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PREM 19/762

Part 1

Confidential Filing

Anglo | German Relations

[Meeting between Chancellor Schmidt  
and Foreign Secretary in Bonn  
26.2.80]

GERMANY

July 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>6.7.79</del>		<del>25.6.81</del>					
<del>25.9.79</del>		<del>_____</del>					
<del>26.2.80</del>		<del>20.7.81</del>					
<del>28.2.80</del>		<del>24.7.81</del>					
<del>12.3.80</del>		<del>25.8.81</del>					
<del>18.3.80</del>		<del>10.9.81</del>					
<del>9.9.80</del>		<del>13.10.81</del>					
<del>24.11.80</del>		<del>15.1.82</del>					
<del>25.11.80</del>		<del>19.1.82</del>					
<del>2.11.80</del>		<del>8.2.82</del>					
<del>7.1.81</del>		<del>15.2.82</del>					
<del>4.2.81</del>		<del>19.2.82</del>					
<del>25.2.81</del>		<del>8.3.82</del>					
<del>6.3.81</del>		— Pt Ends —					
<del>9.4.81</del>							
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<del>15.4.81</del>							
<del>24.4.81</del>							
<del>1.5.81</del>							

PREM 19/762

PART 1 ends:-

Danish PM to PM + att T31A/82 19.2.82

PART 2 begins:-

PM to Danish PM T40/82 8.3.82

## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Cmd. 8240: Treaty Series No 28 (1981)

Convention between UK and GDR regarding  
legal proceedings in civil matters.

HMSO, May 1981

Signed Wayland Date 30 August 2012

**PREM Records Team**

SUBJECT

Copy  
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T 31A/82  
cc Minister  
aps

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 31A/82

Copenhagen, February 19th, 1982

CABINET OFFICE  
A 838  
23 FEB 1982  
FILING INSTRUCTIONS  
FILE No. ....

Dear Prime Minister Margaret Thatcher,

I have received a letter from Federal Chancellor Helmut Schmidt in which he presents an account of the latest initiatives in the Federal Republic's economic policy. In Denmark, too, the Government has given serious attention to the question of increased economic activity in Europe with the aim of combating unemployment. We are keenly aware that all the EC Governments are giving high priority to this question and I have therefore answered Mr. Helmut Schmidt's letter by the letter of which a copy is enclosed.

./.

As will be seen from my letter, it would be of great interest to the Danish Government if the next meeting of the European Council could be devoted entirely to this topic. In my view it would be extremely important if we could agree on some assessments that could lead to increased economic activity. It is essential that the efforts to this end of all the ten Member States be coordinated because they would then have greater effect.

Sincerely yours,

signed Anker Jørgensen

Encl.

The Right Honourable Margaret Thatcher  
Prime Minister of the United Kingdom

Copenhagen, February 19, 1982

Dear Helmut,

Thank you for your letter informing me about the Federal Government's latest initiatives in economic policy. I realize that in both political and economic regards there was much difficulty in having the programme accepted. I, therefore, greatly appreciate the result achieved.

Taking the German initiative as a point of departure, I wish to point to the need for intensified and concerted efforts in the community framework to improve the economic and social situation. It is shocking to note that there are at present over 10 million unemployed in the ten Member States taken together.

I am fully aware that all the Member States are giving serious attention to this problem. The economic recession is in the focus of the political problems facing our countries. Undoubtedly, we are each in our own ways doing what is politically feasible to reverse the trend. We all know that behind these alarming figures lie human tragedies and frustrations which cannot be expressed in statistical data, but which inevitably undermine the trust which is a fundamental factor in the democratic social system.

At the same time, unemployment represents a waste of economic resources which seems meaningless in consideration of the many unaccomplished social tasks facing our respective countries, not to mention the world outside the Community.

The unemployment situation has reached the point of overshadowing all other problems confronting us in European and economic policies. I quite agree with the Belgian Presidency in underscoring as a matter of first priority in the programme of action that we must pursue a policy designed to promote investment, increase production and create new jobs.

I have noted with great interest that several Member States now seem to advocate and have come forward with proposals for a more expansive policy. It is, I am sure, correct that it will be easier for some countries than for others to step up activity. But it is crucially important that we coordinate our efforts and pursue a policy with a common aim. If only a single country expands, the cost will be high and the result of limited scope. A common effort would make for reciprocal strengthening while diminishing the drawbacks for the individual country.

H.E. Mr. Helmut Schmidt  
Chancellor of the Federal Republic of Germany

In my assessment, intensified efforts should notably focus on three aspects. First, employment could be increased direct through larger public and private investments. A substantial portion of the cost of financing public investment would be offset by reduction of unemployment benefits and increased tax revenue. In that event the need for loan financing would be less than would seem to be the case on the face of it. Second, we must improve industrial competitiveness and meet the challenge facing us, notably from Japan. We should, therefore, through economic policy and direct public sector efforts, seek to promote technological development. Increased investment activity may be a strain on the balance-of-payments, but concerted efforts would reduce this problem as far as intra-community trade is concerned. Energy imports continue to be a major item having an adverse effect on the Community's external balance. Therefore, third, a fresh initiative should include elements of energy policy aimed at conservation, and development of alternative sources of energy.

I hope that the next meeting of the European Council will provide opportunity for an in-depth discussion of co-ordinated action in economic policy. We must reach agreement on means to bring about a marked increase in employment and investment towards the end of this year and in 1983.

Such agreement is indispensable for enabling us to build up and strengthen, step by step, the optimism and trust among our peoples which is a first essential for attaining the intended results. At the same time, it would strengthen the faith in the European co-operation.

I have sent a copy of this letter to the other Members of the European Council.

Sincerely yours,

signed Anker Jørgensen



349  
135/82  
Action taken in advance copy.  
P.a.  
A-F-C 3/3  
Copenhagen, February 19th, 1982

Germany

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Sincerely yours,

Aukerjansen

The Right Honourable Margaret Thatcher  
Prime Minister of the United Kingdom  
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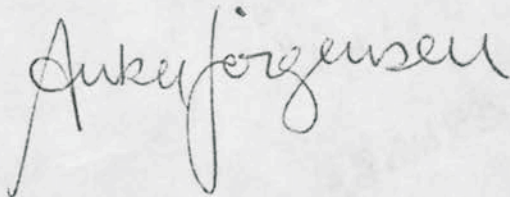
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I have sent a copy of this letter to the other members of the European Council.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Aukey Jensen". The signature is written in dark ink and is positioned below the typed name.

H.E. Mr. Helmut Schmidt  
Chancellor of the Federal Republic  
of Germany

1 2 3 4 5 6 7 8 9 10 11 12

3 MAR 1982

SUBJECT



cc Master Ops

Germany JD

cc FO

10 DOWNING STREET

THE PRIME MINISTER

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 30/87

My dear Chancellor,

Thank you for your message of 6 February, in which you explain the details of the initiative for employment, growth and stability announced by your Government last week. I am encouraged by your continuing commitment to the fight against inflation, to improving the economic environment for the private sector and to bringing about necessary structural change. Only in this way can competitive jobs be created and sustainable recovery achieved.

I share your belief in the need for lower interest rates and your emphasis on the budgetary discipline this requires. This is a path we have tried to follow in the more difficult circumstances of the United Kingdom, and the benefits of doing so are at last becoming apparent.

Within the constraints imposed by the over-riding need for budgetary discipline, we too have given priority to assisting small businesses, improving training opportunities for young people, and promoting technical innovation.

World economic conditions, particularly the continued high level of interest rates, are not working in our favour at the moment. However, the signs for recovery in the German and British economies during this year are encouraging. I am very conscious that the best way to attenuate the effect upon us of high interest rates elsewhere is to pursue a sound strategy at home.

/ I agree

RM

I agree strongly with you that we must keep markets open, particularly within the Community, and take account of each others interests. I welcome the importance which you attach to our close cooperation in these matters.

I look forward to the opportunity of pursuing our discussions when we meet next month.

*Yours sincerely*

*Margaret Thatcher*

---

His Excellency Herr Helmut Schmidt

February, 1982

*Germany*



Foreign and Commonwealth Office

London SW1A 2AH

15 February 1982

*Please type letter*

*AR 15.2*

*Dear John,*

Message from Herr Schmidt

As requested in your letter of 8 February, I enclose a draft reply, agreed with the Treasury, for the Prime Minister to send in response to Herr Schmidt's message of 3 February. This could best be routed via HM Ambassador, Bonn.

I am sending a copy of this letter to John Kerr (HM Treasury).

*Yours over.*

(F N Richards)  
Private Secretary

A J Coles Esq  
10 Downing Street



DRAFT

NE.  
Herr Helmut Schmidt  
From the Prime Minister

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I look forward to the opportunity of pursuing our discussions when we meet next month.



15 FEB 1982

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*File 1/0*  
*Germany*

10 DOWNING STREET

*From the Private Secretary*

8 February 1982

MESSAGE FROM HERR SCHMIDT

I enclose a copy of a telegram, together with the translation, which the Prime Minister received from the Chancellor of the Federal Republic of Germany over the weekend. The telegram deals with Herr Schmidt's announcement, on 3 February, of a DM 12 billion package for stimulating the West German economy.

I should be grateful if you could consider this, together with the Treasury, and let me have a draft reply for the Prime Minister to send during the course of this week.

I am copying this letter to John Kerr (H.M. Treasury).

F N Richards Esq  
Foreign and Commonwealth Office

W. J. COLES

*Lu*

*Translation of Telegram to Chequers*

Botschaft  
der Bundesrepublik Deutschland  
Embassy  
of the Federal Republic of Germany  
Chargé d'Affaires a.i.

London, 6th February, 1982

*Dear Prime Minister,*

I have the honour to transmit to you the enclosed telegram from the Chancellor of the Federal Republic of Germany, Herr Helmut Schmidt.

A courtesy translation is also attached.

*Yours, dear Prime Minister,*

*Yours sincerely,*

*Jürgen Allen*  
(J. von Alten)

The Rt. Hon. Margaret Thatcher, MP  
Her Majesty's Prime Minister  
and First Lord of the Treasury  
L o n d o n

ROMERTURM - KLANGHART

SUBJECT

PRIME MINISTER'S  
Courtesy Translation

PERSONAL MESSAGE

SERIAL No. T 24/82

T e l e g r a m

cc. Treasur act  
DF

from Herr Helmut Schmidt, Chancellor of the Federal Republic  
of Germany  
to The Rt. Hon. Margaret Thatcher, MP, Prime Minister

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Dear Prime Minister,

On 3rd February 1982, the Federal Government decided on a joint initiative for employment, growth and stability as a result of which additional funds for private and public investment amounting to approx. DM 12 billion are to be made available in the next few years. This initiative supplements the budgetary and fiscal decisions which came into effect at the start of this year and by means of which measures to promote employment that are already proving successful will be financed in the amount of approx. DM 27,5 billion during the years 1982 to 1985. The Federal Government's total programme for promoting the economy and employment up to and including 1985 therefore involves approx. DM 40 billion.

The initiative of 3rd February focuses on the promotion of private and public investment as the prerequisite for preserving and creating competitive jobs. Its main component is the introduction of a ten per cent investment allowance for a specific period with the aid of which additional investments totalling DM 40 billion or approx. 2,5 per cent of the gross national product can be promoted during 1982. Approx. DM 4 billion of public funds will be required for this. To avoid straining the capital market, this sum is to be met by raising value-added tax by one per cent as of 1st July 1983.

The Federal Government has also taken measures to assist small and medium-sized companies, to conserve energy, to stimulate private investment in housing construction and to improve training opportunities for young people. It has appealed to all economically and socially important groups and institutions in the Federal Republic of Germany to back these measures up through efforts of their own within the scope of their responsibility and competences.

With this package of measures the Federal Government is taking account of structural changes in the world economy. It is guided by the need to combat unemployment and inflation simultaneously and giving equal consideration to each. Its medium and long-term aim is to produce a shift in the use of the domestic product away from consumption to greater investment, to reduce public borrowing gradually and consolidate the process of energy conservation. In this context, priority is being given to lowering the German deficit on current account so as to lessen the dependence of the German financial and foreign exchange markets on interest rate developments abroad and enlarge the scope for reducing interest rates at home.

My government is convinced that in the present situation a clear and lasting reduction of interest rates would be the most effective means of promoting growth and employment. In view of the world-wide economic interdependence and division of labour, which we must preserve and promote in our joint interest, it continues to be necessary to pursue very close international co-operation, to take account of each other's interests and to keep markets open. I regard the measures decided on by the Federal Government as a further German contribution to these goals.

Yours sincerely,

Helmut Schmidt

T24/82

T e l e g r a m m

von Herrn Helmut Schmidt, Bundeskanzler der Bundesrepublik  
Deutschland

an The Rt. Hon. Margaret Thatcher, MP, Prime Minister

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Sehr verehrte Frau Premierminister!

Die Bundesregierung hat am 3. Februar 1982 eine Gemeinschaftsinitiative für Arbeitsplätze, Wachstum und Stabilität beschlossen, durch die in den nächsten Jahren zusätzliche Finanzierungsmittel für private und öffentliche Investitionen in einer Größenordnung von rund 12 Mrd. DM bereitgestellt werden sollen. Diese Initiative ergänzt die zu Beginn des Jahres in Kraft getretenen haushalts- und steuerpolitischen Beschlüsse, mit denen für die Jahre 1982 bis 1985 bereits beschäftigungswirksame Massnahmen in Höhe von rund 27,5 Mrd. DM finanziert werden. Das Gesamtprogramm der Bundesregierung zur Förderung der Wirtschaft und der Beschäftigung bis zum Jahr 1985 hat damit eine Größenordnung von rund 40 Mrd. DM.

Schwerpunkt der Initiative vom 3. Februar ist die Förderung privater und öffentlicher Investitionen als Voraussetzung für die Erhaltung und Schaffung wettbewerbsfähiger Arbeitsplätze. Wichtigster Bestandteil ist die Einführung einer zeitlich befristeten Investitionszulage von 10 Prozent, mit der 1982 ein zusätzliches Investitionsvolumen in der Größenordnung von 40 Mrd. DM oder rund 2,5 Prozent des Bruttosozialprodukts gefördert werden kann. Dies wird zu Anforderungen an die öffentlichen Haushalte in Höhe von rund 4 Mrd. DM führen. Um eine Belastung des Kapitalmarktes zu vermeiden, soll die Finanzierung durch eine Erhöhung der Mehrwertsteuer um 1 Prozent-Punkt ab 1. Juli 1983 erfolgen.

Die Bundesregierung hat ausserdem Massnahmen zur Förderung kleiner und mittlerer Unternehmen zur Energieeinsparung, zur Anregung privater Investitionen im Wohnungsbau und zur Verbesserung der Ausbildung von Jugendlichen beschlossen. Sie hat an alle wirtschafts- und gesellschaftspolitisch relevanten Gruppen und Institutionen in der Bundesrepublik Deutschland appelliert, sie durch eigene Anstrengungen im Rahmen ihrer Verantwortung und Zuständigkeiten zu unterstützen.

Die Bundesregierung trägt mit diesem Massnahmenpaket den weltwirtschaftlichen Strukturveränderungen Rechnung. Sie orientiert sich an der Notwendigkeit, Arbeitslosigkeit und Inflation gleichzeitig und gleichrangig zu bekämpfen. Sie verfolgt mittel- und langfristig das Ziel, das Sozialprodukt von konsumtiven zu mehr investiven Verwendungen umzuschichten, die Kreditfinanzierung des öffentlichen Haushalts schrittweise zurückzuführen und den Prozess der Energieeinsparung zu verstärken. Vorrang hat dabei die Verringerung des deutschen Leistungsbilanzdefizits, um die Abhängigkeit der deutschen Finanzmärkte und des Devisenmarktes von der Zinsentwicklung im Ausland zu mildern und den Spielraum für nationale Zinssenkungen zu erweitern.

Die Bundesregierung ist überzeugt, dass in der gegenwärtigen Situation eine deutliche und dauerhafte Zinssenkung das wirksamste Mittel zur Förderung von Wachstum und Beschäftigung wäre. Angesichts der weltweiten wirtschaftlichen Verflechtung und Arbeitsteilung, die wir im gemeinsamen Interesse erhalten und fördern müssen, bedarf es deshalb weiterhin sehr enger internationaler Zusammenarbeit, der gegenseitigen Rücksichtnahme und der Offenhaltung der Märkte. Ich sehe die von der Bundesregierung beschlossenen Massnahmen als weiteren deutschen Beitrag zu diesem Ziel.

Mit freundlichen Grüssen

Helmut Schmidt

Bundeskanzler der Bundesrepublik Deutschland



5-1P  
Germany  
e

19 January 1982

Anglo-German Foundation

The Prime Minister has seen your letter of 18 January and noted its contents.

I am sending a copy of this letter to David Wright (Cabinet Office) and Malcolm Day (Department of Industry).

A. J. COLES

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

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Foreign and Commonwealth Office

London SW1A 2AH

18 January 1982

Dear John,

MT

Anglo-German Foundation

At their meeting during the Anglo-German Summit in Bonn, the Prime Minister and the Federal Chancellor discussed the possibility of:

- a) creating a forum in which the 'young geniuses' could meet together and discuss international and economic problems;
- b) arranging a meeting between German trade unions and entrepreneurs and their British equivalents to discuss the economic situation.

The Prime Minister may wish to be aware that, following agreement between the FCO and the Department of Industry, these suggestions are going to be followed up through the Anglo-German Foundation for the Study of Industrial Society, with a view to persuading the Foundation to sponsor the two meetings suggested. You will recall that the joint press statement issued in the name of the Prime Minister and Chancellor Schmidt at the Summit agreed that the Anglo-German Foundation should concentrate its work on 'activities designed to bring together opinion-moulders on both sides, and to increase the Foundation's impact on public opinion'. The two proposals discussed by the Prime Minister and Chancellor Schmidt seem to us to fall into that category.

I am copying this letter to Mr D Wright (Cabinet Office) and to Mr M Day (Department of Industry).

Yours ever,

*F N Richards*  
 (F N Richards)  
 Private Secretary

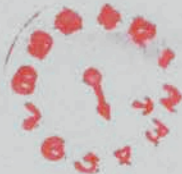
A J Coles Esq  
 10 Downing Street

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18 JAN 1982



FILE

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Sub

Germany

15 January 1982

CHANCELLOR SCHMIDT

The above spoke to the Prime Minister for about 30 minutes on the telephone last night. I enclose a summary record of the conversation. I should be grateful if this could be given a very restricted distribution. I am sending a copy also to John Kerr (HM Treasury).

A. J. COLES

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

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CONFIDENTIAL

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

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

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

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

/that this

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

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

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

/be politically

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- 3 -

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

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

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

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

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/be helped.

CONFIDENTIAL

- 4 -

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

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

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

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

/by the

CONFIDENTIAL



CONFIDENTIAL

- 5 -

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

A.F.C.

CONFIDENTIAL

15 January 1982

CONFIDENTIAL

*SWITZ*

*ops  
master*

*Germany*  
*(37)*

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T14381

BMC

~~REDACTED~~

UNCLASSIFIED

31756 - 1

GRS 49

UNCLASSIFIED

FM FCO 131930Z OCT 81

IMMEDIATE BONN

TELEGRAM NUMBER 417 OF 13 OCTOBER

1. PLEASE PASS FOLLOWING MESSAGE FROM THE PRIME MINISTER TO CHANCELLOR SCHMIDT.

BEGINS: I AM SO SORRY TO HEAR THAT YOU HAVE HAD TO GO INTO HOSPITAL. I HOPE YOU WILL SOON BE OUT AGAIN, AND SEND YOU MY VERY BEST WISHES. ENDS.

CARRINGTON

*auto 020/1*

*WJG 14/10*

LIMITED  
WED  
ECD(E)  
PS  
PS/LPS  
PS/MR HURD  
PS/PUS  
MR BULLARD  
MR FERGUSSON

<i>URG 020/1</i>	
REG. NO. 18	
14 OCT 1981	
REGISTRY	Action Taken

TO: [unclear] Clerk  
13/10

BF for 13/1

PRIME MINISTER

Chancellor Schmidt is in hospital with a minor infection picked up in Cairo. The Embassy think it would be a good idea to send a short message to Chancellor Schmidt on the following lines:

Am so

"I ~~was~~ sorry to hear that you have had to go into hospital. I hope you will soon be out again and send you my best wishes.

✓✓✓  
^

Margaret Thatcher"

Willie Rickett

13 October 1981

Germany



Foreign and Commonwealth Office

London SW1A 2AH

BF for tel

13 October 1981

I have asked FLO to despatch as amended. WH 13/10

Dear Sir,

CHANCELLOR SCHMIDT

You may have seen in the press that Chancellor Schmidt has been taken into hospital with a feverish infection. We understand from Bonn that his condition does not appear to be serious, but the Embassy consider, and we agree, that it would be appropriate for the Prime Minister to send a short message. I enclose a draft.

I am copying this letter to David Wright.

Yours ever  
Stephen Gomersall.

S J Gomersall  
Private Secretary to the  
Lord Privy Seal

W Rickett Esq  
10 Downing Street

File No. ....

OUTWARD

Department .....

Drafted by .....

(Block Capitals) .....

TELEGRAM

Tel. Extn. ....

Security Classification UNCLASSIFIED
Precedence IMMEDIATE
DESKBY .....Z

FOR COMMS. DEPT. USE

Despatched

(Date) .....

(Time) .....Z

POSTBY .....Z

PREAMBLE

(Time of Origin) ..... Z (G.M.T.)

(Restrictive Prefix) .....

(Security Class.) ..... UNCLASSIFIED .....

(Caveat) .....

Privacy marking) .....

(Codeword) .....

(Deskby) ..... Z

TO IMMEDIATE (precedence)

BONN (post)

Tel. No. .... of .....

AND TO (precedence/post) .....

AND SAVING TO .....

REPEATED TO (for info) .....

SAVING TO (for info) .....

Distribution:-

Limited  
 ps  
 ps/lps ← ps/pw  
 ps/mr hard  
 Mr Bullard  
 Mr Ferguson  
 WED.  
 ECD(G)

[TEXT]

Please pass following message from the Prime Minister to Chancellor Schmidt.

Begins: I <sup>can so</sup>was sorry to hear that you have had to go into hospital. I hope you will soon be out again, and send you my <sup>very</sup>best wishes. Ends.

*Handwritten signature:*  
 O. Press Ome

Copies to:-

3 OCT

11 17 1  
10 9 8 7 6 5 4

NOTHING TO BE WRITTEN IN THIS MARGIN

CF - to keep?



Germany

BK.

< DT Trade  
Fco.

10 DOWNING STREET

THE PRIME MINISTER

10 September 1981

Dear Count Lambsdorff

Thank you for your letter of 10 August about origin marking.

As you know, we are satisfied that our new origin marking requirements will not have any adverse effect on Community trade; I cannot, I think, usefully add anything to what I said in my letter of 17 July about this. But we would of course be more than happy to discuss the matter further at official level, as you suggest, building on the exchanges which have already taken place in the Anglo/German Economic Committee. We could do this whenever it was convenient to your people.

YOURS SINCERELY

MARGARET THATCHER

Dr. Jur. Otto Graf Lambsdorff

B



*From the Secretary of State*

W Rickett Esq  
10 Downing Street  
London SW1

*Germany*  
Type for PM's signature.

*And*

7 September 1981

*Dear Willie*

In your letter of 25 August you asked for a draft reply to the further letter the Prime Minister has received from Dr Lambsdorff about origin marking.

We do not think that the Prime Minister need send a substantive reply to this letter. I enclose a draft for her signature making clear that we stand by the views expressed in her letter of 17 July, and offering to continue discussions at official level if the Germans so wish. We have, in fact, already had one exchange with them, without coming any closer to a meeting of minds; I think we can reasonably leave it to them to take the initiative in arranging another.

*Yours sincerely,*

*John Rhodes*

JOHN RHODES  
Private Secretary



**DRAFT**

**File No.**

Addressed to :

Dr Jur. Otto Lambsdorff  
Bundesminster fur Wirtschaft,  
D 5300 Bonn.  
Republic of Germany

Copies to :

Originated by:  
(Initials and date)

Seen by:  
(Initials and date)

Enclosures :

Type for signature of

THE PRIME MINISTER  
.....  
(Initials and date)

DEPARTMENT OF TRADE

Thank you for your letter of ~~10/10~~ <sup>10/27</sup> August about  
origin marking.

As you know, we are satisfied that our new origin marking  
requirements will not have any adverse effect on Community  
trade; I cannot, I think, usefully add anything to what  
I said in my letter of 17 July about this. But we would  
of course be more than happy to discuss the matter  
further at official level, as you suggest, building  
on the exchanges which have already taken place in the  
Anglo/<sup>German</sup> ~~French~~ Economic Committee, <sup>we would do this whenever it was</sup> ~~and when it is~~ convenient  
to your people.



7 SEP 1981



R H

*G...*

25 August, 1981

I enclose a further letter the Prime Minister has received from Dr Otto Graf Lambsdorff on origin marking.

I should be grateful if you could let me have a draft reply for the Prime Minister to send to Dr Lambsdorff by 7 September.

W.F.S. RICKETT

J Rhodes, Esq  
Department of Trade

FILE

R H

25 August 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 24 August enclosing a letter from Dr Otto Graf Lambsdorff. I have placed this before the Prime Minister.

W. F. S. RICKETT

Herrn Jurgen von Alten

20

Botschaft  
der Bundesrepublik Deutschland  
Embassy  
of the Federal Republic of Germany

*BT with BOT reply*  
Prime Minister

2

*I have acknowledged and asked  
Mr Biffen's office for a draft reply.*

August 24th, 1981

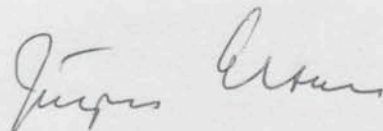
*WM  
25/8*

*Dear Prime Minister,*

I have the honour to transmit to you the enclosed letter of Dr. Otto Graf Lambsdorff, Minister of Economics of the Federal Republic of Germany.

*I am, dear Prime Minister,*

*Yours sincerely,*



Jürgen von Alten  
Minister

The Rt. Hon. Margaret Thatcher, MP  
Her Majesty's Prime Minister  
and First Lord of the Treasury  
L o n d o n

SPECIAL REFLEX SPECIAL

10<sup>th</sup> of August 1981

The Right Honourable  
Margaret Thatcher MP  
No 10 Downing Street  
London SW1  
United Kingdom

Dear Prime Minister,

Thank you for the letter of 17 July 1981 which you handed to me in Ottawa.

As German Minister of Economics, it is of course gratifying to hear that German products enjoy a "high reputation for quality and reliability". Where consumers are known to react favourably, German manufacturers would naturally be quite ready to mark their products with the designation "Made in Germany" in light of the sales-promoting effect.

But for some exports - and this is to a large extent true for the goods included under the new British Order - the marking "Made in ..." unfortunately has a sales-impairing effect. The negative effect which the origin marking has on the subjective value of the product and also on the trademark is, objectively speaking, often undeserved.

Furthermore, in times of depressed economic activity, this measure tends to suggest to the consumer, repeatedly, and occasionally rather pointedly, that he choose domestically manufactured products.

It is naturally no consolation for the producer that it is not he, but the retailer in Great Britain, who is responsible for marking the goods. This does not lessen the resulting subjective depreciation in the value of the goods and the damage to the trademark.

With a view to avoiding a considerable disturbance of free trade in the Community, I welcome and will act upon your proposal to continue the bilateral exchange of opinions between officials of my Ministry and your Department of Trade.

Yours sincerely,

Walter L. Murray

... in view of the fact that the ...  
... the ...  
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It is generally recognized that ...  
... the ...  
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... in view of the fact that the ...  
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MATTPOST

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25 JUN 1961

25 JUN 1961

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~~Michael~~

Papers removed from file

Date

Ab: the meeting  
was private & nothing of  
substance was said.

Please see FCO to [unclear]  
you 24/7. Was  
there a record  
of this meeting?

Charlotte

219



Germany

Foreign and Commonwealth Office

London SW1A 2AH

24 July 1981

Dear Michael,

President Carstens's call on the Prime Minister, 1630-1700 on Tuesday 28 July

/ I attach a brief and a Personality Note on President Carstens. The Points to Make are inevitably a little thin because the President of the FRG is not an executive Head of State and it is not therefore easy for the Prime Minister to discuss government business with him, especially since he belongs to the Opposition party.

yours ever  
Roderic Lyne

(R M J Lyne)  
Private Secretary

M O'D B Alexander Esq  
10 Downing St



PRESIDENT CARSTEN'S CALL ON THE PRIME MINISTER  
1630 - 1700 ON TUESDAY 28 JULY

POINTS TO MAKE

1. Understand you are due to visit HQ BAOR, Rheindahlen on 21 October. Appreciate this evidence of your interest in British Forces Germany.
  
2. The dates for the next Anglo-German Summit - in Bonn - have just been fixed as 29-30 October. Look forward to this opportunity of further cementing the Anglo-German relationship at inter-governmental level.
  
3. Interested in thickening up the Anglo-German relationship, not only between governments but in general. Looking at ways in which this might be done in the economic, cultural, academic field, etc.
  
4. / Noted your recent speech (summary attached) on legacy of 20 July 1944 (the attempt on Hitler's life). Agree that we have all drawn too little attention to the duties which democracy imposes upon us. Schools have an important role to play.



PRESIDENT CARSTENS'S CALL ON THE PRIME MINISTER

1630 - 1700 ON TUESDAY 28 JULY

ESSENTIAL FACTS

1. The President of the Federal Republic is not an executive Head of State. His role is largely representational. He will however be well informed on domestic political and economic developments in the FRG and on international affairs. He is a member of the Christian Democratic Union (CDU).
2. President Carstens's visit to BAOR in October will be his first to British Forces Germany. The last visit by a Federal President was by President Scheel in 1975.
3. Anglo-German Summits are held every six months, alternately in the UK and the Federal Republic. No decision has yet been taken about which British Ministers will attend the October summit in Bonn, but the Prime Minister and the Foreign Secretary will be accompanied by a number of other members of HMG.
4. In his despatch on Instruments of Anglo-German Relations on 23 February Sir Oliver Wright advocated the need to improve UK/FRG relations across the board. The FCO is examining, in conjunction with other Government Departments in Whitehall, detailed measures which could be taken to this end. The Federal Ministry of Foreign Affairs has been consulted and fully agrees with the desirability of this exercise.
5. Since the last Federal election in October 1980, at which the



SPD/FDP coalition was returned with an increased majority, Chancellor Schmidt's government has been looking distinctly shaky. The Governing Mayor of Berlin, Herr Stobbe (SPD) resigned in January as a result of a financial scandal. His successor, Dr Vogel, was defeated in subsequent municipal elections on 10 May and was succeeded by CDU candidate von Weizsaecker. The Mayor of Hamburg, Dr Klose (SPD) resigned in May as a result of his disagreement with the party line on nuclear energy. At Federal level there is no immediate risk of a split in the coalition, but the pressures continue to mount.

6. There have been continued manifestations of disaffection among German youth in recent months. Violent protests have taken place over housing, civil nuclear power and the stationing of medium range nuclear missiles on German soil.

7. Prospects for the German economy this year are poor. Growth in 1980 was entirely concentrated in the first quarter. GNP continued to fall during 1980, and though it rose slightly in the first quarter of 1981 the recovery this year is likely to be sluggish. The official forecast remains for a decline in GNP of up to 1% in 1981, but the OECD expect a fall of around 1.5%. The biggest problems facing the economy are the public sector deficit and the negative balance of payments. Unemployment stands at 4.8% and is rising. Inflation is currently running at under 6% and appears to be stable.

Bruf for PM?

# REPORT

FROM THE FEDERAL REPUBLIC OF GERMANY

July 21, 1981.

## PRESIDENT CARSTENS SPEAKS ON LEGACY OF JULY 20

Resistance to dictatorship has left us a legacy of freedom, human values and democracy, Federal President Karl Carstens said in a speech in Bonn to commemorate the attempt on Hitler's life on July 20, 1944.

He said it would be useful if the documents and poetry of the resistance movement were read in all schools and were more widely represented in German anthologies because "one can learn a lot from them about the circumstances and motives of the German resistance fighters, which would help us to answer the question so often posed by young people: why there were not more opponents to the Hitler regime.

"We cannot evade this question. It is important that the young generation realises what life was like in those days under a dictatorship, how the National Socialist evil could have come about.

"I would like to say something about the present situation of this country. We are not entirely free either of intolerance, violence, fanaticism and contempt for fellow-humans. If we have again among us groups who are no longer prepared to engage in dialogue, who do not want to recognise our system of justice and the rules of our political organisation, and who consciously and with fanatical hatred resort to violence as a means of achieving their goals, then we have reason to be concerned.

"Many of them justify their campaign against our state by referring to the right of the citizen to resist. Yet such a comparison dishonours the men and women of July 20 who fought against a reign of terror and not against a democratic state founded on justice.

"Perhaps it requires the experience of my generation to realise that we live in a system of freedom never known before in this country -- a system that can tolerate deviations. I approve such tolerance out of conviction.

"On the other hand, if the democratic order begins to accept breaches of the law and starts yielding to violence, it gives me cause for concern. For those who break the law and resort to violence will do the same if they achieve power. We learned this in the thirties and forties.

"I am worried that there are people in this country who still have an insufficient understanding of our democracy. They know how to exploit its advantages but do not respect its rules and limits. Perhaps one has to blame the fact that we have drawn too little attention to the duties which democracy lays on us.

"I am in favour of showing up the weaknesses in our society and striving for improvements within the secure framework of our democracy and our system based on justice. Conflicts should be resolved, not with violence but within the framework of the democratic process. Schools and our institutions of political education should devote themselves with greater vigour to this positive task."



CARSTENS, PROFESSOR DR KARL, HON GCMG

Federal President since 1 July 1979.

Born 1914 in Bremen. Studied law at German (Hamburg), French and American (Yale) Universities. After military service 1939-45, worked as a lawyer in Bremen from 1945-49. 1949-54 Representative of the Bremen Senat in Bonn. 1954 appointed German Permanent Representative to the Council of Europe. 1955 appointed Assistant Under Secretary in the MFA, 1958 promoted to Deputy Under Secretary and Head of the Western Political Department. 1960 appointed Professor of Constitutional Law at Cologne. 1960-66 State Secretary in the MFA. 1966-67 State Secretary in the Ministry of Defence and 1967-69 State Secretary in charge of the Federal Chancellery. 1970-72 Director of the German Institute for Foreign Affairs and foreign affairs adviser to the CDU. 1972 elected CDU member of the Bundestag. 1973-76 Chairman of the CDU/CSU Parliamentary Party. 1976 President (ie Speaker) of the Bundestag.

The record of Professor Carstens's career as a civil servant speaks for itself. He was conspicuously successful in all the posts he occupied. It was Stoltenberg, CDU Minister President of Schleswig-Holstein, who prevailed upon him to stand for the 1972 Bundestag elections. His maiden speech in the Bundestag, on Ostpolitik, was widely acclaimed. He is a strong supporter of the Atlantic Alliance and West European integration. On the resignation of Barzel as Chairman of the CDU/SCU Parliamentary Party in May 1973, Professor Carstens was elected to succeed him after less than six months experience in the Bundestag. He is an effective speaker but did not fulfil all the hopes placed in him. He found himself caught between the CDU moderates and the CDU/CSU right wing and Strauss, with whom he was careful to preserve good relations. The credibility of his Parliamentary leadership suffered accordingly. Elected to the post of President of the Bundestag after the 1976 Federal elections.

Professor Carstens was an obvious choice as CDU/CSU candidate for the Federal Presidency in 1979, despite a setback when details of his wartime membership of the Nazi Party were made public in late 1978. The task of succeeding the popular and extrovert Scheel (qv) was not easy for a man who by comparison was somewhat stiff and reserved. Carstens has however made his own successful mark on the Presidency. A television discussion with members of the public in May 1980 impressed upon the Germans his courtesy and slightly old fashioned charm; and he and his wife further increased their popularity by a series of "meet the people" walks through the Federal Republic.

Professor Carstens speaks faultless English and good French. An author, his best known book was on the philosophy and practice of the Constitution of the United States. He is interested in riding, sailing and music. He visited the UK as a guest of HMG in 1975.

He is married to a very agreeable wife, who has remained in practice as a doctor of medicine throughout their married life. She speaks some English. Her occupation means that she does not go out much in society. Their home is in Meckenheim outside Bonn. As Professor Carstens' roots are in Insel Fehmarn, they have always spent much time in Schleswig-Holstein.





Tel. 233.4116

Foreign and Commonwealth Office

London SW1A 2AH

20 July 1981

His Excellency  
Dr Jürgen Ruhfus KBE  
Ambassador of the Federal Republic of Germany  
23 Belgrave Square  
LONDON SW1X 8PZ

*Dear Ambassador,*

I am writing to confirm arrangements which we have made over the telephone for the meeting between the President of the Federal Republic of Germany and the Prime Minister at No 10 Downing Street next week.

Mrs Thatcher is looking forward to meeting President Carstens at 16.30 hours on Tuesday 28 July for about half an hour. I understand that you are expecting to accompany the President. If you have any questions about the arrangements which have been made, I hope that you will get in touch with Mr McCleary in Western European Department of the Foreign and Commonwealth Office (Tel. 233.3648) or with me.

*Yours sincerely,*

*Diana Lothian*

D F Lothian (Miss)  
Private Office

b.c. to:

Miss Stephens (No 10) ✓  
Mr D A S Gladstone (WED)  
Mr R M J Lyne (Private Secretary)



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(3)

10 DOWNING STREET

Prime Minister.

Gives that you discussed  
the topic - origin marking -  
with Count Lambsonff at  
Chequers & will be seeing  
him at Ottawa next week,  
you may like to reply  
to his letter yourself rather  
than through the Secretary of State  
for Trade.

"Dear Count Lambsonff".

Ant.

file 91  
17 July 1981

Thank you for your letter of 15 July enclosing a draft reply from the Prime Minister to Count Lambsdorff about origin markings. I enclose a copy of the signed text which, as you will see, is identical with your draft. I have taken the top copy with me to Ottawa and will hand it to the German Delegation there.

I am sending a copy of this letter and enclosure to Francis Richards (Foreign and Commonwealth Office).

MA

John Rhodes, Esq.,  
Department of Trade



10 DOWNING STREET

THE PRIME MINISTER

17 July 1981

AB  
CC Trade  
FO  
CO  
for copy taken to  
Ottawa by Michael

Dear Count Lambsdorff,

Thank you for your letter of 4 June about the new origin marking Order which we laid before Parliament earlier this year. I have been in touch with John Biffen about the points you make.

I am concerned that there seems to be some misunderstanding between us about the purpose of this Order and its practical effects. As you know, we have firmly resisted domestic pressures to introduce protectionist measures. Like you, we are fully committed to maintain the open trading system within the Community as well as with our other major trading partners. So there is no question of our introducing origin marking requirements for protectionist purposes. Mrs. Sally Oppenheim, Minister of State for Consumer Affairs, has made this abundantly clear inside and outside Parliament and has consistently rejected demands for the inclusion of protectionist features in the new requirements. Indeed the British Government has no legal power to introduce origin marking as a protective device; the powers under which the Order has been made may be exercised only in the interests of consumers.

We commissioned two independent surveys of consumer opinion in the United Kingdom before proceeding with the new requirements. They satisfied us that the great majority of British consumers want fuller origin information than is available to them at present; and that such information is of genuine assistance to them in their purchasing decisions. We would certainly not agree that it is of no objective value, as you suggest - still less that its availability will work to the disadvantage of imported goods. That may be true in some countries; but here, on the contrary, many of our imports, particularly from

particularly from the rest of the Community, are origin-marked already; and consumers here react favourably to origin indications on products imported from countries like the Federal Republic, which have a high reputation for quality and reliability.

I entirely agree that the continued expansion of Community trade must remain a prime objective for both our countries. I do not believe that the new marking requirements can be regarded, as you suggest, as a trade barrier. The Order applies equally to British and to imported goods. The obligation to ensure that goods are marked rests only with retailers. Imports cannot be refused entry or delayed in the ports because they are unmarked; the order will be enforced by local authorities, not by customs officers. The marking requirements have deliberately been made as simple and flexible as possible. And there is of course no question of goods being excluded from the British market because they could not by their nature comply with the new requirements.

You mention, finally, the compatibility of the Order with Article 30 of the EEC Treaty. We are in direct touch with the Commission about this and have kept them fully informed of the development of our proposals since the middle of last year. Mrs. Oppenheim recently discussed the issues with Commissioner Narjes and explained that - for the reasons I have outlined in this letter - we are satisfied that the Order is entirely consistent with existing Community law.

We would of course be very willing to discuss this matter further in detail with you. If you agree that this would be useful, perhaps your officials could get in touch with ours at the Department of Trade. One of the points which they might take up touches the particular interest of German companies in outward processing, to which you refer in the Memorandum enclosed with your letter and which has already been raised in Community work on the proposed textiles origin marking Directive.

(sgd) M T

Dr. Jur Otto Graf Lambsdorff.

CF  
→

*From the Secretary of State*

Michael Alexander Esq  
Private Secretary  
10 Downing Street  
London, SW1

15 July 1981

*Type for PM's signature*

*Am*

*Dear Michael,*

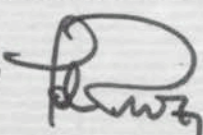
Thank you for your letter of 23 June, with which you enclosed a letter about origin marking which the Prime Minister has received from Count Lambsdorff.

The background as you know is that we made an Order in February under the Trade Descriptions Act 1968 requiring goods in five sectors - textiles, clothing, cutlery, footwear and domestic electrical appliances - to bear an indication of their country of origin when supplied by retail in the United Kingdom. These new requirements, which will come into effect on 1 January 1982, will apply equally to home produced goods and to imports. The Order has been generally welcomed by the United Kingdom industries concerned and - as was clear when it was debated in the House in April - has attracted widespread Parliamentary support.

Since the Order was made the Germans, who dislike the whole concept of origin marking, have attacked it as a barrier to intra-Community trade. They are bringing pressure to bear on the Commission (who are in touch with us about its compatibility with Community law) to take action against it in the European Court; and have also raised the matter with us bilaterally on a number of occasions.

Count Lambsdorff's action in writing to the Prime Minister personally is somewhat unusual. If Count Lambsdorff had not met the Prime Minister at the recent Anglo-German Summit, and was not going to Ottawa we would have suggested a reply direct from the Secretary of State. As it is, we suggest that the Prime Minister should send a fairly brief and straightforward reply, making clear that we do not believe that the Order can reasonably be regarded as a barrier to Community trade; picking up some of the points we have made in a recent letter to the Commission; and offering the Germans further ... talks at official level. I enclose a draft accordingly, which has been cleared with FCO and Cabinet Office.

I am copying this letter with enclosure to Francis Richards (FCO) and David Wright (Cabinet Office).

*Yours sincerely,* 

JOHN RHODES  
Private Secretary



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

Dr Jur Otto Graf Lambsdorff  
Bundesminister für Wirtschaft  
D 5300 Bonn  
Federal Republic of Germany

Thank you for your letter of 4 June about the new origin marking Order which we laid before Parliament earlier this year. I have been in touch with John Biffen about the points you make.

I am concerned that there seems to be some misunderstanding between us about the purpose of this Order and its practical effects. As you know, we have firmly resisted domestic pressures to introduce protectionist measures. Like you, we are fully committed to maintain the open trading system within the Community as well as with our other major trading partners. So there is no question of our introducing origin marking requirements for protectionist purposes. Mrs Sally Oppenheim, Minister of State for Consumer Affairs, has made this abundantly clear inside and outside Parliament and has consistently rejected demands for the inclusion of protectionist features in the new requirements. Indeed the British Government has no legal power to introduce origin marking as a protective device; the powers under which the Order has been made may be exercised only in the interests of consumers.

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I entirely agree that the continued expansion of Community trade must remain a prime objective for both our countries. I do not believe that the new marking requirements can be regarded, as you suggest, as a trade barrier. The Order applies equally to British and to imported goods. The obligation to ensure that goods are marked rests only with retailers. Imports cannot be refused entry or delayed in the ports because they are unmarked; the Order will be enforced by local authorities, not by customs officers. The marking requirements have deliberately been made as simple and flexible as possible. And there is of course no question of goods being excluded from the British market because they could not by their nature comply with the new requirements.

You mention, finally, the compatibility of the Order with Article 30 of the EEC Treaty. We are in direct touch with the Commission about this, and have kept them fully informed of the development of our

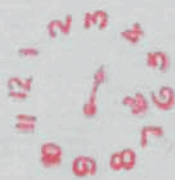


proposals since the middle of last year. Mrs. Oppenheim recently discussed the issues with Commissioner Narjes and explained that - for the reasons I have outlined in this letter - we are satisfied that the Order is entirely consistent with existing Community law.

We would of course be very willing to discuss this matter further in detail with you. If you agree that this would be useful, perhaps your officials could get in touch with ours at the Department of Trade. One of the points which they might take up touches the particular interest of German companies in outward processing, to which you refer in the Memorandum enclosed with your letter and which has already been raised in Community work on the proposed <sup>taxes</sup> /origin marking Directive.



155 JUL 1981





Germany ds

10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG  
CABINET OFFICE

---

The Prime Minister has seen and taken note of your minute of 23 June recording your conversation with Mr. Lahnstein.

---

M. O'D. B. ALEXANDER

25 June 1981

Ⓟ

Germany

**CONFIDENTIAL**

ds

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10 DOWNING STREET

*From the Private Secretary*

23 June 1981

I enclose a copy of a letter which the Prime Minister has received today from Count Lambsdorff, the Minister for the Economy in the Federal German Government. I should be grateful if you could let me have in due course a draft reply which the Prime Minister might send to Count Lambsdorff.

I am sending copies of this letter and its enclosure to Francis Richards (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

John Rhodes, Esq.,  
Department of Trade.

**CONFIDENTIAL**

Rhb

MS

Copied to  
Middle East Situation  
Ottawa Summit (2)  
Policy.  
Prime Minister

Ref. A05135

MR ALEXANDER

Re para 8 below: My own impression is that Chancellor Schmidt is already becoming somewhat disillusioned with Pres. Reagan. This approach to discussions with the Pres. in Ottawa may be more pointed than in a meeting suggests.

Mr Manfred Lahnstein, the State Secretary in the Federal German Chancellery, visited London on Friday 19 June. During the course of a long conversation which I had with him, he made three points which, he made clear, he was putting at the Chancellor's request, for transmission to the Prime Minister.

The German Political Situation

2. The first point related to the complications of the Chancellor's domestic political situation and of the management of the coalition. Mr Lahnstein said that the size of Germany's budget deficit presented the Government with a great problem about the future of the social transfer system. The present system of transfer payments and social benefits had been designed and brought into effect many years ago, when a continuing high rate of economic growth was taken for granted. Since that time, German society had matured and some of the élan which fuelled the "economic miracle" had evaporated. For other reasons, not confined to Germany, a much lower rate of growth was to be expected in the coming years. Finally, demographic changes since the system was introduced, and notably the increase in the number of old people, had greatly increased the burden of the social transfer system upon the Federal budget. It was now necessary to review the whole system with a view to reducing that burden. This was something into which the Government would be turning its attention in the coming months, with a view to the 1982 budget.

3. This was potentially a very divisive political issue. Germany was conditioned to the existing system of social transfers, which was probably one element in the social cohesion of the country. It followed that a change in the system could have implications for the maintenance of social cohesion. It would also present great difficulties for the coalition. The Free Democratic Party (FDP) might well not be able to agree upon what would need to be done, and it could not be taken for granted that the FDP would be able to remain in a coalition with the Social Democrat Party (SDP) for the rest of the present Parliament.

4. The size of the budget deficit also had implications for defence planning (though these were minor), and for aid to developing countries. Here, too, there could be problems in the coalition. I asked whether it might also present problems from the point of view of the European Community; Mr Lahnstein seemed to think that this was less likely.

5. Mr Lahnstein said that the Federal Chancellor wanted the Prime Minister to be aware of this background to the way in which he would have to deal with domestic and international political problems over the coming months.

6. I said that my impression at Chequers had been that the Federal Chancellor had recovered a good deal of the resilience which appeared to have deserted him after the last election. Mr Lahnstein confirmed this, and attributed it three reasons:

- (i) He had stopped smoking, and the process of adjustment had been very hard for him, but it was now accomplished.
- (ii) He had recently had a medical check-up, and his doctors had given him a good report: that had been very reassuring.
- (iii) He felt that he had now taken the measure of his political problem: at least he knew what he had to try to achieve, and could concentrate on trying to achieve it, though he knew well enough that there could be no guarantee of success.

#### The Ottawa Summit

7. Mr Lahnstein and I also had some discussion of the arrangements for the Ottawa Economic Summit. On this Mr Lahnstein said that the Federal Chancellor was conscious that four of the participants (five if one included Monsieur Thorn), would be attending their first Summit. The Chancellor thought that it would be important that Heads of State or Government should have as much time as possible for unstructured and informal discussion among themselves during this meeting, so that they had a chance to get to know each other properly and have a real exchange of views. One reason for allowing more time for such discussion was the language problem: it seemed likely that on this occasion at least three of the participants would not be able to cope in English. But the more important reason lay in the need to establish a better

relationship with President Reagan, and to draw him out more extensively on international political issues.

8. Mr Lahnstein said that the Federal Chancellor did not yet know quite what to make of President Reagan. He tended to divide American Presidents into two categories: the pure figureheads like Eisenhower and those who were very much actively in charge of their Administrations, like Kennedy and Carter. President Reagan did not seem to fit neatly into either of these categories. Moreover, he would be coming to the Ottawa Summit with some definite purpose in mind and looking for some advantage or result, but the Germans had not yet worked out what that might be. For all these reasons it would be important for the other Heads of State or Government to draw him out at the Ottawa meeting, to get him to contribute to the discussion and declare his positions.

#### The Middle East

9. Mr Lahnstein's third main point related to the "Near East". He said that the Federal Chancellor had noted at Chequers that the Foreign and Commonwealth Secretary had said that the Camp David initiative ought to be allowed to run its course until the completion of the Sinai agreements. The discussion had not made clear what the Foreign and Commonwealth Secretary thought should happen after that, or what future he saw for the Camp David process once that was done. I said that I did not know exactly what the Foreign and Commonwealth Secretary had in mind, but that our general view was that there was no possibility of progress in the Middle East without the Americans, that the Camp David process had to be allowed to go forward to the "natural break" which would come when the Sinai agreements were completed, but that we doubted whether it had much potential to carry progress further thereafter. The process would then have to be broadened out, and one purpose of the European initiative was to prepare for that. Mr Lahnstein asked whether we envisaged that the process of broadening out should include the Russians. I said that we were thinking more in terms of a combined United States and European effort.

10. I am sending a copy of this minute to the Private Secretary to the Foreign and Commonwealth Secretary.

REA

ROBERT ARMSTRONG

23 June 1981





10 DOWNING STREET

*From the Private Secretary*

23 June 1981

I am replying on the Prime Minister's behalf to your letter to her of 22 June. The letter which you enclosed from Count Lambsdorff has been placed before the Prime Minister.

M. O'D. B. ALEXANDER

His Excellency Dr. Jürgen Ruhfus, K.B.E.

019



DER BOTSCHAFTER  
DER BUNDESREPUBLIK DEUTSCHLAND

London, 22 June 1981

Her Prime Minister

I have the honour to transmit to you the enclosed letter from Count Lambsdorff, Minister of Economics of the Federal Republic of Germany.

Yours sincerely

Jürgen Ruhfus

Jürgen Ruhfus

The Rt. Hon. Margaret Thatcher, MP  
Her Majesty's Prime Minister and  
First Lord of the Treasury  
L o n d o n

The Right Honourable  
Margaret Thatcher MP  
No 10 Downing Street  
London SW1  
United Kingdom

Dear Prime Minister,

Supplementary to our exchange of opinions on obligatory origin markings at the plenary session of the Anglo-German Consultations on May 11th, 1981, and as the Minister responsible within the Federal Government for consumer policy and trade policy, I wish to return to my remarks on the British provisions and enclose the attached Memorandum for your information.

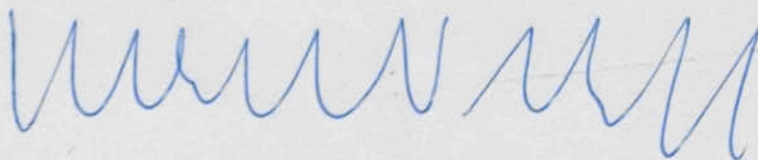
I am very concerned that the reduction of barriers to trade within the EEC, whose continuous expansion is the common object of substantial efforts on the part of Great Britain and the Federal Republic, will experience serious setbacks by such measures, especially in view of the fact that they could trigger a chain reaction by other partner countries.

I would be very grateful if the British Government reassessed its attitude toward the question of origin marking and discontinued the provisions in the light also of the opinions voiced by the European institutions and in the interest of the Common Market.

With the expression of my highest esteem,

I am,

Yours faithfully,



ZETA  
NATPOST

Memorandum

In the opinion of the Federal Government, obligatory origin markings cannot be supported by arguments based on consumer protection. Of decisive interest to the consumer are quality and price, as well as the manufacturer's or merchant's trademark. These guarantee a continuous and thus reliable production and supply standard of meaning for the consumer. By contrast, indication of the country of origin does not contribute to providing objective consumer information; rather, it more likely adds an emotional note to the purchaser's decision. For the purchaser possibly gains the impression that foreign products are inferior in quality. This opinion is shared by our consumer groups.

Consumer interests are, then, not served by introducing obligatory origin markings; in no case do they justify creating such a new and serious trade barrier. There can naturally be no objections to the voluntary indication of the country of origin by the manufacturer or merchant as is often done.

For this reason the European Parliament rightly rejected on April 9th, 1981 obligatory origin markings for textiles, arguing that they fail to meet the consumer's genuine need for information. The suspicion was openly voiced that the provisions for obligatory origin markings served protectionist ends. On April 29th, 1981, the EEC Economic and Social Committee, in which consumers are also represented, voted unanimous agreement to this negative opinion and added rather convincing remarks.

The German companies which in keeping with a desirable international division of labour make great use of the advantages of outward processing and their own manufacturing plants abroad would be particularly affected by the British approach. But in other EEC Member States as well, businesses make use of this method of production based on the division of labour. The consumer has welcomed this development since it has contributed to attractive prices.

It is to be feared that British regulations will be used as a further precedent for measures concerning other products and in other Member States, thus unleashing an insurmountable flood of new trade barriers. This would be to the detriment of free trade within the Common Market. The Federal Government has thus deemed it to be necessary to inform the Commission of this infringement against Article 30 of the EEC Treaty.

ZETA  
MAILPOST



23 JUN 1984  
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FILE

VB



Gamm.

10 DOWNING STREET

From the Private Secretary

26 May 1981

*Dear Rodney,*

Telephone conversation with Chancellor Schmidt

Chancellor Schmidt telephoned the Prime Minister yesterday evening to discuss with her his visits to Washington and to Paris.

Washington

Chancellor Schmidt said he had come away from Washington with a "very good feeling". He thought that the new American Administration would in future take European interests and necessities more into account. Chancellor Schmidt made it plain that his "good feeling" extended to Messrs. Bush and Haig as well as to the President himself.

As regards the subjects discussed in Washington, Chancellor Schmidt told the Americans that their high interest rates would have to be discussed in Ottawa and that a number of countries wished to see "easier money right now" while not abandoning the fight against inflation. Certainly the Federal Republic did not intend to give it up. Unemployment was rising in the Federal Republic and in France. This was likely to be an issue at the Economic Summit. He had also raised the NATO "double decision" and found that he and the Americans were in full agreement. Talks about arms limitations were already underway between Mr. Haig and Mr. Dobrynin.

Chancellor Schmidt found the Americans very much preoccupied with the day-to-day management of the Lebanon crisis. On broader issues, the Americans now accepted that European efforts in the Near East (as opposed to the Middle East, in Chancellor Schmidt's terminology) were complementary to their own. Chancellor Schmidt said he had laid much stress on the need for the Gulf States "to be heard" in their efforts to bring about a collective security structure. In reply to a question from the Prime Minister, the Chancellor said he did not think that the Americans had yet formulated definitive policies in relation to either the Near East or the Middle East. He agreed with the Prime Minister about the urgency of the Lebanese crisis, and that the important thing was to keep negotiating. He commented that the Americans thought the Saudis had been very helpful in Damascus. The Americans had been critical of "one government in the area" (the Government was not further identified).

/ Chancellor Schmidt

CONFIDENTIAL

ds

Chancellor Schmidt confirmed that President Reagan intended to go to the North/South Summit in Mexico. An official announcement to this effect would be made during President Lopez Portillo's forthcoming visit to Washington.

On policy towards Africa, Chancellor Schmidt said that he had the feeling that the new Administration was "a little bit too friendly with South Africa". However he did not think that final decisions had been made about policy towards Namibia and Angola. He had praised Lord Carrington as the "number one expert" on these issues and thought it would be worthwhile for Lord Carrington to try to influence the Americans.

### Paris

Chancellor Schmidt said that his overriding impression from Paris was that we could count on a considerable degree of continuity in French policy.

As regards policy towards the EEC, President Mitterand did not want to postpone the European Council due next month. President Mitterand intended to attend himself, although he did not think that the French Government would be in a position to take decisions on agriculture or on the budget. Chancellor Schmidt had told him that other Governments were not expecting decisions then either. As regards French attitudes on European policies generally, Chancellor Schmidt said that he "got the feeling that President Mitterand would be as difficult in agriculture policy as anybody else in France". Chancellor Schmidt agreed with the Prime Minister that it would probably also be extremely difficult to secure agreement over fish and the budget. Chancellor Schmidt did not think the new Government had got very far with elaborating detailed European policies. However, President Mitterand intended to stay within the EMS and to defend the franc.

Chancellor Schmidt said that he thought there would be no change in French policy towards the Alliance or on the independent nuclear deterrent. President Mitterand had been "very, very clear" about the Soviet Union. He had also been clear about the necessity to pursue both parts of the NATO "double decision".

There would be a stronger emphasis on friendly relations with Israel. However, President Mitterand was well aware of the need to improve his personal relations with the Arabs. He intended to send either M. Cheysson or M. Jobert to "a couple of Arab states" in order to mend his fences there. More detailed policies on the Arab/Israel dispute itself had not yet been worked out.

At the end of the conversation, Chancellor Schmidt said that he had told President Mitterand about his talks with the Prime Minister at Chequers and had informed him that the British Government, as much as that of the Federal Republic, were looking forward to cooperating with him. The Prime Minister said that she hoped this message had been received warmly "because it was meant warmly".

/ I am sending



CONFIDENTIAL

- 3 -

I am sending copies of this letter to John Wiggins (HM Treasury), Brian Norbury (Ministry of Defence), Kate Timms (MAFF) and David Wright (Cabinet Office).

*Yours ever*

*Nicholas Alexander*

R.M.J. Lyne, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

SUBJECT

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 79A/81

RECORD OF A TELEPHONE CONVERSATION BETWEEN CHANCELLOR SCHMIDT  
AND THE PRIME MINISTER - 5.30 pm ON MONDAY 25 MAY

- PM Hello Helmut, how are you?
- CS Hello Margaret. Are you hearing me all right?
- PM Yes I can hear you well.
- CS Let me report to you a few things about Washington and also about Paris. In Washington I came away with a very good feeling. I think we are on a good track. I think the American Administration will in the future more than in the past take into consideration European interests and necessities. I have a very good feeling as regards the President himself, also the Vice-President, also the Foreign Secretary.
- PM Good.
- CS I am concerned and I have told them that the consequences of their high interest rates will have to be talked about in Ottawa when we meet in eight weeks or so. I think that quite a number of countries would rather wish to have a little easier money right now whilst not giving up the fight against inflation. At least we are certainly not going to give it up. But our unemployment is rising and so is unemployment in France and other countries so I guess that this will become an issue in Ottawa. But apart from that I have a feeling that since you saw Ronald Reagan the process of policy defining has gone further on. There are still a few white spots in the political geography but they are moving fast. We were quite in agreement as regards the famous (dual-track decision) of NATO and talks about limitations are already under way between Haig and <sup>Dobrynin</sup> ~~Dubrenin~~. They make it no longer a secret that these talks are under way. They are very much occupied with the Lebanon crisis. They do recognise European efforts as regards <sup>NCAV</sup> ~~Middle~~ East - so called - wrongly so called European initiative is

being seen as complementary to the American efforts. I have very much stressed the need of Gulf States to be heard in their own effort to bring about a collective security. <sup>structure</sup> The American President is prepared to go to Mexico. He waits for an official announcement until President Lopez Portillo will come to Washington which is foreseen within a short couple of days or so.

PM Helmut, when you said the policy defining has gone further were you meaning in any particular way because *there is* both the Lebanon and the Middle East which is fairly critical at the moment.

CS Right. I have the feeling that as regards Latin America and especially Central America they have not yet come to the final stage of defining their policies. Same impression I did have as regards Near East as well as Middle East.

PM How near are they because they're pretty crucial decisions?

CS I think so far they are concentrating on Lebanon. And on the actual day to day crisis management regarding the Lebanon.. Also I think regarding Namibia and Angola the last stage hasn't been reached as yet and I think it is worthwhile if Peter looks into it a little and tries to influence them. I have praised Peter as the No. 1 expert in that area. <sup>(P.N. Yes)</sup> They are a little bit too friendly with South Africa is my feeling. It is more a feeling than a knowledge Margaret.

PM Yes. But the most urgent thing undoubtedly is the Lebanon <sup>(C.S.: Yes)</sup> and so long as they have the message that they must keep negotiating then I think we'll be very relieved. Because any suggestion that they've stopped negotiating could make it fairly critical.

CS Yes. They have praised the helpful or assisting activities of the Saudis with Damascus.

PM I think they've been extremely good judging by all the messages that have been coming in. But the critical thing is still coming up to the Israeli Election and influence to bear on the Israelis to take it calmly.

CS Yes. My hosts in Washington were rather critical on one Government in the area. As regards Paris, I think we can all count with a rather great amount of continuity, also within the EEC. Mitterand does not want to postpone the European Summit which has been scheduled for the end of June in Luxembourg. <sup>(P.P.: Good)</sup> He says "I will not be able then to take decisions on Agriculture and on the Budget" and I have explained to him that we are not expecting to take decisions then. But that we are expecting Gaston Thorn to table his proposals and that we ourselves would need a couple of months until we come to conclusive decisions afterwards and I said to him I guess this would be done in the Euro Council meeting after that. He will go to Ottawa himself, he will go himself to the European Summit, he will not send Namoy. And he will also go to Mexico to that Cancun meeting.

PM Did you get any feeling that he would adhere to a 1% VAT ceiling?

CS I did not get any feeling, except I got the feeling that he would be as difficult in Agriculture policies as anybody else in France.

(S. Yu)

PM One had already concluded that because the politics are that way. I can only say that I think its going to be extremely difficult both for Fish and Agriculture and Budget, for much longer than we've thought.

CS I think that's possible. As regards the Alliance, I trust you will not see any difference. He was very clear viz a viz the Soviet Union. Very very clear.

PM Good, Yes. And as far as the independent nuclear deterrent?

CS Yes. He also was very clear about the necessity to pursue both elements of the so-called dual track decision of NATO although France is not participating in it. He made it very clear that this was a necessary decision to take and to implement it.

PM Yes. Did you get any feel about the financial and industrial policies which are what are causing so much .....

CS Not really except one. He is determined to defend the franc. And he will stay within the EMS. Otherwise I didn't get a feeling and there were just in the stage to find paper and pencils in their Ministries ..... <sup>Chysson</sup> He hadn't seen the <sup>Quai</sup> ~~case~~ from the inside so far. It's a little bit too early for some of the questions.

PM Yes. And will be still when we meet at Luxembourg I imagine.

CS Yes. Altogether I did not run into any <sup>great</sup> surprise. There was no surprise. There was a rather high amount of continuity in the European, Alliance and international policies. Certainly the emphasis on friendly relations with Israel will be stronger in the Mitterand Government than it was in the Giscard Government. On the other hand he is aware of the necessity to improve the relations with, his personal relations with the Arab States and people. And he mentioned that he is going to send either <sup>Chysson</sup> ~~Chicoau~~ or <sup>Jobert</sup> ~~Jobere~~ - I am not sure I recollect this correctly - either one to a couple of Arab States in order to 'mend his fences' there. He is obviously aware that this also under financial considerations is necessary for France.

PM Yes. Did he give any indication about his attitude towards Palestine?

CS No, not really. I think he needs quite a bit of time for all this.

PM Well, that's not surprising. We'll be able to discuss it with him at Luxembourg.

CS Yes. There are so many people now who haven't been in Government for so many years that the period of adaptation cannot be just a few days.

PM It will take a time. Well altogether Helmut it sounds a very successful tour.

CS Yes. At least no negative impressions.

PM No. Well that's a positive in itself. And you looked very happy in the photographs and the whole reports. That's quite a good thing.

CS I haven't seen the photographs!

PM Oh the photographs are very good. I thought you looked happier with Mitterand than you did .....

CS I have told Mitterand about your and my talk in Chequers Margaret.

PM Oh good.

CS And have told him that you are, as much as we Germans, looking forward to cooperating with him.

PM I hope he received that warmly because it was meant warmly.

CS Yes.

PM Well we'll have to ask him to come to Chequers too to see if he prefers that to No. 10. Well that's all very good news Helmut and you're feeling well?

CS I'm feeling rather well. I have a debate in Parliament tomorrow but we'll have our majority as necessary.

PM I'm sure you will and carry it superbly. Well Helmut thank you very much for phoning.

CS Well of course your Ambassadors will have been briefed already but I thought it was good also to give you a personal account.

PM Oh well it's not only good it's very much appreciated. Thank you very much.

CS Thank you Margaret. Goodbye.

PM Goodbye.

Botschaft  
der Bundesrepublik Deutschland  
Embassy  
of the Federal Republic of Germany

R25/4  
Germany  
London, April 24th, 1981

(4)

MB

Prime Minister  
of

Hand 27/4

Dear Prime Minister,

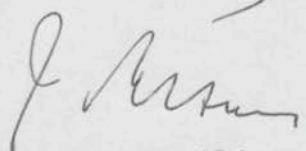
I have the honour to transmit to you the enclosed telegramme from Herr Helmut Schmidt, Chancellor of the Federal Republic of Germany.

A courtesy translation is also attached.

With the renewed assurance of my highest consideration,

I am, dear Prime Minister,

Yours sincerely



Jürgen von Alten  
Chargé d'Affaires a.i.

The Rt. Hon. Margaret Thatcher, MP  
Her Majesty's Prime Minister and  
First Lord of the Treasury

L o n d o n



SUBJECT.

cc. Master set  
opr.

PRIME MINISTER'S  
PERSONAL MESSAGE

Telegram SERIAL No. T 67A/81

von Herrn Helmut Schmidt, Bundeskanzler der  
Bundesrepublik Deutschland  
an The Rt. Hon. Margaret Thatcher, MP, Premierminister

---

Ich danke Ihnen, Frau Premierminister, für die  
Anteilnahme am Tode meines Vaters, Gustav L. Schmidt,  
die mich sehr bewegt hat.

Helmut Schmidt  
Bundeskanzler der  
Bundesrepublik Deutschland

T  
Courtesy translation

Telegramme

from Herr Helmut Schmidt, Chancellor of the  
Federal Republic of Germany

to The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister

---

I thank you, Prime Minister, for the sympathy  
you expressed on the demise of my father,  
Gustav L. Schmidt, which very much moved me.

Helmut Schmidt  
Chancellor of the  
Federal Republic of Germany



Foreign and Commonwealth Office

London SW1A 2AH

15 April 1981

D J Wright Esq  
CABINET OFFICE

1. CAW to see *KWJ 16/4*  
2. PA. *MAP 16/4*

*Dear David,*

## ANGLO-GERMAN CONSULTATIONS: 11-12 MAY

1. I understand that Western European Department have briefly discussed with you the list of subjects for discussion at the Anglo-German Consultations on 11-12 May (Annex A to Sir Michael Palliser's letter of 10 April to Sir Robert Armstrong). The Auswaertiges Amt have now come up with some proposals for minor modifications to that list, as follows:-

- (a) Under European Community questions they would like to add Preparation for the European Council and the Common Format Passport. We agree that the first of these merits adding to the list, but we see no need to discuss the Passport and are telling the Germans so. They have also proposed adding an item on the Outcome of the French Elections under this rubric; but we should prefer to leave it out, partly because it is not a community question in the usual sense of the word, but mainly because the results may not even be known when the consultations begin. It is in any case inevitable that the Chancellor and the Prime Minister will want to discuss the result, but informally and privately. As far as briefing is concerned, we should propose to cover the European Council, and the Passport under Briefs 2(a) and 2(f) respectively. We should not propose to provide separate briefing on the French elections, although account will be taken of the campaign where relevant.
- (b) The Germans have suggested that Section 3 should be extended to 'East-West and West-West Relations', particularly in view of Chancellor Schmidt's planned visit to Washington at the end of the month. This change would not affect the briefing requirement, which can be taken care of under Brief No 4 (US Policies and Transatlantic Relations).

/(c)



- (c) The Germans propose an additional item under this same Section 3 on 'USSR and World Crisis Areas'. Their particular concern is the question of Soviet activities in unstable parts of the Third World. In briefing we shall take account of this suggestion under Brief No 5 (East-West Relations).
- (d) The Germans propose that CSCE and the proposed Conference for Disarmament in Europe should move to Section 4, Security Questions. This does not affect the briefing requirement either.

2. I should be grateful if you could take account of these suggestions which, with the exceptions noted in 1(a) above, the FCO can accept in any future list of the subjects for discussion which you distribute. We shall be passing our comments to the German Embassy.

*Yours ever,  
Barbara*

Barbara Hay  
Assistant Private Secretary  
to the  
Permanent Under Secretary

cc: PS/Sir Douglas Wass GCB  
HM TREASURY

PS/Sir Brian Hayes KCB  
MAFF

PS/Sir Frank Cooper GCB CMG  
MINISTRY OF DEFENCE

PS/Sir Donald Maitland GCMG OBE  
DEPARTMENT OF ENERGY

PS/Sir Peter Carey KCB  
DEPARTMENT OF INDUSTRY

PS/Sir Kenneth Clucas KCB  
DEPARTMENT OF TRADE

C A Whitmore Esq  
10 DOWNING STREET



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6904  
SWITCHBOARD 01-212 7676

14 April 1981

Sir Michael Palliser  
FCO

*Dear Michael,*

ANGLO-GERMAN CONSULTATIONS 11-12 MAY

In Peter Carey's absence I am responding to your letter of 10 April. We are in general agreement about the subject matter and the briefing arrangements for the next Anglo-German Consultation and stand ready to contribute to the individual briefs, where appropriate. We assume that you will be including a specific brief on steel among lists for Item 2. The brief relating to the CAP, Budget Restructuring and Enlargement Questions might be expanded so as to explore German thinking on mechanisms to limit budgetary contributions from Member States. This is an area where we have a lot of interests in common.

Depending on how matters progress, it may be possible to remit the steel question for bilateral discussion between our Secretary of State and his German counterpart.

Since Ministers of Defence will not be able to participate in the discussion, it might be useful if the part of the brief on Defence matters relating to defence sales could be cleared in advance between the FCO, Ministry of Defence and ourselves.

We assume that the usual arrangements will be made for interdepartmental coordination of the steering brief.

I am sending a copy of this letter to the recipients of yours.

*Yours sincerely,*  
*A Gordon Manzie*

A G MANZIE

cc

Sir Robert Armstrong  
Sir Douglas Wass  
Sir Brian Hayes  
Sir Frank Cooper  
Sir Donald Maitland  
Sir Peter Carey  
Sir Kenneth Clucas  
C A Whitmore Esq -

**DRAFT**

**File No.**

Addressed to:

Sir Michael Palliser  
FCO  
London

Copies to:  
Sir Douglas Wass  
Sir Brian Hayes  
Sir Frank Cooper  
Sir Donald Maitland  
Sir Peter Carey  
Sir Kenneth Clucas  
C A Whitmore Esq

Originated by:  
(Initials and date)  
J B I  
14 April 1981

Seen by:  
(Initials and date)

Enclosures :

Type for signature of  
Mr Manzie

.....  
(Initials and date)

DEPARTMENT OF INDUSTRY

ANGLO-GERMAN CONSULTATIONS 11-12TH MAY

We are in general agreement about the subject matter and the briefing arrangements for the next Anglo-German Consultation and stand ready to contribute to the individual briefs, where appropriate. We assume that you will be including a specific brief on steel among lists for Item 2. ~~We would expect to contribute to this.~~ The brief relating to the CAP, Budget Restructuring and Enlargement Questions might be expanded so as to explore German thinking on mechanisms to limit budgetary contributions from Member States. This is an area where we have a lot of interests in common.

2. Depending on how matters progress, it may be possible to remit the steel question for bilateral discussion between our Secretary of State and his German counterpart.

*In Pallis  
Carey's absence  
I am referring to  
your letter to  
10 Apr 81  
J B I*

(CONTINUE TYPING HERE)

File No.

3. Since Ministers of Defence will ~~unfortunately~~ not be able to participate in the discussion, it might be useful if the part of the brief on Defence matters relating to defence sales could be cleared in advance between the FCO, Ministry of Defence and ourselves.

4. We assume that the usual arrangements will be made for interdepartmental coordination of the steering brief.

15 APR 1984





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Goswami  
L. Hamb.



Foreign and Commonwealth Office

London SW1A 2AH

10 April 1981

Sir Robert Armstrong KCB CVO  
CABINET OFFICE

h-  
RMB

Dear Robert,

ANGLO-GERMAN CONSULTATIONS: 11-12 MAY

1. The next in the series of six monthly Anglo-German consultations between the Prime Minister and Chancellor Schmidt will be held in this country on 11-12 May.
2. The Prime Minister has said that she wishes to be accompanied by the Foreign and Commonwealth Secretary; the Chancellor of the Exchequer; the Minister of Agriculture, Fisheries and Food; and the Secretaries of State for Industry and Trade. Unfortunately, Ministers of Defence will not be able to participate because of NATO Ministerial meetings in Brussels. We have told the Germans of our proposed Ministerial team, and expect them to be able to provide appropriate interlocutors. We have however since heard that there may be difficulty in arranging attendance by Agriculture Ministers because of a clash with an Agriculture Council meeting.
3. Planned arrangements for the consultations are as follows. Chancellor Schmidt will arrive at Chequers on Monday 11 May, in time for a tête-à-tête lunch and talks with the Prime Minister. Herr Genscher will be with him, but will go to Bledlow for lunch and talks with Lord Carrington. Other German Ministers will fly direct to London for consultations with their opposite numbers, although we do not expect Herr Matthoefer until the early evening: he and Sir Geoffrey Howe will fly back from the Finance Council to arrive at Chequers in time for the plenary session at 1800. The Foreign Ministers will join the Heads of Government at about 1630, and in the early evening the other Ministers will come to Chequers for a plenary session and the Government dinner. Thereafter we expect the other Ministers to leave, with Chancellor Schmidt and Herr Genscher staying overnight (at Chequers and Bledlow respectively) for a press conference at 0930 on Tuesday morning at RAF Halton. Chancellor Schmidt and Herr Genscher will then leave from RAF Benson.

/4.



4. Following what has now become a well-established pattern, we are drawing up, in consultation with German officials, a list of likely subjects for discussion in place of a formal agenda. The list as it now stands is at Annex A. Probably not all these subjects will be raised. But it would be prudent to cover them all in the briefing, since those that Chancellor Schmidt does not raise may come up in discussions between other Ministers. Chancellor Schmidt's remarks to Sir Jock Taylor during the latter's introductory call suggest that he and Herr Genscher themselves will be hoping for a broad strategic discussion on ways for the Community to repair what they see as its current disarray, and on how it and the Alliance are to cope with the growing political and economic instability of the 1980s. Results of the French Presidential election (2nd Round on 10 May) will become known either immediately before or during the consultations: and the meeting falls usefully in the run-up to Chancellor Schmidt's visit to Washington planned for 20-23 May. Since both heads of Government will have visited Saudi Arabia shortly beforehand, discussion of Middle Eastern affairs, and arms sales to the area, is likely to be fairly high on the agenda.

5. I attach at Annexes B and C our assessment of British and likely German objectives at the meeting, and at Annex D a suggested list of briefs, the preparation of which I assume will be coordinated in the usual way by the Cabinet Office.

*Yours ever,*

*Michael*

Michael Palliser

cc: Sir Douglas Wass GCB  
HM TREASURY

Sir Brian Hayes KCB  
MAFF

Sir Frank Cooper GCB CMG  
MINISTRY OF DEFENCE

Sir Donald Maitland GCMG OBE  
DEPARTMENT OF ENERGY

Sir Peter Carey KCB  
DEPARTMENT OF INDUSTRY

Sir Kenneth Clucas KCB  
DEPARTMENT OF TRADE

C A Whitmore Esq  
10 DOWNING STREET



ANGLO-GERMAN CONSULTATIONS: 11 MAY 1981

## LIST OF SUBJECTS FOR DISCUSSION

1. European Community Questions  
Community Budget, Restructuring and  
CAP reform  
Fisheries (if not settled)  
Enlargement  
Community External Relations  
Steel  
Development of Political Cooperation  
Machinery  
Other internal Community Questions
  
2. Regional Questions  
Afghanistan (including support for Pakistan)  
Iran/Iraq, including Gulf security and  
Iran internal  
Arab/Israel, including Lebanon  
Southern Africa  
Far East  
Latin America and Caribbean
  
3. East-West Relations  
Poland  
Consultation procedures (with the United  
States and within the Alliance generally,  
among the Ten and with Japan)  
CSCE and proposed Conference for Disarmament  
in Europe  
Inner-German relations and Berlin



4. Security Questions

SALT

TNF modernisation and arms control

Other arms limitation negotiations

NATO

Defence procurement collaboration,  
including policy on arms sales

5. Economic Questions

World economic prospects and macro-economic  
policies

International financial questions

International trade questions (including  
EC/Japan)

Relations with developing countries

Energy (including short and long term  
prospects, and international energy  
cooperation machinery)

6. Bilateral relations

Other possibilities for 'thickening up'  
relations (e.g. cooperation in scientific  
or technological research; civil service,  
cultural, and youth exchanges)

British Forces, Germany (BFG)



ANGLO-GERMAN CONSULTATIONS: 11 MAY 1981

UNITED KINGDOM OBJECTIVES

- (a) To remove any misconceptions on Chancellor Schmidt's part about the Government's determination to cooperate fully in the European Community's development and in Europe's response to external political and economic problems.
- (b) To exchange views on restructuring the EC Budget and reform of the CAP with the aim of building on the common ground between us and developing cooperation on these issues.
- (c) To align British and German views on emerging United States' policies and on how to handle current crises (Poland, the Gulf, Afghanistan), East-West relations, the Middle East and Western consultation mechanisms.
- (d) To reach a common assessment of the international economic situation, including energy prospects and policies and our relationship with developing countries and Japan.
- (e) To underline the importance of the British contribution to Western collective defence and to bring British and German views on defence and arms control questions closer together; to be in a position to respond to enquiries from Chancellor Schmidt about Arab, particularly Saudi, interest in Tornado sales.

/(f)



(f) To strengthen the Anglo-German relationship at the top level, to give an impulse to cooperation in other fields, and to encourage Chancellor Schmidt to give greater public emphasis to the value to the FRG of the relationship, comparable to that with other major partners.

ANGLO-GERMAN CONSULTATIONS: 11 MAY

## GERMAN OBJECTIVES

- (a) To coordinate policies on major Community problems (especially budget restructuring and CAP reform) in advance of the United Kingdom Presidency and in the light of the French Presidential elections; and to explore Her Majesty's Government's attitude to the Community generally.
- (b) Given the need for a joint Western strategy in the face of the problems of the 1980's, to reach the widest possible measure of agreement on:
- (i) the developing policies and attitudes of the new United States Administration and their implications;
  - (ii) current world political issues (especially Poland, security issues, Southern Africa); and
  - (iii) current world economic issues e.g. prospects for Ottawa Economic Summit, North/South, OPEC surpluses, interest rates in the major Western economies, inflation, unemployment, prospects for resumed growth etc.
- (c) To assess for themselves the prospects for the United Kingdom economy and for the success of Her Majesty's Government's economic policies.
- (d) To make it clear that Her Majesty's Government's contribution to defence in the central region is appreciated, and to encourage its continuance at at least the present levels.

/(e)



(e) To seek Her Majesty's Government's assessment of the Middle East situation and to probe our intentions on Tornado sales following the Prime Minister's visit to Saudi Arabia.

(f) To develop a closer relationship with British Ministers over a broad front with the object of promoting, with France and the United States, stability in relationships in Europe and across the Atlantic.



ANGLO-GERMAN CONSULTATIONS: 11 MAY

## PROPOSED LIST OF BRIEFS

1. Steering Brief
2. European Community Questions
  - (a) Steering Brief on the European Community
  - (b) The CAP (Reform and Prices) and Restructuring the Community Budget
  - (c) Fisheries
  - (d) Enlargement
  - (e) External Community Questions
  - (f) Other Internal Community Questions
3. Regional Questions
  - (a) Afghanistan/Pakistan
  - (b) Arab/Israel
  - (c) Iran/Iraq and other Middle East questions
  - (d) Southern Africa
  - (e) Latin America and Caribbean
  - (f) Far East
4. United States Policies and Transatlantic Relations
5. East-West Relations
6. International Economic and Financial Questions
7. Relations with developing countries
8. International Energy Questions
9. Defence matters
10. Arms Control and Disarmament
11. United Kingdom/Federal Republic of Germany Bilateral Relations
12. Irish questions
13. FRG Political and Economic Scene

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13 APR 1984

## Cabinet / Cabinet Committee Document

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

Reference: CC(81) 15th Conclusions, Minute 3 (extract)

Date: 9 April 1981

Signed Wayland Date 30 August 2012

**PREM Records Team**

GPS 1340

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FM BONN 071500Z APR 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 242 OF 7 APRIL

AND IMMEDIATE TOKYO (FOR PRIVATE SECRETARY)

INFO IMMEDIATE WASHINGTON PARIS UKREP BRUSSELS

INFO SAVING DUBLIN ROME LUXEMBOURG COPENHAGEN THE HAGUE ATHENS

BURSSELS

*Germany*  
*Positly as before - but*  
*see para 9 about Tomado.*

*Am*

FRG/UK RELATIONS

1. I PAID MY FIRST CALL ON CHANCELLOR SCHMIDT THIS MORNING. THE MEETING LASTED OVER AN HOUR BUT WAS INTERRUPTED BY A NUMBER OF TELEPHONE CALLS.
2. THE CHANCELLOR WAS DEEPLY GLOOMY AND WORRIED ESPECIALLY ABOUT THE COMMUNITY BUT ALSO ABOUT THE ECONOMIC SITUATION. HE SPOKE OF THE UNHAPPY CLIMATE BETWEEN OUR GOVTS AFTER MAASTRICHT. THE ONLY SUBJECT THAT RAISED A GLIMMER OF ENTHUSIAM WAS THE WAY THAT POLITICAL CO-OPERATION IN THE COMMUNITY WAS DEVELOPING. HE WAS PERSONALLY FRIENDLY BUT CLEARLY WANTED TO PUT OVER THE SERIOUSNESS OF HIS DISAPPOINTMENT OVER THE FRG'S RELATIONS WITH THE UK IN PARTICULAR.
3. THE CHANCELLOR BEGAN BY REFERRING TO THE DIFFICULTIES CREATED IN OUR RELATIONS BY THE PROBLEM OF FISH AND STEEL AND WENT ON TO DEVELOP THE THEME THAT THE COMMUNITY ITSELF WAS IN BAD SHAPE. HE SEEMED TO HAVE NO FAITH IN BEING ABLE TO MOVE THINGS FORWARD BECAUSE OF THE ATTITUDES CREATED BY THE ECONOMIC RECESSION WHICH BROUGHT OUT NATIONALISTIC ATTITUDES. IF THINGS WENT ON AS AT PRESENT WE WOULD END UP AS A FREE TRADE AREA WITH EACH COUNTRY PURSUING ITS NATIONAL INTEREST. ON FISHERIES HE SAID THAT HE HAD HOPED THAT THE PRIME MINISTER'S PROPOSAL FOR BRINGING FORWARD THE FISHERIES COUNCIL MEANT THAT WE WOULD HAVE BEEN ABLE TO MAKE SOME FURTHER CONCESSIONS BUT HAD BEEN DISAPPOINTED. HE ADDED THAT HE HAD READ THE HANSARD ACCOUNT OF THE DISCUSSIONS IN MAASTRICHT WHICH READ LIKE A QUOTE STATEMENT OF TRIUMPH UNQUOTE.
4. I EXPLAINED THE IMMENSE EFFORT THAT WE HAD PUT INTO TRYING TO REACH AGREEMENT ON A CFP IN ACCORDANCE WITH THE UNDERTAKING GIVEN BY ALL NINE MEMBERS TO ACHIEVE A SOLUTION. I WAS ALSO ABLE TO EMPHASISE THE IMPORTANCE OF FISHERIES IN THE UK AND THE DIFFICULTIES THAT WERE FACING THE INDUSTRY AND THE MARKET; AND THAT THE NEED FOR A RESOLUTION OF THE PROBLEMS HAD BEEN FORESEEN AND ACCEPTED IN THE COMMUNITY. IT HAD BECOME CLEAR THAT NO AGREEMENT ON THE OVERALL POLICY COULD BE REACHED BEFORE THE FRENCH ELECTION. CHANCELLOR SCHMIDT SHOWED NO DISPOSITION TO BLAME US FOR THE FAILURE TO AGREE ON A CFP OR TO DENY FRENCH RESPONSIBILITIES IN THIS RESPECT BUT HE SEEMS UNABLE (DESPITE EXPLANTIONS) TO UNDERSTAND WHY IT WAS NOT POSSIBLE TO MAKE A GESTURE OVER THE CANADIAN AGREEMENT AND EVIDENTLY CONTINUES TO FEEL THAT HE HAD HAD SOME SORT OF A NOD FROM THE PRIME MINISTER TO ENCOURAGE HIM IN SUCH A BELIEF. I SAID THAT IN

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*/THE UK*

THE UK THERE WAS EQUALLY STRONG FEELING ABOUT THE UNFAIRNESS OF RECENT COMMENT FROM BONN, INCLUDING HIS STATEMENT IN THE BUNDESTAG. I OFFERED TO SEND FURTHER BACKGROUND MATERIAL TO HIS OFFICE AND WILL FOLLOW THIS UP.

5. THE CHANCELLOR SAID THAT HE DID NOT WISH TO PURSUE THIS PARTICULAR DIFFICULTY ANY FURTHER BUT RATHER TO CONCENTRATE ON THE POSITIVE. BEFORE MOVING TO THE POSITIVE, HOWEVER, HE DWELT AT LENGTH ON HIS CONCERN OVER STEEL SUBSIDIES IN THE COMMUNITY. WHEN I EXPLAINED THE MARKET SITUATION AND TH OBJECTIVES AND TIMESCALE OF OUR HELP TO THE BRITISH STEEL CORPORATION HE SAID THAT HE DIVIDED QUOTE SUBSIDIES UNQUOTE INTO THREE TYPES: THOSE FOR REDUNDANCY, THOSE FOR INVESTMENT, AND THOSE FOR RUNNING COSTS. ONLY THOSE FOR REDUNDANCY WAS HE PREPARED TO ACCEPT AS LEGITIMATE. WE TOSSED THIS BALL AROUND FOR SOME TIME. HERR SCHMIDT SAID THAT IT WAS NOT FOR HIM TO SAY WHETHER THE OBJECTIVES OF THE POLICY AND THE FUTURE SIZE OF THE STEEL INDUSTRY IN THE UK WERE RIGHT. HE WAS FACED WITH THE FACT THAT STEEL FROM OTHER COMMUNITY COUNTRIES INCLUDING THE UK WAS BEING SOLD AT A SUBSIDISED PRICE AND HE WOULD EITHER HAVE TO PUT CONTROLS OR GIVE A SUBSIDY TO HIS OWN INDUSTRY. THIS COULD ONLY LEAD IN THE LONGER RUN TO YET MORE SERIOUS DIFFICULTIES IN THE STEEL SECTOR AND THE DESTRUCTION OF A HEALTHY INDUSTRY.

6. TURNING TO THE POSITIVE, THE CHANCELLOR SAID THAT OUR BILATERAL RELATIONS WERE IN GOOD SHAPE AND WE HAD NO DIFFERENCES. HE HAD BEEN BROUGHT UP AS A FRIEND OF BRITAIN AND STILL LIKED BRITAIN GREATLY. I COULD BE ASSURED OF HIS FRIENDSHIP AND READINESS TO RESOLVE ANY DIFFICULTIES THAT MIGHT ARISE. I WAS ABLE TO EMPHASISE THE EXISTING CLOSE CO-OPERATION ON DEFENCE AND POLITICAL QUESTIONS, OUR CONTRIBUTION TO NATO DEFENCE, INCLUDING OUR TROOPS IN GERMANY AND THEIR EQUIPMENT, AND OUR ROLE IN BERLIN. I REMINDED HIM THAT WE HAD 66,000 MEN IN BFG (INCLUDING RAF GERMANY) AND THAT THE ACTUAL STRENGTH OF BAOR WAS 55,000. THE CHANCELLOR TOOK THIS ON BOARD WITH AN EXPRESSION OF SOME SURPRISE THAT THE NUMBERS WERE SO HIGH.

7. WHEN I EMPHASISED THE COMMITMENT OF HMG TO THE COMMUNITY AND ITS DEVELOPEMENT, HE AGAIN BECAME DOUBTFUL. HE FORESAW PROBLEMS OVER THE ARRANGEMENTS FOR THE BRITISH CONTRIBUTION TO THE COMMUNITY FOR NEXT YEAR, ADDING THAT GERMANY WAS NOT A RUBBER BAND THAT COULD BE INDEFINITELY STRECHED. I SAID THAT WE HAD A COMMON INTEREST IN RESTRUCTURING AND THAT WE WERE INTERESTED IN THE REMARKS HE HAD MADE TO THE BUNDESTAG OVER NET CONTRIBUTIONS. WE HOPED WE COULD CONTINUE THE CONTACTS BETWEEN OUR GOVERNMENTS AND BETWEEN HIS OWN OFFICE AND THE CABINET OFFICE OVER THE RESTRUCTURING PROBLEM AND REFORM OF THE CAP. HE WELCOMED THIS. ON LAST WEEK'S CAP SETTLEMENT HE SAID THAT HE WAS PLEASED ABOUT THIS SO FAR AS GERMANY WAS CONCERNED SINCE, BY THE REVALUATION OF THE GREEN MARK, GERMANY HAD BEEN ABLE TO KEEP THE PRICE RISES IN THE FEDERAL REPUBLIC TO FOUR AND A HALF PERCENT COMPARED WITH THE COST OF LIVING INDEX RISE OF FIVE AND A HALF. I POINTED OUT THAT THE RISE IN BRITISH FARM PRICES WAS EVEN LOWER IN RELATION TO THE RISE IN COSTS AND SAID THAT WE HAD BEEN DISAPPOINTED NOT TO GET THE EXPECTED GERMAN SUPPORT IN TRYING TO HOLD PRICE RISES FURTHER DOWN. HE DID NOT REACT, THOUGH AT A LATER

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POINT HE REALISED THAT WE MIGHT SOMETIMES BE DISAPPOINTED ABOUT GERMAN ATTITUDES ALSO.

8. WE ALSO HAD A BRIEF DISCUSSION ON THE OIL SITUATION AND I SAID THAT I HOPED THAT HE NO LONGER MISUNDERSTOOD THE POLICIES THAT WE WERE FOLLOWING IN THE NORTH SEA. HE SAID HE WAS PERFECTLY CONTENT BUT THAT THERE HAD BEEN ONE MOMENT A YEAR OR MORE AGO WHEN IT HAD SEEMED TO HIM THAT WE WERE LEADING AND NOT FOLLOWING OPEC. HE SAID THAT IN ANY CASE HE ACCEPTED THAT WE WERE QUOTE HONORARY MEMBERS OF OPEC UNQUOTE. I SAID THAT THIS WAS A MOST UNFAIR REMARK. OUR INTERESTS WERE TOTALLY DIFFERENT FROM OPEC'S - THEY WERE IDENTICAL TO THOSE OF OUR PARTNERS. SURELY HE DID NOT WISH US TO DISTORT THE MARKET BY PREVENTING THE COMPANIES FROM FOLLOWING THE MARKET PRICE? IN ANY CASE THE AMOUNT OF OIL INVOLVED COULD NOT AFFECT THE DEVELOPMENT OF OPEC PRICES. I FOUND HIM SLIGHTLY RELUCTANT TO ACCEPT THE LATTER POINT AND ARGUING THAT IN TERMS OF EUROPEAN CONSUMPTION THE CONTRIBUTION OF THE UK, NORWAY AND THE NETHERLANDS TO TOTAL ENERGY REQUIREMENTS WAS NOT INSIGNIFICANT. IT SEEMS THAT AT THE BACK OF HIS MIND HE STILL HAS A FEELING THAT WE COULD DO MORE, BUT THIS IS NOT AN ISSUE HE WANTS TO PURSUE.

9. IN DISCUSSING THE ECONOMY AND DEFENCE, THE QUESTION OF THE COST OF MILITARY EQUIPMENT CAME UP. THE CHANCELLOR SAID THAT CO-OPERATIVE PRODUCTION, ALTHOUGH POLITICALLY DESIRABLE, WAS ECONOMICALLY RUINOUS, AND HE DID NOT THINK THAT GERMANY SHOULD GO IN FOR ANY MORE JOINT PROJECTS. THE CONSTANT CHANGE IN MILITARY MANAGERS OF SUCH JOINT PROJECTS MADE IT ALMOST IMPOSSIBLE TO KEEP PROPER CONTROL. IN AN IDEAL WORLD WE WOULD LET ONE COUNTRY DEVELOP A WEAPON AND OTHERS WOULD BUY IT. THIS LEAD ON TO A DISCUSSION OF TORNADO AND I MENTIONED THE PROBLEM OF GERMAN AGREEMENT TO EXPORTS AND THE EXCHANGE OF CORRESPONDENCE HE HAD HAD WITH THE PRIME MINISTER. HE APPEARED SURPRISED WHEN I DESCRIBED THIS AS A PROBLEM, SAYING THAT SURELY WE WERE NOT SERIOUSLY PROPOSING TO SELL TORNADO IN THE ARAB WORLD. HE HAD SUPPOSED THAT THIS WAS MERELY A POLITICAL GESTURE. IF, AS HE BELIEVED THE TORNADO WAS THE BEST FIGHTING AIRCRAFT AVAILABLE AT THE MOMENT, THERE WOULD SURELY BE SECURITY OBJECTIONS TO SUCH A SALE. I SAID THAT I UNDERSTOOD WE THOUGHT ANY SECURITY PROBLEMS COULD BE OVERCOME BUT THE CHANCELLOR SEEMED UNCONVINCED. HE SAID THAT THE SAUDIS APPARENTLY HAD NO INTEREST IN ACQUIRING TORNADO: ON THE OTHER HAND, FOR REASONS HE DID NOT UNDERSTAND, THEY SEEMED TO WANT LEOPARD TANKS. HE WOULD NEVER AGREE TO SELL LEOPARD 11 TANKS TO SAUDI ARABIA SINCE HE BELIEVED THEY WERE THE BEST TANK WE HAD AT PRESENT. HE DID NOT REALLY WANT TO SELL TANKS AND IF AT ALL, HE WOULD ONLY SELL THEM LEOPARD 1. IN THE GULF AREA THERE WAS ALWAYS THE DANGER THAT THE EQUIPMENT COULD FALL INTO THE WRONG HANDS, AND A SAMPLE COULD FIND ITS WAY TO THE SOVIET UNION. I SAID THAT WE WERE SERIOUS OVER THE SALE OF TORNADO AND THAT I COULD, IF HE WISHED, GET MORE INFORMATION ON THE SECURITY ASPECT.

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10. AT THE END OF OUR MEETING, WHEN ANOTHER VISITOR HAD BEEN ANNOUNCED, THE CHANCELLOR ASKED ME TO LET VON DER GABLENTZ IN HIS OFFICE HAVE ANY FURTHER POINTS THAT I HAD NOT HAD TIME TO MAKE TO HIM. I HAVE WRITTEN TO VON DER GABLENTZ TO PASS ON YOUR MESSAGE ABOUT THE FRENCH ATTITUDE ON THE RESOLUTION OF THE FISH PROBLEM (RECEIVED HERE BY TELECON LAING-HUNTER AFTER MY CALL). I HAVE ALSO COVERED THE NORTHERN IRELAND POINT IN THIS WAY. THE CHANCELLOR'S REQUEST ALSO ALLOWS ME TO RE-EMPHASISE SOME OF THE POINTS MADE IN FCO BRIEFING.

11. MY OVERALL IMPRESSION IS THAT THE CHANCELLOR IS STILL FEELING MIFFED OVER FISH AND THAT THIS REINFORCES LATENT DOUBTS ABOUT OUR ATTITUDE TO EUROPE GENERALLY. BUT I DO NOT THINK HE HAS GIVEN US UP. YOUR VISIT LATER THIS MONTH WILL BE A VALUABLE OPPORTUNITY TO PUT HIM STRAIGHT ABOUT OUR COMMITMENT TO EUROPE AND ABOUT OUR POLICIES GENERALLY, AND THUS PAVE THE WAY FOR A CONSTRUCTIVE MEETING AT CHEQUERS NEXT MONTH.  
FCO PASS SAVING TO EC POSTS ABOVE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 242 OF 7 APRIL

AND IMMEDIATE TOKYO (FOR PRIVATE SECRETARY)

INFO IMMEDIATE WASHINGTON PARIS UKREP BRUSSELS

INFO SAVING DUBLIN ROME LUXEMBOURG COPENHAGEN THE HAGUE ATHENS  
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6. TURNING TO THE POSITIVE, THE CHANCELLOR SAID THAT OUR BILATERAL RELATIONS WERE IN GOOD SHAPE AND WE HAD NO DIFFERENCES. HE HAD BEEN BROUGHT UP AS A FRIEND OF BRITAIN AND STILL LIKED BRITAIN GREATLY.

I COULD BE ASSURED OF HIS FRIENDSHIP AND READINESS TO RESOLVE ANY DIFFICULTIES THAT MIGHT ARISE. I WAS ABLE TO EMPHASISE THE EXISTING CLOSE CO-OPERATION ON DEFENCE AND POLITICAL QUESTIONS, OUR CONTRIBUTION TO NATO DEFENCE, INCLUDING OUR TROOPS IN GERMANY AND THEIR EQUIPMENT, AND OUR ROLE IN BERLIN. I REMINDED HIM THAT WE HAD 66,000 MEN IN BFG (INCLUDING RAF GERMANY) AND THAT THE ACTUAL STRENGTH OF BAOR WAS 55,000. THE CHANCELLOR TOOK THIS ON BOARD WITH AN EXPRESSION OF SOME SURPRISE THAT THE NUMBERS WERE SO HIGH.

7. WHEN I EMPHASISED THE COMMITMENT OF HMG TO THE COMMUNITY AND ITS DEVELOPEMENT, HE AGAIN BECAME DOUBTFUL. HE FORESAW PROBLEMS OVER THE ARRANGEMENTS FOR THE BRITISH CONTRIBUTION TO THE COMMUNITY FOR NEXT YEAR, ADDING THAT GERMANY WAS NOT A RUBBER BAND THAT COULD BE INDEFINITELY STRECHED. I SAID THAT WE HAD A COMMON INTEREST IN RESTRUCTURING AND THAT WE WERE INTERESTED IN THE REMARKS HE HAD MADE TO THE BUNDESTAG OVER NET CONTRIBUTIONS. WE HOPED WE COULD CONTINUE THE CONTACTS BETWEEN OUR GOVERNMENTS AND BETWEEN HIS OWN OFFICE AND THE CABINET OFFICE OVER THE RESTRUCTURING PROBLEM AND REFORM OF THE CAP. HE WELCOMED THIS. ON LAST WEEK'S CAP SETTLEMENT HE SAID THAT HE WAS PLEASED ABOUT THIS SO FAR AS GERMANY WAS CONCERNED SINCE, BY THE REVALUATION OF THE GREEN MARK, GERMANY HAD BEEN ABLE TO KEEP THE PRICE RISES IN THE FEDERAL REPUBLIC TO FOUR AND A HALF PERCENT COMPARED WITH THE COST OF LIVING INDEX RISE OF FIVE AND A HALF. I POINTED OUT THAT THE RISE IN BRITISH FARM PRICES WAS EVEN LOWER IN RELATION TO THE RISE IN COSTS AND SAID THAT WE HAD BEEN DISAPPOINTED NOT TO GET THE EXPECTED GERMAN SUPPORT IN TRYING TO HOLD PRICE RISES FURTHER DOWN. HE DID NOT REACT, THOUGH AT A LATER

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/POINT

CONFIDENTIAL

POINT HE REALISED THAT WE MIGHT SOMETIMES BE DISAPPOINTED ABOUT GERMAN ATTITUDES ALSO.

8. WE ALSO HAD A BRIEF DISCUSSION ON THE OIL SITUATION AND I SAID THAT I HOPED THAT HE NO LONGER MISUNDERSTOOD THE POLICIES THAT WE WERE FOLLOWING IN THE NORTH SEA. HE SAID HE WAS PERFECTLY CONTENT BUT THAT THERE HAD BEEN ONE MOMENT A YEAR OR MORE AGO WHEN IT HAD SEEMED TO HIM THAT WE WERE LEADING AND NOT FOLLOWING OPEC. HE SAID THAT IN ANY CASE HE ACCEPTED THAT WE WERE QUOTE HONORARY MEMBERS OF OPEC UNQUOTE. I SAID THAT THIS WAS A MOST UNFAIR REMARK. OUR INTERESTS WERE TOTALLY DIFFERENT FROM OPEC'S - THEY WERE IDENTICAL TO THOSE OF OUR PARTNERS. SURELY HE DID NOT WISH US TO DISTORT THE MARKET BY PREVENTING THE COMPANIES FROM FOLLOWING THE MARKET PRICE? IN ANY CASE THE AMOUNT OF OIL INVOLVED COULD NOT AFFECT THE DEVELOPMENT OF OPEC PRICES. I FOUND HIM SLIGHTLY RELUCTANT TO ACCEPT THE LATTER POINT AND ARGUING THAT IN TERMS OF EUROPEAN CONSUMPTION THE CONTRIBUTION OF THE UK, NORWAY AND THE NETHERLANDS TO TOTAL ENERGY REQUIREMENTS WAS NOT INSIGNIFICANT. IT SEEMS THAT AT THE BACK OF HIS MIND HE STILL HAS A FEELING THAT WE COULD DO MORE, BUT THIS IS NOT AN ISSUE HE WANTS TO PURSUE.

9. IN DISCUSSING THE ECONOMY AND DEFENCE, THE QUESTION OF THE COST OF MILITARY EQUIPMENT CAME UP. THE CHANCELLOR SAID THAT CO-OPERATIVE PRODUCTION, ALTHOUGH POLITICALLY DESIRABLE, WAS ECONOMICALLY RUINOUS, AND HE DID NOT THINK THAT GERMANY SHOULD GO IN FOR ANY MORE JOINT PROJECTS. THE CONSTANT CHANGE IN MILITARY MANAGERS OF SUCH JOINT PROJECTS MADE IT ALMOST IMPOSSIBLE TO KEEP PROPER CONTROL. IN AN IDEAL WORLD WE WOULD LET ONE COUNTRY DEVELOP A WEAPON AND OTHERS WOULD BUY IT. THIS LEAD ON TO A DISCUSSION OF TORNADO AND I MENTIONED THE PROBLEM OF GERMAN AGREEMENT TO EXPORTS AND THE EXCHANGE OF CORRESPONDENCE HE HAD HAD WITH THE PRIME MINISTER. HE APPEARED SURPRISED WHEN I DESCRIBED THIS AS A PROBLEM, SAYING THAT SURELY WE WERE NOT SERIOUSLY PROPOSING TO SELL TORNADO IN THE ARAB WORLD. HE HAD SUPPOSED THAT THIS WAS MERELY A POLITICAL GESTURE. IF, AS HE BELIEVED THE TORNADO WAS THE BEST FIGHTING AIRCRAFT AVAILABLE AT THE MOMENT, THERE WOULD SURELY BE SECURITY OBJECTIONS TO SUCH A SALE. I SAID THAT I UNDERSTOOD WE THOUGHT ANY SECURITY PROBLEMS COULD BE OVERCOME BUT THE CHANCELLOR SEEMED UNCONVINCED. HE SAID THAT THE SAUDIS APPARENTLY HAD NO INTEREST IN ACQUIRING TORNADO: ON THE OTHER HAND, FOR REASONS HE DID NOT UNDERSTAND, THEY SEEMED TO WANT LEOPARD TANKS. HE WOULD NEVER AGREE TO SELL LEOPARD 11 TANKS TO SAUDI ARABIA SINCE HE BELIEVED THEY WERE THE BEST TANK WE HAD AT PRESENT. HE DID NOT REALLY WANT TO SELL TANKS AND IF AT ALL, HE WOULD ONLY SELL THEM LEOPARD 1. IN THE GULF AREA THERE WAS ALWAYS THE DANGER THAT THE EQUIPMENT COULD FALL INTO THE WRONG HANDS, AND A SAMPLE COULD FIND ITS WAY TO THE SOVIET UNION. I SAID THAT WE WERE SERIOUS OVER THE SALE OF TORNADO AND THAT I COULD, IF HE WISHED, GET MORE INFORMATION ON THE SECURITY ASPECT.

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10. AT THE END OF OUR MEETING, WHEN ANOTHER VISITOR HAD BEEN ANNOUNCED, THE CHANCELLOR ASKED ME TO LET VON DER GABLENTZ IN HIS OFFICE HAVE ANY FURTHER POINTS THAT I HAD NOT HAD TIME TO MAKE TO HIM. I HAVE WRITTEN TO VON DER GABLENTZ TO PASS ON YOUR MESSAGE ABOUT THE FRENCH ATTITUDE ON THE RESOLUTION OF THE FISH PROBLEM (RECEIVED HERE BY TELECON LAING-HUNTER AFTER MY CALL). I HAVE ALSO COVERED THE NORTHERN IRELAND POINT IN THIS WAY. THE CHANCELLOR'S REQUEST ALSO ALLOWS ME TO RE-EMPHASISE SOME OF THE POINTS MADE IN FCO BRIEFING.

11. MY OVERALL IMPRESSION IS THAT THE CHANCELLOR IS STILL FEELING MIFFED OVER FISH AND THAT THIS REINFORCES LATENT DOUBTS ABOUT OUR ATTITUDE TO EUROPE GENERALLY. BUT I DO NOT THINK HE HAS GIVEN US UP. YOUR VISIT LATER THIS MONTH WILL BE A VALUABLE OPPORTUNITY TO PUT HIM STRAIGHT ABOUT OUR COMMITMENT TO EUROPE AND ABOUT OUR POLICIES GENERALLY, AND THUS PAVE THE WAY FOR A CONSTRUCTIVE MEETING AT CHEQUERS NEXT MONTH.  
FCO PASS SAVING TO EC POSTS ABOVE

TAYLOR

FCO/WHITEHALL D

WED

[REPEATED AS  
REQUESTED]

4

CONFIDENTIAL

Germany



Foreign and Commonwealth Office

London SW1A 2AH

26 March 1981

(1)

Prime Minister

The duty clerk has a copy ready for despatch if you are content

Dear Michael,

with the list

Agreed not sent 26/3

I told you this morning that Chancellor Schmidt's father died last night. I attach a draft message from the Prime Minister in the form of a telegram which, if the Prime Minister agrees, you may wish to despatch to Bonn.

Yours ever,

(F N Richards)  
Private Secretary

Fr.  
Rich

M O'D B Alexander Esq  
10 Downing St

original amended not

# OUT TELEGRAM

	Classification and Caveats UNCLASSIFIED	Precedence/Deskby IMMEDIATE
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ZCZC  
GRS  
CLASS  
CAVEATS  
DESKBY  
FM FCO  
PRE/ADD  
TEL NO

1	ZCZC
2	GRS
3	UNCLASSIFIED
4	
5	
6	FM FCO            MARCH 81
7	TO IMMEDIATE BONN
8	TELEGRAM NUMBER
9	1.     Please pass the following message from the Prime Minister
10	to Chancellor Schmidt:
11	Begins. I was saddened to hear of the death of your
12	father. Despite his ripe old age, I know what <sup>sorrow</sup> this
13	bereavement <sup>will bring</sup> <del>must mean</del> to you. Please accept my sincere
14	condolences. Ends.
15	
16	CARRINGTON
17	NNNN
18	
19	
20	
21	
22	///
23	//
24	/
25	

NNNN ends telegram	BLANK	Catchword
File number	Dept S/S Office	Distribution
Drafted by (Block capitals) F N Richards		
Telephone number 233 4831		
Authorised for despatch		
Comcen reference	Time of despatch	

*Germany*



Foreign and Commonwealth Office

London SW1A 2AH

6 March 1981

(4)

Dear Michael,

Prime Minister  
Worth reading in full, tho' nothing  
really new.

Sir O Wright's Valedictory Despatch

*Print - 9/13*

I enclose a copy of Sir Oliver Wright's valedictory despatch. We shall be making the usual arrangements to have it printed; meanwhile the Prime Minister may like to have an advance copy.

Yours ever,

*Francis P. [Signature]*  
(F N Richardson)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street  
LONDON  
SW1

*Richard / Ask Oliver this week to one of our divisions. And Oliver to see me - before mt.*

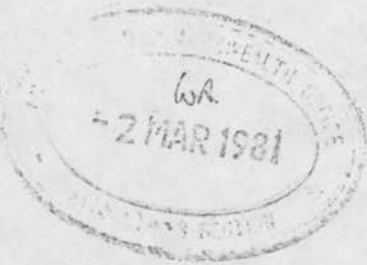
*Arranged for 1645 on Thursday 19 March. No to. Yes brief required.*

*(B/F 18/3/81)*

*EP 16/3*

*Mr. Kinnear (unread)*

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## VALEDICTORY DESPATCH

### SUMMARY

1. "The Germans are a tragic people". Our image of the Federal Republic of Germany may be out of date (paras 1-3)
2. Basic political stability still exists, but it is starting to fray at the edges. Problems in the SPD, within the Coalition and on the streets (paras 4-8)
3. Economic strength remains formidable but shows vulnerability to domestic and external pressures. The DM weak on balance of payments and "Polish fears". (paras 9-11)
4. In foreign affairs, dependent on a tolerable relationship between the superpowers. The FRG fears the Reagan Administration's emphasis on military strength and the possibility of a Russian intervention in Poland (paras 12-14)
5. Time for a change. A CDU Government probably in our interests (paras 15-19)
6. Britain has yet to establish its European credentials here. Main assets: British Forces Germany and the British Council (paras 20-21)
7. Valette (paras 22-24)

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BRITISH EMBASSY,  
BONN.

27 February 1981

The Right Honourable The Lord Carrington KCMG MC  
Secretary of State for Foreign and Commonwealth Affairs  
London SW1

My Lord,

"Die Deutschen sind ein tragisches Volk"

1. "The Germans are a tragic people" said Josef Ertl, that cheerful and portly Bavarian, in private conversation on 28 January. We were sitting together at President Carstens' traditional Green Week dinner at Schloss Bellevue in Berlin; and the President, that lean and serious-minded Hanseate from Bremen, sitting on the other side of me, agreed. We had been discussing events in Poland and had already come to the conclusion that the Poles were a tragic people. Now, as so often here, introspection took over. I tried to imagine a similar conversation transposed to a Gala banquet at Buckingham Palace, with the British Minister of Agriculture leaning across an Ambassador to the Court of St James's and saying to the Queen: "The British are a tragic people".

2. You may well laugh. Even so, if the definition of tragedy in dramatic literature is the disastrous consequences

/of the

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of the hero's actions due to a fatal flaw in his own character (eg Macbeth) then, by extension, the German nation, in its present division into two states, one democratic, the other communist, separated from each other by wall and wire and watchtowers and minefields and guard dogs, illustrates the tragic consequences of its own enthusiastic espousal of Nazism nearly 50 years ago. There are differences of experience and perspective. Germans can never forget them; nor should we.

3. Psychoanalysis apart, life has to go on. And life goes on in the Federal Republic of Germany. Since all life is change, things are changing here. The success story of the post-war world is still successful. Shiny Mercedes rush aggressively up and down the autobahns. Shiny fur coats ostentatiously grace public occasions. The embourgeoisement of West German society is complete: only in the Turkish ghettos does proletarian life continue, and carry within itself the seeds of future trouble. Equally widespread is a disbelief that this success can last, though a bottle or two of Berncastler Doctor Auslese may be needed to bring it to the surface. A recent essay in the Sunday magazine supplement of "Die Welt am Sonntag" was entitled: "Die Angst der Deutschen vor dem Glück", which, roughly translated means "the Germans' anxiety at the prospect of happiness". The basic political stability is still there, but it is starting to erode at the edges. The economic strength remains formidable, but it is beginning to show vulnerability to both domestic and external pressures. The social cohesion endures, but streetfighting with the police

/is



is becoming more frequent. There is always a time-lag between reality and image. The FRG is too important to us in Britain for our view of this ally and partner to be based on the received image: for the image may be flawed and out of date.

#### Political discontents

4. The rot, if rot it is, has started at the top: in the Government and more especially in the senior party in the Government coalition. The election result increasingly looks like proving the loser's verdict correct: a pyrrhic victory, said Strauss. The SPD parliamentary party came back to the Bundestag dissatisfied with its own and its Chancellor's performance. They were dissatisfied with the electorate for preferring Schmidt-and-Genscher to Schmidt-and-the-SPD and dissatisfied with Schmidt for making it so obvious to anyone watching the election returns on television that he was delighted with a result that dissatisfied his party. Since the option, in Brecht's cynical suggestion, of electing the people out of power and getting another one, does not exist, they have seemed determined to get their own back on Schmidt by making it difficult for him to govern. There are, therefore, scarcely four months after a decisive victory, tensions within the SPD and tensions between the SPD and the junior coalition partner, the FDP.

5. Moreover the top leadership of the SPD - Brandt, Chairman of the Party and responsible for galvanising the grass roots;

/Wehner,



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Wehner, leader of the parliamentary party and responsible for discipline in the Bundestag; and Schmidt, responsible for running the government - seems to have lost touch with each other and interest in regaining it. Brandt, "with both feet planted firmly in the clouds", as one wag put it, increasingly prefers international accolades for his past services to mankind to the hard graft of party work at home: he looks more and more like a burnt-out case. Wehner, approaching 75, clearly does not know when to call it a day and now has to rely more on anger and threats than on natural authority to turn out the vote in the lobbies. He has been heard to compare the present state of the SPD with that of the Labour Party; an exaggeration, but the SPD is in government not opposition. Schmidt, for all his undoubted gifts, is physically in indifferent health, and the cumulative effect of being in government for over 11 years and running it for over 6 is beginning to tell. There are limits to the number of times he can call his party to heel by threatening them with a vote of confidence in the Bundestag. He who once knew all the answers seeks a successor to Keynes and does not find him in Friedman. There is a lot to be said for a compulsory retirement age.

6. Away from Bonn, the SPD looks none too good either. In Berlin, the local party nearly destroyed itself through jobbery and kindred corruption and had to be saved by a rescue operation from Bonn; but at the cost of weakening the SPD component of the Federal Cabinet. In Hamburg the local SPD is at odds with

/government

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government policy over the building of a nuclear power station: Schmidt is on a hiding to nothing: either he loses Hamburg's Mayor or part of his energy policy. Either way, the smack of firm government is lacking. Bremen, another SPD stronghold, may be next.

7. The tribulation of the senior partner in the Government is having its effect on the junior partner and threatens to turn sour the sweets of victory. The FDP also has a left and a right wing. In managing his party, Genscher has to balance the wishes of the left wing, under the Minister of the Interior, Baum, who do not want to embarrass the SPD, against the insistence of the right wing, under the Minister of the Economy, Lambsdorff, that the SPD come good on the agreed government programme. Genscher had his troubles in Berlin too. The FDP there were also up to their eyes in jobbery and the egregious Brunner, ex-EC Commissioner, had to be despatched in haste to take over as Bürgermeister from the discredited Lüder. Genscher's attempt to get someone of comparable distinction to take over the Chairmanship of the local party failed: Hoppe refused to budge from Bonn. I can't say I blame him. No wonder I found Genscher pre-occupied when he gave his farewell dinner for me on 4 February. Of course, he may simply have been bored with my company.

8. Trouble in the political establishment has been paralleled by trouble in the streets. In Berlin, squatters have clashed with the police in protest against housing conditions. In Frankfurt, the demonstrations are directed against American policy

/in



in El Salvador; in Hamburg against nuclear energy; in Bremen against oath-taking ceremonies for the Federal Armed Services. Police chiefs, mopping their brows, say it is too much. Some people claim to have seen the same faces in the stone-throwing crowds, identifying a sort of rent-a-mob charging round the country heaving bricks at policemen in different cities on different pretexts, and speculate darkly about a communist-directed conspiracy. More worrying, in view of the FRG's central position in NATO, are signs of an increasing pacifism among the young, aided and abetted by the unworldliness of the Churches. A quarter century of peace and good living is not the best context for increased defence expenditure.

#### Economic discontents

9. The image of the FRG in the outside world is of the country which performed the economic miracle of the 50s and 60s and overcame the structural challenges of the first oil price shock of the early 70s with the grace and power of a thoroughbred. Management is still energetic and the workforce sensible, but the second oil price shock of the late 70s has left the FRG with a colossal balance of payments deficit and a weak DM. In 1981, the economy is expected to record negative growth for only the third time in the existence of the FRG. In fact all four components of the magic quadrilateral - growth, unemployment, balance of payments and inflation - are behaving unfavourably; and no relief is in sight.

10. Official forecasts speak hopefully of an upturn in the second half of 1981. Industrial spokesmen reaffirm their

/faith



faith in the working of the market economy. All say that this qualified but purposeful optimism is based on two assumptions: no further oil price shocks and no Soviet intervention in Poland. For the DM, once the paragon of currencies, is weak and at the bottom of the EMS, not least, as the "Financial Times" has been reporting for weeks "on Polish fears": the pink 'un is dead right.

11. This economic outlook cannot, of course, fail to have its feedback into the political uncertainties. What to do about the economy is already adding to the strains within the SPD. Schmidt and his Minister of Finance, Matthöfer, by practicing financial rectitude, are having to govern against the grain of their supporters in the parliamentary party and in the country. They cannot lower interest rates to get the economy moving for fear of adding to the outflow of capital. They have had to tighten liquidity for external reasons and thus delayed the domestic upturn. Billions of deutsche Marks ready for investment in power stations and autobahns are blocked by court cases and environmentalist demonstrators. The ship of state is "in irons" and the ship's company is squabbling.

#### Foreign discontents

12. As if that were not enough to be going on with, there is nought for their comfort in the state of the world, as seen from Bonn. As a divided nation situated on the fault line of Europe, West Germans are more dependent than most on a tolerable relationship between the Super Powers. Yet neither what they know of the plans of the Reagan Administration for the

/management



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management of that relationship nor what they fear about a Soviet intervention in Poland provides much reassurance.

13. Schmidt's satisfaction at the defeat of Carter and his hope for a better understanding with Reagan hardly survived the 20th of January. Reagan's description of the Soviet leadership as liars and cheats does not fit Schmidt's perception of Brezhnev and company. Weinberger's remarks on the neutron bomb, however "off the cuff" and subsequently declared to be non-operational, sent a shiver of apprehension round governmental circles here. Schmidt expended a great deal of political capital in 1978 in bringing the SPD round to an acceptance of the ERW: he has little political capital left to expend if there is to be a re-run. Curiously enough, French hints of a development of their own enhanced radiation weapon hardly caused a ripple here: but then, double standards are normal where the French are concerned. Schmidt's defence philosophy is based on a double balance: a military balance between East and West, to which the FRG continues to make an outstanding contribution; and an armaments balance between weapons modernisation and arms control. The signals out of Washington so far, even from his friend Haig, add to rather than reduce uncertainties and apprehensions. The years of bad relations with the Carter Administration are also taking their toll: for the first time in my experience, there is an incipient anti-Americanism here.

14. Eastward too the land is dark. If Poland descends into anarchy, the prospects of Soviet intervention grow stronger.

/Soviet

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Soviet intervention on its own would be bad enough, with its repercussions on relationships with the other half of the German nation, Schmidt's "17 million hostages", and on Berlin. The real nightmare here is of a possible GDR intervention in Poland, as happened in Czechoslovakia, in support of the Red Army. The very idea of Germans invading Poland for a second time within living memory numbs the West German mind. All talk readily about the magnitude of the psychological shock: none care to translate the shock into practical consequences.

#### Time for a Change

15. A week is, of course, a long time in politics. Brezhnev's speech to his Party Congress and the initial American response have brought a sigh of relief here. The appointment of General Jaruzelski Poland's third Prime Minister in four months seems to Germans to have given everybody another chance. German pessimism can in present circumstances be a source of strength: expecting as they always do the worst to happen, they plan and prepare accordingly and hence things have a way of turning out better for them in real life than their own imaginations forecast. There may from time to time be technical corrections but the overall bear market composed of political strain, economic uncertainties and foreign fears seems likely to persist.

16. In my Annual Review, posted to you less than two months ago, I wrote that the only sensible working assumption was that we should be doing business with a Schmidt-Genscher Government

/until



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until 1984. That assumption is no longer as valid as it was. I also sent an advance warning that we should not rule out an earlier disintegration. Disintegration has in fact spread more swiftly than I had bargained for. Of course, the imperatives of power will tend to make the Government hang together. An emergency meeting of the SPD Executive has sought to bring order into the chaos; the last such emergency meeting was in 1974 just before Brandt fell. Moreover, the Government has a majority of 45. And the constitutional processes here do not make changing the government in mid-term easy. Nonetheless it has been done once before, in 1972, and doubtless can be done again. There is already a sense of "time for a change" in the air. The famous virtues of objectivity, order and decency are looking distinctly tatty. The odds against this government lasting until 1984 have appreciably lengthened.

17. So long as Schmidt remains Chancellor it is with him and with his government that we have to do business. It is for the West German electorate to decide whom they want to govern them. But if, as I expect, and when, which I cannot precisely predict, the electorate decides on a change, then I do not think that Her Majesty's Government need entertain any apprehension about doing business with a CDU government. It has been done before and can be done again. Moreover, the CDU is a Government-in-Reserve not an Opposition. In all matters of major concern to us - NATO, the EC, Berlin, the world economy - there will be a great deal of continuity when Kohl takes over from Schmidt.

/And

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And where there is a change of emphasis, it should on the whole be beneficial to our interests.

18. A CDU Government will, for example, place more rather than less emphasis on defence and, while mindful of German interests, will be closer in philosophy to the Reagan administration. It will observe the Eastern Treaties and wish us to uphold the Quadripartite Agreement in Berlin, but it will not have invested as much emotional capital in Ostpolitik and so will be less vulnerable to Soviet pressures. It will remain committed to the European Community and to the Franco-German special relationship at the core of it, but the personal Schmidt-Giscard relationship will be broken, and the Germans will no longer be so emotionally over-invested in France nor so subject to French blackmail. In economic matters, both at home and abroad, it will be even more strongly committed to the social market economy; after all, Erhard invented it. Above all, a change of government here will clear the air. And the West German air needs clearing at present, for the sake of the West Germans themselves and of their partners and allies.

19. Of course, a change of government cannot change the facts of life. Problems will remain and there are plenty of them. And a CDU government will be composed of Germans with the German psychology. But I need not go into all that again. In any case, my successor may have different views.

#### Anglo-German Relations

20. As I leave there are pluses and minuses in the Anglo-German relationship. For good or ill, the life and

/future



future of Britain and the life and future of the FRG are inextricably linked: - in Berlin, in NATO, in the European Community and in two-way trade and investment. On the negative side, our European credentials are by no means yet established here: our instincts are still thought to be more Atlantic than European. "What suits America suits Britain" was the judgment of Chancellor Schmidt, that former Anglophile from Hamburg, when I paid my farewell call on him.

21. On the plus side are our commitment to Berlin, to NATO and the forward defence strategy and the presence on German soil of British Forces Germany to lend superb substance to those commitments. It is difficult to exaggerate the value of the asset we possess as a nation in the British Army of the Rhine and in Royal Air Force Germany, the professional excellence of which is recognised by our German allies and has been proved by Crusader 80 and NATO "tacevals". Over 25 communities in the North German plain have given the freedom of their cities to British units stationed there. We tamper with this asset at our peril. Also on the plus side is the work of the British Council, a disproportionate victim, alas, of public expenditure cuts. I hope that as our national fortunes are restored, so will the cuts. On the plus side too - if it is not too immodest to say so - is the work of this Embassy and its Consulates-General. But we have taken our 10% cut as ordered and I have to tell you that our ability to understand the country in which we serve and to transact business with its government have thereby been impaired. I hope that, as with the British Council, as our national fortunes revive, my successors will receive the resources to do what the national interest requires.

Valete

22. I now sign this despatch, pack my bags, drive to Hamburg and take passage in HMS "Ariadne", fortuitously visiting the port, for Portsmouth and retirement. Thus ends my service to the Crown as it began nearly 40 years ago, in the bosom of the Royal Navy. What better way to go!

23. But I should not want to go without some words of thanks. To the Crown, for providing me with a profoundly satisfying working life. To you, My Lord, for reviving a belief that Britain is capable of fulfilling its responsibilities and solving its problems, no small bonus for us exiles. To my Service, for friendship and loyalty. To my wife and through her to all wives everywhere: I chose the job; she chose me and found herself married to a job I could not have done without her. To my staff at the Embassy, in BMG Berlin and the Consulates General in the FRG: they did the work; I took the credit. As I leave them I offer them, in affection and gratitude, the credit that is their due.

24. I am sending copies of this despatch to Her Majesty's Representatives in NATO posts, to Dublin, Moscow, East Berlin and Warsaw, to the United Kingdom Delegation Brussels, to the Commanders-in-Chief Committee Rheindahlen, to the General Officer Commanding Berlin and to Her Majesty's Consuls-General in the Federal Republic of Germany.

I have the honour to be  
Your Lordship's obedient servant

A handwritten signature in dark ink, appearing to be 'A. H. ...', written over a horizontal line.

LIBRI REVERENDI

12 1 2 3 4  
5 6 7 8 9

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. ....



File

JH

10 DOWNING STREET

From the Private Secretary

25 February 1981

Dear Francis,

Telephone Conversation with Chancellor Schmidt

The Prime Minister rang Chancellor Schmidt last night to discuss her forthcoming visit to Washington.

The Prime Minister listed the main items on the agenda for her talks with President Reagan and asked Chancellor Schmidt whether he thought there were any subjects on which she should lay particular stress or on which she should be reticent. Chancellor Schmidt said that his main concern was with the international economic situation. In his view we were facing not a recession but a global depression on a much larger scale than that of 1975. He did not think the US Administration understood this. He had no recipe to advance but believed that "economic concertation" was now more important than ever. The world faced a dangerous situation which would not respond to a policy of benign neglect. The various Heads of Government would have to be active. Failing such consultation, there would be a temptation for individual countries to go it alone with the consequent risk of a relapse into protectionism. Against this background, it was very appropriate that the Prime Minister and the President were meeting now to exchange views.

The Prime Minister commented that one of the difficulties was that neither the United States nor the United Kingdom had exercised in recent years the financial discipline shown by the Federal Republic. Neither country was yet down to German levels of inflation. In getting it down it had been necessary, for instance, to maintain very high interest rates with all that this implied for exchange rates. Presumably Chancellor Schmidt would not advise either Government to ease up on inflation? Chancellor Schmidt confirmed that he would not do so but commented that nonetheless the present situation inhibited the capital investment now required.

Turning to President Brezhnev's recent speech, Chancellor Schmidt noted Secretary of State Haig's cautious reaction. He did not think it was appropriate for Heads of Government to get involved in detailed analysis of the speech. He thought that their reaction should rather be to take President Brezhnev at his word and to seek to negotiate an arms control agreement. What the

/Western

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Western world needed now was a strong statement, perhaps from the Prime Minister and President Reagan, urging negotiation with the objective of securing an "broad balance" between East and West. The Prime Minister said that the concept of balance was crucial. It suited President Brezhnev to have a moratorium at present since the Soviet Union had the lead in various areas. She was therefore wary of his proposals. Nonetheless she recognised the political point.

Chancellor Schmidt said that he hoped the necessary equilibrium could be maintained in the West's defence policy. The NATO double decision was of great importance. Chancellor Schmidt asked the Prime Minister to reassure President Reagan that the German Government would stick to that decision provided that everyone stuck to both halves of it. Willingness to negotiate was the essential concomitant of willingness to deploy. It was essential that the US Government should not give the impression that the negotiating part of the decision did not matter. If they were to give this impression, then the deployment of theatre nuclear forces in Germany would "not be swallowed". The essence of NATO defence policy had to be to secure a balance in the military field and then to stabilise it by negotiation. Failure to pursue a policy on these lines could deal a fatal blow to NATO. The Prime Minister indicated that she accepted Chancellor Schmidt's thesis.

The Chancellor enquired about the line the Prime Minister would take on the situation in Central America. The Prime Minister said that clearly the Americans wished to prevent further penetration by the Soviet Union and Cuba in Central and South America. She agreed with them. In pursuit of their objective, the Americans might have to supply arms to regimes that were unattractive to Western European Governments. But she understood their position and did not see any alternative. Chancellor Schmidt said that he accepted what the Prime Minister had said. However, it was important that in the effort to prevent Cuba taking over, the Americans should avoid becoming too closely linked with extremist right-wing regimes. He hoped that the new Administration would be able to distinguish between the Communists and the rest of the political spectrum. There was an underlying tendency in Washington to judge Caribbean and Central American issues in excessively black and white terms and to exclude intermediate points. He did not wish to be placed in a position where he had to choose between the extremes of left and right. The Prime Minister, while agreeing about the desirability of avoiding choice, said that she thought the Americans probably knew more than the Europeans about the problems in their own immediate vicinity. Chancellor Schmidt noted that the Administration probably still had a good deal to learn.

Chancellor Schmidt said that the only EEC issue which, he imagined, might come up in Washington was the question of trade relations with the United States and Japan. He thought it would be useful to get across the point that the United States should not try to solve its problems with Japan at the expense of Europe. The Prime Minister and the Chancellor agreed on the need to bring pressure to bear on the Japanese to open up their domestic market to their trading partners.

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/On the question

On the question of relations between the United States and the EEC, the Prime Minister said that there was no question in her mind of being either pro-American or anti-EEC or that a relationship with the one in some way excluded a relationship with the other. Everyone had to stick together both within the European Community and with the United States. This was our only hope. Chancellor Schmidt said that he had nothing to add to what the Prime Minister had said or to criticise in it.

On Community issues, the Prime Minister told Chancellor Schmidt that she thought the Community was facing a number of big decisions. It was essential that our approach should be to tackle the basics and to avoid tinkering. Chancellor Schmidt did not respond. But he did comment that the difficulties over fish were causing "very sour emotions" in the Federal Republic. He personally did not understand why, for the sake of 1500 tonnes of cod, HMG were preventing the Canadian Agreement going through.

The Prime Minister did not mention Mr. Franklin's recent mission to Paris. You may therefore wish to arrange for the Federal Government to be informed about this in some other way.

I am sending copies of this letter to John Wiggins (HM Treasury), Brian Norbury (Ministry of Defence), Kate Timms (Ministry of Agriculture, Fisheries and Food), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

*Yours ever*

*Michael Alexander.*

Francis Richards, Esq.  
Foreign and Commonwealth Office.

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PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 348/81

TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND CHANCELLOR SCHMIDT : TUESDAY 24 FEBRUARY 1981 AT 2020 HOURS

copy taken to America

SUBJECT

copy to ops + master

ka. [Signature]

Prime Minister Hello

Chancellor Schmidt Hello Margaret

PM Hello, how are you?

CS All right, thank you very much. How are you?

PM Oh I'm fine, but I have to be fine. There are so many problems that I have to keep fit to tackle them. Helmut, I was ringing because I am going to the United States tomorrow to see President Reagan and we'll be talking about the big international issues. I wondered if there was anything you would like to advise me on, to be either forthcoming or to be reticent. We will of course be talking about big things like the Middle East, about their attitude to Southern Africa, about their attitude to arms control and East/West relations generally, and particular to Brezhnev's speech. And also I think he will probably want to say to me something about their approach to El Salvador and Central and Southern America. I doubt whether they will have worked everything out yet but I was wondering, I really am seeking your views Helmut, on anything that I should say or that I should avoid.

CS Let me try to answer the points that you have mentioned so far Margaret. One of my main concerns right now is the impression that we are dealing with a world depression, much more than just a recession, that is much bigger than '75 and that the leaders of the free world and the biggest economy in the United States just do not understand what we have at hand. I have no recipe so far but my feeling is that never since the middle of the 70s has economic consultation been more important than just now. And my feeling is that we are in a dangerous situation. If any of us plays it cool and with benign neglect to the growing figures of unemployment and inflation at one time.

/ PM

PM Yes I have that.

CS I have no recipe, but I think that it is appropriate that leaders like you and Ronald Reagan should exchange preliminary thoughts on that. I have the feeling that in the next three months or so we have to become rather active in consultation, otherwise we will be tempted to go at it alone, each of us, and possibly lapse into protectionism of beggar my neighbour policy.

PM Yes. If I might say something, I think one of the problems is that neither the United States nor we have had over the years your measure of financial discipline and therefore we are not down to the levels of inflation which are common to you. We are trying to get down to them, you have already reached them. In the process of getting down to them we have very high interest rates, and that is aggravating the exchange rate problem.

CS And the high exchange rate is of course detrimental to capital expenditure and private investment.

PM Yes. I don't think you could advise us not to tackle inflation.

CS No, certainly not. But I am concerned, I am rather sorrowful, I must say. As regards arms control and East/West, I haven't seen the full text of Brezhnev's speech - I have seen a rather cautious public evaluation by Alexander Haig. Both Genscher and I have made some noises about it. I think one should not, as a head of Government or a head of State, one should not ..... into the details of that speech, but taken by his words where he says he wants to negotiate arms control, I think it is necessary that the United States of America makes it clear that this is just what they want to do. Another question is when, where and about what subjects but the Western world needs a very strong statement by Ronald Reagan and by you - a joint statement I think - saying we are for negotiations and arms control with the broad balance between East and West.

PM

PM Yes I think it is precisely that which is in issue - it is precisely the balance point that is in issue, because when you have a very powerful adversary, who has become very powerful on nuclear weapons, it suits him to have a moratorium now. And particularly when he is in Afghanistan. I am very wary, but I recognise the political point with which you have to deal, and we all have to deal - that we must respond but make certain that they actually come down on the amount of arms they have already.

CS I think the concept of equilibrium ... on military power are to be mentioned and underlined very strongly. Also as regards the so called <sup>bonnie</sup> ~~Dublin~~ decision of NATO of December '79, please tell Ronald Reagan that he can rely on the German Government despite ..... I would stick to that decision and make it stick. But please in order to make it stick I have to be sure that the United States and the rest of our allies .. would stick to the words of that decision. Number one to the deployment of such weapons in Europe and number two to the invitation and the will of the West towards the Soviet Union to negotiate mutual balance - ceilings - or whatever you call them. Both are necessary and the Americans must not give the impression to the European public, neither to the Dutch, nor the Belgians, nor the Germans, nor the Italians that the second half of the decision does not really matter and ~~just~~ what matters is <sup>just</sup> the first half. This would make it very, very difficult to get this 'swallowed' domestically. I almost predict that it will not be swallowed in this country, as it will not be swallowed in Belgium or in Holland. It is a very important thing. I have just called, in front of my Parliamentary Group, I have called it the typical element of NATO's grand strategy as a whole - on the one hand to make for equilibrium in military means, that is the first half of that decision, and secondly to try to stick, to <sup>stabilize</sup> ~~civilize~~ it, by negotiation and if we fail to realise that decision I think NATO will suffer a major blow from which it might not easily recover.

PM I got the point Helmut, and certainly I understand in particular your problem - this is all our problem - we all have to get these two things, the balance and the agreement to stabilize the balance. But is there anything particular apart from Ronald Reagan, with

/the

the Community, because I saw an account of what you and Oliver Wright talked about and I am very concerned that we have some very big decisions ahead of us in the Community on fish and agricultural prices and on the budget and we really must make some fundamental decisions and not just resort to tinkering with the problem.

CS I think these subjects including agriculture prices do not now raise major questions between the EEC and the United States of America. I think that they are more subjects to be dealt with among ourselves, especially fish which is a subject of very sour emotions in Germany and perhaps I <sup>for</sup> might take the opportunity to tell you that I don't understand why/1500 tonnes of cod fish you cannot allow the Canadian agreement to become valid, but all the other points which you mentioned including fish - I do not see any necessity to mention them viz a viz Reagan. Earlier on you mentioned El Salvador and I would be very much interested in hearing Margaret your judgement on Salvador and Nicaragua.

PM I think that the views that our American friends take is that they do not want any further penetration of either Soviet forces or Cuban forces in Central America or Southern America. Neither would I and they would take the appropriate steps to prevent that happening and that is the view that we must keep in mind because it might mean that they supply arms or assistance to regimes that you and I would not necessarily like, but in politics the question is what is the alternative. And if the alternative is Cuban or Soviet influence in Central or Southern America, then I would in fact expect our American friends to react to try to prevent that and I could understand that.

CS I have listened carefully to Mr. <sup>a</sup>Egelburger and as far as I can see these talks went rather well at least in Bonn, and there is one point I would like to add. While fully accepting Margaret what you have just stated, I would like to add that in order to prevent Communist overtaking and Soviet influences it is not necessary and not really desirable to link oneself up with extremist reactionary forces on the right wing of military governments because this in the long run is a provocation for the Communists and would serve

as a provocation for uprisings from the left. In other words I hope our American friends are able to distinguish between Communists on the one hand and the rest of the political spectrum which in itself in most of these countries is a different grain and shape. At least this seems to be true in Salvador and it may be true in Nicaragua. I think there is an underlying tendency in some Americans to judge Central American and Caribbean problems just by 2 different yardsticks. Either somebody is white or black and there's nothing in between. And there is a little danger that they are excluding possibilities and possible developments in between. I don't really wish to be put in positions to choose between communists and military dictators.

PM The view that I take is that just as you know your problems, living fairly close to the Warsaw Pact border, so I think Reagan probably knows his problems with the communists in Central America fairly close to him, and I would expect that the view that he would take would be that he does not want either the Soviets or the Cubans to make a great advance in Central America.

CS I fully agree. I doubt whether they have a clear picture of the situation because they are rather new in office. But they may get a better picture from week to week. I wouldn't have made my remarks if you hadn't mentioned Salvador.

PM I think it's going to be raised with me.

CS Let me come back to EEC. There might perhaps - one point has come to my mind Margaret - one point as regards the trade relations between the United States and Japan in connection with the trade relations between the EEC and Japan. There's a certain danger I am told that the people in the United States would like to solve their Japanese import problem at the expense of the European Community. I don't know how much of this is true, but I'm told there's a certain danger. Perhaps you're going to talk about Japan. I wanted to talk about this line with you.

PM Yes. I know you keep/<sup>a</sup>very open trading system. But you have problems with/<sup>our</sup>Japanese friends and so do we. But they are being now monitored by the Commission for 3 months. I think the problem that  
/ many

many of us have is that those who preserve an open trading system do not necessarily meet with the same openness from other countries.

CS The Japanese ought to be put under pressure for opening up the country.

PM Right. Otherwise the burden on those of us who try to preserve and open trading system is intolerable, and we get the unemployment.

CS I do agree.

PM I don't want there to be any question that being pro-American means being anti-EEC. I want to say that I think that we all have to stick together both within Europe and between Europe and the United States. And I think that is our only hope. And so to me there is no difference between the two.

CS I understand you. I have nothing to add or to criticise.

PM Good. We are trying to do our best to try to get an agreement on fisheries and on agricultural prices, and we'll return to that when we meet in March.

CS When do you come back from America?

PM I'm back on Sunday and will let you know what happened.

General chat and farewells.

19  
Schmidt

SPEAKING NOTE FOR PRIME MINISTER'S TELEPHONE CONVERSATIONS WITH  
CHANCELLOR SCHMIDT

Washington

1. Leaving for Washington on Wednesday afternoon. Will see Reagan, several of his Cabinet and also Waldheim in New York. Back Sunday morning.
  
2. Meeting of three Foreign Ministers in Bonn on 12 February very useful. Views seem to be very close on all essentials. Apart from El Salvador and Latin America, which the Americans seem intensely concerned about, my list of topics for President Regan includes Middle East, Southern Africa, Arms Control and East/West relations generally.
  
3. American Administration have evidently not yet made up their minds on some of these questions. This gives European allies an opportunity which I will try to make the best use of.
  
4. Not say more on the telephone. Peter Carrington will be briefing Community Ambassadors in Washington on Friday.

Community

5. Took careful note of what you said to Oliver Wright about need for early progress on fisheries. Determined to work for successful outcome at next Fisheries Council (9-10 March).

6. Would like to see a number of outstanding Community issues settled rapidly - agricultural prices, fisheries, New Zealand butter. Not linking. Settle each on merits. But far better settle in next few weeks and avoid noisy confrontation at time of French elections.

7. Have made willingness for progress clear to Giscard and await response. Grateful for anything you can do to help the process positively.

8. Meanwhile happy for Franklin to brief member of your staff.

---

E.E.C.

U.S. + Japan

E.E.C. Japan.





in view of  
conversations.

Foreign and Commonwealth Office

London SW1A 2AH

23 February 1981

①

*Not to Giscard*  
*Prime Minister*

*May I arrange the calls? Distasteful tho' you  
may find them, I think they serve a useful  
purpose - both vis à vis the gentlemen themselves +  
for your talks with P. Reagan.*

*1 hrs 23/2*

I understand that at the Prime Minister's briefing meeting this afternoon the Foreign and Commonwealth Secretary suggested that the Prime Minister should telephone Chancellor Schmidt and President Giscard before she leaves for Washington, and that the Prime Minister agreed to consider this.

I enclose suggested speaking points for these two conversations. Lord Carrington hopes that the Prime Minister will in fact find time to make the two calls before she leaves on Wednesday. The notes take account of the fact that conversations with Bonn and Paris are not secure.

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

*GGH*

(G G H Walden)

M O'D B Alexander Esq  
10 Downing Street

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SPEAKING NOTE FOR PRIME MINISTER'S TELEPHONE CONVERSATIONS  
WITH CHANCELLOR SCHMIDT ~~AND PRESIDENT GISCARD~~

~~BOTH~~ Washington

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~~COMMUNITY~~ Community

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*Giscard*

7. Have made willingness for progress clear to ~~French~~ and await ~~their~~ response. Grateful for anything you can do to help the process positively.

8. Meanwhile happy for Franklin to brief member of your staff.

~~GISCARD~~

9. Franklin has spoken to Achard on my authority. Hope you will reflect carefully. Not linking issues. Settle each on merits. But real advantage to all if decisive progress could be made on fisheries, agricultural prices and New Zealand in next few weeks. If not, risk of public confrontation which would be good for no-one.



BRITISH EMBASSY,

BONN.

19 February, 1981

The Rt Hon The Lord Carrington KCMG MC  
Foreign and Commonwealth Office  
London SW1

PS	Mr Harvey
LS	WED
PS/MS Hood	EC/AY
PS/Mr Fidler	Defence
PS/PUS	EES/D
MS Bullard	NAD
Mr Acland	CRD
Lord Bridges	
Mr Egerton	

*My dear Secretary of State,*

1. I enclose a note of my farewell talk with Chancellor Schmidt earlier this week. Given the problems of his Party, the reputation of his Government, and the state of the world, he was in remarkably good physical and mental state. The note is long-ish, but the Chancellor was in discursive mood and kept me for one and a quarter hours, so a certain amount of length is necessary to retain the flavour of our discussion. Throughout our talk, his admiration and respect for you personally repeatedly broke through.

2. To aid digestion, I should highlight the following points from the encounter:-

- i) Britain has not yet succeeded in establishing its European credentials with the Chancellor. He basically thinks: what suits the Americans suits the British.
- ii) Whatever brave words he may say in public, he is profoundly disturbed about the tendencies which the Reagan Administration has so far shown. Basically he thinks that the American over-emphasis on military strength is misplaced and the American "benign neglect" of its economic leadership of the Western industrialised world irresponsible and harmful.
- iii) He thinks that none of us have really got to grips with the problems created by the second oil price rise. The world is not in recession: it is in a major

/structural



structural upheaval. Neither Keynesian reflation nor Friedman monetarism on its own are enough. But the real problem in his view is that no one is focusing on the problem.

3. Much of the Chancellor's view of the world is of course conditioned by the problems within his own Party and Government. Each of the points he made to me has as it were its mirror image in his own domestic preoccupations. For example:-

- i) His concern about American policies reflect his concern lest those policies - excessive attention to military strength, possible consequential neglect of arms limitation and control, possible over-reaction to events in Poland - will strike directly at neuralgic points within his own Party and Coalition.
- ii) His concern about the world economy reflects his concern about the impact of the world economy on the West German economy, oil and export dependent as it is. I do not know how much people have hoisted on board at home the fundamental change that is coming over the West German economy in response to world events:- the biggest balance of payments deficit in the industrialised world due to the recent oil price rises; the flight of capital from Frankfurt due both to high interest rates in the United States and what the Financial Times would call "Polish fears" - all leading to a weak Deutsche Mark. The market is always basically right, although it always exaggerates.

4. I am sure that by now the main thrust of my message must be clear: if Her Majesty's Government wish to establish their

/European

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European credentials with Schmidt, then how the Prime Minister and yourself handle the Reagan Administration is of the utmost importance. Bonn is, of course, only a small portion of our world, but it is an important one.

*Yours sincerely*

A handwritten signature in cursive script, appearing to read 'Oliver Wright', with a long horizontal stroke extending to the right.

Oliver Wright

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CONFIDENTIAL



H of C  
cc Minister  
Minister (E)

#### FAREWELL CALL ON THE CHANCELLOR

1. I paid my farewell call on the Chancellor this morning. He was in a relaxed and expansive mood and kept me for an hour and a quarter.

#### ANGLO-GERMAN RELATIONS

2. The Chancellor started off on his well-known tack: he had started life, like all Hamburgers, as an Anglophile. This had continued up to about the mid-sixties. He had then come to the conclusion that Britain was really indifferent to what was happening on the Continent. The political leadership in the UK simply did not share the thoughts and aspirations of the members of the Community. He would make two exceptions: Edward Heath and Lord Carrington. But during his official dealings as Defence and Finance Minister and subsequently as Chancellor he had found no real feeling for Europe from British governments whether under Harold Wilson or Jim Callaghan.

3. He went on to say he felt this was still basically true. He felt that the instinctive reaction of any British government was to say that whatever suited the American Administration suited Britain. This was an instinctive reaction. He could well understand it but it meant that,

/in



in his view, Britain was no more than a half-hearted member of the European Community and tended to see the world from an Atlantic rather than a European perspective.

4. I challenged this interpretation of events. I said that our basic problem with the Community was that we had joined too late. We had spent ten years trying to join the Community and had suffered two vetos. Psychologically this was bound to have had an impact: why should the British be so enthusiastic about people who did not want to have them. Secondly, when we had finally joined, the world went into recession as a result of the first oil price shock. Our experience in the Community had therefore been one of recession, whereas for the first 15 years of the Community's existence the experience of the six founder members had been one of growth and prosperity. I went on to say that now that the budget problem was at last temporarily settled, British ministers, and in particular Lord Carrington, had set about the serious business of rallying public opinion and in pointing out the importance of the Community to Britain.

5. The Chancellor said that, perhaps he had expected too much, but he had really hoped that the accession of Britain to the Community would have given Europe a new impetus. But we seemed to be without any ideas or concept of what we wanted Europe to become. He had hoped that Britain would take a lead in bringing about the reform of the common /agricultural



agricultural policy but we seemed to be totally without ideas. We now faced the immense problem of re-structuring the Community Budget, but again, he was waiting in vain to hear some British ideas on the subject. I replied that this was very unfair. The reform of the CAP was not a purely British concern but a Community concern and it had to be solved on a Community basis. For my part, I was not aware that the Federal German Government had any particularly profound ideas. The Chancellor said that his government had two guidelines: first, that the one per cent VAT ceiling should not be breached; and secondly, that Community expenditure on the CAP should progressively be a smaller total of total Community expenditure. The Chancellor added, with a smile, that he was not convinced that the present British Government actually wanted a reform of the CAP. I said that this was not so: we had every interest in the reform of the common agricultural policy, and indeed we agreed with the two guidelines that the Chancellor had laid down. The Chancellor asked: are you sure? As for the re-structuring of the Community Budget, I said that we had in fact some very radical ideas and indeed British officials had recently visited Bonn to put them to German officials. The Chancellor professed not to have heard of them.

6. I went on to say that what the Chancellor had told me had confirmed me in my one regret on leaving the Federal Republic. It was that the Germans had consistently undervalued the British contribution to the safety of Berlin and to our joint defence in NATO. There were without doubt problems /in the



in the Community. But they were Community problems, not British problems, nor Anglo-German problems. They should not blind our German friends to the contribution we made in Berlin: the Quadripartite Agreement was part of Ostpolitik. We were in Berlin and would be four-square with our German partners if there were any repercussions in Berlin from Poland. I went on to say that we were the only ally with a treaty obligation under WEU to station 65,000 soldiers and airmen on German soil. Moreover, they were professional soldiers and airmen and were known to be first-class by their military colleagues in NATO. As far as the Royal Air Force was concerned, the NATO "tacevals" proved this: as far as Rhine Army was concerned, Crusader 80 proved it. Moreover, in all politico-military matters - TNF modernisation, arms control, MBFR - there was an almost total identity of view between Britain and the Federal Republic. I hoped that the Chancellor would keep these matters in balance when he surveyed Anglo-German relations and not undervalue the British contribution to our joint defence.

7. As far as the American connection was concerned, I was disturbed to hear the Chancellor speaking the way he did. In joining the European Community we had committed our fate as a nation with that of our European partners. We saw things from a European perspective. Obviously we wanted Europe to have the best possible relationship with the United States: so, I believed, did the Federal Republic. But the facts showed that we had a European perspective. We wanted

/Europe

Europe to play a larger role in world affairs. Lord Carrington had taken the lead in promoting political cooperation. If political cooperation failed to get the administrative infrastructure it needed, it would not be because of British obstruction. Moreover we had played our full part in the formulation of a European view of the Middle East: we were closer to our European partners than to the Americans. The meeting between the Foreign Ministers of France, the FRG and Britain which had recently taken place in Bonn was at Lord Carrington's initiative. Lord Carrington knew that all three countries would shortly be making contact with the Reagan Administration and had wanted to satisfy himself that the three nations saw things the same way. I hoped therefore that the Chancellor would keep an open mind about our transatlantic relationships and see whether the facts did not show that we saw our future from a European perspective. The Chancellor said that he would keep an open mind. But in general he agreed that over the whole field Anglo-German relations were good.

#### RELATIONS WITH THE REAGAN ADMINISTRATION

8. The Chancellor's mood turned sombre when I asked him about the prospects for the transatlantic relationship. He said that he had not made up his mind and would not make up his mind until he had visited Washington and had his talks with the President. It was, moreover, reasonable to give the new Administration time to make up its mind: they had only been in /office

office one month. But from what he had seen so far, he was not encouraged. He thought the emphasis that the Reagan Administration appeared to be placing on military strength was misplaced. Military strength was important and the United States had a lot of catching up to do. He himself was totally convinced of the need for military balance. But equally important and perhaps more so was the question of the world economy. The Americans simply had no concept at all of the fact that they had a leadership role in the world economy. (Here the Chancellor spoke so forcibly that he momentarily lost his cool). Ever since the days of John Connolly at the beginning of the seventies, the American recipe for the world economy had been one of "benign neglect". But the world economy simply would not function if the largest economy in the world adopted a policy of benign neglect towards it.

9. As far as the domestic American economy was concerned, he hoped the Americans knew what they were doing. He said that high interest rates in the United States were tending to cripple the rest of the world. Monetary policy was all right as far as it went, but it had to be balanced by the correct fiscal and budgetary policies. It was simply not sensible to allow the whole strain to be taken by interest rates and the exchange rate. The consequences for the United States itself were likely to be serious; and in view of the importance of the United States economy to the world economy, the consequences for their trading and other partners could well be little short of disastrous. If, as a result of these policies, unemployment continued to grow in the Western industrialised world, then there  
/would

would be demands for Keynesian policies of reflation, which would not provide the answer either. But it was to be doubted whether the Western industrial system could indefinitely accept unemployment on the scale which was in prospect and survive. And so on. Much more in this strain.

#### THE WORLD ECONOMY

10. When I then asked the Chancellor what his recipe would be for getting the Western world out of its present recession, he said that I was quite wrong to use so mild a word as recession. What we were all facing was a major structural upheaval in the world economy due to the second oil price shock. The OPEC countries now had surpluses of one hundred thousand million dollars a year. Every year a fresh one hundred thousand million dollars would be circulating around the world. Three-fifths of the countries of the world were in as parlous a state as Poland. He wondered whether some people knew what they were doing. Certainly the United States showed no signs of being aware of what was going on in the world economy, let alone taking any steps to bring the situation under control. And here the Chancellor repeated again: military strength was not the whole answer. The world economy was in deep trouble and yet, he said, he had heard it suggested that the Americans were not keen on going to the world economic summit. I asked him whether he meant the Mexico or the Ottawa summit and he confirmed that he meant the Ottawa summit. This led him on to a further attack on the misguidedness of American policy towards the Third World.

/Soviet



Soviet malpractices were not the sole problem and the overall problem could not be handled as if they were.

11. I asked the Chancellor: what about Russia? He said: they were born dumb and hadn't learned anything since. He then retracted what he had said. He went on that the Soviet Union was as much affected by what was happening in the world economy as anyone else. But the Soviet leadership seemed to be as unaware as everybody else of the problems in store. They had not got the answers either.

#### POLAND

12. I asked the Chancellor how he assessed the situation in Poland and whether he thought the Russians would be forced to intervene. He said he did not know. He thought the Russians would do all they could to avoid intervention, since they knew that any intervention would have tremendous repercussions around the world. But if law and order broke down in Poland and if it seemed as if a civil war were about to break out, then the Russians would march in. They would have no alternative. The Chancellor then took a one mark coin out of the right hand drawer of his desk and tossed it. "It's 50-50", he said.

#### ANGLO-GERMAN CULTURAL RELATIONS

13. As I was leaving, the Chancellor said that more ought to be done about cultural relations between Britain and Germany. In the theatre, dramatists like Shakespeare and

/Shaw

Shaw were frequently played but they really were not associated with Britain: they were part and parcel of the general cultural scene. Britain needed to manifest itself more in Germany. The Chancellor said that he had recently purchased Henry Moore's "Large Two Forms" for the courtyard outside his office. It had aroused some controversy, but it had been a quite deliberate attempt on his part to make public this British outstanding contribution to modern sculpture.

14. In reply I said that money was scarcer. But the British Council was active in the FRG. And as the Chancellor knew, since he had taken a particular interest in it, the Royal Shakespeare Company had taken part in the "Theatre of the Nations" event in Hamburg two years ago, and the Company had gone on to tour Germany, visiting Berlin and Munich. There would be a new "Theatre of the Nations" in Köln this summer and British companies would be taking part. Moreover, the Köln Opera was putting on Benjamin Britten's "Peter Grimes" in May under its chief conductor, John Pritchard. The Chancellor said he was delighted to hear this. I asked him whether he would like to attend the première of "Peter Grimes". He said he would if he were free and instructed his assistant to find out more about the precise dates. (I will myself get in touch with John Pritchard about this).

#### FISHERIES

15. The Chancellor gave me stick on fisheries which I have reported separately by telegram.

/TORNADO



## TORNADO

16. I delivered the Prime Minister's message on the sales of Tornado aircraft to Saudi Arabia: I have reported his reaction by telegram.

Oliver Wright  
17 February 1981





(4)

Germany

10 DOWNING STREET

Prime Minister.

ms

Sir O. Wright's picture of  
the Germans seems to me  
disappointingly stereotyped +  
not very securely based. However  
whether or not one agrees with his  
analysis, it is undoubtedly true  
that the "German nation" is  
unstable simply because it is cut  
in half. It follows that I agree  
with para 27 d. We must be  
constantly on the look out for ways  
to anchor the Federal Republic  
more securely in the West.

Am 4/3

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Foreign and Commonwealth Office

London SW1A 2AH

2 February 1981

Dear Michael,

Our Neighbours the Germans

I enclose a copy of a despatch from Sir Oliver Wright in Bonn entitled 'Our Neighbours the Germans'.

We are arranging for the despatch to be printed as a Diplomatic Report. Meanwhile, I am copying this letter and the despatch to the Private Secretaries to Mr Biffen, Sir Keith Joseph, Sir Geoffrey Howe and Sir Robert Armstrong.

Yours ever,

*Francis Richards*

(F N Richards)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street

CONFIDENTIAL

Germany

OUR NEIGHBOURS THE GERMANS

Either in Seventh Heaven or in the Depths of Despair

SUMMARY

1. Our West German partners and allies are increasingly flexing their political muscles. What sort of people are they? The evidence from language, politics and poetry (paras 1-3)
2. German, unlike English, is rigid in structure, complex in grammar and subject to an astonishing number of rules. Hence we should not be surprised by the German passion for order, their quest for perfectionism and its consequences pessimism and Angst. Admirable traits - they take life seriously and think deeply about it. They are principled in their actions. But they need a conceptual framework to guide them in life. They are honest and trustworthy and frank (paras 4-10)
3. The defects of their qualities. A tendency towards authoritarianism. An absence of common sense and its inseparable companion, humour. Some nasty consequences - the astonishing organisation of the gassing and incineration of six million Jews. An absence of tender, loving care in their make-up (paras 11-14)
4. Attitude to politics. The evidence of Thomas Mann and Sebastian Haffner. They do not want politics; they want objectivity, order and decency. They do not want Government and Opposition but a government and a government-in-reserve. They want consensus not a choice of policies. The Germans are today the same unpolitical people as they have always been, who made a mess of Weimar, took enthusiastically to Hitler and have made the FRG the

/success

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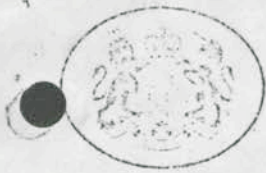


success story of the post-war Western world. But the DDR is also the success story of the post-war Eastern world. Perhaps democracy and communism are equally skin-deep in both. The number of West Germans who doubt the capacity of the FRG to survive really bad times with its democracy intact (paras 15-20)

5. Poets offer a deeper insight into a people's psyche than the shrewdest of ambassadors. A study of German poetry reveals a tendency to swing from one extreme of emotion to the other, to take flight from reality into the romantic, the ideal, the larger-than-life. Wagner provides collateral: reveals an unstable psyche. Not surprising that Nazism tried to annex Wagner. (paras 21-23)

6. How to reconcile the German passion for order with the disorder of the German psyche? In my view, the passion for order comes from self-recognition of the profound instability of their nature. The volatility of their emotions needs to be disciplined by the orderliness of their minds. Full marks for self-knowledge (para 24)

7. Conclusions. So long as social market economy works and NATO and the European Community provide a satisfying framework for German energies - no problem. But this cannot be taken for granted. Need for Britain to make a bigger input into NATO and EC. Overriding national interest to anchor this fundamentally unstable people with an unresolved national ambition in the heart of Europe to the stability of the West. The question is not whether we can afford to spend the money; it is rather whether we can afford not to spend it. (paras 25-27)



BRITISH EMBASSY,  
BONN.

15 January 1981

The Right Honourable The Lord Carrington KCMG MC  
Secretary of State for Foreign and Commonwealth Affairs  
LONDON SW1

My Lord,

OUR NEIGHBOURS THE GERMANS

"Himmelhoch jauchzend oder zum Tode betrübt"  
("Either in seventh heaven or in the depths of despair")

1. A month or so ago, West German television put on an audience participation programme typically German in its introspection called "Typically German". All the familiar stereotypes were illustrated in a series of revue sketches which were then enthusiastically analysed and discussed with typically German thoroughness by the audience for over two hours: the passion for order, the insistence on operating by the rule book and, in sad self-recognition, the fact that other nationalities seemed to respect and admire German achievements more than they liked Germans as people.

2. Since the West Germans, as allies in NATO with nearly twice our conventional forces and as partners in the European Community with nearly twice our gross national product, are likely, as they increasingly flex their political muscles, increasingly to influence our own future, I thought I would send you a few seasonal thoughts about our neighbours the

/Germans,

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Germans, developed since I was first introduced to their language at school 47 years ago. Since then I have spent two years studying German literature, history and philosophy at Cambridge, four years fighting Germans during the war and a total of eight years living in Germany during my time in the Diplomatic Service. What follows is designed to provide the psychological background to the day-to-day transaction of public business with the Federal Republic of Germany.

3. The first point to establish is that the more one gets to know the Germans, the less like us they seem to be. They are not better nor worse, simply different. They share with us a common humanity: if you prick them they bleed. It would, of course, be dreadful if we were all alike. Even Germans are not all alike. Your Hamburger is a different kettle of fish from your Bavarian, yet they share a recognisable common Germanity. Nonetheless, there are things which are typically British and things which are typically German and what is typical in each case is as different as chalk from cheese. I propose to discuss this differentness under three aspects: language, attitude to politics and, yes, poetry.

What does the German language tell us?

4. It is a truth universally acknowledged that one of the things which is most typical of people is the language they speak. Language is the clue to cast of mind, modes of thought. Members of the Diplomatic Service need to be proficient in the languages of the countries they serve in not least in order to gain uncensored access to foreigners' thought processes. It is immaterial whether thought determines language or language thought: like horse and carriage they go together. Moreover I am not suggesting that Germans are the people they are simply because they speak German: I do think however that the language they speak offers insights, no more, into their personality and character. And I write of the Germans I know, not of the German speakers I do not know, like the Austrians or Swiss.



5. The first and major difference between us and the Germans is the structure of the language we speak. Anyone who has had to endure simultaneous interpretation from German into English, for example at Brussels on Community business, will know what I mean. The interpreters cannot start to interpret subordinate sentences until they come to the end, because that is where the verb is: hence the English channel, when a German is speaking, consists of long silences, while the interpreter waits for the verb, and thus the meaning, followed by a staccato spewing of words like machine gun bullets to get the sentence finished before he loses track of the next one. Speculation about the damage caused to international relations by the modern technology of simultaneous interpretation is perhaps worth a short monograph in itself. In the olden days, say up to the end of the nineteen-fifties, consecutive interpretation was an art and the consecutive interpreters artists who took pride in catching and conveying the most delicate nuances of the speakers' thoughts. International conferences in those days - I remember in particular the quadripartite conferences on the reunification of Germany at Geneva in 1955 - included aesthetic pleasures of this sort. But, of course, it took time, and time is precisely what there is never enough of; but it avoided misunderstanding and worse, and that is precisely what there is always too much of.

6. But back to my muttons. English is rich in vocabulary, flexible in structure and simple in grammar, revealing more its Danish than its Teutonic origins. The pragmatic cast of the English mind, the robust common sense of the English character and the resilience and preference for muddling through of the English attitude to life are all of a piece with the English language.

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- 4 -

7. German in contrast is rigid in structure, complex in grammar and subject to an astonishing number of rules. We should not therefore be surprised by the German passion for order, in things great and small. In small things, for example, like cleanliness and punctuality, admirable qualities both. In greater things too, like the need for rules to regulate everyday life, which forbid lawn-mowing and car-washing on Sundays, but also, such is the complexity of legislation here, hinder the necessary construction of nuclear power stations. The belief, dear to the heart of every true-born Englishman, that the law is an ass, would strike at the very foundations of a German's perception of himself, disorientate him, leave him floundering in a sort of social No Man's Land and send him off to Bad This-and-That for a cure.

8. There is of course a very positive aspect to this passion for order; for example, the high-minded seriousness of the German approach to life. Germans take life very seriously and think deeply about it, as the German contribution to philosophy proves: they have produced perhaps the greatest of all modern philosophers - Kant - with his profound investigations into the structure of reality and into the nature of moral choice. According to the "Times" of 10 January, they have even thought more deeply than other people about the proper shape for the infantryman's helmet. Germans seek for principles to guide their actions. Unlike the British who tend to reach for their guns when anyone starts talking about principles, and unlike the French who dress up in principles the naked pursuit of their own interest, the Germans value principles as good in themselves and, on the whole, try to act on them.

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9. This admirable trait is daily experienced by members of this Embassy in their regular dealings with the ministries in Bonn. It is difficult to get "off-the-cuff" reactions to events: so superficial an approach to serious matters has no attraction for our interlocutors. They cannot improvise and do not regard the capacity to do so as a virtue. But it is worth waiting for a considered German view, because it will be the result of a painstaking analysis of every aspect of the problem and because the conclusions reached will more often than not be coherent and sensible, if a bit complex. They will also be articulate, for the need to translate thought into words produces an observable readiness to talk and to share the thought processes. The fact that English expands by 30% when done into German is a drawback - German speeches seem long and are what they seem - but German openness makes the day-to-day conduct of business with ministers and officials very agreeable indeed. This German thoroughness also makes them difficult to shift once they have made up their minds, unless one has thought even more deeply and come up with an even more comprehensive analysis, which, being British, one rarely has. And it also gives them Angst if by human error they omit a crucial factor in their analysis which then invalidates their conclusions.

10. With a typically German respect for the law goes an honesty which is also typically German, in private and in public affairs. No doubt German society has its quota of villains, but one can assume a refreshing honesty in day-to-day life and a trustworthiness in official and business dealings. I have never been short-changed nor had a bum steer in all my time here. Bonn is an "open" city in the best sense of the term.

/11.



11. Of course, every quality has its defect and the Germans, being human, have the defects of their qualities. We can take life as it comes: perhaps we tend to do so too much, and to our disadvantage. Germans need an ordered framework within which to live. Hence, in politics, the German craving for a Gesamtkonzept, an overall conceptional framework. It is a passion which tends to authoritarianism, to an exaggerated regard for authority, to giving and taking orders, from senior to junior, from parent to child. It is a passion which is the root cause of German pessimism: people who try to impose order on an untidy world seek a non-existent perfection and so are permanently doomed to disappointment. German perfectionism, the need to get everything cut and dried down to the last detail, is also, since life is imperfect, a root cause of the state of mind which has provided the English language with one of its few German words in everyday use: Angst.

12. It is also a passion which leaves little intellectual space for common sense and for common sense's inseparable companion, a sense of humour. If the guiding principle of life is order, there is little scope for the anarchy of humour, with its irreverent attitude to authority, its delighted acceptance of mankind's funny ways. Germans sadly recognise that they have no sense of humour and envy us ours. Instead they have, in catholic areas, Carnival, a sort of social cure from the stress imposed by order on everyday life. Naturally it comes round in orderly fashion at prescribed times, providing a limited period of legitimised boisterousness and vulgarity, a permitted and permissive release from the disciplines of daily existence. Protestants don't have Carnival and are as a result, if anything, even less cheerful than catholics.



13. Recognising their defect, the Germans have sought to make up for it in various ways. For example, they have instituted a mock Order of Chivalry known as "The Order against Deadly Seriousness" and each year someone who has been known to tell a funny story is elected to the order and has to make a funny speech. There are few comedies in the classical or modern German theatre and those that do exist are not very amusing: the reason, I think, is that Germans are more at ease with ideas than with people. Thomas Mann realised one day that there existed in German literature not a single comic novel; so he solemnly sat down to write one to remedy the deficiency. "Felix Krull" is not very funny: the idea of Mr Mann writing it in a fit of patriotic duty is.

14. The passion for order and thoroughness has in the past had some very nasty consequences. Without such qualities, it would have been very difficult to organise the gassing and incineration of six million Jews and gypsies. It also has as a consequence some continuing deficiencies in humanity in everyday life. The Nazi past has produced a particularly violent generation gap: between parents who wish to forget it and children who repudiate the materialist present, a principle cause of the home-bred terrorism which reached its peak in 1977. German society, as Germans themselves admit and did so in the TV programme "Typically German", is unfriendly to children: children tend to make a mess and messes in Germany are verboten. "Strüwelpeter" must be the cruellest children's book in existence and guaranteed to instil Angst from the tenderest years. During the time I have been here my wife has twice had the double misfortune of being ill and of being treated, at mind-boggling expense, in a German hospital. Technically, the treatment

/was



was beyond reproach: the doctors had unsurpassed professional knowledge, the equipment was the latest in technology, the tests thorough, the wards speckless. All that was lacking was what is known in British medical practice as TLC - tender, loving care.

What can the German attitude to politics tell us?

15. But what is the attitude of the Germans I have described to politics? It will, of course, be determined by the sort of people they are. To guard against bias, I will let two Germans of some distinction speak for themselves: Thomas Mann, who, as they say, needs no introduction; and Sebastian Haffner, a freelance journalist who spent the Nazi years in Britain and, now resident again in Berlin, is the nearest thing in Germany to a political pundit.

16. In his slim volume "Reflexions of a Floating Voter" published in the summer of 1980 just before the elections here, Haffner devotes 50 pages or so to a discussion of what the German voter wants and what, as a result, the nature of democracy in West Germany is. To begin with, what the German voter doesn't want is politics. Haffner quotes with approval from Thomas Mann's "Observations of an unpolitical Person" written in 1918. Mann writes: "I don't want politics. I want objectivity, order and decency (Sachlichkeit, Ordnung und Anstand). If that is being German, then in God's name I am ready to be called a German". In Haffner's view, the Germans are and have always been an unpolitical people. And he traces the search of these unpolitical people for the three graces of objectivity, order and decency through the Weimar Republic, rejected because it did not offer them; via Hitler, enthusiastically accepted by a democratic majority

/because



because he appeared to do so; and, when he failed, to the FRG today which is accepted because it works, and works brilliantly, perhaps better than any other Western democracy, and because it incorporates objectivity, order and decency.

17. Haffner insists that the Germans are basically the same people today as they always have been: the same unpolitical people who made a mess of Weimar, because the Weimar Republic forced political choices on them; who permitted the holocaust of Hitler, because he appeared to relieve them of the need for political choice; and who, having learned their lesson, have today performed the political miracle of the Federal Republic. They have gone through the valley of the shadow and emerged as sincere practising unpolitical democrats.

18. Germans are not interested in politics: they want good government. They vote at election time in great numbers, in greater numbers than many other more politically interested people: around 90% regularly vote since they regard it as their civic duty to do so. But they do not vote for parties with programmes. They vote for the Chancellor-candidate they want to govern them. They don't want an Opposition, in the sense of a rival political party with alternative policies. They want a government-in-reserve, to replace the government in power when, for whatever reason, it runs out of the ability to provide objectivity, order and decency. And in between elections they expect the politicians to get on with the business of running the country while they get on with the business of running their own lives.


/19.



19. Haffner carries this thought further to explain the prevailing consensus in German politics. He says that the German electorate chose Adenauer for his basic policies of the market economy at home and, abroad, of the Alliance with America and the reconciliation with France: and the electorate did not regard the SPD as fit to govern (regierungsfähig) until Wehner converted it in the Godesburg programme of 1959 to the Adenauer consensus. (Haffner regards Adenauer and Wehner as the two most important German postwar politicians). Thereafter, the SPD gradually increased its voting strength until, having gained acceptance as a Reserve Government, it eventually, first with the CDU and then with the FDP, became the Government in power. By the same token, Haffner argues, the CDU/CSU will not become fit to govern again until they join the new consensus by public conversion to Ostpolitik. To judge by what is happening now, the CDU/CSU have taken the hint and are moving to join it. When they have done so, they will be legitimised as the Government-in-Reserve and be ready (? in 1984) to take over the government when the present coalition has exhausted its energy and sense of purpose. But that sort of prophecy is more properly a matter for my successor. It is also Haffner's view that the FRG will not have completed its transition to a proper unpolitical democracy until the FDP sinks into oblivion and the country has a simple two-party system: a Government and a Government-in-Reserve, both basically Social Democratic.

20. A final thought on politics before we come to the poetry. It is, in my view, no coincidence that just as the West Germans have made the FRG the most successful democratic state in Western Europe, the East Germans have

/made




made the DDR the most successful communist state in Eastern Europe. East Germans and West Germans are Germans; and they seem to me to have been equally adept at learning the post-war rules of government and economics which the victorious allies, each in their separate zone of occupation, imposed on them. The West Germans, at least until Schmidt fell out with Carter, have been the blue-eyed boys of the American-led, democratic, free-market system of the West. The East Germans, if HM Ambassador in East Berlin will forgive the trespass, have become the blue-eyed boys of the Soviet-led one-party, communist, state-trading system of the East. The same unpolitical people have apparently taken with equal ease, like ducks to water, to the different systems. Perhaps these unpolitical people have found, on either side of wall and wire, the objectivity, order and decency they want and need. Perhaps democracy and communism, each on its own side of wall and wire, are equally skin deep. I used to be surprised by the number of Germans I met, people of maturity and standing, who doubted the capacity of the FRG to survive really bad times with its democracy intact. It is not least because I am no longer surprised that I am writing this despatch.

What do the poets tell us?

21. Languages and politics are generally accepted as fit subjects for study by your obedient servants. Poetry is perhaps less so; although a people's poets can offer deeper insights into their psyche than the best of political commentators or even the shrewdest of ambassadors. The better the poet, the deeper the insight. Hence the quotation at the top of this despatch which you will of course recognise as coming from Goethe, Germany's greatest poet. I chose it to illustrate my theme in preference to the better known yet

/equally




equally apposite quotation from the same poet's greatest poem "Faust" - "Zwei Seelen wohnen, ach! in meiner Brust" ("two souls dwell, alas, within my breast") - because Willy Brandt brought it to my attention when I taxed him in 1977 about the all-pervading pessimism in Germany at the time of the terrorist campaign. He told me that if I were to understand Germans, I had to appreciate that they had a tendency to swing from one extreme of emotion to the other. A study of German poetry confirms Brandt's view. The best of it comes from the romantic age and deals mainly with the miseries of human existence, love in particular: solace comes only from the inanimate, nature above all. (Incidentally Germans are great nature lovers but observably bad gardeners.) German poetry reveals in fact a flight from reality into romanticism; a dissatisfaction with life as it is and a longing for a non-existent life that is ideal; a fascination with the larger-than-life. Faust is the archetypal German character.

22. A study of Wagner is a more than adequate substitute for those without access to German poetry. After a recent visit to Bayreuth, I asked one of the then President Scheel's speechwriters whether he was a Wagnerian. His answer was: "No. I do not trust myself to be one". It is no coincidence that Hitler sought to annex Wagner for Nazism, for his music dramas lent themselves to the irrationality, delusions of grandeur and perverted romanticism of the Nazi movement. Wagner, while OK for non-Germans, is, in my view, bad for Germans. Many Germans realise this and consciously avoid the surrender to his music and the disorder which it tends to bring to those with an unstable psyche.

/23.





23. Hence the very real service to mankind performed by the French team of Boulez and Chéreau in their centenary production of the "Ring" at Bayreuth in 1976: they brought the astringency of French classicism to Wagner, demythologised him and made real people of his gods, giants, dwarfs and heroes. At first, the Germans were outraged: at the premiere of "Rheingold" which I attended in July 1976 they booed Boulez and his team at their curtain calls and rival factions fought and shouted in the auditorium. Four years and five "Ring" cycles later, in August 1980, they cheered the final performance of "Götterdämmerung" for 80 minutes: Boulez and his team were heroes. I hesitate whether to condemn their fickleness or to applaud their conversion to good sense. Since this is an objective analysis of my clients, I will do neither.

24. How then does one reconcile one set of observable facts - the German passion for order - with the equally incontrovertible evidence of poetic insights, which reveal the disorder in the German psyche? I claim no monopoly of wisdom in this or in any other area. My own view is that the German passion for order is based on self-recognition of the profound instability of their own nature. They realise that their feelings are in conflict with their thoughts and that the volatility of their emotions needs to be disciplined by the orderliness of their minds. Full marks to them for self-knowledge. They fear politics, because they know from their past the terrible consequences which have flowed from the political choices they have made when their emotions have erupted like volcanoes. They prefer consensus, since its orderly practices relieve them of the responsibility of political choice. They demand predictability from themselves, from their allies and their opponents, because they fear the

/unpredictability



unpredictability of their own nature. If the supreme German contribution to European civilisation is the symphony, it is because such music perfectly reconciles abstract thought with profound emotion.

What conclusions should we draw from the evidence of language, politics and poetry?

25. In 1949, Adenauer in his wisdom chose to imbed his unpolitical democratic Germans into the Western system, because he feared the destabilising effect upon his own people and upon the rest of Europe of the alternative: the uncertain and romantic quest for reunification. In 1959, Wehner in his wisdom perceived that the only way for the SPD to achieve its social objectives at home was to become fit to govern; and that meant accepting the Western commitment and abandoning, at least directly and at that time, the quest for reunification.

26. I believe that so long as the present system of government in the FRG continues to meet the need for objectivity, order and decency, the teutonic demons which fret away below the surface here will be held in check and all should be well. This will, in my view, depend in turn on whether the social market economy can continue to produce the material well-being on which the political stability of this divided nation with an unstable psyche rests. It will also depend on whether the Western system - NATO and the EC - continues to offer the West Germans a satisfying framework for their restless energies, for their growing awareness of specifically German interests in the world and for their increasing readiness to use their growing political muscle to make those interests prevail.

/27.

27. That is why a consistent theme of my reporting from here over the past five years has been for the need for Britain to make a more substantial input into both the NATO Alliance and into the European Community. That is why I have consistently advocated, and, I fear, incurred your impatience in doing so, that in Europe, political cooperation, valuable though it is, is not enough, because it is voluntary - foreign policy a la carte. To do the job that needs to be done - to prevent the emergence of a purely German foreign policy - it needs to be put on a contractual basis and made a treaty obligation. For we have, it seems to me, an overriding national interest to anchor this superficially orderly but fundamentally unstable people to the stable ground of the West. I believe Adenauer felt the same and that is why he chose the West. I believe that the French felt the same and that is why Pompidou let us into the Community. I do not advocate anything that the Germans themselves do not know in their hearts and that the French do not know from their greater experience of Germans to be necessary. The question is not whether we can afford to spend the money; the question is whether we can afford not to spend it.

28. I am sending copies of this despatch to Her Majesty's Representatives in NATO posts, Moscow, East Berlin and Dublin; to the Commanders-in-Chief Committee at Rheindahlen, to the General Officer Commanding Berlin and to Her Majesty's Consuls-General in the Federal Republic of Germany.

I have the honour to be  
Your Lordship's obedient servant

(Oliver Wright)

OO FCO

FP BONN

FP PARIS

FP WASHINGTON

GRS 720

CONFIDENTIAL

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FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH CHANCELLOR SCHMIDT

1. LORD CARRINGTON HAD BREAKFAST WITH CHANCELLOR SCHMIDT IN MARRAKESH THIS MORNING, DURING THE CHANCELLOR'S 24 HOUR VISIT TO MOROCCO. SCHMIDT WAS LOOKING WELL AFTER A TEN DAY HOLIDAY IN THE CANARY ISLANDS. HOWEVER HE BROODED ALOUD ABOUT HIS OWN FUTURE. HE HAD BEEN AT IT FOR 12 YEARS NOW, AND SOMETIMES THOUGHT HE HAD HAD ENOUGH. HIS PARTY, WHO DID NOT HAVE TO FACE ELECTIONS FOR ANOTHER FOUR YEARS, WERE PROVING TROUBLESOME. LORD CARRINGTON SUGGESTED THAT IT WOULD BE A BAD THING FOR ANGLO-GERMAN AND FRANCO-GERMAN RELATIONS IF SCHMIDT WENT, SINCE THESE RELATIONS WERE VERY PERSONAL. HE ASKED WHO SCHMIDT'S SUCCESSOR WOULD BE, SHOULD HE EVENTUALLY GO. THE CHANCELLOR SAID THAT IT WOULD EITHER BE VOGEL (THE MINISTER OF JUSTICE) OR APEL. HE WAS NOT SURE, HOWEVER, WHETHER EITHER WOULD SUCCEED IN HOLDING THE COALITION TOGETHER. THIS WAS SOMETHING PERSONAL BETWEEN HIM AND GENSCHER, WHO HAD CAMPAIGNED ON THE NEED TO SUPPORT HIM.
2. HE WAS ALSO GLOOMY ABOUT THE ECONOMIC PROSPECTS FOR EUROPE, WHERE HE FORESAW 25 MILLION UNEMPLOYED BEFORE LONG. IT WAS RIDICULOUS NOT TO TALK TO OPEC, THOUGH HE COULD NOT IDENTIFY THE RIGHT FORUM. GISCARD HAD HAD A BRAVE TRY (PRESUMABLY A REFERENCE TO THE CIEC). PERHAPS SOMETHING MIGHT BE WORKED OUT IN MEXICO. LORD CARRINGTON COMMENTED THAT THIS SEEMED UNLIKELY, IF THE AUSTRIAN FORMAT FOR THE MEETING, WHICH SEEMED TO CONSIST OF CONSECUTIVE HALF-HOUR SPEECHES, PREVAILED. IN REPLY TO AN ENQUIRY FROM THE CHANCELLOR, HE CONFIRMED THAT THE PRIME MINISTER WOULD BE GOING TO THE MEXICO SUMMIT.
3. SCHMIDT HAD NOT HEARD OF DR KISSINGER'S LATEST REMARKS ON THE MIDDLE EAST, BUT WAS NOT SURPRISED. HE HIMSELF HAD NEVER THOUGHT THAT

3. SCHMIDT HAD NOT HEARD OF DR. KISSINGER'S LATEST REMARKS ON THE MIDDLE EAST, BUT WAS NOT SURPRISED. HE HIMSELF HAD NEVER THOUGHT THAT THE VENICE DECLARATION WOULD LEAD TO A SOLUTION OF ITSELF. ITS MAIN PURPOSE HAD BEEN TO MAKE THE ARABS FEEL THAT EUROPE UNDERSTOOD THEM, AND TO TIDE US ALL OVER A DIFFICULT TIME. SCHMIDT WAS ALSO DISTURBED BY THE PROSPECT OF A EURO-ARAB DIALOGUE AT MINISTERIAL LEVEL, WITH THE PLO LEADING FOR THE ARABS. (VON DER GABLENZ SUBSEQUENTLY TOLD ME THAT THE CHANCELLOR HAD BEEN VERY UPSET TO READ ABOUT THIS - FOR THE FIRST TIME AS HE CLAIMED - IN HIS BRIEFING THE PREVIOUS DAY, AND HAD ASKED WHY GENSCHER HAD GONE AHEAD WITHOUT HIS AUTHORITY.) HE THOUGHT THAT THIS MEETING WOULD BE MORE TROUBLE THAN IT WAS WORTH, ANTAGONISING SIMULTANEOUSLY THE AMERICANS, ISRAELIS, EGYPTIANS, AND EVEN THE SAUDIS, WHO MIGHT BE RELUCTANT TO SEE THE PLO ELEVATED TO THIS LEVEL. LORD CARRINGTON SAID THAT HE PERSONALLY WAS NOT TOO KEEN ON THE MEETING EITHER, OR ON BEING IN THE CHAIR, BUT THE FRENCH WERE INSISTENT THAT IT SHOULD GO AHEAD. THE MAIN AIM OF THE FRENCH SEEMED TO BE TO PROVE THEIR INDEPENDENCE FROM THE AMERICANS, AND TO PURSUE THEIR SPECIFIC NATIONAL INTERESTS IN THE AREA.

4. SCHMIDT SAID THAT HE WAS THINKING OF SELLING TANKS AND ARMoured PERSONNEL CARRIERS TO THE SAUDIS TO HELP BOLSTER THE REGIME, DESPITE SOME DIFFICULTIES WITH HIS PARTY. HE WONDERED WHAT THE REACTION OF THE BRITISH PUBLIC WOULD BE. LORD CARRINGTON SAID THAT HE SAW NO OBJECTION FROM OUR POINT OF VIEW.

5. ON THE NEW AMERICAN ADMINISTRATION, SCHMIDT THOUGHT THAT DR. KISSINGER WOULD EXERCISE A GOOD DEAL OF INFLUENCE ON THE MIDDLE EAST, IF ONLY BECAUSE NO-ONE ELSE KNEW MUCH ABOUT IT. INSTEAD OF A TEAM OF WISE, EXPERIENCED MEN, WE HAD A TEAM OF UNKNOWNNS, APART FROM HAIG, WHO WAS A GOOD POLITICIAN AS WELL AS A DIRECT, HONEST AND LIKEABLE MAN, THOUGH EVEN HE WAS RATHER UNSUBTLE.

6. WHEN LORD CARRINGTON SAID THAT THE PRIME MINISTER WOULD BE VISITING WASHINGTON IN FEBRUARY, SCHMIDT HOPED THAT WE WOULD ENCOURAGE HAIG TO DO A EUROPEAN TOUR QUICKLY TO FAMILIARISE HIMSELF WITH THE EUROPEAN VIEWPOINT. HE WAS AFRAID THAT THE NEW ADMINISTRATION MIGHT TURN OUT TO BE AS PAROCHIAL AS THE LAST SEMI-COLON SANTA MONICA REPLACING ATLANTA, GEORGIA. THE REASON SCHULTZ HAD NOT BEEN ACCEPTED WAS THAT HE WAS TOO SOPHISTICATED FOR THE OTHERS.

7. SCHMIDT HAD BEEN PARTICULARLY STRUCK BY WEINBERGER'S SPEECH ON ARMS LIMITATION. THIS HAD FILLED HIM WITH FOREBODING AND COULD CAUSE REAL DIFFICULTY IN THE SPD.

8. SCHMIDT SAID THAT HE HAD HAD A GOOD TALK WITH KING HASSAN WHO HAD BEEN SENSIBLE AND WELL INFORMED ON THE MIDDLE EAST, AND WHO HAD NOT MENTIONED THE PLO.

9. THERE WAS NO DISCUSSION BETWEEN LORD CARRINGTON AND CHANCELLOR SCHMIDT ON EITHER POLAND OR THE COMMUNITY BUDGET.

9. THERE WAS NO DISCUSSION BETWEEN LORD CARRINGTON AND CHANCELLOR SCHMIDT ON EITHER POLAND OR THE COMMUNITY BUDGET.

10. THIS WAS ESSENTIALLY A PRIVATE MEETING, AND THE CHANCELLOR WAS SPEAKING VERY FREELY. IT IS CLEARLY IMPORTANT THAT HIS CONFIDENCE BE RESPECTED.

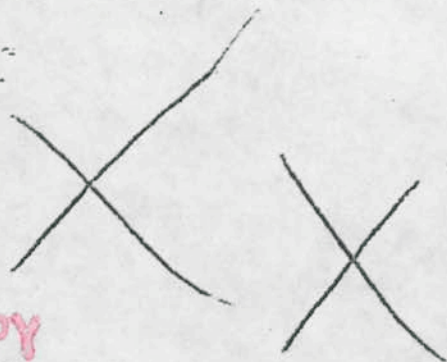
11. FCO PLEASE PASS TO NO 10, BUT CONSULT PRIVATE OFFICE ON FURTHER DISTRIBUTION.

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D.O. / No 10 DS

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GRS 100

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DEYOU

*ms*

FM RABAT 071200Z JANUARY 81

TO IMMEDIATE FCO

TEL NO 9 OF 7 JANUARY

AND TO PRIORITY BONN, PARIS, WASHINGTON AND UKDEL NATO (PERSONAL FOR AMBASSADORS)

FOLLOWING FROM PRIVATE SECRETARY

1. DURING HIS TALK WITH CHANCELLOR SCHMIDT IN MARRAKESH THIS MORNING, LORD CARRINGTON SUGGESTED THAT IT WAS TIME LUNS RETIRED. CHANCELLOR SCHMIDT EMPHATICALLY AGREED AND NOTED THAT THE PRIME MINISTER HAD A QUOTE GOOD CANDIDATE UNQUOTE IN MIND TO REPLACE HIM. HE HIMSELF HOWEVER DID NOT INTEND TO BECOME MORE ACTIVE IN TRYING TO EJECT LUNS SEMI-COLON HE HAD DONE HIS BIT AT THE VENICE SUMMIT. THE IMPLICATION WAS THAT IT WAS UP TO THE AMERICANS TO TAKE THE LEAD IN PERSUADING LUNS TO GO.
2. FCO PLEASE PASS TO NO 10, BUT CONSULT PRIVATE OFFICE ON FURTHER DISTRIBUTION.

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SENT/RECD AT 072305Z LMG/JB

GRS 290  
UNCLASSIFIED  
FM BONN 261430Z NOV 80  
TO ROUTINE FCO  
TELEGRAM NUMBER 878 OF 26 NOVEMBER

CHANCELLOR OF THE EXCHEQUER'S STATEMENT ON THE ECONOMY:  
GERMAN PRESS REACTIONS

1. THE LONDON CORRESPONDENTS OF THE GERMAN PRESS, IN UNANIMOUSLY VOTING THE LATEST MEASURES TO BE AN ADMISSION OF FAILURE TO ACHIEVE MONETARIST AIMS, APPEAR TO BE TAKING THEIR CUE FROM YESTERDAY'S FINANCIAL TIMES. THE FRANKFURTER ALLGEMEINE ZEITUNG COMMENTS THAT THE GOVERNMENT IN RAISING SOME TAXES AND CONTRIBUTIONS HAS RESORTED TO MEASURES WHICH DO NOT SUIT IT: BUT THE LOWERING OF MLR GIVES BUSINESS A BREATHING SPACE AND THE DETERMINATION REMAINS TO PUSH BACK INFLATION. BONNER RUNDSCHAU REFERS TO NEGATIVE REACTIONS IN THE UK (INCLUDING AMONG CONSERVATIVES) AND A CHANGE OF COURSE. INFLATION IS GOING DOWN A LITTLE BUT NO THANKS TO THE HOPED-FOR CONTROL OF MONEY WHICH QUOTE HOWE HAS BEEN UNABLE TO BRING ABOUT UNQUOTE. STUTTGARTER ZEITUNG REFERS TO THE MLR DECISION AS A SOP TO BUSINESS WITHOUT MUCH HOPE ATTACHED, AND ASKS WHETHER THE CONSERVATIVES WILL HAVE TO ADMIT THAT THE BRITISH PATIENT CANNOT BE HELPED. FRANKFURTER RUNDSCHAU SAYS THE GOVERNMENT'S POLICY, BASED EXCLUSIVELY ON CONTROLLING MONEY SUPPLY AND REDUCING PUBLIC SECTOR DEFICIT, IS OFF THE RAILS. A CHANGE TO A MORE CONVENTIONAL COURSE IS BEING ADOPTED. DIE WELT REFERS TO BITTER MEDICINE SWEETENED ONLY BY A LOWER MLR. HANDELSBLATT BELIEVES THE CHANCELLOR IS TRYING TO DIRECT ATTENTION AWAY FROM POLICY FAILURES BY ACCENTING MIDDLE TERM STRATEGY. THE SUEDEUTSCHE ZEITUNG CONSIDERS THE MEASURES INSUFFICIENT TO SET BORROWING WITHIN THE DESIRED MONETARY FRAMEWORK. THE SAME PAPER HAS A SEPARATE ARTICLE ON THE DECISION TO CUT DEFENCE EXPENDITURE, EMPHASISING THAT THE 3 PER CENT TARGET WILL NOT BE REACHED AND ASSERTING THAT FURTHER CUTS WERE ONLY AVOIDED BY PYM'S THREAT OF RESIGNATION. NEXT YEAR'S BUDGET WILL STILL BE TIGHT AND BRITISH DEFENCE COMMITMENTS MAY BE MORE URGENTLY REAPPRAISED, WITH THE RHINE ARMY A PRIME CANDIDATE FOR A RADICAL CHANGE OF POLICY.

WRIGHT  
FCO | WH  
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THIS TELEGRAM  
WAS NOT  
ADVANCED



CONFIDENTIAL

cc fco

HL

CO

Serway



10 DOWNING STREET

*From the Private Secretary*

25 November 1980

Prime Minister's conversation with Chancellor Schmidt

I mentioned to you on the telephone that the oil supply situation came up briefly in a telephone conversation between the Prime Minister and Chancellor Schmidt on Sunday morning. The main points of the conversation have been recorded separately.

Chancellor Schmidt said that when he had called on President Carter to say farewell the President had been greatly concerned about the oil supply situation. He had obviously tried to have the International Energy Agency trigger pulled. Chancellor Schmidt said that he had told the President that he disagreed. He had said that regulations would only lead to new regulations and to national domestic regulations but although he had made his views very clear, the Americans had seemed to be "rather decided". The Prime Minister said that she thought it would be "most unwise" to pull the IEA trigger.

We agreed in subsequent discussion on the telephone that Chancellor Schmidt had probably misunderstood the position of the US Administration.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

J.D. West, Esq.,  
Department of Energy.

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10 DOWNING STREET

*From the Private Secretary*

Sir Robert Armstrong

Anglo-German Consultations: Dr. Dieter Hiss

The Prime Minister has seen your minute to me of 20 November about Mr. Franklin's talks with Dr. Hiss. The Prime Minister has decided that Mr. Walker should be informed about our contacts with the Germans on a "wholly confidential" basis.

She will take an early opportunity to speak to Mr. Walker.

M. O'D. B. ALEXANDER

24 November, 1980.

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B.R.

**SUBJECT**

Copied to: Master set  
Germany: PM's visits: Pt 2  
For. Pol.: Quadripartite; Jan 80

PRIME MINISTER'S TELEPHONE CONVERSATION WITH CHANCELLOR SCHMIDT  
ON SUNDAY 23 NOVEMBER 1980 AT 1115 HOURS

---

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

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

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

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

PM: We heard that rumour last Monday.

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

PM: I'm sorry about that.

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

/ PM:

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

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

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

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

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

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

PM: Yes, I know him.

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

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

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

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

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

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

PM: That'll be marvellous.

CS: I think so.

PM: Did you put that into their minds?

/ CS:

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

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

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

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

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

PM: ~~THEYXXXXXXXXXXXX~~ They can/<sup>be</sup>most unwise, I agree.

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

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

/ CS:

CS: And not from the press in Europe.

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

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

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

CS: Yes, that's possible.

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

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

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

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

/ PM:

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

CS: I did.

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

CS: Wish you a good trip Margaret.

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

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

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

CS: Yes, all the best.

PM: Goodbye.





(1)

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Ref. A03607

MR. ALEXANDER

*Prime Minister*  
*I would have favoured one more round with*  
*him before informing Mr Walker. Agree?*  
*I really think Mr Walker should know*  
*on a wholly confidential basis*  
*mt. - 28/11*

Anglo-German Consultations: Dr. Dieter Hiss

You had a copy of Mr. Franklin's report of his talks early this month with Dr. Hiss about reform of the CAP and budget restructuring. I do not know whether any specific reference was made to these contacts during the Prime Minister's recent talks with Chancellor Schmidt, but the thinking of the German Government on the CAP is obviously encouraging and needs to be followed up.

2. When they met, Mr. Franklin and Dr. Hiss arranged a further meeting in London on 9th-10th December. Dr. Hiss was anxious to pursue detailed discussions about the CAP arrangements for individual commodities. Mr. Franklin suggested that they should decide their agenda after the Prime Minister's talks in Bonn. While I think we should continue to draw the Germans on other aspects of budget restructuring e.g. their ideas for restricting both net contributions and net benefits, it is clear that the main emphasis is to be on the CAP.

3. This raises the question of whether the Minister of Agriculture should be aware of this contact, which is already known to the Foreign Secretary and the Chancellor of the Exchequer. Mr. Franklin is naturally concerned that there could be difficulty if knowledge of these discussions were to get back to Mr. Walker through the Germans. On the substance, he does of course have access to the papers which MAFF have prepared for interdepartmental discussion, and can draw on his own knowledge and experience; but if he is to have detailed briefing, the MAFF would need to be brought in. On the other hand, the Prime Minister and the Chancellor agreed that these should be private contacts, and the Germans clearly do not want them to get to the ears of the FDP in general and Herr Ertl in particular.

4. I should be glad to know whether the Prime Minister is content that Mr. Franklin should proceed on the present basis - at least for the time being - or whether she would wish to have a word with Mr. Walker.

*RIA*

(Robert Armstrong)



## CONFIDENTIAL

SIR ROBERT ARMSTRONG

cc Mr Alexander

## ANGLO-GERMAN SUMMIT: MEETING WITH DR. DIETER HISS

I met Dr Hiss in Berlin. We had talks lasting in all about five hours. It is clear that on the German side this contact is known to very few people; but I suspect this is not the only occasion on which Chancellor Schmidt has used an unorthodox channel (Hiss having been Schlumann's predecessor in the Chancellor's office is now the Bundesbank representative) <sup>in Berlin</sup> in order to by-pass the coalition. He saw the contact as limited to ways of reforming the CAP. I said this was only part, though an important one, of the Budget restructuring exercise to which we attached great importance.

2. Hiss said that, by the time of the Prime Minister's visit on 16th November, Chancellor Schmidt would know the outline of the new coalition Government's programme. As regards the CAP, it would not be as ambitious or as detailed as the recent report by the working party of the SPD (chaired by Apel) but it would nevertheless show some determination to get the CAP under control. In particular, in order to stay within the financial ceiling, the possibility of national financed income aids for selected groups of farmers was not ruled out. Chancellor Schmidt was only prepared to accept a high German contribution to the Community Budget provided there was real prospect of relief within a few years. The FDP had moved somewhat closer to the position of the SPD and, within the FDP, Herr Ertl's position was no longer as strong as it had been. The threat of resignation, which Ertl had used effectively in the past was no longer such a credible weapon and he was aware of it.

3. As regards next year's price fixing, I said there were two constraints: financial possibilities within the 1 per cent ceiling (which we both agreed was a basic assumption in our discussions) and the need to be seen to take a first step in the direction of restructuring the Budget. 1981 could not be another "stand off" year. The problem was how to reconcile these requirements with the income needs of farmers (which were greater in our case than in theirs

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because of our higher inflation rate) and the French Presidential election. We felt the first need was a tough line on prices. We realised that a price freeze was not acceptable but some people thought prices should not go up by more than 4-5 per cent (although I made it clear that the Prime Minister was not committed to these figures). Secondly there needed to be a financial limit on agricultural expenditure in 1981; and thirdly additional measures especially to control milk production. He said price increases of this order would present no difficulty for Germany but would not be enough for the rest of the Community. There would be no objection from the German side if we wanted to advocate it. So far as Germany was concerned, they knew that they could moderate the effect of a ten per cent price increase by re-valuing the DM, although Herr Ertl would not like to do it alone. Would the British Government be willing to re-value the Green £? I said our position on the Green £ had not been decided but I thought it was dangerous for both of us to be talking in terms of re-valuation since this would take the pressure off other member states to limit the increase in common prices. Higher common prices put the budget up. (1.5 billion direct effect eua in a full year for a ten per cent price increase) After further discussion he thought it might be possible that at the forthcoming meeting Chancellor Schmidt could agree to:-

- i) a qualitative statement about the need for price restraint for products in surplus
- ii) a re-affirmation of the 1 per cent VAT ceiling
- iii) restricting the share of the Community Budget to be absorbed by agriculture in conformity with the German Government's statement of 4th June
- iv) an indication that the Chancellor (and the Prime Minister) intended to keep a close eye on the forthcoming agricultural price negotiations (this to show that "agricultural prices were too important to be left to the Agriculture Ministers").

4. He attached considerable importance to the institutional arrangements for handling agricultural matters in Brussels. Chancellor Schmidt had on several occasions been unsuccessful in holding the line in the German Cabinet because the Agriculture Minister was able to report back that, unless he agreed, there would be a crisis in the Community. Even when the Chancellor agreed with the Finance Minister and the Economic Minister they could not control expenditure decisions which were taken in Brussels. Hiss was sceptical about applying

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effective cash limits to the CAP; the Agriculture Ministers could always find ways of appearing to comply with them. I said experience of joint Council meetings of Ministers of Agriculture and Finance had not been encouraging. Getting the Finance or Budget Council to set financial limits might at least have some influence. Increasing the power of the Budget Commissioner over the Agriculture Commissioner would also help. We discussed the possibility of getting the European Council to endorse something like the four points mentioned in paragraph 3 but were conscious of the political difficulties which President Giscard would have before his election.

5. We discussed individual commodities as follows:-

a) Milk

I explained our support for the supplementary levy on excess output and our objections to straight increases in the co-responsibility levy. Dr. Hiss said our approach was fundamentally different from that of the French who wanted to discriminate in favour of smaller producers and against milk producers who depended on imported feed stuffs. The German position lay somewhere between the two but probably closer to French than British thinking. We discussed the practicality of operating income aids in the milk sector as part of a tough price policy. The difficulties of devising a workable scheme for supplementing farm incomes on a generalised basis might be less if it applied to only one sector of production. Each member country would have to be free to decide what kind of income transfers it wanted to go in for. I suggested it might be possible to build in a disincentive to production.

b) Cereals

I suggested adjusting the level of the intervention price according to the size of the Community surplus. In any case cereal prices were too high. Hiss recognised that Germany was vulnerable on this point and that a rigorous price policy for cereals would attract some support in France. We could, he said, "test our political will to reform the CAP in this way". He suggested that the investment decision of cereals (and perhaps other) producers could be influenced by being given medium term price targets.

c) Sugar:

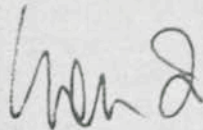
We agreed that, through the quota system, it would be reasonable to get producers to bear all financial responsibility (apart from ACP sugar) for surplus production

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d) Beef

I tried out the idea of replacing intervention with a deficiency payment system, or, as with sheepmeat, giving member states the choice. He plainly thought all this too ambitious and that the most that could be done was to reduce intervention. I said the Dutch were keen on the latter.

6. We agreed to resume discussion on these and other commodities in early December.



M D M Franklin

Cabinet Office

5th November 1980

15 NOV 1980



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*Gomersall*



Foreign and Commonwealth Office

London SW1A 2AH

9 September 1980

*for Mr. Hunt - 22/9*

*Dear Michael,*

CHANCELLOR SCHMIDT

You telephoned to ask for information on Chancellor Schmidt, and particularly his record of service during World War II. I enclose a copy of our personality note on him, the first paragraph of which deals briefly with the period leading up to Schmidt's becoming a British POW in the closing stages of the War. We have looked through our records for despatches or other substantive material on the Chancellor: but I fear there is little that will be of use to you: the despatch from Bonn written at the time Schmidt became Chancellor concentrates, not unnaturally, on the circumstances leading up to and surrounding Willy Brandt's resignation. I enclose a copy. In the time available we have not been able to get hold of any of the few short biographies that have so far been written about the Chancellor; but if you would like us to pursue the enquiry further, please let me know.

*Yours ever  
Stephen Gomersall.*

S J Gomersall

M O'D B Alexander Esq  
10 Downing St

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## SCHMIDT, HELMUT

Federal Chancellor (SPD).

Born 1918 in Hamburg, the son of a school teacher. As a schoolboy he was a keen oarsman and a member of the marine Hitler Jugend, from which however he resigned in 1936. On leaving school in 1937 he did six months' labour service and was then conscripted into the army as an anti-aircraft gunner. After active service with the First Armoured Division in the Eastern campaign he was promoted Reserve Lieutenant in 1942 and served with the Air Ministry in the Anti-Aircraft Weapons Division until 1944. Commanded a Battery still as Lieutenant, in the Ardennes offensive, December 1944. Was a British POW for six months.

He joined the SPD in 1946 and studied economics at Hamburg University under Professor Schiller. Became Federal Chairman of the League of German Socialist Students 1947-48. Received his diploma in economics in 1949. Joined the Hamburg Ministry for the Economy and Transport and specialised in traffic problems. Elected to the Bundestag in 1953 on the Hamburg list, he specialised first in traffic problems, and from 1955 onwards on defence policy. Became a member of the SPD Parliamentary Party Executive, but was dropped from it in 1958 when he was one of the first Bundestag Deputies to undertake reserve training with the new Bundeswehr, at a time when the SPD were still against German rearmament. He was re-elected to the Bundestag in 1961 but resigned his seat to return to Hamburg as Senator for the Interior 1961-65. He made his name during the catastrophic floods of February 1962, leading the rescue operations with energy, efficiency and scant regard for demarcation lines of authority.

Herr Schmidt returned to the Bundestag in 1965, and in March 1967 was elected chairman of the SPD Parliamentary Party on the death of Fritz Erlers. It was largely due to his co-operation with Dr Barzel (qv), then CDU-CSU Parliamentary Party leader, that the CDU-CSU/SPD Grand Coalition was held successfully together until the end of its mandate. In 1968 Schmidt was elected one of the two Federal Vice-Chairmen of the SPD. On the formation of the Brandt-Scheel Government in 1969 he was appointed Federal Minister of Defence. He was an outstanding Minister, who carried through a major restructuring and modernisation of the Bundeswehr and earned a notable reputation both internationally and with German military and public. By early 1972, however, he was making it clear that he wanted a change. He was also in bad health. His preference would have been to resume the leadership of the SPD Parliamentary Party, but this option was closed to him by Wehner's determination to remain in that post. In July 1972, however, whilst the fortunes of the first Brandt Government were at their lowest ebb following defections and the Parliamentary stalemate over the budget, Professor Schiller resigned. Herr Schmidt was appointed to succeed him as Minister in charge of the combined Ministries of Finance and of the Economy. He played a leading role in the 1972 election campaign, during which he was heavily attacked by the CDU-CSU for his statement that 5 per cent inflation would be preferable to 5 per cent unemployment.

After the 1972 election the Ministries of Finance and of the Economy were again split. Herr Schmidt took charge of the former and insisted successfully during the coalition negotiations on taking over with it the responsibilities for domestic and international monetary policy. As Minister of Finance Herr Schmidt grasped very firmly the political importance for the SPD of putting financial stability first. He was notable for the uncompromising line he took with his

Cabinet colleagues over questions of expenditure regardless sometimes of wider repercussions. His relations with Herr Brandt as Chancellor were not easy. Although Brandt had publicly spoken of Schmidt as the "first man in the SPD" after himself, Schmidt became increasingly impatient with Brandt's reluctance to exert authority or to despatch business efficiently. At that time his health seemed also to put a question mark over his political future and he said privately that he no longer entertained hopes of eventually becoming Chancellor himself. He has since disclosed that he had intended to resign from the Cabinet when their term ended in 1976.

When the Guillaume scandal forced Brandt to resign in May 1974, Schmidt was the only possible choice to succeed him as Chancellor. He immediately reshuffled the Government and made it clear that his aim was to stop the decline in the SPD's fortunes, with a view to winning the next general election in 1976. His new Ministers were drawn largely from the trade union side of the movement and were doers rather than thinkers. In his policy statement he took as his watchwords continuity and concentration on the realistic and essential. He pruned the Coalition's ambitious reform programme and adopted a more sceptical pragmatic approach to Ostpolitik. Maintenance of financial stability was still given priority and reflation to check rising unemployment was only cautiously allowed. His policies brought the FRG through the 1975/76 recession relatively unscathed and produced an economic recovery in time for the 1976 elections. This, and Schmidt's own personality, were the SPD's trumps in the election; he was and is consistently more popular than his party. Nonetheless the narrow victory was rather a blow to his prestige and self-esteem. He has had difficulties with the Coalition's narrow majority, but has earned great respect for his handling of the problems of the day.

Herr Schmidt is internationalist in his outlook and has wide contacts in the UK, Europe, and the United States. He has often said that, as a native of Hamburg, he feels a particular attraction towards the UK and he was helpful to us over renegotiation and over our economic problems in 1976.

Herr Schmidt's political experience is entirely post-war. His brand of socialism is highly pragmatic; he admires efficiency more than ideology and is openly impatient of philosophical dispute. For this reason he has sometimes seemed out of step with his party, by the members of which he is respected more than he is loved.

He is often accused of being dictatorial and is indeed often brusque. But those who have worked closely with him insist that till the moment of decision he is always open to reasoned argument and keen to learn all sides of the case. He is an exceptionally hard and rapid worker. He is at home not only in his native language but also in English, as he demonstrated by his highly successful speech to the Labour Party Conference at the end of 1974. He has an excellent sense of humour, and is easy to talk to although sparing of words and trenchant in expression. He visibly enjoys the exercise of power, but under the burden of the Chancellorship his zest seems to have waned a little. He is said to have bouts of feeling lonely and depressed. He was quite seriously ill in the spring of 1972 with a thyroid complaint, for which he remains under treatment. He suffered an attack of pleurisy and pneumonia in February 1975 and was obliged to undergo a minor eye operation in 1978.

Frau Schmidt ("Loki") was a school friend, who became an elementary school teacher and pursued her career until forced by ill-health to give it up in 1967. She is interested in botany, mineralogy, archaeology, painting and music. She plays the viola. She speaks some English. They have one grown-up daughter.

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**FOREIGN AND COMMONWEALTH OFFICE**

**DIPLOMATIC REPORT No. 275/74**

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*General Distribution*

**FEDERAL REPUBLIC OF GERMANY**

**6 June, 1974**

**THE RESIGNATION OF WILLY BRANDT**

*Her Majesty's Ambassador at Bonn to the  
Secretary of State for Foreign and Commonwealth Affairs*

**SUMMARY**

In his letter of resignation Herr Brandt said he accepted the "political responsibility for negligence in the (Guillaume) espionage case". But the Guillaume case is not the whole story. (Paragraphs 1-2.)

2. Guillaume was taken into the Federal Chancellery despite early doubts on security grounds. Four Ministers, including Herr Brandt himself, shared responsibility for aspects of the case. Quite separately there was in the wake of the espionage affair wide speculation about aspects of Herr Brandt's private life. (Paragraphs 3-9.)

3. His Government had reached a low point in its fortunes, and Herr Brandt was in a mood of despondency. It was the combination of this with the danger that his private life would be dragged in the mud that led him to resign. (Paragraphs 10-14.)

4. But the crisis had implications for the Coalition. Herr Genscher, though involved, was indispensable in the new Cabinet. The SPD resented his role in the Guillaume case, and his subsequent promotion to Vice-Chancellor. Nevertheless the new Government was formed with remarkable speed. (Paragraphs 18-20.)

5. It has been an inauspicious beginning for them. But although there is speculation about the longer-term cohesion of the Coalition, Herr Schmidt and Herr Genscher have compelling reasons to work together. Herr Schmidt still has the problem of his own Left wing; and Herr Brandt's future role remains uncertain. (Paragraph 21.)

6. Ease with which the German political system withstood the crisis and change of Government. Sad end for Herr Brandt as Chancellor; but he remains a great public figure for his achievements, particularly in foreign policy. (Paragraph 22.)

(Confidential)

*Bonn,*

Sir,

*6 June, 1974.*

Why did Herr Willy Brandt resign? In his letter of resignation to the Federal President of the 6 May, he said that he accepted "the political responsibility for negligence in the (Guillaume) espionage case". In his statement to the nation on television on 8 May, he amplified this, saying that he had resigned "out of respect for the unwritten rules of democracy, and in order to save his political and

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personal integrity from being destroyed". He had, he said, reached the conclusions that, irrespective of the advice he had received, he should never have allowed Guillaume access to Secret papers in Norway last summer; that he no longer felt capable of conducting relations with the GDR and Warsaw Pact sufficiently dispassionately; and finally, that his private life was in danger of being dragged into speculation about the espionage case.

2. But although the Guillaume case was the occasion of Herr Brandt's resignation, it is not the whole of the story; there had been signs earlier that his hold upon the Federal Chancellery might be endangered. Brandt is the third of Germany's post-war Chancellors whose term ended in resignation. His two most distinguished predecessors, Adenauer and Erhard, were both in the end forced from office; and there are parallels between his departure and Erhard's. Erhard too had won a Federal election little more than a year earlier; Erhard's fall, like Brandt's, was partly attributable to his own personality and had been preceded by a loss of grip upon his Government. In this despatch I examine the background and sequence of events which led to Herr Brandt's resignation, and the effects it may have on the future of politics in the Federal Republic.

#### The Guillaume case

3. I have reported separately on the Guillaume case; but we do not yet know all the details, and there may be more revelations to come. For the purposes of this despatch it is enough to record a few established facts, which bear on the question of Ministerial responsibility.

4. Guillaume, then ostensibly a loyal Social Democratic Party (SPD) worker of 13 years standing, was taken into the Federal Chancellery in early 1970 on the warm recommendations of the then State Secretary Ehrenberg and of Herr Leber, then Federal Minister of Transport, whose election campaign he had managed the previous year. It was a time when Herr Brandt's first Administration had only recently been formed, and when the SPD were short of experienced men to employ in and around the Government. Guillaume was subjected to two successive security vettings. The security authorities were aware of reports dating from 1955, which raised suspicion he might be a GDR agent; and the Head of the Federal Secret Service (Bundesnachrichtendienst) (BND) advised in the light of those reports that Guillaume should be found a job elsewhere than in the Chancellery. Notwithstanding this, the Federal Security Service (Bundesverfassungsschutz) (BfV), who were the agency officially responsible for providing the professional advice, twice certified in writing that they saw no grounds for withholding access first to Secret, and later to Top Secret, material. At that time, however, the final decision to grant Guillaume security clearance up to "Secret" rested with the Departmental Minister rather than the BfV, in this case with Professor Ehmke as Head of the Federal Chancellery. At that stage of the story Herr Brandt, as Federal Chancellor, was not directly involved.

5. Guillaume was originally employed in the economic section of the Chancellery. But in late 1972 he was transferred, temporarily at first, to the Chancellor's personal staff. In January 1973 he was appointed as the Private Secretary responsible for party matters. By that time State Secretary Grabert had succeeded Professor Ehmke as Head of the Chancellery. No further security vetting was undertaken.

6. In the course of the ensuing months the security authorities developed grounds for suspicion against him. On 29 May, 1973, they reported these to the Federal Minister of the Interior, Herr Genscher, who the same day informed the

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Federal Chancellor. The latter in turn warned his Principal Private Secretary, Dr. Wilke, and State Secretary Grabert, but nobody else among the Chancellery staff. The security authorities advised that Guillaume should be allowed to remain in his job whilst they pursued their investigations; a pre-existing plan that he should accompany Herr Brandt on holiday to Norway in July 1973, was therefore allowed to go forward. Although Herr Brandt told the Bundestag on 26 April immediately after Guillaume's arrest that he had at no time "charged" Guillaume with Secret documents, because such matters did not fall within his responsibilities, in his television statement of 8 May Herr Brandt admitted that he had in fact let Guillaume see Secret papers during the Norwegian holiday. These, it has transpired, included messages exchanged with President Nixon. In a newspaper interview after his resignation, Herr Brandt has explained that he simply did not take the warning of 29 May against Guillaume seriously enough; and that at the time of his statement to the Bundestag on 26 April he had clean forgotten that Guillaume had been with him in Norway.

7. It will be seen therefore that four Ministers shared responsibility for aspects of the Guillaume case:

- (a) Professor Ehmke was responsible for the original grant of security clearance; and although he acted on written advice that the Federal Security Service (BfV) saw no reasons to withhold it, he did so with knowledge of the 1955 suspicions, and against the advice of the Federal Secret Service (BND).
- (b) Herr Genscher, as Minister of the Interior, was at all material times the Minister in charge of the Federal Security Service (BfV). He bore the political responsibility for the advice they had offered in 1970 in the original security vettings and in May 1973 that Guillaume should be allowed to remain in his job—for 11 whole months as it turned out.
- (c) Herr Brandt and State Secretary Grabert shared responsibility for Guillaume's appointment as a Private Secretary, for allowing him to continue en poste after the May 1973 warning and for the subsequent breaches of security.

8. After the announcement on 25 April of Guillaume's arrest, public interest and discussion centred at first on the questions of Ministerial responsibility for his engagement and vetting, and of the degree of access he had enjoyed to State secrets. In the meantime Guillaume himself, and his wife, were under interrogation and the security authorities were investigating his previous life and contacts. This soon brought to light that he had been conducting a love affair with one of the shorthand-typists in the Federal Chancellery, who had been employed at first in Herr Bahr's office and subsequently became secretary to Herr Gaus, the Federal Representative-designate in East Berlin.

9. In this way the affair took on tones of sex as well as espionage. Given Brandt's far from ascetic past, a subject known to every well-informed newspaper man but hitherto not publicly commented upon, it was perhaps inevitable that speculation should then be turned upon the Chancellor's own private life. There was a flood of rumours; and the Press, led by the Springer papers, were in spate with accusations and apparently libellous innuendoes; they even reported that Guillaume had threatened to blackmail Herr Brandt unless he were released for exchange to the GDR. Many of these tales were certainly pure invention. As I have suggested, however, enough was known of past liaisons to lend the rumours some air of credence and there was one juicy morsel that stimulated appetites. In the course of the official investigations it was noted that Guillaume had been the

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only member of his personal staff to accompany Brandt on journeys on Party business by special train; and in questioning Brandt's own security officers about the routine on these journeys, the investigators discovered that the security officers had detailed information about women visitors whom Brandt had received which, whatever the truth lying behind it, could be given a damaging interpretation. These facts were then leaked by the investigators, and were picked up and embroidered by the Press and Opposition for all they were worth. This background would explain Brandt's reported private comment that, if the security services had put half as much effort into investigating Guillaume as they had put into his own movements, they would have caught the spy sooner. But he has also told a newspaper correspondent that "whatever may have happened, I have nothing to be ashamed of, that need have annoyed my wife".

**The reasons for resignation**

10. The espionage aspect of the Guillaume case, though damaging of course, does not in itself fully explain Herr Brandt's decision to resign. For one thing, lurid cases of espionage have been almost commonplace during the 25 years of the Federal Republic; they have not, however, usually had such dramatic political consequences. Herr Brandt himself has rejected as grotesque any suggestion that he could have been blackmailed; and by his decision to remain Chairman of his Party and to continue to play an active role in public life, he has demonstrated that he does not regard himself as morally or personally compromised. Moreover, some of his closest associates, including Herr Scheel, were urging him up to the last moment to remain at the helm, and promised him their full support. One has therefore to look beyond the spy story for a full explanation of his drastic decision.

11. The affair hit the Brandt Government at a low moment in its fortunes. Apart from the ratification of the General Relations Treaty with the GDR and the subsequent settlements with Prague, Budapest and Sofia, there were few positive results in either external or domestic policy to show for a year and a half of its second term of office. Since the autumn of last year there had been difficulties between the Coalition Parties and some bitter divisions between Brandt and his senior SPD lieutenants. Heavy losses by the SPD in Land and in municipal elections in March confirmed the findings of opinion polls that the SPD had suffered a serious loss of support among the electorate. The long delay, since December, in settling the Cabinet reshuffle, which would have to follow Herr Scheel's election as President, had added to the air of uncertainty and indecision at the top of the Government.

12. At the heart of this problem lay the personality of Brandt himself. He had never seemed fully to recover the energy he expended in the 1972 elections, and since last summer at latest he had been in a mood of withdrawal and pessimism. This is a trait he had shown in earlier stages of his life—for instance after his defeat in the Federal elections of 1965, in which he suffered bitterly, both from the attacks on his illegitimate birth and allegations that he had borne arms against the Germans in Norway during the war, but also from a personal sense of having failed his Party. He is a man who takes personally to heart the inevitable setbacks of political life. In the past he had always recovered from his bouts of pessimism, and had the reputation of showing himself most effectively when he was fighting with his back to the wall. That is what happened in 1972 when, after a summer of inactivity and depression following the stalemate in the Bundestag, he girded himself for the elections and used the negotiation on the General Relations Treaty with the GDR as a means of turning the weakness of his internal position to his own advantage, both externally and with the electorate.

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13. During the past nine months, and particularly since Wehner's public attacks on him in Moscow last September, Brandt was in a similar mood of retreat and discouragement. The stagnation of Ostpolitik contributed to his despondency. But Brandt was also suffering from a feeling of abandonment by his closest political associates. He displayed few signs of initiative of his own. His most positive gesture was to commit his personal prestige against the trade unions during the wage negotiations for Public Service employees in January; and he took the subsequent surrender which was forced upon the Federal Government as something of a personal betrayal. He was upset too by the continual attacks of the SPD Left wing and the Jusos (Young Socialists) upon the foundations of his Coalition policy, and by the trade unions' rejection of the Coalition's hard won compromise proposals on Mitbestimmung in industry. His discouragement had reached the point that in February there were already rumours of his wish to resign. There were signs, therefore, two months before the end, that his hold as Federal Chancellor might be shaken, unless he exerted a major effort to reimpose his authority and provide new impulse to his Government. There followed the electoral defeats of March. In early April, Brandt seemed to rally himself; with support from the SPD Praesidium, he launched an appeal for greater solidarity in the SPD and greater loyalty to the Coalition. Before this could yield fruit, however, the Guillaume affair burst upon the Government. It was immediately clear that the Opposition would be able to make devastating use of it to further their campaign of undermining public confidence in Herr Brandt and his Government.

14. It was also evident very soon that they intended raking up details about his past private life which Brandt would not have been able to deny ("I am no plaster saint", he said soon after his resignation), and which he no longer had the will to treat with the contumely they deserved. It was, I think, entirely in character that Brandt, feeling himself personally guilty of what later turned out to have been serious negligence of national security, should believe that the only honourable course was to take the whole blame upon himself and resign. That is the principal explanation he has himself given for this step. The fact that aspects of his personal life might be revealed would not alone have led him to resign; but nor do I think he would have resigned if there had been no personal factors involved. It was the combination of the two at a moment in time when the SPD as a Party, and Brandt personally, were in low spirits, that precipitated his decision.

#### The crisis

15. Guillaume's arrest was announced on 25 April, and the revelations which followed brought the crisis rapidly to a head over the weekend of 4-5 May. Brandt spent this in the country in private conclave with his Party advisers, Herr Schmidt and Herr Kühn, the two SPD Vice-Chairmen, Herr Wehner, the Parliamentary Floor Leader, and one or two others. The Opposition have since accused Wehner, and to a lesser extent Schmidt, of having forced Brandt to resign. It is, of course in the Opposition's interest to foster the impression of a divided SPD; and it is true that Wehner's open, and Schmidt's more discreet, disaffection over the preceding six months had contributed to the erosion of Brandt's authority. Since his resignation, however, all the SPD leaders concerned have been at pains to discount any suggestions that they had forced the decision upon him. Helmut Schmidt in particular was in a delicate position, as the only possible successor; and, even disregarding questions of loyalty, it could scarcely have suited him to begin his Chancellorship under the cloud of a Brutus legend. He has certainly rebutted any suggestion that he played such a role.

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16. It is a more debatable question what part Herbert Wehner took. He is the man, more than anyone else, who originally helped Brandt to power; but his ultimate devotion is not to individuals but to his Party's cause. He has vehemently denied certain Press reports that it was he who had brought Brandt evidence supplied by Dr. Nollau, the President of the Federal Security Service (BfV), that episodes in his private life were about to be exposed; or that he had "voted" for Brandt's resignation. Yet his denials, and protestations that he had offered Brandt his unconditional support, have been phrased with circumspection. We are not likely to learn, for a while at least, what exactly passed between him and Brandt. But there seems to be good reason to think that Wehner made sure that Brandt faced up to the serious implications for the SPD of the personal material which was now likely to emerge. This is not incompatible with his leaving the final decision to Brandt.

17. All we know for certain is that by the Sunday evening, 5 May, Brandt had chosen his course and had informed Herr Scheel, as Vice-Chancellor and Chairman of his FDP Coalition allies, of his intention to resign. Scheel and a number of SPD loyalists spent most of the following Monday in a prolonged attempt to persuade Brandt to reverse his decision. Herr Brandt's letter to the Federal President was held up meanwhile, until late that evening when State Secretary Grabert was despatched to Hamburg to deliver it.

**Implications for the Coalition**

18. Brandt's political position was complicated by the imminence of the Presidential election of 15 May, and the expected departure of Herr Scheel from active politics. Professor Ehmke and State Secretary Grabert both repeatedly offered Brandt their resignations and apparently urged him to remain as Chancellor. But both were members of the SPD, and Herr Brandt could hardly have let them go without getting rid too of the Minister responsible for the Security Service, Herr Genscher of the FDP. The SPD would not easily have swallowed anything less. They were, moreover, fiercely resentful of statements by Genscher which they interpreted as manoeuvres to pin the blame on Ehmke alone, and aggrieved by the leaks to the Press and Opposition from disaffected members of the security services, for whom he was responsible. (These leaks were indeed a prominent feature of the case, as they are of German politics in general.) It is a moot point whether Herr Genscher actually offered his resignation; in any case, it could not have been accepted. His departure would have meant disaster for the FDP, since he was the heir-apparent to Herr Scheel as Party Chairman, and Scheel would not renounce his candidature for the Presidency. For Brandt and the SPD leaders Genscher was therefore indispensable in the Cabinet, if the Coalition was to survive. This was one of the factors which helped to make Brandt's resignation inevitable. He said afterwards that his main political concern during the final weekend had been to ensure the safe continuation of the SPD-FDP Coalition.

19. The same considerations clearly lay behind the remarkable speed with which the SPD leaders moved to settle the succession. The news of Brandt's resignation was not announced until after midnight; yet by 10 next morning the SPD Praesidium had endorsed Brandt's proposal to nominate Schmidt as the new Chancellor. Demonstrations for Brandt in several cities later that day were not allowed to develop into a "Brandt must stay" movement. The SPD leaders, and Brandt himself, were concerned not only to preserve the appearance of continuity and SPD solidarity, but equally to avoid any interregnum during which relations between the Coalition Parties might have run out of control. Both Party leaderships realised that they had no choice but to close ranks behind the new Schmidt/

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Genscher team. This has not prevented bitterness, however, among the SPD rank and file. They see themselves having lost both a Chancellor who was a vote-winner and a world figure and another Minister, Ehmke, to boot, whilst Herr Genscher of the FDP has been promoted Vice Chancellor and Foreign Minister.

20. The feeling was so strong that there were fears that when the Federal Convention assembled on 15 May to elect the new President, some of the SPD electors might take their resentment of the FDP out on Herr Scheel by declining to vote for him. It is a measure of the concern the SPD Party managers felt that Herr Wehner, and even Herr Brandt himself, thought it necessary to take exceptional precautions to hold the SPD Presidential electors in line. The FDP on their side insisted that the election of Herr Schmidt as Chancellor should be deferred until the day after the Presidential election, although it would probably have been feasible, and have suited Herr Schmidt, to hold it earlier. They wanted to ensure that the SPD indeed delivered their votes for Scheel as President before the FDP members of the Bundestag were called on to vote for the installation of Schmidt as Chancellor.

### Consequences

21. I have reported elsewhere the formation of Herr Schmidt's Government and his statement of Government policy to the Bundestag on 17 May. Here I shall confine myself to some more general comments on the effects of Brandt's resignation on the political landscape:—

- (a) For the new Government it has been an inauspicious beginning, in an atmosphere of strain between the Coalition Parties. Both know, however, that for the present they have no option but to maintain the Coalition. The relationship between Herr Schmidt and Herr Genscher is likely to be one more of hard-headed realism than of the personal trust and friendship which obtained between Brandt and Scheel; but both are practical men, and both will have strong incentives to make a success of their partnership at least until the 1976 elections. There are still underlying differences of policy between the two Parties, especially on the subject of workers' participation in management (Mitbestimmung); but Herr Schmidt's decision to concentrate for the next two years on essentials, and to defer until after the 1976 elections action on some of the Coalition's other more far-reaching reform plans, should help to reduce the areas of friction within the Coalition.
- (b) The changes at the head of the Coalition have naturally rekindled speculation about its prospects in the longer-term. Among the FDP leaders it has been common ground that a decision whether to maintain their alliance with the SPD beyond the 1976 elections should not be taken until 1976. But there has been a change in the emphasis with which they express the point. Whereas Herr Scheel used to speak of his "hope" that it could continue fruitfully, Herr Genscher is more non-committal. He takes the line that it will depend on what the Coalition can achieve in the next two years and on the prospects in 1976 that they can agree on a further common programme. He has the reputation, meanwhile, of keeping open lines of communication with the Christian Democrats (CDU).
- (c) Herr Schmidt for his part is left with the problem of his own Left wing. For the moment the watchword in the SPD is solidarity; but it does not seem likely that the militant Left wing will remain silent indefinitely, and already the Chairman of the Jusos (Young Socialists) has criticised

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the shift towards the Right, which Herr Schmidt's Cabinet and statement of policy embody. He has not yet shown how he proposes to deal with the Left; and he does not have Brandt's ability to appeal to all sections of the Party.

- (d) Finally there is Brandt himself. He remains for the present Chairman of the SPD and is taking an active part in electoral campaigning. He is said to be eager to go on participating in the Socialist International. But his future is still very much in doubt. He is said to be happy to be relieved of the cares of office, and says that he intends to devote himself now to Party affairs. The SPD expect to continue to profit from his electoral appeal, and from his role as an elder statesman both at home and through the Socialist International abroad. But German observers agree that he has no chance of a return to power; and that it is on balance unlikely that he can long remain SPD Party Chairman under Herr Schmidt as Chancellor. The future of the Party Chairmanship does not have to be settled, however, before the next Party Congress in 1975.

**Conclusion**

22. In conclusion I offer two reflections. First, the ease with which the German political system withstood the crisis, and managed within 10 days a smooth transition from one Government to another, speaks well for the Federal constitution and the attitude of the political parties and the public. The fall of a respected elder statesman in a sex-and-spy scandal has had no adverse effect on the functioning of Parliamentary majority Government; indeed Herr Brandt's decision to resign has been hailed, in some quarters at least, as a useful reaffirmation of the principle of Ministerial accountability. The episode has however illuminated once again the near-insoluble problems of protecting state secrets in a society, in which millions of citizens are refugees from the GDR but in which constitutional theory precludes any general exclusion of such people from employment in sensitive posts in Government.

23. Secondly, for Willy Brandt himself it has been a sad end. I think that his reputation amongst the public at large has suffered some damage. But, except for the committed Right wing, he remains a great public figure who will surely live in German history as the man who showed that the Socialist Party could be trusted with the government of the country and make a success of it, and who created confidence abroad in Germany both as a democracy and as a country in which the ghost of revanchism had been laid.

24. I am sending copies of this despatch to Her Majesty's Representatives in the European Community, in Washington, in Moscow, East Berlin and to the UK Delegation to NATO: to the General Officer Commanding, British Military Government, Berlin: to the Secretary of the Commanders in Chief's Committee (Germany) and to all Consuls-General in the Federal Republic.

I have, etc.,

\* NICHOLAS HENDERSON.

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Germany

RECORD OF CONVERSATION BETWEEN THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS AND THE FOREIGN MINISTER OF THE FEDERAL REPUBLIC OF GERMANY AT THE COUNCIL OF MINISTERS (FOREIGN AFFAIRS), BRUSSELS ON TUESDAY 18 MARCH

Present:

Lord Carrington KCMG MC  
Mr J Bullard  
Mr G G H Walden

Herr H D Genscher  
Herr Braunnühl  
Interpreter

Afghanistan

1. Lord Carrington expressed thanks for the paper transmitted by the German Ambassador on 15 March. We had already read this, and we agreed with it to a large extent. The essential thing was that close consultations between the FRG, Britain and France should continue. There must also be co-ordination with the United States. Herr Genscher agreed entirely.

2. Lord Carrington quoted Mr Vance's remarks to Sir M Palliser about his own complete satisfaction with the degree of consultation practised by the Europeans over the idea of a neutral and non-aligned Afghanistan. But he saw a danger that the Americans might come to believe that "division of labour" meant that the disagreeable tasks were left to the United States. Herr Genscher agreed. He did not endorse everything the United States had done, but their basic position was correct. He would much rather have the American attitudes of today than those of the Mansfield era.

3. Herr Genscher described his conversation with the Indian Foreign Minister in Bonn on 17 March. From this and from Mr Rao's public statements there he had gained the impression that India was disposed to be active in promoting a political solution in Afghanistan. The principle behind the European idea of neutrality was attracting more and more support. Lord Carrington agreed, and showed Herr Genscher a catalogue of comments by non-aligned countries, including the EEC-ASEAN joint statement.

4. Lord Carrington suggested that the European Council would want to discuss Afghanistan and to say something in public afterwards. This should be prepared between officials of the UK, the FRG and France. Herr Genscher agreed.

5. Herr Genscher suggested that it was time to start lobbying selected non-aligned countries to be active in the direction of the European proposal. Lord Carrington said that we were already thinking on these lines.

18 March 1980

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TELNO 127 OF 13 MARCH

INFO UKHIS NEW YORK WASHINGTON TEL AVIV PARIS BONN.

YOUR TELNOS 188 AND 189 (NOT TO ALL): ARAB/ISRAEL

1. I SAW GENSCHER PRIVATELY FOR AN HOUR IN THE MARGINS OF THE COUNCIL OF MINISTERS MEETING IN BRUSSELS TODAY. I SAID I THOUGHT EUROPE WOULD SOONER OR LATER BE OBLIGED TO MAKE A MOVE ON THE MIDDLE EAST. THE SITUATION WAS STARTING TO LOOK INCREASINGLY GRAVE AND THERE WAS TALK OF THE OIL TAP BEING TURNED OFF. HOW DID GENSCHER SEE THINGS, AND WHAT WAS THE FRENCH VIEW?

2. GENSCHER RESPONDED WITH AN ACCOUNT OF HIS CONVERSATIONS IN CAIRO, ON THE LINES OF YOUR T U R. HE HAD NEVER SEEN SADAT SO CONCERNED, OR RATHER SO DEPRESSED. AS SADAT SAW IT, THE CRUCIAL DATE WAS NOT 26 MAY BUT 25 MARCH, WHEN THE QUESTION OF SECURITY WAS TO BE DECIDED. IT WOULD THEN BE POSSIBLE TO JUDGE WHETHER OR NOT THERE WAS ANY CHANCE OF THE MAY DEADLINE BEING MET. IN HIS HEART, SADAT WOULD BE PREPARED TO CONTINUE NEGOTIATING AFTER THIS DATE IF HE SAW A REAL HOPE OF PROGRESS. BUT HE HAD INDICATED THAT IN EARLY MAY HE WOULD LIKE TO SEE TWO THINGS:

A PROPOSAL FOR A RESOLUTION SUPPLEMENTING 242:  
AND A PROPOSAL FOR AN INTERNATIONAL CONFERENCE ON THE MIDDLE EAST, ALTHOUGH SADAT WAS NOT CLEAR IN HIS OWN MIND WHETHER THIS WOULD INVOLVE THE SECURITY COUNCIL OR THE GENERAL ASSEMBLY. GENSCHER SAID THAT SADAT WAS LOOKING TO EUROPE TO TAKE THE LEAD. BY THIS HE MEANT PRINCIPALLY THE UK AND THE FRG, THOUGH HE HOPED FOR THE SUPPORT OF FRANCE. HE PLANNED TO APPROACH THESE THREE GOVERNMENTS AFTER 24 MARCH, ALTHOUGH NOT BEFORE THE EUROPEAN COUNCIL.

3. GENSCHER SAW SADAT'S PURPOSE AS BEING TO BRING PRESSURE ON THE ISRAELIS IN THE NEGOTIATIONS, AND ALSO TO FIND A WAY OF GETTING THE DEADLINE EXTENDED WITHOUT OF LOSS OF FACE.

4. I POINTED OUT TWO DIFFICULTIES: THE UNITED STATES BELIEVED THAT A MOVE BY EUROPE BEFORE 26 MAY

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WOULD BE COUNTER-PRODUCTIVE, AND ANY RESOLUTION BUILDING ON CAMP DAVID WOULD BE LIKELY TO FAIL WITH THE ARABS. GENSCHER WAS AWARE OF EGYPTIAN THINKING ON THIS SUBJECT, THOUGH HE HAD NOT SEEN A TEXT. HE BELIEVED IT HAD BEEN KREISKY'S IDEA TO USE CAMP DAVID LANGUAGE. SADAT IN ANY CASE BELIEVED THAT ISRAEL SHOULD ON NO ACCOUNT BE RELEASED FROM HER OBLIGATIONS UNDER THE TWO AGREEMENTS SHE HAD SIGNED, NAMELY 242 AND CAMP DAVID.

5. GENSCHER SUGGESTED THAT THE FRG AND THE UK SHOULD URGENTLY GET TOGETHER TO FORMULATE A JOINT POSITION, AND SHOULD THEN BRING IN FRANCE. IT COULD BE THAT WE SHOULD WANT TO TAKE UP A POSITION WHICH THE UNITED STATES WOULD SEE AS DISTURBING THE CAMP DAVID PROCESS.

6. I SAID WE HAD HITHERTO ENVISAGED ANY EUROPEAN INITIATIVE FOLLOWING ON THE FAILURE OF THE EGYPT/ISRAEL NEGOTIATIONS. IF WE LAUNCHED ONE AS A LEVER WHILE THE NEGOTIATIONS WERE STILL IN PROGRESS, WE COULD WEAKEN EUROPE'S POSITION FOR THE FUTURE. GENSCHER AGREED, BUT THOUGHT THIS DIFFICULTY COULD BE AVOIDED IF THE EUROPEAN DRAFT RESOLUTION CONTAINED NO EXPLICIT CONNECTION WITH 26 MAY.

7. GENSCHER AND I AGREED THAT IT WOULD BE DESIRABLE FOR THE EUROPEAN COUNCIL TO DISCUSS THIS SUBJECT, AND TO SAY SOMETHING AFTERWARDS TO THE PRESS, ALWAYS WITHOUT REFERENCE TO THE CAMP DAVID PROCESS. THIS WOULD INCIDENTALLY HELP TO BALANCE WHATEVER THE COUNCIL MIGHT WISH TO SAY ABOUT AFGHANISTAN.

8. GENSCHER HAD A SECOND SUGGESTION, ABOUT THE EURO/ARAB DIALOGUE. HE PROPOSED (AS THE GERMAN POLITICAL DIRECTOR HAD AT THE POLITICAL COMMITTEE IN ROME LAST WEEK) A MEETING BETWEEN THE PRESIDENCIES OF THE NINE AND OF THE ARAB SIDE OF THE DIALOGUE. THIS WOULD FINESSE THE QUESTIONS OF EGYPT AND THE PLO. THE MEETING WOULD BRING LITTLE OF SUBSTANCE, BUT WOULD HAVE A SYMBOLIC IMPORTANCE. GENSCHER DID NOT BELIEVE THAT IT WOULD UPSET EGYPT, NOR THAT THE OTHER ARABS WOULD OBJECT IF THE EUROPEAN SIDE TOOK THE NECESSARY STEPS TO KEEP EGYPT INFORMED. HIS THOUGHT WAS THAT THE EUROPEAN COUNCIL COULD PROPOSE THIS, TOGETHER WITH MAKING SOME GENERAL REMARKS ABOUT THE ARAB/ISRAEL SITUATION. ANY EUROPEAN MOVE FOR A NEW U.N. RESOLUTION WOULD COME LATER.

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/9. GENSCHER

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9. GENSCHER ACCEPTED MY REMINDER THAT WE MUST KEEP THE AMERICANS CLOSELY INFORMED, ESPECIALLY IN VIEW OF OUR RECENT COMPLAINTS ABOUT THEIR CONSULTATION PROCEDURES.

10. WE AGREED THAT OUR POLITICAL DIRECTORS SHOULD MEET IN THE NEXT FEW DAYS TO CARRY THIS FORWARD. ALSO THAT THE EGYPTIAN PRIME MINISTER'S PLAN TO VISIT LONDON (AND BOMN) AS WELL AS PARIS IN APRIL SHOULD BE ENCOURAGED.

CARRINGTON

F I L E S

HD/NENAD  
HD/UND  
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PS  
PS/LPS  
PS/MR. HURD  
PUS  
SIR D MAITLAND  
MR J C MOBERLY  
MR BULLARD

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Mr Bullard

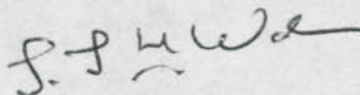
The Secretary of State spoke to M. Francois Poncet this morning on the lines of your briefing.

M. Francois-Poncet said that he was not keen for declarations by the European Council on either the Middle East or Afghanistan. On the Middle East, he did not think it would be possible to say much without appearing to anticipate the 26 May deadline. He agreed however that the three Political Directors could discuss the issue, though they might only conclude that the European Council should announce only that the subject had been discussed, and that the Community would take a position at its next Summit in Venice. Lord Carrington agreed that this might be the outcome.

On Afghanistan, M. Francois-Poncet was equally reticent. He did not think that it would be a good idea to restate European support for the neutrality proposal, in the light of the Russians lack of enthusiasm, both in public and private. Such a statement might draw a public rebuke from the Russians. In general, M. Francois-Poncet did not want the Community to get into the state of mind where it felt obliged to "produce literature" every time its leaders met. They should only say something when they had something to say. Lord Carrington thought it might be difficult to say nothing on Afghanistan, and it was agreed that the Political Directors could discuss this problem too.

The Secretary of State suggested that he, Herr Genscher and M. Francois-Poncet should discuss Iran in the margins of the European Council: M. Francois Poncet agreed.

M. Francois-Poncet then raised the question of Britain's contribution to the Community budget and asked whether there would be any contacts between us before the European Council. Lord Carrington asked whether he meant at Foreign Minister level: M. Francois-Poncet said that this would be too "noisy". Lord Carrington said that we were thinking of a quieter meeting between Sir Robert Armstrong and M. Wahl. (I gather that this has now been fixed for 25 March.) M. Francois-Poncet agreed that this was the best channel and said that he would have a word with M. Wahl.



(G G H Walden)

21 March 1980

ccs:

PS/LPS

PS/Mr Hurd

PS/Mr Blaker

PS/PUS

PS/Sir D Maitland

Mr J Moberly

Lord Bridges

Mr Fergusson

Mr Hannay

EESD

SAD

ECD(I)

MED



Germany

12 March, 1980.

Herr Schmidt's Visit to Washington

In his letter of 11 March, Paul Lever conveyed the Foreign and Commonwealth Secretary's suggestion that the Prime Minister might telephone Herr Schmidt to ask him for his assessment of his visit to Washington. The Prime Minister has decided that she would prefer not to take the initiative on this occasion.

M. O'D. B. ALEXANDER

R.M.J. Lyne, Esq.,  
Foreign and Commonwealth Office.

ASD

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Prime Minister



I am much in favour of your Foreign and Commonwealth Office  
 developing an informal relationship with Herr Schmidt of the kind implied  
 in this suggestion. But I think it would be a little odd to ring him up & ask  
 him about his visit: if he wants to  
 all you he will ring himself.

London SW1A 2AH

11 March 1980

So, lol!

Dear Michael,

P. Lever

## HERR SCHMIDT'S VISIT TO WASHINGTON

Chancellor Schmidt has just returned from a visit to Washington which, by all accounts, did not go too smoothly. There seems, for example, to have been no real meeting of minds on the Olympic Games or on the general philosophy of dealing with the Russians post-Afghanistan. I attach a copy of Washington telegram no 1008 which provides the fullest account we have yet seen. But this comes from a US source: Lord Carrington considers that it would be helpful to have Herr Schmidt's own account of the meeting. He wonders therefore whether the Prime Minister might consider telephoning Herr Schmidt and asking him for his own frank assessment of the visit.

If she does telephone Herr Schmidt, the Prime Minister may like to mention that she will be giving an interview to Herr Barzel and Die Welt on 17 March. Herr Schmidt's Office have already been informed by our Embassy in Bonn.

If the Prime Minister agrees to telephone Herr Schmidt we would, if you wished, provide a brief on other current international topics such as the Community Budget and Afghanistan.

Yours WZ

Paul

(P Lever)

M O'D B Alexander Esq  
 10 Downing Street

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TO PRIORITY FCO

TELEGRAM NO 1008 OF 7 MARCH

INFO PRIORITY BONN, MOSCOW, PARIS, ROUTINE UKDEL NATO, ROME,  
UKREP BRUSSELSINFO SAVING OTTAWA, CANBERRA, KABUL, ISLAMABAD, NEW DELHI,  
PEKING, TOKYO, EAST BERLIN

MY TELNO 992: SCHMIDT'S VISIT TO WASHINGTON

1. I HAVE NOW DISCUSSED THIS WITH BLACKWILL IN THE NSC, WHO WAS PRESENT AT SOME OF THE MEETINGS AND SPOKE (IN STRICT CONFIDENCE) ON THE BASIS OF HAVING SEEN THE FULL RECORDS. WHILE HE PUT A POSITIVE COMPLEXION ON THE RESULTS, HE STILL SAW CAUSE FOR CONCERN OVER US/FRG RELATIONS.

2. SCHMIDT'S VISIT HAD OCCURED AGAINST THE BACKGROUND OF TALKS THE PREVIOUS WEEK IN THE STATE DEPARTMENT ON THE GERMAN PAPER FOR A WESTERN STRATEGY POST-AFGHANISTAN (YOUR TELNO 430). THIS PAPER HAD CAUSED DISMAY IN WASHINGTON. IT PORTRAYED DETENTE AS DIVISIBLE, REPRESENTED THE SOVIET INVASION AS AN EAST-SOUTH CRISIS, MADE NO REFERENCE TO WESTERN SANCTIONS AGAINST THE RUSSIANS, SPOKE OF THE NEED FOR THE WEST TO COMPENSATE THE RUSSIANS FOR THEIR WITHDRAWAL, AND MADE NO MENTION OF A MILITARY COMPONENT TO WESTERN STRATEGY TOWARDS SOUTH-WEST ASIA. THERE HAD BEEN SOME TOUGH TALKING IN THE STATE DEPARTMENT. THE US HAD UNDERLINED THE DANGERS THEY SAW IN THE EUROPEANS APPEARING TO ACT AS INTERMEDIARIES BETWEEN THEIR OWN ALLIES AND THE RUSSIANS.

3. ON THE OTHER HAND, THERE WAS ALSO A FAVOURABLE BACKGROUND BECAUSE IN ADVANCE OF THE VISIT THE GERMANS HAD AGREED TO DO A NUMBER OF THINGS WHICH THEY WERE NOT PREPARED TO DO LAST AUTUMN: MEETING THE NATO 3 PERCENT TARGET, TAKING THE LEAD ON TURKEY, AND OFFERING SUBSTANTIAL INCREASES IN THEIR AID TO TURKEY AND PAKISTAN.

4. OLYMPICS. BLACKWILL SAID THAT THE US ATTACHED IMPORTANCE TO HAVING SECURED GERMAN AGREEMENT TO THE SENTENCE IN THE COMMUNIQUE INDICATING THAT AN END OF THE SOVIET OCCUPATION OF AFGHANISTAN WAS THE NECESSARY CONDITION FOR WESTERN ATHLETES TO GO TO MOSCOW. THIS WAS A SIGNIFICANT STEP FORWARD. IT REFLECTED THE US POSITION THAT A PARTIAL OR STAGED WITHDRAWAL WOULD NOT BE AN ADEQUATE BASIS FOR WESTERN PARTICIPATION IN THE OLYMPICS. SCHMIDT HAD TOLD CARTER THAT THE GERMANS WOULD ULTIMATELY FOLLOW THE US AND THAT HE WAS CONVINCED THE REST OF THE COMMUNITY INCLUDING FRANCE WOULD DO THE SAME. IN DISCUSSION OF WHEN THE GERMAN POSITION MIGHT BE MADE PUBLIC, CARTER HAD ARGUED THAT THE US NEEDED EUROPEAN HELP TO

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BRING ALONG ENOUGH OF THE THIRD WORLD TO MAKE THE BOYCOTT ACCEPTABLE TO WESTERN ATHLETES. EXCESSIVE GERMAN DELAY WOULD MAKE IT TOO LATE TO INFLUENCE OTHER COUNTRIES. SCHMIDT HAD AGREED TO REFLECT FURTHER ON TIMING. THE US INTENDED TO KEEP UP THE PRESSURE.

5. SOVIET/FRG ECONOMIC RELATIONS.

THE PRESIDENT HAD BEEN BLUNT IN POINTING OUT THAT, SO FAR AS HE COULD TELL, THE SOVIET INVASION HAD HAD NO EFFECT ON GERMANY'S ECONOMIC RELATIONS WITH MOSCOW. EVERYTHING THAT HAD BEEN DONE HAD BEEN DONE BY THE US. IN A LENGTHY REPLY SCHMIDT HAD DESCRIBED THE IMPORTANCE TO BONN OF WEST GERMANY'S TRADE RELATIONS WITH THE EAST, AND HIS DEDICATION TO MAINTAINING RELAXED RELATIONS BETWEEN THE TWO GERMANIES WHICH ALLOWED MOVEMENT BETWEEN THEM TO CONTINUE. HE HAD ARGUED THAT WHAT WAS EASY FOR A SUPER-POWER WAS VERY HARD FOR BONN. HE WAS PREPARED TO SUPPORT THE US PROPOSALS FOR TIGHTER COCOM RESTRICTIONS. THAT WAS THE MOST APPROPRIATE FORUM TO ESTABLISH DIRECT LINKAGE BETWEEN THE INVASION AND EAST-WEST RELATIONS. THERE HAD BEEN AN INCONCLUSIVE DISCUSSION OF GERMAN CREDITS FOR THE EAST. THUS SCHMIDT'S ONLY ECONOMIC COMMITMENT LAY IN THE FIELD OF COCOM, ALTHOUGH HE HAD NOT RULED OUT OTHER ECONOMIC ACTIONS.

6. WESTERN CONSULTATIONS.

THERE HAD BEEN LONG DISCUSSIONS OF THIS WITH CARTER, BRZEZINSKI AND VANCE. SCHMIDT HAD COMPLAINED THAT THE US PERFORMANCE HAD BEEN INADEQUATE, AND LAID SPECIAL EMPHASIS ON THE DOMESTIC PROBLEMS THIS CAUSED HIM. FROM THE PRESIDENT DOWNWARD, THE US SIDE HAD RECOGNISED THAT THEY HAD NOT CONSULTED ADEQUATELY WITH THE ALLIES WHEN THE CRISIS BEGAN (ESPECIALLY ON THE OLYMPICS), ALTHOUGH CONSULTATION HAD BEEN BETTER IN THE LAST FEW WEEKS.

7. CHINA.

SCHMIDT HAD BEEN WORRIED ABOUT THE EFFECT OF US POLICY TOWARDS CHINA ON THE RUSSIANS. HE WAS CONCERNED THAT THE US MIGHT GET CLOSE ENOUGH TO THE CHINESE TO PROVOKE THE RUSSIANS (HE SPOKE OF A PRE-EMPTIVE SOVIET ATTACK ON CHINA NEXT YEAR) WITHOUT BEING CLOSE ENOUGH TO GIVE THE CHINESE ANY ASSISTANCE. THE US SIDE, DISCOUNTING A POSSIBLE SOVIET DIRECT ASSAULT, NOTED THAT THEY DID NOT INTEND TO GET CLOSER TO THE CHINESE THAN THEY WERE AT PRESENT. BUT THEY COULD NOT ALLOW THEIR RELATIONS WITH PEKING TO BE DEFINED BY MOSCOW.

8. NEUTRALITY FOR AFGHANISTAN.

SCHMIDT HAD POSED TWO QUESTIONS: COULD THE RUSSIANS BE PERSUADED TO WITHDRAW; AND WAS THAT THE US AIM? HE THOUGHT THE ANSWER TO THE FIRST WAS QUOTE POSSIBLY UNQUOTE. ON THE SECOND HE WAS NOT SURE. BRZEZINSKI HAD AGREED THAT SOVIET WITHDRAWAL WAS POSSIBLE, PROVIDED THREE CONDITIONS WERE MET:

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1) ALLIED

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I) ALLIED SOLIDARITY CONTINUED TO BE REFLECTED NOT ONLY IN RHETORIC BUT IN CONCRETE TERMS:

II) ISLAMIC OUTRAGE WAS MAINTAINED; AND

III) THE INSURGENCY PERSISTED. (WITHOUT THIS THE FIRST TWO CONDITIONS WERE UNREALISTIC).

SCHMIDT AGREED WITH THIS ANALYSIS. BRZEZINSKI THEN UNDERLINED THE NEED TO AVOID BECOMING DEMANDEURS, WHICH WOULD GIVE THE RUSSIANS A CHANCE TO CONTINUE THE FIGHTING IN AFGHANISTAN WHILE STRINGING OUT NEGOTIATIONS INDEFINITELY. SCHMIDT, WHILE AGREEING THAT WE MUST AVOID AN QUOTE UNSEEMLY SCRAMBLE UNQUOTE TO PRESENT PROPOSALS TO THE RUSSIANS WHICH WERE NOT IN FACT IN THE WESTERN INTEREST, POINTED OUT THAT ISLAMIC OUTRAGE COULD NOT BE MAINTAINED WITHOUT PROGRESS ON PALESTINE. FOR MANY OF THE ARABS, THE US PRESENTED A GREATER THREAT BY VIRTUE OF ITS SUPPORT FOR ISRAEL THAN DID THE RUSSIANS.

9. EUROPEAN SECURITY.

IT HAD BEEN AGREED THAT BOTH SIDES WOULD STILL AIM TO ATTEND THE MADRID CONFERENCE. THE ORIGINAL GERMAN LANGUAGE IN THE COMMUNIQUE HAD CONTAINED AN ENDORSEMENT FOR THE CDE. THIS HAD BEEN DROPPED AFTER THE US HAD ARGUED THAT, WHILE THEY DID NOT OPPOSE THE PROPOSAL, IT WOULD BE WRONG TO SINGLE OUT ONE PARTICULAR POST-MADRID FORUM.

10. INDIA.

SCHMIDT HAD UNDERLINED THE IMPORTANCE OF INDIA AND THE NEED FOR THE WEST TO HAVE GOOD RELATIONS WITH HER. GIVEN INDIAN ATTITUDES TOWARDS THE US THIS WAS NOT EASY TO ACHIEVE. BRZEZINSKI HAD AGREED. THE AMERICANS WERE TRYING TO CONVINCE THE INDIANS THAT US ASSISTANCE TO PAKISTAN WAS NOT A THREAT TO THEMSELVES, BUT IT WAS TOUGH GOING.

11. GENERAL.

BLACKWILL CONCLUDED THAT, PARTLY BECAUSE OF THE ACTIONS TAKEN BY BONN BEFORE THE VISIT THE ADMINISTRATION WERE NOT DISCOURAGED BY ITS IMMEDIATE RESULTS. IT HAD BEEN HELPFUL FOR CARTER AND SCHMIDT TO CLEAR THE AIR SOMEWHAT. HOWEVER, THERE WAS STILL A FEELING IN THE WHITE HOUSE THAT IN TERMS OF TANGIBLE REACTIONS TO THE SOVIET INVASION THERE WAS AN IMBALANCE BETWEEN THE US AND THE

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REST OF THE ALLIES. THE AMERICANS COULD NOT UNDERSTAND (DESPITE LENGTHY DISCUSSIONS BETWEEN SCHMIDT AND BRZEZINSKI ABOUT GERMAN VULNERABILITY TO PRESSURE FROM THE EAST) WHY BONN COULD NOT TAKE FURTHER STEPS TO RESTRICT ECONOMIC RELATIONS WITH THE SOVIET UNION. AT THIS MOMENT THE ADMINISTRATION WAS ENGAGED IN VERY PAINFUL BUDGET CUTS, WITHOUT TOUCHING DEFENCE SPENDING. THE PRESIDENT WOULD HAVE TO PAY A HEAVY POLITICAL PRICE FOR LOST SOCIAL PROGRAMMES. THE EUROPEANS DID NOT SEEM READY TO PAY AN EQUIVALENT POLITICAL PRICE.

FCO PASS ALL SAVING POSTS.

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TO PRIORITY FCO  
TELEGRAM NUMBER 198 OF 28 FEBRUARY  
INFO PARIS MOSCOW UKDEL NATO UKDEL VIENNA

## VISIT OF SECRETARY OF STATE FOR DEFENCE TO BERLIN : 25-26 FEBRUARY

1. I AM MOST GRATEFUL TO THE DEFENCE SECRETARY FOR MAKING THIS VISIT, WHICH WAS A CONSPICUOUS SUCCESS. MR PYM WAS WARMLY RECEIVED IN BERLIN AND REACTIONS BOTH THERE AND IN BONN WERE VERY POSITIVE. IN PARTICULAR, HIS SPEECH AT THE GOLDEN BOOK CEREMONY RECEIVED EXTENSIVE AND FAVOURABLE PRESS COVERAGE THROUGHOUT THE FEDERAL REPUBLIC.

2. THE GERMAN REPRESENTATIVE AT THE BONN GROUP YESTERDAY WENT OUT OF HIS WAY TO EXPRESS THE FEDERAL GOVERNMENT'S THANKS FOR THE VISIT AND FOR MR PYM'S RE-AFFIRMATION OF THE UNITED KINGDOM'S COMMITMENT TO BERLIN AND ITS INHABITANTS. THIS WAS IN MARKED CONTRAST TO THE RESERVE SHOWN BY THE AUSWAERTIGES AMT FOLLOWING PRESIDENT GISCARD'S VISIT TO BERLIN LAST OCTOBER.

3. PRESS COMMENT HAS FOCUSED ON THE LINK MADE BY MR PYM IN HIS SPEECH BETWEEN DETENTE, PASSIONATELY DESIRED BY BONN, AND VIGILANCE. IN AN APPROVING EDITORIAL, THE FRANKFURTER ALLGEMEINE ZEITUNG SAID THAT IT WOULD BE USEFUL IF THE BRITISH COULD SWING THEIR EUROPEAN ALLIES OVER TO THE LINE THAT A FIRM RESPONSE TO SOVIET ACTS OF FORCE IS NOT AT VARIANCE WITH STABLE EAST/WEST RELATIONS BUT IS A PRE-REQUISITE FOR THEM.

4. BECAUSE OF ITS TIMING THE VISIT HAS INEVITABLY BEEN SEEN IN THE CONTEXT OF THE WESTERN RESPONSE TO AFGHANISTAN AND HAS GENERALLY BEEN INTERPRETED AS A GESTURE OF SOLIDARITY, PARTICULARLY OVER OUR COMMITMENT TO BERLIN. COMING BETWEEN THE VISITS BY CHANCELLOR SCHMIDT TO THE PRIME MINISTER AND BY YOU TO HERR GENSCHER, IT HAS BEEN SEEN AS FURTHER SIGNIFICANT CONFIRMATION OF THE CLOSENESS OF ANGLO/GERMAN COOPERATION AT SENIOR MINISTERIAL LEVEL. IT COULD SCARCELY HAVE GONE DOWN BETTER, BOTH IN BERLIN AND IN THE FEDERAL REPUBLIC.

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RECORD OF A MEETING BETWEEN THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS AND THE FEDERAL GERMAN CHANCELLOR ON TUESDAY, 26 FEBRUARY 1980 AT 1830 HOURS IN BONN

Present

The Rt Hon The Lord  
Carrington KCMG MC

Sir Oliver Wright  
GCVO KCMG DSC

Mr G G H Walden

Chancellor Schmidt

Herr Genscher

Herr von Staden

1. The Chancellor said that he had particularly wanted to be seen to receive Lord Carrington in Bonn, despite their earlier meeting over the weekend. He asked for an account of the discussions with Herr Genscher.

2. Lord Carrington said that they had discussed the Euro-Arab dialogue, and the Arab/Israel issue. They had agreed that Camp David was unlikely to succeed, and that any agreement would be inadequate. After May there would be a need for action to keep the dialogue open. The Nine could develop an initiative with something for both the Israelis and the Palestinians. He realised that there would be difficulties in persuading the Israelis to amend Resolution 242. But it was possible, and we should try. The Nine were not too far apart. The Dutch had come on a long way, and the French were only a little way ahead. Herr Genscher thought that the Euro-Arab dialogue should be elevated to a higher, more political plane. We had problems about talking to the PLO in view of their past association with the IRA. It might also be asked why we talked to one set of terrorists, and not to another. But contacts with the PLO would be easier if they were multilateral. The Chancellor commented that the Germans were in the same position.

3. On Afghanistan, Lord Carrington said that he and Herr Genscher agreed that the Italians should present our initiative on neutrality to the Russians, and that we should encourage the non-aligned to support it. The Chancellor said he very much agreed on the importance of the non-aligned.

4. On the Olympics, Lord Carrington said he had asked Mr Vance to postpone the second meeting of some boycotting countries until the position on alternative games was clearer. Chancellor Schmidt said that the idea of alternative games was a still-born child. It would require decisions by different branches of different sporting organisations from cycling to swimming. Those who had proposed it had no concept of the organisation of international sport. Games could be mounted for athletes, but they would not be very prestigious. Lord Carrington said that the presence of the Americans and the Germans would surely give prestige to such games. The Chancellor said that Germany would be very reluctant

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to participate; those who did could lose prestige. It was estimated that 70 countries might turn up in Moscow and only 15 in eg Montreal. Lord Carrington said that he too was sceptical, but thought that we should pursue the American idea. In the end, he thought that the Americans, Germans and French would not go to Moscow, while British sportsmen might insist on going despite the Government's attitude. The Chancellor said that this served us right for coming out too quickly in support of the Americans. Lord Carrington said that he was ready to defend our action, but agreed that the position was not satisfactory. He asked whether France would go. M François-Poncet had implied to him privately in Rome that they might not.

5. The Chancellor said that he hoped that any French change of mind would not be the result of pressure from eg American senators or the New York Times. He imagined that Brezhnev had timed his speech to come after the expiry of the American deadline on the Olympics. Lord Carrington said that we were not totally discouraged by Brezhnev's remarks. The Chancellor said that they represented the beginning of an answer to our neutrality proposal; and in any case we should construe it as an answer. This would make it more difficult for the Russians to deny that Brezhnev's speech represented a new opening. He agreed with Lord Carrington that it might be hard for the Russians to withdraw in present circumstances. According to his information, the Russians were losing 500 dead a month, and 2500 wounded. Herr Genscher said that these losses could help to create the conditions for a political solution. The Chancellor thought that it might work the other way.

6. Lord Carrington said that he and Herr Genscher had discussed the lack of proper consultation with the Americans. He himself had told Mr Vance that such consultation was essential. He referred to the proposal that the French, German and British Ambassadors in Washington should hold regular quadripartite consultations with Mr Vance. The Chancellor welcomed this idea. The very act of giving our Ambassadors instructions, which would have to be agreed by our Political Directors, would help to promote agreement amongst the three Europeans. He had heard that day from the German Ambassador in Washington that the idea was to hold such meetings with the Americans every two weeks. Lord Carrington said this sounded rather too frequent. The Chancellor said it would be no bad thing if the quadripartite meetings were at fixed intervals; this would enable us to give regular instructions to our Ambassadors. He was afraid that the Americans might want to include the Italians; the French would not like it if they did. He too hoped that they would not. He did not want the French to be embarrassed a second time. Lord Carrington said M François-Poncet had told him that the French wanted the smallest number possible to avoid embarrassment when they were obliged to disagree. The Chancellor said he sympathised with the French. The British must ensure that the Americans understood French sensitivities. Lord Carrington said he had stressed to Mr Vance the advisability of keeping the numbers to four.

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7. Lord Carrington said that he and Herr Genscher had grumbled about the organisation of political cooperation. At Rome everyone had discussed the Communiqué and not the merits of the case. The Chancellor said that the battalions of officials should be excluded and that political cooperation should be held in a very personal atmosphere. Each Minister should be accompanied by one sophisticated note-taker/adviser. Lord Carrington said he would take this up with M François-Poncet. The Chancellor said he imagined that every bit of the Commission also sat in on these discussions. They should be thrown out, except for one representative.

8. Lord Carrington said that Herr von Dohnanyi was very keen on up-grading the job of Secretary-General of the Council to strengthen the Presidency. Herr Genscher said he was against this. It would only create new machinery. The Chancellor said he had not heard of this proposal before. Under the German Presidency he had discovered the existence of the Secretariat by accident. He had asked his gardener why there was a 'Keep Off' notice on his lawn and was told this was directed at members of the Council Secretariat, who had been given an office in the Palais Schaumburg during the German Presidency. He had made enquiries and had discovered that they were an absolutely useless body. Lord Carrington said that the Germans, the French and ourselves had efficient bureaucrats. It was different for the Luxembourgers. If we were going to have a Community bureaucracy it ought to be a good one. The present one was bad. The Chancellor said that we should leave the Luxembourgers to come up with proposals about the Secretary-General.

9. The Chancellor said he wanted to say a further word about the problem of the British contribution to the Community Budget. It would be disastrous to duplicate Dublin. The Italians or the Commission should come up with a proposal; or they should say that they had no proposal at all. General discussion without an agreed proposal would add disaster to already existing tension. Lord Carrington said he shared this view. In the end only the Heads of Government could settle the problem. But if they did not discuss it there could be no decisions. There was a danger of getting into a circular situation.

10. The Chancellor said that according to the Treaty the Commission should come forward with proposals. Otherwise it should be done by the Presidency, who seemed to feel strongly enough about the issue. Lord Carrington said it would be important to decide a position beforehand. Herr Genscher said that this should be done between the British, French and Germans, and that a proposal agreed by them should be put forward by the Italians. Lord Carrington said that the possibility of a package had been mentioned. The Chancellor said that 4 or 5 components had been suggested, though he was not quite sure how keen the Prime Minister was on this.

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She had told him that Britain could not join the EMS, for example. The first time we had said we were unable to join because the pound was too low; now we were saying it was too high. He was not impressed by our arguments on either occasion. Lord Carrington handed over the following speaking note to the Chancellor, and it was pointed out to him that even German experts seemed to think it would be difficult for us to join.

11. 'Struck by importance you attach to our joining EMS exchange rate mechanism in near future.

'Fully accept political attractiveness of such a move. But is it realistic?

'All our experts say that, with pound at about DM 4 and with continuing upward pressure on pound because of oil and despite our high inflation rate, it does not make practical sense for us to fix our rate against other Community currencies. And they say your experts say so too.

'Hard to gainsay on purely political grounds and perhaps not wise to do so. But do you think the experts' judgment is wrong? If so it would be helpful if you could tell us why.'

12. The Chancellor said he himself had once been an expert. We should not believe experts whether they were British or German. The point was that pressures on the pound would exist whether we were a member of EMS or not. If we were in the EMS, we would have to revalue the pound from time to time. Whether this were done by the exchanges or otherwise was of no consequence.

Sir Oliver Wright pointed to the difficulty of the need for consultations between the Nine before changes in currency rates could take place. The Chancellor said that the Nine were in no position to resist market forces. A major advantage to the UK of membership would be that British exporters could offer stable prices, which they could not now. Lord Carrington said there was no dispute about the advantages of joining; it was a question of whether we could or not. Sir Oliver Wright said that the upward fluctuation of the pound would have strained the system had we been members. The Chancellor disputed this. All we would have had to do would be to revalue within the system. Our partners would have accepted this, and the amount of revaluation would probably be a little smaller than outside the system. The fact was that the British could not conceive of their currency being tied to that of other countries.

13. Sir Oliver Wright said that the Chancellor of the Exchequer thought that Sterling had a petro-value which bore no relation to the economic performance of the country. The Chancellor said that the Deutschmark also had international importance, as did the Dollar, despite 18% inflation in the United States. But if our experts were against entry, we should simply drop it. The Germans had no specific interest in promoting it. Lord Carrington said we would like to join, but could not see how we could. The Chancellor said that the Prime Minister had explained our position to him. But we had failed to see that fixed exchange rates would make it easier for countries like France and Germany to buy British goods

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at prices which were sometimes to be paid two years later. It would also help to restructure British trade in certain areas, and especially in European markets. Lord Carrington said that this might be true, provided that the pound did not fluctuate as over the past few months. The Chancellor said that even if we thought we would not gain much by entry, we would not risk anything either. Britain had an insular monetary policy, and a psychological problem about the EMS.

14. Sir Oliver Wright said that the Chancellor surely had a point. Sterling was high because the oil sheikhs put money into London. Given our economic problems the pound was fragile. Speculative money could leave Britain as easily as it came in. The EMS gave us only a narrow spread; the pound could go down by 15-20% as quickly as it had come up. The Chancellor said that confidence in the pound could be increased if we entered. At present this confidence was only based on oil. It had been wrong of France and Britain to leave the Snake in 1973. We had made ourselves hostages of the United States' balance of payments situation and the US Dollar. The British Prime Minister should feel attracted to the EMS if she wanted to stick to rigid economic and monetary policies. If we joined with others, this would put pressure on those who criticised the Government, and make it easier for us to resist inflationary forces, whether from trade unions or elsewhere. Lord Carrington agreed that the prospect of entry could seem attractive. The Chancellor said he had been told by the Belgian Prime Minister ten days ago that EMS had been very advantageous to Belgium in staving off inflationary pressures.

15. On the budget, the Chancellor repeated that either the Italians should be put up to making a proposal at the European Council, or we should leave it alone. The global consequences of the UK leaving the Community were too big to risk. He imagined that we were more likely to leave now that the Prime Minister had said we would withhold our contribution. Lord Carrington said that we must not allow this situation to develop, and pointed out that what the Prime Minister had said about withholding was hedged about with qualifications. It was however one of the alternatives open to any British Government. The Chancellor said that the German press appeared to have got the point wrong - not for the first time.

16. The Chancellor asked whether there was anything that we would like him to tell President Carter when he saw him next week. Lord Carrington said that consultations were crucial. In Europe we had learned the lesson of Afghanistan. But in an election year in America there would be a temptation to decide things alone, particularly given the fragmented American system between Brzezinski, Vance and the White House. The more the Chancellor could say about this the better, while making it clear that it was not a question of ill-will but of Europe's inability automatically to toe the American line. The Chancellor said that Mrs Thatcher

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had stressed this point strongly. It had been agreed that the four Heads of Government should meet in Venice, though it had also been pointed out that this might be difficult for the Italians. However, such a meeting had been held during the Tokyo Summit, though in his view the Heads of Government should meet for longer than simply a breakfast. As regards our Foreign Ministers, they should do what they could to strengthen the State Department against the National Security Council. The former was more balanced than other influences on the President.

17. Lord Carrington suggested that the Chancellor might raise the Arab/Israel issue with the President too. The Chancellor said that he would, though the President appeared to have nailed himself to the Jewish position during an interview with some American Jews yesterday. Lord Carrington mentioned the difficulties facing Saudi Arabia. The Chancellor said that there seemed to be growing signs of structural inner weakness. He asked Herr Genscher how Prince Saud had explained his decision to postpone his visit to Germany. The Secretary of State said that things had reached the point where there could be a total revolution in Saudi Arabia. The Chancellor said that he had been impressed by the Spanish Prime Minister's views on the Middle East. Sr Soares had just seen Saddam Hussain and King Hussain. He thought that Saddam Hussain could emerge as a leader in the area. He had been struck by the Spaniards' knowledge of the Arabs, and had encouraged the Prime Minister to tell us and the French his views. Lord Carrington said that the Iraqis had been active with Bakhtiar who was receiving Saudi money too. The Chancellor said there was a possibility of tilting the Iraqis away from dependence on Moscow. We should encourage this, otherwise they would continue to remain anti-American. He was impressed by the formidable military potential of Iraq. It was the only force of its kind in the area. The Iranian army was like that of the Afghans. He asked how big the Jordanian army was. Lord Carrington said that they were a tough force, to whom we were selling tanks. The Chancellor said we should sell arms to the Iraqis too. Lord Carrington explained the background to the Sparkes case. He found Saddam Hussain a strong and ruthless but not an attractive character, who had treated him to some second-rate philosophy during his visit to Iraq. He agreed with Herr Genscher however that he had leadership potential, even if he was not very wise. The Chancellor said we should encourage Saddam Hussain's ideas of increased cooperation with Europe. He also claimed to have good relations with the Saudis. On the EEC/Gulf dialogue, it was agreed that this could not be taken any further until President Giscard returned from the Gulf.

18. The Chancellor asked whether the Americans were aware of the delicacy of the Indian position. Lord Carrington said that they had treated the Indians like an elephant in the jungle by sending Brzezinski to Pakistan and only Clark Clifford to Delhi. Europe could play an important role with the Indians. The Chancellor referred obscurely to remarks alleged to have been made about him in private by Mrs Gandhi which he found 'degrading'. He agreed however that we should court her. Herr Genscher said that Mr Rao would be coming through Germany on 15 March on his way back from America. Lord Carrington said we were thinking of inviting him to the UK soon.

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19. The Chancellor said that the Prime Minister had suggested that the Venice Summit should consist of one day of political and one day of economic meetings. He entirely agreed: seven Heads of State should not spend their whole meeting talking about 1% of trade this way or that, or oil imports. We should change the character of these summit meetings. Lord Carrington agreed. This would also have the advantage of bringing the Italians and the Japanese in on political discussions. The Chancellor said that, once we were sure that the Foreign Ministers of the Seven agreed, the personal representatives of the Heads of Government should organise the meeting accordingly. An agenda for the political discussions should be worked out. It was now clear that some questions like oil which were previously thought to be economic were now even more political than two years ago.

20. The Chancellor was appalled by the thought of \$1000 billion of hot money moving around uncontrolled by central banks or monetary reserves. There was no element of prudence and no lender of the last resort. The consequences could be disastrous if somebody set off a psychological reaction. Who would be the lender of last resort in such a situation? A London bank dealing in dollars or a Zurich bank dealing in Deutschmarks? It was a big mistake to close one's eyes to such problems. A Black Friday could recur on the Euro markets with enormous consequences for the controlled part of the money supply system. It had happened twice in the last ten years, once in a New York bank and once in a German bank. We had shielded ourselves against a major chain reaction then, but he foresaw great dangers if the problem recurred, eg in a Hong Kong bank. Lord Carrington asked what the Chancellor thought of the Brandt Commission's report and whether the Chancellor favoured a Summit. The Chancellor said he had not read it. There were too many conferences. If it were a question of replacing three with one he would be in favour, but not of adding a fourth meeting. There were only twelve people in the world who understood the North/South problem, though there were 10,000 who were willing to talk about a new economic order. President Moi had asked Germany for credits to pay his oil bill during his recent visit. He had explained to him that whatever happened Kenya's oil bill would be larger next year; she should convince her oil-rich colleagues to split the market to give a preferential price to developing countries, even though this would be against German interests. At present the developing countries blamed the industrial countries for inflation caused by oil price rises. It was a ludicrous situation.

21. The population growth was also absurd, and developing countries should be told so. It would be impossible to feed and educate the future population of the world, not to speak of jobs and electricity. Lord Carrington agreed that the Brandt Report did not face all of these problems. He had been told by BP that the

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Kuwaitis were now only willing to sell oil to BP and Shell if they were given a share in down-stream activities, such as refining. This was a dangerous trend. The Chancellor said that the Arabs no longer wanted paper money. The Shah had tried to buy a major share-holding in Mercedes-Benz in 1975. The Deutsche Bank had been willing to sell, but the Chancellor had stopped it, even though he had no legal powers to do so. This was why the West should close ranks against this threat during the Venice Summit. They should not totally exclude Arab investment; they must be allowed to replace some of their money with assets. But it would be dangerous if the Arabs got further, eg in Italy than in the UK or vice versa. The best thing would be for the Arabs to pay their oil revenues into the IMF and be given SDRs in exchange: though no-one would sell them a car in exchange for SDRs. The Chancellor asked whether the Prime Minister was interested in these areas. Lord Carrington confirmed that she was.

22. The Chancellor asked about the Anglo/German Summit. Lord Carrington asked whether the Germans would like it to be as big as the Franco/German Summit. The Chancellor said that their arrangements with the French were different, and amounted to joint Cabinet meetings. The Germans could do the same with Britain if we wished but then all the Ministers would want to talk. He understood that the Prime Minister wanted mainly private talks with just two or four people present, while the other Ministers would join in later. Lord Carrington confirmed that this was the Prime Minister's preference.

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RECORD OF A MEETING BETWEEN THE SECRETARY OF STATE  
FOR FOREIGN AND COMMONWEALTH AFFAIRS AND THE FRG  
MINISTER FOR FOREIGN AFFAIRS ON TUESDAY 26 FEBRUARY 1980

Present:

The Rt Hon The Lord  
Carrington KCMG MC

Sir Oliver Wright  
GCVO KCMG DSC

Mr G G H Walden

Herr Genscher

Dr Blech

Dr Meyer-Landrut

Note taker

1. Herr Genscher said that we must convey to the Russians officially the decisions the Community had reached in Rome. The question was how. Lord Carrington said that we were meeting today with our French and German partners in London. We must move quickly. Brezhnev's speech was not as negative as had been supposed. We must show that we were serious about our neutrality proposal and that it was not just a political gimmick. The Italians would have to approach the Russians, but perhaps Mrs Gandhi could also be brought to put in a word with them. She had stuck to her guns with Gromyko, and when he himself had met her she had wanted the Russians out. This could give us a peg to approach her on behalf of the Nine.

2. Herr Genscher agreed, and said that it was important that the Italians should approach the Russians as President of the Nine. The other Eight could follow up with national approaches if they wished. We must also decide whom to approach in the Third World for support. Mrs Gandhi was one possibility. We should think of Arabs, Africans and the Yugoslavs. We could perhaps also persuade someone in the EEC ASEAN Meeting in Kuala Lumpur to support the proposal. We should not stick to formalities. The British could for example approach the Indians rather than the Presidency. Lord Carrington said that he could call in the Soviet Ambassador after the Presidency had acted in Moscow. The Indians were pivotal because they were friends of the Russians and disagreed with Soviet action. Events in Afghanistan might make it more difficult for the Russians to withdraw. Their intervention seemed to have been unsuccessful up to now. Herr Genscher agreed that the Russians now seemed to be more aware of the complexities of our position. Their prestige was also more deeply involved.

3. Lord Carrington asked whether the American Ambassador had approached him with the draft statement responding to Brezhnev's speech. He himself had found this an odd form of consultation, since Mr Brewster seemed to be informing him that the statement was to be issued whatever our views. Herr Genscher said that this had not been his impression at all; the American Chargé d'Affaires had gone out of his way to stress that comments were invited. The Germans felt that the statement had been dreamed up in the White House and that Mr Vance wanted to use the Europeans to get it changed. He agreed with Lord Carrington that

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the word "insufficient" had been wrong, and it was noted that the Americans in the event had not issued the statement.

4. Herr Genscher said that the approach of the German paper to Afghanistan was different to that of the Americans. Mr Vance's paper was not a conceptual approach to the crisis. But he agreed with its definition of what the German contribution might be. Broadly, this was a 3% increase in military spending, aid for Turkey, and non-military assistance for Pakistan. He had asked Mr Vance what the American objective was - withdrawal and containment or just containment? Mr Vance had said it was the former. He could not understand why the Americans wanted to make a statement on the lines of their first draft if they believed in withdrawal.
5. Lord Carrington said that the Chancellor had told him that the American reaction was too "punitive" and could be counter-productive. Herr Genscher agreed that there had been punitive elements in the White House statements, though Mr Vance had assured him that he personally had never used the word "punish". He asked about the decision on the Olympics.
6. Lord Carrington said that we had advised the BOC not to take part. Their decision would be made on 4 March. If the Americans, Germans and French did not go, the British might not either. It was questionable whether it was easier for sportsmen to have alternative games elsewhere or not. Some might think that alternative games would break up the Olympics. Others might wish to compete. There would be another meeting of non-participants soon, which would decide whether alternative games were feasible eg in Montreal. Britain could offer some facilities eg for yachting. These events need not necessarily take place at the same time as the Olympics but perhaps later in the year. It would be ironical if Britain ended up the only major country to be represented in Moscow.
7. Herr Genscher said that it was up to the Soviet Union to establish conditions for Western attendance. This was not an ultimatum. Lord Carrington said that it came to the same thing: the Germans were in effect asking for withdrawal from Afghanistan. Herr Genscher said that the Americans would no doubt change their stand if the Russians withdrew. The German Olympics Committee would not go if the Government told them not to. He was concerned to think that this had become a central issue in the Afghanistan problem.
8. Lord Carrington said that he was worried about political cooperation. Ministers in Rome had spent only 45 minutes discussing neutrality and 6 hours on the Communiqué about the Olympic Games. The Germans had had no chance to discuss the EEC/Gulf problem. He himself would have liked to have discussed Arab/Israel and Southern Africa. Moreover there had been no political cooperation meeting after the invasion of Afghanistan with the result that Europe did not have a concerted view. He was also unhappy about Foreign Ministers' meetings in Brussels. The agenda was appalling; foreign ministers would not go to talk about trivialities. More and more would take to going after lunch. It was all very depressing. Apart from the informal meeting of Foreign Ministers these were the only occasions when ministers could talk properly.

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9. Herr Genscher entirely agreed; in Rome, the Italian Chairman had been 20 metres away from him, because of the number of officials attending. Only in the Security Council or Panmunjon were there more people present. Each Minister should be allowed to have only one note-taker with him. When Ministers met without civil servants they could concentrate on important political issues and not on details. Lord Carrington agreed, but suggested that the Political Directors should be included too. Herr Genscher disliked this idea: Economic Directors would then want to come in too. Lord Carrington said that the Foreign Affairs Council should have a proper agenda, which was not all about tufted carpets. These should be left to Ministers responsible. Herr Genscher said that the lunch was also badly organised. There were too many people and it was impossible to talk to anyone except immediate neighbours. There should be more Gymnich-type meetings at short notice. At Foreign Affairs Councils, Junior Ministers could take smaller questions in the morning.

10. The Secretary of State said he thought he could not go to Kuala Lumpur for the EEC ASEAN meeting next week because of Rhodesia. Herr Genscher said that it would be a great disappointment to ASEAN countries if neither the British nor the French Foreign Ministers went. Lord Carrington stressed that we were on the point of getting rid of Rhodesia and it was important to ensure that there was no last minute slip. Herr Genscher said that the meeting should perhaps be postponed. The main part was the political discussions on Friday morning; it would not matter if Lord Carrington were not there for the dinner on Thursday. Lord Carrington said he would look at the timing again and think about the possibility of postponing.

11. Reverting to Afghanistan, Herr Genscher said that he thought the Russians would spin out discussions of a solution. But he had been struck by the Scientific Forum in Hamburg which the Russians had clearly not wanted to interrupt. He concluded from this that they wanted the Madrid CSCE meeting to go ahead. We should be preparing for this, perhaps in the course of the Lisbon meeting of the Council of Europe on 9-10 April. We should be clear in our minds what should be discussed in Madrid.

12. Dr Blech said that the basic structure of the meeting was agreed; a general political discussion; implementation and new proposals. The position on the last item is still fluid and we had not tried to get complete agreement yet. In a moving situation, it might be premature to do so. But we might be able to achieve an outline decision by May.

13. Herr Genscher said that after Afghanistan the need for confidence-building measures had increased. He had been considering all the possibilities. We should not lose the chance to force the East to respond to our proposals. Lord Carrington said that M. François-Poncet had thought that the Russians might not be keen on Madrid and might want to cancel it. The Scientific Forum in Hamburg seemed to contradict this. It seemed sensible to pursue the CDE provided the Russians accepted its extension to the Urals. It seemed to him impossible not to use Madrid to pursue human rights. Herr Genscher said that he should not concentrate too much on Basket three but go for a balance.

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Lord Carrington agreed. On the CDE Herr Genscher said that Mr Gierek's proposals were similar to the French in some ways, though they were a different concept, particularly in the area of applicability. We ourselves should stick to the CDE. But it was worth considering whether the Gierek ideas were a killer proposal or an attempt to accept and transform the CDE proposal into an Eastern idea.

14. Dr Blech said that the French had been afraid that the Madrid meeting might consist of an awful row on human rights and some brief discussion of CBMs. The French had been afraid that the Americans would go in a confrontational mood. But Mr Vance had now reassured them about US intentions. Herr Genscher said that we should not cancel contracts or meetings with the Russians, but bombard them with all kinds of proposals, including those on arms control prepared in Brussels. The NATO Ministerial Meeting in Turkey in June should also be carefully prepared. The six-month period after the invasion of Afghanistan should be over by then. The West should remain on the offensive, and the impact of their position on the Third World would be important. He was not sure that we would get 104 votes in the UN today. These votes were not a bank account. Lord Carrington said that our neutrality proposals could help to keep up momentum in the 104.

15. Herr Genscher asked how we had left the Arab/Israel dispute in our discussions with Mr Vance. Lord Carrington said he had told Mr Vance that he had been struck during his visit to the Middle East by the way in which the Soviet invasion of Afghanistan had been equated with American acceptance of Israeli occupation of Arab land. The moderate Arabs saw the difference in kind; but politically they found it difficult to support the Americans and the West on Afghanistan while the Arab/Israel dispute remained stuck. They were hostile to Camp David because it excluded the Palestinians and others. Camp David could not even satisfy moderate Arab opinion, and it was unlikely that there would be any agreement at all. The new Egyptian Ambassador in London had made it clear to us that they were as far apart as ever with the Israelis, and that an American compromise between the two positions would not be acceptable to them. Therefore a breakdown of Camp David was probable. But we did not want to make things more difficult for the Americans, and realised that they were in an election year. The process was due to end in May and he did not believe that it should drag on until later in the year. Even if the problem could not be solved, it was important to keep the dialogue going. The only way we could see was a double-barrelled proposal, bringing in the PLO, in which recognition of the State of Israel would be exchanged for Israeli recognition of the Palestinians' rights. This could be done by amendment of Resolution 242 or in some other way. He saw merit in the Nine talking amongst themselves to see if they could find a common position in anticipation of a breakdown of Camp David. The Israelis were already clearly alarmed: hence the London meeting of their Ambassadors.

16. Mr Vance had not disagreed with all this. But he was opposed to an initiative being launched before May, though discussion of an initiative could bring healthy pressure on the Israelis. We needed to define Palestinian rights more clearly. Herr Genscher agreed that

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nothing should be done before 25 May, but that we should have something ready by then. If we acted prematurely, we could find ourselves charged with responsibility for failure of Camp David. He shared our assessment of the prospects of Camp David. But President Sadat would not agree to the modification of Resolution 242.

17. Herr Genscher thought that the Euro/Arab dialogue should be revived. It was not necessary that all the Nine Ministers and all the Arabs should meet together. One possibility was that the Secretary-General of the Arab League and the President of the Community should meet. This could signal a positive development in relations with the Arabs. The Iraqis in particular attached importance to reviving the dialogue. This had been confirmed yesterday by the Spanish Foreign Minister who had just visited Iraq. The Middle East Working Group should clarify aspects of the Community's 1977 Declaration, especially on our attitude to the Palestinians. Lord Carrington commented that we would need to discuss these matters soon at a Ministerial meeting. On the Euro/Arab dialogue, Herr Genscher said that the inclusion of the PLO could be the beginning of a gradual road to recognition. But we should also pursue parallel talks with the Egyptians, to avoid deepening the split between them and the Israelis. Lord Carrington said that we had a political problem with the PLO, though this had diminished somewhat since they had told us that they had had no contacts with the IRA since last October. It might be easier for us to talk to them collectively.

18. Mr Meyer-Landrut said that the Libyans were trying to give the terrorists the upper hand over Arafat. We should not allow things to deteriorate in this direction. Lord Carrington commented that it was a pity that Arafat still made wild statements which were broadcast by the Israeli lobby. He noticed that he had recently spoken again of the total destruction of Israel.

19. On Saudi Arabia, Lord Carrington said that it was clear that the Saudis had not learned the lesson of the Grand Mosque incident. Mr Marcus Sieff had told him that eleven billion dollars had left Saudi Arabia for Europe together with several Princes in the month after the incident. It was difficult to speak frankly to the Saudis about their shortcomings. Herr Genscher asked what conclusion we drew about Saudi Arabia. Lord Carrington said it would be surprising if the régime lasted more than another two years. Given our reliance on Saudi oil supplies it would be catastrophic if a hostile régime came into power. Herr Genscher said that Prince Saud was expected in Bonn on Monday 3 March. He seemed to spend a lot of time outside the country.

20. On the UK contribution to the Community budget, Lord Carrington said he did not want to reiterate the details that had been discussed between the Prime Minister, Chancellor Schmidt and himself. He was increasingly worried. More than half of the Labour Party were anti-European. Their attitude was that of left-wing little Englanders. The Conservatives were almost wholly European; but they were also patriotic. If they felt they had been done down they were liable to get chauvinistic. There was a general feeling of unfairness in the UK. This would not matter, were it not for the economic situation. He

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admitted that our economic problems were of our own making. But we were trying to put them right by the revolutionary idea of living within our means. This meant cutting public expenditure, with all the implications for eg unemployment.

21. The net transfer of resources to the budget now represented nearly twice as much as our total spending on aid. In the long term the result would be either that we would have to do things that would infuriate our partners and which would cause them to look for ways of getting rid of us; or the political climate in the UK would develop against staying in the EEC. He genuinely believed this danger was on the cards. The Germans might be tempted to say good riddance, and that Britain would be worse off outside. But they should think of the other implications. If we did leave we would probably end up with a siege economy. It might be difficult to continue with our contribution to NATO, or with BAOR. We would simply not have the money, and would find ourselves on a downward escalator. We would then be talking, not just of a bust-up of the EEC, but of the NATO alliance too. The only gainer would be the Soviet Union. He was very worried about the situation.

22. Herr Genscher said that in the past pressures from the East had always helped us to make progress on problems in the West. If the opposite happened this time it would be disastrous. The British belonged to the EEC for their own interests, which was true of the FRG too. The Chancellor had developed some ideas following his talks in London, which could be attractive, and which could provide a chance of going beyond the figures quoted so far. He himself could think of nothing new to suggest. Lord Carrington said that François-Poncet said that there would be no chance of a solution without a package. He could not however see what would be so attractive in a package for our partners. Fish was one possibility, but this was not going too badly already. Herr Genscher said that it was a question of face-saving. Fish had become a political problem. On sheepmeat, we were against a new regulation. But if this was one of the bases of an agreement, we might have to accept a new regulation; one more should make no difference. It would have a great impact if Britain joined the EMS. It was a fact that the French needed a package to show to their customers at home. Lord Carrington said that these were all small items. On fish, we too needed to look after our fishermen. As regards sheepmeat, we could consider an economical premium. In the energy field, we were not sure what was wanted. François-Poncet had told him that a cosmetic position on energy would help us a bit, but not much. On EMS, German experts apparently thought that it would be disastrous if we joined. Herr Genscher commented that that proved that Ministers should meet without experts. If the UK could at least say that she could join within 18 months at an appropriate date, that would help greatly. Lord Carrington said that we could look at this. Herr Genscher said that this would open up the prospect of membership, and be a European gesture. It would enable others to move in the financial field in their own domestic circumstances.

23. Lord Carrington said that the large financial gap was getting larger, not smaller. He hoped the Germans had taken note of our six points. He hoped he was not being alarmist, but he had told the

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Chancellor that it would be disastrous if we went on quarrelling over the next few months. Herr Genscher said that the Prime Minister's remarks about withholding in her TV interview had made things more difficult. Lord Carrington said that Mrs Thatcher had been rather mis-reported. Herr Genscher asked whether we could not reduce the gap by making up a package, and produce new calculations of the figures with new elements. He thought that a proposal should be agreed amongst the French, Germans and ourselves first, not because we were the biggest, but because we were the most directly concerned. Lord Carrington stressed the importance of greater expenditure in the UK.

24. Herr Genscher said we should not assume that the French position was easy. Giscard had had great difficulties with the Franco/German communiqué. Lord Carrington commented that he seemed to be well-placed politically. Herr Genscher was doubtful. The Gaullists were still causing the President difficulty.

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THE SECRETARY OF STATE FOR FOREIGN  
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FEDERAL GERMAN CHANCELLOR ON  
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*Enlighten*

*Paul*

1. The Chancellor said that he had particularly wanted to be seen to receive Lord Carrington in Bonn, despite their earlier meeting over the weekend. He asked for an account of the discussion with Herr Genscher.

2. Lord Carrington said that they had discussed the Euro Arab dialogue, and the Arab Israel issue. They had agreed that Camp David was unlikely to succeed, and that any agreement would be inadequate. After May there would be a need for action to keep the dialogue open. The Nine could develop an initiative with something for both the Israelis and the Palestinians. He realised that there would be difficulties in persuading the Israelis to amend Resolution 242. But it was possible, and we should try. The Nine were not too far apart. The Dutch had come on a long way, and the French were only a little way ahead. Herr Genscher thought that the Euro Arab

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dialogue should be elevated to a higher, more political plane. We had problems about talking to the PLO in view of their <sup>past</sup> association with the IRA. It might also be asked why we talked to one set of terrorists, and not <sup>to</sup> another. But contacts with the PLO would be easier if they were multilateral.

The Chancellor commented that the Germans were in the same position.

3. On Afghanistan, Lord Carrington said that he and Herr Genscher agreed that the Italians should present our initiative on neutrality to the Russians, and that we should encourage the non-aligned to support it. The Chancellor said he very much agreed on the importance of the non-aligned.

4. On the Olympics, Lord Carrington said he had asked Mr Vance to postpone the second meeting of <sup>some</sup> boycotting countries until the position on alternative games was clearer. Chancellor Schmidt said that the idea of alternative games was a still-born child. It would require decisions by different branches of different sporting organisations from cycling to swimming. Those who had proposed it had no concept of the organisation ~~of~~ international sport. Games could be mounted for athletes, but they would not be very prestigious. Lord Carrington said that the presence of the Americans and the Germans would surely give prestige to such games. The Chancellor said that Germany would be very reluctant to participate; those who did could lose prestige. It was estimated that 70 countries might turn up in Moscow

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and only 15 in eg Montreal. Lord Carrington said that he too was sceptical, but thought that we should pursue the American idea. In the end, he thought that the Americans, Germans and French would not go to Moscow, ~~but~~ while British sportsmen might insist on going despite the Government's attitude. The Chancellor said that this served us right for coming out too quickly in support of the Americans. Lord Carrington said that he was ready to defend our action, but agreed that the position was not satisfactory. He asked whether France would go. M Francois-Poncet had implied to him privately in Rome that they might not.

5. The Chancellor said that he hoped that any French change of mind would not be the result of pressure from eg American senators or the New York Times. He imagined that Brezhnev had timed his speech to come after the expiry of the American deadline on the Olympics. Lord Carrington said that we were not totally discouraged by Brezhnev's remarks. The Chancellor said that they represented the beginning of an answer to our neutrality<sup>ty</sup> proposal; and in any case we should construe it as an answer. This would make it more difficult for the Russians to deny that Brezhnev's speech represented a new opening. He agreed with Lord Carrington that it might be hard for the Russians to withdraw in present circumstances. According to his information, the Russians were losing 500 dead a month, and 2500 wounded. Herr Genscher said that these losses could help to create the conditions for a political solution. The Chancellor thought that it might work the other way.

/Lord

6. Lord Carrington said that he and Herr Genscher had discussed the ~~problem of~~ lack of proper consultation with the Americans. He himself had told Mr Vance that such consultation was essential. He referred to the proposal that the French, German and British Ambassadors in Washington should hold regular quadripartite consultations with Mr Vance. The Chancellor welcomed this idea. The very act of giving our Ambassadors instructions, which would have to be agreed by our Political Directors, would help to promote agreement amongst the three Europeans. He had heard that day from the German Ambassador in Washington that the idea was to hold such meetings with the Americans every two weeks. Lord Carrington said that this sounded rather too frequent. The Chancellor said that it would be no bad thing if the quadripartite meetings were at fixed intervals; this would enable us to give regular instructions to our Ambassadors. He was afraid that the Americans might want to include the Italians; the French would not like if if they did. He too hoped that they would not. He did not want the French to be embarrassed a second time. Lord Carrington said that M Francois-Poncet had told him that the French wanted the smallest number possible to avoid embarrassment when they were obliged to disagree. The Chancellor said that he sympathised with the French. The British must ensure that the Americans understood French sensitivities. Lord Carrington

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said he had stressed to Mr Vance the advisability of keeping the numbers to four.

7. Lord Carrington said that he and Herr Genscher had grumbled about the organisation of political cooperation. At Rome, everyone had discussed the Communiqué and not the merits of the case. The Chancellor said that the battallions of officials should be excluded and that political cooperation should be held in a very personal atmosphere. Each Minister should be accompanied by <sup>one</sup> ~~a~~ sophisticated note-taker/adviser. Lord Carrington said that he would take this up with M Francois-Poncet. The Chancellor said that he imagined that every bit of the Commission also sat in on these discussions. They should be thrown out, except for one representative.

8. Lord Carrington said that Herr Dohnanyi was very keen on up-grading the job of Secretary General of the ~~Foreign Affairs~~ <sup>Secretariat</sup> Council to strengthen the Presidency. Herr Genscher said he was against this. It would only create new machinery. The Chancellor said that he had not heard of this proposal before. Under the German Presidency he had discovered the existence of the Secretariat by accident. He had asked his gardener why there was a "Keep Off" notice on his lawn and was told this was directed at members of the Council Secretariat, who had been given an office in the Palais ~~Chambors~~ <sup>Schaumburg</sup> during the German Presidency. He had made enquiries and had discovered that they were an absolutely useless body. Lord Carrington said that the Germans, the French and ourselves had efficient beaurocrats. It was different

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for the Luxemburgers. If we were going to have a Community <sup>hierarchy</sup> ~~beaurocracy~~ it ought to be a good one. The present ~~European beaurocracy~~ <sup>one</sup> was bad. The Chancellor said that we should leave the Luxemburgers to come up with proposals about the Secretary General.

9. The Chancellor said that he wanted to say a further word about the problem of the British contribution to the Community Budget. ~~He said that~~ <sup>I</sup> it would be disastrous to duplicate Dublin. The Italians or the Commission should come up with a proposal; or they should say that they had no proposal at all. General discussion with <sup>out</sup> an agreed proposal would add disaster to already existing tension. Lord Carrington said that he shared this view. In the end only the Heads of Government could settle the problem. But if they did not discuss it there could be no decisions. There was a danger of getting into a circulation situation.

10. The Chancellor said that according to the Treaty the Commission should come forward with proposals. Otherwise it should be done by the Presidency, who seemed to feel strongly enough about the issue. Lord Carrington said that it would be important to decide a position beforehand. Herr Genscher said that this should be done between the British, French and Germans, and that a proposal agreed by them should be put forward by the Italians. Lord Carrington said that the possibility of a package had been mentioned ~~by Herr Genscher~~. The Chancellor said that 4 or 5 components had been suggested, though he was not quite sure how keen the Prime Minister was on this. She had told him that

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Britain could not join the EMS, for example. The first time we had said we were unable to join because the pound was too low; now we were saying it was too high. He was not impressed by our arguments on either occasion. Lord Carrington handed over the following speaking note to the Chancellor, and it was pointed out to him that even German experts seemed to think it would be difficult for us to join.

11. "Struck by importance you attach to our joining EMS exchange rate mechanism in near future.

"Fully accept political attractiveness of such a move. But is it realistic?

"All our experts say that, with pound at about 4DM and with continuing upward pressure on pound because of oil and despite our high inflation rate, it does not make practical sense for us to fix our rate against other Community currencies. And they say your experts say so too.

"Hard to gainsay on purely political grounds and perhaps not wise to do so. But do you think the experts' judgment is wrong? If so it would be helpful if you could tell us why."

12. The Chancellor said that he himself had once been an expert. We should not believe experts whether they were British or German. The point was that pressures on the pound would exist whether we were a member of EMS or not. If we were in the EMS, we would have to revalue the pound from time to time. Whether this were done <sup>by</sup> the exchanges or otherwise was of no consequence.

Sir Oliver Wright pointed to the difficulty of the need

/for

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for consultations between the Nine before changes in currency rates could take place. The Chancellor said that the Nine were in no position to resist market forces. A major advantage to the UK of membership would be that British exporters could offer stable prices, which they could not now. Lord Carrington said that there was no dispute about the advantages of joining; it was a question of whether we could or not. Sir Oliver Wright said that the upward fluctuation of the pound would have strained the system had we been members. The Chancellor disputed this.

/All



All we would have had to do would be to revalue within the system. Our partners would have accepted this, and the amount of revaluation would probably be a little smaller than outside the system. The fact was that the British could not conceive of their currency being tied to that of other countries.

13. Sir Oliver Wright said that the Chancellor of the Exchequer thought that Sterling had a petro-value which bore no relation to the economic performance of the country. The Chancellor said that the Deutschmark also had international importance, as did the Dollar, despite 18% inflation in the United States. But if our experts were against entry, we should simply drop it. The Germans had no specific interest in promoting it. Lord Carrington said that we would like to join, but ~~wanted to know~~ <sup>could not see</sup> ~~how~~ <sup>we could</sup>. The Chancellor said that the Prime Minister had explained our position to him. But we had failed to see that fixed exchange rates made it easier for countries like France and Germany to buy British goods at prices which were sometimes to be paid two years later. It would also help to restructure British trade in certain areas, and especially in European markets. Lord Carrington said that this ~~may~~ <sup>might</sup> be true, provided that the pound did not fluctuate as over the past few months. The Chancellor said that even if we thought we would not gain much by entry, we would not risk anything either. Britain had an insular monetary policy, and a psychological problem about the EMS.

14. Sir Oliver Wright said that the Chancellor surely had a point. Sterling was high because the oil sheikhs put money into London. Given our economic problems the pound was fragile. Speculative money could leave Britain as easily as it came in. ~~Since~~ <sup>the</sup> EMS gave us only a narrow

spread; the pound could go down by 15-20% as quickly as it had come up. The Chancellor said that confidence in the pound could be increased if we entered. At present this confidence was only based on oil. ~~The Chancellor said that~~ *I* had been wrong of France and Britain to leave the Snake in 197 . We had made ourselves hostages of the United States' balance of payments situation and the US Dollar. The British Prime Minister should feel attracted to the EMS if she wanted to stick to ~~her~~ rigid economic and monetary policies. If we joined with others, this would put pressure on those who criticised the Government, ~~It would~~ <sup>and</sup> make it easier for us to resist inflationary forces, whether from trade unions or elsewhere. Lord Carrington agreed that the prospect of entry could seem attractive. The Chancellor said he had been told by the Belgian Prime Minister ten days ago that EMS had been very advantageous to Belgium in staving off inflationary pressures.

15. On the budget, the Chancellor repeated that either the Italians should be put up to making a proposal at the European Council, or we should leave it <sup>alone</sup>. The global consequences of the UK leaving the Community were too big to risk. He imagined that we were more likely to leave now that the Prime Minister had said we would withhold our contribution. Lord Carrington said that we must not allow this situation to develop, and pointed out that what the Prime Minister had said about withholding was hedged about with qualifications. It was however one of the alternatives open to any British Government. The Chancellor said that the German press appeared to have got the point wrong - not for the first time.

/The Chancellor

16. The Chancellor asked whether there was anything that we would like him to tell President Carter when he saw him next week. Lord Carrington said that consultations were crucial. In Europe we had learned the lesson of Afghanistan, ~~and could handle this.~~ But in an election year in America there would be a temptation to decide things alone, particularly given the fragmented American system <sup>with ~~between~~</sup> Brzezinski, Vance and the White House. The more the Chancellor could say about this the better, while making it clear that it was not a question of ill-will but of Europe's inability automatically to toe the American line. The Chancellor said that Mrs Thatcher had stressed this point strongly. It had been agreed that the four Foreign Ministers should meet in Venice, though it had <sup>also</sup> been pointed out that this might be difficult for the Italians. However, such a meeting had been held during the Tokyo Summit, though in his view the Foreign Ministers should meet for longer than simply a breakfast. We should do what we could to strengthen the State Department against the National Security Council. The former was more balanced than other influences on the President.

17. Lord Carrington suggested that the Chancellor might raise the Arab/Israel issue with the President too. The Chancellor said that he would, though the President appeared to have nailed himself to the Jewish position during an interview with some American Jews yesterday. Lord Carrington mentioned the difficulties facing Saudi Arabia. The Chancellor said that there seemed to be growing signs of structural inner weakness. He asked Herr Genscher how Prince Saud had explained his decision to postpone his visit to Germany? The Secretary of State (~~Herr Genscher~~) said that things had reached the point where there could

/be a

be a total revolution in Saudi Arabia. The Chancellor said that he had been impressed by the Spanish Prime Minister's views on the Middle East. Sr Soares had just seen Saddam Hus<sup>sein</sup>ayn and King Hussein. He thought that Saddam Hus<sup>sein</sup>ayn could emerge as a leader in the area. ~~The Chancellor~~ said He had been struck by the Spaniards' knowledge of the Arabs, and had encouraged the Prime Minister to tell us and the French his views. Lord Carrington said that the Iraqis had been active with Bakhtiar who was receiving Saudi money too. The Chancellor said that there was a possibility of tilting the Iraqis away from dependence on Moscow. We should encourage this, otherwise they would continue to remain anti-American. He was impressed by the formidable military potential of Iraq. It was the only force of its kind in the area. The Iranian army was like that of the Afghans. He asked how big the Jordanian army was. Lord Carrington said that they were a tough force, to whom we were selling tanks. The Chancellor said we should sell arms to the Iraqis too. Lord Carrington explained the background to the Sparkes case. He found Saddam Hus<sup>sein</sup>ayn a strong, and ruthless but not attractive character, who had treated him to some second-rate philosophy during his visit to Iraq. He agreed with Herr Genscher however that he had leadership potential, even if he was not very wise. The Chancellor said that we should encourage Saddam Hus<sup>sein</sup>ayn's ideas of increased cooperation with Europe. He also claimed to have good relations with the Saudis. On the EEC/Gulf dialogue, it was agreed that this could not be taken any further until President Giscard returned from the Gulf.

18. The Chancellor asked whether the Americans were aware of the delicacy of the Indian position. Lord Carrington

/said

Lord Carrington said that they had treated the Indians like an elephant in the jungle by sending Brzezinski to Pakistan and only Clark Clifford to Delhi. Europe could play an important role with the Indians. The Chancellor referred obscurely to remarks alleged to have been made about him in private by Mrs Gandhi which he found "degrading". He agreed however that we should court her. Herr Genscher said that Mr Rao would be coming through Germany on 15th March on his way back from America. Lord Carrington said that we were thinking of inviting him to the UK soon.

19. The Chancellor said that the Prime Minister had suggested that the Venice Summit should consist of one day of political and one day of economic meetings. He entirely agreed: seven Heads of State should not spend their whole meeting talking about 1% of <sup>trade</sup> imports this way or that, <sup>or oil imports</sup>. We should change the character of these summit meetings. Lord Carrington agreed. This would also have the advantage of bringing the Italians and the Japanese in. The Chancellor said that, once we were sure that the Foreign Ministers of the Seven agreed, the personal representatives of the Heads of Government should organise the meeting accordingly. <sup>An</sup> agenda for the political discussions should be worked out. It was now clear that some questions like oil which were previously thought to be economic were now even more political than two years ago.

20. The Chancellor was appalled by the thought of \$1000 million of hot money moving around uncontrolled by central banks or monetary reserves. There was no element of prudence and no lender of the last resort. The consequences could be disastrous if somebody set off

on  
political  
discussions

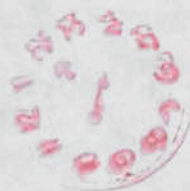
psychological reaction. Who would be the lender of last resort in such a situation? A London bank dealing in dollars or a Zurich bank dealing in Deutschmarks? It was a big mistake to close ones eyes to such problems. A Black Friday could recur on the Euro markets with enormous consequences for the controller part of the money supply system. It had happened twice in the last ten years, once in a New York bank and once in a German bank. We had shielded ourselves against a major chain reaction then, but he foresaw great dangers if the problem recurred, eg in a Hong Kong bank. Lord Carrington asked what the Chancellor thought of the Brandt Commission's report and whether the Chancellor favoured a Summit. The Chancellor said that he had not read it. There were too many conferences. If it were a question of replacing three with one he would be in favour, but not ~~merely~~ <sup>to</sup> add a fourth meeting. There were only twelve people in the world who understood the North/South problem, though there were ~~1,000~~ or 10,000 who were willing to talk about a new economic order. President Moi has asked Germany for credits to pay <sup>his</sup> ~~their~~ oil bill during his recent visit. He had explained to him that whatever happened Kenya's oil bill would be larger next year. She should convince her oil-rich colleagues to split the market to give a preferential price to developing countries, even though this would be against German interests. At present the developing countries blamed the industrial countries for inflation caused by oil price rises. It was a ludicrous situation.

21. The population growth was also absurd, and developing countries should be told <sup>so</sup> ~~about~~ this. It would be impossible to feed and educate the future population /of the

of the world, not to speak of jobs and electricity. Lord Carrington agreed that the Brandt Report did not face all of these problems. He had been told by BP that the Kuwaitis were now only willing to sell oil to BP and Shell if they were given a share in down-stream activities, such as refining. This was a dangerous trend. The Chancellor said that the Arabs no longer wanted paper money. The Shah had tried to buy a major share-holding in Mercedes-Benz in 1975. The Deutsche Bank <sup>had been</sup> ~~were~~ willing to sell, but the Chancellor had stopped it, even though he had no legal powers to do so. This was why the West should close ranks against this threat during the Venice Summit. They should not totally exclude Arab investment; they must be allowed to replace some of their money with assets. But it would be dangerous if the Arabs got further, eg in Italy, than in the UK, or vice versa. The best thing would be for the Arabs to pay their oil revenues into the IMF and be given SDRs in exchange: though no-one would sell them a car in exchange for SDRs. The Chancellor asked whether the Prime Minister was interested in these areas. Lord Carrington confirmed that she was.

22. The Chancellor asked about the Anglo/German Summit. Lord Carrington asked whether the Germans would like it to be as big as the Franco/German Summit. The Chancellor said that their arrangements with the French were different, and amounted to joint Cabinet meetings. The Germans could do the same with Britain if we wished but then all the Ministers would want to talk. He understood that the Prime Minister wanted mainly private talks with just two or four people present, while the other Ministers would join in later. Lord Carrington confirmed that this was the Prime Minister's preference.

27 FEB 1960





CONFIDENTIAL

*Germany* (2)



Foreign and Commonwealth Office

London SW1A 2AH

28 September 1979

*Pamie Minister*

*Dear Michael,*

*Paul*

Chancellor Schmidt's Views on Britain

The Foreign and Commonwealth Secretary has received from H M Ambassador, Bonn, the enclosed letter reporting on a recent conversation with Chancellor Schmidt about Britain's role in the Community and other international economic issues.

I am sending copies of this letter to Mr J S Beverly (Bank of England), Martin Hall (HM Treasury) and to Martin Vile (Cabinet Office).

*Yours etc*

*Michael*

*Paul*

Paul Lever

*He is right.*

*about the*

*C.A.P. It really*

*does need more*

*than fiddling charges*

*2 or 3 times a*

*year out,*

M O'D B Alexander Esq  
10 Downing Street

CONFIDENTIAL

BRITISH EMBASSY,  
BONN.

20 September 1979

The Rt Hon The Lord Carrington KCMG MC  
Foreign and Commonwealth Office  
London SW1*My dear Secretary of State,*

1. Chancellor Schmidt and his wife came to dine at the Embassy last night: an unusual occurrence, since he does not normally dine with Ambassadors. The occasion was an unusual one: Henry Moore, who had presented one of his major sculptures on long-term loan to adorn the grounds of the Chancellor's Office in Bonn, was staying with me and the Chancellor came to the dinner I gave in Henry Moore's honour. After dinner, while my wife and staff kept the rest of the guests amused, the Chancellor kept me for over an hour on a sofa whilst he unburdened himself of his thoughts on Britain, Europe and the world. He had come from talks with President Pertini of Italy, here on a State Visit; Pertini had impressed him with his grasp of affairs, but talked too much. Schmidt clearly expected me to pass on his thoughts to you, in anticipation of your visit to Bonn with the Prime Minister at the end of October and of the Dublin meeting of the European Council in November.

/2.



2. Schmidt began by asking me about the current labour situation in Britain and I answered on the lines taken by Mr Cecil Parkinson when asked a similar question by a German industrialist at a dinner I gave for him last week. Schmidt said that the Trade Unions had brought down Ted Heath and Jim Callaghan and how Mrs Thatcher handled them would be decisive not only for the Conservative Government but also for Britain. He, like all Britain's friends, wanted her to succeed. She had made a very good start and he admired her for it: so, he knew, did his friend Giscard. Britain's decline must be arrested. If it went on, we should have been overtaken by the Italians in GNP per head in two or at the most three years. It would take, in his view, at least ten years for the country to be turned round and Mrs Thatcher should frankly tell the people that that was the dimension of the problem. Fortunately we had North Sea oil to give us the breathing space if we took advantage of it. He, as a lifelong admirer of Britain and one who firmly believed, still, in Britain's innate good sense, its resources of wisdom, its knowledge and experience of the world, would do all he could to help. But basically the remedy lay in Britain's own hands.

3. The Chancellor then turned to the problems of Britain in Europe. He quite understood our position on the budget: the situation needed remedy. But we should at all costs avoid giving the impression that we were engaged in a second renegotiation. Britain's performance in the Community to date

/ever



ever since we had joined seven years ago had disappointed all her friends, including those closest to us, the Dutch. He and, he thought, all our partners had looked forward to Britain's entry to give a new impulse and sense of direction to the Community and a new political dimension. But what had happened? We had given little or no impulse to Europe's affairs. We had no vision of what we wanted the Community to be. Instead we had spent six years or more haggling like Italians for a little bit here and a little bit there. This was no way for a country like Britain to act. What if Britain's budget contribution did amount to £1 billion. No one could convince him that that was a make or break sum and that Britain would be sunk if she didn't get it. Compared with our real problems it was insignificant. And compared with the real problems facing Europe and the world, it was a distraction. Where was our sense of pride?

4. Wherever one looked in the Community, it was not Britain who had used her wisdom and experience to point in new directions or come up with answers to European or world problems. We seemed to have lost confidence in ourselves and to have turned inward upon ourselves. Take EMS. Here was an imaginative policy to try and bring some stability into at least part of the world's currency market and to relaunch Europe. But with her vast financial experience, what had Britain done? Half joined and half stayed out, but really played little or no active part in a venture which was the most  
/forward



forward looking project for Europe for decades. Britain, by putting herself on the sidelines of the Community, had made her partners indifferent to whether she stayed in or out. Now with a second renegotiation on the budget, even a new Conservative administration, on which so many hopes had been placed, was in danger of following the old negative paths.

5. What mattered, said Schmidt, was the psychological approach. Get that right, and the rest would follow. Mrs Thatcher had made a good start and everybody had been impressed. We should join the EMS. Right away. We were strong enough to do so. If the other fiddling little currencies could manage, sterling certainly could. If we came in, eagerly, with a manifest desire to make it work, it would work, because all our partners would join together in ensuring that it did work. The approach, the psychology, was all. The technical detail would follow. But it was a dreadful thing to observe Britain uncommitted, unsure of itself, depriving itself of the possibility of shaping events. But events would happen and would shape themselves without us. All we needed was a psychological heave out of our present introspection.

6. We ought also to be taking the lead in reforming the CAP, not in order to make a few more pennies for ourselves, although that would happen too, but in order to stop the Community going on the rocks. We should be absolutely firm on the 1% VAT ceiling. If we were, he would be too. And if the British

/and



and Germans stayed together, they could get reform. His friend Giscard would have difficulties, but he knew that Giscard realised that something had to be done although he could not take the lead himself. The CAP and the way it distorted the Community budget and the member countries' economies had to be reformed. The matter had to be taken out of the hands of the agriculture ministers: they were concerned only with keeping farmers happy. The Foreign Ministers and Finance Ministers, responsible ministers with broader horizons, should tackle the problem with the help of the Heads of Government. This was a job for Britain; although he, Schmidt, would have trouble with his coalition and especially with Ertl, he would back us. So would the Benelux governments. But by so taking the lead, Britain would be acting positively in the wider interests of the Community. And, in their hearts, our partners would know it. But the essential thing was that Britain should be seen to be involved in a confident and creative way with the future of the Community. He kept referring to "confidence" throughout our talk.

7. This brought him to the state of the world. He was full of anxiety for the 80s. The world was getting into a /state



state where no one seemed to be able to foresee the consequences of their actions and all too many did not seem to care. He had three main fears - and here I compress his arguments.

8. First, "the Free World could not do without the leadership of America, but America had a President who did not know what to do to lead." At dinner, Schmidt had said to my wife without a trace of a smile "President Carter is the only American President to whom I have had to explain how the American economy works." (I here recall that when Carter visited Bonn for the Economic Summit in the summer of 1978 he went on public record as saying that he had never learned so much about the world's economy from a foreign statesman as from Chancellor Schmidt.) Schmidt's opinions of Carter are too well known for it to be necessary for me to repeat them here.

9. Secondly, he was concerned about the enormous Eurodollar overhang. When I said that I thought the free world banking system had coped with the flood of petro-dollars very well, he said, "so far, yes"; but the problems increased in size from year to year, the bankers shuttled the money about, into sterling one month, out of sterling the next, and the whole system was totally unstable. There was no identifiable lender of last resort. There was no one responsible. The trouble was that no one seemed to understand what was happening. He had met only one man who did: the Deputy Governor of the Bank of Hungary whom he had met in Budapest

/recently



recently, a man of Kissinger's type of intellect. No one in Germany knew. G<sup>u</sup>th (Chairman of the Deutsche Bank) had the intellectual capacity to understand it if he were to put his mind to it, but he was occupied with other things. Poehl, the next President of the Bundesbank, had the capacity to understand it, but was too easy-going and had too optimistic a cast of mind! He spoke well of Volcker, but said George Schulz had the best financial intellect in the USA (Schmidt has been his guest in California during this summer). But the capacity for major damage to the world economy of the volume and instability of petro-dollars was frightening.

10. Thirdly: oil: the amount of it. All the western industrial nations, were, except Britain, dependent upon the import of oil. And the oil existed in one of the most unstable areas of the world. We had seen what had happened to Iran. The consequences of something similar happening to Saudi Arabia were too terrible to contemplate. Germany could afford to buy oil, but it could not survive if there were no oil to buy. Some Americans talked of using armed force to protect oil supplies. A lot of good a raid on an oil field would do. It was stupid to talk of doing things you would not do and which, even if you did them, would not do you any good. It was in the physical shortage of oil, said Schmidt, that the main danger of nuclear war lay.

/11.





11. Finally, Schmidt came to the subject of meetings of Heads of Government and described where, for him, lay their significance. Over the years, said Schmidt, he had formed a very close relationship with Giscard, a relationship, he could say, of total trust. This meant that when they met they told each other everything that was in their minds. They did not always agree. They could not always support each other - their national interests were sometimes too diverse. That did not matter. The essential thing was that they knew where they stood with each other, knew when they could rely on each other for support and when they could not. But even when they disagreed or could not support each other, the essential thing was the reliability and predictability of the reactions in given circumstances and this meant total frankness between them. The same thing applied to Ministers in the Government. Despite conflicts of interest, confidence existed between French and German Ministers over a wide field because they met regularly and worked together all the time.

12. Heads of Government needed to share each other's concerns and to be able to range over the whole spectrum of affairs, from petro-dollars to TNF modernisation, from Rhodesia to the Middle East, to discuss their American friends and their Russian friends. If there was agreement, fine: if not, it was essential to know the real impediments to agreement. There must be no holding back. Schmidt implied that he

/hoped



hoped in the course of time to develop with Mrs Thatcher the same close relations of confidence which he at present considers he has with Giscard. He told me, as if to illustrate his point, that when he was in London in May, Mr Callaghan had invited him to go to the Labour Party Conference. He had declined saying: "Jim, I am your good friend, but now that you are in opposition I cannot go to your Party Conference." Schmidt said that when he had told Mrs Thatcher this, the Prime Minister had at once replied that of course she would not go to the CDU Party Conference either. Schmidt was delighted and felt that this was the start of the sort of relationship he wanted.

13. This conversation lasted well over an hour. Schmidt does not waste his words, so he covered a lot of ground. He was critical, but it was the criticism of a genuine friend. I have left out much detail, preferring to concentrate on the central messages. The talk was anything /but a

PERSONAL AND CONFIDENTIAL



but a monologue, but this letter is already long and I am sure you would prefer to know what Chancellor Schmidt said rather than how cleverly your Ambassador replied.

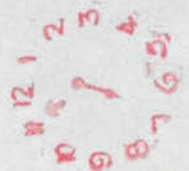
A handwritten signature in black ink, which appears to read "Oliver Wright". The signature is written in a cursive style with a large, looping initial "O".

Oliver Wright

- 10 -

PERSONAL AND CONFIDENTIAL

28 SEP 1979





Prime Minister

BRITISH EMBASSY,  
BONN.

BM  
1979

6 July 1979

Sir Michael Palliser GCMG  
FCO

1. Secretary of State - may see  
Nickell Power  
9/7

MB

- 2. Lord Pym, Sec.
- 3. Mr. Brown
- 4. Mr. Depp

Dear Michael,

cc. Mr. Carr-Saunders  
✓ sent 10/8

RELATIONS AT HEAD OF GOVERNMENT LEVEL

1. You will know from my telegram No 343 of 2 July that the favourable initial impression which Mrs Thatcher made on Chancellor Schmidt when he was in the UK in mid-May has clearly been reinforced as a result of the European Council and Tokyo Summit meetings. He has now gone on public record in that sense. In his speech to the Bundestag on 4 July, reporting on his visit to Tokyo, the Chancellor went out of his way at an early stage to pay a handsome and patently sincere compliment to the Prime Minister in the following terms:-

"The new Heads of Government of the UK and Belgium participated for the first time in the deliberations of the European Council in Strasbourg. Their very active participation in these deliberations demonstrated clearly the well-established working and cohesion of the European Council. I should like to add by way of a personal remark that I was particularly impressed by the expert knowledge, authority and sense of responsibility with which Mrs Thatcher participated in the discussions in Strasbourg and later in Tokyo."



2. Van Well has told us that this was no flash in the pan. The records of discussions between the Chancellor and distinguished visitors to Bonn almost invariably show that during the conversation the Chancellor has referred in most complimentary terms to Mrs Thatcher.

*Two cc.*

A handwritten signature in cursive script, appearing to read 'Oliver Wright', with a large, stylized initial 'O'.

Oliver Wright

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10 JUL 1973

