GENERAL AGREEMENT ON WORLD AFFAIRS. THE PRIME MINISTER'S DESCRIPTION OF HERR SCHMIDT AS QUOTE BRITAIN'S GREAT FRIEND UNQUOTE WAS WIDELY CITED AND HERR SCHMIDT IS SAID IN QUOTE CONFERENCE CIRCLES UNQUOTE TO HAVE DESCRIBED THE PRIME MINISTER AS QUOTE A HEAD OF GOVERNMENT WHO KNOWS EXACTLY WHAT SHE WANTS WHERE BRITISH INVOLVEMENT IN THE COMMUNITY AND IN NATO IS CONCERNED UNQUOTE. ONLY DER SPIEGEL STRUCK A DIFFERENT NOTE, CLAIMING THAT AN OBSERVER HAD SAID THAT QUOTE THE TWO HAD SPOKEN CORDIALLY PAST ONE ANOTHER UNQUOTE.

3. AS WAS TO BE EXPECTED, THE PRESS SCRUTINISED WITH PARTICULAR CARE THE PRIME MINISTER'S STATEMENTS ON EUROPE. MOST NEWSPAPERS SEEMED ENCOURAGED BY HER COOPERATIVE APPROACH BUT EXPECTED BRITAIN TO FIGHT FOR HER INTERESTS JUST AS STRONGLY AS BEFORE. ONE OR TWO NEWSPAPERS COMMENTED ON THE PRIME MINISTER'S FRANK, ALMOST BRUSQUE, WAY OF SPEAKING ABOUT EUROPE: THE SUEDEUTSCHE ZEITUNG FOR

/EXAMPLE,

EXAMPLE, QUOTING BRITISH OBSERVERS, FOUND THESE REMARKS QUOTE NOTICEABLY HARD UNQUOTE. HERR SCHMIDT IS QUOTED AS SAYING: QUOTE THERE IS A CHANGE OF STYLE IN BRITISH POLICY TOWARDS EUROPE BUT NO CHANGE IN THE BASIC ATTITUDE UNQUOTE. THE PRIME MINISTER'S WARNING ABOUT BRITAIN NOT BEING QUOTE A SOFT TOUCH UNQUOTE IN EUROPE WERE GIVEN CONSIDERABLE PROMINENCE.

4. THERE WAS NOTICEABLY LITTLE COMMENT ON DEFENCE AFFAIRS BUT THIS MAY FOLLOW AFTER THE DEFENCE SECRETARY'S TALKS WITH HERR APEL.

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PARTIAL RECORD OF THE PRIME MINISTER'S DISCUSSIONS WITH THE
FEDERAL GERMAN CHANCELLOR, HERR SCHMIDT, AT 10 DOWNING STREET
ON 11 MAY 1979 AT 1030

Present

The Prime Minister	H.E. Herr Helmut Schmidt
The Foreign and Commonwealth Secretary	Herr Hans-Dietrich Genscher (Foreign Minister)
Chancellor of the Exchequer	Herr Matthofer (Minister of Finance)
Secretary of State for Defence	and officials
Lord Privy Seal	
and officials	

* * * * *

Nuclear Matters

Following a discussion of SALT II, Chancellor Schmidt initiated a substantial exchange of views on Theatre Nuclear Forces in Europe and asked, at its conclusion, that it should not be recorded. The Prime Minister endorsed this and directed that the record should show only that "there was a discussion on nuclear weapons".

Chancellor Schmidt said that, under the umbrella of talks on Theatre Nuclear Forces (TNF) modernisation, discussions were proceeding within the Alliance at official level on the future of nuclear weapons in Western Europe. Initially, this assessment had been confined to the high level military group which was considering what type or types of tactical and medium-range (which in Europe meant strategic) weapons should be stationed in Western Europe. These discussions had now been complemented by the meeting of the Special Group which was considering the arms control aspects of the question: and he thought it essential that these two sets of discussions should proceed in parallel. Defence Ministers had met recently in Florida and had envisaged a procedure by which, before the end of 1979,

/the NATO Council

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the NATO Council could take an integrated decision based on the conclusions of the high level and special groups. This was satisfactory but it needed to be given a political dimension. For example the military would always argue that GLCMs were more reliable than SLCMs but they ignored the fact that politically the latter might give rise to lesser problems.

Chancellor Schmidt went on to say that it would be difficult to help the United States, in any clearly defined way, to identify the goals of SALT III without a co-ordinated European view. It should be borne in mind that if the US/Soviet Summit were to take place soon /news arrived during the meeting of the American announcement that the Summit was to take place in Vienna on 15/18 June/ President Carter and President Brezhnev might well cover a wide range of subjects including SALT III, MBFR, the CSCE follow-up meeting in Madrid, Vietnam, Laos, Cambodia, the Middle East and Southern Africa. For his own part, he would welcome it if MBFR were to be given a push during the next few weeks. So far as SALT III was concerned, the FRG intended to ensure that she should not be singled out for the stationing of a new kind of nuclear weapon on her soil which would present a threat to the Soviet Union unless another non-nuclear weapon state within the Alliance did the same. Since 1945, there had been no nuclear weapons stationed on German soil which could reach Moscow. To put them on German soil alone would amount to a qualitative change in the FRG's defence procedure. The FRG already had 500,000 troops, well trained and of high quality, under arms, and was quite prepared to modernise this force further. The FRG would not, however, like anything to be done which would divide the FRG from her non-nuclear allies or create the misapprehension that the FRG was embarking on participation in the nuclear weapons field.

Lord Carrington said that the British Government shared the FRG view that there should be no public criticism of SALT II

/and that nothing

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and that nothing should be done which could make things difficult for President Carter. The main UK interest was in the transfer of nuclear technology and the Government would be studying the final text of SALT II from that point of view. Lord Carrington said that he agreed that SALT III would be of vital importance to the West and to Europe in particular. He had been given the impression in Washington that SALT III would be a continuation of the long bilateral negotiation between the United States and the Soviet Union and this could become a permanent process. Europe should seriously consider whether it would be right to accept this. Lord Carrington said that he saw every advantage in the closest co-operation between the UK and the FRG in order to safeguard the European interest. He fully recognised the FRG's problems on the stationing of nuclear weapons. The Defence Secretary said that the urgent question was TNF. Unless modernisation had been agreed upon it was pointless to discuss arms control measures. Serious risks would arise if the problem of TNF modernisation was not solved by the end of 1979. He had considered Chancellor's Schmidt's suggestion that the work of the high level and special groups should be brought closer together and this was an interesting idea; but he still believed that it would be right to allow the high level group to reach its conclusions first. Perhaps the UK and the FRG should put Ministerial weight behind the high level group's activities and then endeavour to carry the Belgians, the Dutch and the Americans along with them. It would be important to consider very clearly the public opinion aspects of the TNF problem. Mr. Pym suggested that the Prime Minister and Chancellor Schmidt might instruct their Defence Ministers to take a more direct interest in the technical/military decisions of the high level group so that they would be in a stronger position in the special group.

The Prime Minister commented that the West had suffered a psychological defeat over the neutron bomb. She also found it hard to understand how the West had fallen from superiority to

/parity, and

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parity, and even inferiority, in the nuclear weapons field without really being aware of this. The full extent of the Soviet military build-up was now much more widely recognised in the UK and this would enable the Government to spend more on defence. The fact remained that NATO has no counter to the SS20 missile. The Government would be considering the question of a successor to the UK Polaris force. The Prime Minister asked Chancellor Schmidt if his position was that the FRG would not agree to the stationing of any new nuclear systems on her soil.

Chancellor Schmidt replied that if the Alliance were to decide that it would be necessary to have long-range ground-launched missiles as part of the TNF modernisation programme, the FRG could not agree to these being stationed only on Federal German soil. It would not be sufficient that these missiles might be stationed in the UK as well since nuclear weapons with the capacity to reach Moscow had always been deployed on British territory. It was essential that the FRG should not be the only non-nuclear power to have these weapons on her territory. Turning to the neutron bomb, Chancellor Schmidt said that he would like Lord Carrington and Mr. Pym to study exactly what had happened during that episode. He suggested that they should have a private talk with their German opposite numbers. Chancellor Schmidt added that he was not entirely persuaded by Mr. Pym's preference for allowing the high level group to reach its decisions on TNF modernisation before an integrated decision was attempted: and Lord Carrington agreed that Foreign Ministers had to be involved from the arms control aspect also.

It was noted that Mr. Pym and Herr Apel would meet in Brussels on 14 May: and it was agreed that both Mr. Pym and Lord Carrington would remain in close touch about these matters with their opposite numbers.

Chancellor Schmidt repeated if the outcome of TNF was proposals for deploying GLCMs or Pershing IIs this must be an Alliance

/decision and

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decision and if Germany was to be involved in deployment she would want another non-nuclear weapon state involved also. No MRBMs under NATO control had been stationed on European soil since the late 1950s/early 1960s: they had been scrapped by the agreements between President Kennedy and Mr. Krushchev and Europe had thus had two decades without them. This reinforced the need to pay very close attention to the public opinion aspects of the question. The Soviet Union would do its best to arouse European opinion against the reintroduction of ground-launched missiles, just as it had done with such success on the neutron bomb issue.

The Prime Minister agreed that the psychological battle was of great importance. The climate of opinion had now improved in the UK and, she thought, in the US: there had, however, been no such improvement in Belgium.

The discussion then turned to the political aspects of East/West relations.

SM

11 May 1979

Schmidt visit
Germany May 79
Gordon
14/11

PRESS CONFERENCE ON 11 MAY 1979

GIVEN BY

PRIME MINISTER HRS. THATCHER & CHANCELLOR SCHMIDT

PRIME MINISTER:

Ladies and Gentlemen of the Press and Media,

It has given us great pleasure that our first official meeting with a European leader is with Chancellor Schmidt. He is a great friend of this country and we welcome him very much indeed. It is not, as a matter of fact, our first meeting. When I became Leader of the Conservative Party, I went to Bonn and had talks with Chancellor Schmidt then; and it seemed very easy to take up the talks we then had, as one had somehow managed to slip into Government in the meantime.

You will be fairly aware of the kind of subject that we have in fact discussed. Of course, we have a common interest in the defence of the West and in NATO. I have been able to give Chancellor Schmidt our own views about the European Community and you naturally will be aware that we take a very different - and I hope very much more cooperative attitude - than has been taken in the past few years over the development of the Community. We pursue our own interests in it, but we pursue it against the background of a firm belief in the success of the whole Community as an idea and as a practical idea.

These talks are part of a continuing series. They take place generally at about six-monthly intervals and we shall hope to be meeting in Bonn towards the end of the year.

Now, I will just ask Chancellor Schmidt if he would wish to make a brief statement to the press, and then we will have our customary questions.

Perhaps just before I do that, I should mention that Sir Geoffrey Howe and Herr Witzkefer have had separate talks alongside the main talks and been involved in the main talks as well - and Lord Carrington and Herr Genscher have had separate meetings too. So we have managed to do quite

a number of bilateral meetings between other Ministers as well as the plenary session.

Now, I'll ask Chancellor Schmidt for the comments which he would like to make.

CHANCELLOR SCHMIDT

Thank you very much, Prime Minister.

Let me say that not only did we highly value your hospitality during this stay in London, for which we wish to thank you heartily, but that we also very highly welcomed the opportunity to have this exchange of views with you and your Ministers so shortly after you assumed office.

I must say I feel impressed by the spirit of decision with which you want to tackle the questions facing your country and your Government - questions which to some large extent also concern ourselves.

I guess that some people of the press - whether in London or in Bonn - might watch rather closely how a Social Democratic German Chancellor and a Conservative British Prime Minister would get along with each other, and I would just like to tell the press that this was not our problem to the slightest degree, but to people who might ask such questions I would rather like to reassure them that we got along well with each other. We have got the same type of responsibility in each of our countries, for our countries, and we have seen - and this did not come as a surprise - that there are wide fields of understanding and common interest between us, that is to say, between the United Kingdom and the Federal Republic of Germany.

And I would like to add that I had the impression that your personal approaches and mine to certain problems are not so different from each other.

That is about all I would like to say in the opening, Prime Minister. I guess that the press will lead us to some other questions of substance.

QUESTION (NAME UNRECORDED) (INDEPENDENT TELEVISION NEWS)

You said in your Manifesto that the Labour Party had forfeited the trust of our European partners. Do you think your rather plain speaking of last night has gone any way to regaining that trust?

PRIME MINISTER

I hope so. I hope you will look at the speech as a whole. We particularly emphasised our total commitment to the ideal of the European Community. Of course, there are one or two problems to be sorted out and, of course, we will sort them out; but we will sort them out in a framework of cooperation and when they are sorted out, the Community will be able to go ahead faster. But, of course, it is totally different to put all the emphasis on three points with which we disagree. It is totally different to do that from the approach which we take, which is in a framework of cooperation, not only in the Community but, of course, we do have very definite views on defence as well.

QUESTION (addressed to Chancellor Schmidt)

Could we have your reactions to SALT 2 and its implications for America's allies in Europe?

CHANCELLOR SCHMIDT

Certainly, but it will not come as anything new to you or to the rest of the world.

I would like just to repeat, in substance, what I already said four months ago, early in January, at a meeting of the Heads of State or Heads of Government of America, United Kingdom, France and Germany. We are in favour of a quick, swift ratification process, both in Moscow and in Washington DC. We imagine that the world might change, might undergo a change not for the better, if new difficulties for the coming into force of SALT 2 would arise. The process has already lasted long - a little bit too long to my feeling - and so it is about time that this agreement should have been concluded and it is about time that it is getting into force. Otherwise, I would feel that there are many great disadvantages for the West and the East that would arise.

QUESTION (LIVERPOOL DAILY POST)

Could I ask you, Prime Minister, to give your opinion on what Chancellor Schmidt....

PRIME MINISTER

I am sorry. The cameras are clicking so much that they obscured your question. Could you repeat it?

QUESTION

Would you be kind enough, after the heavyweights have calmed down, to give us your opinion of the initialling of the SALT Treaty - it is not here - and your view on Chancellor Schmidt's view on SALT?

PRIME MINISTER

I thought Chancellor Schmidt's view was very much the view that we have taken, that the treaty has taken a long time to come to a conclusion and we trust it will be ratified.

QUESTION

Could you, Chancellor Schmidt, please, whether you found Mrs. Thatcher's Government more conciliatory towards the EEC than the late Government of Mr. Callaghan.

PRIME MINISTER

Very difficult for you.

CHANCELLOR SCHMIDT

I will not try to compare consecutive British Governments to each other. I will only say that I had the feeling that they were fairly conciliatory.

PRIME MINISTER

You have been very diplomatic!

QUESTION (JAPANESE NEWS AGENCY)

Prime Minister, have you discussed anything about the Tokyo Summit which is going to take place next June and, if so, what was your main topic?

PRIME MINISTER

We both very much look forward to the Tokyo Summit. It will obviously be my first experience of attending such a summit. We cannot really reach conclusions before the Summit has taken place.

QUESTION (FINANCIAL TIMES)

A question to Chancellor Schmidt. Would it be a good thing, in your opinion, if Britain joined the European Monetary System - and to Mrs. Thatcher, when do you intend to make up your mind about this?

PRIME MINISTER

Shall I answer first? When we have had sufficient time properly to consider the matter. We are naturally cooperating on these issues and we wish to be cooperative, but we wish to look at all aspects of it and we shall do so; and we therefore shall be ready for the September review of the system.

CHANCELLOR SCHMIDT

Let me just add that I am fully satisfied with the attitude in which the Prime Minister and her aides are approaching that question and I think September is a good time.

MR. ROTH

Congratulations, Mrs. Thatcher. Just one question on your very plain speaking last night. How do you visualize the negotiations on the Common Agricultural Policy? Is it a renegotiation or how do you see it?

PRIME MINISTER

These things are not renegotiations and I think, if you looked at the whole speech Mr. Roth, you will see that if circumstances change or if a policy works out in a different way from what was envisaged, then naturally it evolves and you must adapt according to the circumstances. But it is not a whole throwing out of everything. We will be very much aware that the Common Agricultural Policy has been under strain because of the pricing mechanism and particularly because

of the Green Currency mechanism. Now, perhaps we can make some progress on those first.

CHANCELLOR SCHMIDT

I'd say "Hear, hear!" (laughter)

QUESTION (ISTANBUL)

We understand that you give great importance to NATO. Were there any discussions or suggestions to improve the situation on the South-Eastern flank of the alliance?

PRIME MINISTER

We attach a very great deal of importance to the South-Eastern flank of NATO. You will be aware that when positions were slightly different in the House of Commons, I used to ask Mr. Callaghan questions about Turkey, because I was very much aware of the problems there, and we will be as cooperative as we possibly can.

QUESTION (ISTANBUL)

The recent big power Guadalupe Summit in January organised a so-called rescue operation for Turkey's ailing economy with Germany in charge, but so far there do not appear to be any positive moves by the NATO allies. What can or is being done by Turkey's European friends to secure economic and political stability in Turkey, especially in the light of recent upheavals in the region?

PRIME MINISTER

You will be aware that the International Monetary Fund is there and is trying to make some proposals and that what happened at Guadalupe and what happens as a result of the discussions with the International Monetary Fund may not be entirely unrelated.

CHANCELLOR SCHMIDT

I would like to put a footnote to that.

I think the Turkish newspapers ought not to be too impatient on that rather complex problem. I have, a couple of weeks ago, appointed a personal representative of the Federal Chancellor, after I had assumed at that Gaudaloupe meeting to take the lead in bringing about the financial help for Turkey and that representative - a Minister called Leislakep (phon.) - who is not of my party but of the opposition party - he is a Christian Democrat - in the meantime not only has been talking to Prime Minister Ecevit and the other Ministers, but also has been talking to OECD, to the IMF, to American and other Western Governments and we are really in a process of bringing about something which I think would consist of three or four elements:

Number one, it is obviously necessary that there be consultation, and afterwards agreement, between Turkey and the IMF, and we have been helpful so far and I hope we will be successful in smoothing out some obstacles which were in the way of that process.

In the aftermath of that, you will also see that a change of attitude has been brought about in private banks who have holdings in Turkey.

Secondly, parallel to that - and possibly even earlier - we are trying to put together a concerted financial help by OECD countries, among which certainly will be the United States and France, the United Kingdom and my own country - we hope a few others, as have been mentioned this morning but we are not going to disclose it here; it is for themselves to disclose that - and on top of that there might be some other countries who can afford financially to be of assistance to join in one form or other.

And then there is the last element: that, of course, as is obvious, all this is only helpful in order to enable self-help by the Turkish Government and Parliament. Some steps have to be taken by the Turkish Parliament, by the Turkish Government, and I am rather hopeful now. I was not so hopeful in January when we started the whole thing. I am rather hopeful now that we bring this about in rather a few weeks in the future and that it will be settled already before the Tokyo Summit, which was mentioned earlier on, so that it might not be necessary to get back to this complex at the Tokyo meeting.

PRIME MINISTER

Can I now say "Hear, hear!"?

..... (DAILY TELEGRAPH)

We understand that the Chinese Leader is coming here in October, possibly going to Bonn and Paris too. We know the West German position on arms sales to China - I think it has been stated several times and connected with their relationship with the Soviet Union. Do we have a new position on the sale of arms to China?

PRIME MINISTER

No different from the position which we have indicated. Lord Carrington?

LORD CARRINGTON

I do not think there is any difference at all.

PRIME MINISTER

We were very clear about the position just before the Election, as you know. Are you talking specifically about the Harriers? We were quite clear just before the Election, but we really cannot do everything in the first week. Is Francis around, on the end? Yes. Would you like to add to that?

MR. FYH

.....this was the right decision.

CHANCELLOR SCHMIDT

I would like to put a remark to that British answer as regards the articulation of the question, the phrasing of your question, Sir.

You seem to have hinted to a well-known German attitude towards the delivery of weapons to the People's Republic of China. There is no

specific German attitude on this subject, other than since about 10 years or even longer; we have taken the attitude, not only the present Cabinet, but also its predecessors - we have maintained the line - we have taken the attitude for Germany of delivering military weapons and military hardware only to Alliance partners. There have been a few minor exceptions, but since the 60s we have stuck to that line: deliver and sell military hardware of German production only to Alliance partners, which would mean that if we stick to that line in the future, which we intend to do anyway, we will have to wait until the People's Republic of China becomes a NATO member!

QUESTION (DIE WELT)

Did you discuss Africa and especially Rhodesia, and were there any significant differences of opinion?

PRIME MINISTER

We, of course, took the opportunity to discuss Rhodesia and in particular to discuss it from the viewpoint of the problems which will face us in this country. It was not a meeting for differences of opinion in any way. It was a meeting for getting to know the views of one another as a basis for further cooperation in the future. Lord Carrington, do you wish to add anything to that? Chancellor? Herr Genscher? It was not a meeting for differences of opinion, gentlemen and ladies. We have a lady over here!

QUESTION (LAVI - AMERICAN ACCENT)

I wonder if I could ask both Prime Ministers whether they feel that Western Europe has been left vulnerable by the SALT 2 agreement and, secondly, what your hopes are for SALT 3?

PRIME MINISTER

I think the SALT 3 will be one which concerns Europe even more and perhaps we can concentrate rather more on that.

CHANCELLOR SCHMIDT

My answer to that one was implied when I earlier said that we would try to be helpful as regards President Carter's efforts to get ratification in the American Senate for SALT 2. If we felt to have been hurt in our defence posture by that agreement, we would certainly not do so.

As regards SALT 3, it is a little bit premature to speculate about it, but certainly, the United States Administration will consult her allies, whether it is United Kingdom or Germany or France or others, so we will have to wait for that consultation first before we speculate about it.

MICHAEL CORRELL (BBC PANORAMA)

Could I ask the Federal Chancellor, without wishing to appear indelicate, did you consider that Mrs. Thatcher would be a soft touch?

CHANCELLOR SCHMIDT

No, I do not, and I guess she would not consider the Germans to be a soft touch either!

QUESTION

Could I ask you whether you think you will be able to create the same sort of personal relationship with Mrs. Thatcher as you did with her predecessor, whom you always referred to at these occasions as "My friend, Jim".

CHANCELLOR SCHMIDT

Well, I have no doubt, you know, in international politics it does not really matter so much whether you are a Republican or a Democrat, whether you are a Labour man or the Conservative Leader, whether you are a Social Democrat or a Liberal or a Christian Democrat, whether you are, in France, coming from the Centre Parties or from other Parties. What really does matter is whether you are a reliable person and whether you have got judgment, and that is my experience after quite a long period in international politics and I have no doubt that on that basis we will be able to get on with each other rather fine.

PRIME MINISTER

Did you take that as a good recommendation?

SAME MAN

I was interested that obviously the Chancellor is a Social Democratic leader and in the Socialist International and you are, of course, the Conservative Leader.

PRIME MINISTER

As you are very aware, the policies which the Chancellor follows in Germany are not unlike...

CHANCELLOR SCHMIDT

Don't go too far!

PRIME MINISTER

I think we both believe in free enterprise. We both believe in incentives. I mean, if we could emulate his tax system I'm sure everyone here would stand up and cheer.

CHANCELLOR SCHMIDT

Don't go too far, Prime Minister, and do not spoil my relations with my own party please!

I would like to add something, just as an example. You will certainly know that the French President Valérie Giscard d'Estaing and I are really good personal friends, despite the fact that our political and social backgrounds are obviously very very different - it does not really matter.

...MARTIN (AP DON JONES)

Chancellor Schmidt, the last time that there was a severe increase in oil prices in 1973, it was followed by a very bad recession in almost every industrialized country in the world. Oil prices are now taking another somewhat similar upward path. Do you think that this will be followed by a similar recession? If not, why not?

CHANCELLOR SCHMIDT

It is difficult to speculate, because one does not know right now to what extent the price for crude oil is going to be raised in '79. So far, if you compare the prices for crude oil, let us say, between April '79 and April '78, it seems to me that there has been an increase of about 25%. This might be maintained for the rest of the year, it might not; I do not know. It is very difficult to speculate, but I will be frank with you and tell you that already the increase in the first four months of this year does concern me as regards the general economic and monetary consequences to not so much Britain - Britain would in the first instance, indirectly, not very much be affected - or the direct consequences for Germany who certainly would be more affected in the first instance than Britain because we do not have North Sea oil or natural gas of our own, but what I am concerned about is the direct impact on the rather great number of countries who depend on oil imports, who nowadays have to use one-third of their export earnings and of hard currency in order to pay for the necessary oil imports, whilst four or five years ago they needed only about 10% of their export earnings in order to pay for their oil. If, in the future, they might have to use more than a third - let us assume 2/5th, 40% - it is obvious that this will mean a strain on their balance of payments, a strain on their other imports which so far have been possible. I can only say that the consequences of this development are that all of us in all countries, not just in the United States, have to undertake great efforts in order to save energy; that we secondly have to undertake all our efforts to open up other sources of energy than just oil. This is a hint not only to nuclear energy, but also for the necessary scientific and technical development of solar energy, geothermal energy. We are, in Germany, since a couple of years, spending a lot of budget money for these purposes and it also will mean that those who do have coal - like Britain or like Germany - will have to maintain their capacity to produce coal and not just let their pits be closed. In the long run, I think whether the prices are going up too steeply or a little slower in '79, in the long run anyway it is obvious that there is not as much oil in the world as there is demand for oil nowadays and we have to restructure the energy policies and the technical processes of

using energy in most countries of the world. Britain, in that respect, is much luckier off than are others in Europe, but it is obvious that even for Britain and other oil countries there comes a decade not too far away in which these resources will be exhausted.

QUESTION (DIE ZEIT)

Prime Minister, is it sensible to aim at joining the EMS in September while the rate of inflation is going up?

PRIME MINISTER

I said we shall have considered our position by September and therefore be prepared to take up a position when the system is reviewed. It is reasonable to take time always to consider your position.

QUESTION (NEWSLINE NEWSPAPER)

I'd like to ask whether there was any discussion on the recent statement from the Arab oil-producing countries that the Common Market would have to recognise the Palestine Liberation Organization prior to any discussions between the oil producers and the Common Market.

PRIME MINISTER

We did not, in fact, get into that amount of detail.

TOM LUTHEY (LIVERPOOL ECHO)

Have you compared notes on the handling of terrorism and what have you got to learn from each other?

PRIME MINISTER

I think, again, we were not in fact getting into such detailed discussions as that. This was the first meeting and we were on really the broad general issues which is not, in fact, surprising.

CHANCELLOR SCHULTZ

May I add a footnote to that, Prime Minister?

From my judgment, the cooperation between the United Kingdom and the Federal Republic of Germany on terrorism has been excellent and I have every reason to believe that it will remain excellent.

COMMUNIST (LBO)

You have spoken, Prime Minister, strongly for the strengthening of Western defence, of British defence, and you are known, I think, to have some misgivings about detente with the Soviet Union. The Chancellor spoke strongly last night in favour of detente. Could I ask the Prime Minister and the Federal Chancellor if these views are to some extent incompatible?

PRIME MINISTER

Not in any way. Detente is fine so long as it is two-way and it happens. That is always the position we have taken up. Of course you favour detente, but it has to be two-way detente. It cannot be one way, and they are not in any way different; they are part of the same strategy. Detente, if you possibly can, but always from a position of strength in your defence system. The Chancellor.

CHANCELLOR SCHULTZ

I would more or less subscribe to what the Prime Minister said. Let me rephrase it in my words: obviously, the situation of a divided nation, of a divided country, in the centre of Europe - including the West Berlin situation - makes Germans more sensitive about East-West relations than maybe are other West European nations. But I would strongly assist the Prime Minister in my own words by saying that detente, which we regard to be an overwhelmingly necessary effort in the interests of the divided German nation, can only hold out prospects for results if you start from a basis of military balance; that means that anybody knows that you are able to deter anybody else from attacking you and if deterrents should fail, that you are able to totally defend yourself and that there will be no doubt about that. If we maintain that good basis which we have maintained so far, also in the future, there are prospects for further results in

deterrence. If, theoretically speaking, some day in the future the West would fail to maintain that deterrent and defence posture and to maintain that balance of military forces, the outlook would become bleak.

PRIME MINISTER

Now, can we have just two more questions. The Chancellor is going to Oxford this afternoon to receive a honorary degree and we warmly congratulate him. He will be receiving it from Harold MacMillan and it is my university!

BARNETT CRITCHLEY (THE GUARDIAN)

Following that last point, might we ask you and Chancellor Schmidt if in your discussions you were able to consider the defence of Western Europe faced with the Soviet SS20 and the new generation of missiles? Did you reach any general principle of agreement on how Britain and Germany in particular can progress on this and on the stationing of counter-missile systems?

PRIME MINISTER

I think this is really more a matter for the future and we simply cannot, as you know, pull solutions out of the hat. This is a matter to be considered after the conclusion of SALT 2. Chancellor, would you like just to say...to add?

CHANCELLOR SCHMIDT

Possibly, Prime Minister, we might mention that Secretary of Defence Fyn and Secretary of Defence Appel will meet next week, I think for more than just one day; that they have scheduled personal talks among themselves which ^{would} certainly also embrace the subjects which were just now being mentioned. On the other hand, I think anybody is aware of the necessity that the complexity of the questions which you were hinting to not only makes it necessary but also the character of our alliance makes it necessary that these questions not be solved or publicly articulated just between two partners of the alliance, but between all of them.

PRIME MINISTER

Perhaps Mr. Pym would confirm that he is meeting, I think, on Monday.

MR. PYM

Yes, indeed, and I much look forward to it, to meeting him and have more than one discussion with him in the course of next week.

MR. HALL

Madam Prime Minister, are you thinking of seeing President Carter soon, either inviting him here to Britain or going to Washington? Are there any outstanding points, differences, between British and US policy that you would like to clear up with him?

PRIME MINISTER

Immediately, no. We shall, of course, meet in Tokyo, but in the immediate term, Secretary Vance is coming over to see Lord Carrington. Next week, isn't it?

LORD CARRINGTON

Yes, he is coming over for two days, Monday and Tuesday of next week. We shall have two days of discussions and I hope will see some other Ministers as well.

PRIME MINISTER

Thank you very much indeed.

AIR JOHN HUNT

The Prime Minister's Discussion with
Chancellor Schmidt on Nuclear Matters

You kindly said that you would look at, and amend where necessary, my note of the discussion of nuclear matters in the plenary session of talks with Chancellor Schmidt this morning.

I enclose a copy of my version of these exchanges.

BGC

11 May 1979

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Copied to: Master Set
Fishing Industry, May 1979

10 DOWNING STREET

From the Private Secretary

11 May 1979

Prime Minister's Discussions with Chancellor Schmidt on
10 May: Fisheries

I have omitted from the record which I am sending you separately of the Prime Minister's discussions with Chancellor Schmidt at No. 10 on 10 May, at which the Foreign and Commonwealth Secretary and Herr Genscher were present, a short exchange on the handling of fisheries policy of which you should be aware.

Chancellor Schmidt told the Prime Minister that he had always taken the view that fisheries should be dealt with by Foreign Ministers, given the extent to which international law came into the issue; Ministers of Agriculture, in the Chancellor's view, were not properly qualified to deal with this. Lord Carrington told Chancellor Schmidt that the new Minister of Agriculture, Mr. Peter Walker, was not only extremely able but was very well qualified for his job and had as one of his Junior Ministers Mr. Alick Buchanan-Smith who was not only a farmer but also an expert on fisheries. Lord Carrington said, nevertheless, that he would certainly not neglect the fisheries problem.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

B. G. CARTLEDGE

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10 DOWNING STREET

From the Private Secretary

11 May 1979

The Prime Minister's Discussions with
Chancellor Schmidt at 10 Downing Street
on 11 May 1979: Plenary Session

The Prime Minister's discussions with Chancellor Schmidt concluded with a plenary session of talks at No.10 this morning, beginning at 1030.

I enclose a copy of my note of the discussion.

I am sending copies of this letter and enclosure to Martin Hall (H.M. Treasury), Roger Facer (Ministry of Defence), Tom Harris (Department of Trade), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office

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THE PRIME MINISTER'S LUNCHEON

FOR

THE FEDERAL GERMAN CHANCELLOR AND HIS DELEGATION

FRIDAY 11 MAY 1979

Mr. Chancellor, I have greatly valued the informal consultations which we have had during these two days.

As I told you yesterday, I am delighted that this Government's first major event in the field of foreign affairs should be your visit to us here in London.

I entirely agree with you that it is not at all surprising that we all took it for granted that your visit would go ahead whatever the outcome of our elections last week.

These informal meetings, every six months, have become a natural part of the fabric of the relationship between our countries: and I think they are an essential part of the working relationship between our two Governments.

/ I have valued

I have valued in particular this opportunity to hear your views on a number of economic issues. The Federal Republic is our second largest trading partner. A twelfth of our exports go to you. In turn we offer you a tariff-free market worth £4½ billion last year for your manufactured goods and your agricultural products.

As two countries with a high dependence on exports for our prosperity, we share a common need for the maintenance of an open world trading system. I think that we also share a common belief in the role of private industry and investment. We understand, in what look like being difficult times ahead for the world economy, the need to maintain a reasonable pace of growth in world trade - not only between Britain, Germany and the highly industrialised countries, but throughout our ever more inter-dependent world.

/Britain shares

Britain shares with the Federal Republic the same major concerns in foreign policy, in NATO, in the European Community, in relations with the East.

We share, too, the categorical imperative of the relationship with our major ally, the United States.

Perhaps the contribution that your country and mine have each made to the history of the American people can give us insights into that great country which, shared between us, help us both to understand it even better.

The news this week is of the impending signature of the second Strategic Arms Limitation Agreement between the United States and the Soviet Union.

We are discussing the possibility of further arms control agreements, especially in the European theatre.

/But stability

But stability and peace will not be preserved if, in face of the increasing Soviet military threat in Europe, and Soviet adventurism and opportunism elsewhere, we allow ourselves to show weakness and lack of resolution. The strength of the North Atlantic Alliance is as fundamental to negotiation as it is to deterrence.

Britain, with the United States, contributes to the NATO triad of strategic nuclear, tactical nuclear, and conventional forces within the integrated military structure.

We are, in fact, the only European ally of the Federal Republic to do so.

We intend, to the best of our ability, to maintain and improve our contribution to all three elements.

We shall fulfil the Alliance commitment to increase defence spending by 3 per cent in real terms.

We, like you, have far reaching commitments under the revised Brussels Treaty.

/We shall

We shall discharge them.

We look forward to collaborating further with you in the field of defence industry, particularly in areas of high technology. This makes financial as well as military sense.

I spoke quite fully last night about our approach to the European Community, and I need say little more.

Important national interests are involved, for you and for us.

But I can assure you that on the British side any differences will always be set within the framework of a common perception of the goals before us, the goal of a stronger, better Europe.

Lastly, in my words at dinner, I mentioned our commitment to Berlin.

This is a matter of such high importance that I should like to repeat what I said:

/ "The United

"The United Kingdom is one of the three protecting powers in Berlin.

As Her Majesty The Queen reminded the people of Berlin only last year, our commitment to the freedom and security of Berlin is absolute".

For my own part I have derived enormous pleasure as well as benefit from our talks yesterday and today.

I feel that we share a common approach to the important issues confronting us.

I am confident that together we shall confront and surmount the challenges that lie ahead both within Europe and in the world.

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NATP
HMT

10 DOWNING STREET

From the Private Secretary

11 May 1979

Dear George,

Prime Minister's Discussions with Chancellor Schmidt at
10 Downing Street on 10 May 1979

The Prime Minister's discussions with Chancellor Schmidt during his visit to London which ended today began with a restricted session of talks at No. 10, in which the Foreign and Commonwealth Secretary and Herr Genscher took part, on 10 May at 1815.

I enclose my note of this discussion. As you know, it was not for some time possible to send you full records of conversations, other than those in plenary session, between the former Prime Minister and foreign visitors. That constraint does not now apply but you will, I know, appreciate that it could very easily be reimposed if any embarrassment were to be caused to the Prime Minister as a result of the improper use or handling of records of her discussions. I should therefore be grateful if you would ensure that the distribution of Prime Ministerial records of this nature is confined to those who genuinely need, for operational reasons, to be aware of their substance; and if Heads of Missions abroad to whom it is essential to send copies of records (I hope this would normally be only the Head of Mission in the foreign visitor's capital) could be asked to ensure that such records are given minimal distribution within the post and treated with special care and discretion. You may wish to consider drawing up a fresh set of ground rules to cover the new and, I hope, improved situation on the availability of full accounts of the Prime Minister's conversations and, if you do so, it would be very helpful to me to be informed of them. Other Departments to whom these records may from time to time be copied might also find it helpful to have guidance on their handling.

I am sending copies of this letter to Martin Hall (HM Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Martin Vile (Cabinet Office).

Yours ever,
G.G.H. Walden

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office

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RECORD OF THE PRIME MINISTER'S DISCUSSIONS WITH CHANCELLOR SCHMIDT
IN PLENARY SESSION AT 10 DOWNING STREET ON 11 MAY 1979 AT 1030 HOURS

Present:

Prime Minister	H.E. Herr Helmut Schmidt
Foreign and Commonwealth Secretary	Herr Hans-Dietrich Genscher (Foreign Minister)
Chancellor of the Exchequer	Herr Matthöfer (Minister of Finance)
Secretary of State for Defence	H.E. Herr Ruete
Lord Privy Seal	Herr M. Schuler (Head of Chancellor's Office)
Ian Gow, MP	Herr M. Lahnstein (Assistant Under Sec., Ministry of Finance)
Sir John Hunt	Dr. Jurgen Ruhfus, DUSS
Sir Michael Palliser	Dr. A. Grunewald (Deputy Government spokesman)
H.E. Sir Oliver Wright	Dr. H. Schulmann, DUSS
Sir Frank Cooper	Dr. K. Blech, DUSS
Sir Kenneth Berrill	Dr. H. Lautenschlager, DUSS
Mr. Ken Couzens (HMT)	Dr. W. Heck (Assistant Under Secretary of State, Ministry of Finance)
Mr. Michael Franklin (CO)	Dr. K. Zeller (Principal Private Secretary)
Mr. Julian Bullard (F.C.O.)	Dr. Alfons Bocker
Mr. Michael Butler (F.C.O.)	Herr Rothen
Mr. K.R. Stowe	Dr. J. Sudhoff (Press Spokesman)
Mr. Henry James	Dr. Peters (P.S. to Chancellor)
Mr. B.G. Cartledge	Dr. H.G. Petersmann (P.S. to Foreign Secretary)

* * * * *

The Prime Minister suggested, and Chancellor Schmidt agreed, that after hearing reports from their Ministers of Finance and Foreign Ministers on their separate bilateral discussions, there should be an exchange of views on East/West relations and defence. The Prime Minister asked the Chancellor of the Exchequer to open the discussion.

Financial Matters

The Chancellor of the Exchequer said that he had explained to Herr Matthöfer the UK Government's approach to public expenditure and public borrowing and the strong need which the Government saw to release energies and give new incentives in the private sector, especially to small firms. The Government saw the strengthening of the UK economy as itself making an important contribution to the strength and success of the Community. Sir Geoffrey Howe said that, in response to a question from Herr Matthöfer, he had explained that the Government would consider afresh the UK position on the EMS but that there could not be an immediate decision. Sir Geoffrey Howe went on to say that he and Herr Matthöfer had discussed the Regulation, which was to be taken at the EEC Finance Council on 14 May, covering the interest rate subsidy to Italy and Ireland as less prosperous countries participating fully in the EMS. He had told Herr Matthöfer that, provided the UK's position could be safeguarded in the event of her own full participation, the UK need not hold up the Regulation. He and Herr Matthöfer had agreed that a formula should be negotiated which would safeguard the UK without prejudicing Italy and Ireland. Sir Geoffrey Howe said that he and Herr Matthöfer had had a useful discussion about the UK's net contribution to the EEC Budget. He had told Herr Matthöfer that, whatever the reasons which had brought about the present situation, the present and prospective scale of the net contribution was not one which any British Government could justify to the British people. It was damaging in terms of public expenditure and the balance of payments and would hamper the Government's efforts to put the economy right. This could not be in the interest of a vigorous Community.

Herr Matthöfer, Sir Geoffrey Howe continued, had stressed the importance of holding firm to the one per cent ceiling on the "VAT tranche" of contributions to the Budget. This ceiling might well be reached early in the 1980s. The Germans thought that this would enforce a restructuring of Community expenditure. Herr Matthöfer had, however, noted Sir Geoffrey Howe's view that although both the VAT ceiling and a restructuring of expenditure were necessary and would be helpful, they were very unlikely to deal with the fundamental British problem. He and Herr Matthöfer had discussed frankly some of the possible approaches to remedial action, including, on the British side, the possibility of an

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adapted or perhaps different overriding financial mechanism.

Sir Geoffrey Howe went on to say that on the question of short term help for Turkey, Herr Matthöfer and his colleagues had urged the UK to reconsider the size of their contribution. He had told them that the Government would look at this again, despite the need to contain public expenditure. The value and importance of close collaboration between the major industrialised countries on international economic and monetary affairs had also been discussed and the UK and German views on this were in line.

Herr Matthöfer agreed with Sir Geoffrey Howe's summary of their discussions.

Community Affairs

Chancellor Schmidt told the Prime Minister that she should take account of the psychological impression which would be created in the Community if it was thought that the UK wished to embark on a further renegotiation of her terms of entry to the EEC. The Prime Minister interjected that the UK had no intention of doing so. Reverting to the one per cent VAT ceiling, Chancellor Schmidt said that he thought that it would be helpful if the UK and the FRG were to emphasise their determination not to raise this. This would be the best way of enforcing a reform of the CAP. The Prime Minister said that she wished to stress that the UK could not be of much help to anybody if the Government did not turn the UK's economy round. In recent years, there had been too much emphasis on the distribution of wealth and too little on its creation. The new Government also had to reduce the dependence on government which had grown up, as well as the Government's share of the national income. The Government proposed to make major changes in economic strategy which, if successful, would enable the UK to make a significantly greater contribution to the Community. The Prime Minister said that she did not under-estimate the difficulties but the change of strategy must be accomplished if the UK was to be an effective ally and partner not only in Europe but on international issues such as the North/South dialogue. The

/Government was

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Government was determined that the UK should be a faithful and good ally: the turn-round in economic strategy would be the Government's major task in achieving this.

Chancellor Schmidt said that, on the financial aspects of the CAP, it would be helpful if the UK were to prepare a first draft of her desiderata in three or four weeks time so that bilateral talks could take place before the UK's proposals were tabled in Strasbourg. Herr Schmidt expressed the view that the importance of these matters went beyond the competence of Minister of Agriculture or even of Finance Ministers; they were of general political importance. Chancellor Schmidt said that he was on the UK's side so far as agricultural surpluses were concerned; there was, for example 5 kilogrammes of milk powder in store for every European. The sales of cheap butter to the Soviet Union spoke for themselves and the Community's sugar policies were not right either. The Chancellor of the Exchequer said that he had not discussed CAP finances in detail with Herr Maffhøfer; but he had to point out that even if the changes in the CAP which the UK wished to see/ ^{took place,} and even if the one per cent ceiling on the VAT tranche were adhered to, the UK would still feel strongly that her net contribution to the total Budget of the Community was too large. If Member States were looking to the EEC to achieve greater convergence in the economies of its Members, it was quite wrong that the system of budgetary contributions should actively obstruct this process. The Prime Minister said that the cost of the CAP was at present financed in such a way that the UK, as the seventh poorest Member of the Community, had become the largest net contributor to the Community Budget.

Recalling an earlier remark of Chancellor Schmidt's, the Prime Minister asked him to what extent the UK's attitude towards the EMS would help on other Community issues. Chancellor Schmidt said that he had first to point out that, according to the FRG's figures, the UK was not the largest contributor to the Community's Budget. He suggested that the Prime Minister might check her figures with Mr. Roy Jenkins. On the EMS, he did not wish to ask

/the UK to

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the UK to take any particular action but it was obvious that the political and psychological impact if the UK were to enter the EMS at an early date would be considerable and would have an effect on other issues. The Prime Minister said that she certainly hoped that this would be the case. It might be difficult to reach a decision in advance of the exchange rate review in September. In the meantime, Strasbourg would be an important occasion for the Government to set out its different strategy to the Community and this would be done.

International Questions

The Prime Minister asked the Foreign and Commonwealth Secretary to report on his discussions with Herr Genscher. Lord Carrington said that he and Herr Genscher had exchanged views, over breakfast, about the UK's approach to the EEC, the Berlin question, NATO forces and defence issues. Herr Genscher had told him about his recent visit to Spain and of the Spanish interest in reaching a solution of the problem of Gibraltar; this would have to be tackled in the context of Spain's accession to the EEC. He and Herr Genscher had discussed Southern Africa; he had told Herr Genscher of the Government's commitments on Rhodesia and that they had not yet decided on the method of their approach to a resolution of the problem. Herr Genscher had expressed the view that the problems of Namibia and Rhodesia were closely related. There had also been an exchange of views on SALT II and SALT III and they had agreed that SALT III would be vital to the interests of Europe. There had been some discussion of MBFR and the latest Soviet approach to the Americans about the negotiations. Herr Genscher had raised the question of a possibly adverse Soviet reaction, in the context of Berlin, to the European Elections. The Middle East had been discussed in general terms.

Herr Genscher said that he had nothing to add to Lord Carrington's summary of their talk.

Chancellor Schmidt said that he would like to say a word about the attitude of the two governments to the ratification of SALT II. Despite some private criticisms and some misgivings,

the Federal Government would be careful not to allow these to come into the open and would give President Carter every assistance in his fight for ratification. Chancellor Schmidt said that he believed that if President Carter were to lose this battle, trust and confidence between the Soviet and American leaderships, which had already been diminished in recent years, would be further damaged. This could have an undesirable effect on the Soviet leadership and particularly, given Brezhnev's ailing health, on a new Soviet leader. If the United States Senate were to refuse ratification, after so many years of negotiation to which three US Presidents had been committed, a change of climate in East/West relations could result. There would be less eager or positive comments on SALT II from Paris but, the Chancellor thought, French reactions would not be negative. So far as SALT III was concerned, he expected that the French would stick to the line of refusing to participate in any aspect of these negotiations which could affect the national interests of France.

There followed a discussion of a number of questions concerning nuclear weapons. It was agreed that the Defence Secretary and the Federal Minister of Defence, Herr Apel, would have a private meeting in Brussels on 14 May to pursue these matters further.

East/West Relations

At the Prime Minister's invitation, Chancellor Schmidt said a few words about the Federal Government's approach to East/West relations. Chancellor Schmidt said that his Government's position was that they should endeavour energetically to reduce tension with the Soviet Union and her allies but on the basis of continuous Soviet awareness that the Alliance was strong enough to deter aggression or to defend itself if aggression were committed. This could be achieved by maintaining a credible balance of forces. The coalition government in Bonn, and the Chancellor and Herr Genscher personally, could be relied upon to adhere firmly to their policy of doing everything necessary to maintain the defences of the FRG at an effective level, but without entering the nuclear field and without

/enlarging

enlarging the FRG's armed forces any further. FRG policies were necessarily conditioned by the fact that Germany was a divided country and that the situation of Berlin was precarious. His Government's policy on detente was, however, seriously motivated and not simply designed as an exercise in public relations.

Berlin

Chancellor Schmidt said that he would like to mention the enormous impact of The Queen's visit to Berlin. It might not be appreciated in the UK how much the British contribution to the guarantees given to Berlin by the three Western powers meant to the stamina of the Berliners. Trouble could be expected over the European Elections. In this context, Chancellor Schmidt said, it would be very helpful if the Prime Minister could agree to see the governing Mayor of Berlin when he visited the UK on 24 and 25 May. A photograph of the Prime Minister receiving Herr Stobbe would have a very good effect in Berlin. The Prime Minister took note and said that this could be pursued through Ambassadors.

Rhodesia

The Prime Minister invited the Foreign and Commonwealth Secretary to summarise the Government's policy on the Rhodesia question. Lord Carrington said that the Conservative Party had for long believed that the internal settlement in Rhodesia had not been given a fair run. Ian Smith had admittedly been very slow in seeking an acceptable agreement; but he had belatedly decided to do everything which had been asked of him for so long and all the Six Principles save the final one - the acceptability of any settlement to the people of Rhodesia as a whole - had been satisfied by the end of 1978. It had then been decided to hold an election and the Conservative Party had sent observers to report on whether the election had been free and fair. Their report had not yet been submitted to the Prime Minister but the general view seemed to be that the election had indeed been fair and this would mean that all six Principles had been fulfilled. In this situation, the Government would have the positive duty to bring Rhodesia back

to legality. The fact that 64% of the population of Rhodesia had turned out to vote in the election in Rhodesia could not and should not be ignored. Even if the new constitution was not, from some points of view, very sensible, the human rights of such a substantial proportion of the population could not be ignored. The Government had not yet considered the means by which it would fulfil its commitments and would wish to have discussions with the friends of the UK, and particularly with the United States.

The Prime Minister commented that the internal settlement should have been supported by the British Government from the beginning; if this had been done, other Africans would have followed suit. There were not many countries in Africa which conducted their affairs on the basis of one man/one vote and in which the electorate could choose between four parties. The vote by the white population for black majority rule represented a major advance. Rhodesia was a country rich in natural resources and occupying a vital strategic position; it could exercise a beneficial influence on the whole region of Southern Africa. Dr. Kissinger had made a significant advance towards solving the Rhodesia problem but the resulting conference in Geneva had been badly chaired and altogether mishandled. Zambia was using the railway through Rhodesia for the import of maize and fertilisers and should have no grounds for objection if the Salisbury regime were to be recognised. There was no longer any reason to retain Rhodesia's illegal status.

Chancellor Schmidt said that he had indeed been impressed by the recent election in Rhodesia and would like to be informed of the report by the British team of observers. During the past two years, there had been close collaboration between the "Five" in the Security Council on Southern Africa: it would be important for the UK to convince this group of her case, so that further co-operation in that forum would not be impaired. Lord Carrington pointed out that public opinion in the UK was overwhelmingly in favour of recognition and the Government would have to satisfy this; they could not move too softly or too slowly. He had told Herr Genscher that a Conservative Government might have a better chance than their predecessors in persuading the South Africans not to break off negotiations with the United Nations on Namibia.

Turkey

In a brief exchange on aid to Turkey, the Prime Minister said that the British Government would help as much as they could. Chancellor Schmidt commented that the contribution to the short-term assistance operation offered by the Labour Government had fallen far short of expectations. Herr Matthöfer said that one telephone call from Bonn to Vienna had produced from the Austrians the same amount as the UK had offered to contribute. The Prime Minister asked whether the FRG, like the UK, used export credit guarantees as a form of welfare. So far as Turkey was concerned, export credit guarantees amounted to giving the Turks goods for which they had no intention of paying. The Turks must to some extent help themselves by imposing tighter discipline and accepting the disciplines required by the IMF. Chancellor Schmidt commented that the Turks were a proud people and not very amenable to discipline.

Future Consultations

Chancellor Schmidt said that he hoped that the Prime Minister would consider having the next Anglo-German meeting in Bonn in the autumn and that this could be mentioned at their press conference. The Prime Minister agreed to this and commented that at their next meeting they should allow more time for discussions.

The plenary session ended at 1150.

Bym.

C.C. Minutes Set

- Extracts on Turkey, May 1979*
- - - Euro. Policy (CAP), May 1979*
- - - SALT - Defence, May 1979*
- - - Situation in Rhodesia, May 1979*

11 May 1979

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DRAFT REPORT BY THE CHANCELLOR OF THE EXCHEQUER
AND THE MINISTER OF FINANCE TO THE PLenary SESSION

1. I explained to Herr Matthoefter the approach of the new Government to public expenditure and public borrowing, and the strong need which the Government saw to release energies and give new incentives in the private sector, especially to small firms.
2. The Government saw the strengthening of the UK economy as itself making an important contribution to the strength and success of the European Community.
3. In answer to Herr Matthoefter I explained that the UK Government would consider afresh the UK position on the European Monetary System: there could not be an immediate decision.
4. We discussed the Regulation, which is to be taken at the EEC Finance Council on Monday, covering the interest rate subsidy to Italy and Ireland as less prosperous countries fully participating in the EMS. I indicated that, provided that the UK's position could be safeguarded in the event of our participating fully in the EMS, we need not hold up the Regulation. We agreed that a formula which would safeguard the UK, without prejudicing Italy and Ireland, should be negotiated.
5. We had a useful discussion about the UK's net contribution to the EEC Budget. I explained that, whatever the reasons which had brought about the present situation, the present and prospective scale of the net contribution was not one which any British Government could justify to the British people. It was damaging in terms of public expenditure and the balance of payments, and would hamper our efforts to put the economy right. It could not be in the interests of a vigorous Community.

6. Our German colleagues stressed the importance of holding firm to the 1% ceiling on the "VAT tranche" of contributions to the Budget. This might well be reached early in the 1980's. They thought it would enforce a restructuring of Community expenditure. They noted my view that although both the VAT ceiling and a restructuring of expenditure were necessary and would be helpful, they were very unlikely to deal with the fundamental British problem. We discussed frankly some of the possible approaches to remedial action, including, on the British side, the possibility of an adapted or perhaps different overriding financial mechanism.

7. On the question of short term help for Turkey, our German colleagues urged us to reconsider the size of the UK contribution. I said that we would look again at this, in spite of our need to contain public expenditure.

8. We also discussed and agreed on the value and importance of close collaboration ^{between} ~~among~~ the major industrialised countries on international economic and monetary affairs.

H.M. Treasury,
11 May 1979

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RECORD OF THE PRIME MINISTER'S DISCUSSION WITH THE CHANCELLOR OF
THE FEDERAL REPUBLIC OF GERMANY, HERR SCHMIDT, AT 10 DOWNING STREET
ON 10 MAY AT 1815

Present:

The Prime Minister
Foreign and Commonwealth
Secretary
Mr. B. G. Cartledge

The Federal Chancellor
Herr H-D Genscher
Dr. J. Ruhfus

* * * * *

Welcoming Chancellor Schmidt, the Prime Minister said that she was very glad indeed that soundings had been taken at an earlier stage to ensure that his visit would take place whatever the result of the British Election. Chancellor Schmidt said that the six-monthly Anglo/German consultations were now firmly established and it was quite natural that this appointment should be kept. Not least from the point of view of the FRG public, it was a good thing that business should be seen to be going on as usual.

The Prime Minister said that the Chancellor would find some differences in the new Government's approach to foreign policy issues: it would be more positive in its attitude to defence, its approach to Europe would differ from that of the last Government, and it would take a different line on Rhodesia. But foreign policy as a whole could not change with every change of Government. There might be changes of attitude and approach but the fundamental issues remained the same. There would, however, be a total change in the UK's domestic economic strategy. Chancellor Schmidt told the Prime Minister that his own Government's economic policies were in fact of a rather Conservative nature and concentrated on improving the effectiveness of economic management. The main difficulty was to convince the trade unions that the Government's policy was right; in order to do this, he had to spend two hundred hours a year talking to trade union leaders, who needed stiffening against the pressures exerted on them from lower down in the Labour movement. The Prime Minister asked whether the infiltration of the unions by the extreme Left posed a threat in the FRG. Chancellor Schmidt replied that there was a certain amount of infiltration, among the younger / elements

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elements in the trade unions; but there was not a single Communist on any of the Executive Councils of the unions in the FRG.

Chancellor Schmidt went on to say that, having witnessed the difficulties which M. Raymond Barre had been having with the trade unions in France, he was more than ever convinced of the necessity of maintaining a dialogue between Government and unions. M. Barre had very little contact with the unions, but contact was necessary in order to convince the man in the street that the Government was pursuing the right course. Chancellor Schmidt said that in M. Barre's position, he himself would talk and listen to the trade union leaders endlessly, but at the same time act vigorously. His own practice was to give periodic working dinners, which were not publicised, for trade unionists, industrialists and bankers. Sometimes he met the trade union leaders tête-à-tête. The Prime Minister said that she could see the value of this. In the UK, the prosperity which had to be achieved could not be won with tax incentives alone; it was also essential to reduce restrictive practices in industry.

Europe

The Prime Minister said that she was very concerned about the state of the UK's relations with Europe. Chancellor Schmidt said that in this area the FRG had real complaints about the policies of the Labour Government, although these had been to some extent muted for the sake of Mr. Callaghan. The Prime Minister told Chancellor Schmidt that the Labour Party had put it about that the Conservatives would be more pliant on such issues as fisheries policy, the CAP and the Community Budget. In fact, the Government's approach was that Britain belonged to Europe for the big reasons: in order to work together and to cooperate with her partners and contribute to a strong, free Europe. But the Government would in no way lack determination to change what was unjust or unreasonable, especially on such issues as fish, agricultural surpluses and the EEC Budget. But the new Government would tackle these problems against the background of a more positive approach to Europe than that of its predecessors.

/ The Prime

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The Prime Minister went on to say that it would help the Government to "re-sell" Europe to the British people if they could secure cooperation from their European partners. The Prime Minister said that she saw the EEC as the economic structure of liberty; some political structures designed to protect liberty failed to touch the economic strata which was what really mattered. The Foreign and Commonwealth Secretary said that the Government's firm intention was to make Europe work.

Chancellor Schmidt recalled that, despite his deep commitment to Europe as a young man, he had abstained in the Bundestag on the ratification of the Treaty of Rome because he had thought it wrong to go ahead with the European Community without the United Kingdom. He had been very glad when the UK had eventually joined the EEC, but then disappointed by the results. He had always believed that it should be possible, by working together, to correct what needed changing in the CAP; but the Labour Government had insisted on taking a stand on principle and its tactics had been simply to bang the table. Chancellor Schmidt said that the Prime Minister's approach was the only one which could succeed. The Chancellor noted that there was a certain tendency in the Community to lapse back into nationalistic attitudes - this was true in France, was detectable in the FRG and had certainly been a feature of the Labour Government's European policies.

The Prime Minister said that she thought that the Community had tended to concentrate on small matters, such as the promotion of standardisation, because it had failed to make progress on the large issues. Some of the Commission's efforts at harmonisation were simply absurd. She was also concerned by tendencies towards protectionism in the Community and, particularly, by M. Davignon's activities over steel. Chancellor Schmidt said that he was also losing his trust and confidence in M. Davignon on this question; he seemed to be promoting a new version of Colbert's mercantilism and this was a dangerous development. The Prime Minister then gave the Chancellor an outline of the speech which she intended to make at her dinner in his honour later in the evening.

/ Turning

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Turning to the CAP, the Prime Minister said that it had never been intended to bear the weight of current price levels or of present currency differentials. Chancellor Schmidt said that there was more wrong with the CAP than that: the whole idea of enforcing price levels from above was misguided. It was impossible to guarantee both a steady growth of production from the farmers and, at the same time, the maintenance of a proper supply and demand mechanism. This error was built into the CAP. Herr Ertl, however, would find it very difficult to accept any reduction in Deutschmark prices. The Prime Minister said that she understood the FRG's problems. But food prices in the UK had increased by 150 per cent over the last five years and it was difficult to get the Green currency issue right. It was essential that the Government should be able to point to some progress on the CAP very quickly.

On the Community Budget, the Prime Minister said that it made no sense that the third poorest country in the Community should pay the largest, or according to another calculation, the second largest, Budgetary contribution. Chancellor Schmidt said that the Prime Minister should not be too quick to believe her briefs. The Prime Minister replied that she was quoting, not from her briefs, but from those of the Bundesbank. Chancellor Schmidt said that only a very few people in the FRG really understood the finances of the CAP and the Bundesbank was not among them. The Chancellor suggested that the Prime Minister should ask the President of the Commission for his views on the Budgetary problem, since he took an objective approach to this issue.

The Prime Minister said that despite the three problems of fish, agricultural policy and the Budget, she still believed that she could go before any audience in the UK and win their assent to the view that Britain's membership of the Community was worthwhile. The basic issue was that the free countries of Europe should live together and cooperate. If a fresh referendum were to be held on the UK's membership, the result would still be positive.

/ Covering

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On the EMS, the Prime Minister said that the Government was anxious to show willing, although the high level of the pound posed problems. For the time being, the Government wished to maintain the value of the pound in view of the switch they proposed to make from direct to indirect taxation; they would not favour a reduction in the exchange rate for the time being. Chancellor Schmidt commented that Mr. Callaghan had said that he did not wish to join the EMS because the value of the pound would fall but in the event the reverse had happened. The Prime Minister said that this was a consequence of North Sea oil and the effect of the situation in Iran on the value of that resource. High interest rates in the UK was also a factor. Chancellor Schmidt said that the UK's interest rates were not high if one took the rate of inflation into account. The FRG had an interest rate at present of 8 per cent; given that the inflation rate was 3.3 per cent, this gave them a rate of interest in real terms of 5 per cent. The Chancellor went on to express the view that the state of the British economy was considerably better than was generally realised, largely because of North Sea oil.

Turning again to the EMS, the Prime Minister said that the Government would be considering exercising its option to swap 20 per cent of the UK's gold and dollar reserves for ECUs and would then consider its position on the EMS as a whole. Chancellor Schmidt said that if the UK were to join the EMS by, say, August this year and then proceed to negotiations on the three issues - fisheries, the CAP and the Budget - which were of concern to the UK, the Prime Minister would then find that the UK's partners would be much more responsive to UK views than might otherwise be the case. The Foreign and Commonwealth Secretary said that he had already concluded that the UK's attitude towards the EMS would be regarded as the touch-stone of her attitude towards the EEC in general.

Turning to the UK economy, the Prime Minister said that inflation would probably increase by 11-12 per cent by the end of 1979. Chancellor Schmidt said that the FRG's inflation rate would rise too, partly because of oil prices and partly because of the measures which President Carter had taken to stabilise the dollar.

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President Carter had not, it was true, gone far enough but he had made a beginning which had increased confidence and put a halt to the continuous rise in the value of the deutschmark. Germany's imports were therefore no longer so cheap and inflation had begun to rise. If the US let the dollar go, the FRG's rate of inflation would fall again. The Prime Minister said that the value of the pound was affected not only by the rate of domestic inflation but also by capital inflow and outflow. The Prime Minister said that she thought the UK could now afford to relax her exchange controls in conformity with EEC regulations. Chancellor Schmidt commented that it might be difficult to do this in time for the European elections.

The discussion ended at 1915.

JM;

Distribution:

PS/FCS

/Chancellor of the Exchequer

/Minister of Agriculture, Fisheries and Food

Sir John Hunt

Master Set

Extract - Euro. Policy - CAP - May 1979

11 May 1979

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Foreign and Commonwealth Office

London SW1A 2AH

Copied (with enc.) to
Turkey, May 1979

10 May 1979

Dear Bryan,

P. a
G. M.
11/8

Aid to Turkey

At the Prime Minister's briefing meeting yesterday for Chancellor Schmidt's visit, officials were asked to consider how an additional £7.5m for Turkey could be found out of the aid programme for 1979/80. I attach a paper prepared interdepartmentally by officials, setting out a basis on which this might be done.

See
briefing
letter

I am sending copies of this letter to Martin Hall (Treasury) and Martin Vile (Cabinet Office).

Yours truly

Paul

P Lever
Private Secretary

Bryan Cartledge Esq
10 Downing Street

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Copied to Turkey - May 1979

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AO 9529

MR CARTLEDGE

EEC Aid to Turkey

1. The Prime Minister at yesterday's briefing meeting for the visit of Chancellor Schmidt enquired whether the UK was making a disproportionate contribution to EEC financial aid for Turkey. *The short answer is No.*

2. There are, in fact, two strands in the Community commitments to Turkey:

i. The Third Financial Protocol to the 1963 EEC/Turkey Association Agreement

Under this, Turkey gets project aid up to October 1981 in the form of soft medium to long-term loans of 310 mua (£198m) (divided into 220 mua from the member states and 90 mua from the European Investment Bank). The 220 mua comes out of the Community Budget to which the UK's marginal rate of contribution will be about 16 per cent (approximately equal to our GDP share 15.7 per cent in 1978) i.e. about 40 mua (£25.6m);

ii. Emergency Assistance

This is additional to, and in support of the OECD exercise. It will take the form of 75 mua (£48m) of grants over the next five years. Again it will come out of the Community Budget and on the present shares will mean 13 mua (£8.3m) for the UK (£14.9m for Germany and £9.5m for France).

2. Discussion has also started within the Community on the amount of Community loan finance to be offered to Turkey in the Fourth Financial Protocol which will cover the five years from 1981 onwards. The Commission have proposed a figure of 600 mua (£384m). No decisions have yet been taken.

10 May 1979

[Handwritten signature]
JOHN HUNT

PRIME MINISTER *has seen.*

Dr. Schueler (Sir John Hunt's equivalent in Bonn) has put three points to him:

1. Chancellor Schmidt had brought with him some decorations to confer on certain members (names unspecified) of the UK delegation and wanted to know whether he could do this. The answer is that such decorations cannot be accepted, as Sir John Hunt has explained in the attached (copy) minute to Dr. Schueler. You should be aware that Chancellor Schmidt wanted to decorate two of our SAS men with gallantry medals following the Mogadishu raid and, exceptionally, Mr. Callaghan agreed that he could do so. But in the event the Chancellor presented pieces of silver to the SAS Officers' and Sergeants' messes instead.
2. It was reported in today's Allgemeine Zeitung that you were to visit Dortmund on 20 May to make a political speech in support of the CDU. He has been told very sharply that this is incorrect.
3. Chancellor Schmidt would like, while he is here, to invite you to make your first Head of Government visit to Germany, returning his visit, in November, rather than leave it to be fixed up later in the year. Much turns on your own judgement of the value of these talks but you will no doubt bear in mind the essential point we have all been making to each other, that the solution of our specific problems will be made easier if we sustain an open and positive commitment to the European framework; and a one-day visit to Bonn in November would be a modest contribution to that end. Your diary is pretty empty at that time, there being no Queen's Speech to worry about.

10 May 1979

KRS.

File

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GCB

DR. SCHUELER

Our rules on the acceptance of foreign decorations or medals are as follows:-

- (i) Crown servants (i. e. diplomats and civil servants) may not accept them.
- (ii) Ministers still in office do not accept them.
- (iii) In the case of former Ministers they are free to accept them if they wish. The decision is theirs. It may be influenced by whether they expect to return to office.
- (iv) There is no objection to persons not in Government service accepting foreign decorations.

The report in the German newspaper that Mrs. Thatcher is due to visit Dortmund on 20th May is incorrect.

(John Hunt)

10th May, 1979

FIRST SESSION OF TALKS WITH
CHANCELLOR SCHMIDT

ANGLO/GERMAN RELATIONS

Welcome. Importance of Anglo/German relationship not only to each of us but to Europe.

EEC

→ The Government's determination to make a success of the Community and to be wholehearted about UK membership.

|| The Government's determination to strengthen and revitalize the UK economy - outline proposed measures.

But the problems created for us by the CAP and the Community's budgetary arrangements are a major handicap both to the Government's European policy and to its efforts on the economic front.

Determination to seek major adjustments which would in the long term benefit the Community as well as the UK.

DEFENCE

Fully appreciate the importance of the Theatre Nuclear Forces issue.

Invite Chancellor Schmidt's views.
Suggest we instruct our two Defence Ministers to arrange a special meeting very soon to discuss this problem. ||

/TURKEY

TURKEY

Fully accept importance of keeping Turkey with us in Europe.

But the Turks must accept the IMF's terms and they must put their house in order.

Subject to this, we would be prepared to make some increase in our contribution to the short term assistance effort /depending on outcome of meeting of officials/.

PLENARY SESSION

How shall we tackle our Plenary session tomorrow?

Would you be willing to share with us your views on east-west relations?

What other topics should we discuss?

Schmidt Visit
Genay May 79

W. G. G. G.
G. G. G. G.
G. G. G. G.
G. G. G. G.

SPEECH FOR THE DINNER
IN HONOUR OF THE FEDERAL GERMAN CHANCELLOR,
10 MAY 1979

Now we both know what a "blind date" feels like!

I could not be more delighted to have, as my first visitors, the Chancellor of the Federal Republic of Germany and his colleagues.

Mr. Chancellor, your country was mentioned with admiration in two recent documents, in one of which I myself had a hand.

I refer, of course, to the Conservative and the Labour Party manifestos.

It is not difficult to see why.

The Federal Republic offers an envious example of economic and social progress combined with social and political stability.

(In less than two weeks' time you will be celebrating the 30th Anniversary of the German Basic Law, your Constitution, which has provided the framework for this,)

I firmly believe that, given the right policies and the right leadership, the same progress lies within the grasp of the British people.

/ That is

That is the task to which my Government has this week set its hand.

Our countries share a wide range of vital interests.

First and foremost, we are both members of the North Atlantic Alliance.

That membership is a cornerstone of our foreign policy, as it is of yours.

The British forces committed by Treaty to the mainland of Europe are, after those of the Federal Republic and the United States, the largest NATO forces in the central region.

The United Kingdom is one of the three protecting powers in Berlin.

As Her Majesty The Queen reminded the people of Berlin only last year, our commitment to the freedom and security of Berlin is absolute.

It is my Government's firm intention (though, with the Chancellor of the Exchequer here, I need perhaps to say, "So far as our means permit"), to maintain and improve the capability of Britain's armed forces.

/ We shall

We shall play our full part, with such measures as may be agreed to be necessary, in countering the military threat.

We share a common interest in a military balance between East and West, for we share a common belief that such a balance genuinely contributes to stability and peace in Europe.

Second, the framework within which we operate is the same for both of us: a world of dear raw materials, tough competition and demanding markets.

In this world, the largest single trading unit is the European Community.

Let me therefore, at the very beginning of what will I hope be a long and close association between us, make clear the spirit in which I and my Government approach the EEC.

Third, we as a Government are committed to British membership of the Community.

The decision was taken by Parliament and confirmed by the British people.

/Ours is

Ours is not a grudging acquiescence in Community membership.

We believe it is not only right for Europe but right for this country.

Our purpose is to engage fully and actively with our partners in developing the Community.

Let me repeat what we said in our manifesto: "there is much that we can achieve together, much more than we can achieve alone".

This approach will underlie all our dealings in the Community.

We shall want to narrow areas of disagreement, not to enlarge them; to solve disputes, not to sharpen them.

It has been suggested by some people in this country that I and my Government will be a "soft touch" in the Community.

/ In case

In case such a rumour may have reached your ears, Mr. Chancellor, from little birds in Smith Square, Belgrave Square, or anywhere else, it is only fair that I should advise you frankly to dismiss it (as my own colleagues did, long ago!).

We shall judge what British interests are and we shall be resolute in defending them.

I am sure you take the same approach in the Federal Republic.

If policies are working badly, the fact will indeed show up first in the form of unfair consequences for one member or another.

When this happens, to put the policies right is not just an act of charity or of justice.

It is essential for the health and well-being of the Community as a whole.

Of course the United Kingdom must have an agreement on the fishing industry which takes our special position into account.

/Of course

Of course it is bad for the United Kingdom if the Community spends a large part of its resources storing and disposing of unwanted agricultural surpluses.

And of course it is unacceptable to the United Kingdom to pay the lion's share of the enormous costs of this operation.

But it is not good for the Community either.

/There is

There is nothing wrong in finding that after a certain number of years policies need to be changed to meet new circumstances, or that anomalies which flow from them need to be corrected.

Such necessary changes must be made by agreement amongst the member governments.

In making them, we shall not undermine the Community: we shall make it better able to serve the common interest, and to be fair, just, and reasonable to all its members.

We shall therefore be looking to our partners to make an effort of understanding and of goodwill.

Of understanding, because we shall be asking them to take a new look at the way certain policies have worked and not simply to cling to them because they are long established and familiar.

Of goodwill, because it is hard to accept modifications of policies and arrangements which bring national advantages.

/If other

If other countries' own interests are being well served, why should they take account of the disadvantages incurred by Britain?

They will do so only if -

- they too firmly believe that the Community is not only a matter of seeking advantages for oneself;
- they too believe that we must all prosper together;
- they too believe that the rising tide of prosperity must indeed lift all the ships and not leave one or two stranded on the sandbanks.

This is my European philosophy.

If our partners share this vision I believe that together we shall find solutions to our problems.

/Without that

Without that vision and without a readiness to make adjustments and sacrifices in the broader Community interest, our enterprise could not succeed.

But I believe that with your help, Mr. Chancellor, and with the support of our fellow Heads of Government, we shall succeed and that we shall make it better able to go forward in the common interest.

All these points are familiar to you - but we shall pursue them against the background of a deep belief in the ideals and purpose of the Community - as problems which impede the achievement of the longer purpose.

And finally let me say a word about my own European philosophy.

It is founded in the belief:

that the variety of our distinct nation states which we must always cherish, is enriched by a common purpose;

/that the view

that the view of free Europe is stronger when we pursue our ideals together.

The vision of Europe which I am sure you, Mr. Chancellor, will recognise and share is one that first and foremost offers peace, prosperity, liberty and democracy to all within it.

A Community whose voice will always be heard throughout the world advocating the case of justice.

A Europe within which freedom means also free enterprise, fair competition, and the chance for every citizen to take his own decisions and to develop his own talents.

I believe that this concept of Europe is nearer to realisation than many people suppose and that by our joint efforts in the Community we can bring it closer still.

/It is

In that spirit I propose the health of Chancellor Schmidt
and the friendship of our two peoples.

DRAFT SPEECH FOR THE DINNER IN HONOUR OF THE
FEDERAL GERMAN CHANCELLOR, 10 MAY 1979

Now we both know what a "blind date" feels like!

I could not be more delighted to have, as my first visitors, the Chancellor of the Federal Republic of Germany and his colleagues.

Mr. Chancellor, your country was mentioned with admiration in two recent documents, in one of which I myself had a hand. I refer, of course, to the Conservative and the Labour Party manifestos. It is not difficult to see why. The Federal Republic offers an enviable example of economic and social progress combined with social and political stability. (In less than two weeks' time you will be celebrating the 30th Anniversary of the German Basic Law, your Constitution, which has provided the framework for this.) I firmly believe that, given the right policies and the right leadership, the same progress lies within the grasp of the British people. That is the task to which my Government has this week set its hand.

/Our

Our countries share a wide range of vital interests.

First and foremost, we are both members of the North Atlantic Alliance. That membership is a cornerstone of our foreign policy, as it is of yours. The British forces committed by Treaty to the mainland of Europe are, after those of the Federal Republic and the United States, the largest NATO forces in the central region. The United Kingdom is one of the three protecting powers in Berlin. As Her Majesty The Queen reminded the people of Berlin only last year, our commitment to the freedom and security of Berlin is absolute. It is my Government's firm intention (though, with the Chancellor of the Exchequer here, I need perhaps to say, "So far as our means permit"), to maintain and improve the capability of Britain's armed forces. We shall play our full part, with such measures as may be agreed to be necessary, in countering the military threat. We share a common interest in a military balance between East and West, for we share a common belief that such a balance genuinely contributes to stability and peace in Europe.

The framework within which we operate is the same for both of us: a world of scarce and dear raw materials, tough competition and demanding markets. In this world, the largest single trading unit is the European Community. Let me therefore here and now, at the very beginning of what will I hope be a long and close association between us, make clear the spirit in which I and my government approach the ^{E.E.C.} ~~whole question of European construction.~~

We as a Government are committed to British membership of the Community. We do not yearn nostalgically for a Britain separate from Europe. The decision which was taken by Parliament and confirmed by the British people with a majority of 2-1 in the Referendum of 1975 is final. I believe that most responsible British opinion has long since accepted this reality. Ours is not a grudging acquiescence in Community membership. We believe it is not only right for this country but right for Europe. Our purpose is to engage fully and actively with our partners in developing the Community.

/Let me

Let me repeat what we said in our manifesto:
"there is much that we can achieve together, much more than we can achieve alone". This approach will underlie all our dealings in the Community. We are going to seek solutions to Community problems by working with you and our other partners, not by seeking to stand out in isolation against you. We shall want to narrow areas of disagreement, not to enlarge them; to solve disputes, not to inflate them.

There is a task in this for the European Assembly, the Parliament to which the British and the German peoples will be electing representatives next month. It will be for the European Parliamentarians to bring out into open, democratic discussion the issues which concern all our peoples. ^{re us} The ~~role~~ *and must be a useful role for the Assembly to play* of the Assembly is carefully defined in the Treaties *in the Community.* and it is a positive and useful one.

It has been suggested by some people in this country that I and my Government will be a "soft touch" in the Community. ~~By that they mean that they think we shall defend British interests with less resolution than the previous Government.~~ In case such a rumour may have reached your ears, Mr. Chancellor, from little birds in Smith Square,

/Belgrave Square,

Belgrave Square, or anywhere else, it is only fair that I should advise you frankly to give it a zero rating. I intend to be very discriminating in judging what are British interests and I shall be resolute in defending them. But I find that these interests coincide more often with a general Community interest than has sometimes appeared in the past. Nevertheless, where we consider that there is something seriously wrong in the Community we shall work very hard with our Community partners to see that it is put right.

This is not just a question of demanding a bigger share of the cake or a lesser burden for this or that Member State. If policies are worded ^{King} badly, the fact will indeed show up first in the form of unfair consequences for one member or another. When this happens, to put the policies right is not just an act of charity or of justice. It is essential for the health and well-being of the Community as a whole. Of course it is bad for the United Kingdom if the Community spends a large part of its resources storing and disposing of unwanted agricultural surpluses. And of course it is unacceptable to the United Kingdom to pay the lion's share of the enormous costs of this operation. But

it is not good for the Community either. If we are genuinely working together to build something of which we can all be proud, to develop policies and institutions which will progressively draw us closer together in the pursuit of common goals and common prosperity, we have got to solve these problems. There is nothing shameful in finding that after a certain number of years policies adopted by the Community need to be changed to meet new circumstances, or that anomalies which flow from them need to be corrected. Such necessary changes must be made by agreement amongst the member governments. In making them, we shall not undermine the Community: we shall make it better able to serve the common interest.

We shall therefore be looking to our partners to make an effort of understanding and of goodwill. Of understanding, because we shall be asking them to take a new look at the way certain policies have worked and not simply to cling to them because they are long established and familiar. Of goodwill, because it is hard to accept modifications of policies and arrangements which bring national

/advantages.

2/ advantages. If other countries' own interests are being well served, why should they take account of the disadvantages incurred by Britain? They will do so only if they too firmly believe that the Community is not just a matter of seeking advantages for oneself; if they, too, believe that we must all prosper together if we are not one day to fall apart; and if they, too, believe that the rising tide of prosperity must indeed lift all the ships and not leave one or two stranded in the shoals and on the sandbanks. This is my European philosophy. If our partners share this vision I believe that together we shall find solutions to our problems, and especially the alleviation of the grave budgetary burden at present imposed on the United Kingdom. Without that vision and without a readiness to make adjustments and sacrifices in the broader Community interest, our enterprise could not succeed. But I believe that with your help, Mr. Chancellor, and with the support of our fellow Heads of Government, we shall succeed and that we shall make it better able to go forward in the common interest.

/In conclusion

In conclusion, Mr. Chancellor, I invite you to join me in a toast to the peace of the world, to the health of the Atlantic Alliance, to the well-being of Europe, and to the friendship of our two peoples.



Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's
Private Office

Michael Pattisson Esq
Private Secretary
10 Downing Street
London SW1

10 May 1979

p-a.

Dear Mike,

UK AND GERMAN INTERESTS IN THE COMMON
AGRICULTURAL POLICY

--- In preparation for the Prime Minister's meeting
with the German Chancellor, my Minister has
asked me to send you the attached note which
he has approved.

Yours sincerely

Garth W. Waters

Garth Waters
Principal Private
Secretary

NOTE FOR THE PRIME MINISTER

UK AND GERMAN INTERESTS IN THE CAP

Prime Minister

Jan

1975

1. The underlying economic interests of the UK and the FRG in relation to the CAP are superficially similar in the sense that both countries are net food importers and make a big gross contribution to the Community budget of which 75% goes towards the CAP. Both would therefore benefit from a reduction in the budgetary cost and in the negative resource transfers which result from unduly high CAP prices. But there are important differences of outlook which affect the approach to negotiations on the CAP and the FRG have proved to be very unreliable allies in the past in our attempts to get improvements. Although some parts of the German Government, in particular the Chancellor's Office and the Economics Ministry, publicly acknowledge the need to contain the cost of the CAP, German agricultural spokesmen in Brussels see themselves as defending the farmers' interest and their negotiating line on prices is weak.

2. It is sometimes argued that this ambivalent attitude in the German Government reflects the political importance of Ertl in the balance of the coalition. Ertl is clearly a powerful figure and his vigorous policies have played an important part in maintaining support for the coalition in the Free Democratic Party. He is a particularly influential figure in his native Bavaria but his views on the importance of agriculture in a settled German society find some sympathy more generally.

3. But Ertl's personal influence cannot alone account for the consistent willingness of the Federal Government to go along with decisions on the CAP which run counter to Germany's financial interests and are contrary to the economic philosophy behind her post-war recovery. The other factors which need to be recognised include the following:-

- a. Germany puts a high price on the continued existence of the EEC and still regards the CAP as the "cornerstone" of the Community;
- b. Germany has had a low rate of inflation for many years and food prices have never become such a sensitive issue as they have here; in addition she has been very successful economically and does not find the financial burden intolerable;
- c. Despite the rapid run-down in the German agricultural population since the war Germany still has proportionately twice as many people (6%) employed directly on the land as does the UK. Tough policies towards the CAP would inevitably drive people out of agriculture and give rise to social problems, particularly against a background of high unemployment in the economy generally;

d. In the years since green currencies became an important factor in the operation of the CAP, as a result of maintaining her internal agricultural prices above Community levels, Germany has substantially increased her receipts under the CAP so that her net budget contribution had fallen from DM 3592 million in 1975 to about DM 2000 million in 1978.

Reconciling UK and German objectives

4. Against this background, getting a change in the attitude of the German Government is likely to be a slow process. They are more likely to look for other ways of easing the net burden of the budget on the UK, rather than making any significant reduction in the cost of the CAP. In the short term our main objective should be to get German support for a price freeze on commodities in structural surplus. They would probably be prepared to accept this provided that it did not lead to any reduction in prices in deutschmarks. But they are strongly influenced by French pressures on Germany to make some move towards realigning her prices towards the common price level through a revaluation of the green mark and a reduction in the German MCA. In the CAP price negotiations so far it has become clear that the Germans are prepared to accept a small general price increase, perhaps of the order of 2%, to give themselves headway to make such a revaluation without decreasing their internal prices. We need to persuade them that the best way of containing the cost of

the CAP is to hold down the average level of national prices on which the common price effectively puts a ceiling. If, by giving way to French pressure to reduce MCAs, they let the common price creep up towards the German level then national prices will inevitably follow suit and production, and hence the cost of the CAP will increase sharply.

5. For the longer term we could try to persuade the Germans that the way in which the CAP is operated at present, with common prices being bid up annually in order to maintain incomes for the less efficient farmers is not acceptable. The Germans are already concerned about the situation which will exist when the current provision for providing the Community's own resources becomes insufficient to cover the cost of the budget, perhaps in 1981. In this context they might be willing to look at the possibility of more radical changes in the CAP, e.g. different forms of support, perhaps with a greater element of national financing, to meet the needs of the less efficient farmers who are most dependent on the CAP regimes. But so far they have shown little interest in such possibilities.

REVISED

PRIME MINISTER

Lunch for Chancellor Schmidt
Friday, 11 May

I attach the list of guests for your lunch tomorrow
for Chancellor Schmidt and also a draft seating plan.

Susan Goodchild

—

[Handwritten signature]

—

10 May 1979

LIST OF GUESTS ATTENDING THE LUNCHEON TO BE GIVEN BY THE PRIME MINISTER IN HONOUR OF HIS EXCELLENCY HERR HELMUT SCHMIDT, CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY ON FRIDAY, 11 MAY 1979 AT 1.00 PM FOR 1.15 PM

The Prime Minister	
His Excellency Herr Helmut Schmidt	
His Excellency Herr Hans-Dietrich Genscher	Foreign Minister
His Excellency Herr Hans Matthöfer	Minister of Finance
His Excellency the German Ambassador	
Herr M. Schüller	Head of the Chancellor's Office
Herr M. Lahnstein	Assistant Under Secretary, Ministry of Finance
Dr. A. Grünewald	Deputy Government Spokesman
Dr. Jurgen Ruhfus	DUSS
Dr. H. Schulmann	DUSS
Dr. K. Blech	DUSS
Mr. H. Lautenschlager	"
Dr. W. Heck	Assistant Under Secretary of State, Ministry of Finance
Dr. K. Zeller	Principal Private Secretary
Dr. Alfons Böcker	Minister, German Embassy
Dr. J. Sudhoff	Press Spokesman for Ministry of Foreign Affairs
Dr. W. Peters	Private Secretary to the Chancellor
Dr. H.-G. Petersmann	Private Secretary to to Foreign Minister
Dr. H.-H. Horstmann	United Kingdom Desk, Ministry of Foreign Affairs
Herr Rothen	Foreign Ministry
Dr. H. Weber	Interpreter
Herr G. Massion	Minister German Embassy

Dr. H.J. Dunker	Press Counsellor, German Embassy
The Rt. Hon. Lord Carrington	
The Rt. Hon. Sir Geoffrey Howe, MP	
The Rt. Hon. Francis Pym, MP	
The Rt. Hon. Sir Ian Gilmour, MP	
The Hon. Douglas Hurd, MP	
Sir John Hunt	
Sir Michael Palliser	
Sir Kenneth Berrill	
Sir Frank Cooper	
Sir Oliver Wright	H.M. Ambassador, Bonn
Mr. K.E. Couzens	H.M. Treasury
Mr. Michael Franklin	Cabinet Office
Mr. Michael Butler	Foreign and Commonwealth Office
Mr. John Fretwell	" "
Mr. Julian Bullard	" " "
Mr. David Gladstone	" " "
Mr. Ian Gow, MP	
Mr. Ken Stowe	
Mr. Richard Ryder	
Mr. Henry James	
Mr. Bryan Cartledge	

REVISED

THE PRIME MINISTER

HE HERR HELMUT SCHMIDT

HE Herr Hans-Dietrich Genscher

The Rt. Hon. Sir Geoffrey Howe

The Rt. Hon. Lord Carrington

HE Herr Hans Matthöfer

HE The German Ambassador

The Rt. Hon. Francis Pym

The Rt. Hon. Sir Ian Gilmour

Dr. A. Grunewald

Herr M. Schuler

Sir John Hunt

Herr M. Lahnstein

The Hon. Douglas Hurd

Sir Michael Palliser

Dr. J. Ruhfus

Sir Frank Cooper

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Mr. Ken Stowe

Dr. K. Blech

Mr. K.E. Couzens

Dr. W. Peters

Herr H.-H. Horstmann

Mr. Julian Bullard

Dr. W. Heck

Mr. Ian Gow

Mr. M.D.M. Franklin

Dr. J. Sudhoff

Mr. Michael Butler

Dr. Alfons Böcker

Dr. H.J. Dunker

Mr. John Fretwell

Mr. H.-G. Petersmann

Mr. Richard Ryder

Dr. H. Weber

Herr G. Massion

Mr. David Gladstone

Mr. Henry James

Mr. Bryan Cartledge

Herr Rothen

ENTRANCE



10 DOWNING STREET

Prime Minister

P. G. G. G.
1975

This is the guest
list for your working
lunch on Friday,
11 May, for the F.B.C.
and UK Delegations.

Content?

Blm.

Agreed with

GUEST LIST FOR THE PRIME MINISTER'S WORKING LUNCH FOR
CHANCELLOR SCHMIDT AND HIS DELEGATION IN NO. 10 ON
FRIDAY 11 MAY AT 1300 for 1315

FRG Delegation

Herr Helmut Schmidt, Federal Chancellor
Herr Hans-Dietrich Genscher, Federal Foreign Minister
Herr Hans Matthöfer, Federal Minister for Finance
Herr M. Schüller, Head of the Chancellor's Office
Dr. J. Ruhfus, Deputy Under Secretary of State, Federal
Chancellery
Dr. H. Schulmann, Deputy Under Secretary of State, Federal
Chancellery
Dr. A. Grünewald, Deputy Government Spokesman
Dr. K. Blech, Deputy Under Secretary of State, Federal Foreign
Ministry
Dr. H.-W. Lautenschlager, Deputy Under Secretary of State,
Federal Foreign Ministry
Dr. Heck, Assistant Under Secretary of State, Federal Ministry
of Finance
Dr. Peters, Private Secretary, Federal Chancellery
Dr. J. Sudhoff, Press Spokesman, Federal Foreign Ministry
Herr H. Weber, Chief Interpreter, Federal Foreign Ministry
Herr H.-H. Horstmann, Federal Foreign Ministry
Dr. H.-G. Petersmann, Private Secretary to Herr Genscher
Herr Rothen, Federal Foreign Ministry

(16)

FRG Embassy

His Excellency Herr Reute
Dr. Alfons Böcker
Dr. Thomas Matussek
Dr. H. J. Dunker, Press Counsellor

(4)

/UK Delegation

UK Delegation

- The Prime Minister
- Chancellor of the Exchequer
- Foreign and Commonwealth Secretary
- Secretary of State for Defence
- Lord Privy Seal
- Sir Oliver Wright
- Sir John Hunt
- Sir Michael Palliser
- Sir Frank Cooper
- Sir Kenneth Berrill
- Mr. Ken Couzens
- Mr. Michael Franklin
- * * * * *

- Mr. Ken Stowe
- Mr. Henry James
- Mr. Bryan Cartledge
- Mr. Richard Ryder

(16)

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- Mr. Julian Bullard (DUS in charge of Europe, F.C.O.)
- Mr. David Gladstone (Head of Western European Dept, F.C.O.)

(2)

Total : FRG - 20
 UK - 18
 38



Foreign and Commonwealth Office
London SW1A 2AH

Telephone 01- 233 4137

Bryan Cartledge Esq
No 10 Downing Street
LONDON

Your reference

Our reference

Date 10 May 1979

Dear Bryan

*P.A.
G.M.
10/5*

VISIT OF FEDERAL GERMAN CHANCELLOR

Following our discussion about the arrival arrangements for the Chancellor this evening.

The attached list shows the order of cars and passengers which GHF have agreed with the Germans.

As you will see cars no. 4 and 7 will be going direct to the Cabinet Office and the FCO respectively; this will leave five cars plus two police protection cars entering Downing Street. The Ambassador and senior officials from the German Embassy accompanying the party will not of course be staying for the talks and the GHF escorting officer (Mr Robert Swann) is aware that he should arrange for them to leave as soon as possible after the other passengers have disembarked. I am also going to have a word about this with Sir Oliver Wright.

Other than those taking part in the talks and the note taker the only officials remaining at No 10 during the talks should therefore be Mr Matussek, the Embassy Liaison Officer, and the Private Secretaries to the Chancellor and Herr Genscher.

Yours ever

Penny Hocalp

P T Metcalfe (Miss)
Protocol and Conference Department

CONFIDENTIAL

Copied to Fishing Industry, May 1979

Ref. A09526

MR. CARTLEDGE

~~Prime Minister~~
Jm
1979

Fisheries

For her talks with Chancellor Schmidt, the Prime Minister may wish to have a little more background to the brief exchange which took place in Cabinet this morning.

2. The original Six undoubtedly pulled a fast one in 1971 by agreeing to the principle of free access just before our accession. But it is now generally recognised that the extension of fishery limits to 200 miles has totally changed the situation. While the Treaty of Rome provides for the preferential arrangements inside 12 miles to be reviewed in 1982, everyone assumes that they will continue and the only argument is about the maintenance of historic rights within 12 miles and the nature of any preferential arrangements outside 12 miles.

3. The French will fight for historic rights for Breton fishermen off the South West coast. The Germans support them because their inshore fishermen have similar interests in the Baltic. This will be a difficult negotiation.

4. Any form of preferential access beyond 12 miles is even more difficult for the other Eight to accept. A 50-mile exclusive zone has so far proved unnegotiable and, as the Secretary of State for Scotland said, the fishing industry are now privately reconciled to this. The last Government was going for preferential access between 12 and 50 miles. Moreover, it would not suit Lowestoft which, as Mr. Prior explained, gets 80 per cent of its catch within 50 miles of other countries' coast. But preferential access for local fishermen (not for the coastal state) in some areas is negotiable and would suit Scottish interests reasonably well. It would not however suit Humberside (or Aberdeen) whose larger boats would, like those of other Community countries, be excluded; they might prefer little or no preferential access but preference in the allocation of quotas. This is a conflict which the Minister of Agriculture and the Secretary of State for Scotland will have to resolve before we can effectively negotiate a settlement in Brussels.

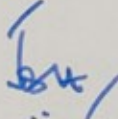
CONFIDENTIAL

5. Whatever the arrangements for preferential quotas and access, control and enforcement will remain the responsibility of the coastal state. So we shall be able to police what goes on throughout the 200 miles under our jurisdiction.

6. The Germans have been in the forefront of the opposition to our claims, although during their Presidency at the end of last year they made an abortive attempt to make progress. They take a rigid doctrinal attitude towards the Treaty. Their interest is primarily in distant water fishing and, like us, they have lost grounds e.g. off Iceland for which they are trying to get compensation at our expense in the North Sea. In fishing terms, the Danes and the French have a bigger stake.

7. The key points for the Prime Minister to make to Chancellor Schmidt are:

- (a) The Government's determination to have the fisheries issue settled on terms consonant with her statement during the Election (copy attached).
- (b) Our wish to make speedy progress (a Fisheries Council is scheduled for June but it may be more realistic to think of the autumn for a breakthrough).
- (c) The Minister of Agriculture will be consulting the Commission soon and then talking to his Community partners.


JOHN HUNT

10th May, 1979

NEWS SERVICE

(No Plaster's copy)

Release time: Immediate/Thursday, 26th April, 1979. GE725/79

The Rt. Hon. Margaret Thatcher
Leader of the Conservative Party

STATEMENT ON FISHING POLICY

The fishing industry is an essential part of the British economy, particularly in Scotland. It is a vital source of food and provides jobs for thousands of people both at sea and on shore, often in small communities that rely totally on fishing for their livelihood. The Conservative Party is committed to defending to the full the interests of British fishermen, and restoring stability and optimism to its future.

Despite this Government's boasts, they did not renegotiate the fisheries policy at all before recommending a 'Yes' vote in the 1975 European Referendum.

This matter is now urgent because of the time limit of 1982 set down for reaching agreements. However, in spite of that time limit we should not be prepared to agree to terms which were disadvantageous to our fishing industries.

✓ We shall make fishing top priority in our EEC negotiations.

The proposals we have so far received from the EEC have been totally unacceptable. Our European partners must accept three fundamental facts.

- That the move to 200 miles limit since we joined the Community has changed both the entire international situation and our own circumstances.
- that our waters contain more fish than the rest of the Community put together

/ - we must have

- we must have an agreement to a comprehensive policy on conservation. This should include:- (i) a limit on the total allowable catch. (ii) a clear set of rules to control the amount of fishing and the methods used. (iii) recognition that the coastal state must have sole responsibility for control over their waters, since they alone have the knowledge, the capability and will to enforce conservation rules. (iv) conservation rules which are enforced against fishermen from all nations and not just against British fishermen alone. (v) measures which are specially designed to protect the rights of in-shore fishermen.

✓ In addition our negotiating aims will be for:-

- ✓ 1. an adequate exclusive zone.
- ✓ 2. a further considerable area of preferential access.
- ✓ 3. a control system which enables us to police our own waters.
- ✓ 4. Britain must have a very substantial share of the total allowable catch which takes account of the fact that we are contributing most of the water and most of the fish.

Further conservation measures will be taken by Britain acting on her own if we cannot get agreement upon these points.

Fishermen will find a true and determined friend in the next Conservative Government.

END

CONFIDENTIAL

PRIME MINISTER

Visit of Chancellor Schmidt: EEC Budget

In connection with the briefing you have asked whether we could not find an early solution to our problem with the Community budget by relating contributions to GNP shares. You may care to see the attached note prepared by a group of officials chaired by Mr. Franklin of the Cabinet Office. It has also gone to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

2. The short point is that adjusting our gross contribution to GNP shares would not be enough. Our real problem is with the net contribution and to tackle that adequately we have to adjust the level or pattern of expenditure or to have a mechanism which, more effectively than the 1975 Financial Mechanism, will reduce the net amount we finally pay over. If we go too bald-headed for a solution based on ability to pay, we shall be accused of asking for each country to get back just what it puts in, the so-called juste retour which is anathema to most of our Community partners. For this and the other reasons explained in paragraph 8 of the note, we have so far been careful not to commit ourselves to precise remedies. The first requirement is to get the Community to agree that there is a problem which must be dealt with. There is some evidence that the Germans are at least privately recognising that something must be done. I suggest your aim during the visit this week should be to get the German Chancellor to acknowledge that need publicly and invite him to say how he would go about putting it right.

John Hunt

9th May 1979

EEC RESOURCE TRANSFERS AND CONVERGENCE: OBJECTIVES AND STRATEGY UP TO THE
JUNE EUROPEAN COUNCIL

NOTE BY OFFICIALS

THE PROBLEM

1. Despite having the third lowest GNP per head in the Community, we are at present (depending upon the Budgetary attribution of Monetary Compensatory Amounts (MCAs)) either the largest or the second largest (after Germany) net contributor to the Community Budget. Under Article 131 of the Accession Treaty our contributions are tapered but this transitional arrangement comes to an end in December 1979 and, without it, we would already be the largest net contributors regardless of the treatment of MCAs. The Commission figures for net transfers under the 1978 Budget are at Annex A. The total balance of payments cost to the United Kingdom is greater because of the trade effects of the Common Agricultural Policy (CAP). (Our specific objectives on the CAP are outside the scope of this Note and are being dealt with separately.)

2. This highly unsatisfactory position has arisen -
 - i. partly because we import proportionately more foodstuffs and industrial goods from non-Community countries, and therefore collect proportionately more agricultural levies and customs duties than do other member states. Such levies and duties are part of the Community's Own Resources and so we contribute about 19.5 per cent to the Community's resources compared with our 15.8 per cent share of GNP; but

 - ii. mainly because the CAP accounts for 70-75 per cent of all Community expenditure and has grown rapidly since we joined. Since we have only a relatively small agricultural sector, we get back only about one third of our contribution.

3. The Financial Mechanism, negotiated in 1975 to deal with our problem of excessive gross contributions as the transitional arrangements were phased out, might lead to a refund for the first time in respect of 1979. The Mechanism contains an elaborate set of criteria which severely restrict its applicability and the amount of any refund. Moreover, it is directed at our gross contributions whereas we are a net contributor which is so unacceptably high.

4. The problem is likely to get worse unless early remedial action is taken. The need to get agreement to any increase in the Community's own resources will eventually give us a powerful lever; this may not occur until well on into the 1980's, and the more successful we are in reducing CAP expenditure the further off it will be. Moreover, enlargement of the Community to include three Southern European States starting with Greece on 1 January 1981 will tend to focus attention away from the United Kingdom's problem. It is therefore important that we make significant progress in negotiating our objectives during the course of this year.

AIMS

5. We have sought to secure recognition by the rest of the Community that such a disproportionate net contribution by the United Kingdom and to a lesser extent by Italy, who are among the less prosperous member states, is intolerable and incompatible with the preamble to the Treaty which calls for the reduction of differences between the economies of the various regions of the Community. At some stage, Ministers will wish to take a view on this. Thus we have so far urged the Community to commit itself to the principle that the effects of its policies taken as a whole should contribute to and not militate against the objectives of convergence in economic performance. While this clearly implies a significant improvement on the present situation, we have not so far specified precisely what level of net United Kingdom contribution we are aiming at.

6. At the March European Council in Paris, the United Kingdom tabled the draft formula at Annex B. Not surprisingly, the other member states were reluctant to enter into such a firm commitment: they argued that the budget transfers are the inevitable result of agreed Community policies and that they are not of major importance in determining economic performance which depends essentially on the right national economic policies. Moreover, any improvement in our net position inevitably means a decrease in the net benefits (or increase in the net contributions) of at least some other member states. There has however been a growing awareness both among member states and the Commission of the perverse effects of the Community Budget and it was possible to secure agreement in March that this will be a major subject at the European Council in June on the basis of an in-depth study. The text of the March European Council's conclusions on this point are at Annex C.

7. At the Finance Council which followed the European Council, the in-depth study was remitted to the high level Co-ordinating Group on which we are represented by the Permanent Secretary to the Treasury. This Group has held several meetings and will report to the Finance Council on 14 May. (The Finance Council will also meet on 18 June just before the European Council on 22/23 June, whose agenda will be finally prepared by the 12 June Foreign Affairs Council.) While we aim in the preparatory work of the Co-ordinating Group to advance our cause, acceptance of the commitment embodied in the formula at Annex B can only be achieved at the highest political level.

METHODS

8. So far we have concentrated on securing recognition of the need for remedial action rather than ourselves suggesting how this should be done. This is an essential first step in the argument and one which may be less difficult to get agreement on than the adoption of specific remedies. Also it avoids being side-tracked by the offer of apparent but inadequate remedies without the principle having been accepted. By keeping our options open we do not alienate potential support by backing one method rather than another. Finally, there are tactical advantages in engineering that proposals come from the Commission. Moreover, once the principle has been accepted we shall be able to test against it the effect of various possible solutions and build up our case for adequate remedial action.

9. In theory, the problem could be solved through some combination of the following -

- a. reducing existing Community expenditure which is disadvantageous to us, notably the CAP;
- b. increasing Community expenditure in existing or new areas of benefit to us;
- c. introducing the principle of ability to pay into the own resources system (eg a progressive key for VAT contribution);
- d. amendment of the Financial Mechanism or establishing an overall corrective mechanism to complement or replace it.

10. In practice, each of these would take varying times to get accepted and especially to have their effect. Only (d) could be expected to have its full impact from the moment of agreement, (unless the principle of progressivity - (c) - could be introduced even before the need for additional own resources). So far, we have advocated moves along the lines of (a) to (c). We have pressed for a freeze on agricultural prices designed to reduce Community expenditure on the CAP. We have encouraged increases in the Regional and Social Funds from which we secure a net benefit and we have suggested that more should be done to help industrial restructuring and urban renewal. However, it is clear that a reduction in CAP expenditure can only be achieved gradually, that increases in non-agricultural expenditure, especially after enlargement, are unlikely to bring us more than a modest benefit (unless they were specifically geared to the United Kingdom's problems) and that, given the importance of levies and duties for the United Kingdom a very high degree of progressivity on the VAT element would be needed simply to offset the regressive effects of the existing arrangements. Moreover, at a preliminary discussion of the Commission's ideas on progressivity at a joint Council of Finance and Foreign Ministers on 2 April, there was considerable resistance from other member states. It is therefore probable that, even assuming considerable success on all these fronts, the United Kingdom would still be left as a substantial net contributor. We shall probably have to argue for some sort of overriding corrective mechanism or equalisation fund. It would however be premature for us to advance proposals of this kind until we have established the principle set out in Annex B and the other approaches have been seen to ^{be} explored. Even then, a proposal for a new corrective mechanism would come best from the Commission.

WORK IN HAND

11. In addition to contributing to the work of the Co-ordinating Group, and without prejudice to the tactical considerations discussed above, officials are preparing papers for Ministers on the following -

- a. the attribution of MCAs for the purposes of calculating budgetary receipts. There is a complicated dispute between us and the other member states which is preventing an agreed assessment of the size of the United Kingdom's problem;

- b. the scope for increasing our net benefit from the non-agricultural expenditure. A working party under Department of Industry chairmanship is examining ways of improving our net gain from existing funds and from possible new expenditures eg on transport infrastructure and urban renewal;
- c. ways in which the Financial Mechanism might be changed (it is due for review in 1981);
- d. forms which a new "override" mechanism might take;
- e. additional material on the perverse resource effects of the CAP and the impact of Community Budget transfers on the economies of member states, to be used for developing our case and with a view to possible publication;

A report on (a) will be ready in time for the May Finance Council and on the other aspects by the end of the month.

TACTICS LEADING UP TO THE JUNE EUROPEAN COUNCIL

12. Following the General Election, it will be desirable to give an early indication of the Government's concern. There will be opportunities for doing this at the bilateral summit with Chancellor Schmidt scheduled for 11/12 May, at the informal meeting of Community Foreign Ministers on 12/13 May and at the Finance Council on the 14 May. There would be advantages in following these meetings up with other early bilateral contacts in Community capitals.

13. The purpose of these contacts would be to give an early indication of the policy of the Government, to establish the strength of our case and to show readiness to explore any possible avenue towards a solution.

14. A major effort will have to be made between now and the end of the year to get other member states to agree that action is necessary to make the effects of the Budget less perverse. At the June Council we should seek endorsement of the principle that, within three years, net resource transfers resulting from Community policies taken on a whole shall contribute to rather than hinder the achievement of convergence by being properly related to the relative economic

strength of member states. We should also seek agreement that remedial action is necessary and that the Commission be given a specific mandate to come forward with precise proposals in time for decisions at the December meeting.

15. In the meantime, we should obviously exploit any immediate opportunities for reducing the burden on the United Kingdom. During this period, the most significant contribution would be through action designed to reduce agricultural surpluses, in particular freezing CAP prices for 1979/80.

CONCLUSIONS

16. Ministers are invited -

- a. to endorse the general approach in this note;
- b. to take note of the work in progress as detailed in paragraph 11.
- c. approve the tactics proposed in paragraph 12-13 above.

NET CONTRIBUTIONS TO AND RECEIPTS FROM THE COMMUNITY BUDGET IN 1978

EXCLUDING THE EFFECTS OF ARTICLE 131 REFUNDS

	Recorded Transfers (UK and Italian Import MCAs attributed to exports)	MCAs (UK and Italian Import MCAs)	Adjusted Transfers (Import MCAs attributed to UK and Italy)
	MEUA	MEUA	MEUA
Benelux	+ 415.4	- 43.1	+ 372.3
Denmark	+ 620.4	- 239.1	+ 381.3
Germany	- 213.6	- 173.0	- 386.6
France	+ 47.4	- 287.7	- 240.3
Ireland	+ 517.8	- 210.4	+ 307.4
Italy	- 672.9	+ 418.5	- 254.4
Netherlands	+ 265.4	- 179.8	+ 85.6
United Kingdom	-1423.9	+ 714.6	- 709.3

THE NEED FOR PROPER USE OF COMMUNITY RESOURCES

The European Council had a valuable discussion about the present use of the Community's instruments and financial resources. It noted that the growing imbalance in agricultural markets has led to increased expenditure on agricultural support and that such expenditure needs to be reduced through the elimination of agricultural surpluses. It further noted the need to use the Community's resources so as to give greater priority to meeting social needs and supporting industrial reconstruction. The Council reaffirmed that steps must be taken to strengthen the economic structure of the less prosperous regions to enable them to bridge the gap between them and the more prosperous member states, both by their own efforts and with Community help. In this connection, and in order to promote the Community's objective of convergence in the economic performance of member states, the European Council agreed that, within three years, net resource transfers resulting from Community policies taken as a whole shall contribute to rather than hinder the achievement of convergence by being properly related to the relative economic strengths of member states. The European Council invited the Commission to make suggestions at its June meeting as to how progress towards these aims could be achieved.

IV Convergence

The implementation of the EMS, which will constitute an important contribution towards the development of stable and lasting growth in the Community, must be supported by increased convergence of the economic policies and performances of the Member States.

The European Council invited the Council (Economics and Finance) to strengthen the means of co-ordinating economic policies, on a proposal from the Commission. It took note with interest of suggestions which the Netherlands delegation made in this connection.

Achievement of the convergence of economic performances requires measures for which the Member States concerned are primarily responsible, but in respect of which Community policies can and must play a supporting role within the framework of increased solidarity.

The European Council took note of the communication which it had requested the Commission to draw up on this subject. It had an exchange of views on the means for arriving at improved convergence.

It emphasised the need for the Community Institutions to ensure more efficient use of the existing instruments in order to attain this objective.

It invited the Council and the Commission to examine in depth how the Community could make a greater contribution, by means of all its policies taken as a whole, to achieving greater convergence of the economies of the Member States and to reduce the disparities between them.

To this end, it asked the Council to examine, in the light of the above guidelines, what action should be taken on the proposals contained in the above communication from the Commission and to submit a report at the next meeting of the European Council.

V. Common agricultural policy

The European Council had a detailed exchange of views on the common agricultural policy, in the light of a communication from the Commission. It confirmed the importance which it attaches to the fundamental objectives of this policy which is one of the achievements in the construction of Europe.

It noted that growing imbalances on agricultural markets have led to an increase in expenditure on agricultural support.

It considered that a prices policy suited to the situation and a search for measures adapted to each type of production are likely to correct the imbalances which have become apparent on certain markets and to avoid the build-up of surpluses.

The European Council expressed its interest in the improvement of the agricultural structures policy, particularly in favour of the least favoured regions of the Community, and invited the Commission to submit additional proposals in this sector.

Also, with a view to enlargement, the Council hoped that the efforts to improve structures undertaken in favour of the Mediterranean regions would be continued so that the interests of all agricultural producers in the Community received equal consideration.

The European Council invited the Council (Ministers for Agriculture) to examine those improvements which are necessary for the proper functioning of the common agricultural policy with due regard to the objectives, laid down in the Treaty of Rome.

CONFIDENTIAL

*PS/PS
11/8*

*PS/PS
PS/PS*

*At the PUS's request, copies
have gone to*

*Private Secretary
PS/Lord Privy Seal*

Mr Cartledge, No 10.

Mr Vile, Cabinet Office.

*ICA-3
9/1*

EEC/TURKEY

1. The PUS asked whether the figures for German and French aid to Turkey in paragraph 14 of the interdepartmental official paper on Turkey included German and French aid to Turkey under EEC auspices on which there is a separate paragraph (16) for the UK.
2. The figures in paragraph 14 do not include EEC aid. The figures for Germany and France are as follows:

Third Financial Protocol

Germany 71.5 mua or \$97.5 million
 France 45.5 mua or \$62 million

Emergency Assistance

Germany 23.3 mua or \$32 million
 France 14.8 mua or \$20.2 million

3. These figures show that the Germans have rather more committed to Turkey under EEC arrangements than the UK and the French rather less. This of course weakens the strength of the argument with German and French interlocutors. On the other hand, it is still a useful argument with non-EEC contributors such as the Japanese.

D A Gore-Booth
 Financial Relations Department

9 May 1979

cc: Mr Daunt, SED, Mr Ford, EID (E)

CONFIDENTIAL

10/10/79

1-9 MAY 1979

10 9 8 7 6 5 4 3 2 1



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir John Hunt GCB

9th May, 1979

Ref. A09510

Dear Bryan

*B.G.
Cartledge
10/5/79*

Visit of Chancellor Schmidt

I am writing to confirm that the following have been invited to the briefing meeting for Chancellor Schmidt's visit, at 10 Downing Street at 5.30 pm today:

Foreign and Commonwealth Office	Foreign and Commonwealth Secretary Lord Privy Seal Sir Michael Palliser Sir Oliver Wright
Treasury	Chancellor of the Exchequer Mr. Ken Couzens
Ministry of Defence	Secretary of State for Defence Sir Frank Cooper
Cabinet Office	Sir John Hunt Mr. Michael Franklin

It is envisaged that the same Ministers and officials will participate in the plenary meeting at 10.30 am on Friday, 11th May.

I am copying this letter to the offices of all those on the above list.

*Yours ever
Maurice Vile*

(M.J. Vile)
Private Secretary

B.G. Cartledge, Esq.

PRIME MINISTER

Chancellor Schmidt's Visit: -Guest Lists

1
P.R.

The German Embassy have conveyed to me a special personal request from Chancellor Schmidt that his daughter, who works in the City but whose presence in the UK is not advertised (for security reasons) might be included in your dinner on Thursday evening. Her name is Fraulein Susanne Schmidt. I was sure that you would wish to agree to this request and in view of the shortness of time I have arranged for Fraulein Schmidt to be sent an invitation.

Delivered

Can you agree to the inclusion of two more British officials in the working lunch on Friday 11 May? They are Mr. Michael Butler and Mr. John Fretwell, who both look after Community affairs in the FCO - it would be very useful for them to maintain contact with their German opposite numbers. This would make the numbers of the British and the German teams level.

*Yes
no*

But.

9 May 1979

PRIME MINISTER

Dinner for Chancellor Schmidt
Thursday, 10 May

I attach a list of guests attending your dinner
for Chancellor Schmidt and also a draft seating plan.

Susan Goodchild

Thanks:- - agreed.

Mark is really much
too high up in the
precedence order - but
I suppose it is necessary because
of Fran Schmidt's if
not - - but this needs
further thought

9 May 1979

LIST OF GUESTS ATTENDING THE DINNER TO GIVEN BY THE PRIME MINISTER AND MR. DENIS THATCHER IN HONOUR OF HIS EXCELLENCY HERR HELMUT SCHMIDT, CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY ON THURSDAY, 10 MAY 1979 AT 8.00 PM FOR 8.15 PM BLACK TIE

The Prime Minister
and Mr. Denis Thatcher

Miss Carol Thatcher

Mr. Mark Thatcher

His Excellency Herr Helmut Schmidt

Frau Susanna Schmidt

His Excellency Herr Hans-Dietrich Genscher

Foreign Minister

His Excellency Herr Hans Matthöfer

Minister of Finance

His Excellency the German Ambassador and Frau Riete

Herr M. Schüller

Head of the Chancellor's
Office

Herr M. Lahnstein

Assistant Under Secretary
Ministry of Finance

Dr. A. Grünwald

Deputy Government
Spokesman

Dr. Jurgen Ruhfus

DUSS

Dr. H. Schulmann

DUSS

Dr. K. Blech

DUSS

Dr. H. Lautenschlager

"

Dr. W. Heck

Assistant Under Secretary
of State, Ministry of
Finance

Dr. K. Zeller

Principal Private Sec-
retary

Dr. J. Sudhoff

Press Spokesman for
Ministry of Foreign
Affairs

Dr. Peters

Private Secretary to
the Chancellor

Dr. H.-G. Petersmann

Private Secretary
to the Foreign Secretary

Herr H.-H. Horstmann

United Kingdom Desk
Federal Ministry of
Foreign Affairs

Ministers

The Rt. Hon. Lord Carrington
and Lady Carrington

The Rt. Hon. Sir Geoffrey Howe, MP
and Lady Howe

The Rt. Hon. Francis Pym, MP
and Mrs. Pym

The Rt. Hon. Sir Ian Gilmour, MP
and Lady Gilmour

The Rt. Hon. Peter Walker, MP
and Mrs. Walker

The Hon. Douglas Hurd, MP

Conservative Members of Parliament

Sir Anthony Royle, MP
and Lady Royle

Sir Bernard Braine, MP

The Rt. Hon. Gordon Richardson
and Mrs. Richardson

Governor of the Bank of England

The Hon. Sir Marcus Sieff
and Lady Sieff

Marks & Spencer Ltd.

Sir Barrie Heath
and Lady Heath

GKN

Sir Frank Roberts
and Lady Roberts

Chairman of the British Steering
Committee. Königswinter Conference

Press

The Rt. Hon. William Deedes
and Mrs. Deedes

Editor, Daily Telegraph

Professor Hugh Thomas
and Mrs. Thomas

Mr. Trevor Nunn

Royal Shakespeare Company

Officials

Sir John Hunt
and Lady Hunt

Sir Michael Palliser
and Lady Palliser

Sir Douglas Wass
and Lady Wass

Sir Oliver Wright

H.M. Ambassador, Bonn

10 Downing Street

Mr. Ian Gow, MP
and Mrs. Gow

Mr. K.R. Stowe
and Mrs. Stowe

Mr. Henry James
and Mrs. James

Mr. David Wolfson
and Mrs. Wolfson

Mr. Richard Ryder

Mr. Bryan Cartledge
and Mrs. Cartledge

W

REVISED SEATING PLAN - DINNER ON THURSDAY,
10 MAY 1979

THE PRIME MINISTER

HE HERR HELMUT SCHMIDT

MR. DENIS THATCHER

Frau Ruete

Rt. Hon. Sir Geoffrey Howe

HE The German Ambassador

Miss Carol Thatcher

Sir Anthony Royle

Lady Gilmour

Dr. Jurgen Ruhfus

Mrs. Thomas

Sir Barrie Heath

Dr. W. Heck

Sir Douglas Wass

Dr. J. Sudhoff

Mr. Henry James

Lady Wass

Mr. David Wolfson

Professor Hugh Thomas

Mr. Richard Ryder

Rt. Hon. Sir Ian Gilmour

Lady Sieff

Herr M. Lahnstein

Mrs. Walker

Rt. Hon. Gordon Richardson

Herr K. Blech

Sir Frank Roberts

Sir John Hunt

Mrs. Gow

Sir Michael Palliser

Sir Bernard Braine

Mrs. Stowe

Dr. W. Peters

Mrs. Cartledge

Herr H.-H. Horstmann

*Interpreter
HE HERR HANS DIETRICH GENSCHER

Rt. Hon. Lord Carrington

HE Herr Hans Matthofer

The Lady Carrington

Rt. Hon. Francis Pym

Frau Susanna Schmidt

Mr. Mark Thatcher

The Hon. Douglas Hurd

Mrs. Richardson

Dr. H. Schulmann

Mrs. Pym

Rt. Hon. William Deedes

Lady Heath

Dr. K. Zeller

Lady Hunt

Mr. Ian Gow

Lady Palliser

Dr. H.G. Petersmann

Mr. Bryan Cartledge

Herr M. Schüller

Lady Howe

Dr. A. Grünewald

Rt. Hon. Peter Walker

Mrs. Deedes

The Hon. Sir Marcus Sieff

Dr. H. Lautenschlager

Mrs. Royle

Sir Oliver Wright

Lady Roberts

Mr. Trevor Nunn

Mrs. Wolfson

Mr. K.R. Stowe

Mrs. James Cartledge

PRIME MINISTER

CHANCELLOR SCHMIDT'S VISIT 10-11 MAY

The purpose of this note is to take you through the arrangements for Chancellor Schmidt's visit step by step so that you can visualise it in advance.

The Chancellor, accompanied by Herr Genscher (Foreign Minister) and Herr Matthöfer (Finance Minister) will arrive outside No. 10 at 1730. There will be photographers outside in Downing Street and you will wish to pause for a minute or two outside the Front Door for a brief photocall. You could then lead the Chancellor inside for a further photocall in the front hall - I suggest you might be photographed with the Chancellor alone and then with the other UK and FRG Ministers. The Chancellor of the Exchequer will meet Herr Matthöfer in the front hall and take him through to No. 11 for his session of separate talks.

You will then conduct Chancellor Schmidt and Herr Genscher with Lord Carrington, upstairs to the White Drawing Room for your first session of talks. The Germans will have one notetaker with them and I shall take our note.

[Follow] I attach a card, based on your briefing meeting this afternoon, which you may like to have by you to remind you of the points which you could raise with Chancellor Schmidt during this initial session.

Would you like any refreshment to be served during this meeting? They must be offered a drink - soft or alcoholic.

At about 1845, you should wind up a discussion so that Chancellor Schmidt can take his leave and return to his hotel in order to change for dinner.

The German party and all your other guests will arrive at No. 10 at 2000, for dinner at 2015. During drinks before dinner, I shall try to make sure that as many of the guests as possible are introduced to you and Mr. Thatcher.

/I attach

I attach below the revised version of your speech, taking account of your own amendments to the first draft and including the two additional paragraphs at the end of the speech for which you asked.

Are you content that the speech as it now stands, minus the first sentence, should be released to the press tomorrow evening, embargoed for the time of delivery?

*Yes -
as finally
revised -*

After dinner, you may wish at a convenient moment to take Chancellor Schmidt to a sofa or corner table with Mr. Pym and/or Mr. Walker to have a private talk about defence matters and the CAP. The Chancellor is a late bird and is unlikely to be in any great hurry to leave.

On Friday, 11 May Chancellor Schmidt and his team will arrive at No. 10 just before 1030. You will meet him at the Front Door and escort him straight through to the Cabinet Room. There will be place cards on the Cabinet table to show members of both delegations where to sit. I have arranged for coffee to be served at 1100. You will probably have agreed with Chancellor Schmidt, during the previous evening, how the plenary session should be handled. One possibility would be for you to invite the Chancellor to give his views on East/West relations, which could lead into a general discussion. You will also wish to invite the Chancellor of the Exchequer to report on his separate talk with Herr Matthöfer. At the end of the session, you will wish to sum up and identify any points for follow-up action.

At 1145 the plenary session will end and you will take Chancellor Schmidt to his car outside the Front Door and, if you agree, travel with him to the Millbank Tower cinema for the Press Conference. You, the Chancellor and the other Ministers will be seated on the stage. Henry James is drafting a short opening statement for you and you could then invite Chancellor Schmidt to make one too. The Press Conference will then be open for question and answer.

/At about

At about 1245, you will return to the cars and drive back to No. 10.

The working lunch for the two delegations is at 1300 for 1430.

You will not wish to make a formal speech but it would be appropriate to make a few remarks with a bilateral emphasis and I attach some draft notes for your consideration.

[Flag A]

After lunch, Chancellor Schmidt will take his leave at the Front Door and Mr. Hurd (who will be at the lunch and whom you can then introduce to Chancellor Schmidt) will escort him for the rest of the day. The Chancellor will be travelling by helicopter to Oxford to receive the Honorary Degree of Doctor of Laws from the Chancellor of the University, Mr. Harold Macmillan.

Byr.

9 May 1979

RESTRICTED

ADMINISTRATIVE PLAN FOR THE VISIT OF THE
CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY,
HIS EXCELLENCY HERR HELMUT SCHMIDT
TO THE UNITED KINGDOM FOR THE ANGLO/GERMAN SUMMIT
10 - 11 MAY 1979

1. PROGRAMME

Details of the programme are shown at Annex 1.

2. COMPOSITION OF THE DELEGATION

Details of those accompanying the Chancellor are shown at Annex 2.

3. ARRIVAL ARRANGEMENTS

All arrivals will take place at Heathrow Airport (South Side).

- (a) Chancellor Schmidt will arrive by special aircraft from Bonn at 1650 hours on Thursday 10 May.
- (b) Foreign Minister Herr Genscher and other members of the German delegation will arrive by one other special aircraft from Madrid. ETA is ~~also~~ 1645 hours Thursday 10 May.
- (c) The Chancellor, Herr Genscher and the remaining Ministers will be welcomed on arrival by Secretary of State for Foreign and Commonwealth Affairs The Lord Carrington. The Ambassador of the Federal Republic of Germany His Excellency Herr Hans Hellmuth Ruete. HM Ambassador Bonn, Sir Oliver Wright.

Detailed arrival arrangements are shown at Annex 3.

4. NO 10 DOWNING STREET

Plenary Session talks will take place at No 10 on Friday 11 May. Details at Annex 1.

5. INTERPRETERS

One United Kingdom interpreter (Mrs Ilse Bloom) has been arranged for Herr Genscher, Foreign Minister.

6. PRESS ARRANGEMENTS

Arrangements for the Press are being co-ordinated by Mr C Anson (No 10 Press Office) and Mr R Stainton (News Department).

- (a) There will be a photocall at No 10 Downing Street after the arrival of the Chancellor at approximately 1730 hours Thursday 10 May. It is expected to take place on the front step and in the Front Hall.

- (b) There will be a Press Conference at approximately 1200 hours noon on Friday 11 May in the cinema at Millbank Tower, London SW1.

Passes will be required for the Press Conference and will be available from News Department, Foreign and Commonwealth Office.

7. TRANSPORT

- (a) A motorcade will transport Chancellor Schmidt, Herr Genscher and members of the delegation attending the talks at No 10 Downing Street from Heathrow (South Side) to No 10 Downing Street. A second motorcade will take the remainder of the party direct to their hotel.
- (b) Cars will be provided by Government Hospitality Fund for the Delegation.
- (c) Arrangements have been made for the cars to use the parking facilities in the Foreign and Commonwealth Office Quadrangle (Downing Street entrance).

8. ACCOMMODATION ARRANGEMENTS FOR THE NIGHT OF 10 MAY

Accommodation has been arranged by GHF at the Carlton Tower Hotel Kensington, for all members of the delegation for the night of Thursday 10 May.

9. SECURITY

- (a) Det. Inspector Jack Russell, Special Branch together with Det. Inspector D Ferguson will be in charge of the security arrangements for Chancellor Schmidt throughout his stay.
- (b) The Chancellor and Herr Genscher will be accompanied by a motor-cycle escort when travelling by road.
- (c) Car Stickers will be issued by (Visits Section), Protocol and Conference Department, Foreign and Commonwealth Office for any officials going to No 10 Downing Street.

10. VISIT TO OXFORD - See Annex 4

11. DEPARTURE ARRANGEMENTS

The German delegation will leave for Bonn from Heathrow (South Side) at approximately 1900 hours on Friday 11 May.

Details of the departure arrangements are shown at Annex 3.

12. USEFUL TELEPHONE NUMBERS

10 Downing Street:	930 4433
W. German Embassy:	235 5033
Millbank Press Centre:	211 4179
Carlton Tower Hotel:	235 5411

/12. Administration

RESTRICTED

12. ADMINISTRATION

Any enquiries about these arrangements to Visits Section
(233: 5016/4613)

9.5.79 *Leonard Pawley.*
Visits Section
Protocol and Conference Department

FOREIGN AND COMMONWEALTH OFFICE

RESTRICTED

RESTRICTEDDRAFT PROGRAMME FOR CHANCELLOR SCHMIDT'S VISIT, 10 - 11 MAY 1979Thursday 10 May

- 1650 Chancellor Schmidt, Herr Genscher, Herr Matthoefer plus Private Secretaries and advisers, arrive at South Side Heathrow
- Met by Foreign and Commonwealth Secretary.
- 1655 Motorcade to Downing Street
- 1730 Chancellor Schmidt and Herr Genscher, escorted by Foreign and Commonwealth Secretary, arrive at No. 10.
- Photocalls on front step and in Front Hall.
- Herr Matthoefer to No. 11 Downing Street for introductory session of talks with Chancellor of the Exchequer.
- 1745 First session of talks in White Drawing Room: Prime Minister, Chancellor Schmidt, Foreign and Commonwealth Secretary and Herr Genscher.
- 1845 Chancellor Schmidt and Herr Genscher leave No. 10 for the Carlton Tower Hotel to change for dinner.
- Chancellor Schmidt and his party return to No. 10.
- 2000 for
2015 Dinner for 69 guests (with wives) in State Dining Room (black tie).
- Short speeches.
- 2300
approx. Chancellor Schmidt and his party take their leave.
- Overnight at Carlton Tower Hotel.

Friday 11 May

- 1030 Plenary session of talks at 10 Downing Street (Cabinet Room) attended by Ministers and officials of both delegations.
- 1145 Plenary session ends.
- Leave No 10 by car for Millbank Tower.

/1200

RESTRICTED

- 1200 Press Conference in Millbank Tower Cinema
- 1245 Return to No. 10 by car
- 1300 for 1315 Lunch in State Dining Room for both delegations
- 1445 approx. Chancellor Schmidt leaves for his Embassy.
- 1545 Leave Embassy for visit to Oxford for conferment of Honorary Degree accompanied by Mr Douglas Hurd MP Minister of State, Foreign and Commonwealth Office and Sir Oliver Wright, HM Ambassador Bonn.
- 1630 Chancellor Schmidt arrives in Oxford.
Received by the Chancellor of the University, the Vice Chancellor and others.
Tea in the Bodleian Curator's Room.
- 1700 Conferment of Chancellor Schmidt's Honorary Degree in the Sheldonian Theatre.
- 1720 Procession from the Sheldonian Theatre to the Bodleian Quadrangle. Drive to Christ Church.
- 1730 Reception in Christ Church Library.
- 1830 Chancellor Schmidt takes leave of the Chancellor of the University.
- 1835 Leave Oxford by helicopter to Heathrow (South Side)
- 1900 Arrive Heathrow (South Side). Seen off by Mr Douglas Hurd and Sir Oliver Wright, HM Ambassador, Bonn

Depart for Bonn

DELEGATION LIST

Federal Chancellor Helmut Schmidt

Herr M Schüller
Head of the Chancellor's Office

Dr J Ruhfus
Deputy Under Secretary

Dr H Schulmann
Deputy Under Secretary

Herr M Lahnstein
Under Secretary of State

Dr K Zeller
Principal Private Secretary

Dr H J Peters
Private Secretary

Security Officers

Herr Neuse

Herr Amann

Herr Guttman

Herr Krüger

Herr Auer

Herr Weisfurther

Herr Schlagetter (For Herr Schüller)

Federal Foreign Minister Hans-Dietrick Genscher

Dr K Blech
Deputy Under Secretary

Dr H W Lautenschlager
Deputy Under Secretary

Dr J Sudhoff
Press Spokesman for Ministry of Foreign Affairs

Herr H Weber
Chief Interpreter

Herr H H Horstmann
UK Desk

Dr H G Petersmann
Private Secretary

Herr Rothen
Conference Secretariat

RESTRICTED

Security Officers

Herr Abraham

Herr Wiesotzky

Herr Dewes

Herr Peter

Herr Komander

Federal Minister for Finance Hans Matthöfer

Dr V W Heck

Assistant Under Secretary

Security Officer

Herr Hess

Federal Press and Information Office

Dr A Grünewald

Deputy Government Spokesman

Herr W Adlerstein

Duty Officer

Herr Büniss

Stenographer

Herr Schaack

Photographer

ARRIVAL ARRANGEMENTS

Thursday 10 May

- (a) Chancellor Schmidt with some members of his delegation will arrive at Heathrow (South Side) by special aircraft DCN 2593 from Bonn at 1650 hours.

Herr Genscher with other members of the delegation will arrive at Heathrow (South Side) by special aircraft DCN 2568 from MADRID. ETA is 1645 hours.

- (b) The Chancellor, Herr Genscher and Herr Matthöfer will be greeted on arrival by:

The Lord Carrington,
Secretary of State for Foreign and Commonwealth Affairs

The Ambassador of the Federal Republic of Germany,
HE Herr Hans Hellmuth Ruete

HM Ambassador, Bonn
Sir Oliver Wright

DEPARTURE ARRANGEMENTS

- (a) The Chancellor and those members of his party accompanying him to Oxford will arrive at London Airport South by helicopter from Oxford arriving at 1900 hours.

Herr Genscher, Herr Matthöfer and the remainder of the Delegation will travel by road to London Airport South arriving at 1850.

- (b) The Chancellor and his party will be seen off by:

Mr Douglas Hurd MP
Minister of State, Foreign and Commonwealth Office

The Ambassador of the Federal Republic of Germany
Herr Hans Hellmuth Ruete

HM Ambassador, Bonn
Sir Oliver Wright

PRESS

There will be facilities for press photographers at South Side but no arrangements for statements to be broadcast.

VISIT TO OXFORD

The Chancellor and those members of his party who will be accompanying him to Oxford on Friday 11 May will be transported by helicopters from the Battersea Heliport to Oxford. The approximate timings and arrangements are as follows:

- 1545 Leave Embassy (23 Belgrave Square) for Battersea Heliport.
1555 Depart Heliport for Oxford in 3 Helicopters (total party 15)
approx.
1630 Arrive Oxford. Received by the Chancellor of the University and others.

Mr Douglas Hurd MP, Minister of State together with Sir Oliver Wright, HM Ambassador, Bonn who will be accompanying the Chancellor to Oxford to arrive at the Embassy at 1535 (in Mr Hurd's car).

Helicopter No 1 (7 seater)

Chancellor Schmidt
Mr Douglas Hurd, Minister of State
Mr Thomas Matussek, First Secretary FRG Embassy
Dr Peters, Private Secretary to Chancellor
Herr Guttman, Security, FRG
Det. Insp. J Russell, Special Branch
Mr R Swan, GHF

Helicopter No 2 (5 seater)

Herr Ruete, FRG Ambassador
Sir Oliver Wright, HM Ambassador, Bonn
Herr M Schuller, Head Chancellor's Office
Dr H Schulmann, Deputy Under Secretary
Dr J Ruhfus, Deputy Under Secretary

Helicopter No 3 (3 seater)

Dr K Zeller, Private Secretary
Dr Duinker, Press
Herr Buniss, Stenographer

RESTRICTED

10 DOWNING STREET

Mr Cartledge (2)
Mr Anson (3)
Miss Caroline Stephens (2)
Duty Clerk (3)
Mr Rylands (2)

CABINET OFFICE

PS to Sir John Hunt

FOREIGN AND COMMONWEALTH OFFICE

PS to Secretary of State (2)
PS to Minister of State (Mr Douglas Hurd)
PS to PUS
News Department (Mr Stainton)
Protocol and Conference Department (5)
PUSD (Mr Dew)
WED (Mr Nash) (10)

GOVERNMENT HOSPITALITY FUND

Mr Barclay
Mr Taylor (8)

METROPOLITAN POLICE

Detective Inspector Jack Russell, Special Branch (6)

HEATHROW AIRPORT

Mr J Bannister (2)

MINISTRY OF DEFENCE

PS to Secretary of State
Protocol Office (Air Commodore Frost) (2)

DEPARTMENT OF TRADE

PS to Secretary of State (2)

HM TREASURY

PS to Chancellor of the Exchequer (2)

EMBASSY OF FRG

Mr T Matussek (5)
First Secretary

PRIME MINISTER

YOUR BRIEFING MEETING FOR CHANCELLOR SCHMIDT

*D.A.
J.M.
9/5*

The following will be present at your briefing meeting at 1730 today for Chancellor Schmidt's visit:

Foreign and Commonwealth Office:	Foreign and Commonwealth Secretary Lord Privy Seal Sir Michael Palliser Sir Oliver Wright
Treasury:	Chancellor of the Exchequer Mr. Ken Couzens
Ministry of Defence:	Secretary of State for Defence Sir Frank Cooper
Cabinet Office:	Sir John Hunt Mr. Michael Franklin

Sir Clive Rose, the Deputy Under Secretary in the Cabinet Office who looks after strategic and nuclear matters, will be on call should you wish to send ~~me~~^{for} him for any detailed advice on these subjects. Those members of your No. 10 team who need to know about the Chancellor Schmidt visit will also be there.

A convenient seating arrangement is for your own team (including the Cabinet Office) to sit on your side of the Cabinet table, on your right, and for the other Ministers and their officials to sit opposite you on the other side of the table. I shall be on your left, taking a note.

Sir John Hunt has already given you an additional brief on the EEC Budget. I attach two other new papers which you may like to glance at before the meeting: a letter from the Treasury conveying the Chancellor's views on the line which you might take with Chancellor Schmidt on the EMS (Flag A), and a fuller brief, which you said you would like, on the future tactical combat aircraft (Flag B).

I have passed on to the Departments concerned the specific points which you raised after reading your main set of briefs and those attending the meeting will be prepared to speak to these if you ask them to do so.

/ I have

I have put in your briefing folder the telegrams from our
Ambassador in Bonn, which you saw last night.

Bm.

9 May 1979



Foreign and Commonwealth Office

London SW1A 2AH

9 May 1979

Dear Bryan,

Chancellor Schmidt's Visit

Submitted
P.A.
JGH
10/5

In your letter of 7 May you asked for some draft speaking notes which the Prime Minister could draw on at the lunch at Number 10 Downing Street on Friday 11 May. I enclose a draft.

The Prime Minister's speech at dinner on Thursday 10 May will be concentrating on the European aspect and will, we understand, be released to the press. The lunch the next day is for Ministers and officials only and we are assuming that it is not intended to publish the speeches delivered at it. By then, not only will there have been a private and a plenary session of talks, but the Prime Minister and Chancellor Schmidt will have reported on the outcome of their discussions at the press conference in Millbank Tower at noon. All this will have a bearing on what the Prime Minister decides that she wishes to say at lunch, but the enclosed draft sets out the main points in our relationship with the FRG which we think worth mentioning.

For ever
JGH

(G G H Walden)

B G Cartledge Esq
10 Downing Street

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MAY 14 11 44 AM '44

GASL AND CO



Foreign and Commonwealth Office

London SW1A 2AH

9 May 1979

Dear Bryan,

*p.s.
GWH*

Chancellor Schmidt's Visit: Prime
Minister's Speech at Dinner on 10 May

/ As you requested, I enclose two draft paragraphs to follow the penultimate paragraph of the draft, enclosed with my letter of 7 May, of the Prime Minister's speech. If they are accepted, the sentence "This is my European philosophy" should be deleted from the present penultimate paragraph.

*Yours ever
G.G.H.*

(G G H Walden)

B G Cartledge Esq
10 Downing Street

And finally let me say a word about my own European philosophy. It is founded in the belief that the diversity of our distinct national identities, which we must always cherish, is enriched by a common purpose. Inter-dependence is the complement, not the opposite of independence. We in Britain have always readily accepted the description of ourselves as pragmatists, even when it was not kindly meant. That is because we know that pragmatism only works if combined with firm ideals.

Of course it is easier to talk convincingly about practical matters than about ideals. But in the case of the Europe which we are trying to construct, I see no reason why we cannot talk of both at the same time. The ideal of Europe which I am sure you, Mr Chancellor, will recognise and share is one that first and foremost offers peace, prosperity, liberty and democracy for all within it. A Community whose voice will always be heard throughout the world advocating the cause of justice. A Europe within which freedom means also free enterprise, fair competition, and the chance for every single citizen to take his own decisions and to develop to the utmost his own potential.

I believe that this concept of Europe is nearer to realisation than many people suppose and that by our joint efforts in the Community we can bring it closer still. It is accordingly with confidence, Mr Chancellor, that I invite you to join me in a toast... .



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10 DOWNING STREET

From the Private Secretary

8 May 1979

Dear George,

Chancellor Schmidt's Visit, 10/11 May: Briefs

The Prime Minister has now studied the briefs which have been prepared for her discussions with Chancellor Schmidt on 10 and 11 May.

The Prime Minister fully realises that these briefs were prepared before the outcome of the General Election was known and before Departments could form a clear perception of the present Government's attitudes and policies on many of the issues with which they are concerned. She also recognises - and appreciates - that Departments were concerned to keep the volume of the briefs down to a reasonable level in order to reduce her reading load during her first week in office. The Prime Minister has, nevertheless, made the general comment on the briefs that their content is not commensurate even with their relatively modest length. She hopes that in future Departments will avoid wordy generalisations and the re-statement of facts or conclusions which are, or should be, well known to all those for whom the briefs are designed. The Prime Minister, who is a quick reader, is fully prepared to tackle long briefs when necessary: but she would like their content to be pithy and concisely expressed.

I should be grateful if the Prime Minister's comments could be brought to the attention of all Departments and borne in mind in the preparation of briefs for future inward and outward visits.

The Prime Minister has also made some specific comments on the briefs for Chancellor Schmidt's visit, as follows:

1. She detects some contradiction in the Steering Brief between Paragraph 4(ii) and Paragraph 18, concerning the costs of British Forces Germany and the expiry of the Anglo/German Offset Agreement. She may wish to pursue at the briefing meeting on 9 May the question of how, if at all, these matters should be approached during her discussions with Chancellor Schmidt.
2. The Prime Minister is not at present disposed to urge the Germans to sustain the momentum of their growth in domestic demand (Paragraph 10 of the Steering Brief) which she regards as purely a matter for the German Government; or to urge the FRG to maintain or increase their contribution to NATO (Paragraph 6(i) of the official paper on Anglo/German relations) - she does not consider that the UK is in a position to criticise the Germans on this issue.

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/3,

CCM

3. The Prime Minister may wish to pursue in more detail, at her briefing meeting on 9 May, the question of the UK contribution to the EEC Budget. She considers it important that progress should be made very soon towards remedying a thoroughly unsatisfactory situation and would like consideration to be given to the possibility of working for a direct relationship between the size of the members' budgetary contribution and the size of that country's GDP.
4. The Prime Minister may also wish to pursue at her briefing meeting the question of the situation in Turkey and aid to the Turkish Government (Paragraphs 23-27 of the brief on "International Financial and Economic Questions"). The Prime Minister has read with interest and approval the paper on Turkey prepared by an inter-Departmental group of officials under Sir Kenneth Berrill's chairmanship.
5. The Prime Minister has expressed doubts over the statement in Paragraph 15 of the official paper on Anglo/German relations that "we should continue to allow the Germans to increase their stake in North Sea oil development"; she may wish to explore the reasoning behind this further at her briefing meeting.
6. The Prime Minister would welcome a fuller and more detailed brief on the question of a future Tactical Combat Aircraft (Paragraphs 3 and 4 of the brief on "Defence Matters").

I should be grateful if the representatives of the Departments concerned who are attending the briefing meeting on 9 May would come prepared to expand on the points above if the Prime Minister wishes to pursue them.

I am sending copies of this letter to Martin Hall (H.M. Treasury), Roger Facer (Ministry of Defence) and Martin Vile (Cabinet Office).

*Yours ever,
G.G.H. Walden.*

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

MR CARTLEDGE

PERSONAL



CABINET OFFICE

With the compliments of

~~XXXXXXXXXXXXXXXXXXXX~~

MR M D M FRANKLIN

70 Whitehall, London SW1A 2AS

Telephone 01-233 7256

Sir J. Hunt

CONFIDENTIAL

Some suggested
amendments on
the speech for
Thursday
evening

DRAFT MINUTE FROM SIR JOHN HUNT TO MR CARTLEDGE

W.H.D.
- 8/5

Chancellor Schmidt's Visit: Draft Speech at
the Dinner on 10 May

You have indicated that the Prime Minister wishes to concentrate on the Government's approach to EEC matters. Bearing this in mind, and the Foreign and Commonwealth Secretary's comment that the speech may need shortening, the substance of paragraphs 4 and 5 of the draft attached to Mr Lever's letter of 7 May could be saved for the lunch on 11 May and the point in paragraph 6 brought up to the opening sentences of the speech.

Paragraph 8 is the key ^{one} statement of the Government's commitment ^a and I would like to see it expressed in ~~that~~ positive way rather than by reference only to the 1975 Referendum. I attach a suggested redraft for that paragraph.

The last two sentences of paragraph 10 do not add much and could be deleted. It would be more in consonance with the theme of the speech ^{(end of the} if the ~~last sentence~~ of paragraph 11 were to read: "We shall work very hard with our Community partners to see that it is put right." ; and ^{at the end of paragraph 13:} "we shall make it better able to go forward in the common interest".

REVISED PARAGRAPH 8

"We as a Government are committed to British membership of the Community. We do not yearn nostalgically for a Britain separate from Europe. The decision which was taken by Parliament and confirmed by the British people with a majority of 2-1 in the Referendum of 1975 is final. I believe that most responsible British opinion has long since accepted this reality. Ours is not a grudging acquiescence in Community membership. We believe it is not only right for this country but right for Europe. Our purpose is to engage fully and actively with our partners in developing the Community."



Foreign and Commonwealth Office

London SW1A 2AH

8 May 1979

Sir J Hunt, GCB
Secretary to the Cabinet

Dear John,

CHANCELLOR SCHMIDT'S VISIT 10-11 MAY: TURKEY

I have seen Bryan Cartledge's letter of 7 May to Paul Lever recording that the Prime Minister would like to devote particular attention at her briefing meeting tomorrow to, amongst other things, the situation in Turkey and the question of assistance to the Turkish Government.

The Prime Minister may find the existing brief on Turkey - which was designed to cover Turkey simply as one of several international economic questions - unduly short. I understand that she has seen and approved of the official paper prepared by an interdepartmental committee of officials under Ken Berrill's chairmanship.

Since the brief and the Berrill Group paper were written there has been an OECD meeting in Paris on 4 May. It was agreed that, provided negotiations between the Turks and the IMF on a new agreement were proceeding satisfactorily, there would be a pledging conference on 30 May. The size of several contributions was indicated at this meeting. These are listed in the enclosure to this letter. The UK Delegate did not reveal the existing UK figure of \$15 million at the urgent request of the Americans and Germans on the grounds that this would act as a ceiling on other potential contributions.

I am submitting the Berrill Group paper to the Foreign and Commonwealth Secretary, drawing his attention to the following points which emerge from it:-

(a) Turkey's problems are colossal in both the short and medium terms (an estimated external financing gap of \$1.2 billion in 1979 which is likely to increase in the medium term if there is not a radical change in Turkish economic policies);

(b) Turkey's problems are not just economic; the internal security situation is critical and the Ecevit Government unstable;

(c) There is no guarantee that any Western aid package will be sufficient to bring the Turkish economy round but Western

/interests



interests in Turkey, particularly strategic, dictate that the effort be made;

(d) This effort is likely to be of an unparalleled size in terms both of the amount of assistance required and the length of the period over which it will have to be provided;

(e) Both the US and the FRG intend to contribute on an important scale;

(f) The UK share of any aid package could not be comparable to the offers by the US and FRG without having significant implications for public expenditure;

(g) But the existing UK offer of \$15 million will be seen as derisory by our partners and we shall be under pressure to increase it, particularly since several potential contributors have said that they will not give more than the UK.

In the circumstances I think that Ministers will want to go rather further than the brief suggests in the direction of indicating that the Government will want to take a fresh look at the previous Government's figure. Assuming the pledging meeting takes place on 30 May as planned, we shall need to be in a position to indicate a figure to our allies well before that. But the Prime Minister will presumably wish to be cautious in what she says to Chancellor Schmidt since we shall certainly not be able to provide sums of the same order as the Germans and Americans.

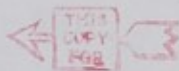
Tom

Michael

Michael Palliser

cc Sir D Wass KCB
HM Treasury

B Cartledge, Esq
No 10





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1979
MAY 11
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Re PUS's letter
of 8 May
Smith's Visit

With the compliments of

SIR MICHAEL PALLISER

FOREIGN AND COMMONWEALTH OFFICE, SW1
, 197 .

External Financial Situation, 1979

	\$ million
Visible Trade	- 2,850
Invisibles	+ 660
	<hr/>
Current Account	- 2,190
Net Capital Flows	290
	<hr/>
Basic Balance	- 1,900
	<hr/> <hr/>
Financed by:	
Commercial Bank Loan	400
Debt rescheduling	200
IMF borrowing	100
	<hr/>
Financing 'Gap'	- 1,200
	<hr/> <hr/>
Target for concessional finance from OECD countries	700 +

Announced Offers from OECD countries

	<u>Concessional</u> <u>Aid</u>	<u>Export</u> <u>Credit</u>
US	\$ 200 m	\$ 50 m
Germany	\$ 100 m	
	and more to come	
Switzerland	\$ 30 m	Resumption of cover
France	\$ 25 m	\$ 50 m
Italy	\$ 15 m	
Norway	\$ 11 m	\$ 60 m
Denmark	\$ 5 m	

Unannounced Offers

UK	\$ 15 m
Sweden	\$ 10 m

Ready to participate, but waiting on others, especially the UK

Netherlands, Japan, Austria, Canada

Still Considering

Belgium, Finland

29 MAY 1979



PRIME MINISTER

CHANCELLOR SCHMIDT'S VISIT: YOUR SPEECH
AFTER DINNER ON 10 MAY

You said that you would like to make a short speech at your dinner for Chancellor Schmidt, with a European emphasis. I attach the first draft for you to consider. It has been seen by David Wolfson and Richard Ryder, as well as by the Cabinet Office and the Foreign and Commonwealth Office (who prepared the original draft); we have all made a number of minor changes.

Do you agree that the final text should be released to the Press on Thursday evening, embargoed for 2200?

Bill

8 May 1979

cc: Mr. Stowe
Mr. Wolfson
Mr. James
Mr. Ryder

*This is excellent - see
various comments
scattered throughout.*

*(Caroline can read my
writings - through long
experience).*

DRAFT SPEECH FOR THE DINNER IN HONOUR OF THE
FEDERAL GERMAN CHANCELLOR, 10 MAY 1979

Now we both know what a "blind date" feels like!

Press Release .

I could not be more delighted to have, as my first visitors, the Chancellor of the Federal Republic of Germany and his colleagues.

Mr. Chancellor, your country was mentioned with admiration in two recent documents, in one of which I myself had a hand. I refer, of course, to the Conservative and the Labour Party manifestos. It is not difficult to see why. The Federal Republic offers an enviable example of economic and social progress combined with social and political stability. (In less than two weeks' time you will be celebrating the 30th Anniversary of the German Basic Law, your Constitution, which has provided the framework for this.) I firmly believe that, given the right policies and the right leadership, the same progress lies within the grasp of the British people. That is the task to which my Government has this week set its hand.

/Our

Our countries share a wide range of vital interests.

First and foremost, we are both members of the North Atlantic Alliance. That membership is a cornerstone of our foreign policy, as it is of yours. The British forces committed by Treaty to the mainland of Europe are, after those of the Federal Republic and the United States, the largest NATO forces in the central region. The United Kingdom is one of the three protecting powers in Berlin. As Her Majesty The Queen reminded the people of Berlin only last year, our commitment to the freedom and security of Berlin is absolute. It is my Government's firm intention (though, with the Chancellor of the Exchequer here, I need perhaps to say, "So far as our means permit"), to maintain and improve the capability of Britain's armed forces. We shall play our full part, with such measures as may be agreed to be necessary, in countering the military threat. We share a common interest in a military balance between East and West, for we share a common belief that such a balance genuinely contributes to stability and peace in Europe.

? The framework within which we operate is the same for both of us: a world of [~~scarce and~~] dear raw materials, tough competition and demanding markets. In this world, the largest single trading unit is the European Community. Let me therefore [~~here and now,~~] at the very beginning of what will I hope be a long and close association between us, make clear the spirit in which I and my government approach the E.E.C.

We as a Government are committed to British membership of the Community, ~~We do not yearn~~ ^{because we believe} ~~nostalgically for a Britain separate from Europe.~~ The decision ~~which~~ was taken by Parliament and confirmed by the British people, ~~with a majority of 2-1 in the Referendum of 1975 is final.~~ ~~I believe that most responsible British opinion has long since accepted this reality.~~ Ours is not a grudging acquiescence in Community membership. We believe it is not only right for this country but right for Europe. Our purpose is to engage fully and actively with our partners in developing the Community.

/Let me

Let me repeat what we said in our manifesto:
"there is much that we can achieve together, much
more than we can achieve alone". This approach
will underlie all our dealings in the Community.

~~We are going to seek solutions to Community problems
by working with you and our other partners, not by
seeking to stand out in isolation against you.~~

We shall want to narrow areas of disagreement, not to
enlarge them; to solve disputes, not to ^{incubate} ~~inflate~~ them.

~~There is a task in this for the European
Assembly, the Parliament to which the British
and the German peoples will be electing representa-
tives next month. It will be for the European
Parliamentarians to bring out into open, democratic
discussion the issues which concern all our peoples.
There can and must be a useful role for the Assembly to
play in our Community.~~

It has been suggested by some people in this
country that I and my Government will be a "soft
touch" in the Community. In case such a rumour
may have reached your ears, Mr. Chancellor, from
little birds in Smith Square,

/Belgrave Square

Belgrave Square, or anywhere else, it is only

fair that I should advise you frankly to ~~give it~~ *dismiss*
it *(as my own colleagues did, long ago!)*
a zero rating. I intend to be very discriminating

in judging what are British interests and I shall

be resolute in defending them. But I find that

these interests coincide more often with a general

Community interest than has sometimes appeared in

the past. Nevertheless, where we consider that

there is something seriously wrong in the Community

we shall work *unremittingly* very hard with our Community partners

to see that it is put right.

This is not just a question of demanding a bigger share of the cake or a lesser burden for this or that Member State. If policies are working badly, the fact will indeed show up first in the form of unfair consequences for one member or another. When this happens, to put the policies right is not just an act of charity or of justice. It is essential for the health and well-being of the Community as a whole. Of course it is bad for the United Kingdom if the Community spends a large part of its resources storing and disposing of unwanted agricultural surpluses. And of course it is unacceptable to the United Kingdom to pay the lion's share of the enormous costs of this operation. But

/it is not

it is not good for the Community either. If we are genuinely working together to build something of which we can all be proud, to develop policies and institutions which will progressively draw us closer together in the pursuit of common goals and common prosperity, we have got to solve these problems. There is nothing shameful in finding that after a certain number of years policies ~~adopted by the Community~~ need to be changed to meet new circumstances, or that anomalies which flow from them need to be corrected. Such necessary changes must be made by agreement amongst the member governments. In making them, we shall not undermine the Community: we shall make it better able to serve the common interest, *and to be fair, just, and reasonable to all its members.*

We shall therefore be looking to our partners to make an effort of understanding and of goodwill. Of understanding, because we shall be asking them to take a new look at the way certain policies have worked and not simply to cling to them because they are long established and familiar. Of goodwill, because it is hard to accept modifications of policies and arrangements which bring national

/advantages.

advantages. If other countries' own interests are being well served, why should they take account of the disadvantages incurred by Britain? They will do so only if they too firmly believe that the Community is not ^{only} just a matter of seeking advantages for oneself; if they, too, believe that we must all prosper together if we are not one day to fall apart; and if they, too, believe that the rising tide of prosperity must indeed lift all the ships and not leave one or two stranded in the shoals ^(of luck?) and on the sandbanks. This is my European philosophy. If our partners share this vision I believe that together we shall find solutions to our problems, and especially the ~~reduction~~ ^{unfair} alleviation of the ~~grave~~ budgetary burden at present imposed on the United Kingdom. Without that vision and without a readiness to make adjustments and sacrifices in the broader Community interest, our enterprise could not succeed. But I believe that with your help, Mr. Chancellor, and with the support of our fellow Heads of Government, we shall succeed and that we shall make it better able to go forward in the common interest.

This needs setting out differently in the speech & must leave by the speaker if - - - - -

Paraphrase to you - but we shall be based on a deep belief in the

Mr. Chancellor's political views are against the ideas & purpose of the Community - as problems which impede the achievement of the Community's purpose.

Note - Can we have a couple of years on the ideas of the Community (free enterprise, fair competition, the role of free Europe, the necessity of democracy) It is unwise to come to a conclusion so abruptly of saying something unrelated to our interests.

In conclusion

It is unwise to come to a conclusion so abruptly of saying something unrelated to our interests.

In conclusion, Mr. Chancellor, I invite you to join me in a toast to the peace of the world, to the health of the Atlantic Alliance, to the well-being of Europe, and to the friendship of our two peoples.

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COPY NO 1

VISIT OF CHANCELLOR SCHMIDT, 10-12 MAY 1979

LIST OF BRIEFS TO BE ISSUED IN THE LMV(79) SERIES

LMV

1. STEERING BRIEF
Brief by Foreign and Commonwealth Office
2. FRG INTERNAL POLITICAL AND ECONOMIC SCENE
Brief by Foreign and Commonwealth Affairs
3. RELATIONS WITH THE EUROPEAN ECONOMIC COMMUNITY
Brief by Foreign and Commonwealth Office
4. INTERNATIONAL FINANCE AND ECONOMIC QUESTIONS (INCLUDING ENERGY AID FOR TURKEY)
Brief by HM Treasury
5. DEFENCE MATTERS
Brief by the Ministry of Defence
6. FOREIGN POLICY QUESTIONS
Brief by Foreign and Commonwealth Office

Cabinet Office

1 May 1979

*Briefs in series
LMV(79) 1-6 will be
released in CAB 133/492.
This set destroyed.
Wayland
27 October 2009*

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Ref. A09500

MR. CARTLEDGE

Prime Minister

Content with his attendance, including Sir K. Berrill? To widen it further, eg. by including the Ministry of Agriculture, would make it difficult to discuss some nuclear and strategic questions.

Chancellor Schmidt's Visit

You asked for advice on attendance at the briefing meeting for Chancellor Schmidt's visit, scheduled for 5.30 pm tomorrow afternoon. I recommend that the following be invited:

BHM 8/5

- | | |
|---------------------------------|------------------------------------|
| Foreign and Commonwealth Office | Foreign and Commonwealth Secretary |
| | Lord Privy Seal |
| | Sir Michael Palliser |
| | Sir Oliver Wright |
| Treasury | Chancellor of the Exchequer |
| | Mr. Ken Couzens |
| Ministry of Defence | Secretary of State for Defence |
| | Sir Frank Cooper |
| Cabinet Office | Sir John Hunt |
| | Mr. Michael Franklin |
| | ? Sir Kenneth Berrill ? |

In drawing up this list we have sought to keep official attendance to the minimum. The Foreign and Commonwealth Office have suggested that their principal ^{Deputy} Under Secretaries concerned, Mr. Bullard, Mr. Michael Butler and Mr. Fretwell, might also be invited, but the names proposed above will be able to cover any points which the Prime Minister might raise. The list above could also serve as a delegation list. We have included Sir Kenneth Berrill in view of the fact that he chaired the Groups which prepared the reports on Anglo-German relations and on Turkey which the Prime Minister has read with the briefing for the visit. His presence is not strictly required at the plenary meeting if the Prime Minister wished to keep the members down to a minimum.

I think there are enough without Sir Kenneth and without the Deputy Secretaries.

MJV.

M. J. VILE

8th May, 1979

It is a briefing meeting - not a mass meeting.

P.A. [Signature] 8/5

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Ref. A09499

MR. CARTLEDGE

*Arthur Gatten,
6 May 1979*

Chancellor Schmidt's Visit: Draft Speech at the Dinner on 10th May

You have indicated that the Prime Minister wishes to concentrate on the Government's approach to EEC matters. Bearing this in mind, and the Foreign and Commonwealth Secretary's comment that the speech may need shortening, the substance of paragraphs 4 and 5 of the draft attached to Mr. Lever's letter of 7th May could be saved for the lunch on 11th May. The point in paragraph 6 could be brought up to the opening sentences of the speech. Incidentally I hope we could avoid the word "foreign" in the first sentence of paragraph 1: we are both members of the Community.

Paragraph 8 is the key one and I would like to see it expressed more positively. I attach a suggested redraft for that paragraph.

The last two sentences of paragraph 10 do not add much and could be deleted. It would be more in consonance with the theme of the speech if the end of paragraph 11 were to read: "we shall work very hard with our Community partners to see that it is put right".

John

JOHN HUNT

8th May, 1979

REVISED PARAGRAPH 8

"We as a Government are committed to British membership of the Community. We do not yearn nostalgically for a Britain separate from Europe. The decision which was taken by Parliament and confirmed by the British people with a majority of 2-1 in the Referendum of 1975 is final. I believe that most responsible British opinion has long since accepted this reality. Ours is not a grudging acquiescence in Community membership. We believe it is not only right for this country but right for Europe. Our purpose is to engage fully and actively with our partners in developing the Community."



Foreign and Commonwealth Office

London SW1A 2AH

7 May 1979

Dear Bryan

Submitted.

Chancellor Schmidt's Visit:
10-11 May 1979

pa
ban
Mr

I attach a draft speech for the Prime Minister at the dinner in honour of the Federal German Chancellor on 10 May. Lord Carrington has seen the draft and has approved its general line. He has commented, however, that it may need to be shortened somewhat.

Speaking notes for the lunch on 11 May will follow separately.

I am sending copies of this letter to Martin Hall (Treasury), Roger Facer (MOD) and Martin Vile (Cabinet Office).

Yours GWL

Paul

Paul Lever

B G Cartledge Esq
10 Downing Street

7 MAY 1979



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① bf 8/5/79
and ②

VLB

Germany



CC HMT
MOD
CO

10 DOWNING STREET

From the Private Secretary

7 May 1979

Chancellor Schmidt's Visit, 10/11 May 1979

The Prime Minister has now been able to consider the arrangements for Chancellor Schmidt's visit to London on 10/11 May for the next in the series of six-monthly Anglo/German consultations at Head of Government level. The following points require action:

- (i) The Prime Minister would like the Secretary of State for Defence and his German counterpart, Herr Apel, to take part in the discussions. I have already informed Chancellor Schmidt's office of this but you may wish to alert H.M. Embassy in Bonn as well. I should be grateful if you and the M.O.D. would consider urgently whether any expansion of the brief which has been given to the Prime Minister on defence matters (brief no. 5) is called for in view of the participation of Defence Ministers in the discussion.
- (ii) The Prime Minister has approved the outline programme which I enclose with this letter. You will see that the programme on 10 May now begins one hour earlier than envisaged in the discussions which have taken place on the arrangements for the visit; this is to allow time between the end of the first session of talks and the dinner at No. 10 for those attending the dinner to change.
- (iii) The Prime Minister would be grateful if the Foreign and Commonwealth Secretary could meet Chancellor Schmidt and his party at Northolt on 10 May and escort him to No. 10.
- (iv) The Prime Minister would like to hold a briefing meeting for the visit at 1730 on Wednesday, 9 May. I should be grateful for advice from the Cabinet Office on attendance.

/ (v)

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- (v) The Prime Minister has agreed to make a short speech at her dinner for Chancellor Schmidt on 10 May which would set the tone and style for the Government's approach to E.E.C. matters. I understand that a draft on these lines is already in preparation. At the lunch for the two delegations at No. 10 on 11 May, the Prime Minister will wish to make a shorter speech, concentrating on Anglo/German relations; I should be grateful if speaking notes could be provided for this as well.
- (vi) The Prime Minister would be grateful if the Minister of State, Mr. Douglas Hurd, would escort Chancellor Schmidt to Oxford on the afternoon of Friday, 11 May, remain with the Chancellor's party during the Honorary Degree ceremony and bid him farewell thereafter at Northolt. I should be grateful if you would confirm that this will be possible.
- (vii) So far as the substance of her discussions with Chancellor Schmidt is concerned, the Prime Minister would like to devote particular attention at her briefing meeting on 9 May to the following subjects:
- Strategic matters, including SALT and nuclear deterrent policy;
 - E.M.S. (on which the Prime Minister would like the Government to have formed at least a preliminary position before her meeting with Chancellor Schmidt);
 - The situation in Turkey and the question of assistance to the Turkish Government.

I should be grateful if those attending the briefing meeting from the Departments concerned with these subjects would come to it prepared to brief the Prime Minister more fully about them.

I am sending copies of this letter to Martin Hall (H.M. Treasury), Roger Facer (Ministry of Defence) and Martin Vile (Cabinet Office).

BAC

RR

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

From the Private Secretary

7 May 1979

Chancellor Schmidt's Visit, 10/11 May 1979

The Prime Minister has now seen Sir John Hunt's minute (AO9483), in which Sir John raised three issues which were not covered, or not covered adequately, in the briefing submitted to the Prime Minister for Chancellor Schmidt's forthcoming visit.

The Prime Minister has made the general comment that she finds Sir John Hunt's minute very worrying and will wish to discuss some of the points covered in it at her briefing meeting for the Chancellor's visit on 9 May.

The Prime Minister has commented on Chancellor Schmidt's expression of hope that the U.K. would go for a successor system to Polaris: "We shall".

On the question of the Secretary Generalship of NATO, the Prime Minister has agreed to speak to Lord Carrington about a possible U.K. candidate in advance of Chancellor Schmidt's visit.

Sir John Hunt may like to know that the Prime Minister has read the official paper on Turkey, annexed to his minute, with very close attention.

B. G. CARTLEDGE

VLS
✓

M.J. Vile, Esq.,
Cabinet Office.

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Ref. A09483

PRIME MINISTER

MS

*To be discussed fully at
visit from here
to be discussed
Chancellor Schmidt's Visit*

Prime Minister

*You will wish
to consider this
minute in conjunction
with the brief
by
Mr*

There are three points which may come up that the briefs do not cover or do not cover adequately.

British Nuclear Deterrent

2. The German Embassy have told us that Herr Schmidt may want to ask you about the future of the British deterrent. German officials may well be briefing him to raise this question but I find it a little hard to believe that he will in fact do so at your first meeting. I have, of course, given you a separate brief on the future of our deterrent (my minute A09454 of 4th May), but I see no need for you to have studied the matter in any depth before Chancellor Schmidt's visit on Thursday. All you need to know is that Chancellor Schmidt made it clear to the previous Administration that, while this was of course a decision for the United Kingdom Government alone, he hoped very much that we would go for a successor system to Polaris if only because he did not relish the thought of France being the only European nuclear power.

We shall

3. If Chancellor Schmidt should raise the matter with you, I think all you need say is

- (i) The Conservative Manifesto said that "the SALT discussions increase the importance of ensuring the continuing effectiveness of Britain's nuclear deterrent".
- (ii) Operationally there is no need for an immediate decision, but this is an important matter to which you and your colleagues will give early attention.
- (iii) What does he think about it?

Secretary-General of NATO

4. For some time there has been increasing dissatisfaction with the performance of Dr. Luns as Secretary-General of NATO, but no-one has been willing to take the initiative in pulling the rug from under him.

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Chancellor Schmidt feels strongly about the matter and took the initiative in raising it with President Carter, President Giscard and Mr. Callaghan at Guadeloupe. Various names were discussed including Count Davignon (the Belgian who is currently an EEC Commissioner), M. Thorn (Prime Minister of Luxembourg) and Mr. Mulley. No conclusions were reached though there was a good deal of support for Davignon. It was left that further thought would have to be given to the matter.

Can we follow up the point I discussed with Mr. S. about G.H. Will speak to P.C.

5. Since then a clear consensus seems to have emerged that Dr. Luns ought to go, and the United States Ambassador, speaking on instructions, asked us on 20th April for our views on the succession and in particular on Davignon. Mr. Brewster was told that we could not comment until after the Election.

6. The reason for consulting you in advance of Chancellor Schmidt's visit is that immediately following the United States Ambassador's approach there was a rather surprising development at the Nuclear Planning Group meeting in Florida attended by eight NATO Defence Ministers. *It is claimed that here* This was a general consensus among the other Defence Ministers that they would be ready to support Mr. Mulley! !!! Chancellor Schmidt, who is particularly anxious that Luns should go and who is also a personal friend of Mr. Mulley's, may well ask you what you feel about this.

7. Given the criticism which your Party made in Opposition of Labour's handling of our defences I do not imagine that you would wish to see Mr. Mulley appointed: and there are other reasons for doubting his suitability for this particular job. But, if this is the case, do you wish to seize this opportunity to run an alternative British candidate? Davignon is able and ambitious but has no relevant experience and in any case may well see his future in Belgian politics. M. Thorn is generally thought to be a lightweight and there seem to be no other strong runners. It is quite possible therefore that we could get this post if we could come up with a good candidate. This is something you might want to have a word about with Lord Carrington and Mr. Pym before Chancellor Schmidt's visit.

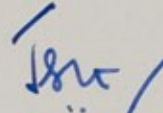
Turkey

8. Because of your other preoccupations between now and the Schmidt visit we have kept the briefs down to a minimum. I think however that brevity has been overdone in the case of Turkey (paragraph 21 of the Steering Brief and

As per - see note above.

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paragraphs 23-27 of brief No. 4) since this is a subject on which
Chancellor Schmidt has strong views. Furthermore the brief takes no account
of the defence angle. I think therefore that you ought to see the attached paper
which has been prepared by an interdepartmental group under the chairmanship of
Sir Kenneth Berrill.



JOHN HUNT

5th May, 1979

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Introduction

1. This paper is the work of an inter-departmental group of officials. It considers the present crisis in the Turkish economy; the international effort to "rescue" Turkey (once again); the United Kingdom's interests and role in that rescue operation; the pressures on us to increase our contribution; and the tactics we might best pursue.

2. The present centre-left Government of Mr Bulent Ecevit (Republican People's Party) was formed on 5 January 1978 and is, like most recent Turkish Governments, a coalition. Since the end of last year, the Government has come under increasing pressure with several resignations from the Government and from the RPP. The internal security situation has remained critical with a high level of politically inspired violence. Martial law was recently extended to cover the greater part of Eastern Turkey where the risk of Turkish/Kurdish clashes and Kurdish separatism has again surfaced. The long standing divisions between the Moslem sects, left and right, rich and poor remain unhealed. On the economic front, the country's situation is also very difficult. Her Foreign Exchange reserves are low (\$850 million), her debts very large (\$13.5 billion, of which about 60 per cent is short term), her inflation rate very high (about 50 per cent) and her unemployed numerous (about 20 per cent of the working population).

Political Considerations

3. Turkey has been a rough and ready democracy since the mid 1940s and a genuine if unstable one since 1950. It is one of the very few democracies in the Middle East region and the developing world. It is regarded by many as a test case of whether democracy and economic development from a low starting point are compatible. The West's interest in the preservation of democracy in Turkey is impossible to quantify, although it can be argued to be substantial.

4. The political and social instability occasioned by economic, internal security and foreign affairs difficulties (Cyprus, the Aegean, US arms embargo) has led to doubts about Turkey's western orientation. The upheavals in Pakistan, Afghanistan and Iran have intensified the West's worries. A full-blooded realignment to bring Turkey into closer association with the Soviet Union or with some new group of Islamic states is highly unlikely. More

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likely, if political instability continues, is a surly and unco-operative Turkey, wooed by the Soviet Union, linked more closely with the Islamic movement, especially on the Palestine issue, but still reluctantly dependent on the West for markets and supplies.

5. Britain has a particular interest in Cyprus which stems not only from traditional ties with that country but also from the presence of the Sovereign Base Areas and their associated facilities; these could be threatened by any renewal of intercommunal conflict. Any solution to the Cyprus problem requires Turkish co-operation. And a deterioration in the current situation of uneasy stability with de facto partition would be much more likely if Turkey were to be alienated or realigned.

Military and Strategic Considerations

6. If Turkey abandoned her Western orientation, a number of strongly adverse military consequences would follow for the West, even if she did not align with the Soviet Union. NATO would lose the control exercised by Turkey over the Bosphorous and Dardanelles choke points which give the Soviet Black Sea fleet its only point of exit to the Mediterranean. The balance of forces between NATO and the Warsaw Pact would also be significantly altered by the loss of Turkey's armed forces, which, although subject to serious training and equipment deficiencies, are large, tough and resolute (her army is the largest in European NATO). The change would be accentuated if the Soviet Union chose to redeploy against other parts of NATO some of the force of 30 Warsaw Pact divisions and 1000 strike aircraft which at present pose a threat to Turkey from Bulgaria and the Caucasus, though her readiness to take this step would be likely to depend upon how closely Turkey aligned herself with the Warsaw Pact. The USA would be denied Turkish sites for important intelligence and air defence surveillance facilities and the use of Turkish military airfields. And this would follow the loss of similar facilities in Iran. The military position would be the more serious if the Soviet Union were herself able to exploit Turkish airspace or, worse, given use of Turkey's airfields. In that event, the Eastern Mediterranean might become untenable by NATO in time of tension or war.

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7. A change in Turkey's alignment would also have implications for Greece and the Middle East. Greek reintegration into NATO's military structure might be eased, but the military threat facing Greece would be increased and Turkey, unconstrained by NATO and possibly supported by the Soviet Union, might be prepared to advance her interests more aggressively in the Aegean and Cyprus. NATO (and the EEC of which Greece but not Turkey will soon be a member) would be likely to support Greece, thus providing a motive for Turkey to try to form alliances with other countries, possibly including the Warsaw Pact. With a change in Turkey's stance, the "Northern Tier" against the expansion of Soviet influence in the Middle East would disappear, probably permanently. If Turkey were to become a bridge rather than a buffer, the consequences for the whole area would be far-reaching.

Economic Considerations

8. Turkey has faced successive economic crises over the past quarter of a century. The immediate crisis is the most acute yet. The balance of payments aspect is particularly difficult. According to latest OECD forecasts, the current account deficit in 1979 is likely to reach about \$2 billion, despite a major reduction in imports. Moreover, on Turkey's present policies, the current account deficit is set to double in four or five years.

9. Even if, as a result of current international action, the very difficult short-term problems of the Turkish economy are eased, Turkey will require an extended period to restructure its economy (and its debt profile) in order to become independent of continuing large scale external assistance. This will require a complete change in the economic policies which have guided Turkish Governments, of whatever political complexion, for decades. They have all been strongly committed to the concept of rapid growth, with primary attention focussed on development of the industrial sector through heavily protected import-substitution industries in the public sector. Much of the industrial investment has been in inefficient projects not well suited to Turkey's comparative advantages in terms of location, natural resources and labour availability. Little attention has been paid to the need to generate foreign exchange flows through exports. As a result most of Turkey's industry is characterised by high cost public sector production and dependence on both Government subsidy and a highly protected domestic market. Investment in agriculture has been neglected, foreign inward investment discouraged and Turkey's considerable tourist potential largely unexploited.

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10. Advisers and aid donors have long recommended a more open economy and a more appropriate allocation of resources, but without success. The external assistance that is eventually required to take Turkey through the short-term will be wasted unless the Turks can be persuaded to change radically their economic priorities and pre-occupation with the public sector. Only such a change can bring any hope of economic recovery and sustainable growth in the medium and longer term. This means that any assistance should include comprehensive conditionality to ensure that it is not used simply to fund a continuation of past policies. The first step must be a new agreement between the Turks and the IMF to replace the standby agreement that was negotiated in April 1978 but which lapsed after the second tranche when Turkey failed to meet a number of performance criteria. It has to be said, however, that experience of past crises is not encouraging. The Turks will undertake short-term adjustment in order to get foreign assistance. But each time a new 5-year plan appears, it is a continuation of its predecessors.

11. As for the EEC, Turkey has an Association Agreement with the Community which brings her only limited benefits although the terms are currently being improved in her favour. In some respects however the Community is taking a harder line; the Germans want to restrict Turkey's future rights to the mobility of labour, Italy and France are extremely reluctant to agree to any improved access for Turkish agricultural products and we have insisted on restricting Turkey's textile exports to the United Kingdom. Moreover financial aid in real terms has become less over the years. All in all, the Community is unlikely to appear in Turkish eyes as adopting a very helpful or generous attitude to their problems, and in truth Turkish membership of the EEC would be a major source of political embarrassment to the present members. The Turks for their part are jealous of what they see as preferential treatment of their permanent enemy, Greece; and they seem incapable of realising that joining the Common Market means what its name implies; joining a free trade area, a concept incompatible with a policy of industrialising behind a protective wall. On the other hand, if Turkey can be persuaded to make the essential changes to her economy, she could in the much longer run develop a relationship with the Community of a kind which is out of the question at present. This in turn could open up welcome new trading opportunities for the United Kingdom.

International Response to the Economic Crisis

12. Western financial institutions continued to finance Turkey's balance of payments deficit through 1977, especially through short-term loans from German, United States and Swiss banks. These largely ceased in late 1977 and dried up almost completely when the Turks defaulted on loan repayments and were unable to draw the third tranche of their IMF standby in late 1978.

13. Anxiety among western governments about the financial implications of a threat of default by Turkey and its virtual economic collapse were compounded by fears that the combinations of economic crisis and a worsening internal security situation could undermine Turkey's democracy and western commitment. Events in Iran emphasised the risks involved in allowing the situation to deteriorate further in a country as strategically important as Turkey. At the Guadeloupe Summit in January, it was agreed that Germany would take the lead over measures to help Turkey. Provided that Turkey reached agreement with the IMF, these measures would comprise immediate aid and a medium-term programme for the Turkish economy, both co-ordinated through the OECD.

14. It is not clear how much immediate assistance the Turks will need. Estimates of their net balance of payments deficit for 1979 (after crediting commercial bank lending, debt rescheduling, possible IMF support, and continuing project aid under existing programmes) are in the region of \$1 $\frac{1}{4}$ billion. The following offers of assistance have so far been made, but it is not yet clear how far they represent new money or what they mean in practice. The United States subject to congressional approval intends to contribute some \$200 million towards the immediate aid package for Turkey, (\$100 million in economic assistance, \$50 million in military equipment and \$50 million in export credits); Germany intends to contribute a commodity credit of \$100 million, which may be increased; France envisaged providing FF300 million (some \$68 million), two-thirds of it in export credits. Britain has committed £7.5 million (some \$15 million) in programme aid and has received top level approaches from both the United States and the FRG to do more. Other OECD countries have been canvassed for contributions. Some have responded positively; some have declined to participate and others have said that they will not do more than the smallest contributor from the Guadeloupe countries.

15. The Turks themselves have sought to drum up financial assistance from Arab sources, in particular Libya and Saudi Arabia. The Saudis have agreed to put up a loan of \$250 million for project aid, which however does not help with Turkey's immediate financial crisis. The Libyans have promised help with both oil supplies and credits but no firm figures are available. Turkey is the largest non-communist recipient of Soviet aid but this too is long-term project aid. The

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Russians have shown no inclination to provide financial aid. The Turks are also seeking substantial military assistance from NATO (some \$3 billion over the 5 years 1979-83). The United Kingdom is considering the offer of a small quantity of surplus military equipment. Offers of equipment and financial aid have so far been made by the USA, Germany and Norway.

The United Kingdom Position

16. In addition to the £7.5 million for immediate aid, the United Kingdom share of the EEC's various commitments to Turkey under the Third and Supplementary Financial Protocols to the EEC/Turkey Association Agreement amounts to \$100 million. To this must be added a further \$20 million as the United Kingdom share of the Community's package of emergency assistance which is being mounted alongside the Guadeloupe exercise. The EEC commitments are due to be disbursed over the next two years; and are all chargeable against the aid programme. In addition we are refinancing aid debts of £3.7 million in 1978-79 and are likely to have to provide similar amounts in the next 2 years.

ECGD Cover

17. On the export credits side, ECGD has already paid claims totalling some \$120 million and has outstanding liabilities of \$330 million. This includes some \$245 million in respect of industrial projects which have not been completed and which ECGD would not normally have continued to support, but have agreed to do so in the light of the Guadeloupe decision. All told something like \$600 million of Government money is therefore tied up in Turkey. We cannot yet say how much, if any, of this will count as aid for the purposes of the assistance package. We hope to agree on a definition at an OECD meeting on 4 May.

18. Exports credits are bound to be an important issue in any discussions on aid to Turkey. The Americans and the French are including export credits in their contributions, and are sure to raise the issue of resumption of export credit insurance cover by ECGD. ECGD's losses on Turkey are the heaviest so far encountered in its history. Turkey is not meeting all of the payments falling due under the Rescheduling Agreement and a further rescheduling of debt guaranteed by the Department - the fourth in 15 years - seems inevitable. The ECGD's basic remit is to exercise a reasonable judgment of risks and on this basis there is no prospect of an early resumption of export credit cover.

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19. Even under its Section 2 (national interest authority) ECGD is required to avoid unduly hazardous risks. Before the Export Guarantees Committee could recommend further cover, it would therefore need to be satisfied with Turkey's performance in honouring the existing debt agreement and its ability to meet further commercial payments promptly. It seems likely to be some time before these conditions could be satisfied. In the meantime the provision of export credit cover could only be regarded as a disguised (and less helpful) form of development aid. If this option were to be pursued, earlier assurances to Parliament would make it necessary to reveal publicly that ECGD was being used for aid-giving purposes.

Conclusions and Policy Options

20. British policy towards Turkey has been based on a number of British and Western interests. The crucial one is that Turkey should remain Western orientated and a member of NATO. Others are that the Turkish economy should be healthy and viable, that democracy should be preserved and that Turkey should be co-operative over a settlement of the Cyprus problem. All these interests may be at risk if the Turkish economy deteriorates further and, in particular, if balance of payments difficulties lead to further restriction of imports and to still higher unemployment. Yet, as the analysis in paragraphs 7-9 shows, the cost of underpinning the Turkish economy in the medium term would be very high. A measure of the problem is that Turkey's balance of payments deficit is currently about the same as her earnings from exports (interest payments alone amount to about a third of export earnings), and the position is expected to get worse.

21. The chances of Turkey reforming the economic policies followed for decades and in effect changing her whole economic ethos, so that balance is restored and foreign subsidies dispensed with, are poor. A full British share in the sort of medium-term aid effort likely to be required would necessitate a significant reorientation of our general aid policies and affect public expenditure priorities.

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22. The United States and Germany have both evidently concluded that Turkey's strategic importance dictates a further major attempt to bolster the Turkish economy. It is not clear that they have quantified all the implications and are prepared to provide massive aid on a continuing basis. But, in the short term at least, they have decided to take the lead over international help: they look to the United Kingdom and France, as fellow members of NATO and fellow participants at Guadeloupe, to help

23. On the face of it, the United Kingdom offer of £7.5 million will be regarded by others as derisory. We could of course argue that, taken with our other commitments to Turkey, it is not a negligible sum. But we are bound to come under further pressure from the Americans and Germans, as well as from the Turks themselves, to increase it, particularly since other potential donors, for example the Japanese and the Dutch, have said that they will not put up more than the lowest Guadeloupe contributor, and the Canadians, though willing in principle to help, are holding back until they know exactly how much the Guadeloupe Four are contributing.

24. The strategic implications of the West's willingness to aid Turkey are very important. A failure to provide aid would, following Iran, underline the West's unwillingness (or inability) to help its friends. But the bill could be very high and Western interests could remain at risk even if it is met. We could have doubts whether further United Kingdom contributions to the Save Turkey Fund would be money well spent but are unlikely to be able to avoid looking again at our offer. Tactically our best course for the moment is probably to stick to £7.5 million for the emergency aid package and take credit for our continued support of the Turkish industrial projects financed by ECGD, and for our commitments to helping other countries such as Jamaica. Before any further commitment is made to Turkey - and any larger commitment would be difficult to fit into the aid programme for 1979-80 and 1980-81 - which is already very heavily committed we should seek to establish more clearly the prospects for eventual viability in Turkey, the willingness of other Western allies to underwrite the Turks on the scale likely to be necessary and the adequacy of the overall United Kingdom effort in comparison with that of our allies.

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Timetable

25. After a break of several months, the Turks resumed negotiations with the IMF in Ankara on 25 April, with a view to putting a fresh standby agreement in place. (The Turks would have preferred a simple renewal of the interrupted programme.) A preliminary meeting of potential contributors to the emergency assistance package is likely to be called by the OECD Secretary General van Lennep on 4 May to clear up statistical and definitional problems. This would prepare for a more formal pledging conference which van Lennep hopes to hold by the end of May. All pledges would be subject to Turkey's ratifying an agreement with the IMF. A reply to President Carter's message of 24 March to Mr Callaghan urging the United Kingdom to make a larger contribution is outstanding. Chancellor Schmidt is being briefed to raise aid for Turkey at the Anglo-German bilateral planned for 10-12 May if not before. And President Carter has indicated publicly that he expects Turkey to be discussed at the Economic Summit in Tokyo in June.

Cabinet Office

4 May 1979

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PRIME MINISTER

cc. Mr. Wainwright
Mr. Ryder
Miss Stephens.

Chancellor Schmidt's Visit: Guest List

I attach, as you requested, a revised draft guest list for your dinner for Chancellor Schmidt on Thursday, 10 May. It now includes all your own suggestions.

✓ You asked for a representative of the Arts. I have consulted the F.C.O. and they agree that the most appropriate inclusion would be that of Mr. Alan Howard, who is the most distinguished actor in the Royal Shakespeare Company which is to visit Hamburg shortly - he will play Coriolanus there - and his wife.

The list now numbers 71, which is not completely impossible but a little too large for comfort. Could you agree to the omission of Mrs. Chalker? This would ease the pressure at the table ends.

Jan.

Agree to deletion of Lynda Chalker.
There are still too many.
Cut out Mr. & Mrs. Peter Baker.
- now that he has been
appointed to F.O. We have
found others for there.

5 May 1979

B

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Ref. A09461

PRIME MINISTER

Meeting with Chancellor Schmidt

When I saw you at the start of the Election campaign you agreed that the provisional arrangements for Chancellor Schmidt's visit on 10th-11th May should stand provided you were able to fly to Scotland during the afternoon of 11th May.

2. The visit begins with a restricted discussion and dinner on the evening of 10th May: continuing with a plenary session, Press conference and lunch on 11th May. You would then fly to Scotland while Chancellor Schmidt would go to Oxford for the Honorary Degree ceremony.

3. No. 10 will be consulting you about the administrative and hospitality arrangements: and the briefs for the meeting are ready for you to read as soon as you have time. This submission raises a different point on which an early decision would be helpful.

4. There is now a well-established pattern whereby the Federal German Chancellor makes a working visit to this country each year and the Prime Minister pays a return visit. Similarly there is an annual bilateral with President Giscard. Apart from the valuable personal contacts which these visits provide, they also have a wider significance. Under the Franco-German Treaty, signed by Chancellor Adenauer and President de Gaulle, there is a large and formal Franco-German meeting every six months when the Head of Government is accompanied by a large number of his Ministers and senior officials. These meetings, apart from their symbolism, have had practical advantages. Because other Ministers and officials have been there to hear the results of discussions between the two leaders (and vice versa) the meetings have led to effective follow-up of decisions reached: and the personal contacts made have led to much closer direct dealing (e. g. over the telephone) between the two Administrations. We do not need anything as elaborate as this. But our bilaterals with France and Germany are important in maintaining relations between the three countries on a triangular basis. This is why the pattern has been developed of the Head of Government being accompanied by a small team of Ministers and senior officials.

CONFIDENTIAL

Thus while you have your tete-a-tete with Chancellor Schmidt the other Ministers have bilaterals and then all concerned join in a plenary. As host it is for you to decide which of your colleagues you wish to include. Depending on the appointments you make I suggest that you might want to be accompanied by the Foreign Secretary, the Chancellor of the Exchequer and the Secretary of State for Defence. The Foreign Secretary and the Chancellor are obvious choices, but at the present time there are a number of important issues in the defence field (e.g. SALT and grey areas) where a discussion between Defence Ministers would be particularly valuable. It will be important for us to let the Germans know your wishes very quickly so that they can make matching dispositions.

Worried about Treasury

5. Finally I should perhaps mention one other point. In the case of major Heads of Government visits (inward or outward) I would normally talk to Sir Michael Palliser and the other Permanent Secretaries concerned a few weeks in advance and then submit to you "objectives" on the scope and purpose of the visit. This enables you to express your wishes at a sufficiently early stage for account to be taken of them in the briefing process and other arrangements. On this occasion we have, of course, had to anticipate your wishes on the assumption that the main purpose of the visit will be to establish a rapport with Chancellor Schmidt rather than to conduct substantive negotiations.

John
(John Hunt) 4/5

We need to take a preliminary view on E.M.S. before the meeting, otherwise we shall be in a weak position.

N.B. I note the observations on the value of these visits contained in para 4 but there are really too many of them. Perhaps I can judge better after a few have been held.

John

PRIME MINISTER

Chancellor Schmidt's Visit: 10/11 May

[A] I attach in the folder below the briefs for your discussions with Chancellor Schmidt on 10 and 11 May. I also attach a suggested programme for the visit. This minute goes through the programme in more detail and identifies some points on which it would be very helpful to have your decisions.

Briefing Meeting

You may find it useful to have a briefing meeting in advance of the visit, which would be attended by the Ministers and senior officials directly involved, in order to discuss the handling of the talks and raise any questions which you may have after reading the briefs. If you would like to do this, a possible time would be 17³⁰ on Wednesday 9 May (the meeting need not last for more than 45 minutes).

Agreed mt.

Arrival

Would you like to ask the Foreign and Commonwealth Secretary to meet Chancellor Schmidt and the other German Ministers at the Airport on their arrival and escort them to No. 10?

Yes please mt.

There will be intense press interest in the visit and a large number of cameramen in Downing Street to photograph the Chancellor's arrival: it would be appropriate for you to meet Chancellor Schmidt at the Front Door and stand on the step with him for a minute or two for photographs. You could then bring him into the Front Hall for a more formal photocall. ✓

Talks

Your first session of talks with Chancellor Schmidt, immediately following his arrival, could either be tête à tête, with only note-takers present, or à quatre with the Foreign and Commonwealth Secretary and Herr Genscher present as well. Which would you prefer? (If you prefer a tête à tête, the two Foreign Ministers could have their own tête à tête meeting in the Foreign and Commonwealth Office at the same time.) Finance Ministers and (if you accept Sir John Hunt's recommendation that they should take

/part)

See his minute at flag B

part) Defence Ministers would also be having their own bilaterals during this period. ✓

The main purpose of the plenary session of talks, which could be held in the Cabinet Room at 1030 on Friday 11 May and which would be attended by all the members of both delegations, will be to summarise the results of the various bilaterals between Ministers and to identify points for action which need to be followed up by Ministers.

Dinner

A guest list for your dinner for Chancellor Schmidt on Thursday 10 May is being submitted to you separately.

Would you like to make a short speech before proposing the Chancellor's health? In view of the publication of the Conservative Party's European Manifesto four days later, this could be a good occasion on which to set the tone and style for the Government's approach to EEC matters; against the possibility that you might wish to use it in this way, a draft speech with a European emphasis is in preparation and will be submitted to you separately.

Lunch

The lunch on Friday 11 May will be much more of a working occasion (Ministers and officials, no wives) and it would be appropriate on this occasion to make a shorter speech with the emphasis on Anglo/German relations and bilateral matters. Draft speaking notes are in preparation.

Press Conference

The choice of the cinema in Millbank Tower for the Press Conference is dictated both by proximity and by the fact that good facilities for TV etc. are available there. If you agree, you and Chancellor Schmidt, with your Foreign Ministers and Press Secretaries, will be seated at a table on the stage, with the other Ministers from both sides seated on chairs just behind you. You would open the Press Conference with a short statement summarising the outcome of the talks (draft in preparation): Chancellor Schmidt

short - speech.

/would then

*Tharleyon.
Has the Chancellor got a sense of humour?*

would then reply with a similar statement and the rest of the Conference would be question and answer.

Chancellor Schmidt's Visit to Oxford

Ne I assume that, because of the pressure of other business, you will not wish to accompany Chancellor Schmidt to Oxford on the afternoon of 11 May in order to be present at the conferment of his honorary degree by the Chancellor of the University, Mr. Macmillan (although it would of course be very greatly appreciated if you were able to spare the time for this). If you cannot go, would you like to ask the Foreign and Commonwealth Secretary or another Minister to escort the Chancellor to Oxford? This is not essential (no Minister accompanied Herr Brandt on a similar occasion a few years ago) but if a Minister can be spared it would be an appropriate courtesy.

Douglas Hand?

Bynd.

(Bryan Colledge)

4 May 1979

DRAFT PROGRAMME FOR CHANCELLOR SCHMIDT'S VISIT, 10-11 MAY 1979

Thursday 10 May

- 1650 Chancellor Schmidt, Herr Genscher, Herr Matthoefer, Herr Apel plus Private Secretaries and advisers, arrive at Northolt.
Met by Foreign and Commonwealth Secretary.
- 1655 Helicopter to Kensington Palace Gardens
- 1710 Arrive Kensington Palace Gardens and drive (with police escort) to 10 Downing Street.
- 1730 Chancellor Schmidt and Herr Genscher, escorted by Foreign and Commonwealth Secretary, arrive at No. 10.
Photocalls on front step and in Front Hall.
Herr Matthoefer to No. 11 Downing Street for introductory session of talks with Chancellor of the Exchequer.
Herr Apel to Ministry of Defence for talks with Defence Secretary.
- 1745 First session of talks in White Drawing Room: Prime Minister, Chancellor Schmidt, Foreign and Commonwealth Secretary and Herr Genscher.
- 1845 Chancellor Schmidt and Herr Genscher leave No. 10 for the Carlton Tower Hotel to change for dinner.
- Chancellor Schmidt and his party return to No. 10.
- 2000 for 2015 Dinner for 66 guests (with wives) in State Dining Room (black tie).
Short speeches.
- 2300 approx. Chancellor Schmidt and his party take their leave.
Overnight at Carlton Tower Hotel.

Friday 11 May

- 1030 Plenary session of talks at 10 Downing Street (Cabinet Room) attended by Ministers and officials of both delegations.
- 1145 Plenary session ends.
Leave No. 10 by car for Millbank Tower
- 1200 Press Conference in Millbank Tower Cinema
- 1245 Return to No. 10 by car
- 1300 Lunch in State Dining Room for both delegations
- 1430 approx. Chancellor Schmidt takes his leave. Later, Chancellor Schmidt, escorted by the Minister of State, FCO, drives to Oxford for conferment of Honorary Degree.

A

DRAFT PROGRAMME FOR CHANCELLOR SCHMIDT'S VISIT, 10-11 MAY 1979

Thursday 10 May

- 1650 Chancellor Schmidt, Herr Genscher, and Herr Matthoefer, plus Private Secretaries and advisers, arrive at Northolt. *Herr Anel*
- 1655 Helicopter to Kensington Palace Gardens,
- 1710 Arrive Kensington Palace Gardens and drive (with police escort) to 10 Downing Street.
- 1730 Chancellor Schmidt and Herr Genscher, escorted by Foreign and Commonwealth Secretary, arrive at No.10.

Photocalls on front step and in Front Hall.

Herr Matthoefer to No. 11 Downing Street for introductory session of talks with Chancellor of the Exchequer. *Herr Anel to Ministry of Defence for talks with Defence Secretary.*

- 1745 First session of talks in White Drawing Room: *Prime Minister,* tête-à-tête or à quatre with Foreign Ministers. *Chancellor Schmidt, Foreign & Commonwealth Secretary and Herr Genscher.*
- 1845 Chancellor Schmidt and Herr Genscher leave No. 10 for the Carlton Tower Hotel in order to change for dinner.
- 2000 for Dinner for 66 guests (with wives) in State Dining Room (black tie). *Chancellor Schmidt and his party return to No. 10*

Short speeches

After dinner: further private talk with Chancellor Schmidt if required.

- 2300 approx. Chancellor Schmidt and his party take their leave.

Overnight at Carlton Tower Hotel.

Friday 11 May

- 1030 Plenary session of talks at 10 Downing Street (Cabinet Room) *attended by Ministers & officials of both Delegations.*
- 1145 Plenary session ends.
Leave No. 10 by car for Millbank Tower
- 1200 Press Conference in Millbank Tower Cinema
- 1245 Return to No. 10 by car
- 1300 Lunch in State Dining Room for both delegations
- 1430 Chancellor Schmidt takes his leave. Later, Chancellor Schmidt, escorted by the FRG Ambassador, drives to Oxford for conferment of Honorary Degree. *Minister of State, FCO,*

(approx)

cc Mr. Ryder
Miss Stephens

1

PRIME MINISTER

was seen and
discussed.

C.A.
B.G.
4/5

Guest List for your Dinner
for Chancellor Schmidt on 10 May

I attach below a draft guest list for your dinner for Chancellor Schmidt next Thursday. I have consulted Mr. Stanley, Mr. Ryder and Miss Stephens and it incorporates their suggestions, as well as those of the Foreign and Commonwealth Office.

The maximum capacity of the State Dining Room for a formal dinner is ~~60~~⁶⁸ and the guest list amounts to exactly that number. I have attached behind it a short separate list of reserves: you may of course wish to promote some of these to, and remove others from, the main list.

So that we can get the invitations out as quickly as possible, it would be very helpful to have your approval of the list over the weekend.

B.G.

(B. G. CARTLEDGE)

4 May 1979

DRAFT GUEST LIST FOR THE PRIME MINISTER'S GUEST LIST, THURSDAY 10 MAY
AT 20.00 FOR 20.15 (BLACK TIE)

Chancellor Schmidt's Party

Herr Helmut Schmidt, Federal Chancellor
Herr H. Genscher, Foreign Minister
Herr H. Matthofer, Minister of Finance
Herr M. Schuler, State Secretary
Herr K. Bolling, State Secretary
Dr. J. Ruhfus, Deputy Under-Secretary of State
Dr. K. Zeller, Head of Department
Herr K. Blech, Deputy Under-Secretary of State
Herr H. W. Lautenschlager, Deputy Under-Secretary of State
Herr H. H. Horstmann, Foreign Ministry
Private Secretary, Dr. H. J. Petersmann
Herr H. Weber, Interpreter for Herr Genscher
Official ~~Civil Servant~~ from Ministry of Finance (as yet unnamed)
His Excellency Herr Hans Hellmuth Ruete and Frau Ruete

* * * * *

The Prime Minister and Mr. Thatcher
Miss Carol Thatcher
Mr. Mark Thatcher
Foreign and Commonwealth Secretary and wife
Chancellor of the Exchequer and wife
Secretary of State for Defence and wife
~~Minister of State, Foreign and Commonwealth Office, responsible for
European Affairs~~ *Lord Privy Seal and Lady Gilmore*

Mr. K. R. Stowe and Mrs. Stowe
Mr. Henry James and Mrs. James
Mr. David Wolfson *and Mrs. Wolfson*
Mr. Richard Ryder
~~Mr. Adam Ridley~~ *(Next time)*
Mr. Bryan Cartledge and Mrs. Cartledge

U.K. Officials

The Secretary to the Cabinet and Lady Hunt
Sir Michael and Lady Palliser (Permanent Under-Secretary, FCO)
Sir Douglas and Lady Waiss (Permanent Secretary, H.M. Treasury)
Sir Oliver Wright and Lady Wright (H.M. Ambassador in Bonn)

The Governor of the Bank of England *and Mrs Richardson.*

~~Lord and Lady Soames~~

Sir Anthony Royle M.P. and Lady Royle
~~Mr. Eldon Griffiths M.P. and Mrs. Griffiths~~ *Peter & Mrs. Walker.*
Sir Bernard Braine M.P. and Lady Braine
Mrs. Lynda Chalker M.P. ~~and Mrs. Chalker~~ *Douglas Hardy*
~~Professor Hugh Thomas and Mrs. Thomas~~ *and Mrs. Thomas*

~~Sir John Methven and Lady Methven (Director General, CBI)
Mr. Len Murray and Mrs. Murray (General Secretary, TUC)~~

The Rt. Hon. W. F. Deedes and Mrs. Deedes (Editor, Daily Telegraph)

~~Mr. Larry Lamb and Mrs. Lamb (Editor, the Sun)~~

~~Mr. William Rees Mogg and Mrs. Rees Mogg (Editor, The Times)~~

~~He and Mrs. Victor Hatherly~~

+ One couple from Reserves.

RESERVES

Professor and Mrs Hugh Thomas.

Mr. and Mrs. Julian Bullard (Deputy Under-Secretary, FCO)

✓ Air Chief Marshall Sir Neil Cameron and Lady Cameron (Chief of Defence Staff)

Sir Kenneth Keith and Lady Keith (Chairman, Rolls Royce)

Sir Barrie Heath and Lady Heath (Chairman, GKN)

Sir David Steel and Lady Steel (Chairman, BP)

Mr. and Mrs. M.A.E. Hodgson (Chairman, ICI)

Sir Frank Roberts and Lady Roberts (Chairman of the British Steering Committee, Königswinter Conference)

Sir David Barran and Lady Barran (Deputy Chairman, Anglo-German Foundation)

Sir Rex Richards (Vice Chancellor, Oxford University)

Mr and Mrs Raes-Mogg

Nancy Sitt + Lily.

(Sir Nancy or Lady Sitt)

010
Brown leather book

N:10



With the compliments of
PROTOCOL AND CONFERENCE DEPARTMENT
CONFERENCE SECTION

L. C. Pawley

FOREIGN AND COMMONWEALTH OFFICE
LONDON, SW1A 2AH

415/A9

ADMINISTRATIVE PLAN FOR THE VISIT OF THE CHANCELLOR OF
THE FEDERAL REPUBLIC OF GERMANY, HIS EXCELLENCY HERR HELMUT
SCHMIDT TO THE UNITED KINGDOM FOR THE ANGLO/GERMAN SUMMITTY
10 - 12 MAY 1979

1. PROGRAMME

Details of the programme are shown at Annex 1.

2. MEMBERS OF THE OFFICIAL PARTY WHO ARE GUESTS OF HMG

Details of those accompanying the Chancellor are shown at Annex 2.

3. ARRIVAL ARRANGEMENTS

All arrivals will take place at RAF Northolt, West End Road, Ruislip, Middlesex.

(a) Chancellor Schmidt will arrive by special aircraft ~~from~~ at 1750 hours on Thursday 10 May.

(b) He will be welcomed on arrival by
The Secretary of State for Foreign and Commonwealth Affairs ?
The Ambassador of the Federal Republic of Germany
HM Ambassador Bonn
Station Commander, Northolt

Detailed arrival arrangements are shown at Annex 3.

4. NO 10 DOWNING STREET

Plenary Session talks will take place at No 10 on Friday 11 May. Details are shown at Annex 1.

5. INTERPRETERS

ONE - arranged for Herr Genscher, Foreign Minister.

6. PRESS ARRANGEMENTS

Arrangements for the press are being coordinated by Mr C Anson (No 10 Press Office). There will be a press conference at 1200 hours on Friday 11 May at Millbank Tower, preceded by a photocall at No 10 Downing Street on the evening of Thursday 10 May.

7. TRANSPORT

Two Helicopters (if necessary) and Cars. GHF will arrange.

8. ACCOMMODATION ARRANGEMENTS

For details of accommodation arrangements see Annex 4.

9. SECURITY ARRANGEMENTS

(a) Inspector Jack Russell and Inspector David Williams, Special Branch, will be in charge of the personal security arrangements for Chancellor Schmidt throughout his stay.

(b) The Chancellor will be accompanied by a motor-cycle escort when travelling by road.

(c) Car stickers will be issued by Protocol and Conference Department, FCO for any officials going to No 10 Downing Street

10. DEPARTURE ARRANGEMENTS

The German delegation will leave for(Bonn?) from RAF Northolt at approximately 1900 hours on Friday 11 May.
Details of the departure arrangements are shown at Annex 5.

PROGRAMME

Thursday 10 May

- 1750 hours Chancellor Schmidt will arrive by special flight at RAF Northolt.
- 1755 Leave for Central London by helicopter *or cars*.
- (Note. The German Embassy have asked for helicopters to be used if possible for security reasons.)
- 1810 Arrive at Kensington Palace Gardens.
- 1815 Leave Kensington Palace Gardens by car for No. 10 Downing Street.
(with police escort)
- 1830 Chancellor Schmidt and Herr Genscher, escorted by the Secretary of State for Foreign and Commonwealth Affairs, arrive at No. 10.
- 1830 ~~Count~~ Herr Matthoefer drive to No. 11 Downing Street for introductory talks with the Chancellor of the Exchequer.
- 1830-40 Photocall
- 1845-1945 First session of talks in the White Drawing Room:
The Prime Minister, Chancellor Schmidt, the Secretary of State for Foreign and Commonwealth Affairs, Herr Genscher and notetakers
- 1945 for Dinner for 60 guests (with wives) in the State Dining Room.
- 2000 (the geographical Dept. have been asked to produce 60 names plus 20 reserves).
- 2230 approx Chancellor Schmidt and his party take their leave.
- Return to the Carlton Tower Hotel where accommodation has been reserved.
- (GHF have reserved 5 suites and up to 30 single rooms.)

Friday 11 May

- 1015 Leave the hotel for No. 10 Downing Street.
- 1025 Arrive at No. 10 Downing Street
- 1030-1145 Plenary talks in the Cabinet Room.

(Note. It is not envisaged that there will be any separate discussions between Ministers as there was in 1978)

- 1145 Leave by car for Millbank Tower
- 1200 Press conference in the Millbank Tower Cinema
- 1245 Return to No. 10 by car.
- 1300 Lunch in the State Dining Room for both delegations.
- 1430 Leave for Carlton Tower Hotel
- 1435 Arrive at the hotel.

Note. The Germans may wish to use this free hour for a press conference with German newsmen)

- 1550 Leave hotel by car for Kensington Palace Gardens.
Leave by helicopter for Oxford.

(Note. There was some uncertainty about whether or not the Finance Ministers would arrive on Friday morning.

It seems unlikely that any senior Conservative Ministers would accompany the Chancellor to Oxford. Mrs Thatcher will be going to Scotland that week-end. by air from Northolt for the Scottish Conservative Party Conference.)

- 1630 Chancellor Schmidt arrives in Oxford.
Received by the Chancellor of the University, the Vice Chancellor and others.
Tea in the Bodleian Curator's Room.
- 1700 Conferment of Chancellor Schmidt's Honorary Degree in the Sheldonian Theatre.
- 1720 Procession from the Sheldonian Theatre to the Bodleian Quadrangle.
Drive to Christ Church.
- 1730 Reception in Christ Church Library.
- 1830 Chancellor Schmidt takes leave of the Chancellor of the University
- 1835 Leave Oxford by helicopter for RAF Northolt.
- 1900 Arrive RAF Northolt
Departure for Bonn.

MEMBERS OF THE OFFICIAL PARTY WHO ARE GUESTS OF HMGPROVISIONAL
Delegation List

2 Chancellor Schmidt
 Herr Genscher
Office of the Federal Chancellor

Undersecretary of State Schüler
 Undersecretary of State Bölling
 Deputy-Undersecretary of State Dr. Ruhfus
 Head of Department Dr. Zeller
 9 Five Security People

Auswärtiges Amt

Deputy-Undersecretary of State Dr. Blech
 Deputy-Undersecretary of State Dr. Lautenschlager
 One Private Secretary
 One Press Secretary
 1st Secretary Horstmann (UK Desk)
 One Interpreter
 One Conference Secretary
 12 Five Security Men

Federal Minister of Finance

Mr. Matthöfer, Federal Minister
 One Civil Servant of the Ministry of Finance
 5 Three Security Men

ARRIVAL ARRANGEMENTS

Thursday 10 May

Chancellor Schmidt will arrive at RAF Northolt by special aircraft at 1750 hours approximately.

He will be greeted on arrival by:

? The Secretary of State for Foreign and Commonwealth Affairs
The Ambassador of the Federal Republic of Germany
HM Ambassador, Bonn
Station Commander, Northolt

1755 hours. The Chancellor and ? members of this delegation will travel from Northolt to Central London by ? Helicopter,
? Cars

ACCOMMODATION ARRANGEMENTS

Nights of Thursday 10 ^{MAY}

CENTRAL LONDON

Accommodation has been arranged at Carlton Tower Hotel.

DEPARTURE ARRANGEMENTS

The German delegation will depart from RAF Northolt at 1900 hours on
Friday 11 MAY.

They will be seen off by:

- The Secretary of State for Foreign and Commonwealth Affairs ?
- The Ambassador of the Federal Republic of Germany
- H.M. Ambassador, Bonn
- Station Commander, Northolt.

MISS METCALFE
Mr. R.W. de BERRY
For information.
NB

Reference

Chancellor Schmidt + Viewt
10-11 MAY

A meeting will be held at
1030 hr. TUESDAY 8 MAY for all concerned
to finalize the programme attached.

The meeting will be held in Room 44/11
Great George St.

LoPawby $\frac{4}{5}$
Viewt Sect -
P. + C. D.

Attending: Mr. CARLDSW No. 10.
Mr. ANSON (Press) "
Mr. RYLANDS (Security) "
Mr. NADIT WED.
Mr. STANTON. NAVY D.
Mr. DEN P.V.C.D.
Mr. TAYLOR G.H.F.
ESCOUR OFFICER "
INSP. DAVID WILLIAMS SPECIAL BRANCH.
Mr. Thomas MATUSSEK. 1st Sec. F.R.G.
TWO OTHERS FROM AMBASSY (PRESS)
Mr. L.C. PAULBY P.C.D.

-4 MAY 1979



Top copy with Sue Goodchild



Foreign and Commonwealth Office

London SW1A 2AH

4 May 1979

Dear Bryan,

Prime Minister's Dinner for Chancellor Schmidt:
10 May

You asked the department for a draft guest list for the Prime Minister's dinner for Chancellor Schmidt on 10 May.

I attach a draft. We have attempted to grade potential guests in declining order of importance from A, those who would almost certainly have to be invited, to C, whose attendance is desirable but not absolutely necessary. There are 41-43 names under the A heading and the spread results from our uncertainty as to whether any of the FRG Ministers will be accompanied by their wives. There are 24 names in category B and 31 in C.

Yours etc

P Lever
Private Secretary

Bryan Cartledge Esq
10 Downing Street

GUEST LIST FOR DINNER (STATE DINING ROOM)

THURSDAY: 10 MAY 2000 HOURS

FRG

- A Herr Helmut Schmidt, Federal Chancellor (~~&? Frau Schmidt~~)
A Herr H Genscher, Foreign Minister (~~&? Frau Genscher~~)
A Herr H Matthöfer, Minister of Finance (~~&? Frau Matthöfer~~)

Federal Chancellery

- A Herr M Schüller, State Secretary
A Herr K Bölling, State Secretary
A Dr J Ruhfus, Deputy Under-Secretary of State
EA Dr K Zeller, Head of Department

Foreign Ministry

- A Herr K Blech, Deputy Under-Secretary of State
A Herr H W Lautenschlager, Deputy Under-Secretary of State
A Herr H H Horstmann, Foreign Ministry
EA Private Secretary, Dr H J Petersmann
C Press Secretary, Dr J Sudhoff
A Herr H Weber, Interpreter for Herr Genscher
C Conference Secretary (as yet un-named)

Finance Ministry

- A Civil Servant from Ministry of Finance (as yet un-named)

West German Embassy

- A HE Herr Hans Hellmuth Ruete, GCVO and Frau Ruete
B. Dr Alfons Böcker, Minister Plenipotentiary and Frau Böcker

A
B
C

UK

- A Prime Minister and Mr Thatcher
A Foreign ^{Cush} Secretary and wife
A Chancellor of Exchequer and wife
A Secretary of State for Defence and wife

Cabinet

- A Sir John Hunt and Lady Hunt
C Sir Kenneth Berrill and Lady Berrill

FCO

- A Sir Michael Palliser and Lady Palliser
B Mr Julian Bullard and Mrs Bullard

Treasury

- A Sir Douglas Wass and Lady Wass

No 10

- A Mr K R Stowe and Mrs Stowe
A Mr and Mrs B G Cartledge
A Prime Minister's Press Secretary and wife

British Embassy, Bonn

- A Sir Oliver Wright and Lady Wright

Bank of England

- A Rt Hon Gordon Richardson and Mrs Richardson

Chief of Defence Staff

- C Air Chief Marshal Sir Neil Cameron and Lady Cameron

Economic

German Chamber of Industry & Commerce

~~C~~ Herr K Balzer and Frau Balzer (Director)

ICI

B Mr M A E Hodgson and Mrs Hodgson, (Chairman)

Rolls Royce

B Sir Kenneth Keith and Lady Keith (Chairman)

GKN

B Sir Barrie Heath and Lady Heath (Chairman)

BP

B Sir David Steel and Lady Steel (Chairman)

CBI

A Sir John Methven and Lady Methven (Director-General)

TUC

A. Mr Len Murray and Mrs Murray (General Secretary)

a = 1
b = 1
c = 2

PARLIAMENTARIANS AND OTHERS INTERESTED IN ANGLO GERMAN RELATIONS

Prominent members of the Opposition

Rt Hon James Callaghan MP and Mrs Callaghan

Rt Hon Denis Healey MP and Mrs Healey

Rt Hon David Owen MP and Mrs Owen

(i) Anglo-German Parliamentary Group

Chairman

A Sir Bernard Braine MP and Lady Braine

Secretary

C Mr Raymond Fletcher MP and Mrs Fletcher

Member

C Mrs Lynda Chalker MP and Mr Chalker

(ii) MPs and Personalities who have attended Königswinter Conference on Anglo German Relations

~~Rt Hon Shirley Williams~~

B Mr David Howell MP and Mrs Howell

B Sir Frank Roberts and Lady Roberts, Chairman, British Steering Committee, Königswinter Conference

(iii) Anglo German Foundation

B Sir David Barran and Lady Barran (Deputy Chairman)

(iv) Academic

C Lord Bullock and Lady Bullock (Oxford University)

Press and Broadcasting

BBC

C (Mr Ian Trethowan and Mrs Trethowan (Director General))

Daily Telegraph

C Rt Hon W F Deedes and Mrs Deedes (Editor)

Observer

C [Dr Conor Cruise O'Brien and (?) Mrs O'Brien (Editor in Chief)]

Times/Sunday Times

C Mr and Mrs William Rees Mogg

C [Mr and Mrs Frank Giles]

Economist

C [Mr Andrew Knight and Mrs Knight (Editor)]

The Financial Times

C [^{Max} Mr Fisher and Mrs Fisher (Editor)]

A = 0
B = 1
C = 10

ant

PRIME MINISTER

I attach copies of the initial briefing and submissions from Sir John Hunt and Sir Ian Bancroft, together with briefing for Chancellor Schmidt's visit.

I have divided this material into three groups:

- (i) In the manilla folders are separate submissions from Sir John Hunt and Sir Ian Bancroft on a number of matters on which early decisions are desirable, so that action can be set quickly in hand. The most important is that dealing with The Queen's Speech.
- (ii) In the maroon folders you will find (a) briefs from Sir John Hunt on a variety of urgent policy matters, including economic, home and foreign issues; and (b) briefing on Chancellor Schmidt.
- (iii) Some highly classified material on certain other matters is in a separate box. *in my room.*

KRS

4 May 1979

END

Filmed at the National
Archives (TNA) in London

February 2010