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PREM 19/764

PARTS 4 and 5

Confidential Filing

Chancellor Schmidt's visit to the UK;

Spring 1982

GERMANY

Pt 1: May 1979

Pt 4: March 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2.3.82							
3.3.82							
5.3.82							
9.3.82							
21.3.82							
22.3.82							
23.3.82							
30.3.82							
- Pt 4 Ends -							

PREM 19/764

PART 5 ends:-

CAW to Energy 26/5/82

PART 6 begins:-

ASC to PM 8/10/82



Jo B

Germany

10 DOWNING STREET

From the Principal Private Secretary

26 May 1982

See Jones

Chancellor Schmidt and Reprocessing at Windscale

I am sorry that I have not responded before now to your letter of 30 March 1982 with which you provided advice on how the Prime Minister should respond to Chancellor Schmidt's request about the reprocessing of German spent fuel at Windscale.

I showed the Prime Minister your letter, and she was content with the substance of the response which you suggested should be given to the Germans.

As foreshadowed in my letter of 22 March, I then had a word with Chancellor Schmidt's office to see how they would like to take the matter further. In doing so I gave them the gist of what our response would be. They have now come back to us to say that they think that the best way of carrying the matter forward would be for our answer to Chancellor Schmidt's enquiry to be conveyed to Herr Hans Haunschild, the State Secretary at the Federal Ministry for Research and Technology, when he is in London for talks with British officials on Thursday and Friday of this week.

We here are perfectly content to fall in with the Germans' wishes on this. I understand that Herr Haunschild is due to have talks in your department on Friday morning, as well as lunch with Donald Maitland the same day, and I should be grateful therefore if you would arrange for your officials to let him know what we could do at Windscale to meet Chancellor Schmidt's request for help.

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

Yours ever,

Alvie Whitmore.

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

1.
PRIME MINISTER

Chancellor Schmidt and Reprocessing at Windscale

You will remember that when Chancellor Schmidt was at Chequers last month he raised, rather out of the blue, the question of reprocessing spent nuclear fuel from Federal German power stations at our plant at Windscale.

You undertook to consider his request and said that you would let him know whether, in principle, we could give the Federal Republic the help with reprocessing which he was seeking.

I had a word after your meeting with Herr Otto Von der Gablentz of Chancellor Schmidt's staff about the Chancellor's request, and he had been completely taken by surprise by it. The Chancellor had not been briefed to raise the matter with you; nor had he told his people that he proposed to mention it. Herr Von der Gablentz asked that when you had had advice on the Chancellor's approach, I should, as a first step, have an informal word with him about how to proceed.

We now have advice from the Department of Energy (Flag A). As you will see, this is not the first time the Germans have shown an interest in reprocessing their spent fuel at Windscale. But whereas BNFL had to tell the German Minister of Technology last September that there was no spare capacity, it now looks as though they might be able to give the Germans some help. The FCO are content that we should let the Germans know that we expect to be able to do some reprocessing for them (we have been waiting for the FCO's views for several days, and this explains the delay in submitting the Department of Energy's letter to you).

May I now speak to Herr Von der Gablentz to let him know that you are now in a position to make a forthcoming response to Chancellor Schmidt's approach to you?

16 April 1982

Yes not

JAH.

I spoke accordingly to Sir John
in the Federal Chancellery today. He
will convey his message, people at BNFL
we know that they are keen to proceed. JAH
28/4/82

010
Schmidt
Vails
Telephone:
KIDLINGTON 4343 (STD 08675)

Telex 83401 - 2

My Ref: /OPS GB/AB

Your Ref:



THAMES VALLEY POLICE,
CHIEF CONSTABLE'S OFFICE,
KIDLINGTON,
OXFORD. OX5 2NX

A J Coles Esq
Private Secretary
10 Downing Street
London SW1

2 April 1982

Dear *Mr Coles.*

Thank you very much indeed for taking the trouble to write to me regarding the arrangements made by the Thames Valley Police on the occasion of the visit of the Chancellor of the Federal Republic of Germany on 19 and 20 March.

I will pass your kind comments on to the escort and to the officers of our Aylesbury Division who were primarily involved in the domestic arrangements. It is always very nice for them to have a pat on the back.

Yours sincerely

George Brown
G Brown
Acting Assistant Chief Constable
Operations

APR 1954

9 8 7 6 5 4 3 2 1

1. J. Cohen
Private Secretary
15 Downing Street
London W.C.2

I think you were much obliged for taking the trouble to
write to me regarding the arrangements made by the
Home Office on the occasion of the visit
of the Chancellor of the Exchequer to Germany
on 18 and 19 April.

I will pass your kind comments on to the secretaries
to the officers of our Embassy in Berlin who were
directly involved in the former arrangement. It
is always very nice for them to have a pat on the back.

Yours sincerely

John Brown
Local Assistant Chief Constable
Barnsley

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mit
P
CAW

FILE

THP



10 DOWNING STREET

THE PRIME MINISTER

On your thirtieth birthday two years ago, the last time your Conference was held in the UK, I was able to enjoy with you the very special atmosphere of Koenigswinter.

I cannot be with you on this occasion, but I should like to assure you of my continuing interest and to offer my best wishes for the success of your 1982 Conference. The theme for this year, "The Anxious Years" is, I fear, all too apt. I am sure your discussions will contribute to a better understanding of the dangers and opportunities which face our two countries in the years ahead.

Margaret Thatcher

April 1982

ds

PART 4 ends:-

Sir D McNeel to PM 30.3.82.

~~Energy~~ ~~to CAW~~

PART 5 begins:-

PM's message to Koenigswinter conference
April '82

ANGLO-GERMAN SUMMIT

19 March 1982

1. STEERING BRIEF
2. EUROPEAN QUESTIONS
 - a. Steering Brief on the European Community
 - b. European Act
 - c. 30 May Mandate
 - d. CAP Price-fixing
 - e. Political Co-operation: Greece
 - *f. Common Fisheries Policy
 - *g. Enlargement of the Community
 - h. Currency Situation in the Community including Future Development of the EMS
 - i. Internal Market of the Community
 - j. Community Steel Policy
 - k. External Trade Issues
 - l. EC/Turkey
3. OTHER EUROPEAN QUESTIONS
 - a. Ireland
 - b. Franco-German Relations
 - *c. Spain
 - d. Eastern Mediterranean
4. POLAND
5. NATO SUMMIT AND TRANSATLANTIC RELATIONS
6. THE FUTURE COURSE OF EAST/WEST RELATIONS
7. CSCE/CDE
8. SPAIN/NATO AND GREECE/NATO
9. DEFENCE MATTERS
10. ARMS CONTROL AND DISARMAMENT
11. WORLD POLITICAL ISSUES
 - a. Afghanistan
 - b. Situation in the Middle East
 - c. Iran/Iraq War
 - *d. Southern Africa/Namibia
 - e. Central America
 - *f. East and Central Africa
 - *g. Libya
 - *h. Cambodia
12. INTERNATIONAL ECONOMIC AND MONETARY QUESTIONS
13. UNITED STATES ECONOMIC POLICY
- *14. NORTH/SOUTH DIALOGUE POST-CANCUN
- *15. UK/FRG BILATERAL RELATIONS
- *16. FRG SCENE
 - a. Political
 - b. Economic

Briefs YMV(82)1-16 b. destroyed.

A complete set can be found

in CAB 133/525

Wayland *Background Briefs
30 August 2012

Clive. ^{HW}
16w

Reference Energy's letter to
you dated 30.3.82. The FCO
are content with the letter and
will not be commenting.

ONS

15/4/82.

Schmidts
Vizits

2.

Prime Minister
BM



COMMISSIONER OF POLICE
OF THE METROPOLIS

NEW SCOTLAND YARD ²⁰¹
BROADWAY LONDON SW1H 0BG

Sir David McNee QPM

30 March 1982

R214

mt

News Prime Minister.

Thank you for your letter of 29 March.

It will give me great pleasure to convey to all those concerned your appreciation for the assistance they were able to give during the recent visit of the Chancellor of the Federal Republic of Germany to Britain.

I am delighted that all the arrangements went smoothly.

Yours sincerely,

David McNee

David McNee

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Clive Whitmore Esq
Principal Private Secretary
10 Downing Street
LONDON SW1

30 March 1982

Dear Clive,

CHANCELLOR SCHMIDT AND REPROCESSING AT WINDSCALE

Thank you for your letter of 22 March asking for advice on how the Prime Minister should respond to Chancellor Schmidt's request about the reprocessing of German spent fuel at Windscale.

The fact that Chancellor Schmidt raised this subject without being briefed to do so is an indication of how important the question of reprocessing is to him politically. The German reprocessing programme has been held up for several years by a combination of state politics and anti-nuclear objections. The Germans have also become worried at their dependence on the French for reprocessing and the risk that the Mitterand Government would put a moratorium on foreign reprocessing contracts. This could lead to the closure of German nuclear power stations. Dr Von Bulow, their Minister of Technology, visited Windscale in September last year at his own request. He was given a full briefing at Windscale on BNFL's reprocessing capability. BNFL have several small reprocessing contracts with German utilities, and the General Manager, Mr Pilling, assured Dr Von Bulow that these will be carried out in the 1990's when the new plant (THORP) is built.

BNFL's order book for THORP was then stated to be full, and there was no spare capacity to offer the Germans at the time of Dr Von Bulow's visit. But a review of the likely domestic demands on THORP capacity is at present being made by the Company, and they expect that this may well result in some spare capacity. If so, they would like to take more work from German utilities.

I attach a draft letter which the Prime Minister could send to the Chancellor, or which could be drawn on as a message through their Embassy in London or our Ambassador in Bonn.

Yours ever,

J D West

J D WEST
Private Secretary



When we met at Chequers on 19 March, you mentioned to me your concern about reprocessing in the Federal Republic and your dependence meanwhile on the French reprocessing programme. I promised to look into the capacity at Windscale to see if we could help. I am glad to say that the position has changed slightly since Dr Von Bulow's visit to Windscale last September, when the General Manager explained to him that the Company could not take on any more business. The Company is at present reviewing the capacity of the plant and expects to be able to offer some additional tonnage to German utilities.



Foreign and Commonwealth Office

London SW1A 2AH

29 March 1982

Prime Minister 1

Content with the draft message attached?

Hurd mb

Dear John

WH 20/3

Koenigswinter Conference 1982

This year's Koenigswinter Conference takes place between 1 and 4 April at St Catherine's College, Cambridge. It is customary for the Prime Minister and the Foreign and Commonwealth Secretary to send short messages of goodwill which are read out at the opening session. On the German side, messages are normally sent by the Federal President, the Chancellor and the Foreign Minister.

The theme of the 1982 Conference will be "The Anxious Years". Mr Hurd will be attending from the FCO: Mrs Lynda Chalker will also be present.

The Foreign and Commonwealth Secretary hopes that the Prime Minister will agree to send a message as usual. I / enclose a draft for her consideration. I also enclose a copy / of the message that is being submitted to Lord Carrington.

Gordon Brown
E

(F N Richards)
PP Private Secretary

A J Coles Esq
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Sir Frank Roberts GCMG GCVO
25 Kensington Court Gardens
LONDON W8 5OF

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

On your thirtieth birthday two years ago, the last time your Conference was held in the UK, I was able to enjoy with you the very special atmosphere of Koenigswinter.

CAVEAT.....

I cannot be with you on this occasion, but I should like to assure you of my continuing interest and to offer my best wishes for the success of your 1982 Conference. The theme for this year, "The Anxious Years" is, I fear, all too apt. I am sure your discussions will contribute to a better understanding of the dangers and opportunities which face our two countries in the years ahead.

ML 21/3

Enclosures—flag(s).....

DSP 1 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

SECRETARY OF STATE

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Sir Frank Roberts GCMG GCVO
25 Kensington Court Gardens
LONDON W8 5QF

Copies to:

PRIVACY MARKING

SUBJECT: KOENIGSWINTER CONFERENCE 1982

.....In Confidence

CAVEAT.....

You will know from my earlier letter how much I regret not being able to attend the Koenigswinter Dinner. I had much looked forward to joining you and hearing at first-hand about your discussions.

Over the past 32 years an intense Anglo-German dialogue has developed at many levels. But Koenigswinter remains a unique forum and looks like retaining indefinitely its very special place in the hearts and minds of its many supporters in Britain and in Germany. I wish the present conference all success.

Enclosures—flag(s).....

26 March 1982

The Prime Minister has asked me to thank you most warmly for all the arrangements made by the Thames Valley Police for the visit to this country of the Chancellor of the Federal Republic of Germany on 19 and 20 March. The arrangements were, if I may say so, most efficient and the Prime Minister was extremely grateful. Could you kindly pass her warm thanks to all those concerned.

JOHN COLES

Acting Assistant Chief Constable Mr. G.A.F. Brown

JAC



file HL

10 DOWNING STREET

THE PRIME MINISTER

29 March 1982

Dear Sir David,

I am most grateful for all the arrangements made by the Metropolitan Police for the visit of the Chancellor of the Federal Republic of Germany to Britain on 19 and 20 March. These were, as usual, superbly efficient. Would you be so good as to pass my warm thanks to all those concerned.

Yours sincerely
Margaret Thatcher

Sir David McNee, Q.P.M.

—
LBO



Foreign and Commonwealth Office
London SW1A 2AH

Telephone 01- 233 3218

Miss Caroline Stephens
No 10 Downing Street
SW1

Your reference

Our reference

Date

24 March 1982

Dear Cousins

*John
(wonder if this
is really necessary?)
C.*

1. You have asked me for the addresses of those people who should be sent thank you letters with regard to Chancellor Schmidt's visit.

Police

The Commissioner of Police to the Metropolitan
Sir David McNee QPM
Metropolitan Police HQ
New Scotland Yard
LONDON
SW1

Acting Assistant Chief Constable Mr G A F Brown
(Operations)
Thames Valley Police HQ
Oxford Road
Kidlington
OXFORD
OX5 2NZ

2. Ian Kydd has kindly agreed to write a thank you letter for the Press Conference, it should be addressed to:-

Group Captain M J Evans ADC C Eng MI Mech E MRACS RAF
RAF Halton
Aylesbury
Bucks

*Yours ever
Anne*

Miss Anne Hutchison
Visits Section
Protocol and Conference Department

I have told him

A.



10 DOWNING STREET

From the Private Secretary

HL
A UNIT
DOI Germany
MOD
MAFF
DUT
CO
23 March 1982

Anglo/German Summit

I sent you earlier (my letter of 21 March to Brian Fall) the records of the restricted meetings which took place during this Summit. I now enclose the record of discussion at the plenary meeting on the afternoon of Friday 19 March.

I am copying this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Industry, Secretary of State for Defence, Minister of Agriculture, Fisheries and Food, Secretary of State for Trade and David Wright (Cabinet Office).

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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SUBJECT

cc Thatcher

88675 DA BKBH D

FSCHR-NR-483

22.3.1982 2220

FROM HELMUT SCHMIDT

CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY

TO H.E. MRS. MARGARET THATCHER, M.P.

PRIME MINISTER OF THE UNITED KINGDOM

OF GREAT BRITAIN AND NORTHERN IRELAND

*file: Germany
Chanc. Schmidt's
visit to UK Pt. 4.*

DEAR MARGARET,

UPON MY RETURN TO BONN I WOULD LIKE TO CONVEY MY SINCERE AND CORDIAL THANKS, ALSO ON BEHALF OF MY WIFE, FOR YOUR HOSPITALITY AND PRECIOUS HELP IN ORGANISING MY PRIVATE STAY WITH MY DAUGHTER AND MY GOOD FRIEND JIM CALLAGHAN, WHO, BY THE WAY, EXPRESSED HIS RESPECT FOR YOUR PERFORMANCE IN OFFICE.

I AM LOOKING FORWARD TO SEEING YOU AGAIN SOON DURING THE FORTHCOMING EUROPEAN COUNCIL AND REMAIN WITH WARM PERSONAL REGARDS

YOURS SINCERELY

HELMUT

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T50/82

SUBJECT

cc Nates



Germany

10 DOWNING STREET

From the Principal Private Secretary

22 March 1982

CHANCELLOR SCHMIDT AND REPROCESSING AT WINDSCALE

When the Prime Minister and Chancellor Schmidt met at Chequers on Friday 19 March 1982, the Chancellor raised with her the question of reprocessing spent nuclear fuel.

While talking generally about the opposition to use of nuclear energy in Germany, he mentioned that the Federal Republic had no facility of its own for reprocessing and that they relied on the French to help them in this respect. He was anxious to diversify the facilities available to the Federal Republic for reprocessing, and he wondered whether the United Kingdom would be ready to reprocess spent nuclear fuel from Germany at Windscale. He specifically asked what the size of the reprocessing capability at Windscale was.

The Prime Minister undertook to consider Chancellor Schmidt's request and she said that she would let him know whether, in principle, we could offer the Federal Republic help with reprocessing. She also agreed to let him know the answer to his question about the extent of our capability at Windscale.

I had a word with Herr Otto von der Gablentz of Chancellor Schmidt's staff about the Chancellor's request after the meeting, and he had been completely taken by surprise by it. The Chancellor had not been briefed to raise the matter with the Prime Minister; nor had he warned his office that he proposed to mention it. I agreed with Herr von der Gablentz that when the Prime Minister had received advice on Chancellor Schmidt's approach, I would, as a first step, have an informal word with him about how to proceed.

The Prime Minister would be grateful for your Secretary of State's advice on how she should respond to Chancellor Schmidt's request.

I am sending a copy of this letter to Brian Fall (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

C. A. WHITMORE

Julian West, Esq.,
Department of Energy.



Germany
Jie *let*
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10 DOWNING STREET

From the Private Secretary

21 March 1982

Dear Brian,

Anglo-German Summit

I enclose records of:-

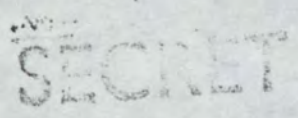
- a) The Prime Minister's tête-à-tête conversation with Chancellor Schmidt at Chequers on Friday, 19 March.
- b) The further conversation between the Prime Minister and Chancellor Schmidt, in which Lord Carrington and Herr Genscher participated.
- c) The conversation over lunch when the four principals were joined by the German Ambassador and Sir Jock Taylor.

In view of the delicacy of the subject matter, the Prime Minister wishes the circulation of these records to be extremely restricted. In general they should not go beyond the Ministers directly concerned and those of their senior officials who need, for operational reasons, to know what transpired.

I am copying this letter and enclosures to John Kerr (HM Treasury), David Omand (Ministry of Defence), John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry), David Wright (Cabinet Office), and Robert Lawson (Ministry of Agriculture, Fisheries and Food).

Yours ever
John Kerr

Brian Fall Esq
Foreign and Commonwealth Office.



CONFIDENTIAL

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE CHANCELLOR
OF THE FEDERAL REPUBLIC OF GERMANY, HERR HELMUT SCHMIDT, AT CHEQUERS
ON FRIDAY, 19 MARCH 1982 AT 1530 HOURS

Present:

Prime Minister	Herr Helmut Schmidt
Foreign and Commonwealth Secretary	Herr Matthöfer
Chancellor of the Exchequer	Dr. Schlecht
Secretary of State for Industry	Herr Rohr
Secretary of State for Defence	Herr Becker
Minister of Agriculture, Fisheries and Food	Dr. Ruhfus
Secretary of State for Trade	Herr von der Gablentz
Sir Robert Armstrong	Dr. Feiter
Sir Michael Palliser	Dr. Fischer Dieskau
Sir Jock Taylor	Herr Frickinger
Mr. Julian Bullard	Herr Walter
Lord Bridges	Dr. Pfeffer
Sir Kenneth Couzens	Dr. Fischer
Sir Brian Hayes	Herr Paschke
Mr. Michael Franklin	Herr Wendler
Sir Frank Cooper	Herr Heck
Mr. D. Hancock	Herr Hansland
Mr. Clive Whitmore	Herr Stütze
Mr. David Gillmore	Herr Mueller Thuns
Mr. John Coles	Herr Witt
Mr. David Gladstone	Herr von Alten
	Dr. Kudlich
	Dr. von Ploetz

/ FOREIGN AFFAIRS

CONFIDENTIAL

CONFIDENTIAL

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FOREIGN AFFAIRS

Welcoming the German Ministers, the Prime Minister said that the Anglo-German consultations were taking place at a very important time in advance of the three Summits, the economic and NATO summits and the European Council at the end of the month. The Versailles summit would be particularly important in that the recent reduction in oil prices could herald the end of the world recession provided the West could coordinate action. The Chancellor and she had discussed the broader strategic problems in particular with regard to the handling of East/West relations. Afghanistan was still occupied, Poland was in a very difficult situation and decisions needed to be taken on credit for the Soviet Union. She asked Lord Carrington to report on the Foreign Ministers' discussions.

Lord Carrington said that discussions had focussed on the 30 May Mandate. They had been uncertain what Messrs. Thorn and Tindemans would put in their report: the German side had thought that there should be further elaboration of guidelines. There had been general discussion of some ideas put forward by Herr Fischer for follow-up action. Their joint concern had been to find a way of avoiding a repetition of the old arguments leading to the familiar result, namely that a decision was left to the European Council. Both sides sought an early solution to the problems based either on the guidelines or on figures: the trouble was that it might be too soon to broach discussion of the one and too late to carry on the other.

The Foreign Ministers had also discussed the problem of tin. As to the Genscher/Colombo plan, Herr Genscher had thought that the Danes would not wish this question to come to fruition during their Presidency, because of the embarrassment it generated within the Governing party itself. Progress might therefore be faster than expected.

Lord Carrington said that there were no specifically Anglo-German problems. The two sides were in close touch about the

/ problem

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problem of transatlantic communications in NATO. Herr Genscher had suggested 'Gymnich'-type meetings: there were also some new ideas from Sr. Colombo. Of the two, Lord Carrington favoured Herr Genscher's idea, but he admitted that the prospect of two 'Gymnich' meetings on top of the two NATO Ministerial meetings every year was somewhat daunting.

FINANCIAL/ECONOMIC AFFAIRS

Sir Geoffrey Howe said that he had had a relatively short discussion with Herr Matthofer of the two sides' domestic economic measures. The German side had explained the steps they had taken to combat unemployment and both sides had agreed that unemployment represented the most pressing political problem of the day. In a longer discussion of the world economy, three issues had predominated:-

- (a) It was agreed that the slackening in the oil price would be helpful to the prospects of growth provided there were no relaxation in the drive for energy conservation. Sir Geoffrey Howe had explained that the fall in the oil price meant a fall in government revenue but was still helpful to the economy overall.
- (b) Both sides had expressed anxiety about the lack of control in the US economy and the level of interest rates. They had agreed that advice to the Americans should be offered off- rather than on-stage if it was to be effective.
- (c) In relation to the impact of the Japanese economy on that of other countries, it had been agreed that the main ingredients were:-
 - (i) Japanese resistance to imports;
 - (ii) their devastating export drive;
 - (iii) the Japanese combined tight fiscal policy with a relaxed foreign exchange policy with the result that the yen had fallen by 8% the previous year.

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/ However,

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However, the two sides had agreed that it would not pay to take an aggressive line with the Japanese nor to reopen arguments about 'economic locomotives' (Chancellor Schmidt confirmed German dislike of this concept). Sir Geoffrey Howe noted the striking contrast between the Japanese approach he had just outlined and that of the United States who were combining a tight monetary with a lax fiscal policy. Asked by Chancellor Schmidt whether this Japanese policy helped to explain their success, Sir Geoffrey Howe said that it might be an additional factor but that the main problem it presented to the outside world was that it led to a strong dollar and a weak yen. This in turn increased worldwide pressures for protectionism. He and Herr Matthofer had discussed a European approach to this problem and the British side had handed over a paper.

Sir Geoffrey Howe said that they had also discussed their anxieties in relation to the US economy and the prospects for the EMS. On the latter, they had found limited scope for institutional changes and had agreed on the importance of convergence if the EMS were to become a stabilising influence. A discussion of the 30 May Mandate had brought no fresh insights: they had focussed on the importance of agricultural expenditure in the context of the Mandate and had agreed on the principle that agricultural expenditure should grow more slowly than overall Community expenditure.

In further discussion together with their trade colleagues, Sir Geoffrey Howe said that anxiety had been expressed about Hungarian liquidity problems. They had agreed that the Hungarian economy was basically sound and it would be important to avoid a default. It was not however certain whether Hungary was in a position to make an IMF drawing. It might be necessary for a multi-lateral approach to be made to the USA to persuade the latter to regard Hungary differently from the other East Europeans.

/ TIN

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- 5 -

TIN

On tin, Sir Geoffrey Howe noted that there was no concensus of view within governments. Finance Ministers were keen to avoid early signature of the International Tin Agreement (ITA) because of past manipulation of the market. The United States would not be signing the Agreement. Herr Matthofer thought it would be desirable to talk to the Japanese and to take account of the US reaction. There would be many opportunities to talk privately to the Japanese, who were well aware of the problem and willing to help. He had learned much about the Tin Agreement from his discussions with Sir Geoffrey Howe and felt most reluctant to subscribe DM 50 million to the tin producers as the German contribution to the buffer stock. This would not benefit the people in the producing countries but only the companies actually using the buffer stock. He was therefore glad to hear that the British side was adamantly opposed to the Agreement.

The Prime Minister said that no one in their senses would wish to sign such an agreement at the present time. However, politically, unless we did sign the ITA, countries like Indonesia could discriminate against those opposing the ITA. In the light of these considerations, the Federal Chancellor and she had agreed that it was probably necessary to sign, but that an agreement should be sought that those signing the Agreement must also agree to observe the normal rules of the market and eschew manipulation, since the rise and fall in prices caused many problems.

Lord Carrington said that there were in fact powerful reasons for signing the Agreement. The money paid by governments into the buffer stock would be buying tin: it would not be wasted. If we did not sign, the tin producers would set up a 'TINPEC' which would not work to Western advantage in the short or medium term. It should be noted that the Malaysian raid on the market had ended unsuccessfully; the Malaysians had lost money, had quarrelled with their Swiss advisers and would be most unlikely to try the same tactic again. Finally, the biggest producers, who happened also to be members of ASEAN, had made it very clear

CONFIDENTIAL

/ to

CONFIDENTIAL

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to him that they did not wish to establish a 'TINPEC' but would be forced to do so if we did not sign (this recalled the problems with textiles the year before). He himself attached importance to our relations with ASEAN. But in any case, he did not believe that we would lose much if we did sign.

"Herr Matthofer said that he had already decided that the German Finance Ministry would follow the lead of the Economics Ministry which would take its cue from the British Treasury who would follow the lead of the British Foreign Office (Chancellor Schmidt wondered whether Agriculture Ministers had no contribution to make).

Asked if Industry Ministers had a view, Mr. Jenkin said that it was questionable objectively whether there was much point in an ITA if the Americans did not sign: they were the major consumers. If the US were not involved, the producers would dominate the Agreement. And it was not the case that the poorest producers would benefit. Mr. Biffen wondered whether it might be possible for the UK and FRG to frustrate the ITA in concert with the USA. He thought that ASEAN held no very powerful counter-weapon. If it was our judgement that we could together frustrate the ITA, it would be to our common advantage to do so. He doubted if the threat of retaliation was credible should the ITA be stillborn. Herr Schlecht said he fully agreed with Mr. Jenkin. Particularly without US participation, the ITA would not stabilise the world market. Nevertheless, the political factors were very important and he doubted whether the Agreement would in practice harm or help anyone very much. Herr Matthofer said that it represented a further step towards the New World Economic Order and thus a further step away from free market principles.

Chancellor Schmidt wondered whether we should sign the Agreement and hope that the United States would wreck it. Lord Carrington said that if we signed it would be important for

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EC countries to make a statement expressing their expectation that the market would not be manipulated. Herr Matthofer said that this would be the first time that the consumer countries would have paid 50% of the costs of a buffer stock. In the past, the producers had always paid.

Summing up, the Prime Minister said that bad economic decisions were too often taken for good political reasons. Nevertheless, she thought the consensus was that we should be guided by the political considerations and sign the Agreement, doing our best to secure an accompanying undertaking on non-manipulation of the market.

WORLD ECONOMY

Reverting to Sir Geoffrey Howe's report, Chancellor Schmidt asked about the nature of the opportunity presented by the decrease in oil prices. He himself feared that the suddenness of the downward move in prices would create 'discontinuities' in the balance of payments of OPEC countries and interrupt their import and development programmes. He could see that a sudden deterioration in the position of the OPEC nations would be mirrored by an improvement in the balance of payments of consumer countries but wondered what this would mean in practice.

Sir Geoffrey Howe said that the decrease in oil prices was not in fact sudden. Spot prices and North Sea oil had come down, but OPEC was still holding out. The industrial economies had suffered greatly from the rise in oil prices in the past and in general a drop now would be beneficial: it would allow real growth which would offset the impact on the OPEC economies. There had been no dramatic withdrawal of buyers from the world market and he thought the net effect would be beneficial to world growth.

Chancellor Schmidt remained doubtful. In the best case, somebody else would replace Saudi investments in the New York Stock Market, and take up the orders lost in the Middle East. But he

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doubted whether this would in practice occur. All sudden change was bad and he did not believe that the West should welcome the fall in prices unreservedly at the Versailles Summit. Herr Matthöfer pointed out that the rise in the price of oil had been much more sudden than the current drop. But it was true that the FRG stood to lose disproportionately from a reduction in OPEC purchasing power since they had obtained a disproportionate share of OPEC orders. The Prime Minister pointed out that OPEC surpluses had not all been channelled towards Western industry: much had gone into unproductive property deals. Sir Geoffrey Howe said that instability in world currency markets had been brought about mainly by OPEC surpluses.

INDUSTRIAL AFFAIRS

Mr. Jenkin said that he had discussed steel, textiles, Airbus and industrial policy with Herr Schlecht. On steel, they had agreed that the industrial code must be respected: there were problems with the Italians. The next EC meeting on 4 May must settle quotas. On textiles, there was common concern about the escalation of subsidies, especially in Belgium and Italy. The Germans had challenged Commission support for Belgium in the European Court. How that the French had failed to notify their textile aids we would press the Commission to report. Pressures on our own textile industries were growing. On Airbus, the French were pressing both the UK and the FRG for a decision on the A320. Neither of us wanted a political aircraft and neither was satisfied that the market existed. They had agreed that Community industrial policy was like cotton wool. They would try to pin the Commission down to some firm proposals. Count Lambsdorff would come to London shortly for discussions.

TRADE

Mr. Biffen said that he had discussed Japan and the GATT Ministerial meeting with Herr Schlecht. The success of the Japanese economy was creating problems in both the GATT and the IMF. This made discussions with the Japanese necessary in their own

/ interest.

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interest. We agreed with the Germans on the need to avoid protectionism. Mr. Biffen explained that the aim of using Article XXIII of the GATT would be to hold the Japanese accountable for failing to take account of the effect of their actions on their partners. Discussions would be pursued in the OECD and at Versailles.

Mr. Biffen said that at the GATT Ministerial meeting in November the emphasis would be on the need to resolve trade problems in a GATT framework. It was necessary to resist an approach based on bilateral reciprocity. They would also wish to liberalise trade in services.

The two sides had agreed on the need to strengthen the Community's internal market by reducing border formalities, which were now less in evidence between Sweden and Norway than between EC member states. Finally, they had touched on air fares and the Insurance Directive.

The Prime Minister commented that competitive subsidies were not being effectively dealt with by the Commission.

AGRICULTURE

Mr. Walker said that the situation had been transformed since the Commission had originally tabled its proposals. Subsequent substantial currency realignments meant that the French, Belgians, Luxembourgers, Danes and Italians had all been granted uncovenanted increase in agricultural subsidies. This meant that most countries in the Community were already likely in advance of the next price fixing to gain more than they were claiming. Against this background, it was even more unfair that the FRG was being asked by the Commission to reduce MCA's and the UK to revalue the Green Pound. In addition, the Mediterranean countries were seeking improvements in respect of fruit, vegetables, wine and olive oil which, if achieved, would lead to further financial burdens falling on the FRG and UK. As to the price fixing exercise, in the FRG view delay would be bad

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for Europe. The two sides disagreed over the coresponsibility levy. The British considered it a bad principle to exempt small and low income producers, while the Germans maintain that the exemption was not as significant as the British side claimed. There was also a difference of view over the cost of the current price fixing. The Commission proposals were based on trends in future prices. But these were uncertain. This uncertainty, combined with the ambitions of Mediterranean producers, was leading to instability in the Community. Both sides aimed to ensure that these problems were settled in the context of the 30 May Mandate.

The Prime Minister recalled that the principle agreed at Lancaster House had been that agricultural costs should increase more slowly than the Community's own resources. But the Commission's proposals would lead to their absorbing a larger proportion. Herr Rohr said that the outcome would depend on the basic increase in agricultural costs. Estimated Commission figures for 1983 showed agricultural support absorbing 14 billion ECU. In 1982 the increase had in fact been less than the increase in own resources. The Prime Minister said that the Commission had changed its method of calculation: it was now based on assumptions about movements in world prices.

DEFENCE

Mr. Nott said that defence programmes in both countries faced similar problems. Large-scale capital programmes conceived long ago had led to pressure on budgets which would last for the next three years. The two sides had discussed joint equipment budgets and agreed that they must resist the Berry amendments aimed at cutting exports to the USA. He and Herr Apel had agreed on the need to press the US Government to get the START negotiations under way. At the NPG the following week he would be explaining to his colleagues that the Trident programme would only absorb 3% of the British defence budget over 15 years.

/ Mr. Nott

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Mr. Nott said that he and Herr Apel both felt it would be difficult for them to explain to their electorates why defence ministers were to be excluded from the forthcoming NATO Summit. They had agreed on the need to improve European cooperation in the defence field and to involve the French more. However, NATO remained the principal forum, given the need to retain the US commitment to Europe. The two Ministers had noted the rise of anti-Americanism, especially on the Continent, as expressed in the various peace movements.

The Prime Minister queried the decision to exclude defence ministers from the NATO Summit. Mr. Nott thought they should not participate but should be in attendance. Chancellor Schmidt said that he did not want the Bonn Summit to produce another instant military strategy. He recalled previous Summits at which the Heads of Government had been presented at the last moment with ready-made texts drafted in the DPC and NATO Council. He himself had, for example, only heard about the commitment to a 3% increase in real defence expenditure the night before he was supposed to agree it. He wanted a natural, relaxed, restatement of the grand strategy of the Alliance, without attempting to predict the future.

WORLD ECONOMY

The Prime Minister asked Herr Matthöfer["] for his view on prospects for the world economy next year. Herr Matthöfer["] said his prime concern was to disengage as far as possible from developments in US interest rates. The day before the Bundesbank had decreased German rates at the same time as US rates had increased still further. US rates were now some 5% above the inflation rate. Herr Matthöfer["] said he could not understand US economic policy. The Administration had planned for a \$23 billion deficit in Financial Year 1983: Mr. Stockman was now talking about a deficit between \$120 to \$169 billion. Since the US had a much lower savings rate than the Germans (approx. 4.5% compared with 15%) the US government would thus be mopping up virtually all spare capital

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accumulation.

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accumulation. This process was depressing the world economy. The Europeans must stick together, solve their current account problems and disengage themselves from pernicious US interest rates. Mr. Regan and his colleagues were in a trap from which they did not know how to escape. They were hoping that something would turn up, but the Europeans could not afford to wait. The German government were now more optimistic, believing that they were the second country after the Japanese to adapt their economy to the new world requirements. The oil price decrease, the increase in their own exchange rate and capital inflows were positive developments allowing a decrease in interest rates. But unforeseen developments could upset matters. In particular, Japanese actions could produce a US reaction which would harm everybody.

The Prime Minister said that the British and German governments were pursuing similar economic strategies. Herr Matthofer agreed that many passages in Sir Geoffrey Howe's recent budget speech had sounded very familiar to them. He stressed the importance of trade union cooperation in the running of the economy and the importance of the mass purchasing power of their members. Manufacturers needed a reasonable expectation of being able to offload their additional production. Chancellor Schmidt said that a decrease in retail turnover discouraged investment. Consumers must not be made to suffer for too long. The German government had reduced private purchasing power for two years in a row but did not believe it possible to do so for a third without creating social disturbance. German consumers had had to accept a loss of real purchasing power of 1½ to 2% in the current financial year.

The Prime Minister said that nevertheless the real worry was the increasing level of unemployment. In the UK an increase in output would be perfectly possible without increasing employment. Increased savings did not imply a reduction in the standard of living.

Herr Matthofer referred to the problem of Turkish workers. The position was now grave: 180,000 wives and 300,000 young Turks

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now had the right to enter the FRG to join the breadwinners already there. Commission rules foresaw the gradual introduction of free movement of workers from Turkey until 1986. This could lead to 12 million Turks living in the FRG. Chancellor Schmidt recalled that former Prime Minister Demirel had once told him that the Turkish Government was planning on the assumption that at least 10 million Turks would go to Germany in the next decade. He said that the German government would fight a bitter war over the Community's Treaty of Association with Turkey. The Prime Minister said that he could rely on British understanding.

The meeting ended at 1715.

A.J.C.

23 March, 1982.

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CONVERSATION

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY, HERR HELMUT SCHMIDT, AT CHEQUERS ON FRIDAY 19 MARCH 1982, AT 1530 HOURS Present

Mr. Coles,
No. 10

The Prime Minister Herr Helmut Schmidt

Foreign and Commonwealth Secretary Herr Matthöfer

Dr Schlecht

Chancellor of the Exchequer Herr Rohr

Secretary of State for Industry Herr Becker

Dr Ruhfus

Secretary of State for Defence Herr von der Gablentz

Minister of Agriculture, Fisheries and Food Dr Feiter

Dr Fischer Dieskau

Secretary of State for Trade Herr Frickinger

Sir Robert Armstrong Herr Walter

Sir Jock Taylor

Dr Pfeffer

Mr Julian Bullard Dr Fischer

Lord Bridges Herr Paschke

Mr Clive Whitmore Herr Wendler

Mr David Gillmore Herr Heck

Mr John Coles Herr Hansland

Sir Kenneth Couzens Herr Stützele

Sir Brian Hayes Herr Mueller Thuns

Mr Michael Franklin Herr Witt

Sir Frank Cooper Herr von Alten

Mr D Hancock Dr Kudlich

Mr David Gladstone Dr von Ploetz

cc PS/PUS
Lord Bridges
Mr. Bullard
Mr. Gillmore

Dr Gladstone
22/3

Type Name
22/3

3. The Foreign Ministers had also discussed the problem of tin. As to the Genscher/Colombo plan, Herr Genscher had thought that the Danes would not wish this question to come to fruition during their Presidency, because of the embarrassment it generated within the governing party itself, ~~and~~ Progress might therefore be faster than expected.

4. Lord Carrington said that there were no specifically Anglo-German problems. The two sides were in close touch about the problem of transatlantic communications in NATO. Herr Genscher had suggested 'Gymnich'-type meetings: there were also some new ideas from S^A Colombo. Of the two, Lord Carrington favoured Herr Genscher's idea, but he admitted that the prospect of two 'Gymnich' meetings on top of the two NATO Ministerial meetings every year ^{was} somewhat daunting.

FINANCIAL/ECONOMIC AFFAIRS

5. Sir G Howe said that he had had a relatively short discussion with Herr Matthöfer of the two sides' domestic economic measures. The German side had explained the steps ^{they had} taken to combat unemployment and both sides had agreed that unemployment represented the most pressing political problem of the day. In a longer discussion of the world economy, three issues had predominated:

- a) It was agreed that the slackening in the oil price would be helpful to the prospects of growth provided there were no relaxation in the drive for energy conservation. Sir G Howe had explained that the fall in the oil price meant

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a fall in government revenue but was still helpful to the economy overall.

- b) Both sides had expressed anxiety about the lack of control in the US economy and the level of interest rates. They had agreed that advice to the Americans should be offered off- rather than on-stage if it was to be effective.
- c) In relations~~s~~ to the impact of the Japanese economy on that of other countries, it had been agreed that the main ingredients were:

i) Japanese resistance to imports;

ii) their devastating export drive;

iii) the Japanese combined tight fiscal policy with a relaxed foreign exchange policy with the result that the yen had fallen by 8% the previous year.

However, the two sides had agreed that it would not pay to take an aggressive line with the Japanese nor to reopen arguments about 'economic locomotives' (Chancellor Schmidt confirmed German dislike ~~of~~ this concept). Sir G Howe noted the striking contrast between the Japanese approach he had just outlined and that of the United States who were combining a tight monetary with a lax fiscal policy. Asked by Chancellor Schmidt whether this Japanese policy helped to explain their success, Sir G Howe said that it might be an additional factor but that the ^{main} problem it presented to the outside world was that it led to a

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strong dollar and a weak yen. This in turn increased worldwide pressures for protectionism. He and Herr Matthöfer had discussed a European approach to this problem and the British side had handed over a paper.

6. Sir G Howe said that they had also discussed their anxieties in relation to the US economy and the prospects for the EMS. On the latter, they had found limited scope for institutional changes and had agreed on the importance of convergence if the EMS were to become a stabilising influence. A discussion of the 30 May Mandate had brought no fresh insights: they had focused on the importance of agricultural expenditure in the context of the Mandate and agreed on the principle that agricultural expenditure should grow more slowly than overall Community expenditure.

7. In further discussion together with their trade colleagues, Sir G Howe said that anxiety had been expressed about Hungarian liquidity problems. They had agreed that the Hungarian economy was basically sound and it would be important to avoid a default. It was not however certain whether Hungary was in a position to make an IMF drawing. It might be necessary for a multi-lateral approach to be made to the USA to ~~bring~~ ^{persuade} the latter to regard Hungary differently from the other East Europeans.

TIN

8. On tin, Sir G Howe noted that there was no consensus of view within governments. Finance Ministers were keen to avoid early signature of the International Tin Agreement (ITA)

because of past manipulation of the market. The United States would not be signing the Agreement. Herr Matthöfer thought it would be desirable to talk to the Japanese and to take account of the US reaction. There would be many opportunities to talk privately to the Japanese, who were well aware of the problem and willing to help. He had learned much about the Tin Agreement from his discussions with Sir G Howe and felt most reluctant to subscribe DM 50 million to the tin producers as the German contribution to the buffer stock. This would not benefit the people in the producing countries but only the companies actually using the buffer stock. He was therefore glad to hear that the British side was adamantly opposed to the Agreement.

9. The Prime Minister said that no one in their senses would wish to sign such an agreement at the present time. However, politically, unless we did sign the ITA, countries like Indonesia could discriminate against those opposing the ITA. In the light of these ^{considerations,} ~~conditions,~~ the Federal Chancellor and she had agreed that it was probably necessary to sign but that an agreement should be sought that those signing the Agreement must also agree to observe the normal rules of the market and eschew manipulation, since the rise and fall in prices caused many problems.

10. Lord Carrington said that there were in fact powerful reasons for signing the Agreement. The money paid by governments into the buffer stock would be buying tin: it would not be wasted. If we did not sign, the tin producers would set up a 'TINPEC' which would not work to Western advantage in ^{the} short or medium term. It should be noted that

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the Malaysian raid on the market had ended unsuccessfully; the Malaysians had^d lost money, ~~have~~^{had} quarrelled with their Swiss advisers and would be most unlikely to try the same tactic again. Finally, the biggest producers, who happened also to be members of ASEAN, had made it very clear to him that they did not wish to establish a 'TINPEC' but would be forced to do so if we did not sign (this recalled the problems with textiles the year before). He himself attached importance to our relations with ASEAN. But in any case, he did not believe that we would lose much if we did sign.

11. Herr Matthofer said that he had already decided that the German Finance Ministry would follow the lead of the Economics Ministry which would take its cue from the British Treasury who would follow the lead of the British Foreign Office (Chancellor Schmidt wondered whether Agriculture~~s~~ Ministers had no contribution to make).

12. Asked if Industry Ministers had a view, Mr Jenkin said that it was questionable objectively whether there was much point in an ITA if the Americans^{did not sign: then} were the major consumers. If the US were not involved, the producers would dominate the Agreement. And it was not the case that the poorest producers would benefit. Mr Biffen wondered whether it might be possible for the UK and FRG to frustrate the ITA in concert with the USA. He thought that ASEAN held no very powerful counter-weapon. If it was our judgment that we could together frustrate the ITA, it would be to our common advantage to do so. He doubted if the threat of ~~Italian~~ retaliation was credible should the ITA be stillborn. Herr Schlecht said he fully agreed with Mr Jenkin. Particularly

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without US participation, the ITA would not stabilise the world market. Nevertheless, the political factors were very important and he doubted whether the Agreement would in practice harm or help anyone very much. Herr Matthöfer said that it represented a further step towards the ~~New~~ World Economic Order and thus a further step away from free market principles.

13. Chancellor Schmidt wondered whether we should sign the Agreement ^{and} ~~hoping~~ that the United States would wreck it. Lord Carrington said that if we signed it would be important for EC countries to make a statement expressing their expectation that the market would not be manipulated. Herr Matthöfer said that this would be the first time that the consumer countries would have paid 50% of the costs of a buffer stock. In the past, the producers had always paid.

14. Summing up, the Prime Minister said that bad economic decisions were too often taken for good political reasons. Nevertheless, she thought the consensus was that we should be guided by the political considerations and sign the Agreement, doing our best to secure an ^{accompanying} ~~undertaking~~ on non-manipulation of the market.

WORLD ECONOMY

15. Reverting to Sir G Howe's report, Chancellor Schmidt asked about the nature of the opportunity presented by the decrease in oil prices. He himself feared that the suddenness of the downward move in prices would create 'discontinuities' in the balance of payments of OPEC countries and interrupt

their import and development programmes. He could see that a sudden deterioration in the position of the OPEC nations would be mirrored by an improvement in the balance of payments of consumer countries but wondered what this would mean in practice.

16. Sir G Howe said that the decrease in oil prices was not in fact sudden. Spot prices and North Sea oil had come down, but OPEC was still holding out. The industrial economies had suffered greatly from the rise in oil prices in the past and in general a drop now would be beneficial: it would allow real growth which would offset the impact on the OPEC economies. There had been no dramatic withdrawal of ^{buyers} ~~power~~ from the world market and he thought the net effect would be beneficial to world growth.

17. Chancellor Schmidt remained doubtful. In the best case, somebody else would replace Saudi investments in the New York Stock Market, and take up the orders lost in the Middle East. But he doubted whether this would in practice occur. All sudden change was bad and he did not believe that the West should welcome the fall in prices unreservedly at the Versailles Summit. Herr Matthöfer pointed out that the rise in the price of oil had been much more sudden than the current drop. But it was true that the FRG stood to lose disproportionately from a reduction in OPEC purchasing power since they had obtained a disproportionate share of OPEC orders. The Prime Minister pointed out that OPEC surpluses had not all been channelled towards Western industry: much had gone into unproductive property deals. Sir G Howe said that instability in world currency markets had been brought about mainly by OPEC surpluses.

/INDUSTRIAL

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22. The Prime Minister commented that competitive subsidies were not being effectively dealt with by the Commission.

AGRICULTURE

23. Mr Walker said that the situation had been transformed since the Commission had originally tabled its proposals. ^{Subsequent} (Substantial currency realignments ~~since then~~ meant that the French, Belgians, Luxembourgers, Danes and Italians had all been granted uncovenanted increases in agricultural subsidies. This meant that most countries in the Community were already likely in advance of the next price fixing to gain more than they were claiming. Against this background, it was even more unfair that the FRG was being asked by the Commission to reduce MCA's and the UK to revalue the Green Pound. In addition, the Mediterranean countries were seeking ~~for~~

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24. The Prime Minister recalled that the principle agreed at Lancaster House had been that agricultural costs should increase more slowly than the Community's own resources. But the Commission's proposals would lead to their absorbing a larger proportion. Herr Rohr said that the outcome would depend on the basic increase in agricultural costs. Estimated Commission figures for 1983 showed agricultural support absorbing 14 billion ECU. In 1982 the increase had in fact been less than the increase in own resources. The Prime Minister said that the Commission had changed its method of calculation: it was ^{now} based on assumptions *about* movements in world prices.

/DEFENCE

DEFENCE

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presented at the last moment with ready-made texts drafted in the DPC and NATO Council. He himself had, for example, only heard about the commitment to a 3% increase in real defence expenditure the night before he was supposed to agree it. He wanted a natural, relaxed, restatement of the grand strategy of the Alliance, without attempting to predict the future.

WORLD ECONOMY

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after the Japanese to adapt their economy to the new world requirements. The oil price decrease, the increase in their^{own} exchange rate and capital inflows were positive developments allowing a decrease in interest rates. But unforeseen developments could upset matters. In particular, Japanese actions could produce a US reaction which would harm everybody.

29. The Prime Minister said that the British and German governments were pursuing similar economic strategies. Herr Matthöfer agreed that many passages in Sir G Howe's recent budget speech had sounded very familiar to them. He stressed the importance of trade union cooperation in the running of the economy and the importance of the mass purchasing power of their members. Manufacturers needed^a reasonable expectation of being able to offload their additional production. Chancellor Schmidt said that a decrease in retail turnover discouraged investment. Consumers must not be made to suffer for too long. The German government had reduced private purchasing power for two years in a row but did not believe it possible to do so for a third without creating social disturbance. German consumers had had to accept a loss of real purchasing power of 1 1/2 to 2 % in the current financial year.

30. The Prime Minister said that nevertheless the real worry was the increasing level of unemployment. In the UK an increase in output would be perfectly possible without increasing employment. Increased savings did not imply a reduction in the standard of living.

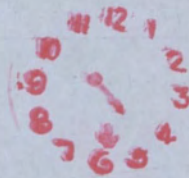
31. Herr Matthöfer referred to the problem of Turkish

workers. The position was now grave: 180,000 wives and 300,000 young Turks now had the right to enter the FRG to join the breadwinners already there. Commission rules foresaw the gradual introduction of free movement of workers from Turkey until 1986. This could lead to 12 million Turks living in the FRG. Chancellor Schmidt recalled that former Prime Minister Demirel had once told him that the Turkish Government was planning on the assumption that at least 10 million Turks would go to Germany in the next decade. He said that the German government would fight a bitter war over the Community's Treaty of Association with Turkey. The Prime Minister said that he could rely on British understanding.

32. The meeting ended at 1715.

A. J. C. $\frac{22}{3}$.

22 MAR 1982



W.C.H.

ANGLO-GERMAN SUMMIT - 19 MARCH 1982

DISCREPANCIES BETWEEN UK AND GERMAN POSITIONS ON THE CAP PRICE-FIXING
AT AGRICULTURE COUNCIL on 15/17 MARCH

A REFORM OF THE CAP

1. FRG did not support UK in pressing for more information on the financial implications of the Commission's price proposals to ensure that the growth in agricultural spending would be held within the growth of own resources.
2. FRG did not support UK in working for an early Community position on the accession of Spain and Portugal through a link between the reform of the Mediterranean acquis and the price proposals.
3. FRG supported the continuation of the basic coresponsibility levy on milk which merely transfers cost of financing surplus to consumers, and the Commission's discriminatory proposal to modulate the levy to help small producers.
4. FRG sought a larger increase in the reference price for bread wheat (minimum quality) which is the major determinant of the cost of dealing with the Community's wheat surplus.
5. FRG did not support UK in seeking a lower price for the distillation of the outstanding Italian wine surplus.

B UK INTERESTS

6. FRG took the lead in supporting the Commission's proposal to reduce the UK butter subsidy.
7. FRG supported the proposed reduction in FEOGA financing of the suckler cow subsidy.
8. FRG pressed for a limitation of the variable beef premium.
9. FRG sought to hold the cost of the sheepmeat regime, of which the UK is the major beneficiary, to the 1980 budget figure.

SUBJECT
ca. Harlow

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SECRET

Note of a Discussion over Lunch at Chequers on Friday, 19 March, 1982

Present:

Prime Minister	Chancellor Schmidt
Foreign and Commonwealth Secretary	Herr Hans-Dietrich Genscher
Sir Jock Taylor	Dr. Jurgen Ruhfus
Mr. Clive Whitmore	Herr Otto von der Gablentz

30 May Mandate

The Prime Minister said that the Community staggered from one expedient to another and never tackled the fundamental changes that were essential. As Burke had said, a society without the means of change was a society without the means of conservation.

Chancellor Schmidt said that the pity was that the United Kingdom had joined the Community 10-12 years too late. It was very difficult to change now the rules that were established at the creation of the Community, especially as those rules brought substantial benefits to some members of the Community.

The Foreign and Commonwealth Secretary said that he and Herr Genscher had concluded earlier in the day that it was unlikely that next week's Foreign Affairs Council would make much progress on the Mandate. They would probably suggest that the European Council should discuss the problem and then instruct them to meet again to make further efforts to find a solution. The Prime Minister said that in that case it would be better if the European Council discussed the budget over dinner rather than in formal session.

Chancellor Schmidt said that "the feeling in his stomach was that President Mitterrand would be bellicose about this". He would say that the principles of the Community budget were laid

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down long ago and that if a member was in trouble, it was right for the Community to try to alleviate its burdens but not for eternity.

The Foreign and Commonwealth Secretary said that approach was all very well when the person in trouble was in that situation through his own fault. But that was not the case with the United Kingdom and the budget.

Chancellor Schmidt asked whether it was the Federal Republic's fault that it was transferring 2 billion ecus a year to the Community. The Council of Ministers had taken wrong decisions in the past, and British Ministers had participated in them. They were there and could not be ignored. Was it worth breaking up the Community over the Mandate? That was the danger.

The Prime Minister said that nobody had believed when the Community was established that so much of its resources would be absorbed by the CAP. The fault was not with the rules as such but with the way that they were applied so that the majority benefited and the minority of Britain and Germany paid. The majority were using the Community budget in a way never intended originally. She had no intention of breaking up the Community, but the inequitable application of the Community's rules would break it up. The Community would not be able to settle the issue until we were at the brink; and we would get to the brink before long because of France's need to fix new farm prices. She hoped the Community would settle on a basis of equity.

Chancellor Schmidt, in reply to a question by the Foreign Secretary, said that he believed that President Mitterrand felt so strongly about the question of the Mandate because he had a lot of small and poor farmers and because France believed herself entitled to the CAP as we knew it because this was based on the rules laid down when the Community was founded.

The Foreign and Commonwealth Secretary said that Britain had said in 1970 that we thought that the CAP would cause problems

eventually and we had made clear then that the CAP would not be able to continue unchanged if it gave rise to unacceptable situations. He could see the political embarrassment for the French if a revised CAP gave them a reduced level of benefits. But the French did not even begin to see the United Kingdom's problem.

The Prime Minister said that it was wrong that the Federal Republic contributed so much. Britain and Germany were subsidising the rich members of the Community.

Chancellor Schmidt said that the CAP had gone wrong. But the structure of the policy had been laid down at the creation of the Community. All members had since then contributed by their decisions to the unfairness of the policy. So for the United Kingdom to attack the others on this score was itself not fair.

He believed that Britain should use only one argument in its search for equity. She should say that an unacceptable situation had arisen for her, and all members had earlier agreed that if that happened, they must deal with it. Britain should rest on that position. He was trying to help strengthen her case.

The Foreign and Commonwealth Secretary said that if economic convergence remained, as it did, a political aim of the Community, he could not believe that nine of the members wanted to single out the one remaining member for unfair treatment. We had accepted the existing conditions when we had joined the Community, but we had also made the specific proviso about the need to deal with an unacceptable situation if it arose, just because we had foreseen the problem of CAP expenditure.

The Prime Minister added that the solution had to endure as long as the unacceptable situation endured. We had known that the three years of the 1980 agreement would not be enough. Now M. Thorn was even suggesting a one-year agreement. If the formula was related to the situation, the problem would not recur. She did not

want a pitched battle. She wanted a lasting solution.

Central America

The Foreign and Commonwealth Secretary said that Mexico was trying to get a negotiation going on El Salvador, but the United States were very suspicious of Senor Castaneda.

Herr Genscher added that this was due in no small measure to the fact that Senor Castaneda's wife had been born in the Soviet Union and her son was the leader of the Mexican Communist Party.

The Foreign and Commonwealth Secretary continued that the elections in El Salvador would have one of two possible outcomes. Either nobody would take part and they would turn into a farce. Or General Duarte would win against the Right but the Left would take no part; and in that event it would be difficult for Duarte or the United States to claim the election as decisive. But even if that happened, it might give the situation just that push that was needed to make a negotiation possible. A negotiation was the only way out. Otherwise the war would go on. But it was not easy to see who could undertake the mediation. Certainly Mexico could not.

Central America would be more and more to the forefront in the next few months and might well obscure bigger and more serious problems like Poland.

Chancellor Schmidt said that the situation in Central America today was not President Reagan's fault. No American Administration had had a policy for Central America for years. It was no use trying to apply Western European standards of democracy to countries like these or in Black Africa or in Turkey. It would be a wonder if democracy worked in Turkey.

Greece and Turkey

The Foreign and Commonwealth Secretary said that there was a danger that Greece would get NATO into difficulties over Turkey.

She might well become no more than a lukewarm member of the Alliance, while alienating the Turks from NATO.

Chancellor Schmidt said that the present situation was not all the fault of Greece. Turkey had made mistakes too. It might be possible to agree a form of words with Greece and Turkey which, without mentioning them by name, said that members of NATO agreed to settle disputes between them in a peaceful way. Mr. Averoff had recently told him that we should not worry too much about Mr. Papandreou's foreign policies. He would not leave the Community or NATO but he had to give a public appearance of trying to live up to his election undertakings. Chancellor Schmidt added that he had found Mr. Papandreou very reasonable privately. Mr. Papandreou had told him that he was prepared to put problems like territorial limits in the Aegean on ice. On the other hand, Mr. Karamanlis did not take such a favourable view of Mr. Papandreou.

The Foreign and Commonwealth Secretary said that Mr. Papandreou seemed to want an assurance that if Turkey attacked Greece, NATO would come to the help of Greece, but it was obviously very difficult to give such an assurance. In the meantime, Turkey's NATO allies went on complaining about the lack of human rights there. Until they returned to Parliamentary democracy, countries like Norway, the Netherlands, Denmark and even France would go on attacking them. Nor did the Turks help themselves; for example, the recent series of public executions had given rise to a great deal of criticism. The Turks were likely to tire soon of constant attacks on them.

Chancellor Schmidt commented that we could only hope that Turkey would muddle through. We should not take too much notice of Greece: if we did this, it would reduce their nuisance value.

Herr Genscher added that we should remember that Greece had very close relations with its neighbours, especially Bulgaria, and that it exported a lot of its produce to the Soviet Union.

Spain

The Foreign and Commonwealth Secretary said that he hoped very much that Greece and the Netherlands would not seek to block Spain's entry into NATO. He wanted to see Spain at the June Summit. He thought that Spain was very much on edge at present. This was partly due to the trial of the officers who had taken part in the attempted coup. The evidence in the trial had involved the King, and this was likely to damage his position in the country.

Chancellor Schmidt said that Spain and Portugal were not established democracies. It was a great mistake to enlarge the Community and the Alliance, for it made both organisations unwieldy and ineffective. But we could not say no to countries like Spain when they asked for membership. "We were all guilty."

The Gulf

The Foreign and Commonwealth Secretary said that the Sultan of Oman had been in the United Kingdom for a State Visit this week. Oman was much more worried about Iran than the Arab/Israel problem. She feared ^{rule,} subversion by Iran in the Gulf. Oman expected fundamental Islamic/ and with it the export of revolution, to continue in Iran for some time regardless of Ayatollah Khomeini's fate. One consequence of the fall in oil prices would be a reduction in Saudi Arabia's ability to use its financial strength to persuade other Arab countries to be moderate.

The Prime Minister added that the Sultan of Oman was a very good friend of the West. Kuwait, on the other hand, would compromise with anybody. The Soviet Union exerted a good deal of influence in Kuwait. The recent attempt to overthrow the Ruler of Bahrain had left everybody in the Gulf feeling nervous.

Middle East

Chancellor Schmidt said that it would be very important in future to give help, including training, to Egypt and Saudi Arabia. Egypt was very vulnerable economically and therefore politically.

The Prime Minister said that President Mubarak was doing well at present, but the great unanswered question was what would happen after the Israeli withdrawal from Sinai was complete.

The Foreign and Commonwealth Secretary said that he thought that after the Israeli withdrawal the United States would probably say that the autonomy talks must continue. Israel would not object because this would waste time. Similarly, Egypt would not mind because she wanted American money and American defence equipment. By the time everybody was forced to admit that the talks were getting nowhere, we should be so close to the United States Congressional Elections that everybody would again say that there was nothing that could be done. Once the Congressional Elections were out of the way, we should then be approaching the run up to the United States Presidential Election. In short, the talks were likely to be in an impasse, but at least that would postpone trouble.

Chancellor Schmidt said that today's situation in the Middle East was another example of the failure of American strategy. For too long the Americans had chopped and changed, and had no underlying strategy for the Middle East.

The lunch ended at 1500.

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19 March, 1982.

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY AT NOON ON 19 MARCH 1982
AT CHEQUERS

Present:

Prime Minister	Chancellor Schmidt
Foreign and Commonwealth Secretary	Herr Genscher
Mr A.J. Coles	Herr von der Gablentz
	Interpreter

The Prime Minister explained that, during her tête-à-tête conversation with Chancellor Schmidt, there had been some discussion of whether approaches should be made to President Reagan about the current course of United States economic policy before the Economic Summit at Versailles in June.

The Prime Minister then suggested that the matter of the International Tin Agreement should be discussed. Herr Genscher said that his impression was that attitudes in Bonn were identical to those in Whitehall. There was a split between what might broadly be called foreign affairs arguments and arguments related to the tin market. The Prime Minister said that the recent manipulation of the tin market had left us with an unfavourable impression. There were a number of arguments against joining the Tin Agreement. On the other hand we had a strong interest in promoting trade with Indonesia and Malaysia. Chancellor Schmidt said that the Agreement could not function satisfactorily if the United States did not participate. But he did not see why we should take the blame for that. Germany and the United Kingdom should therefore sign and, if the Agreement did not function successfully, this would be blamed on the Americans. Lord Carrington observed that if the Agreement did not come into force, the producers would form a TINPEC. He believed that this would damage our interests more than the proposed Agreement. The possibility of the United States signing the Agreement was not worth pursuing since they were clearly determined not to do so.

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The Prime Minister said that whatever course was adopted, manipulation of the market of the kind which had been experienced recently was unacceptable. Lord Carrington said that there was a problem of timing. A decision about ratification had to be taken by the end of April. If we considered that we were bound to go ahead with signature, we should make this plain at the Foreign Affairs Council next week. Chancellor Schmidt agreed that this was the right course. The Prime Minister said that if we did so we must make it plain that the conventions of the market should be observed in future. Lord Carrington suggested that an attempt should be made to persuade our partners to endorse a joint statement upon signature of the Agreement to the effect that manipulation of the market should not occur.

The Prime Minister stated that the two sides agreed that we should go ahead on that basis.

Chancellor Schmidt then proposed that views should be exchanged on the objectives of the next NATO Summit. He believed it best that the meeting should not be over-dramatised. The NATO partners should not make claims which they could not live up to afterwards. Herr Genscher interjected that President Reagan had been invited by the Bundestag to make an address before the NATO Summit. This was envisaged for some time on 9 June. When he was in Washington recently, the Americans had told him that the Economic Summit was, in their view, more important than the NATO Summit. He had proposed that the United States should send a high level emissary to tour the participant countries to discuss preparations for the event. No decision had been taken but he thought that Mr. George Schultz might be given the task. He would be a very good choice.

The Prime Minister said that Western policy on relations with the Communist world was in a state of flux. The earlier concept of defence plus detente was difficult to maintain in the post-Afghanistan situation. It was clear that normal relations with the Soviet Union could not be restored while Afghanistan continued to be occupied. But the American position had not been re-formulated as yet and there was no clear understanding as to how relations with the Soviet Union should be conducted. Following events in Afghanistan and Poland and the critical situation with regard to the provision of

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credit to the bloc countries, a careful examination of policy was needed. Chancellor Schmidt said that he thought the United States were deluding themselves. Last year they had themselves increased exports to the Soviet Union by 88 per cent. All their grain exports had been based on credit. He was perfectly willing to respond to a proposal relating to credit for high technology which had military uses. He was also willing to reach an understanding that commercial credits provided to the Soviet Union should not be under-cut by governments. Governmental subsidies were a form of clandestine competition. Lord Carrington recalled that the European Community had agreed that a higher consensus rate should be applied to credits for the Soviet Union but wider agreement in OECD had not yet been obtained. Japan had not yet been brought in to the Western consensus. Chancellor Schmidt said that he did not believe it was possible to charge higher interest rates for trade with the Soviet Union than were available commercially in individual Western countries. The Prime Minister commented that Japanese trading policies, based on a very low rate for the Yen, were increasing the demands in the West for protectionist policies. Chancellor Schmidt agreed. Protectionist tendencies were growing in France as well as in the United States. It was not clear to him whether Japanese workers had in the last year suffered a decrease in real income as workers in European countries had done. The Prime Minister said that she thought they had but it was of less consequence to them given Japanese cultural attitudes.

Lord Carrington commented that the aims of current American policy with regard to credit for the Soviet Union were not clear. Did they envisage that all Western countries should apply the same interest rates and the same credit terms? Chancellor Schmidt said that he was prepared to envisage agreement on two points. The first was that governments should not subsidise interest rates. The next best alternative was that a minimum interest rate should be fixed for credits to the Soviet Union, beneath which no-one could go. Lord Carrington commented that the implication for countries with high interest rates, such as France, or the United Kingdom, was that their trade with the Soviet Union would suffer considerably. Chancellor Schmidt expressed the view that it was best to let interest rates be fixed by the market. In reply to a comment by the Prime Minister, he said that he did not believe that the Soviet Union would

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take on more credit than it could serve, though certain Eastern European countries might do so. The Prime Minister said that she believed that the sale of oil and gold by the Soviet Union was largely designed to meet extra financial obligations incurred as a result of the Polish situation. Chancellor Schmidt agreed. Polish debts to the West now amounted to some \$26 billion. This meant annual interest payments of some \$2-3 billion per year. The bulk of this burden was being carried by the Soviet Union and their hard currency reserves were diminishing accordingly. In the end it might be the Russians who caused the Poles to default. He did not believe that they could carry the burden of interest beyond the current year. It was worth noting that American credit to the Soviet Union had almost doubled in the past year. Herr Genscher commented that Western credits to Russia now amounted to \$18 billion which was perhaps not too much for such a large country.

Lord Carrington observed that the United States appeared to be linking the Buckley Mission with the problem of "non-undermining". If they received no satisfaction from the Mission their attitude on existing Western contracts would harden. Chancellor Schmidt replied that if the Americans tried to under-mine existing contracts, they would get bloody noses. The equipment which European firms at present sought from the United States could be produced elsewhere, though this might delay things by a year or so. The Prime Minister said that we had given Haig the clear message that this could happen. Lord Carrington said that Haig understood the point but he needed some results from the Buckley Mission in order to win his arguments in Washington.

Chancellor Schmidt said that he wished to revert to the NATO and Economic Summits. We had to consider what kind of image we should try to project. We must certainly avoid an impression of rift between the United States and Europe, although differences undeniably existed, for example those surrounding the Buckley Mission, the high US interest rates and the public pronouncements of Mr. Weinberger on defence. Were we simply to try to paper over the cracks or were we to attempt to reach common understanding? The Economic Summit would be even more difficult than the NATO Summit. Attempts could be made to try to influence President Reagan's economic policies before Versailles but he was sceptical about the prospects of making /progress.

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progress. He doubted if President Reagan would be able to attempt a change of economic course before the elections in November. It would not be easy at Versailles to paper over the cracks relating to world economic depression. He was determined, at some point in the future, to put the economic facts to the German people in "Churchillian style". The time for niceties was over. There was a real danger of irreparable depression for two to three years, accompanied by deep social unrest. At Versailles, the Japanese would be accused of exacerbating the problems. The French would be under attack for "re-conquering the domestic market". But all of us were engaged in protective bickering. The only value of the Economic Community at the moment lay in the political co-operation of Foreign Ministers - the rest was an empty shell. The Prime Minister said that the Community was failing to generate a philosophy for the future. With regard to the Economic Summit, she felt that the reduction of oil prices gave an opportunity for the world to come out of its recession. What was required in order to measure up to this opportunity? As regards the NATO Summit, the problem was to find the right path between the defence of our way of life and disarmament. This called for more skilful effort than had yet been realised. She was worried by the potent propaganda and subversion of the extreme left. Chancellor Schmidt said this was very skilfully exploited by Moscow and its instruments. Ordinary, honest people were afraid and anxious. Moscow did an almost perfect public relations job, partly publicly and partly clandestinely. American public relations were very poor. Many people were honestly disturbed by American speeches about a pre-war situation, about the possibility of limited nuclear war in Europe and the need to make greater defence efforts. All this had an adverse effect. It could be partly counter-balanced by a re-statement at the NATO Summit of NATO's basic philosophy of the last 15 years. This should reiterate the fundamental concepts in the Harmel Report (the annex to the final communique of the NATO Ministerial Meeting of December 1967). Essentially, we should make plain beyond doubt to the Soviet Union that we would not neglect the need to deter or to defend. But with that as our starting point we should work for negotiations and treaties on INF, START and on trade and economic co-operation on the basis of equal mutual benefit. A revival of these ideas would enable the West to do what was necessary for the defence effort. It would also show that the purpose of defence was to arrive at a balanced and stable situation in Europe. This was the best /result

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result which could be obtained at NATO. Lord Carrington commented that something of this kind ought to emerge from the Summit. In addition, the Americans should announce their willingness to commence the START negotiations. Otherwise, the good effect of President Reagan's zero option speech would begin to diminish.

Chancellor Schmidt said that he intended to attend the United Nations Special Session on Disarmament and the Prime Minister confirmed that she would also visit New York for this purpose. It was agreed that it would be useful for Foreign Ministers to concert our approach to the Session. Lord Carrington suggested that we should bring the French in as well if possible.

Herr Genscher said that he had asked President Reagan to make a strong speech before the NATO Summit announcing his readiness to launch the START negotiations and expressing a positive attitude towards disarmament and detente in order to influence European public opinion. He understood that the United States were considering the possibility of NATO appointing three wise men to make proposals for the future strategy of the Alliance. This appeared to be a compromise between the defence department's advocacy of a study of military strategy and Haig's desire to develop a political strategy. He (Genscher) doubted whether this device was useful. The Prime Minister and Lord Carrington shared these doubts. It was dangerous to launch a study by three wise men unless one knew what the product was going to be.

Chancellor Schmidt reverted to the "double track" approval of the Harmel Report. Lord Carrington expressed the view that it was important to incorporate the concept of mutual self-interest. The United States would be suspicious of advocacy of detente, following the events in Poland, unless it was linked to the idea of Western self-interest. The Prime Minister said that she believed that, following events in Afghanistan and Poland, the concept of detente was out-moded. Chancellor Schmidt said that he personally avoided using the word. But the essence of the double track philosophy was right. The precise label was a matter of choice. Lord Carrington stated that the concept of detente had to be re-interpreted in the light of Afghanistan and Poland. Agreeing, the Prime Minister said that otherwise the implication was that the Russians could get away with their actions.

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Lord Carrington thought it was possible to maintain our opposition to Soviet behaviour but seek co-operation where mutual self-interest was detected. Chancellor Schmidt then read extracts from the Harmel Report. The Prime Minister observed that this had been produced in 1967, the year before the Soviet invasion of Czechoslovakia, and reiterated that events in Afghanistan and Poland had since occurred.

Chancellor Schmidt asked that we should bear in mind that Germany was a divided country. He did not talk about re-unification but he had to think of 70 million Germans on the other side of the line. These meant more than the 35 million people in Poland. A disproportionate fuss had been made about Poland. He had to be careful not to give the German people the impression that the West was seeking to inject steel and concrete into the iron curtain. He would not use the word detente now. But it could not be wrong as a goal. Lord Carrington thought the concept needed a different expression. Chancellor Schmidt commented that the German situation was special. Given the status of Berlin, Germany was now in three parts. The soldiers of seven nations were on its territory. Germany was the only country in Western Europe that had denied itself nuclear ambitions. It was the principal battle ground. There were great dangers in emphasising world tensions. A balanced policy was necessary. If the German people were told that the aim was to roll back the Russians, they would be scared. The idea that it was possible to bring about a liberal democratic regime in Poland rang oddly in German ears. The psychology of Germany should not be under-estimated. If the right returned to power, the argument for German re-unification would again be publicly mounted. The Prime Minister questioned whether the word detente was an accurate description of what Chancellor Schmidt appeared to be seeking. He was advocating not good relations between West and East Germany but progress towards unification. Chancellor Schmidt said that he was rather attempting to create the circumstances for evolution. Whether unification occurred or not was a matter for the 21st Century. The Prime Minister commented that the concept of detente appeared defective in that ultimately the Soviet system could not survive.

Lord Carrington thought that in present circumstances it was difficult to talk of normalisation and detente. But, from the point of view of public opinion it was not sufficient simply to make one's stand on defence of the West. We also needed to argue for arms limitation and induce the Soviet Union to negotiate in this field.

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Chancellor Schmidt said that, in relation to Afghanistan, he had been astounded that the US grain embargo had first been lifted and then, six months later, the US had asked Europe to impose sanctions on the Soviet Union but not impose a grain embargo. He thought that in retrospect the 1981/2 period might appear to be the reverse of President Roosevelt's policy of speaking softly and carrying the big stick. Nowadays, it was a matter of the big mouth but no action.

The Prime Minister said that events in Poland had appeared specially significant because of the emergence of an alternative centre of power. Chancellor Schmidt thought this was not unprecedented. There had been uprisings in Eastern Germany but then there had been no great outcry. He was prepared to take action if he could be sure that the West would stick to it and we should reach our goal. But he was not interested in verbal crusades. The three great steps of Nixon's regime had been the decision to open up relations with Communist China, the withdrawal from Vietnam and the negotiations of SALT. The latter followed from the Harmel doctrine. Lord Carrington suggested that it would be better not to resurrect publicly the name of Harmel, though the philosophy of the latter might be put to some use.

In conclusion, Chancellor Schmidt and the Prime Minister agreed that before the NATO Summit the allies should attempt to work out a succinct statement of their broad strategy.

The meeting concluded at 1300 hours.

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Note of a Meeting between the Prime Minister and Chancellor Schmidt
at Chequers at 1100 on Friday, 19 March, 1982

Present:

Prime Minister

Chancellor Schmidt

Mr. C.A. Whitmore

Herr Otto von der Gablentz

World Economy

Chancellor Schmidt said that he was very concerned about the effect of the United States economic policies on the economies of the rest of the world. The American economy was vital to the well-being of the international community, but the United States did not seem to be ready to do anything about the problems facing the world economy today.

The Prime Minister said that she agreed with the Chancellor about the key role of the American economy. Despite the difficulties which that economy was going through at present, she believed that it remained fundamentally very strong. President Reagan should seek to cover more of his expenditure with taxation than he was doing at present. If he were to move in this direction, confidence would rise very quickly. She believed that it would not prove impossible to persuade President Reagan to do this.

Chancellor Schmidt asked who could persuade President Reagan to move in this way. The Europeans had attempted to do this at the last Economic Summit in Ottawa and had failed. He was pessimistic about the chances of getting President Reagan to change his economic policy. The President had listened to what he and President Mitterrand had said to him during their visits to Washington about the need for lower interest rates, and he had appeared to be ready to respond to their urgings. But nothing had happened subsequently. The total saving rate in the United States was running at about \$165 b a year. The Federal deficit was about \$120 b. If one added to that the borrowings of the States and the big cities, the

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American PSBR was probably about \$150 b and so would absorb almost the whole of the saving rate. The American Government was pursuing Keynesianism in the worst possible way, and calling it supply economics. At the same time, the Federal Reserve Bank was carrying out monetarist policies. In short, the United States was trying to follow simultaneously two different economic policies which were fighting against each other to the detriment of the people. He did not believe that the American Government understood the situation they were in. He did not believe that President Reagan would change his economic policy in the near future, for he was bound to be inhibited by the approach of the mid-term elections later in the year.

The Prime Minister said that she fully agreed that President Reagan should be persuaded of the need to change American economic policy for the sake both of the United States and of her allies like the Federal Republic and ~~the~~ United Kingdom. She thought that one or two of the European Heads of Government should put this to him. She was more sanguine about the likelihood of a positive response from the President. Nine months had passed since the Ottawa Summit Meeting, and President Reagan must have drawn a number of political lessons from developments during that period. Nor were his European allies a lone voice in seeking to persuade him to alter his policies. There were many influential figures in the United States who were saying precisely the same thing.

More narrowly, the British economy was beginning to recover. As a result of the Government's policies, industry was becoming more efficient, and in particular was having some success in keeping down unit labour costs. She had come into power wanting to secure lower taxation, and that of course still remained her aim. But so long as it proved impossible to reduce public expenditure, it would be correspondingly difficult to bring down taxation. She would like to see more capital reconstruction since this would create more jobs. But some of the money that could have gone into investment of this kind was being absorbed by wage increases. But even here she was optimistic: last year the general level of

wage increases had been lower than inflation, and she had every hope that the same would be true of 1982. But she did not know how long it would be possible to sustain a trend of this kind. She also found it difficult to evaluate what the precise effect of falling oil prices would be on the British economy. This development ought to help bring about an expansion of world trade. On the other hand, it affected most immediately those markets in places like the Middle East and Nigeria to which we exported so much of our national product: those countries' incomes would now be reduced and they would presumably import less. On balance, she believed that the drop in oil prices would be helpful to world trade and Britain's share.

Chancellor Schmidt said that if President Reagan could not be brought to see the need to change his economic policy, he could envisage a theoretical alternative which would make it possible for the Europeans to isolate themselves from the effects of American interest rates. The United Kingdom already had a surplus on its balance of payments. The Federal Republic was moving in the same direction. If, in addition, France and Italy could bring their balance of payments into surplus, it might be possible to create a European monetary area which did not need American or Arab money to cover its deficits as it did now. We would therefore not be competing with American interest rates to attract this money. Instead, we should have an independent European area setting its own interest rates and sustaining itself internally from its own money markets. A development of this kind, which would of course require a system for the coordination of monetary policies, would help the Europeans and would neither help nor harm the Americans.

The Prime Minister said that she was not at all sure that the system which the Chancellor had been sketching out was a practical proposition. The steps which would be needed in some countries to bring their balance of payments into surplus were the kind of action which Parliamentary democracies frequently found it difficult to accept. The United Kingdom had had a big surplus on its current account last year, both because of North Sea oil and a

very good export performance. But every time the interest rates in Britain came down, she anxiously watched the exchange rate of sterling against the dollar for fear that if it dropped, inflation in the United Kingdom would rise again. She liked to see an exchange rate somewhere between \$1.80 and \$1.90. So long as our balance of payments position remained strong, she saw no objective reason why the exchange rate should fall below \$1.80. But this might happen if interest rates in New York were very high.

Chancellor Schmidt said that he acknowledged the Prime Minister's point about persuading public opinion in democracies to accept desirable but difficult economic decisions. President Mitterrand, for example, would not like the steps that would be necessary to bring the French balance of payments into surplus because of the effect this would have on his domestic programmes. In the Federal Republic he thought that the trade unions would accept the required measures for perhaps a couple of years, but not much longer. What would be essential if public acceptance of the steps he had in mind was to be secured, would be a common European system which would convince people that their Governments were working together to try to solve the problems facing their countries.

The Prime Minister said that it was for reasons such as her concern about the effect of American interest rates on the sterling exchange rate that she agreed that it was necessary to try and persuade President Reagan to modify his economic policies. The question was how best to approach him and when. If he were to be offered powerful criticism of his present policies, it would have to be done by a friend. One possibility was to do it at the Economic Summit at Versailles, but that might be too far off. She was particularly concerned that there would be big differences between President Reagan and President Mitterrand, and she thought that it would be difficult to bring the two of them together.

Chancellor Schmidt commented that President Mitterrand would see the benefits for the rest of the world if American interest rates came down, even if he did not applaud it. As to who should speak to President Reagan about the need for a change in American economic policy, Mr. Tom Claussen of the World Bank was one possibility, and another was Mr. George Schultz. Both of them were Californians, a not unimportant point. He and Mr. Schultz were old friends, and if the Prime Minister agreed, he would like to write to him to let him know about his conversation with her. He did not rule out the possibility that President Reagan would have to change his economic team before long, and if that happened, it was possible that Mr. Schultz would enter the Administration. But because of the forthcoming mid-term elections, he did not believe that President Reagan would correct his course, if he ever did, before the late winter of 1982/83. The question then was when the effects of such a change would be felt in the rest of the world.

The Prime Minister said that she would be very happy for Chancellor Schmidt to write to Mr. Schultz as he proposed. The American economy responded to developments much faster than the European economies, and she believed that an improvement in the United States would begin to be felt in the rest of the world quite quickly.

Chancellor Schmidt said that he was not sure that the American economy would recover as fast as the Prime Minister believed. While he accepted that the reasons for unemployment in America now were different from its causes in the pre-war years, the United States now had a degree of unemployment which resembled that of 1931, and it had taken President Roosevelt until the Second World War to deal with it.

Unemployment

The Prime Minister said that even if world trade did increase in the near future, she did not believe that this would have much effect on present levels of unemployment because most Western economies had plenty of spare capacity. She often wondered whether

fundamental action would need to be taken, in the longer term to deal with unemployment, or whether the problem would be solved by the ingenuity of people creating new jobs in response to new industrial and technological developments.

Chancellor Schmidt said he thought that, while it would be slower to appear than it had been in the 1930s, political unrest in response to unemployment would surely develop on a widespread scale. We were seeing it now in Belgium, and it would spread. With technological change there was likely to be less work available. Logically people should then work shorter hours in order to share the available work, and so reduce the number of people who were idle. But if working hours were cut, wages would have to be cut too. This would be bound to give rise to political difficulties since people would not want to accept lower pay. And if, in order to reduce the number of unemployed, people were given pensions earlier than now, the level of those pensions would have to be lower than it was today, since he doubted whether it would be possible to increase any further the burdens on the average wage earner for whom taxation was already high enough.

World Population Explosion

Chancellor Schmidt said that he was becoming increasingly concerned about the world population explosion. The earth now sustained 4½ billion people, and by the year 2000 the number would have risen to 6 billion. The vast majority of these people were ~~to~~ to be found in the developing countries. The demand on the industrialised world to help these countries would become enormous. The present levels of aid programmes would be totally inadequate to meet the new situation, but the Western world could not possibly provide the additional finance that would be necessary. Yet we all gave the developing countries the impression that we would be ready to try to help them.

The Prime Minister said that at Cancun she and Herr Genscher had made it absolutely clear that the international finance institutions like the IMF and the World Bank must be governed by those who had to find the money.

Sixth International Tin Agreement

The Prime Minister asked whether Chancellor Schmidt had, like her, received a message from the President of Indonesia about the proposed new International Tin Agreement. The point was that Indonesia was an enormous market for the West, and she was making it clear that she would exclude from her market any countries which refused to participate in the Sixth International Tin Agreement. On the other hand, she would favour those who did join the Agreement. At the moment it appeared that the Americans were ^{not} ready to join the Agreement, but there would be no point in an agreement without the United States. Both the United Kingdom and the Federal Republic were still considering what their attitude should be.

Chancellor Schmidt confirmed that he too had had a message from the President of Indonesia. The Federal Economic Ministries were against participation in the new Agreement, whereas the Ministry of Foreign Affairs was in favour. He understood that the position was the same within the British Government.

Nuclear Energy

In response to a question by Chancellor Schmidt, the Prime Minister said that the British Government was continuing to pursue vigorously a policy of expanding its nuclear power programme. We were building two AGRs at present, and we hoped to go ahead with more nuclear power stations next year.

Chancellor Schmidt said that there was a strong movement against the use of nuclear energy in Germany. At present there was no facility for ^{reprocessing} spent nuclear fuel in the Federal Republic, and the French did some reprocessing for them now. He was anxious to diversify the facilities available to the Federal Republic for reprocessing, and he wondered whether the United Kingdom would be ready to reprocess nuclear waste from Germany at Windscale. He would like to know what the reprocessing capability of Windscale was.

The Prime Minister said that she would gladly arrange for Chancellor Schmidt's request to be considered, and she would let him know whether, in principle, we could offer the Federal Republic help with reprocessing. She would also let him know the answer to his question about our reprocessing capability at Windscale.

NATO Summit

Chancellor Schmidt said that the idea of a NATO Summit in the summer of this year had come from the Americans. He suspected that originally they had not had anything in mind for the Summit apart from a great demonstration of unity. But he believed that developments over the last few weeks had now led the Americans to understand that the Western world did not function by one of its members shouting and the rest clicking their heels. He wanted the meeting in Bonn to be routine and businesslike. He was prepared to have a sensible communique, but he did not want the meeting to issue a dramatic declaration which nobody subsequently lived up to.

In reply to a question by the Prime Minister, he said that President Mitterrand had not mentioned the possibility of a European Defence Policy in his talks with him, and they had spent some time discussing defence matters. He believed that stories of such a policy were inventions of the Press. Advocacy of a European Defence Policy would not correspond to President Mitterrand's basic Gaullist attitude to defence which was that France should be able to defend herself by her own means, even while acknowledging the need for the German glacis and the United States nuclear umbrella. If anything, President Mitterrand was slightly more Gaullist than President Giscard. One should never forget that President Mitterrand had been a member of the entourage of M. Mendès-France, and it was M. Mendès-France who had killed the idea of a European Defence Community.

The Prime Minister said that she was glad to hear what Chancellor Schmidt had said about President Mitterrand and a

European Defence Policy. When she had been asked about this in the House, she had said that the worst thing that could happen to European defence would be for Europe to be divided from its United States ally. We had the North Atlantic Alliance, and we should make full use of that.

Chancellor Schmidt said that his answer to that was "Yes, but". By that he meant that the Alliance would not work if the United States thought that they could give the orders and all the rest would do as they said. He thought that the Americans were now learning the need to consult their allies before they made public pronouncements of new policy.

The meeting ended at 1205.

19 March, 1982.

SECRET

tal.

Transcript by
JAMES LEE of:

PRESS CONFERENCE GIVEN BY PRIME MINISTER
THATCHER AND CHANCELLOR SCHMIDT ON
FRIDAY, MARCH 19, 1982.

PRIME MINISTER

Ladies and Gentlemen,

This, I think, is the 11th bilateral meeting that we have had between the Federal Republic and the United Kingdom. This particular one has centred discussion on three things:

First, the prospects for the Economic Summit at Versailles - and you will not be surprised if we spent some considerable time talking about world economic prospects and the many and varied problems that lie ahead of all our countries. There is, of course, a certain similarity in the language and policies between those pursued by the United Kingdom and by the Federal Republic of Germany. That will come as no surprise to you in any way.

We are not able, of course, in our own economies to do anything about interest rates across the Atlantic, but we can do everything possible to keep interest rates as low as we can in our own economies by our attitude towards inflation and by trying to have a balance on current trade.

Secondly, we have also ahead the NATO Summit Meeting in Bonn in June and therefore we naturally reviewed the whole aspect of East-West relations and the strategies that we should deploy in the future. Last time we met, you will

remember, was the day when President Reagan had just announced his initiative, the zero option initiative. Since then, President Brezhnev has had some things to say about disarmament. Naturally, we prefer the zero option and we hope that the talks which have now started will soon start to bear some fruit.

The third point, as you would expect, would be some considerable discussion of the mandate, including the Common Agricultural Policy. The Chancellor and I did not discuss this in great detail; we left that to the agriculture Ministers and to the finance Ministers and also to the industry Ministers, all of whom were here and had their separate bilateral discussions. There is a great deal still to be done, but we shall just have to try to work out our own internal problems in the Community in a way which takes the Community forward, but there was no very great detail and as you know the Foreign Ministers are meeting next week.

In fact, we had a very successful meeting; a very amicable meeting, as you would expect, and one which, from time to time, even was humorous I would say. We greatly enjoyed having the Chancellor and his team with us.

Now, Herr Chancellor, would you like to add something to that?

CHANCELLOR SCHMIDT

Well, Prime Minister, I do not think that this is really necessary. I think you have covered the ground. We should save the time for questions to be asked and answered.

QUESTION

After your discussions of the mandate, can I ask both of you, Prime Minister and Chancellor, how confident you feel now that you can solve this problem once and for all at the next Summit in Brussels?

CHANCELLOR SCHMIDT

The phrase "once and for all" is a surprising phrase, because if I recollect correctly, we have been talking about the related matters many many times in the last 20 years, so I do not really think that we will get rid of the problem. I am not so sure that the preparatory work that is being done by the Foreign Secretaries, by the Commission, by President, by Minister Tindemanns (phon.) already has so matured that the European Council will find it easy to come to a decision this time. On the other hand, I do not want to dramatise the whole thing. There is a little too much publicity and too much dramatisation. There are greater things at stake. For instance, the aforementioned Summit Meetings in Versailles, Paris, between the leading seven industrial countries who have to decide whether they can or cannot find a common grand strategy, which only can be done in a joint session, to overcome jointly the world's economic recession as it is called - as it has been called rather nicely - and, as well, the problems which have to be dealt with in the Summit Meeting a couple of days later at Bonn, among the Heads of State and Heads of Government, of the

member countries of the North Atlantic Alliance. The European Council is just one of three very important meetings coming up in the next couple of weeks. The European Council meets, I think, two or three times a year; the Economic Summit just once a year; NATO Summit Meetings or North Atlantic Summit Meetings once every three or four years or so; so there is a scale of importance, and this also relates to the subjects that are being dealt with in the meetings which are coming up.

I do not want to go into details as regards the so-called mandate question. "Mandate" is, of course, EEC Chinese; no ordinary person would understand that! What does it mean if you talk about the question of the mandate? It means that you talk about the net contributions and the net receipts of the member countries of the EEC and that you talk about the mechanisms by which these net surpluses or net contributions are being brought about. It entails of course, if you talk about the mechanisms, the full range of agricultural policies, but also other policies, so I tried to translate this word "mandate" into normal, understandable I hope at least English, for those who are not too familiar with the EEC specific language.

It would not be appropriate to go into details right now for me, in order not to, in a negative way, influence the talks that are being underway. I only want to say that there are two countries in Europe who are net financiers of the EEC;

that is Britain and Germany. We are even paying a little bit more than Britain and are doing so since 30 years - no, not exactly 30, 25 years!

QUESTION

Prime Minister and Chancellor, can I just follow that through?

There sometimes seems to be at least a slight difference of strategy on this question of the British contribution between you. You, Prime Minister, I think regard it as very important and very urgent. You, Chancellor, I think regard it as very important, but we sometimes get the impression that you do not see it as quite so urgent.

PRIME MINISTER

Well, I think the answer is fairly straightforward. Unless we get a new agreement obtaining to this year, 1982, the old agreement will continue forward for this year, but you will remember that the actual mandate, which Chancellor Schmidt has defined, really wanted us to get a new agreement this year on the restructuring of the Budget and related matters such as the proportion spent on the Common Agricultural Policy, which will be part of a continuing agreement. From the viewpoint of the United Kingdom, the solution should last as long as the problem lasts. Once

the problem diminishes - namely, the problem of inadequate receipts - then of course we would not need to have the solution of special receipts. But, naturally, one would like to have it in time to operate on this year's refunds. If it does not, then we have to make specific the general formula which was agreed in the last Budget settlement.

CHANCELLOR SCHMIDT

Margaret, might I add a footnote? It is just about urgency. Let me assure you that Deutschmarks are as dear to our balance of payments, to our budget, to our taxpayers and to our hearts, as Sterling is to the Prime Minister's heart and the Prime Minister's budget and the Prime Minister's balance of payments.

QUESTION

At that point, may I ask both of you what is the difference between your approach to the solution of the problems of the mandate, how great is the difference of your approach, and can the British Government expect West German full support for its position for seeing through progress on the mandate?

PRIME MINISTER

I think one requires more than the support of one country. Chancellor Schmidt pointed out we happen to be the two financiers of Europe. Chancellor Schmidt's country

contributes an enormous amount; we, this year, a comparatively small amount, but in previous years we have contributed a larger amount and possibly would next year .. this year.. under the existing formula. But it is not a question of getting the support of one country. We have to agree between all ten the three things concerned in the mandate, and it was made perfectly clear that there has to be a solution on all three simultaneously. The one was the industrial policies; the second the agricultural policies; and the third, the budget policies, and we agreed we have to get a solution on them all three together. So it is not a question of just the Federal Republic of Germany and ourselves agreeing, although perhaps our views tend to be nearer together because we are the two main financiers, the others are beneficiaries.

QUESTION

How near are they? Is there virtually full support because both countries are the net contributors?

PRIME MINISTER

Is there virtually full support? I happen to think that Germany has to contribute too much under the present arrangement, and I do not think it healthy and right that one country should be so far in the lead on the others in the amount which it contributes when a number of the other countries are comparatively wealthy per head and yet they are in beneficiary positions. They would not necessarily take that view - they like being beneficiaries and it suits them and so indeed, it is a difficult question. A lot of it will

turn upon the future of the Common Agricultural Policy and the proportion which that takes up of the total budget. We are not, I would say, on the verge of a solution at the moment.

QUESTION

I believe Lord Carrington, in January, said he might block agreement on this year's farm prices until you have a settlement of the Budget. Could you answer if that is still your position and, secondly, could I ask Herr Schmidt - I'm sorry, the Chancellor - if he is prepared to support Britain on its position that there should not be a digressive solution, in other words a reducing solution, but one which will continue over time.

PRIME MINISTER

We agreed, as I have said, that progress on all three chapters must be made simultaneously and therefore the answer to your question is yes, it would follow from that. If we do not get a satisfactory solution on the Budget, then we could not possibly agree to a settlement on the CAP.

QUESTION

The level of prices?

PRIME MINISTER

Indeed, yes. What else is the CAP? It is a policy, yes, but it is a policy which has its effect in prices.

CHANCELLOR SCHMIDT

and the mandate itself

If I understand you correctly, the mandate question / stems from the historic provision - rather old in the meantime but still a valid provision - that if an unbearable situation arises, then one should have to look into the matter and probably find solutions in order to make the situation bearable. The unbearable situation that has arisen for Britain, I understand, and I understand that this has also been understood by the governments of other European countries and I think there is a general will to alleviate that situation. The dispute, as I understand it, goes over the question of how much alleviation is necessary and who will be affected by the alleviation. Again, I personally do not wish to dramatise that question too much. I have lived through such situations many times in 25 years. I have been a member of my government more than 12 years now and I am looking forward to such situations to arise also in the future. Therefore, I already earlier on answered a similar question by saying that there is no great probability in settling such a question once and for ever. It may very well happen that either Britain or Germany or some other country might some time in the future get into unbearable situations. We cannot foresee the economic future, because it depends too much on the political behaviour of states - especially of states outside the European Community - and therefore I would not make a prognosis for the time between now and the end of the century.

I would like to stress the points which the Prime Minister

has touched upon in her opening remarks. Other great economic problems in the world which affect both of us likewise and other European countries as well. Interest rates, for instance; unemployment, for instance; protectionism in the world, for instance; prices for oil and their volatile movements - a couple of years upwards, nowadays downwards and what does it mean to the balances of payments of countries; what will this mean to the freedom to act economically; what will it mean to the supply in your capital markets; what will it mean to international trade? It is obvious that in all these fields the world is in the deepest disarray, the deepest economic disarray since either the early years after the War or since the Thirties, and one should not hide the truth from one's own eyes, that the order of magnitude of that quarrel about the so-called mandate is not just the same order as the questions I just tried to hint to and therefore one should set one's own priorities right.

QUESTION

Perhaps to get away from the Budget then, do you envisage that this question of Western credits and help for the Soviet Union building its pipeline from Siberia into Western Europe will become a much more serious row - and I use the word between Europe and the United States - in the next decade and do you think that there is a possibility that the Americans will still try and either stop somehow

the pipeline being built or will certainly go out of their way to delay it as long as they can?

CHANCELLOR SCHMIDT

My answer to the latter question is no and also no to the first one.

PRIME MINISTER

I agree wholly with both replies.

QUESTION

The result will not become a serious dispute between Europe and the United States?

PRIME MINISTER

No! We strain not to have these serious disputes and we find that they are built up to a much bigger factor than they really are on the ground.

QUESTION (EDWIN ROTH, "TAGESPIEGEL" WEST BERLIN)

As it is quite obvious that President Reagan and President Mitterand - perhaps especially President Mitterand - have been present very much in spirit at this particular meeting, do/^{you}not think that this Press Conference would be perhaps more productive if President Mitterand and President Reagan were sitting here too and we could discuss the whole matter which concerns them, which you seem to have been discussing all day?

PRIME MINISTER

They are not, so that is that!

QUESTION

But they were present at your meeting, weren't they?

PRIME MINISTER

I don't know.

CHANCELLOR SCHMIDT

I guess their ears have been ringing.

QUESTION (ASSOCIATED PRESS)

Could you give us a joint assessment of Mr. Breshnev's missile freeze and the accompanying threat if the talks in Geneva do not succeed?

PRIME MINISTER

Well I did mention that in my opening remarks, that last time we met that President Reagan had just made his famous very considerable speech which included the zero option. It seems a very inadequate reply on the part of President Breshnev to suggest freezing the SS20s and removing some of them behind the Urals. Obviously, we prefer the zero option and we hope that the talks in Geneva will bear fruit. Herr Chancellor?

CHANCELLOR SCHMIDT

I do agree with what you say, Prime Minister.

As regards the so-called threat implied in the speech of General Secretary Breshnev before his Trade Union Congress, it is a very unclear threat and I think the wording very carefully has been chosen in an unclear way. It is not very exact. It does not talk of missiles on land or missiles on sea. It does not clearly say that the Soviet Union would undertake to violate SALT 1 or SALT 2, so I think right now it is something which the Soviet leader says on the very day on which the Geneva negotiations are being postponed for a break of eight weeks - a break for thinking and rethinking - not being tabled in

Geneva, but a public speech. I would regard this as an attempt to influence Western public opinion rather. I would not take it too serious. As regards the rest of the speech of Secretary Breshnev, I would like to stress three points:

Number one, the offer to bring to a halt the deployment of SS 20s in the European part of the Soviet Union has to be measured against two factors: number one, that already hitherto they have reached an enormous superiority in that field within Europe. They had been talking of equilibrium being reached in May '78 when they had only 50 missiles, SS 20, deployed in Europe. Now they have almost 300, 250 of them within the European part of the Soviet Union, so it is not really an alleviation of the unequal situation, if they really do halt further deployment. Secondly, you have to evaluate this

against the fact that also from beyond the Urals you can hit this very place here or other places in England, many places in Germany and France and so on.

Secondly, my government has publicly said that the question whether this does indicate or does not indicate a step in the right direction depends on the question whether the Soviet Union will afterwards really decrease by dismantling - decrease the number of operative missiles SS 20 - so that they not only stop further production and deployment, but really decrease their numbers down to, as the Prime Minister said, to zero. The so-called zero option means that there are zero land-based missiles on either side, not only as is the case in Western Europe - there are no land-based missiles, except 16 French ones and there are about 250 missiles with three warheads each in the European part of the Soviet Union; another 50 missiles, three warheads each, on the other side of the Urals. If they want to reduce it to zero, whether they are going to do this one can only find out in the further course of these Geneva inter-range missile limitation talks which so far have not made bad progress. They were started in November last year and until March this year have at least led to both sides tabling their drafts, but the point in time is much too early to evaluate the probable or possible outcome.

Thirdly, I would like to stress - and I take this opportunity to say this publicly on British soil - that my government will stick to our joint decision that if the Geneva negotiations do not lead to any concrete result agreed upon by both sides until the end of 1983, the deployment of Western medium-range nuclear weapons in Western Europe has to

start, including German soil, including other countries' soil, and it is that clarity, that unchangeable certainty, which is necessary for the Soviet leadership in order to keep them to a steady and intensive and serious negotiation in Geneva.

PRIME MINISTER

Thank you very much.

QUESTION

Have you discussed credit policy towards the Soviet Union following the Butler Mission with the Chancellor, and could you tell us your feelings and conclusions of today, your general feelings about how one should raise interest rates on trade to the Soviet Union?

PRIME MINISTER

We have discussed credit, but I think we are already agreed within the Community that the Soviet Union should have the higher of the consensus rates of credit. At the moment, I think she has the one which really applies to underdeveloped countries and it is thought, and it is agreed I believe within the Community, that she should have the higher; but that we should not compete with credit rates to the Soviet Union, but should stick to our international agreement.

QUESTION

....summit last Summer, strong views were expressed to President Reagan about the repercussions on European economies of the high American interest rates. Time seems to have only served to prove how right you were and yet both of you seem to be prepared to grin and bear it and think it is ungentlemanly or unwomanly to raise this publicly with the American President. Do you not think the time has come to make some more representations to the American President?

CHANCELLOR SCHMIDT

Do you think it is ladylike, Margaret?

PRIME MINISTER

The United States has to run her own economy. No country can isolated and knows full well that the way it runs its own economy will have an effect on others and, of course, the way in which the United States runs her economy has a very marked effect on the future prosperity of Europe. We do make this point from time to time and in Ottawa President Reagan took the point and said that he was the first to want American interest rates down. Having made the point and we continue to make the point that what happens to their economy will affect ours, then we have to do the maximum amount we can to keep our own interest rates down. That means not running too high a deficit. After all, the criticism of the United States

is that its deficit is high in proportion to its savings ratio, so we both try to keep our deficits down and we both try to run our trading policies in such a way that we have a reasonable balance upon them. We also try to run our economies in a way which has lower inflation, because the countries that have lower internal inflation rates tend also to have lower interest rates. Germany has just put down her interest rate by 1/2 per cent; ours, as you know, has gone down by several half-per-cents, but none of that could happen unless the German economy and this economy were run on very prudent sound grounds. Herr Chancellor.

CHANCELLOR SCHMIDT

I would totally agree with what the Prime Minister has said. I would like to give those who are not too familiar with the German economy the actual figure. The long-term rate of interest in Germany right now is 9.3. If you ask for a 10-year loan you have to pay 9.3%. Short-term money is in that neighbourhood. Both rates have a downward trend and the inflation rate in my country last month was consumer prices 5.8% higher than 12 months ago with a downward trend as well.

What really matters is the fact that central banks find it very difficult, for more than just one reason, so far to disentangle themselves and their monetary policies from the high interest rates that are being paid in dollars. On the

other hand, the more one can - by balancing one's own budget and by balancing one's own balance of payments and one's own current account - the more can one liberate one's own central bank and its monetary policies from too strong bindings towards the dollar interest rates. Right now, I think we are some 5 or 6 points below the dollar interest rates in Germany and we are much lower 5 or 6 points in real terms than in nominal terms, but still, we feel that our interest rates - both nominal rise and real rise - are still too high and would like them to be brought downward still.

I would also like to put a footnote to the former answer of the Prime Minister to the question about credits towards the Soviet Union, just in order to serve you with a fact about my country. I have been Finance Minister since July '72 and Federal Chancellor since eight years now, and in these ten years we have never subsidised any private credit given by a bank or an entrepreneur, enterprise, to any Soviet authority. We have never subsidised any credit by a single penny. They have always had to pay the market rates, so there is nothing new to us. We have always asked the same question of our partners and friends in the Western World that is now being asked by Mr. Buckley or others, that credits towards the Soviet Union not be subsidised.

QUESTION

During the discussions on the preparation for the Versailles Summit and EEC Summit, did you discuss the relations between Japan and the EEC and if so, what sort of decisions did you make - I want to know stance on Japan.

PRIME MINISTER

We certainly discussed the tendency towards protectionism which I have previously discussed with your ministers. There is a strong tendency towards protectionism at the moment. We both wish to see an open trading system, but it has to be genuinely open and genuinely competitive both ways. There will be problems. Europe will, of course, be considering those problems and it is better that they be solved on a European basis. In the meantime, there are in fact certain voluntary agreements between the industries in each country and the industries in Japan, but we do not underestimate this very considerable tendency towards protectionism at the moment and, of course, to some extent that is aggravated by the very low value of the yen and therefore the very high value of Japanese exports to some countries which are not used to having Japanese exports in that volume.

CHANCELLOR SCHMIDT

Somebody in discussions made a very intelligent remark about the Japanese economy, if compared with the American or European economies, by saying that the Japanese economy right now is characterized by a rather lax monetary policy and a rather tight budgetary policy, whereas the American economic policies is characterised by a rather lax budgetary policy and a rather tight monetary policy, and this has some consequences, of course. The European economies more or less are in the middle - not so tight monetary policies

as in the United States, but rather tight, in order to fight inflation; and not so lax budgetary policies like in the United States but perhaps still some room for pulling on the reins. This was not meant as a joke, Sir!

PRIME MINISTER

If, really, one suggests that monetarism has a place in budgetary policies, it is received this way in Britain, but I just look forward to the day when I can sit here and say that having pursued those policies which Germany has pursued for as long as she has, that we too can have an interest rate as low as 9.3% and an inflation rate as low as 5.8%, because that is what a combination of those policies can lead to.

Ladies and Gentlemen, thank you very much.

PRIME MINISTER

Date of next Anglo-German Summit

The German side are proposing to Chancellor Schmidt that the next Summit should be on Tuesday, 2 November. He may wish to discuss this with you with a view to an announcement at plenary that there is provisional agreement that the next Summit will be held then.

We have investigated a large number of alternative dates, but this appears to be the only one that is possible for both sides in the October/November period. I have checked with the offices of the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer that there are no conflicting engagements at that time.

The proposed date would of course mean that you missed Questions - but since the Summit will be in Bonn, this would presumably not be a major obstacle.

If you wished, therefore, you could agree to announce this as the provisional date. If you prefer not to, we can take the matter up through the usual channels later.

A. J. C.

19 March, 1982.

MR. COLES

Plenary Meeting
Chequers: Friday, 19 March

1. I attach list of those expected to attend the Plenary.

Also a seating plan for those sitting round the table. Miss Thomas has place cards for all these. Should the plan change I have given her spare cards.

2. I also attach the programme as the Prime Minister will need to agree where you will hold the various meetings, etc.

Sue
→

18 March 1982

10 Downing Street

Prime Minister

Mr. Clive Whitmore

Mr. Bernard Ingham

Mr. John Coles
Cabinet Office

Sir Robert Armstrong

Mr. David Hancock

Foreign and Commonwealth Office

Rt. Hon. Lord Carrington

Sir Michael Palliser

Sir Jock Taylor

Mr. J.L. Bullard

Mr. David Gladstone (note-taker)

HM Treasury

Rt. Hon. Sir Geoffrey Howe, MP

Sir Kenneth Couzens

Ministry of Agriculture, Fisheries and Food

Rt. Hon. Peter Walker, MP

Sir Brian Hayes

Department of Industry

Rt. Hon. Patrick Jenkin, MP

Sir Peter Carey

Department of Trade

Rt. Hon. John Biffen, MP

Mr. Michael Franklin

Ministry of Defence

Rt. Hon. John Nott, MP

Sir Frank Cooper

Interpreter

Mrs. Bloom

PLENARY TALKS

- 2 -

German Delegation

Herr Schmidt

Herr Becker

Herr von der Gablentz

Herr Fischer-Dieskau

? Dr. Feiter

Foreign Minister's Delegation

Herr Genscher

Herr Pfeffer

Dr. Fischer

Dr. Wandler

Herr Weber (Interpreter)

Finance Minister's Delegation'

Herr Matthofer

Herr Heck

Defence Minister's Delegation

Dr. Apel

Dr. Leister

Economic Ministry Delegation

Dr. Schlecht

Herr Mueller-Thuns

Frau Scheben (Interpreter)

Agriculture Ministry Delegation

Herr Rohr

Herr Witt

FRG Embassy

Dr. Ruhfus

Herr von Alten

Dr. Kudlich

PLENARY TALKS: GREAT PARLOUR

Herr Fischer-Dieskau (note-taker)

Sir Michael Palliser

Herr von der Gablentz

Sir Robert Armstrong

HE German Ambassador

Rt. Hon. Patrick Jenkin

HE Herr Dr. Schlecht

Rt. Hon. John Nott

HE Herr Matthöfer

Rt. Hon. Lord Carrington

HE Herr Schmidt

Prime Minister

HE Herr Genscher

Rt. Hon. Sir Geoffrey Howe

HE Dr. Apel

Rt. Hon. Peter Walker

HE Herr Rohr

Rt. Hon. John Biffen

Herr Kurt Becker

Sir Jock Taylor

Herr Wendler (note-taker)

Mr. David Gladstone
(notetaker)

ENTRANCE

Remainder to sit behind

CHEQUERS: ANGLO-GERMAN SUMMIT 19 MARCH 1982

10.15 - 11.45	Tete-a-tete talks between Chancellor Schmidt and the Prime Minister	<i>Handy Room</i> ?Library
10.15- 11.45	Tete-a-tete talks between Herr Genscher and Lord Carrington	<i>Library</i> ?White Parlour
11.45- 1315	Talks between Prime Minister, Chancellor Schmidt, Lord Carrington and Herr Genscher	?Library
	Pre Lunch drinks (venue to be agreed)	
1315 for 1330	Lunch	
1530- 1700	Plenary Session at Chequers	Great Parlour
1700- 1720	Tea (venue to be agreed)	
1730- 1830	Press Conference at RAF Halton	
	Pre Dinner Drinks	Great Hall
1845 for 1900	Dinner	

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



From the Minister

PRIME MINISTER

~~Prime Minister~~

A.J.C. 18/3

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ANGLO-GERMAN SUMMIT - 19 MARCH 1982
30 MAY MANDATE: CAP PRICE-FIXING

will request approval

You will have seen from the reporting telegram from this week's Agriculture Council (UKREP Brussels Telno 1036 of 16 March) that in line with our agreed tactical approach Alick Buchanan-Smith made a strong statement criticising the Commission's presentation of the budgetary implications of their 1982/3 price proposals. In particular he insisted that CAP expenditure should be examined against the growth in Own Resources for 1983 compared with the 1982 Budget figures, and not on the basis of an average designed to bring in the effect of favourable world price movements in recent years. Throughout Alick's statement the German Minister, Mr Ertl, conspicuously paid no attention. And although his State Secretary, Mr Rohr, was next to speak, he gave us no support and merely asked for a general assurance that agricultural expenditure would be held within the growth of Own Resources. This despite the importance which the Germans, and Chancellor Schmidt in particular, are supposed to attach to the European Council draft guideline on agricultural expenditure.

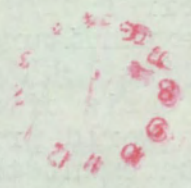
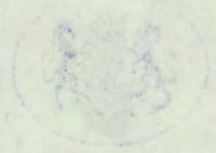
In your talks with Chancellor Schmidt on Friday he may once again attempt to adopt a superior attitude on reforming the CAP or to cast doubts on the seriousness of our intentions. I hope that you will not hesitate to point out to him that, while you have taken a firm line on limiting the growth of agricultural expenditure which your Government takes every opportunity to press in the Council, the same cannot be said of him.

I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and to Sir Robert Armstrong.

[Handwritten signature]

PETER WALKER

18 March 1982



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Foreign and Commonwealth Office

London SW1A 2AH

18 March 1982

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Dear John,

Anglo-German Summit: 19 March

/ You may like to have, before this afternoon's briefing meeting, the enclosed check-list of points which the Prime Minister may wish to raise during her tete-a-tete meeting with Chancellor Schmidt.

/ I also enclose, as requested, a list of the officials, both British and German, who will be at Chequers. I have marked with an asterisk those whom we expect to attend the Plenary Session.

/ Finally, I enclose a copy of the printed programme for the Summit.

I am sending copies of this letter to the Private Secretaries to the Cabinet, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, and the Secretaries of State for Defence, Industry and Trade.

Yours ever,

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

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

1. Macro-Economic Policy

Much common ground between the UK and FRG. Agree on need to continue firm policies to reduce inflation as key to lasting economic recovery and reduction of unemployment. Share German concern over French and American policies. Hope both can agree on basis for European approach to Americans.

2. Community Issues

(a) Mandate

Share German concern to see progress. Full, detailed settlement now urgently required. Foreign Ministers should get on with fixing method of calculation of UK compensation and agreeing a percentage.

(b) CAP

Implementation of CAP and budget chapters of Mandate must proceed in parallel. Must not relax pressure for CAP reform. This year's CAP price package must contribute.

3. East/West and West/West Relations

Must continue to impress on Russians that productive East/West relations only possible on basis of restraint. Crisis in Poland should not become crisis in Alliance. NATO Summit in Bonn excellent opportunity for public demonstration of Alliance unity.

4. Defence and Arms Control

Maintain commitment to increased defence spending in real terms. Share German concern that arms control negotiations must be pursued. Must guard against danger for European opinion of cosmetic concessions by Russians. Brezhnev's most recent moratorium proposal transparent. Veiled threats about the Soviet retaliatory measures (eg missiles in Cuba) counter-productive to aim of Russian propaganda.

UK DELEGATION

No. 10 Downing Street

*The Rt Hon Margaret Thatcher MP

Prime Minister

*Mr Clive Whitmore

Principal Private Secretary

*Mr John Coles

Private Secretary

*Mr Bernard Ingham

Chief Press Secretary

Cabinet Office

*Sir Robert Armstrong KCB CVO

Secretary of the Cabinet

*Mr David Hancock

Deputy Secretary

Foreign and Commonwealth Office

*The Rt Hon The Lord Carrington KCMG MC

Secretary of State for Foreign and Commonwealth Affairs

Mr **Francis Richards**

Private Secretary

*Sir Michael Palliser GCMG

Permanent Under Secretary of State

*Sir Jock Taylor KCMG

HBM Ambassador to the Federal Republic of German

The Lord Bridges CMG

Deputy Under Secretary

*Mr J L Bullard CMG

Deputy Under Secretary

Mr Gillmore

Assistant Under Secretary

*Mr Gladstone

Head, Western European Department

HM Treasury

*The Rt Hon Sir Geoffrey Howe QC MP

Chancellor of the Exchequer

*Sir Kenneth Couzens KCB

Second Permanent Secretary

Ministry of Agriculture, Fisheries and Food

*The Rt Hon Peter Walker MP

Minister of Agriculture, Fisheries and Food

*Sir Brian Hayes CB

Permanent Secretary 21

Department of Industry

*The Rt Hon Patrick Jenkin MP

Secretary of State for Industry

*Sir Peter Carey KCB

Permanent Under Secretary

Department of Trade

*The Rt Hon John Biffen MP

Secretary of State for Trade

*Mr Michael Franklin CB CMG

Permanent Secretary

Ministry of Defence

*The Rt Hon John Nott MP

Secretary of State for Defence

*Sir Frank Cooper GCB CMG

Permanent Secretary

Translator

*Mrs Bloom

GERMAN DELEGATION

Federal Chancellor's Delegation

*Herr Schmidt	
*Herr Becker	State Secretary, Federal Government Spokesman
*Herr von der Gablentz	Deputy Secretary
Dr Feiter	Assistant Secretary
*Herr Fischer-Dieskau	Assistant Secretary
Herr Frickinger	Private Secretary
Herr Walter	
Herr Poles	
Herr Wienke	

Foreign Minister's Delegation

*Herr Genscher	
*Herr Pfeffer	Deputy Secretary
*Dr Wendler	Principal Officer
Herr Paschke	Assistant Secretary
*Herr Weber	Interpreter
Dr von Ploetz	Principal Officer
Herr Rothen	
* <i>Dr Fischer</i>	<i>Deputy Secretary</i>

Finance Minister's Delegation

*Herr Matthöfer	
*Herr Heck	Deputy Secretary
Herr Hansland	Principal Officer

Defence Minister's Delegation

*Dr Apel	
*Dr Leister	State Secretary
Herr Stuetzle	Deputy Secretary
Col Freisberg	

Economic Ministry Delegation

*Dr Schlecht	State Secretary
*Herr Mueller-Thuns	Deputy Secretary
*Frau Scheben	

Agriculture Ministry Delegation

*Herr Rohr	State Secretary
*Herr Witt	Assistant Secretary

FRG Embassy

*Dr Ruhfus	
*Herr von Alten	
Gen. Oppermann	
Herr Kiewitt	
*Dr Kudlich	
Herr Guentner	
Dr Baier	

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

18 March 1982

M C Scholar Esq.
10 Downing Street
LONDON
SW1

did not arise.

MR 19-3

fa.

New Rochel,

ANGLO GERMAN SUMMIT 19 MARCH: INDEXED GILTS

It is just conceivable, though not very likely, that Chancellor Schmidt or Herr Matthoefer might take an opportunity on Friday to criticise the Budget decision to derestrict indexed gilts. The subject is not specifically covered in the general briefing. In case it does come up, and the discussion strays into more detailed aspects, the Prime Minsiter might like to have among her papers the attached short list of points to make.

Copies of this letter and enclosure go to Brian Fall and David Wright.

Yours ever,

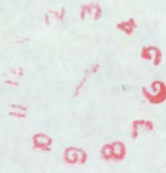
J O Kerr

J O KERR

ANGLO-GERMAN SUMMIT: INDEXED GILTSDefensive points to make

1. Institutionalises inflation. On the contrary, it is reliance on conventional high fixed interest stock that gives greatest incentive to Governments to inflate, so as to reduce the real burden of future debt interest.
2. Like wage indexation. Not at all. The return on indexed gilts will be determined by the market price; and only an investor holding them to maturity can be sure of the return he will get at the time of purchase.
3. Breaking ranks with EC/OECD countries who have always resisted offering indexed-linked securities to eg OPEC investors. IGs are not directed specifically at overseas investors. Issued in London in sterling. But we could not have discriminated against overseas purchases: this would have been counter to OECD/EC obligations, and impracticable. It is not clear that indexed debt is more a "breach of the rules" than long term debt at very high nominal rates; or that it will be particularly attractive to OPEC investors, who will have to pay the market price, and take an exchange risk. OPEC official investors (central banks) remain subject to our policy of discouraging excessive official holdings of sterling (though they will be free to switch out of conventional into indexed gilts).
4. Contrary to confidential EC Monetary Committee agreement on indexation. A confidential Monetary Committee opinion in November 1981 opposed generalised financial indexation and referred to an earlier request to Member States to consult each other before making any indexed foreign loan. But indexed gilts issued on the domestic market to all investors are not foreign loans. And in any case the opinion acknowledged that in certain circumstances, financial indexation could have a role in "protecting existence of long term capital market": IGs contribute to non-monetary funding of borrowing requirement.

11 8 MAR 1982





Prime Minister

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MR COLES

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ANGLO-GERMAN SUMMIT

I mentioned at the Prime Minister's briefing meeting this afternoon that I thought that our negotiating objectives would be advanced if the Prime Minister were able to make a statement to the press tomorrow evening about the joint resolve of the two governments to settle the Mandate issues soon. I attach a draft of the type of statement I had in mind, which has been agreed by the Departments concerned. It is confined to points which we believe Chancellor Schmidt will be prepared to endorse.

2. He will, I think, be the more willing to make a sympathetic response before the press if the Prime Minister has begun the press conference by outlining the discussion on world economic problems and emphasising the very close agreement which exists between our two governments on monetary and fiscal policy.

3. I also mentioned the failure of the German Minister of Agriculture to support Mr Buchanan-Smith at the Agricultural Council this week when the Minister challenged the Commission over the consistency of their proposals with the guideline on the rate of growth of agricultural expenditure. The discussion is recorded in paragraphs 7 and 8 of UKREP telegram No. 1036 of 16 March. I enclose a copy for ease of reference.

4. Finally, the "positive points" that we can make about degressivity are set out in paragraph 13 of Brief No. YMV(82)2(c); the arguments rejecting "arbitrary degressivity" are set out in paragraphs 14 and 15 of that brief.

D.H.

D J S HANCOCK

18 March 1982

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STATEMENT TO PRESS ON MANDATE AND FARM PRICE REVIEW

To be used by the Prime Minister if Chancellor Schmidt agrees

[After the report on the discussion of world economic problems]

We also discussed the 30 May Mandate and the farm price review. Both Governments recognise that important difficulties remain to be resolved. But we agreed that, even so, they must be resolved quickly. The Community needs to be united if it is to respond effectively to the challenge of world events - for example to the problems presented by the Japanese trading surplus, high international interest rates and a volatile oil market. The Community will weaken its credibility in the outside world if it cannot settle its internal problems in a business-like manner.

FCO
 PS
 /LORD PRIVY SEAL
 PS/PS
 MR BULLARD
 MR HANNAY
 LORD BRIDGES

RESIDENT CLERK

PLUS FCO

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 HD/.....

Mr Faulkner ECD (1)

CABINET OFFICE

MR D HANCOCK
 MR D M ELLIOTT ✓
 MR A M GOODENOUGH
 MR S WENTWORTH
 MR J RHODES

D O T

CT2B

PLUS OGDS

*Mr G. RAMOND DAFS
 Mr J. DAVIES (CAR) WOAD
 Dr Jack DANI*

H M TREASURY

SIR K COUZENS
 MR G E FITCHEW

M A F F

SIR B HAYES
 MR D H ANDREWS
 MR M HADDON
 MR M RING
Mr Stapleton Mr Kider

MAFF

*PS/M. MASTER Mr Dickenson
 RS/MOS (C) Mr Myers
 PS/HAYES Mr Helliwell
 Mr Gird Mr Atholodge
 Mrs Brown Mr Hadden
 Mr Roberts*

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TELEGRAM NUMBER 1036 OF 16 MARCH

INFO COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN ATHENS

COUNCIL OF MINISTERS (AGRICULTURE): 15-17 MARCH 1982

INFLATION PAPER, FINANCIAL CONSEQUENCES AND PRICE ASPECTS OF:

CEREALS

SUGAR

TOBACCO

COTTON

OILSEEDS

OLIVE OIL

FRUIT AND VEGETABLES

WINE

INFLATION PAPER

1. THE COMMISSION (DALSAGER) INTRODUCED THEIR REPORT SHORTLY
 AFTER IT WAS TABLED IN THE COUNCIL. THEY SAID IT SHOWED

NO CORRELATION BETWEEN INFLATION RATES AND INCOME DEVELOPMENT.

MORE IMPORTANT PROBLEMS HINDERING CONVERGENCE WERE GREEN RATE DISPARITIES AND NATIONAL AIDS.

2. THE CHAIR (DE KEERSMAEKER) , KEEP TO GET ON WITH THE PRICE PACKAGE, RATHER DISMISSED THE PAPER BUT GAVE AN OPPORTUNITY FOR COMMENTS ON IT, SO LONG AS THESE DID NOT SPILL OVER INTO THE AREAS DALSAGER HAD MENTIONED.

3. GREECE(SIMITIS) SIMPLY WONDERED WHAT THE COMMUNITY WAS GOING TO DO FOR GREECE IN THE FACE OF A 9 PER CENT PRICE PROPOSAL AND 25 PER CENT INFLATION. DALSAGER WAS RATHER FIERCE. IT WAS UP TO THE GREEK GOVERNMENT TO SOLVE ITS OWN INFLATION PROBLEM. THIS COULD NOT BE DONE THROUGH THE CAP. IN ANY EVENT, THE PRICES FOR COMMODITIES OF INTEREST TO GREECE WERE MOSTLY WELL ABOVE 9 PER CENT. HOWEVER, THEIR REPORT WAS NOT ABOUT PRICE INCREASES IN A PARTICULAR YEAR BUT INCOME DEVELOPMENT OVER A NUMBER OF YEARS. SIMITIS LATER CAME BACK, ACCEPTING THAT THE COMMUNITY COULD NOT SOLVE THE PROBLE OF GREEK INFLATION BUT ASKING FOR SYMPATHY TOWARDS GREECE WHEN SETTING PRICES. THEY COULD NOT AFFORD NATIONAL AIDS. THE INCOME OF GREEK FARMERS WAS A COMMUNITY PROBLEM AND MUST BE PROTECTED, AS ELSEWHERE.

4. GERMANY (ERTL) AGREED THAT IT WAS NOT FOR THE CAP TO SMOOTH AWAY INFLATION PROBLEMS. THE QUESTION FOR GERMANY WAS WHETHER AGRICULTURAL MONETARY POLICIES EASED OR AGGRAVATED PROBLEMS CREATED BY DIFFERENTIAL INFLATION RATES. CERTAINLY REDUCTION IN POSITIVE MCAS HAD A PROFUND EFFECT ON GERMAN FARM INCOMES. GERMANY HAD A LOW INFLATION AND EFFICIENT FARMING AND HAD HAD ENOUGH OF FOOTING THE BILL FOR EVERYBODY. DENMARK (WESTH) MURMURED SYMPATHY. ONE COULD NOT HAVE NATIONAL PRICES ACTUALLY GOING DOWN.

5. ITALY (FABBRI) READ FROM THE REPORT THE NEED TO CONCERT COMMUNITY POLICIES, NOT JUST THE CAP, TO FIGHT INFLATION. IT MIGHT BE TRUE TO SAY THAT THERE WAS NO COORELATION BETWEEN INFLATION AND INCOME IN THE LONG TERM, BUT THE EFFECT WAS OBVIOUS IN THE SHORT TO MEDIUM TERM. ANYWAY, A NUMBER OF PARAMETERS, EG LABOUR COSTS AND CONSUMPTION, DID DEPEND ON INFLATION, WITH THE RESULT THAT RESOURCES WERE SPENT ON LABOUR AND ENERGY WHICH SHOULD HAVE BEEN INVESTED IN IMPROVED STRUCTURES AND PRODUCTIVITY.

6. IRELAND (LENIHAN) REFERRED TO THE GAP BETWEEN THE INCOMES OF FARMERS AND OTHER SECTORS OF THE COMMUNITY. IRELAND HAD A HIGH PROPORTION OF FARMERS IN THE POPULATION AND WAS CONSEQUENTLY

FINANCIAL CONSEQUENCES

7. MR BUCHANAN-SMITH NOTED THE COMMISSION'S VIEW THAT THE 1982 BUDGETARY IMPACT OF THE PRICE PROPOSALS COULD BE FINANCED FROM CONJUNCTURAL SAVINGS. FOR THE FULL YEAR COSTS HOWEVER, WE THOUGHT IT BETTER TO CONTINUE WITH THE TRADITIONAL CALCULATION, WHICH WOULD GIVE A COST OF 1517 MECU NOT 745 MECU. THE COMMISSION HAD MUDDLED THE PRESENTATION BY TAKING ACCOUNT OF HYPOTHETICAL AND HIGHLY QUESTIONABLE MARKET DEVELOPMENTS. THE COMMISSION WAS WRONG TO TAKE CREDIT FOR PAST YEARS' DEVELOPMENTS. THE RIGHT APPROACH WAS TO EXAMINE CAP EXPENDITURE AND GROWTH IN OWN RESOURCES (OR) FOR 1983 COMPARED WITH 1982 BUDGET. AT FIRST GLANCE, IT APPEARED THAT THE PROVISIONAL GUIDELINE THAT GROWTH IN AGRICULTURAL SPENDING SHOULD BE LESS THAN THE GROWTH IN OR HAD NOT BEEN COMPLIED WITH. THE COMMISSION MUST PRODUCE 1983 FIGURES. OUR FIGURES, DEDUCED FROM DISCUSSION IN COREPER, WERE THAT OR WOULD INCREASE BY 11 PER CENT AND AGRICULTURAL SPENDING BY 13.1 PER CENT. (MR BUCHANAN-SMITH'S REMARKS FELL ON A RATHER INATTENTIVE AUDIENCE. ERTL IN PARTICULAR WAS CONSPICUOUSLY NOT PAYING ATTENTION.)

8. GERMANY (ROHR) THEN CAME IN, AND SKATED AROUND THE ISSUE, MERELY ASKING FOR AN ASSURANCE THAT AGRICULTURAL EXPENDITURE WOULD BE HELD WITHIN THE GROWTH OF OR. THEY GAVE US NO SUPPORT, ON OUR DEMANDS FOR 1983 FIGURES AND WERE GENERALLY OBSCURE, ELLIPTICAL AND LACKING IN CONVICTION.

9. DENMARK AGREED WITH THE COMMISSION THAT WORLD PRICES WILL TEND TO RISE FASTER THAN COMMUNITY PRICES. DENMARK HAD NOT IN ANY EVENT COMMITTED ITSELF TO THE GUIDELINE. ANYWAY, THE GUIDELINE SPOKE OF A NUMBER OF YEARS. THERE WAS NO REQUIREMENT FOR GROWTH IN AGRICULTURAL SPENDING TO BE BELOW GROWTH IN OR EACH YEAR. THE COUNCIL NEED MERELY TAKE NOTE THAT THE PRICE PROPOSALS PRESENTED NO FINANCIAL PROBLEM.

10. GREECE SPOKE AGAINST THE FEOGA GUIDANCE CEILING.

11. NETHERLANDS (DE KONING) SAID THAT A GAP BETWEEN COMMUNITY AND WORLD PRICES WAS TO BE EXPECTED. A PRUDENT PRICE POLICY, ENCOURAGING EFFICIENCY, WAS IN THE BEST INTEREST OF FARMERS IN THE LONG RUN.

12. THE COMMISSION SAID THE COMMISSION SUPPORTED THE PROVISIONAL GUIDELINE AND BELIEVED THEIR PROPOSALS WERE IN CONFORMITY WITH IT. IT WAS DISAPPOINTING NOT TO BE BELIEVED. SOME FIGURES FOR 1983 WOULD BE AVAILABLE SOON.

BELIEVED. SOME FIGURES FOR 1983 WOULD BE AVAILABLE SOON.

CEREALS

13. DENMARK ACCEPTED A PRUDENT PRICE POLICY ESPECIALLY FOR FEED GRAINS, THOUGH AN INCREASE IN THE PRICE FOR BREAD-MAKING RYE WAS NECESSARY. THE PROPOSED QUALITY STANDARD FOR MINIMUM QUALITY BARLEY WAS ACCEPTABLE. PROVISION FOR MAKING ALLOWANCE FOR CLIMATIC VARIATIONS SHOULD BE MAINTAINED. GUARANTEE THRESHOLDS WERE ACCEPTABLE, AND DURUM WHEAT SHOULD BE BROUGHT WITHIN THE SYSTEM. THE IDEA OF LIMITING CEREAL SUBSTITUTES WAS WELCOME, THOUGH DENMARK RESERVED ON THE BRAN PROPOSAL, BUT AN OVER-VIEW OF THE WHOLE PROBLEM WAS DESIRABLE.

14. NETHERLANDS ACCEPTED PRUDENT PRICES BUT THOUGHT THE COMMISSION HAD BEEN TOO CAUTIOUS ON THE PROPOSAL FOR MINIMUM QUALITY BREAD-MAKING WHEAT. A 4 PER CENT GAP WAS EXCESSIVE. THEY TOOK THE SAME LINE AS DENMARK ON QUARANTEE THRESHOLDS AND SUBSTITUTES INCLUDING BRAN. THEY PRESSED FOR STARCH PROPOSALS TO COME FORWARD BEFORE THE PRICE-FIXING.

15. GERMANY (ROHR) THOUGHT THE RELATIVE LEVEL OF PRICE INCREASE (HIERARCHY) ACCEPTABLE; AGREED WITH THE NETHERLANDS ON THE MINIMUM QUALITY BREAD-MAKING WHEAT PRICE; ACCEPTED GUARANTEE THRESHOLDS, WHICH SHOULD ALSO COVER DURUM; STRONGLY OPPOSED ACTION ON BRAN, AND CLAIMED THAT THE PROPOSED QUALITY STANDARDS WERE UNREALISITICALLY HIGH.

16. BELGIUM (VAN DEN MOORTELE) COULD ACCEPT THE HIERARCHY, ONLY IF THERE WERE NO CORESPEONSIBILITY, AND AGREED THAT QUALITY STANDARDS HAD BEEN SET TOO HIGH. GUARANTEE THRESHOLDS WERE NOT ACCEPTABLE "STABILISING" SUBSTITUTES WAS ACCEPTABLE.

17. FRANCE (CRESSON) ACCEPTED THE HIERARCHY AND WOULD HAVE BEEN PREPARED TO GO FURTHER ON QUALITY DEFINITION. THE MAIZE THRESHOLD PRICE SHOULD BE INCREASED TO REFLECT REAL TRANSPORT COSTS. FRANCE MADE A VERY FIRM LINK BETWEEN CORESPEONSIBILITY THROUGH QUARANTEE THRESHOLDS AND SUBSTITUTES. THE COUNCIL MUST, BEFORE 1 APRIL, HAVE A SITUATION REPORT FROM THE COMMISSION ON PROGRESS MADE WITH THAILAND AND INDONESIA ON MACIOC. THE COMMISSION MUST PRESENT A DRAFT NEGOTIATING MANDATE ON CORN GLUTEN FEED, AND MUST ADOPT THE PROPOSAL ON BRAN SO THAT THE LEVY COULD BE INCREASED FROM 1 AUGUST 1982. CRESSON RE-INTRODUCED THE FRENCH DRAFT REGULATION PROVIDING FOR CORESPEONSIBILITY TO BE SWITCHED OFF IF SPECIFIC THRESHOLDS ON SUBSTITUTE IMPORTS WERE EXCEEDED. FRANCE THOUGHT THE PROPOSED GUARANTEE THRESHOLD-

BE SWITCHED OFF AT SPECIFIC THRESHOLDS OR SUBSTITUTE IMPORTS WERE EXCEEDED. FRANCE THOUGHT THE PROPOSED GUARANTEE THRESHOLD- 119.5 MT - FAR TOO LOW, AND OPPOSED ANY LIMITATION ON DURUM WHEAT OR RICE PRODUCTION.

18. ITALY (BARTOLOMEI) DEFENDED DURUM WHEAT AGAINST ANY RESTRAINT. THIS WAS A STICKING POINT FOR ITALY. THE RICE PRICE SHOULD INCREASE BY MORE THAN 10 PER CENT. THIS WAS AN EXPENSIVE CROP TO GROW AND WAS IN DEFICIT. THE PROPOSAL TO INCREASE THE GAP BETWEEN THE INTERVENTION AND TARGET PRICES FOR COMMON WHEAT, ALLEGEDLY TO HELP WITH THE SURPLUS, WOULD NOT WORK. THE GAP HAD DOUBLED RECENTLY AND SUBSTITUTE USAGE WAS GOING UP ALL THE TIME. ITALY COULD ACCEPT A LEVY ON THE "FOOD VALUE" OF SUBSTITUTES.

19. GREECE WANTED A HIGH RISE FOR MINIMUM QUALITY BREAD-MAKING WHEAT PRICE; INTERVENTION NEVER TO BE SWITCHED OFF; DURUM PRICES TO GO HIGHER, AND THE DURUM: SOFT WHEAT PRICE RELATIONSHIP TO APPROXIMATE TO THAT OBTAINING ON WORLD MARKETS. THE TARGET PRICE SHOULD BE CALCULATED ON THE COST OF TRANSPORT BETWEEN SALONIKA AND NAPLES. ONLY THUS WOULD GREEK EXPORTS TO ITALY BE COMPETITIVE WITH ITALY'S IMPORTS FROM THIRD COUNTRIES. GREECE WANTED THE MARKETING YEAR FOR DURUM WHEAT TO START ON 1 JUNE AND MONTHLY INCREASES FOR COMMON WHEAT TO START ON 1 JULY. GUARANTEE THRESHOLDS WOULD HAVE MORE SEVERE CONSEQUENCES IN GREECE THAN ELSEWHERE. THEY DID NOT OPPOSE THE PRINCIPLE BUT WOULD NEED VERY SPECIAL TREATMENT. THE RICE PRICE INCREASE SHOULD BE HIGHER.

20. IRELAND ACCEPTED THE HIERARCHY. THE GUARANTEE THRESHOLD SHOULD BE SET FOR ONE YEAR ONLY. ACTION AGAINST SUBSTITUTES MUST BE TOUGHER. THE PROPOSED QUANTITIES FOR MANIOC IMPORTS FROM THAILAND AND INDONESIA WERE FAR TOO GENEROUS. THE BRAN PROPOSAL WAS WELCOME. IRELAND AGREED WITH THOSE WHO THOUGHT THE QUALITY STANDARDS FOR BARLEY WERE TOO TOUGH.

21. MR WALKER SPELT OUT THE UK POSITION IN FULL, AS IN THE BRIEF, EMPHASISING THE STRENGTH OF UK RESISTANCE TO PUNITIVE ACTION AGAINST CEREALS AND POINTING OUT THAT THIS ISSUE WAS THE PRIMARY RESPONSIBILITY OF THE FOREIGN AFFAIRS COUNCIL.

22. REPLYING TO THE DEBATE, DALSAGER DID LITTLE MORE THAN REPEAT THE COMMISSION'S PROPOSALS. HE DID SAY, HOWEVER, THAT THE COMMISSION WAS QUITE PREPARED TO CONSIDER BASING THE GUARANTEE THRESHOLD ON PERFORMANCE OVER A NUMBER OF YEARS; ON CEREAL SUBSTITUTE HE MENTIONED THAT SOME HAD OBJECTED TO THE PROPOSAL ON BRAN AND HE DID NOT RULE OUT THE POSSIBILITY OF A COMPROMISE

ON BRAN AND HE DID NOT RULE OUT THE POSSIBILITY OF A COMPROMISE ALONG THE LINES OF THE FRENCH PROPOSED TEXT.

SUGAR

23. A VERY BRIEF EXCHANGE.

24. ITALY PRESSED FOR HIGHER BASIC QUOTAS. FRANCE LOOKED FOR AN INCREASE IN THE DOM REFINING SUBSIDY GREECE WANTED A BIGGER PRICE INCREASE AND OBJECTED TO CONTRIBUTING, VIA THE PRODUCTION LEVY, TO THE DISPOSAL OF SURPLUSES CREATED BY OTHERS. THE BASIC REGULATION SHOULD BE RE-EXAMINED TO PREVENT HIS. DENMARK WANTED A SLIGHTLY HIGHER PRICE INCREASE. MR BUCHANAN-SMITH SPOKE AS BRIEFED, WARNING THAT ANY INCREASE IN THE DOM REFINING MARGIN WOULD HAVE TO APPLY TO ACP SUGAR REFINERS AS WELL, AND CLARIFYING THE POSITION ON THE UK REGIONAL PREMIUM.

25. REPLYING FOR THE COMMISSION, DALSGER MADE A GENERAL NON-DIRECTIONAL NOISE ON DOM SUGAR. IN REPLY TO UK REFERENCE TO THE INDEFENSIBILITY OF PUSHING UP PRICE INCREASES AND REDUCING THE FINANCIAL SELF-SUFFICIENCY OF THE REGIME, DALSGER SAID THAT THE US, HAVING JUST GONE OVER TO A FULLY GOVERNMENT FINANCED SUPPORT SYSTEM, WERE HARDLY IN A POSITION TO CRITICISE THE COMMUNITY.

TOBACCO

26. ITALY MADE A SET PIECE DENUNCIATION OF THE COMMISSION'S PROPOSAL AND OPPOSED CORESPONSIBILITY IN PARTICULAR. NETHERLANDS SAID THAT TOBACCO WAS THE MOST EXTREME CASE OF COMMUNITY PRICES GETTING OUT OF LINE WITH WORLD PRICES. THE PRODUCER OBTAINED A PRICE UP TO THREE TIMES THE SELLING PRICE. PRICES SHOULD BE INCREASED ONLY FOR MARKETABLE VARIETIES. GREECE OBSERVED THAT THEIR ORIENTAL VARIETIES . GREECE OBSERVED THAT THEIR ORIENTAL VARIETIES WERE READILY MARKETABLE. WHERE TOBACCO WAS GROWN NO ALTERNATIVE CROP WAS POSSIBLE. THE EC SHOULD TAKE OVER MORE OF THE GREEK NATIONAL AID BY BUILDING UP THE NORM PRICE. PREMIA INCREASES SHOULD BE THE SAME AS LAST YEAR'S AND THERE SHOULD BE NO REDUCTION IN THE INTERVENTION PRICE.

27. THE COMMISSION EXPLAINED THE RATIONALE OF THEIR PROPOSALS. UNLIKE GOVERNMENTS, PRODUCER ORGANISATIONS UNDERSTOOD THE NEED TO LIMIT INTERVENTION. EVEN FOR THE MOST MARKETABLE VARIETIES PREMIA EQUALLED 58 PER CENT OF THE VALUE. AS FOR GREECE, EC AID IS NOW FIVE TIMES NATIONAL AID.

COTTON

28. NO DELEGATION SPOKE. THE COMMISSION SAID THEY WERE "POSITIVELY INCLINED" TO THIS PRODUCT, WHICH WAS PROVING PROFITABLE. THE ACREAGE WAS EXPECTED TO INCREASE.

FRUITS AND VEGETABLES

29. DELEGATIONS REAFFIRMED THEIR POSITIONS ON FRESH PRODUCTS, WHICH ARE SET OUT IN DOCUMENT 5316/82. GREECE SPOKE AT SOME LENGTH, EMPHASISING THE IMPORTANCE OF THIS SECTOR TO GREECE: THEY WANTED LARGER INCREASES IN BOTH PRICES AND PREMIUMS AND WITHDRAWAL EXTENDED TO OTHER PRODUCTS BESIDES AUBERGINES AND APRICOTS.

30. FRANCE EMPHASISED THEIR LINK WITH THE ACQUIS IN THIS SECTOR. AGREEMENT ON THE CHANGES PROPOSED IN THAT CONTEXT WERE AN ESSENTIAL PRELIMINARY TO ANY AGREEMENT ON PRICES. MR BUCHANAN-SMITH AGREED THAT IT WAS UN-REALISTIC TO DISCUSS PRICES IN ISOLATION: BOTH PRICES AND ACQUIS HAD TO BE TAKEN TOGETHER.

31. ON PROCESSED PRODUCTS, THERE WERE AGAIN FEW CHANGES FROM THE POSITIONS SET OUT IN THE REPORT 5331/82. FRANCE HAD YET TO ESTABLISH A FIRM POSITION ON EITHER THE RECALCULATION OF THE AID OR ON THE QUESTION OF A PRODUCTION THRESHOLD: THEY ASKED FOR THESE TO BE EXAMINED FURTHER BY EXPERTS. GREECE WANTED THE AID TO BE EXTENDED TO COVER APRICOTS, GREEK PEARS, STRAWBERRIES AND PEPPERS. THEY ALSO WANTED A COUNCIL DECLARATION, SAYING THAT THE INCREASE FOR THE PROCESSING AIDS AGREED BY THE COMMISSION SHOULD NOT BE BELOW THE AVERAGE INCREASE IN PRICES. ON DRIED VINE FRUITS, THEY ASKED FOR THE 8 PER CENT NATIONAL AID PERMITTED LAST YEAR TO BE INCORPORATED INTO THE BASIC PRICE FOR THE PURPOSE OF CALCULATING THIS YEAR'S PRICES: THUS THE PRICE INCREASE AGREED THIS YEAR WOULD BE APPLIED TO LAST YEAR'S PRICE PLUS 8 PER CENT. BELGIUM SAID THAT IN THEIR VIEW IT WOULD BE BETTER TO REDUCE DRASTICALLY THE LEVEL OF THE AID RATHER THAN TO IMPOSE A GUARANTEED THRESHOLD.

OIL SEEDS

32. ANOTHER LOW KEY DISCUSSION, WITH DELEGATIONS IN THE MAIN CONFIRMING THEIR EARLIER POSITIONS (5323/82)

33. THE NETHERLANDS COULD ACCEPT THE COMMISSION'S PROPOSAL ON THE PRICE INCREASE FOR COLZA, BUT WANTED THE SAME INCREASE TO APPLY TO SUNFLOWER SEED. THEY WERE SUPPORTED BY GERMANY THE UK AND DENMARK.

34. ITALY ARGUED FOR A LOWER LEVEL OF SUPPORT FOR COLZA, CLAIMING THAT THE GUARANTEE THRESHOLD WOULD BE INEFFECTIVE AS A CURB ON PRODUCTION, BUT SUPPORTED HIGH PRICES FOR SUNFLOWER SEED. THEY WERE AGAINST ANY CONTINUATION OF DAY AID (IN THIS THEY WERE SUPPORTED BY A NUMBER OF DELEGATIONS): IF THIS WAS NOT NEGOTIABLE THEY WANTED THE AID EXTENDED TO SUNFLOWER SEED.

35. THE COMMISSION DEFENDED THE ABOVE AVERAGE INCREASE FOR SUNFLOWER SEED ON THE GROUNDS THAT THIS PRODUCT WAS GREATLY IN DEFICIT AND WAS PRODUCED IN THE SOUTH OF THE COMMUNITY. THEY ACKNOWLEDGED THE OPPOSITION TO ANY EXTENSION OF THE DAY AID SYSTEM, AND SUGGESTED THAT THE SOLUTION TO THE PROBLEM LAY IN A THOROUGH REVISION OF THE RULES FOR THE PREFIXED AID: THIS POSSIBILITY SHOULD BE EXAMINED BY THE SCA.

OLIVE OIL

36. ONLY A FEW DELEGATIONS SPOKE ON THIS ISSUE. MR BUCHANAN-SMITH SAID THAT WE HAD SERIOUS RESERVATIONS ABOUT THE COMMISSION'S PROPOSALS WHICH HAD TO BE LOOKED AT IN THE CONTEXT OF THE REFORM OF THE ACQUIS COMMUNITAIRE. IN LINE WITH OUR APPROACH TO OLIVE OIL THERE, WE WANTED THE INTERVENTION PRICE TO BE FROZEN WITH ONLY A SMALL INCREASE IN THE PRODUCTION AID, PAID IF POSSIBLE ON A FLAT-RATE BASIS. HE CONFIRMED THAT WE CONTINUE TO HAVE DOUBTS ABOUT THE PROPOSAL TO PAY PRODUCTION AID ON AREAS THAT HAD BEEN RESTRUCTURED.

37. GREECE ACKNOWLEDGED THAT THE PROPOSED INCREASE FOR OLIVE OIL WAS HIGH IN DRACHMA TERMS, BUT SAID THAT IT WAS STILL INADEQUATE, GIVEN THEIR HIGH INFLATION RATE AND THE LABOUR INTENSIVE NATURE OF THE SECTOR. THEY REMINDED THE COUNCIL OF THE IMPORTANCE OF OLIVE PRODUCTION IN GREEK AGRICULTURE. ITALY (FABBRI) ATTACKED OUR CRITICISM OF THE OLIVE OIL REGIME, CLAIMING THAT THE NEED FOR MEASURES TO STRENGTHEN THE MEDITERRANEAN REGIMES HAVE BEEN GENERALLY AGREED IN THE MANDATE DISCUSSION. THEY TOO WANTED A LARGER PRICE INCREASE.

38. IN A RAMBLING INTERVENTION, GERMANY (ERTL) GAVE US SOME NOT VERY HELPFUL SUPPORT, LAUNCHING INTO A GENERAL ATTACK ON THE OLIVE OIL REGIME, WHICH HE CHARACTERISED AS "MEDITERRANEAN CHARITY". THIS DREW A PREDICTABLE PROTEST FROM ITALY.

WINE
PRICES

39. NO NEW DEVELOPMENTS. FRANCE, ITALY AND GREECE PRESSED,
AS BEFORE, FOR HIGHER PRICES. WE OPPOSED, DRAWING ATTENTION
TO THE STRUCTURAL SURPLUS IN THIS SECTOR AND THE SEVERE
DISPOSAL PROBLEMS THAT ALREADY EXISTED. PRICE INCREASES SHOULD BE
KEPT AS LOW AS POSSIBLE UNTIL THE STRUCTURAL PROGRAMME TOOK EFFECT.

FCO ADVANCE TO:

FCO - PS/SOFS PS/LPS PS/PUS
HANNAY SPRECKLEY FAULKNER

CAB - HANCOCK WENTWORTH

DOT - CT2B

MAFF - PS/MIN PS/MOS(C) PS/HAYES ANDREWS STAPLETON GURD MISS BROWN
HADDON DICKENSON (GWH) MYERS HOLLIS MRS ATTRIDGE (GWH)
HADLEY CARDEN ROBERTS RIDER

TSY - FITCHEW

DAFS - CRAMOND

DANI - JACK

WOAD J I DAVIES (CAR)

BUTLER

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UNCLASSIFIED

FM BONN 181130Z MAR 82

TO PRIORITY FCO

TELEGRAM NUMBER 239 OF 18 MARCH

INFO SAVING ANKARA ATHENS BRUSSELS COPENHAGEN THE HAGUE LISBON
LUXEMBOURG OSLO OTTAWA PARIS REYKJAVIK ROME WASHINGTON UKDEL NATO
DUBLIN

MY TEL NO 230: ANGLO-GERMAN CONSULTATIONS

1. GENERAL ANZEIGER THIS MORNING CARRIES A PIECE ON THE CONSULTATIONS BY BELL WHO NORMALLY REFLECTS OFFICIAL BRIEFING. ACCORDING TO BELL THE MOST IMPORTANT TOPIC AT THE CONSULTATIONS IN THE GERMAN VIEW WILL BE HOW EUROPE'S ABILITY TO ACT CAN BE ASSURED DURING THE PRESENT DIFFICULT WORLD CIRCUMSTANCES. IN THAT CONTEXT THE CLARIFICATION OF THE INTERNAL DEBATE WITHIN THE COMMUNITY OVER THE REFORM OF THE BUDGET AND THE CAP WILL PLAY A PROMINENT ROLE. DESPITE SEVERAL ATTEMPTS AND INTENSIVE GERMAN EFFORTS AT MEDIATION THE REFORMS HAVE HITHERTO, TO BONN'S GREAT DISAPPOINTMENT, FOUNDERED ON THE UNYIELDING BRITISH POSITION. SCHMIDT AND GENSCHER MAY (MAY) URGE THEIR INTERLOCUTORS TO ADOPT A MORE FLEXIBLE POSITION IN THE QUESTION OF COMPENSATION PAYMENTS FOR THE OVER-HIGH BRITISH CONTRIBUTION, AND THE PROGRESSIVE REDUCTION OF THAT COMPENSATION IN THE COMING YEARS. BY BEING MORE FLEXIBLE LONDON WOULD NOT ONLY FACILITATE UNDERSTANDING OVER THE REVISION OF THE CAP, BUT WOULD ALSO OPEN THE WAY TO A NUMBER OF MEASURES FOR THE IMPROVEMENT OF THE STRUCTURE OF THE COMMUNITY. IF THE FOREIGN MINISTERS ON MONDAY FAIL TO FIND SOLUTIONS THE PROBLEMS WILL HAVE TO COME TO THE EUROPEAN COUNCIL WHERE THE MAJORITY DO NOT WISH THE MEETING TO BE AGAIN BURDENED WITH THE DISPUTES OF LAST YEAR.

2. ACCORDING TO BELL OTHER TOPICS ARE LIKELY TO BE THE IMPROVEMENT OF CONSULTATIONS WITH THE U.S.A, THE EFFECTS OF HIGH U.S INTEREST RATE POLICIES, THE PLANS FOR FURTHER STRENGTHENING NATO, THE LATEST BREZHNEV DECLARATION, THE SITUATION IN EAST/WEST NEGOTIATIONS, THE SITUATION IN POLAND AND THE FURTHER DEVELOPMENT OF THE COMMUNITY TOWARDS EUROPEAN UNION.

FCO PLEASE PASS SAVING ADDRESSEES.

TAYLOR

(REPEATED AS REQUESTED)

COPIES SENT TO
No. 10 DOWNING STREET

UNITED	DEF .D
WED	PS
ECD	PS/LPS
NEWS .D	PS/PUS
NAD	MR GULLARD
EESD	MR GODDISON
ERD	MR HANNAY
	CABINET OFFICE

THIS TELEGRAM
WAS NOT
ADVANCED

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Foreign and Commonwealth Office

London SW1A 2AH

18 March 1982

ms

Prime Minister

A.J.C. 15/3

f.a.

f-a. 15/3

Dear John,

Prime Minister's Meeting with Chancellor Schmidt: East/West Economic Relations

The Prime Minister will no doubt wish to compare notes with Chancellor Schmidt about the visits made to Bonn and London this week by Mr Buckley and his team and to discuss with him the way in which matters are now likely to develop.

/ I enclose a note which summarises the discussions which Mr Buckley and his team had with the Foreign and Commonwealth Secretary, and a team of British officials, in London on / 17 March. I also enclose a copy of FCO telegram No 512 to Washington, which gives more details about what was said during the talks at official level. These documents will give the Prime Minister the background.

/ Finally, I also enclose a speaking note on which the Prime Minister may wish to draw.

I am sending copies of this letter and of its enclosures to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Trade, the Secretary of State for Defence and to Sir Robert Armstrong.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

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BACKGROUND NOTE

1. Mr Buckley and an inter-agency team visited London for talks on 17 March. Mr Buckley had been to Bonn and Paris and was going to Rome and Brussels (to talk to the Belgian Presidency and the Commission and in NATO). He would then report to President Reagan.

2. Mr Buckley had two basic propositions:

- a) it was wrong in principle to help Soviet Union through credit subsidies and official credit guarantees when we were all facing increasing defence expenditure to match Soviet military build-up;
- b) given the deteriorating state of East European economies, financial prudence suggested a cut-back on credit to Eastern Europe. The West should seek a net transfer of resources from East to West to reduce outstanding debt burden.

3. Mr Buckley wished to explore whether the countries mainly concerned in providing credit agreed with basic US proposition and thereafter whether there was political will to find means to implement policies. Stressed that this was a strategic question with approximately ten-year time frame.

4. Mr Buckley referred to the President's "suspended measures" and decisions that would need to be taken; ie on pipeline contracts. He avoided a direct link, but it was clear that the European response on credits would influence decisions on contracts.

5. The Americans had spoken to the Japanese and the Canadians and would be making further approaches to them. Mr Buckley characterised the German reaction as not really meeting the President's concerns. The Germans had tended to magnify the difficulties. The French had been forthcoming at M. Cheysson's level, but impression given at official level was that there would be difficulties over the existing bilateral Soviet/French Credit Agreement.

/6. As agreed,



6. As agreed, officials explored Mr Buckley's proposals in an interrogative way. They agreed to exchange information on export credits with US, as have French and Germans. They said there would be difficulty over imposing a short-term moratorium on granting credit to Soviet Union unless other credit suppliers did likewise, and also said that we would attend a meeting of credit supplying countries if the US wished to hold one.

7. The Foreign and Commonwealth Secretary told Mr Buckley that he hoped he would not leave London with same disappointment as Bonn. The Americans were raising important questions. We needed to examine them thoroughly. Mr Buckley appeared satisfied with his talks in London.

8. Next step will be for Mr Buckley to report to President Reagan. Thereafter there may be more bilateral contacts, with the possibility of a conference of those concerned.

18 March 1982

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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 512 OF 17 MARCH 1982,

AND TO IMMEDIATE ROME, PARIS, BONN, UKDEL NATO, UKREP BRUSSELS,

INFO PRIORITY MOSCOW,

INFO ROUTINE TOKYO, UKDEL O E C D

INFO SAVING OTHER E C POSTS, WARSAW, OTTAWA.

BUCKLEY MISSION

1. BUCKLEY AND HIS INTER-AGENCY TEAM VISITED LONDON ON 17 MARCH. HE CALLED ON LORD TREFGARNE AND ME AND HAD A FULL SESSION OF TALKS AND LUNCH WITH BRIDGES AND REPRESENTATIVES OF WHITEHALL DEPARTMENTS.
2. BUCKLEY COVERED MUCH THE SAME GROUND AS HE HAD IN BONN AND PARIS. THE PRESIDENT RECOGNISED THAT SOME OF THE MEASURES ANNOUNCED ON 29 DECEMBER HAD CAUSED CONCERN WITHIN THE ALLIANCE. THESE MEASURES WOULD BE HELD IN SUSPENSE PENDING THE OUTCOME OF HIS MISSION. THE MISSION'S PURPOSE WAS TO DISCUSS THE DESIRABILITY OF PROVIDING OFFICIAL SUBSIDISED AND GUARANTEED EXPORT CREDITS TO THE SOVIET UNION. IT WAS NOW TIME TO ADD THE ROLE OF WESTERN OFFICIAL CREDIT TO THE AGENDA OF WESTERN STRATEGIC CONCERNS. THE MISSION WAS NOT SEEKING AN ECONOMIC WAR WITH THE SOVIET UNION OR THE CESSATION OF TRADE. NOR WAS THE AMERICAN PROPOSITION A SPECIFIC RESPONSE TO EVENTS IN POLAND. SECONDLY, AND RELATED TO THE FIRST U S CONCERN OVER OFFICIAL CREDIT SUPPORT, THERE WAS THE PHENOMENON OF THE FRAGILE FINANCIAL POSITION IN EASTERN EUROPE. THE WEST WAS BECOMING THE CAPTIVE OF ITS DEBTORS AND A REVERSE LEVERAGE HAD BEGUN TO EMERGE. THE U S BELIEVED THAT WESTERN COUNTRIES MUST REDUCE THE BURDEN OF DEBT OVERHANGING WESTERN FINANCIAL INSTITUTIONS. THE NERVOUSNESS OF WESTERN PRIVATE BANKS ABOUT LENDING TO THE U S S R SHOULD BE A SIGNAL TO GOVERNMENTS. BUCKLEY'S MISSION THEREFORE HAD TO ESTABLISH WHETHER A CONSENSUS EXISTED AMONG THE KEY ALLIANCE PARTICIPANTS TO ADDRESS THIS PROBLEM. IF THE POLITICAL WILL WAS THERE, IT SHOULD BE POSSIBLE TO FIND A MECHANISM FOR CHANGE. IT WAS ACKNOWLEDGED THAT THE JAPANESE HAD TO BE BROUGHT IN. THE SEVEN SUMMIT COUNTRIES ACCOUNTED FOR AROUND 90% OF TOTAL OFFICIAL CREDIT TO THE SOVIET UNION.
3. SPECIFICALLY, BUCKLEY AND HIS TEAM PROPOSED A PAUSE, PERHAPS FOR 60 DAYS, DURING WHICH WESTERN GOVERNMENTS WOULD REFRAIN FROM ANY NEW OFFICIAL CREDITS OF GOVERNMENT GUARANTEES (BUT EXISTING COMMITMENTS WOULD BE HONOURED). SECONDLY, THERE SHOULD BE FURTHER INFORMATION SHARING BASED ON A U S QUESTIONNAIRE TO PROVIDE THE DATA ON WHICH PROPER DECISIONS COULD BE MADE.

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/4. LELAND

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4. LELAND (U S TREASURY) ACCEPTED THE NEED FOR EQUITABLE BURDEN SHARING. HE STRESSED THE NEED TO TAKE ACTION BOTH ON OFFICIAL CREDITS AND ON GOVERNMENT GUARANTEES. THE LATTER EFFECTIVELY PROVIDED A DIRECT SUBSIDY SINCE WITHOUT A GUARANTEE PRIVATE BANKS WOULD LEND TO THE SOVIET UNION ONLY AT SIGNIFICANTLY HIGHER RATES. CONTRARY TO BUCKLEY'S CONCENTRATION ON THE U S S R, HE ALSO SPOKE OF THE LINK BETWEEN THE SOVIET AND EASTERN EUROPEAN PROBLEMS. DECISIONS WERE NEEDED VERY SHORTLY ON EASTERN EUROPEAN DEBT. A DIFFERENTIATED APPROACH TOWARDS EASTERN EUROPE WOULD ONLY BE POSSIBLE IF A MORE RESTRICTIVE POLICY TOWARDS THE SOVIET UNION WERE ADOPTED. FURTHERMORE, IT WAS IMPORTANT TO SECURE A NET-FLOW OF RESOURCES FROM EAST TO WEST. OTHER MEMBERS OF THE U S TEAM STRESSED THE PART IN WHICH EASY WESTERN CREDITS TO THE SOVIET UNION HAD PLAYED IN FACILITATING THE GROWTH OF SOVIET MILITARY CAPABILITIES AND SOVIET ADVENTURISM IN THE THIRD WORLD.

5. BRIDGES SAID THAT WE NEEDED FIRST TO ANALYSE THE FACTS BEFORE CONSIDERING LONG-TERM POLICY. THIS WOULD ALSO INVOLVE DECISIONS ON WHICH INSTITUTIONS WERE MOST APPROPRIATE FOR TAKING THE WORK FORWARD. THE U K WAS NOT IN PRINCIPLE IN FAVOUR OF SUBSIDISING EXPORT CREDITS. THE DIFFICULTY WAS ACHIEVING A POLICY WHICH WOULD NOT DISADVANTAGE THE U K. IF THE MEASURES PROPOSED BY THE AMERICANS WERE ADOPTED, OUR EXPORTS, BUT NOT THOSE OF COUNTRIES WITH LOW COMMERCIAL INTEREST RATES, WOULD BE DAMAGED. NEVERTHELESS, WE REGARDED THIS AS AN IMPORTANT QUESTION AND SHARED THE AMERICANS CONCERN TO FIND METHODS TO SECURE SOVIET RESTRAINT.

6. BRIDGES SAID THAT THE U K WOULD CONSIDER THE AMERICAN REQUEST FOR A PAUSE, BUT WOULD FIND IT VERY DIFFICULT TO AGREE TO THIS UNLESS ALL OTHERS CONCERNED ALSO AGREED. HE AGREED TO THE INFORMATION SHARING EXERCISE.

7. BUCKLEY SAID THAT, AFTER REPORTING EUROPEAN REACTIONS, IT WAS INTENDED TO MOVE TO 2-3-WEEKS OF BILATERAL TALKS FOLLOWED BY A WORKING-LEVEL CONFERENCE OF EXPERTS IN WASHINGTON IN WHICH THE 7 SUMMIT COUNTRIES MIGHT PARTICIPATE. DEPENDING ON THE CONCLUSIONS, THE RESULTS MIGHT BE SUBMITTED TO THE N A T O OR VERSAILLES SUMMITS. BRIDGES SAID THAT IT WOULD BE IMPORTANT TO AVOID OVERBURDENING THE SUMMIT MACHINERY, BUT AGREED THAT EXPERT ANALYSIS OF THIS KIND WOULD BE USEFUL. HOWEVER N A T O WOULD ALSO BE AN APPROPRIATE FORUM FOR ANALYSIS OF THE SOVIET ECONOMIC POSITION AND OF THE LONG-TERM POLICY OPTIONS. THE O E C D SHOULD NOT BE OVER-LOOKED AS AN IMPORTANT FORUM FOR OBJECTIVE ECONOMIC ANALYSIS OF A NON-POLITICAL KIND,

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EMBRACING EUROPEAN STATES PROMINENT IN EAST/WEST TRADE. WE POINTED OUT THE NEED TO THINK THROUGH THE EFFECT OF CONVENING SUCH A CONFERENCE ON CONFIDENCE IN THE FINANCIAL COMMUNITY.

8. THERE WERE ALSO BRIEF EXCHANGES ON ENERGY SECURITY AND SOVIET EXPORTS TO THE E C, BOTH ON STANDARD LINES.

9. ADDRESSEES MAY PASS ON THE ABOVE FREELY TO HOST GOVERNMENTS. ROME SHOULD INFORM BUCCI AS SOON AS POSSIBLE.

CARRINGTON

POLAND SPECIAL
STANDARD

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ADDITIONAL DISTR.
POLAND SPECIAL
EASTERN EUROPEAN ECONOMIC

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- 3 -

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SPEAKING NOTE

PRIME MINISTER'S MEETING WITH CHANCELLOR SCHMIDT: EAST/WEST ECONOMIC RELATIONS

POINTS TO MAKE

1. Mr Buckley and his team visited London on 17 March. The Foreign and Commonwealth Secretary saw them for half an hour and they had over four hours talks with an official British team.
2. Our objectives were to listen to what the Americans had to say; to enter into no firm commitments about changing the terms or the volume of officially-guaranteed export credit for the Soviet Union; but not to leave them with the impression that they were leaving London empty-handed. We believe that we achieved these objectives.
3. It is clear that the Americans (from the President downward) want to open up discussions area of export credit for the Soviet Union. They appear to have twin motives: to restrict the Soviet Union's supply of hard currency; and to prevent the hard currency debt of the Soviet Union increasing to the point where creditors find themselves obliged to re-finance this debt.
4. We are going to hear a lot more about this subject. It is therefore very much in our collective interest that we should decide how we want to respond to the Americans. In the short term our principal interest must be to prevent them from deciding to adopt a new round of unilateral measures against the Soviet Union which could be damaging to us.
5. For the longer term, we must decide how we should like the discussion of East/West economic relations to be related to the discussion of East/West political relations (with the Summits at Versailles and Bonn in mind); how far we are all prepared to go in restricting the supply of export credit to the Soviet Union; and, if we are prepared to go some distance in this direction, how we deal with the problem of burden-sharing among the credit-granting countries.
6. We shall want to keep in very close touch with you as the situation evolves. The next important development will be the President's reaction to the report which Mr Buckley makes to him. We must hope that he will not opt for a new round of unilateral American measures; but even if he does not, we shall all face difficult decisions.

x 38

POLAND : ADVANCE COPIES

PS (6)
 PS/LPS (3)
 PS/LORD TREFGARNE
 PS/PUS
 MR BULLARD
 LORD BRIDGES
 MR EVANS
 MR WRIGHT
 MR GILLMORE
 MR GOODISON
 HD/TRED
 HD/UND
 HD/EESD(ALLOCATED)
 HD/DEF D
 HD/PUSD (2)
 HD/WED
 HD/ECD(E)
 HD/PLANNING STAFF
 HD/ERD
 HD/NEWS D
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 RESIDENT CLERK

NO 10 DOWNING ST
 ASSESSMENT STAFF
 CABINET OFFICE

DIO CABINET OFFICE

MR FRANKLIN
 MR CAINES
 MR CORLEY
 MR POWNALL } OT/DOT

ADVANCE COPY

IMMEDIATE

DWE G NR 149/19

LIC 322/19

OO FCO

OO WASHINGTON

OO PARIS

OO BONN

OO UKDEL NATO

OO UKREP BRUSSELS

RR MOSCOW

RR TOKYO

GRS 600

RR TOKYO

GRS 600

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FROM ROME 191645Z MAR 82

TO IMMEDIATE FCO

TELNO 115 OF 19 MAR 82

AND TO IMMEDIATE WASHINGTON, PARIS, BONN, UKDEL NATO,
UKREP BRUSSELS

INFO ROUTINE MOSCOW, TOKYO

INFO SAVING OTHER EC POSTS, UKDEL OECD, WARSAW, OTTAWA,
STOCKHOLM, VIENNA, CANBERRA, BERNE.

YOUR TELNO 512 TO WASHINGTON: BUCKLEY MISSION

1. BUCCI ASKED THAT A FULL ACCOUNT OF THE BUCKLEY TEAM'S MEETING IN ROME BE PASSED TO BRIDGES. THE TEAM SAW OFFICIALS AT THE MFA, AND LATER COLOMBO AND CORTI (PSDI JUNIOR FOREIGN AFFAIRS MINISTER).
2. BUCKLEY SEEMS TO HAVE USED THE SAME PREPARED BRIEF IN SPEAKING TO THE ITALIANS. THE ITALIANS WERE IMPRESSED BY HIS FRANKNESS AND REALISM, AND BY HIS INSISTENCE THAT THE TEAM HAD NOT COME TO ROME TO PRESENT TAKE IT OR LEAVE IT DEMANDS, BUT TO DEVISE COMMON APPROACHES. BUCKLEY STRESSED THAT THE U.S. AIM WAS THE GRADUAL REDUCTION OF OFFICIALLY SUPPORTED AND GUARANTEED CREDITS, WHILST SAFE-GUARDING NORMAL TRADE. THE PRESENT COMPETITION BETWEEN WESTERN COUNTRIES WAS "RUINOUS" AND LIKELY TO IMPOVERISH THE WEST TO THE EAST'S BENEFIT. THE CRITICAL PROBLEMS FOR EXAMINATION WERE THE DEGREE OF COMMUNIST DEPENDENCE ON WESTERN FINANCE, AND THE SECURITY OF THE WEST. COMMUNIST COUNTRIES' DEBTS HAD REACHED WORRYING LEVELS. BUCKLEY ACKNOWLEDGED THE PROBLEMS IN HARMONISING CREDIT POLICY, BUT, AS IN LONDON, INSISTED THAT IF THE POLITICAL WILL WERE THERE SOLUTIONS COULD BE FOUND.
3. HE PROPOSED A CREDIT WAR "CEASE-FIRE", WITHOUT APPARENTLY SPECIFYING ITS DURATION, AND THE FRAMEWORK OF CONSULTATIONS ~~COMMENCED OVER THE~~ ^{summarised in paragraph 7} OF YOUR TUR. HE EMPHASISED THE NEED TO INVOLVE ANY INDUSTRIALISED COUNTRIES AS POSSIBLE, BUT FAVOURED PRIOR DISCUSSION BETWEEN THE 7 SUMMIT COUNTRIES. THE WORKING GROUP MEETING MIGHT BEGIN TO PREPARE A DOCUMENT FOR EVENTUAL APPROVAL AT THE VERSAILLES SUMMIT.

~~88~~ ^{Summarises 2 paragraphs} ~~MANYSEVOLVEARA~~ 7 OF YOUR TUR. HE EMPHASISED THE NEED TO INVOLVE ANY INDUSTRIALISED COUNTRIES AS POSSIBLE, BUT FAVOURED PRIOR DISCUSSION BETWEEN THE 7 SUMMIT COUNTRIES. THE WORKING GROUP MEETING MIGHT BEGIN TO PREPARE A DOCUMENT FOR EVENTUAL APPROVAL AT THE VERSAILLES SUMMIT.

4. THE ITALIANS RESPONDED THAT THEY HAD CEASED TO PROVIDE GENERALISED LINES OF CREDIT TO THE USSR IN 1978, AND SINCE THEN HAD ONLY GRANTED SUPPLIERS' CREDITS. THESE AMOUNTED TO ONLY 7% OF TOTAL OFFICIALLY SUPPORTED CREDITS, AND THE FIGURE FOR EASTERN EUROPE WAS STILL LESS, ESPECIALLY AFTER THE SUSPENSION OF CREDITS TO POLAND. AS WE HAVE REPORTED BEFORE, HOWEVER, THE ITALIANS SHOWED WILLINGNESS TO TAKE FURTHER ACTION IN COMPANY WITH THEIR PARTNERS. THEY FOUND THE PRESENT SITUATION UNSATISFACTORY. SOME COUNTRIES (THEY PROBABLY MEANT FRANCE) STILL CONCEDED LINES OF CREDIT, OTHERS WERE FORCED TO MATCH THE TERMS AND THIS ALL PLAYED INTO SOVIET HANDS. IT WOULD BE IMPORTANT, HOWEVER, TO INVOLVE NOT ONLY THE JAPANESE BUT THE SWISS, AUSTRIANS, SWEDES AND AUSTRALIANS IN ANY FURTHER STUDIES. ITALY DID NOT WANT AN ECONOMIC WAR OR A CONCERTED POLICY OF SANCTIONS AGAINST THE SOVIET UNION. IT WOULD PREFER AN OBJECTIVE, TECHNICAL ANALYSIS OF SOVIET AND EAST EUROPEAN DEBT, LEADING TO THE REMOVAL OF UNJUSTIFIED SOVIET ADVANTAGES. ANY SUCH STUDY SHOULD BE CONDUCTED WITH MAXIMUM CONFIDENTIALITY.
5. WHEN COLOMBO RECEIVED BUCKLEY, HE STRESSED THE NEED FOR A STRATEGY THAT WAS JOINTLY AGREED AND JOINTLY PUT INTO EFFECT, WITH NO FURTHER UNILATERAL MEASURES. ANY SUCH STRATEGY SHOULD BE BASED ON EQUALITY OF SACRIFICE, AND POLICY CHANGES SHOULD BE DEFENSIBLE TO WESTERN PUBLIC OPINION OR SENSIBLE FINANCIAL AND BANKING RESPONSES.
6. THE ITALIANS WILL THEREFORE PARTICIPATE IN THE INFORMATION SHARING EXERCISE, PROVIDED IT IS OBJECTIVE AND "NON-POLITICAL". AT DEPARTMENTAL LEVEL, MFA OFFICIALS WONDER WHETHER IT IS WISE FOR THE EUROPEANS TO AWAIT NEW U S PROPOSALS, OR WHETHER THEY SHOULD NOT TAKE THE INITIATIVE AND SO UNDERLINE THE SERIOUSNESS OF THEIR APPROACH. THE AMERICANS APPARENTLY SHOWED SOME IRRITATION WITH THEIR RECEPTION IN BONN AND PARIS. (THE ITALIANS DISPUTE FRG PROTESTATIONS THAT THE GERMANS DO NOT SUBSIDISE EXPORT CREDITS TO THE USSR).
7. BUCKLEY DID NOT PRESS THE ITALIANS HARD ON THE PIPELINE. COLOMBO TOLD HIM THAT THE "PAUSE FOR REFLECTION" STILL HELD, BUT IF THE FRENCH AND GERMANS WENT AHEAD WITH CONTRACTS TO PURCHASE SOVIET GAS, IT WOULD BE HARD FOR ITALY NOT TO FOLLOW, NOT LEAST FOR DOMESTIC POLITICAL REASONS.

7. BUCKLEY DID NOT PRESS THE ITALIANS HARD ON THE PIPELINE.
COLOMBO TOLD HIM THAT THE "PAUSE FOR REFLECTION" STILL HELD.
BUT IF THE FRENCH AND GERMANS WENT AHEAD WITH CONTRACTS TO PUR-
CHASE SOVIET GAS, IT WOULD BE HARD FOR ITALY NOT TO FOLLOW, NOT
LEAST FOR DOMESTIC POLITICAL REASONS.

8. FCO PSE PASS SAVING ADDRESSEES.

ARCULUS

< [unclear]

NNNN

CONSULTATIONS SUMMARISED IN PARA 7 OF YOUR TUR. HE EMPHASISED ETC

NNNN

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IMMEDIATE

(6)
 PS/LFS (3)
 PS/LORD TREFGARNE
 PS/FUS
 MR BULLARD
 LORD BRIDGES
 MR EVANS
 MR WRIGHT
 MR GILLMORE
 MR GOODISON
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 MR CORLEY }
 MR POWNALL }

ADVANCE COPY

CONFIDENTIAL

FM UKDEL NATO 191630Z MAR 82
 TO IMMEDIATE FOREIGN AND COMMONWEALTH OFFICE,
 TELEGRAM NUMBER 142 OF 19 MARCH 1982,
 INFO PRIORITY WASHINGTON, PARIS, BONN, UKREP BRUSSELS,
 INFO ROUTINE ROME, TOKYO, UKDEL OECD,
 INFO SAVING ALL OTHER NATO POSTS, MOSCOW, WARSAW, DUBLIN.

YOUR TELNO 83 (NOT TO ALL): NORTH ATLANTIC COUNCIL; BUCKLEY MISSION.

1. BUCKLEY ACCOMPANIED BY LELAND (WHO LEFT EARLY) AND BAILEY BRIEFED THE COUNCIL THIS MORNING. HIS PRESENTATION WAS WELL-JUDGED AND STIMULATED A USEFUL EXCHANGE. THE MAIN POINTS WERE AS FOLLOWS (FULLER RECORD FOLLOWS BY BAG).
2. IN HIS OPENING STATEMENT BUCKLEY COVERED MUCH THE SAME GROUND AS HE HAD IN BONN, PARIS AND LONDON EXCEPT THAT HE PITCHED HIS REMARKS TOWARDS ALLIANCE CONCERNS. HE SAID THAT PROVISION OF WESTERN CREDIT WAS HELPING THE SOVIET UNION TO EXTEND ITS MILITARY CAPABILITIES AND ITS DRIVE FOR MILITARY SUPERIORITY. THIS, AT A TIME WHEN THE RELATIVE MILITARY CAPABILITIES OF THE WARSAW PACT AND NATO WERE MOVING IN THE FORMER'S FAVOUR; WHEN AN EVER-INCREASING BURDEN OF NATIONAL TAXATION FOR DEFENCE WAS PLACED ON WESTERN TAXPAYERS; AND WHEN SOVIET SELF-CONFIDENCE WAS EVIDENT IN ITS ACTIONS IN THE THIRD WORLD, AGAINST THIS BACKGROUND WESTERN POLICY ON OFFICIAL CREDIT TO

WORLD. AGAINST THIS BACKGROUND WESTERN POLICY ON OFFICIAL CREDIT TO THE SOVIET UNION WAS PARADOXICAL. THE U S THEREFORE WISHED TO EXTEND THE COOPERATION WHICH EXISTED IN DEFENCE PLANNING AND IN COCOM TO DISCUSSION IN A STRATEGIC CONTEXT OF THE ROLE (AND NECESSITY) OF PROVIDING SUCH CREDIT. THE OBJECTIVE WOULD BE TO MONITOR AND EXERCISE DISCIPLINE OVER THE TRANSFER OF RESOURCES TO THE SOVIET UNION THROUGH PROVISION OF CREDIT, WITH A VIEW TO ENDING IN AND EVENTUALLY REVERSING THE RISE IN SOVIET INDEBTEDNESS TO THE WEST WHICH HAD BECOME SO LARGE THAT IT WAS BEGINNING TO LAY THE WEST OPEN TO SOVIET LEVERAGE. IN THE LIGHT OF THE DEBT PROBLEMS OF THE SOVIET BLOC AS A WHOLE THIS MADE FINANCIAL AS WELL AS STRATEGIC SENSE; BUT HE EMPHASISED THAT THE U S INITIATIVE WAS FOCUSED EXCLUSIVELY ON CREDIT TO THE SOVIET UNION.

3. BUCKLEY SAID THAT THE U S WAS UNDER NO ILLUSIONS ABOUT CHANGING SOVIET BEHAVIOUR THROUGH ECONOMIC MEASURES. THE U S WAS NOT CAMPAIGNING AGAINST EAST/WEST TRADE NOR PROPOSING A TRADE WAR BUT SIMPLY ARGUING THAT TRADE WITH THE SOVIET UNION SHOULD BE CONDUCTED ON A STRICTLY COMMERCIAL BASIS. WESTERN COUNTRIES WERE CUTTING THEIR OWN THROATS IN OUT-BIDDING EACH OTHER TO PROVIDE SUBSIDISED CREDIT. THE U S DID NOT UNDER-ESTIMATE THE PRACTICAL DIFFICULTIES WHICH HAD BEEN BROUGHT HOME TO THEM IN THE CAPITALS THEY HAD VISITED, OF CONSTRUCTING A REGIME TO REGULATE CREDITS, GIVEN THE DIFFERENCES IN NATIONAL CREDIT ARRANGEMENTS. BUT WITH POLITICAL WILL A REGIME COULD BE CONSTRUCTED WHICH DID NOT DISADVANTAGE ANY ONE WESTERN COUNTRY. IN ADDITION TO THE BILATERAL DISCUSSIONS IN THE CAPITALS OF THE FOUR COUNTRIES WHO WERE IMPORTANT TRADING PARTNERS OF THE SOVIET UNION, THE U S WAS ALSO CONSULTING JAPAN. (REFERENCE WAS LATER ALSO MADE TO A FORTHCOMING VISIT BY BUCKELY TO OTTAWA).

4. BUCKLEY SAID THAT HE DID NOT WISH TO ADDRESS WESTERN DEPENDENCE ON SOVIET ENERGY IN DETAIL AT THIS MEETING. BUT DISCUSSION WITH ALLIES HAD LED HIM TO THE CONCLUSION THAT THE PROBLEMS OF FINDING ALTERNATIVE SOURCES OF SUPPLY WAS LESS PHYSICAL THAN POLITICAL. BY THIS HE MEANT THE FAILURE OF ANY INTERNATIONAL AGENCY TO PURSUE THE PROBLEM, AND THE NATIONAL POLICIES OF WESTERN COUNTRIES WITH GAS DEPOSITS. HE PROPOSED THAT NATO SHOULD EXAMINE THE LONGER TERM QUESTION OF ALTERNATIVE ENERGY SOURCES FOR EUROPE.

5. IN ANSWER TO QUESTIONS BUCKELY AND LELAND (US TREASURY) MADE THE FOLLOWING ADDITIONAL POINTS:

(A) THE COOPERATION OF THOSE NATIONS PROVIDING MOST CREDIT TO THE SOVIET UNION WAS THE KEY TO THE SUCCESS OF THE U S INITIATIVE. HE HAD BEEN SUFFICIENTLY ENCOURAGED BY THE BILATERAL DISCUSSIONS IN CAPITALS TO BELIEVE THE INITIATIVE COULD BE PURSUED;

(B) THE FIRST STEP WAS TO EXCHANGE INFORMATION ON CREDIT TO THE

- IN CAPITALS TO BELIEVE THE INITIATIVE COULD BE PURSUED:
- (B) THE FIRST STEP WAS TO EXCHANGE INFORMATION ON CREDIT TO THE SOVIET UNION AND TO EASTERN EUROPE, THE LATTER BEING INCLUDED WAS TO MONITOR WHETHER THE BENEFITS WERE BEING PASSED ON TO THE SOVIET UNION (HE LATER CIRCULATED THE U S QUESTIONNAIRE):
 - (C) THE PROBLEM CONCERNED NOT ONLY SUBSIDISED OFFICIAL CREDITS BUT ALSO OFFICIAL CREDIT GUARANTEES. THE LATTER DISTORTED THE BANKS' JUDGEMENT OF THE SOVIET UNION'S COMMERCIAL CREDIT-WORTHINESS: WITHOUT THEM BANKS WOULD ONLY LEND AT HIGHER RATES (BUCKLEY SAID HE HAD LEARNED IN BONN THAT 70 PERCENT OF GERMAN CREDIT TO THE USSR IN 1980 HAD BEEN IN UNGUARANTEED PRIVATE CREDIT: THIS YEAR GERMAN BANKS WERE REFUSING CREDIT WITHOUT THESE GUARANTEES).
 - (D) WHILE THE U S SUPPORTED THE EC INITIATIVE TO REGRADE THE USSR IN THE OECD CONSENSUS SYSTEM, THE SOVIET UNION WAS A SPECIAL CASE. QUOTE IF IT WAS JUST ANOTHER COUNTRY, THERE WOULD NOT BE A NATO UNQUOTE (IE MERELY APPLYING THE HIGHER, BUT STILL SUBSIDISED OECD CONSENSUS RATE WAS NOT ENOUGH):
 - (E) ANY RESTRAINT MEASURES SHOULD APPLY TO NEW CREDITS - IE THOSE FOR WHICH QUOTE TO-DAY UNQUOTE THERE WAS NO LEGALLY BINDING COMMITMENT:
 - (F) THE U S PROPOSALS APPLIED TO OFFICIAL CREDIT FOR EXPORTS OF COMMODITIES AS WELL AS CAPITAL GOODS:
 - (G) THE U S WOULD WELCOME VIEWS ON THE FORA IN WHICH CONSULTATION SHOULD PROCEED. BUCKLEY FORESAW FURTHER CONSULTATION INITIALLY WITH A SMALL GROUP OF THOSE COUNTRIES MOST INVOLVED, FOLLOWED BY CONSULTATION IN A FORUM MOST SUITED TO THE SECURITY PERSPECTIVE. THE SUMMIT MEETINGS IN JUNE MIGHT PROVIDE AN APPROPRIATE OPPORTUNITY FOR HIGH LEVEL DISCUSSION.

6. BUCKLEY DID NOT REFER SPECIFICALLY TO THE IDEA OF A PAUSE IN GRANTING OFFICIAL CREDITS TO THE SOVIET UNION.

7. APART FROM QUESTIONS AS IN PARA 5 ABOVE, THE INTERVENTIONS OF MOST OF MY COLLEAGUES WERE LIMITED TO THANKING BUCKLEY, TO EXPRESSING THE IMPORTANCE THEIR GOVERNMENTS ATTACHED TO COORDINATION OF POLICY ON THIS MATTER (BURDEN-SHARING) AND THEIR READINESS TO CONSIDER THE U S PROPOSALS SERIOUSLY. I INDICATED UK READINESS TO TAKE PART IN AN EXCHANGE OF INFORMATION AND DREW ON APPROPRIATE POINTS IN PARA 5 OF FCO TELNO 512 (NOT TO ALL), FOR WHICH I WAS GRATEFUL. I ADDED THAT IF THERE WERE TO BE FURTHER CONSULTATION AT NATO, I THOUGHT THIS SHOULD BE UNDERTAKEN PRIMARILY IN THE COUNCIL AND THE SENIOR POLITICAL COMMITTEE.

8. THE ONLY SLIGHTLY SOUR NOTE WAS STRUCK BY MERILLON (FRANCE) WHO, WHILE CLAIMING THAT FRANCE FULLY SHARED THE U S STRATEGIC AIMS

8. THE ONLY SLIGHTLY SOUR NOTE WAS STRUCK BY MERILLON (FRANCE) WHO, WHILE CLAIMING THAT FRANCE FULLY SHARED THE U S STRATEGIC AIMS, SUGGESTED THAT THE U S APPROACH WAS TOO NARROWLY-FOCUSSED AND SIMPLISTIC. FRANCE'S APPROACH WAS GLOBAL; MEASURES HAD TO BE VIEWED AGAINST THE WHOLE BACKGROUND OF EAST/WEST POLICY, ENERGY POLICY, UNEMPLOYMENT AND NOTHING SHOULD BE DONE WHICH HURT OURSELVES MORE THAN THE SOVIET UNION. DESPITE THIS, BUCKLEY SHOULD RETURN TO WASHINGTON WITH THE GENERAL IMPRESSION THAT HE RECEIVED A FAIR AND CONSTRUCTIVE HEARING FROM THE COUNCIL.

FCO PLEASE PASS SAVING TO ANKARA, ATHENS, COPENHAGEN, THE HAGUE, LISBON, LUXEMBOURG, OSLO, OTTAWA, REYKJAVIK, MOSCOW, WARSAW, DUBLIN.

GRAHAM.

NNNN

SENT AT 19/1712Z MNJ

Germany

Sub

18 March 1982

ANGLO/GERMAN SUMMIT: 19 MARCH: FAREWELLS

Thank you for your letter of 17 March.
The Prime Minister is content with these
arrangements.

A. J. COLES

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

JR

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Foreign and Commonwealth Office

London SW1A 2AH

17 March 1982

Dear John,

Anglo-German Summit: 19 March: Farewells

You asked for our advice on the question of farewells on the occasion of the forthcoming Anglo-German Summit.

Herr Genscher and other German Ministers apart from Chancellor Schmidt will leave Chequers immediately after dinner and return to Bonn from RAF Benson. Lord Carrington does not think it necessary for himself or other British Ministers to travel to RAF Benson to say goodbye. We would propose therefore to send only an agent de protocole to RAF Benson. This is standard practice for a working visit from an EC country and farewells at Chequers would seem perfectly in order.

Chancellor Schmidt is, as you know, spending Friday night and Saturday morning in the UK privately. However, his official programme ends after dinner at Chequers and we suggest that the Prime Minister say goodbye to him there. We could arrange for a Special Representative of my Secretary of State to bid him farewell at RAF Northolt on the Saturday afternoon.

Please let me know whether the Prime Minister is content with these proposed arrangements.

Yours ever,

A handwritten signature in dark ink, appearing to read 'Francis Richards'.

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

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Prime Minister

A.J.C. 15/3

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 17 March 1982

h.a.

W.L. 15/3

M Scholar Esq
No.10 Downing Street

Dear Rachel,

ANGLO-GERMAN CONSULTATIONS: EC - JAPAN RELATIONS

The Chancellor has noted that, whereas the French Government share our view of the need for the Community to get fairly tough with the Japanese about their macro-economic and trading policies, the German Government are more doubtful. He therefore proposes to raise the matter with Herr Matthofer on Friday, and to give him the attached note.

...

There could well be advantage in the Prime Minister's touching on the subject if there is time during her talks with Chancellor Schmidt. The Chancellor has it in mind to propose this at the Prime Minister's briefing meeting tomorrow.

Copies of this letter to go to Brian Fall at the FCO, John Rhodes at DOT, and David Wright in the Cabinet Office.

Yours ever,

J.O. Kerr

J O KERR
Principal Private Secretary

EC/JAPAN RELATIONS

Japan has survived the second oil price shock more successfully than other industrial countries - with higher output growth, and lower unemployment and inflation. GDP growth has averaged 4 per cent in each of the past two years, compared with only 1 per cent in other major economies. Unemployment is about 2 per cent compared to 8 per cent in other OECD countries. Inflation was 3.3 per cent in the twelve months to the end of January, and has been virtually nil since October.

2. The recovery, however, has been biased heavily towards external demand. Net external demand has accounted for about three-quarters of Japan's GDP growth in the past two years, and, despite the deceleration of export growth in past months, it is expected to contribute significantly again this year. Indeed since 1974 the contribution of the external sector to growth in Japan has been far more than was necessary to compensate for the effect on Japanese import costs of the two oil price increases. It is right that we should consider the implications of this situation both for our own economies and for the general equilibrium of the world economy and the health of the open trading system.

3. The emergence of large Japanese surpluses is not a new problem. It has occurred at roughly the same point in previous cycles, contributing significantly to trade and exchange rate tensions in the world.

4. We must of course acknowledge the efficiency of the Japanese economy, and must in turn continue our own adjustment efforts. But Japan's success has been built to a significant extent upon a relatively closed non-market economic system, supported by macro-economic and exchange rate policies which give undue weight to external rather than domestic demand.

5. We are by now all familiar with the barriers to imports into Japan - both formal and informal - which have resulted in imports being only a sixth of GDP compared with almost double that, for example, in Germany and the UK. Imports of raw materials, fuels and food into Japan are, as a proportion of GDP, broadly in line with those of the

UK and Germany. But imports of manufactures into Japan account for only 3 per cent of GDP compared to 10 per cent in other major economies.

6. We are also all familiar with the way in which Japan's tightly-controlled industrial strategy, involving government, industry and banks, results in a narrow concentration of export products with disruptive effects in particular markets in other countries. In addition to the impact of the excess of their exports over manufactured imports, the speed of attack on particular markets creates havoc in individual sectors.

7. Underlying all these difficulties is the high level of Japanese savings which are not matched by domestic private investment or public borrowing. The Government's present stringent fiscal policy should be seen in this light. A recent Commission paper shows that Japan's budget deficit is expected to be reduced to about 2 per cent of GDP - below the average for the Community or for the United States. With inflation now reduced to 3 to 4 per cent and a current account surplus, the Government is seeking further economies to balance the current budget by 1984. Yet personal savings account for 18 per cent of incomes in Japan compared to about 8 per cent in the other major economies. Japan's scope for fiscal manoeuvre, therefore, should now be larger - not smaller - than that of other countries. The excess of savings over investment is producing the current external surplus to which the rest of us are having such difficulty adjusting.

8. The Japanese are at the same time pursuing a policy of accommodating monetary growth and low interest rates. Monetary growth (M2) has been about 10-11 per cent over the past year and three-month interest rates have been reduced to 6½ per cent, well below those in other countries. A major effect of this, however, has been to prevent the yen appreciating to reflect fully the underlying strength of Japan's competitive position and the emerging current surplus. On the contrary the yen's effective rate has fallen by about 8 per cent since February 1981.

9. As a result of pressure from overseas the Japanese have recently introduced a number of trade liberalisation measures. Though welcome,

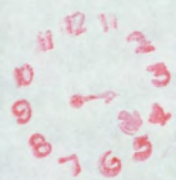
/these rather limited

these rather limited steps will not by themselves restrain the growth of the surpluses which pose problems for their trading partners. In these circumstances it is appropriate that Community governments should consider whether, while maintaining pressure on the trade front, it would not also be appropriate to encourage the Japanese to alter the mix of their macro-economic policies.

10. It is no part of our thinking that we should urge net expansionary measures on the Japanese at a time when we are concerned to consolidate the gains that we have made in the world as a whole in reducing inflation. But we should ask the Japanese to pay more attention to the structural aspects of their situation which, if reinforced by their policies, tend to make them an uncomfortable partner in the open trading system and so encourage protectionism. This should lead them to cut back less in the fiscal field where they are effectively increasing taxation and to rein back their relaxed monetary stance so that the yen can rise to reflect its true strength. This would help to restore a better balance in the international economy as a whole.

11. It would also be entirely consistent with our approach to the United States, whose policies are also threatening to disrupt the world economy but from the opposite direction. The present mix of Japanese and U.S. fiscal and monetary policy is a powerful threat to the open trading system because of the bilateral imbalance and protectionist pressures it is likely to generate.

18 MAR 1982



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Foreign and Commonwealth Office

London SW1A 2AH

16 March 1982

Dear John,

Anglo-German Summit: 19 March

f.a.
18/3

You asked for advice on official participation at the bilateral talks at Chequers, and at the Plenary Session.

We assume that the discussions between the Prime Minister and Chancellor Schmidt will, as usual, be *tete-à-tete*, with only one note-taker on each side. For his talks with Herr Genscher, my Secretary of State will be accompanied by Michael Palliser, Julian Bullard, Tom Bridges, David Gillmore, David Gladstone, David Hancock and myself. We shall invite the Germans to field a similar team. For the meeting between the four principals, we suggest that they be accompanied by the two Ambassadors and by a note-taker on each side. | x

As for the Plenary Session, the Prime Minister will wish, I assume, to keep numbers down. We suggest therefore that Ministers (both British and German) be generally limited to one official each; it would, however, perhaps make sense for Herr Genscher (and so Lord Carrington) to be accompanied by two, in which case Michael Palliser and Julian Bullard would attend from here. In addition we should, as in the past, include the two Ambassadors and say two record takers from the German Embassy.

In your letter of 12 March you informed us of the Prime Minister's decisions on lunch and dinner. We have since heard that Herr von der Gablentz will act as Private Secretary for the main lunch, while Herr Becker, Herr von Ploetz and Herr Frickhinger will attend the subsidiary lunch at Chequers. The remainder of the German party will lunch at the Bernard Arms.

I am sending a copy of this letter to John Kerr (HM Treasury), Jonathan Spencer (Department of Industry), John Rhodes (Department of Trade), David Omand (Ministry of Defence) and Robert Lawson (Ministry of Agriculture, Fisheries and Food).

Yours ever.

F N Richards
(F N Richards)
Private Secretary

A J Coles Esq
10 Downing St

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06 MAR 1982
A circular red stamp containing the numbers 0 through 9 arranged in a circle, with a small arrow pointing to the number 1.

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no 5

PRIME MINISTER

Schmidt visit to Chequers
on Friday

If you leave your clothes
out, I will pack them for you as
you will be leaving straight
from Claridges after the Oman
banquet.

CS

16 March 1982

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GPS 550

CONFIDENTIAL [FRAME ECONOMIC]

FM BONN 151915Z MAR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 227 OF 15 MARCH

AND TO IMMEDIATE UKREP BRUSSELS PARIS

AND TO ROUTINE DUBLIN ROME LUXEMBOURG COPENHAGEN THE HAGUE

EMBASSY BRUSSELS ATHENS AND CICC(G)

MY 2 IFTS: ANGLO-GERMAN CONSULTATIONS: ECONOMIC ASPECTS

1. DESPITE THE MAJOR AND CONTINUING POLITICAL DIFFICULTIES THAT ECONOMIC POLICY GIVES THE COALITION GOVERNMENT, THE PERFORMANCE OF THE GERMAN ECONOMY MUST BE BEGINNING TO GIVE POLICY-MAKERS IN THE GOVERNMENT AS IN THE BUNDESBANK SOME GROUNDS FOR SATISFACTION.

2. A TIGHT FISCAL AND MONETARY STANCE ARE THE PRINCIPAL CHARACTERISTICS OF GERMAN ECONOMIC POLICY. THE CONSEQUENCES ARE PAINFUL BY GERMAN STANDARDS BUT THERE ARE SIGNS THAT THE POLICY IS WORKING. THE CURRENT ACCOUNT BALANCE (SUPPORTED BY A STRONG AND SO FAR WELL-SUSTAINED DEMAND FOR GERMAN EXPORTS) IS IMPROVING RAPIDLY. THE RATE OF INCREASE OF PRICES AND WAGES IS FALLING. A FORTNIGHT AGO THE METALWORKERS UNION (WHICH INCLUDES THE LARGE AND VITAL ENGINEERING SECTOR) WHOSE PAY RATES HAVE A POWERFUL INFLUENCE ON THE REST OF THE LABOUR MARKET. SETTLED FOR A PAY INCREASE ABOUT 20 PER CENT BELOW THE RATE OF INFLATION. MOST EXPERTS AGREE THAT OUTPUT WILL EXPAND, IF ONLY MODESTLY. INTEREST RATES ARE EASING AND THE DMARK IS IN BETTER SHAPE THAN A YEAR AGO. THERE ARE SIGNS THAT SCHMIDT IS TAKING A RATHER LESS APOCALYPTIC VIEW THAN HE DID A FEW MONTHS AGO.

3. HIS MAJOR DOMESTIC WORRY REMAINS UNEMPLOYMENT. THIS IS STILL ON A RISING TREND AND IS AN ISSUE, AS THE STURM AND DRANG OVER THE EMPLOYMENT PROGRAMME HAS SHOWN, TO WHICH AN SPD-LED GOVERNMENT IS ESPECIALLY VULNERABLE. IT HAS REINFORCED SCHMIDT'S BELIEF THAT ECONOMIC AND POLITICAL PROBLEMS ARE INEXTRICABLY LINKED AND IT WILL CONTINUE TO BE A MAJOR PREOCCUPATION FOR HIM.

4. SCHMIDT IS ALSO WORRIED NOT ONLY BY THOSE EXTERNAL ECONOMIC FACTORS THAT DENY THE FRG ROOM FOR MANOEUVRE AND COULD CHECK RECOVERY HERE BUT ALSO BY THOSE THAT GIVE RISE TO STRAINS AND STRESSES WITHIN THE COMMUNITY AND THE ALLIANCE AND THAT LEAVE THE TWO GROUPINGS LESS ABLE TO DEAL WITH INTERNATIONAL ECONOMIC TENSIONS (EAST/WEST TRADE AND CREDITS, NORTH/SOUTH AND RELATIONS WITH JAPAN, ETC).

5. THE GERMANS ARE ALSO WORRIED BY FRENCH POLICY WHICH, IN THEIR VIEW, DOES NOT SUPPORT INTERNATIONAL EFFORTS TO FIGHT INFLATION NOR COHERENCE WITHIN THE COMMUNITY. FURTHERMORE, THE PRIORITY GIVEN TO COMBATTING UNEMPLOYMENT IN FRANCE (NOW BEING ECHOED IN DENMARK) GIVES RISE TO UNWELCOME POLITICAL PRESSURE FROM WITHIN

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THE SPD FOR THE FRG TO FOLLOW SUIT. JAPANESE TRADE SUCCESSES ACTIVATE PROTECTIONIST IMPULSES. THE CHANCELLOR REMAINS CONCERNED OVER THE US BUDGET DEFICIT AND US INTEREST RATES ALTHOUGH HE NOW BELIEVES THAT THE IMPROVEMENT IN THE ECONOMIES OF SOME MAJOR EUROPEAN COUNTRIES MAY ALLOW THESE TO FOLLOW SOMEWHAT MORE INDEPENDENT POLICIES AND THUS AVOID THE FULL IMPACT OF DEVELOPMENTS IN THE U.S. THE WEAKENING OF OIL PRICES IS WELCOME: BUT ELSEWHERE ABROAD THERE IS LITTLE TO ENCOURAGE THE CHANCELLOR. EASTWARDS THE OUTLOOK IS POOR AND THE PROBLEMS OF THE LDCS AND THE NORTH/SOUTH DIALOGUE LOOK AS INSOLUBLE AS EVER.

6. AGAINST THIS GLOOMY BACKGROUND, THE SIGNS THAT THE BRITISH GOVERNMENT'S ECONOMIC POLICIES ARE BEGINNING TO PAY OFF ARE ALL THE MORE WELCOME HERE: AND, IN ADDITION TO RANGING OVER INTERNATIONAL ECONOMIC QUESTIONS WITH AN EYE TO THE EUROPEAN COUNCIL AND THE VERSAILLES SUMMIT BEYOND, THE CHANCELLOR WILL BE KEEN TO LEARN MORE ABOUT UK POLICY AND PROSPECTS.

TAYLOR

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FM BONN 151810Z MAR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 226 OF 15 MARCH

INFO IMMEDIATE UKREP BRUSSELS AND PARIS

INFO ROUTINE DUBLIN ROME LUXEMBOURG COPENHAGEN THE HAGUE

EMBASSY BRUSSELS AND ATHENS

MIPT: ANGLO-GERMAN CONSULTATIONS: THE MANDATE

1. THE GERMANS' OVERALL AIM IS TO CLEAR THE WAY FOR AN EARLY AGREEMENT ON THE MANDATE FIRST. THEIR MOTIVATION IS A COMBINATION OF NATIONAL AND EUROPEAN INTERESTS. THEY WANT:-
 - A. TO AVOID BOTH DRIFT AND BRUISING DISAGREEMENT WITHIN THE COMMUNITY
 - B. TO RESTORE THE COMMUNITY'S CREDIBILITY IN THE EYES/OF ITS OWN PEOPLE AND OF OTHERS:
 - C. THUS TO PREPARE THE WAY FOR THE MEMBER STATES TO CONTRIBUTE TO RESTORING THE HARMONY AND REPUTATION OF THE ALLIANCE IN TIME FOR THE BONN SUMMIT:
 - D. HAVING GOT RECOGNITION OF ITS EXISTENCE IN THE GUIDELINES, TO NAIL DOWN AN ARRANGEMENT TO LIMIT GERMANY'S CONTRIBUTION TO THE SOLUTION OF THE BUDGET PROBLEM:
 - E. TO SECURE WHAT THEY DESCRIBE AS QUOTE THE CHANCELLOR'S CLAUSE UNQUOTE IE THE FORMULA THAT THE RATE OF GROWTH OF FEOGA EXPENDITURE SHOULD BE LOWER THAN THAT OF OWN RESOURCES:
 - F. TO ENSURE, VIA AGREEMENT ON THE MANDATE, A SOUND BASIS FOR THE GENSCHER/COLOMBO PLAN.

2. ALTHOUGH THE FINANCE MINISTRY AND THE KANZLERAMT WOULD BE READY TO NEGOTIATE FIGURES NOW, GENSCHER'S FOREIGN MINISTRY REMAIN VERY KEEN TO GET AGREEMENT ON THE GUIDELINES FIRST. I BELIEVE THAT FOR THE MOMENT THEY HAVE THE UPPER HAND. THAT MAY BE A FAVOURABLE CIRCUMSTANCE FOR US:
 - A. BECAUSE THEY MAY BE MORE FLEXIBLE AS FAR AS OUR BUDGETARY INTERESTS ARE CONCERNED THAN THEIR HARD-NOSED COLLEAGUES IN EG THE FINANCE MINISTRY,
 - B. BECAUSE IN THE NEGOTIATIONS FOR THE GUIDELINES (AS OPPOSED TO THOSE ON FIGURES) THEY ARE DEMANDEURS.IT IS IN OUR INTERESTS THAT THEY SHOULD STAY IN CHARGE.

3. IT IS DIFFICULT TO BE SURE BUT I THINK THE GERMANS CAME BACK FROM PARIS A LITTLE DISILLUSIONED WITH THE FRENCH. THAT COULD ALSO BE A FAVOURABLE CIRCUMSTANCE, ESPECIALLY IF THE FRENCH REMAIN UNINTERESTED IN THE GUIDELINES AND UNWILLING TO COMPROMISE EG ON DEGRESSIVITY.

4. OUR COMMUNITY BONA FIDES ARE NOT TOO BAD HERE. WE CAN IMPROVE THEM FURTHER BY CONTINUING TO COOPERATE WITH THE GERMANS IN THEIR SEARCH FOR A WAY THROUGH ON THE GUIDELINES. IT MAY BE A VAIN EXERCISE BUT IT IS ONE TO WHICH GENSCHER ATTACHES CONSIDERABLE IMPORTANCE. IT MAY ALSO SERVE TO DELAY IF NOT AVERT ENTIRELY A NINE TO ONE

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SPLIT. OUR ASSOCIATION WITH THE GERMANS IN THE SEARCH MIGHT ALSO HELP THEM TO FEEL THAT THE CHOICE TO BE MADE WAS NOT SO MUCH BETWEEN LONDON AND PARIS AS BETWEEN PARIS AND THE COMMUNITY. ONE GERMAN OFFICIAL HAS TOLD US THAT THERE APPEAR TO BE SOME IN PARIS WHO TALK AS THOUGH THEY WERE SPOILING FOR A SHOWDOWN.

5. IT WILL OF COURSE BE IMPORTANT TO MAKE CLEAR TO THE CHANCELLOR AND GENSCHER THE IMPORTANCE OF GETTING A FINANCIALLY ACCEPTABLE SETTLEMENT TO OUR BUDGET PROBLEM AND THE URGENCY OF THIS: BUT NOTWITHSTANDING THE RISKS, I RECOMMEND THAT IN WHAT TIME REMAINS BETWEEN NOW AND THE COUNCIL ON 23 MARCH WE SHOULD TRY HARD TO MAINTAIN THE DIALOGUE WITH THE GERMANS ON GETTING CLEAR GUIDELINES AND, IN THAT WAY, CONTINUE TO ENGAGE GENSCHER'S INTEREST IN A SUCCESSFUL CONCLUSION OF THE MANDATE NEGOTIATIONS.

6. IN TALKING TO THE CHANCELLOR AND GENSCHER THERE WILL BE ADVANTAGE IN RELATING THE MANDATE TO ITS WIDER COMMUNITY AND ALLIANCE CONTEXTS. THESE CONSIDERATIONS WEIGH HEAVILY WITH BOTH MEN AND THE FORMER IS NOTORIOUSLY IMPATIENT OF THE DETAIL OF THE COMMUNITY DOSSIERS. BROADENING THE SCOPE ALSO ENABLES US NOT ONLY TO DISPLAY OUR EUROPEAN CREDENTIALS IN THE COMMUNITY CONTEXT, INCLUDING THE ENERGY AND INGENUITY WE HAVE INVESTED IN EXPLORING WAYS IN WHICH THE COUNCIL MIGHT FULFILL ITS 30 MAY PLEDGE, BUT ALSO IN THE CONTEXT OF THE ALLIANCE, ALL OF THIS CONTRASTS WITH THE FRENCH PERFORMANCE (RECONQUETE, NATIONAL AIDS, DIRIGISME MIDDLE EAST POLICY ETC). WE CAN ALSO POINT TO THE GREAT GAINS THAT WOULD FLOW TO THE COMMUNITY FROM A BRITAIN THAT FELT COMFORTABLE IN HER MEMBERSHIP.

7. ON THE MANDATE ITSELF, IN ADDITION TO MAKING OUR REQUIREMENTS CLEAR, I HOPE WE SHALL ALSO BE ABLE TO INDICATE SOME FLEXIBILITY, ESPECIALLY ON THE GUIDELINES. IF WE CAN HELP GENSCHER GET GUIDELINES HIS GOODWILL SHOULD BE AN ASSET WHEN THE TIME COMES TO NEGOTIATE OVER NUMBERS. GENSCHER IS DISPOSED TO HELP BUT NEEDS HELP IF HE IS TO KEEP THE FRENCH IN PLAY. SEVERAL VOICES IN BONN ARE URGING THAT THE GERMANS SHOULD KEEP THEIR HEADS DOWN AND LET THE BRITISH AND THE FRENCH SORT THE ISSUE OUT DIRECTLY. I AM SURE OUR INTERESTS AND THOSE OF THE COMMUNITY WILL BE BETTER SERVED IF THE GERMANS CONTINUE TO ACT, IN PART, AT ANY RATE, AS GO-BETWEEN.

8. SIMILARLY, I HOPE WE CAN GO ON PROMISING GENSCHER HELP ON HIS AND COLOMBO'S EUROPEAN INITIATIVE. WE HAVE ALREADY ESTABLISHED OURSELVES AS POSITIVE ON THIS AND THE GERMANS VALUE OUR ATTITUDE. THE MORE GENSCHER BELIEVES THAT REAL PROGRESS ON THIS PROPOSAL IS WITHIN REACH THE MORE INCENTIVE HE HAS TO ENSURE THAT FAILURE TO REACH AGREEMENT OVER THE MANDATE DOES NOT SABOTAGE HIS INITIATIVE.

TAYLOR

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FM BONN 151810Z MAR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 225 OF 15 MARCH

INFO IMMEDIATE ANKARA ATHENS BRUSSELS COPENHAGEN THE HAGUE LISBON
LUXEMBOURG OSLO OTTAWA PARIS REYKJAVIK ROME WASHINGTON UKDEL NATO D
DUBLIN UKREP BRUSSELS MOSCOW CICC(G)

ANGLO-GERMAN SUMMIT: THE MOOD IN THE FRG.

SUMMARY

1. CHANCELLOR SCHMIDT WILL BE COMING TO CHEQUERS IN A WORRIED STATE OF MIND. HIS GOVERNMENT'S MORALE AND PROSPECTS HAVE DECLINED SINCE THE BONN SUMMIT IN NOVEMBER. THE COALITION IS BY NO MEANS DEAD YET, BUT ITS PREMATURE COLLAPSE - PERHAPS EVEN THIS YEAR - CAN NO LONGER BE RULED OUT. THE CHANCELLOR IS ALSO ACUTELY CONCERNED ABOUT THE EFFECT OF US POLICIES (ECONOMIC, POLITICAL AND DEFENCE) ON THE TRANSATLANTIC RELATIONSHIP. THE WELL STAGE-MANAGED RAPPROCHEMENT WITH PARIS AT LAST MONTH'S FRANCO-GERMAN SUMMIT WILL HAVE BROUGHT HIM SOME REASSURANCE, BUT I DOUBT IF HE FEELS THAT THE RAPPROCHEMENT GOES VERY DEEP. HE IS LOOKING FOR FRIENDS AND WILL BE KEEN TO CEMENT THE FRG/UK RELATIONSHIP AT CHEQUERS, ESPECIALLY IF WE CAN SHOW HIM THAT WE ARE AS COMMITTED TO THE COMMUNITY AS HE IS, HOWEVER DETERMINED WE MAY BE TO BRING ABOUT CHANGES IN SOME OF ITS POLICIES AND MECHANISMS.

DETAIL

2. THE VOTE OF CONFIDENCE WHICH THE CHANCELLOR WON FROM THE BUNDESTAG ON 5 FEBRUARY HAS PROVED AS HOLLOW A VICTORY AS MANY PEOPLE PREDICTED. VOCAL OPPOSITION TO INF STATIONING HAS REVIVED AMONG THE GRASS ROOTS OF BOTH SPD AND FDP, AND THIS HAS CREATED FRESH NERVOUSNESS IN SPD CIRCLES AS TO HOW THE DEBATE ON THIS ISSUE WILL GO AT PARTY CONFERENCE IN APRIL. THE PARTY FINANCING SCANDAL, IN WHICH LAMBSDORFF, MATTHOEFER AND STATE SECRETARY LAHNSTEIN ARE AMONG THOSE CURRENTLY UNDER INVESTIGATION, HAS FURTHER SAPPED THE MORALE OF BOTH COALITION PARTNERS.

3. INDICATIONS IN RECENT OPINION POLLS THAT THE SPD ARE LOSING SUPPORT HEAVILY WERE REINFORCED IN THE SCHLESWIG HOLSTEIN COMMUNAL (IE LOCAL AUTHORITY) ELECTIONS ON 7 MARCH., WHERE THE SPD WERE THE CHIEF LOSERS. SCHMIDT AND GENSCHER WILL NOW BOTH NERVOUSLY BE WATCHING THE LAND ELECTIONS IN LOWER SAXONY, TAKING PLACE TWO DAYS AFTER THE SUMMIT ON 21 MARCH, WHERE ALL THE INDICATIONS ARE THAT THE CDU MINISTER-PRESIDENT ALBRECHT WILL INCREASE HIS OVERALL MAJORITY AT THE EXPENSE OF THE BONN COALITION PARTNERS. BAD RESULTS FOR THE SPD AND FDP IN THE HAMBURG ELECTIONS IN JUNE OR MORE PROBABLY IN THE HESSEN ELECTIONS IN SEPTEMBER COULD THEN GIVE THE OPPOSITION A TWO-THIRDS MAJORITY IN THE BUNDESRAT (FEDERAL UPPER HOUSE) SUFFICIENT TO BLOCK GOVERNMENT LEGISLATION,

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/AND

CONFIDENTIAL

AND IT IS NOT OUT OF THE QUESTION THAT THEY MIGHT USE IT TO BRING THE GOVERNMENT DOWN. THERE IS MATERIAL FOR SOME COMFORT FOR THE COALITION ON THE INTERNAL ECONOMIC FRONT(SEE MY SECOND I.F. T.): BUT THE OVERALL PICTURE IS AN UNHAPPY ONE AND THE CHANCELLOR MUST BE FEELING THE GROUND SHIFTING UNEASILY UNDER HIS FEET.

4. SOME LEADING MEMBERS OF THE COALITIONS HAVE BEEN MAINTAINING THAT, DESPITE THE GROWING PRESSURES, RELATIONS BETWEEN SPD AND FDP ARE BETTER THAN FOR SOME TIME. IT IS HARD TO BELIEVE THIS: THE EVIDENCE IS CONTRADICTORY. GENSCHER AND LAMBSDORFF, BOTH FDP, HAVE NOT ENDEARED THEMSELVES TO THEIR SPD PARTENERS BY RECENT STATEMENTS CLEARLY DESIGNED TO DISTANCE THEIR PARTY FROM THE SINKING SPD AND TO PREPARE FOR THE EVENTUAL POSSIBILITY OF A SWITCH TO ALLIANCE WITH THE CDU. AT LOWER LEVELS, THERE IS GROWING BITTERNESS AND MISTRUST BETWEEN THE MEMBERS OF THE TWO COALITION PARTIES. NOR HAS GENSCHER'S SUCCESS IN RECENT WEEKS IN PROFILING HIMSELF AS THE MAN WHO IS ACTIVELY SEEKING SOLUTIONS TO ALLIANCE PROBLEMS GONE UNNOTICED. GENSCHER AND SCHMIDT AT CHEQUERS MAY SIT TOGETHER LESS EASILY THAN USUAL.

5. ALL THE SAME, IT WOULD BE RASH TO SELL SCHMIDT AND THE COALITION SHORT. THEIR DIFFICULTIES ARE REAL, BUT THE ODDS THAT THEY WILL LAST THE YEAR OUT STILL SEEM TO ME BETTER THAN EVENS. SCHMIDT MAY STILL HAVE TWO YEARS OF POWER AHEAD OF HIM. AND GENSCHER CAN LOOK EVEN FURTHER AHEAD THOUGH PROBABLY IN DUE COURSE WITH ANOTHER PARTNER.

6. ON TOP OF HIS DOMESTIC WORRIES, SCHMIDT IS EVEN MORE PESSIMISTIC THAN MOST PEOPLE ABOUT THE CURRENT STRAINS IN TRANS-ATLANTIC RELATIONS. UNWILLING TO ACCEPT THAT THE FRG AND HE HIMSELF MAY HAVE CONTRIBUTED TO THE MISUNDERSTANDINGS, HE HAS BEEN BOTH DISAPPOINTED AND IRRITATED BY THE REAGAN ADMINISTRATION'S PERFORMANCE - BY ITS ECONOMIC MANAGEMENT AND FAILURE TO BRING INTEREST RATES DOWN, BY WHAT HE SEES AS ITS EXCESSIVE DEFENCE EXPENDITURE PLANS AND UNREALISTIC DEMANDS ON ITS EUROPEAN ALLIES IN THE DEFENCE FIELD, BY ITS PATCHY RECORD OF CONSULTATION WITH THE ALLIES AND BY ITS APPARENT SEARCH FOR PUNITIVE POLICIES AGAINST THE SOVIET UNION AND POLAND WHICH, IN THE CHANCELLOR'S VIEW, DEMONSTRATE ITS LACK OF FEEL FOR EAST-WEST RELATIONS. THE OUTWARD SUCCESS OF GENSCHER'S RECENT VISIT TO WASHINGTON IS UNLIKELY TO HAVE DONE MUCH TO REMOVE THESE BASIC ANXIETIES AND THE SAME WILL PROBABLY BE TRUE OF BUCKLEY'S CURRENT VISIT TO BONN. MEANWHILE THE TRANSFER OF THE NATO SUMMIT TO BONN (ORIGINALLY GENSCHER'S IDEA) HAS GIVEN SCHMIDT A PERSONAL STAKE IN ACHIEVING A DISPLAY OF ALLIANCE UNITY AND SOLIDARITY ON THAT OCCASION. BUT IT ALSO CREATED FORMIDABLE PROBLEMS OF ORGANISATION AND MANAGEMENT OF OPINION, WITH THE RISK OF MASSIVE ANTI-REAGAN DEMONSTRATIONS.

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7. THE UPSHOT OF ALL THIS IS THAT THE CHANCELLOR, BOTH AT HOME AND ABROAD, IS LOOKING FOR FRIENDS. AS USUALLY HAPPENS WHEN THE GOING GETS ROUGH, BONN HAS TURNED IN THE FIRST INSTANCE TO PARIS AND A REAL EFFORT HAS BEEN MADE TO RESTORE THE INTENSITY OF THE FRANCO-GERMAN RELATIONSHIP WHICH EBBED WITH GISCARD'S DEPARTURE. BUT FOR ALL THE PUBLIC PROTESTATIONS OF AGREEMENT AT THE LAST FRANCO GERMAN SUMMIT, THE TWO SIDES STILL FIND THEMSELVES FAR APART ON SOME OF THE MOST IMPORTANT ISSUES, INCLUDING BOTH THE MANDATE AND HOW TO DEAL WITH HIGH US INTEREST RATES. (NOR, I THINK, DID THE GERMANS FALL FOR THE FRENCH LINE THAT THE NEED TO RESTORE THE BONN-PARIS AXIS STEMMED IN PART FROM THE UK'S FAILURE TO COME UP TO THE MARK AS A EUROPEAN PARTNER.) A FURTHER SYMPTOM OF THE GERMAN DESIRE TO AVOID ISOLATION HAS BEEN THE ATTENTION THEY HAVE BEEN PAYING TO ITALY- FIRST IN THE SHAPE OF THE JOINT GENSCHER-COLOMBO PROPOSALS FOR EUROPEAN UNION, AND MORE RECENTLY WHEN GENSCHER PICKED UP COLOMBO'S GEORGETOWN PROPOSALS FOR IMPROVING TRANS-ATLANTIC CONSULTATIONS. AT CHEQUERS, I BELIEVE THAT THE CHANCELLOR AND GENSCHER WILL BE AIMING TO ACHIEVE A DEMONSTRATION OF SOLIDARITY WITH THE UK COMPARABLE WITH (THOUGH DIFFERENT FROM)WHAT HAS BEEN DONE WITH FRANCE AND ITALY. THEY KNOW THAT ON MOST OF THE MAJOR ISSUES - EAST-WEST RELATIONS, THE ALLIANCE, ARMS CONTROL, THE STRENGTHENING OF POLITICAL COOPERATION AND TO SOME EXTENT EVEN ON THE MANDATE- THEY HAVE AS MUCH COMMON GROUND WITH THE UK AS WITH ANYONE: AND THEY HAVE NOTED WITH SATISFACTION THE MORE POSITIVE REPORTS ON THE UK'S ECONOMIC PERFORMANCE WHICH ARE NOW STARTING TO APPEAR IN THE INTERNATIONAL AND GERMAN PRESS. BUT THEY CONTINUE TO BE CONSTRAINED BY DOUBTS ABOUT THE STRENGTH OF BRITAIN'S COMMITMENT TO EUROPE AND THE LENGTHS TO WHICH WE MAY BE PREPARED TO GO TO GET OUR OWN WAY IN THE COMMUNITY. WHATEVER WE CAN DO TO REASSURE THEM ON THIS SCORE WILL PAY DIVIDENDS (SEE MY FIRST I.F.T., NOT TO ALL). THEY WILL ALSO BE LOOKING TO US FOR CONSTRUCTIVE IDEAS ON HOW TO HANDLE THE NATO SUMMIT AND SMOOTH OUT TRANSATLANTIC DIFFERENCES.

TAYLOR

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[COPIES SENT TO NO 10 DOWNING ST:]

Germann



ll
✓ Miss Stephens
Mrs. Goodchild

10 DOWNING STREET

From the Private Secretary

15 March 1982

Anglo/German Summit

Thank you for your letter of 12 March.

The Prime Minister agrees that your Secretary of State may leave Chequers before the press conference and dinner on 19 March.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office).

A. J. COLES

Miss J.E. Ridley,
Ministry of Defence.

ll



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~936 7022~~ 218 2111/3

MO 14/3

12th March 1982

Prime Minister

You will recall that Mr. Jenkin has
already excused himself. I am a little
concerned that the Germans may take it amiss if
too many Ministers leave before the dinner. All
Ministers were warned some weeks ago to keep 19
North free. Agree that Mr. Nott leaves before the

Dear John

As I mentioned over the telephone my Secretary of State does not feel that he will be able to remain at Chequers for the latter part of the programme for the forthcoming Anglo German Summit.

press conference
and dinner?

The problem arises because Mr Nott must be in Cornwall over the weekend of 20th and 21st March for constituency business. He will have to come back on the train over Sunday night to be ready to set off for the USA on Monday to attend a NATO Nuclear Planning Group meeting. Were he to attend the whole of the Summit he would also have to travel overnight down to Cornwall which is clearly not desirable if he is to be fresh for this important NATO meeting. In order, therefore, to catch a plane down on the Friday he would need to leave Chequers before the press conference is scheduled to begin. I am afraid that there are no flights between London and Newquay over the weekend itself.

Yes
not

My Secretary of State would therefore be grateful if you would mention to the Prime Minister that he will not be able to attend the press conference or the dinner that evening.

Yours,

Jane Ridley

(J E RIDLEY)(MISS)

A J Coles Esq

Germany



bc. C. Stephens
S. Goodchild
D Wright
Jup
all noted.

10 DOWNING STREET

From the Private Secretary

12 March 1982

ANGLO/GERMAN SUMMIT: PROGRAMME

Thank you for your letters of 8 and 11 March.

The proposals in the first of your letters pose no difficulty. The revised outline programme is acceptable though, as your second letter suggests, dinner will now be brought forward to 1845 for 1900.

On the other matters referred to in your letter of 11 March, the Prime Minister's views are as follows:

(a) Mrs. Thatcher would prefer the lunch to be smaller in composition than you propose. She would therefore like the four principals to be joined by the two Ambassadors and one Private Secretary from each side. We shall also arrange a separate lunch at Chequers for some of the immediate entourage of the four principals. This would be for a total of about six. On our side, there would be places for Bernard Ingham, Brian Fall and myself (Clive Whitmore will attend the main lunch). Perhaps you could let me know in due course which three members of the German side would like to join us. As you suggest, other senior British and German officials could lunch at the Bernard Arms Hotel.

(b) As to dinner, the Prime Minister agrees that there should be a total of 18 consisting of the Ministerial participants plus, on our side, Sir Jock Taylor, Sir Robert Armstrong and either Clive Whitmore or myself and, on the German side, Dr. Ruhfus and Herr Becker. I note that Sir Michael Palliser would then give a dinner for other senior British and German officials at The Bell, Aston Clinton.

(c) The Prime Minister will meet Chancellor Schmidt at RAF Benson.

(d) No speeches or toasts. The Prime Minister will say a very few words, if any, after dinner. It would be helpful, against that contingency, to have one side of brief speaking notes.

/(e)

(e) The Prime Minister agrees that a helicopter should be provided to take Herr Schmidt to Uckfield and back on Saturday.

(f) As to interpreters, we think that Herr Genscher's office should be asked whether he would like us to provide an interpreter. If he is entirely content to use his own interpreter then none need be provided on our side.

I am sending a copy of this letter to John Kerr (HM Treasury), Jonathan Spencer (Department of Industry), John Rhodes (Department of Trade), David Omand (Ministry of Defence) and Robert Lowson (Ministry of Agriculture, Fisheries and Food).

A. J. COLES

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



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

12 March 1982

F Richards Esq.
Private Secretary
Foreign & Commonwealth Office

AR 12/3

h.c.

Dear Francis,

ANGLO-GERMAN SUMMIT PROGRAMME

The Chancellor has seen your letter of ^{7pm} 8 March to John Coles. The Chancellor is content to host a lunch for Economic Ministers. As Lancaster House is now unavailable he is content for the lunch to take place in No. 11 Downing Street. I understand that Mr McCleary (Western European Department) is in touch with Government Hospitality Fund and Mr Davy at No. 11 to finalise arrangements. We would envisage a party of between 12 and 14.

On a separate question raised directly with me by Western European Department I can confirm the Chancellor will be content for Mr Biffen to join him and Herr Matthöfer for a quarter of an hour at the end of the morning session (ie at 12.15 p.m.) in No. 11 to discuss insurance.

Copies go to the Private Secretaries to the Prime Minister, The Secretaries of State for Industry, Trade and Defence, and to the Minister of Agriculture.

Yours,

CM

JILL RUTTER



1960
MAY 12 11 30 AM
MILWAUKEE
WISCONSIN

PRIME MINISTER

ANGLO/GERMAN SUMMIT: 19 MARCH

I attach the draft programme and a letter of advice from the FCO. It would be helpful if you could take decisions on the following tonight.

Lunch

The alternatives are:

(a) just yourself, Herr Schmidt and the two Foreign Secretaries;

Yes (b) the above plus perhaps the two Ambassadors and one Private Secretary from ^{each} ~~our~~ side;

(c) the larger lunch suggested in para. 2 of the FCO letter.

You will wish to bear in mind that during the morning you will have had a long tete-a-tete with Chancellor Schmidt and a further 90 minutes with the two Foreign Ministers. You may therefore wish to go for (c) above so that you can broaden the discussion over lunch. Which would you prefer?

Dinner

Yes (a) Do you agree to make the numbers up to 18 as proposed in the FCO letter (perhaps you could let Clive and I decide which of us filled ~~ed~~ the Private Secretary seat)?

Yes (b) Agree that dinner should be 1845 for 1900?

Arrival

Will you go to RAF Benson to meet Herr Schmidt? *Yes*

Speeches

Agree only a few informal words after dinner? *Yes*

Helicopter

Helicopter

Agree that we should provide one to take Herr Schmidt to see Mr. Callaghan on Saturday and bring him back?

Yes mt

Interpretors

See last para. of FCO letter. I think we should ask Herr Genscher whether he wants an interpreter. Agree?

Yes

A.J.C.

11 March 1982



Foreign and Commonwealth Office

London SW1A 2AH

11 March 1982

Dear John,

Anglo-German Summit: 19 March

With your letter of 22 February you enclosed the outline programme for next week's Anglo-German Summit, as approved by the Prime Minister. We have since agreed with the FRG Embassy that the German party will stay on for dinner on Friday evening (we now know that Chancellor Schmidt will spend the night in London).

2. You asked for our advice on who should be included in the two meals at Chequers. For the lunch we would suggest that the four principals be joined by Sir J Taylor, Sir R Armstrong, Sir M Palliser, Mr Bullard, Lord Bridges and yourself on the UK side, and by Dr Ruhfus, Herr Becker, Herr von der Gablentz, Herr Heick, Dr Pfeffer and Dr Fischer on the German side.

(I attach at Annex a list of the German delegation.) Other senior British and German officials could lunch at the Bernard Arms Hotel.

3. For the dinner we suggest that the Ministerial participants be joined by Sir J Taylor, Sir R Armstrong, and yourself on the UK side and by Dr Ruhfus and Herr Becker on the German side. This would make the numbers up to 18. (We now know that Herr Rohr and thus Mr Walker will definitely be participating in the Summit.) Sir M Palliser would then be left free to act as host for a dinner for other senior British and German officials at The Bell, Aston Clinton.

4. You also asked us to consider whether anything can usefully be done in the gap which may arise between the Prime Minister's lunch and the beginning of the Plenary Session at 1530. (I understand this revised timing is acceptable to you.) We have discussed this with the German Embassy and agreed that it would be best to play things by ear. The Federal Chancellor, the Prime Minister and the two Foreign Ministers may wish to use the time to read papers or prepare themselves for the Plenary; alternatively they may just wish to relax by strolling round the gardens at Chequers, if it is fine; or they may wish to continue their discussions over coffee.

/We should like



We should like to seek your guidance on some further points:

(i) The last time the Summit was held in the UK both the Prime Minister and the Secretary of State went out to RAF Benson to meet their German opposite numbers. The Secretary of State intends to do the same again this time. Can we assume that the Prime Minister will also wish to go out to Benson? We can decide on departure arrangements when we know Chancellor Schmidt's movements for certain.

Yes

Very few words if any.

(ii) The Germans have asked whether there will be speeches/toasts at the dinner. We have told them that, subject to the Prime Minister's views, we do not anticipate formal speeches, given the private and informal nature of the occasion. We propose that the Prime Minister say a few words after dinner. If you agree, we shall provide short speaking notes.

(iii) Chancellor Schmidt has let it be known that he would like to spend as much of Friday evening as possible with his daughter, who works in the City. He would like us therefore to move the dinner forward by half an hour from 1915 for 1930 to 1845 for 1900. Herr Schmidt could thus leave for London about 2100. I realize that this means that dinner will be very early, and that there will be virtually no gap between the Press Conference at RAF Halton and pre-dinner drinks. But I hope you can agree that this move would be acceptable under the circumstances.

(iv) Mr James Callaghan has invited Chancellor Schmidt to spend the Saturday morning and lunch with him on his farm near Uckfield, Sussex. Herr Schmidt is reluctant to travel the two hours by car (each way) that this would entail. He has asked therefore if we can provide a helicopter (one was provided to take him to the Konigswinter Conference in Cambridge after the Summit two years ago). Would the Prime Minister agree that this request should be met? *Yes of course*

(v) Of the principal German participants only Herr Genscher and Dr Schlecht are not completely comfortable in English. We are hiring an interpreter for Dr Schlecht's talks in London with Mr Biffen and Mr Jenkin and the same interpreter will be present for the Plenary. Subject to the Prime Minister's views, however, we would not propose to lay on an interpreter for the morning sessions at Chequers. Herr Genscher understands English perfectly well, although he sometimes prefers to speak German himself; he will in any case be bringing his own interpreter.

A J Coles Esq
10 Downing Street

John Coles
(F N Richards)
Francis Richards
Private Secretary

ANGLO-GERMAN SUMMIT : 19 MARCH

PROVISIONAL LIST OF GERMAN DELEGATION

Federal Chancellor's Delegation

Herr Schmidt
Herr Becker, State Secretary, Federal Government Spokesman
Herr von der Gablentz, Deputy Secretary
Herr Heick, Deputy Secretary
Herr Fischer-Dieskau, Assistant Secretary
Herr Frickinger, Private Secretary

Foreign Minister's Delegation

Herr Genscher
Herr Pfeffer, Deputy Secretary
Dr Fischer, Deputy Secretary
Dr Schenk, Assistant Secretary
Herr Paschke, Assistant Secretary
Herr Weber, Interpreter
Dr von Ploetz, Principal Officer
Herr Rothen

Finance Minister's Delegation

Herr Matthöfer
Herr Heck, Deputy Secretary
Herr Hansland, Principal Officer

Defence Minister's Delegation

Dr Apel
Dr Leister, State Secretary
Gen Stuetzle, Deputy Secretary
Col Freisberg

Economic Ministry Delegation

Dr Schlecht, State Secretary
Herr Mueller-Thuns, Deputy Secretary
Frau Scheben

Agriculture Ministry Delegation

Herr Rohr, State Secretary
Herr Witt, Assistant Secretary

ANGLO-GERMAN SUMMIT: 19 MARCH 1982

OUTLINE PROGRAMME

- 0930 Chancellor Schmidt and Herr Genscher arrive at RAF Benson
- 0930 Other German Ministers arrive at RAF Northolt
- 1015 Chancellor Schmidt and Herr Genscher arrive at Chequers
- 1015-1145 Tête-à-tête talks between Chancellor Schmidt and Prime Minister at Chequers
- 1015-1145 Tête-à-tête talks between Herr Genscher and Lord Carrington at Chequers
- 1030 Other Ministers arrive at various ministries in central London
- 1030-1230 Talks between other German Ministers and their British opposite numbers in London
- 1145-1315 Talks between Prime Minister, Chancellor Schmidt, Lord Carrington and Herr Genscher at Chequers
- 1245-1415 Working lunches in London for other Ministers
- 1315 Lunch at Chequers for Prime Minister, Chancellor Schmidt, for 1330 Lord Carrington and Herr Genscher
- 1415 Other Ministers leave London
- 1530-1700 Plenary Session at Chequers for all participants in talks
- 1700-1720 Tea
- 1730-1830 Press Conference at RAF Halton
- 1845 ~~1915~~ Dinner at Chequers for Ministerial participants
to 1900 ~~for 1930~~ (subsidiary dinner for officials at The Bell, Aston Clinton)

RESTRICTED



A.J.C. 12/3

f.a.

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

11 March 1982

F. Richards, Esq.,
Private Secretary,
Foreign & Commonwealth Office

Dear Francis,

ANGLO-GERMAN SUMMIT PROGRAMME

The Chancellor has seen your letter of 8[✓] March to John Coles. ^{TPM}

The Chancellor is content to host a lunch for Economic Ministers at Lancaster House as you suggest. He would envisage a lunch party of around 12 in total.

On a separate question raised with me directly by Western European Department I can confirm that the Chancellor will be content for Mr. Biffen to join him and Herr Matthofer for a quarter of an hour at the end of the morning session (ie at 12.15 p.m) in No.11 to discuss insurance.

Copies go to the Private Secretaries to the Prime Minister, the Secretaries of State for Industry, Trade and Defence, and to the Minister of Agriculture.

Yours,

Jill Rutter

JILL RUTTER

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Germany
D

Cabinet Office,
70 Whitehall,
London SW1

10th March, 1982

PS(82) 6

A.J.C. 11/3
b.a.

Dear Private Secretary,

Anglo-German Summit: 19th March 1982

In paragraph 2 of my letter (PS(82) 4) of 3th March about briefing arrangements for the forthcoming Anglo-German Summit, I said that a revised list of briefs would be issued shortly to take account of a number of additional subjects for discussion which had been proposed by the Germans.

I enclose this revised list and should be grateful if Departments could prepare briefs accordingly. You will note that certain briefs are marked with an asterisk. This is to signify that they are only for background purposes and need not contain points to make. As with other briefs, these background briefs should not exceed two sides in length.

I am copying this letter to the recipients of my earlier letter (notably the Private Secretaries to Sir Michael Palliser, Sir Douglas Wass, Sir Frank Cooper, Sir Peter Carey, Sir Brian Hayes, Sir Kenneth Barnes, Mr. Michael Franklin, Mr. Robin Ibbs and John Coles at No. 10) and also, with a copy of my earlier letter, to the Private Secretaries to Sir Douglas Lovelock (Customs and Excise) and Mr. Philip Woodfield (NIO).

Yours sincerely,

(Signed) D.J. WRIGHT

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REVISED LIST OF BRIEFS FOR ANGLO-GERMAN SUMMIT
19 MARCH 1982

<u>YMV(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
1.	Steering Brief	FCO(WED)	as appropriate
2.	European Questions		
	(a) Steering Brief on the European Community	FCO(ECD(I))	MAFF Treasury Trade Industry and as appropriate
	(b) European Act	FCO(ECD(I))	MOD and as appropriate
	(c) 30 May Mandate	FCO(ECD(I))	Treasury MAFF
	(d) CAP Price-fixing	MAFF	FCO(ECD(I)) Treasury
	(e) Political Co-operation	FCO(ECD(E))	MOD and as appropriate
	*(f) Common Fisheries Policy (Defensive)	MAFF	FCO(ECD(I))
	*(g) Enlargement of the Community	FCO(ECD(E))	Treasury Trade MAFF Employment. Industry and as appropriate
	(h) Currency Situation in the Community including Future Development of EMS	Treasury	FCO(ECD(I))/ ESID)

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<u>YMV(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
	(i) Internal Market of the Community (including removal of border formalities, duty-free allowances, insurance services, "reconquest" of French internal market, origin marking)	Trade	FCO(ECD(I)) Customs and Excise Industry
	(j) Community Steel Policy	Industry	FCO(ECD(I))
	(k) External Trade Issues (including EC/Japan, EC/USA, International Tin Agreement)	Trade	FCO(ECD(E)/ TRED) Treasury Industry
	* (l) EC/Turkey	FCO(ECD(I))	as appropriate
3.	Other European Questions		
	(a) Ireland (position after 18 February elections, Northern Ireland)	FCO(RID)	NIO
	(b) Review of Franco/German Summit of 24-25 February	FCO(WED)	as appropriate
	* (c) Spain (Spanish/British relations, Gibraltar)	FCO(SED)	MOD
	(d) Eastern Mediterranean (Greece/Turkey, Cyprus)	FCO(SED)	
4.	Poland	FCO(EESD)	as appropriate
5.	NATO Summit and Transatlantic Relations in the light of the Polish Crisis	FCO(Defence Dept. / Planning Staff)	MOD and as appropriate
6.	The Future Course of East/West Relations	FCO(EESD)	as appropriate
7.	CSCE/CDE	FCO(CSCE Unit)	MOD

<u>YMV(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
*15.	Herr Genscher's Proposal for Informal Meetings of NATO Foreign Ministers (Defensive)	FCO(Defence Dept.)	MOD
*16.	United Kingdom/FRG Bilateral Relations	FCO(WED)	as appropriate
*17.	FRG Scene		
	(a) Political	FCO(WED)	
	(b) Economic	Treasury	

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VB

Germany

SIR ROBERT ARMSTRONG

Anglo-German Summit: 19 March 1982

The Prime Minister has seen your minute of 8 March. She has confirmed that she is content to speak informally about Northern Ireland if Herr Schmidt raises the question. The Prime Minister made no comment on the other matters referred to in your minute.

AJC

9 March 1982

CONFIDENTIAL

h



Foreign and Commonwealth Office

London SW1A 2AH

8 March 1982

Dear John,

Anglo-German Summit: Programme

With your letter of 22 February ^{on part 3.} you enclosed an outline programme for the Summit as approved by the Prime Minister. We should like to propose some minor amendments to the timings and also to suggest how the lunches for Ministers other than the Prime Minister and my Secretary of State might best be handled.

Your outline proposed that Ministers other than the Prime Minister and the Foreign Secretary should leave London at 1400. Given that the sessions of talks between our Ministers and their German opposite numbers will probably last until about 1230 and that they cannot therefore hope to start lunch much before 1245, it would seem sensible to postpone departure from London until 1415. This would mean that the timing for both the plenary session and the tea at Chequers would have to be put back by 15 minutes. The Press Conference could still begin at 1730. I enclose a revised outline programme which takes account of these suggested changes, which I hope are acceptable to you.

As for the lunches to be held in London for Ministers other than the Prime Minister and the Foreign Secretary, we think that there would be advantage, from an administrative point of view, in keeping to a minimum the number of separate lunch parties. It would also seem to be desirable for all the economic Ministers to lunch together, as this would provide an opportunity for a wide-ranging exchange of views. We should like to propose therefore that the Chancellor of the Exchequer give a lunch which would include the Secretaries of State for Trade and Industry, Herr Matthoefer and Dr Schlecht. On the basis of informal soundings with the Chancellor's Office we have made a provisional booking at Lancaster House in case the Chancellor would like to have the lunch there rather than at No 11. This would leave Mr Nott to lunch separately with Dr Apel and Mr Walker to lunch separately with Herr Rohr (on the assumption that the latter attends the Summit - see Andrew Burns's letter of today's date to David Wright, copies to Clive Whitmore).

We may be obliged to write to you again about the timing of the dinner but we shall not do so until we have firm news about whether Chancellor Schmidt proposes to stay the night.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Industry, Trade and Defence, and to the Minister of Agriculture.

Yours ever,
(F W Richards)
Private Secretary

A J Coles Esq
10 Downing St

Are you content to speak informally
about Northern Ireland if Her Schmidt
raises it?

Yes

A.S.C. $\frac{8}{3}$

Ref. A07733

MR COLES

Anglo-German Summit, 19th March

With my minute of 1st March, I submitted a list of subjects for discussion at this Summit. In doing so, I explained that there was a possibility that the Germans might wish to propose a number of additional subjects.

2. They have now done so and I attach their revised list. Those subjects which are underlined are the Germans' additional suggestions. The Foreign and Commonwealth Office take the view that there is nothing exceptionable in these additions except for the inclusion of Ghana and Chad which do not merit treatment at Summit level. But they have told the Germans that they consider the list to be too long for all the subjects to be dealt with in the short time available. In particular, issues such as EC-Turkey, Spain, Southern Africa and Namibia, East and Central Africa (Zimbabwe, Uganda), Libya, Cambodia, the North-South dialogue and a proposed meeting of German and British industrialists and trade-unionists are all either less important or less pressing than the other issues mentioned in the list. For this reason briefs on these subjects would only be of a summary background nature.

3. You will also note that the Germans have included Ireland in their list. This is meant to cover the position following the Irish elections and also Northern Ireland. The Germans have told the Foreign and Commonwealth Office that they have included this heading not because they believe the Federal Chancellor or the Ministers accompanying him will want a substantive discussion of the subject but in the hope that, if the Federal Chancellor raises the subject, the Prime Minister might be willing to speak informally about developments in Ireland and about the Government's intentions in Northern Ireland. The Federal German Government has always refrained from comment on developments in Northern Ireland. The German press has also generally adopted a responsible attitude



to the problem. Against this background, it might be helpful if the Prime Minister agreed to respond favourably, but on an informal basis, to any enquiry which the Federal Chancellor might make about her assessment of developments in both the Republic and Northern Ireland itself.

4. The full list of subjects which have now been proposed is far too long for the Prime Minister to raise with the Federal Chancellor. The Steering Brief for the Summit, which I shall be discussing with the other Permanent Secretaries concerned tomorrow, will contain proposals for the allocation of specific subjects to the Ministers involved. Present plans recommend that in her bilateral with Chancellor Schmidt the Prime Minister should discuss the Mandate, Transatlantic Relations and the forthcoming NATO Summit, Poland, the future course of East-West Relations, International Economic and Monetary questions and, if the Chancellor raises it, Ireland.

A handwritten signature in dark ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

8th March 1982

ANGLO-GERMAN SUMMIT: 19 MARCH

● CHECK LIST OF SUBJECTS FOR DISCUSSION: GERMAN IDEAS

1. European Questions

- a. European Act
- b. 30 May Mandate
- c. CAP Price-fixing
- d. Enlargement of the Community
- e. Internal market of the Community
 - Strengthening of the internal market (removal of border formalities - Narjes initiative)
 - reconquest of French market
 - liberalisation of air transport
 - insurance services (Schadensversicherungen)
- f. Community Steel Policy
- g. External trade issues
 - textiles (including Japan, USA)
 - EC/Japan
 - EC/USA
 - International Tin Agreement
- h. Currency situation in the Community, including further development of EMS
- i. Ireland
 - position after the 18 February elections
 - Northern Ireland
- j. Review of the Franco/German Summit of 24/25 February
- k. Spain (Spanish/British relations after the visit to London by the Spanish Prime Minister, Gibraltar)
- l. Eastern Mediterranean
 - Greece/PoCo

/- EC/Turkey

- EC/Turkey (association, financial protocol, freedom of movement)

- situation in Cyprus

2. West/West and East/West Questions

a. Transatlantic relations

- European/American relations in the light of the Polish crisis.

- USA/PoCo

b. The future course of relations with the Soviet Union

c. Poland

- situation, démarche action

- catalogue of measures

3. Defence/Arms Control

a. Preview of NATO Summit, including 'Bonn Declaration'

b. Spain/NATO (working on Greece and Holland)

c. Greece/NATO

d. CSCE/CDE

e. INF/START (including peace movement)

f. MBFR

g. UK Defence Programme

h. German Defence Programme

i. German/British defence equipment collaboration

j. Transatlantic defence equipment collaboration (common reaction to US restrictions)

4. World Political Issues

a. Afghanistan (efforts for a political solution)

b. Situation in Middle East

c. Iran/Iraq

d. Southern Africa/Namibia

e. East Africa (Zimbabwe, Uganda)

/f.

f. Ghana, Chad

g. Libya

- Attitude of the West towards Qadhafi
- Relationship between the US and Libya
- Qadhafi's forthcoming Presidency of the OAU

h. Development of the Cambodia question (following Lord Carrington's ASEAN trip)

i. Central America

5. North/South, International Economic and Energy Questions

a. North/South dialogue post Cancun

b. International economic questions

c. Exchange of views on economic situation in the FRG and the UK

d. International monetary questions (alignment of interest and exchange rate policies)

e. US economic policy

6. Bilateral Questions

a. German/British trade union relations (including Anglo-German Foundation)

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Cabinet Office,
70 Whitehall,
London SW1

8th March, 1982

PS(82) 4

A & C. $\frac{9}{3}$

Dear Private Secretary,

k.a.

Anglo-German Summit: 19th March 1982

This letter sets out the briefing arrangements for the Anglo-German Summit on 19th March.

The objectives for the visit, as approved by the Prime Minister, are at Annex A. The list of briefs to be prepared, with an indication of Departmental responsibility, is at Annex B. (This list of briefs does not deal with a small number of additional subjects for discussion which the Germans have proposed over the last few days and on which the Prime Minister's views have yet to be sought. A revised list of briefs, taking account of these additional subjects, will be issued as soon as possible.) Instructions on format are at Annexes C and D. Those preparing briefs should note carefully the details on the format of briefs set out in Annex C. On this occasion the Prime Minister has asked that the briefs should not be too detailed and only of a summary nature. Departments should, therefore, aim to ensure that, apart from the Steering Brief, individual subject briefs do not exceed two sides of paper.

70 copies of each brief should be sent to the Cabinet Office as soon as they are ready. If they can be prepared by 12th March without any risk of subsequent revision, they should reach the Cabinet Office by 5.00 pm on that day. Otherwise they should reach the Cabinet Office by 5.00 pm on 15th March at the latest. They should be addressed to Mr. W. Ewing in Committee Section, who should be consulted (tel. no. 233 7628) about any technical points arising.

I am sending copies of this letter to the Private Secretaries to Sir Michael Palliser, Sir Douglas Wass, Sir Frank Cooper, Sir Peter Carey, Sir Brian Hayes, Sir Kenneth Barnes, Mr. Michael Franklin and Mr. Robin Ibbs, and to John Coles at No. 10.

Yours sincerely,

(Signed) D.J. WRIGHT

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ANGLO-GERMAN SUMMIT
19 MARCH 1982

UNITED KINGDOM OBJECTIVES

Primary

1. To bring home to the Germans the need for an early, fair and durable conclusion to the Mandate conclusions; to keep them in step as far as possible with our approach; and to press our interests on other Community topics.
2. To reach agreement on the best way to preserve Alliance unity in the light of recent and possible developments, especially in Poland; to discuss the future course of East/West relations; to seek to establish the views of the Federal Government on objectives for the NATO Summit; and to define the scope for agreement between the United Kingdom and Germany on the proposed and desired outcome of that Summit.
3. To strengthen the United Kingdom/FRG relationship in the defence field, and to confirm our commitment, through the stationing of British forces in Germany, to the defence of Europe, in spite of budgetary constraints.
4. To build on the goodwill generated at the last Summit (the tenth in the series).

Subsidiary

5. To exchange views on the international economic situation, with particular reference to United States interest rate policy, international trade issues and the objectives and outcome of the Versailles Economic Summit.
6. To ensure that the German approach to nuclear arms control, particularly INF, remains closely aligned with our own.
7. To explain Her Majesty's Government's economic policies.

PROBABLE GERMAN OBJECTIVES

1. In view of their concern at current divergences of policy and view within the Alliance, and in particular between the United States and Europe, to review and reach the widest possible agreement on:

- (a) Current world political issues (especially Poland, arms control issues, East/West relations, Middle East, Southern Africa, Central America).
 - (b) Current economic issues (especially United States and French economic policies - in particular United States interest rates and their effect on the world economic situation - protectionism, inflation and unemployment, energy and North/South issues).
2. To further the prospects for an early conclusion to the discussion of the Mandate within the Community, and to promote their interests in other Community issues.
 3. To review and reach the widest possible agreement on defence policy and planning issues in the light of the serious pressures on defence expenditure in both countries and with an eye to the handling of the NATO Summit in June.
 4. To improve and strengthen their relationship with British Ministers, building on the present community of interest between the two Governments.
 5. To assess for themselves the prospects for Her Majesty's Government's policies in the light of current political and economic developments in the United Kingdom.

LIST OF BRIEFS FOR ANGLO-GERMAN SUMMIT
19 MARCH 1982

<u>YMV(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
1.	Steering Brief	FCO(WED)	as appropriate
2.	European Community Questions		
	(a) Steering Brief on the European Community	FCO(ECD(I))	MAFF Treasury Trade Industry
	(b) 30 May Mandate	FCO(ECD(I))	Treasury MAFF Industry
	(c) CAP Price-fixing	MAFF	FCO(ECD(I)) Treasury
	(d) Common Fisheries Policy (Defensive)	MAFF	FCO(ECD(I))
	(e) Enlargement of the Community	FCO(ECD(E))	Treasury Trade MAFF Employment Industry
	(f) EMS (Defensive)	Treasury	FCO(ECD(I)/ ESID)
	(g) Internal Market of the Community (including liberalisation of air transport, insurance services, "reconquest" of French internal market, duty-free allowances, origin marking)	Trade	FCO(ECD(I)) MAFF Industry Treasury
	(h) Community Steel Policy	Industry	FCO(ECD(I))

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<u>YMV(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
	(i) European Union	FCO(ECD(I))	as appropriate
	(j) External Trade Issues (including EC/Japan, EC/USA, International Tin Agreement)	Trade	FCO/ECD(E)/ TRED) Treasury
3.	Poland	FCO(EESD)	Treasury Trade MOD
4.	NATO Summit and Trans- atlantic Relations in the Light of the Polish Crisis	FCO(Defence Dept. / Planning Staff)	as appropriate
5.	The Future Course of East/ West Relations	FCO(EESD)	as appropriate
6.	CSCE/CDE	FCO(CSCE Unit)	MOD
7.	Defence Matters	MOD	FCO(Defence Dept.)
8.	Arms Control and Disarmament	FCO(Defence Dept.)	MOD
9.	World Political Issues		
	(a) Afghanistan: How to Keep the Pressure on the Soviet Union	FCO(SAD)	
	(b) Arab/Israel	FCO(NENAD)	
	(c) Turkey, Greece and the Eastern Mediterranean	FCO(SED)	
	(d) Iran/Iraq and Its Reper- cussions in the Area	FCO(MED)	
	(e) Southern Africa/Namibia	FCO(SAFD)	
	(f) Central America	FCO(MCAD)	

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<u>YMV(82)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
10.	International Economic and Monetary Questions	Treasury	FCO(ESID/ ERD)
11.	United States Economic Policy	Treasury	FCO(ESID/ ERD)
*12.	Franco-German Relations	FCO(WED)	as appropriate
*13.	FRG Scene		
	(a) Political	FCO(WED)	
	(b) Economic	Treasury	

*Background Brief

INSTRUCTIONS ABOUT FORMAT

All briefs should be laid out in the same way with a top page in accordance with the specimen layout at Annex D. Those preparing briefs should pay particular attention to ensuring that the following instructions are fully observed:

Content

- (a) Briefs should be concise. Each brief should if possible be no more than two sides long.
- (b) The main body of each brief should comprise two sections, a concise list of Points to Make, followed by a factual Background section which distinguishes clearly between information which can be freely used and information which should not be disclosed.
- (c) Briefs should be complete and self-contained with all the information required on that particular subject. Briefs should not be divided into separate self-contained sub-sections.

Layout

- (d) Briefs should be typed in double spacing, using both sides of the paper. Pages should be numbered at the foot of each page.
- (e) As shown in the specimen at Annex D, the top page only of each brief should contain the following details: the symbol and number of the brief in the top left-hand corner (e. g. YMV(82) 10) with the date of production below; a copy number in red at the top right-hand corner; the visit heading; the title of the brief (in capitals) and the name of the Department responsible.
- (f) At the foot of the last page and on the left-hand side, briefs should bear the name of the originating Government Department and the date of origin.

Reproduction

- (g) Briefs should be reproduced throughout on white paper, with each page bearing a security classification at top and bottom (as in Annex D). Care should be taken that the reproduction method employed results in clear readable copies.

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- (h) It is important that on arrival at the Cabinet Office, briefs should be complete in all detail - collated, stapled and copy numbered and ready for immediate circulation.

Updating

- (i) If late developments require a brief to be amended or updated, an addendum should be prepared. It should be set out in the form described at (e) above, with the brief number (e.g. YMV(82) 10 Addendum) and title to which it relates at the top of the front page. The Private Secretary to the Secretary of the Cabinet should be informed when an addendum is in preparation. Revised briefs and corrigenda should be similarly treated.
- (j) Additions to the list of briefs in Annex B require the authorisation of the Private Secretary to the Secretary of the Cabinet.

CLASSIFICATION

ANNEX D

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

YMV(82) Serial Number as specified in Annex B COPY NO. in red
Date

ANGLO-GERMAN SUMMIT
19 MARCH 1982

Leave 1½"
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SUBJECT Insert subject in capitals

Brief by name of originating Department, eg Foreign and Commonwealth Office

At the foot of the last page:-
left-hand side

Originating Government Department, eg Foreign and Commonwealth Office or Department of Industry, not a subordinate section or division

Date of origin

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Germany



Foreign and Commonwealth Office

London SW1A 2AH

5 March 1982

D J Wright Esq
CABINET OFFICE

M $\frac{5}{3}$
f-a-

Dear David,

ANGLO-GERMAN SUMMIT: 19 MARCH

1. With Sir Michael Palliser's letter of 11 February to Sir Robert Armstrong were enclosed:

- (a) a suggested list of subjects for discussion;
- (b) draft UK objectives;
- (c) draft German objectives;
- (d) a suggested list of briefs.

Sir Robert was content with (a), (c) and (d), but proposed some changes to (b), which we accepted. Other Whitehall Departments were also content, subject to a few minor amendments, all of which are acceptable to us.

2. Since Sir Michael's letter issued, however, we have received the German response to our suggested list of subjects for discussion. They have proposed a number of additions/amendments, which are underlined on the enclosed version of their list (Appendix 1 of this letter). We can accept all of these (with the exception of "Ghana, Chad", which does not, we believe, merit discussion at Summit level).

3. You will note that the Germans have asked that Ireland be put on the check list of topics for discussion. Of course there is no formal agenda and we understand from the German Embassy that there is no intention on their side to seek a substantive discussion of either Ireland or Northern Ireland. We think rather that the Germans may be hoping that the Prime Minister will be prepared to say something informally about recent developments. Since the Federal Government has always refrained from comment on Northern Ireland and the German press has adopted an extremely responsible attitude to the problem we hope that she may be willing to do so.

/4.



4. The check-list of subjects for discussion is now clearly too long for all subjects to be covered. We have therefore identified a number of issues which are less important/less pressing - these are marked with a cross on the enclosed version of the next check-list (Appendix II). On these items we propose to prepare only background briefs. We have warned the German Embassy of our intention and they are content.

5. I enclose at Appendix III a new suggested list of briefs which takes account of the proposed amendments to the check-list of subjects for discussion.

6. At Appendix IV I enclose a draft Steering Brief for the Summit, (the section on 'Programme' has still to be added). Annex A to this draft is the list of UK objectives (amended to take account of Sir R Armstrong's amendments). Annex B is the list of likely German objectives (with which everyone was content). Annex C is the new check-list of subjects for discussion. Annex D is our suggested allocation of the subjects for discussion by individual participants. This contains a number of question-marks, as it is clearly impossible to determine precisely at this stage at which meeting(or meetings) the major subjects such as Transatlantic relations and Poland will be discussed. Annex E is the traditional resume of briefs. Annexes F (personality notes on German participants) and G (basic statistics on the FRG) will be added to the final version of the Steering Brief.

7. You will see from FCO tel no 92 that the German team will consist of:-

Herr Schmidt, Chancellor
 Herr Genscher, Federal Foreign Minister
 Dr Apel, Federal Minister of Defence
 Herr Matthoefer, Federal Minister of Finance
 Dr Schlecht, State Secretary, Federal Ministry of the Economy.

We have since learnt from the German Embassy that Herr Rohr is likely to be available to replace Herr Ertl. Annex D to the draft Steering Brief reflects this. It is clearly regrettable that neither Graf Lambsdorff nor Herr Ertl can come (we understand they have excellent reasons); but we see no option but to accept the participation of their deputies. We have expressed our disappointment both to the German Embassy here and, through HM Embassy, in Bonn.



8. I am copying this letter to the private secretaries to Permanent Secretaries in all Departments which are involved in briefing for the Summit. We would of course welcome written comments. Some Permanent Secretaries may prefer to comment orally at the meeting which Sir R Armstrong may hold on Tuesday 9 March to discuss Follow-up to the Anglo-French Summit. All comments should reach us by close of play on Tuesday 9 March.

Yours ever,
Andrew

R A Burns
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 Peter Carey KCB
DEPARTMENT OF INDUSTRY

PS/M D M Franklin Esq CB CMG
DEPARTMENT OF TRADE

PS/Sir Kenneth Barnes KCB,
DEPARTMENT OF EMPLOYMENT

PS/Sir Donald Maitland GCMG OBE
DEPARTMENT OF ENERGY

PS) P J Woodfield Esq CB CBE
NORTHERN IRELAND OFFICE

C A Whitmore Esq
10 DOWNING STREET



APPENDIX I

ANGLO-GERMAN SUMMIT: 19 MARCH

CHECK LIST OF SUBJECTS FOR DISCUSSION: GERMAN IDEAS

1. European Questions

- a. European Act
- b. 30 May Mandate
- c. CAP Price-fixing
- d. Enlargement of the Community
- e. Internal market of the Community
 - Strengthening of the internal market (removal of border formalities - Narjes initiative)
 - reconquest of French market
 - liberalisation of air transport
 - insurance services (Schadensversicherungen)
- f. Community Steel Policy
- g. External trade issues
 - textiles (including Japan, USA)
 - EC/Japan
 - EC/USA
 - International Tin Agreement
- h. Currency situation in the Community, including further development of EMS
- i. Ireland
 - position after the 18 February elections
 - Northern Ireland
- j. Review of the Franco/German Summit of 24/25 February
- k. Spain (Spanish/British relations after the visit to London by the Spanish Prime Minister, Gibraltar)
- l. Eastern Mediterranean
 - Greece/PoCo

/- EC/Turkey

- EC/Turkey (association, financial protocol, freedom of movement)
 - situation in Cyprus
2. West/West and East/West Questions
- a. Transatlantic relations
 - European/American relations in the light of the Polish crisis.
 - USA/PoCo
 - b. The future course of relations with the Soviet Union
 - c. Poland
 - situation, démarche action
 - catalogue of measures
3. Defence/Arms Control
- a. Preview of NATO Summit, including 'Bonn Declaration'
 - b. Spain/NATO (working on Greece and Holland)
 - c. Greece/NATO
 - d. CSCE/CDE
 - e. INF/START (including peace movement)
 - f. MBFR
 - g. UK Defence Programme
 - h. German Defence Programme
 - i. German/British defence equipment collaboration
 - j. Transatlantic defence equipment collaboration (common reaction to US restrictions)
4. World Political Issues
- a. Afghanistan (efforts for a political solution)
 - b. Situation in Middle East
 - c. Iran/Iraq
 - d. Southern Africa/Namibia
 - e. East Africa (Zimbabwe, Uganda)

- f. Ghana, Chad
 - g. Libya
 - Attitude of the West towards Qadhafi
 - Relationship between the US and Libya
 - Qadhafi's forthcoming Presidency of the OAU
 - h. Development of the Cambodia question (following Lord Carrington's ASEAN trip)
 - i. Central America
5. North/South, International Economic and Energy Questions
- a. North/South dialogue post Cancun
 - b. International economic questions
 - c. Exchange of views on economic situation in the FRG and the UK
 - d. International monetary questions (alignment of interest and exchange rate policies)
 - e. US economic policy
6. Bilateral Questions
- a. German/British trade union relations (including Anglo-German Foundation)

ANGLO-GERMAN SUMMIT: 19 MARCH

REVISED CHECK LIST OF SUBJECTS FOR DISCUSSION; TAKING GERMAN PROPOSALS INTO ACCOUNT

1. European Community Questions

- a. European Act
- b. 30 May Mandate
- c. CAP Price-Fixing
- d. Political Co-operation
- + e. Enlargement of the Community
- f. Currency situation in the Community, including further development of EMS
- g. Internal market of the Community
 - strengthening of the internal market (removal of border formalities - Narjes initiative)
 - reconquest of French market
 - duty free allowances
 - insurance services
- h. Community Steel Policy
- i. External trade issues
 - EC/Japan
 - EC/USA
 - International Tin Agreement
- + j. EC/Turkey (association, financial protocol, freedom of movement)

2. Other European Questions

- ✓ a. Ireland
 - position after the 18 February elections
 - Northern Ireland
- b. Review of the Franco/German Summit of 24-25 February
- + c. Spain (Spanish/British relations after the visit to London by the Spanish Prime Minister, Gibraltar)

- d. Eastern Mediterranean
 - Greece/Turkey
 - situation in Cyprus
- 3. West/West and East/West Questions
 - a. Poland
 - situation, démarche action
 - catalogue of measures
 - b. Transatlantic relations
 - European/American relations in the light of the Polish crisis
 - USA/PoCo
 - c. The future course of East/West relations
 - d. CSCE/CDE
- 4. Defence/Arms Control
 - a. Preview of NATO Summit, including 'Bonn Declaration'
 - b. Spain/NATO (working on Greece and Holland)
 - c. Greece/NATO
 - d. INF/START (including peace movement)
 - e. MBFR
 - f. UK Defence Programme
 - g. German Defence Programme
 - h. German/British defence equipment collaboration
 - i. Transatlantic defence equipment collaboration (common reaction to US restrictions)
- 5. World Political Issues
 - a. Afghanistan (efforts for a political solution)
 - b. Situation in Middle East
 - c. Iran/Iraq and its repercussions in the area
 - + d. Southern Africa/Namibia
 - e. Central America
 - + f. East and Central Africa (Zimbabwe, Uganda)

- + g. Libya
 - Attitude of the West towards Qadhafi
 - Relationship between the US and Libya
 - Qadhafi's forthcoming Presidency of the OAU

- + h. Cambodia

C. International Economic, Monetary and Energy Questions, North/South

- a. International economic questions
- b. Exchange of views on economic situation in the FRG and the UK
- c. International monetary questions (alignment of interest and exchange rate policies)
- d. US economic policy
- + e. North/South dialogue post Cancun

7. Bilateral Questions

- + a. Proposed meeting of German and British industrialists and trade-unionists.

ANGLO-GERMAN SUMMIT: 19 MARCH

PROPOSED LIST OF BRIEFS

	<u>Lead Department</u>	<u>In Consultation with</u>
1. Steering Brief	FCO [WED]	As appropriate
2. European Questions		
a. Steering Brief on the European Community	FCO [ECD(I)]	As appropriate
b. European Act	FCO [ECD(I)]	As appropriate
c. 30 May Mandate	FCO [ECD(I)]	Treasury, MAFF Industry
d. CAP Price-Fixing	MAFF	FCO [ECD(I)] Treasury
e. Political Co-operation	FCO [ECD(I)]	As appropriate
*f. Common Fisheries Policy [Defensive]	MAFF	FCO [ECD(I)]
*g. Enlargement of the Community	FCO [ECD(E)]	As appropriate
h. Currency situation in the Community including future development of EMS	Treasury	FCO[ECD(I)/ESID]
i. Internal market of the Community (including removal of border formalities, duty free allowances insurance services, 'reconquest' of French internal market, origin marking [defensive])	Trade	FCO[ECD(I)], HM Customs and Excise, Industry
j. Community Steel Policy	Industry	FCO[ECD(I)]
k. External Trade Issues (including EC/Japan, EC/USA, International Tin Agreement)	Trade	FCO[ECD(E)/TRED Treasury, Industry
*l. EC/Turkey	FCO[ECD(I)]	As appropriate

3. Other European Questions

- | | | | |
|------|---|-----------------------------------|--------------------|
| * a. | Ireland (position after 18 February elections, Northern Ireland) | FCO[RID] | NIO |
| b. | Review of Franco/German Summit of 24-25 February | FCO [WED] | As appropriate |
| * c. | Spain (Spanish/British relations, Gibraltar) | FCO [SED] | |
| d. | Eastern Mediterranean (Greece/Turkey, Cyprus) | FCO [SED] | |
| 4. | Poland | FCO [EESD] | As appropriate |
| 5. | NATO Summit and Transatlantic relations in the light of the Polish crisis | FCO [Defence Dept/Planning Staff] | As appropriate |
| 6. | The future course of East/West relations | FCO [EESD] | As appropriate |
| 7. | CSCE/CDE | FCO [CSCE Unit] | MOD |
| 8. | Spain/NATO and Greece/NATO | FCO [Defence Dept] | MOD |
| 9. | Defence Matters | MOD | FCO [Defence Dept] |
| 10. | Arms Control and Disarmament | FCO [Defence Dept/ACDD] | MOD |
| 11. | World Political Issues | | |
| a. | Afghanistan: efforts for a political solution | FCO [SAD] | |
| b. | The situation in the Middle East | FCO [NENAD] | |
| c. | Iran/Iraq and its repercussions in the area | FCO [MED] | |
| * d. | Southern Africa/Namibia | FCO [SAfD] | |
| e. | Central America | FCO [MCAD] | |
| * f. | East and Central Africa (Zimbabwe, Uganda) | FCO [CAfD/EAD] | |

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|------|---|------------------------|----------------|
| *g. | Libya | FCO [NENAD] | |
| *h. | Cambodia | FCO [SEAD] | |
| 12. | International Economic
and Monetary Questions
incl. economic situation in | Treasury | FCO [ESID/ERD] |
| 13. | US Economic Policy | UK and FRG
Treasury | FCO [ESID/ERD] |
| *14. | North/South dialogue
post Cancun | FCO [ERD] | |
| *15. | UK/FRG Bilateral
relations | FCO [WED] | As appropriate |
| *16. | FRG Scene | | |
| | a. Political | FCO [WED] | |
| | b. Economic | Treasury | |

* Background Brief

APPENDIX IV

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO

ANGLO-GERMAN SUMMIT
19 MARCH 1982

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. The timing of the Summit, ten days before the European Council (29/30 March) means that Community affairs particularly the 30 May Mandate, are bound to feature prominently. Nevertheless, given the evidence of strains within the Alliance (and notably between Bonn and Washington) stemming from differences over how to respond to the imposition of martial law in Poland, the Summit also provides an excellent opportunity to exchange views with Chancellor Schmidt on the best way to preserve Alliance unity and to discuss the future course of East/West relations in advance of the NATO Summit in Bonn (10 June). The Prime Minister will also wish to have a discussion of world economic issues, particularly US interest rate and trade policy, with an eye on the Versailles Economic Summit (4-6 June).
2. Chancellor Schmidt will come to London with domestic problems much on his mind. On the economic front there are some positive signs. German inflation is still low by international standards and export performance remains strong. But 1981 saw a fall in real GDP for the first time since 1975 and unemployment has been rising very rapidly; it now stands at around two million of just over 8%. The Government's efforts to put together an employment programme caused severe strains between the Coalition

partners, and the Opposition has indicated its firm intention of challenging the package in the Upper House.

3. Politically, the Coalition remains in poor shape. Morale is low and relations between the two Coalition partners increasingly uneasy. The fresh impetus which the Chancellor hoped the vote of confidence on 5 February would provide has not materialised. The vote has led to some rallying of the parliamentary ranks, but it is increasingly clear that it has solved none of the basic problems. A number of regional SPD conferences have failed to toe the leadership's line on security policy (particularly INF), although the odds are that Chancellor Schmidt will obtain the party's backing at the SPD's national Conference in Munich at the end of April. The prospects for the four regional elections to be held this year are not good. In the first of these, Lower Saxony on 21 March (only 2 days after the Summit) the SPD look set to suffer heavy losses and the FDP are by no means certain to clear the 5% hurdle required for representation in the Land parliament. The announcement by the Bonn Public Prosecutor's Office on 26 February of official investigations into the conduct of Finance Minister Matthoefer (SPD) and Economics Minister Lambsdorff (FDP), in connection with alleged tax avoidance on donations by industry to the political parties, has been another **severe** blow. Nevertheless the chances still are that the governing Coalition will remain intact, for the time being at least.

4. We have no bilateral problems with the Germans at present.

/OBJECTIVES

OBJECTIVES

5. Both sides will wish to use this occasion to build on the already good relations at ministerial level and to emphasise the extent to which British and German interests coincide.

Both will want to discuss the following subjects in particular:

(a) The Community

See Community Steering Brief

(b) Poland and its impact on East/West relations and Alliance cohesion

Ministers will wish to discuss the prospects for Poland and the best way to exploit the NATO Summit in Bonn to ensure maximum Alliance cohesion. The US/FRG relationship has been under particular strain and the Germans may wish to exchange views on how to avoid further tension on this front.

(c) World Economic Issues

Ministers will wish to exchange views on the world economy, where the prospects for most major countries, including the FRG and the UK, remain poor. Chancellor Schmidt will be seeking the Prime Minister's support for his questioning of US economic policy with its heavy reliance on high interest rates and its protectionist tendencies. Ministers will be able to have a preliminary discussion of prospects for the Versailles Economic Summit.

(d) Defence

The Germans will wish to emphasise the importance they continue to attach to defence in spite of budgetary cuts. Both sides will wish to continue the dialogue on how to adapt defence planning to the climate of budgetary

/constraint

constraint, and discuss how to make best use of the NATO Summit to improve defence effectiveness.

(e) Security and Arms Control

We shall wish to emphasise the need to pursue arms control negotiations with the aim of improving security and assuring public support for defence, despite the deterioration of East/West relations; and the Germans will wish to stress the political role of arms control and to reassure us of their adherence to both tracks of the NATO double decision, despite problems within the SPD.

STRATEGY AND TACTICS

6. A major UK aim will be to put over to the German Ministers our case on the Mandate (see Community Steering Brief).
7. But European Community issues, however important, should not be the exclusive focus of the Summit. There is real need for a dialogue with the Germans on the impact of Poland, both on East/West and inter-Alliance relations. With Bonn and Washington increasingly tending to talk past each other and with the recent loosening of Bonn/Paris ties despite the good vibrations generated at the Franco-German Summit on 24-25 February (see Brief No 3b), we should aim to reassure Chancellor Schmidt of the closeness of our position to his on East/West and inter-Alliance issues generally and remind him of the importance the UK attaches to remaining in step with the FRG in this and other foreign policy areas.
8. The NATO Summit will be an important focal point for discussion. We should express satisfaction that it is being held in Bonn and convey our view that,

in particular though the proposed Declaration, it should serve to symbolise Alliance unity and provide coherent guidelines for the conduct of East/West relations. Preparations for the Summit should be thorough and should provide a framework for tackling many of the basic problems in East/West and transatlantic relations which have been highlighted by events in Poland. The UK and the FRG need to be clear about their objectives at the Summit and we should reassure the Germans that we intend to continue to consult them closely as preparatory work gathers pace. We should also emphasise the importance we attach to addressing defence issues, particularly the need to make the most cost-effective use of scarce defence resources.

ANGLO-GERMAN SUMMIT: 19 MARCH

Primary United Kingdom Objectives

1. To bring home to the Germans the need for an early, fair and durable conclusion to the Mandate negotiations; to keep them in step as far as possible with our approach, and to press our interests on other Community topics.
2. To reach agreement on the best way to preserve Alliance unity in the light of recent and possible developments, especially in Poland, to discuss the future course of East/West relations, to seek to establish the views of the Federal Government on objectives for the NATO Summit, and to define the scope for agreement between the United Kingdom and Germany on the proposed and desired outcome of that Summit.
3. To strengthen the UK/FRG relationship in the defence field, and to confirm our commitment, through the stationing of British Forces in Germany, to the defence of Europe, in spite of budgetary constraints.
4. To build on the goodwill generated at the last Summit (the tenth in the series).

Subsidiary United Kingdom Objectives

5. To exchange views on the international economic situation, with particular reference to US interest rates, on trade policy and on the objectives and outcome of the Versailles Summit.

6. To ensure that the German approach to nuclear arms control, particularly INF, remains closely aligned with our own.

7. To explain Her Majesty's Government's economic policies.



ANGLO-GERMAN SUMMIT: 19 MARCH

Likely German Objectives

1. In view of their concern at current divergences of policy and view within the Alliance, and in particular between the US and Europe, to review and reach the widest possible agreement on:
 - (a) Current world political issues (especially Poland, arms control issues, East/West relations, Middle East, Southern Africa, Central America).
 - (b) Current economic issues (especially US and French economic policies - in particular US interest rates and their effect on the world economic situation - protectionism, inflation and unemployment, energy and North/South issues).
2. To further the prospects for an early conclusion to the discussion of the Mandate within the Community, and to promote their interests in other Community issues.
3. To review and reach the widest possible agreement on defence policy and planning issues in the light of the serious pressures on defence expenditure in both countries and with an eye to the handling of the NATO Summit in June.
4. To improve and strengthen their relationship with British Ministers, building on the present community of interest between the two governments.
5. To assess for themselves the prospects for Her Majesty's Government's policies in the light of current political and economic developments in the UK.

ANGLO-GERMAN SUMMIT: 19 MARCH

REVISED CHECK LIST OF SUBJECTS FOR DISCUSSION; TAKING GERMAN PROPOSALS INTO ACCOUNT

1. European Community Questions

- a. European Act
- b. 30 May Mandate
- c. CAP Price-Fixing
- d. Political Co-operation
- + e. Enlargement of the Community
- f. Currency situation in the Community, including further development of EMS
- g. Internal market of the Community
 - strengthening of the internal market (removal of border formalities - Narjes initiative)
 - reconquest of French market
 - duty free allowances
 - insurance services
- h. Community Steel Policy
- i. External trade issues
 - EC/Japan
 - EC/USA
 - International Tin Agreement
- + j. EC/Turkey (association, financial protocol, freedom of movement)

2. Other European Questions

- + a. Ireland
 - position after the 18 February elections
 - Northern Ireland
- b. Review of the Franco/German Summit of 24-25 February
- + c. Spain (Spanish/British relations after the visit to London by the Spanish Prime Minister, Gibraltar)

- d. Eastern Mediterranean
 - Greece/Turkey
 - situation in Cyprus
- 3. West/West and East/West Questions
 - a. Poland
 - situation, démarche action
 - catalogue of measures
 - b. Transatlantic relations
 - European/American relations in the light of the Polish crisis
 - USA/PoCo
 - c. The future course of East/West relations
 - d. CSCE/CDE
- 4. Defence/Arms Control
 - a. Preview of NATO Summit, including 'Bonn Declaration'
 - b. Spain/NATO (working on Greece and Holland)
 - c. Greece/NATO
 - d. INF/START (including peace movement)
 - e. MBFR
 - f. UK Defence Programme
 - g. German Defence Programme
 - h. German/British defence equipment collaboration
 - i. Transatlantic defence equipment collaboration (common reaction to US restrictions)
- 5. World Political Issues
 - a. Afghanistan (efforts for a political solution)
 - b. Situation in Middle East
 - c. Iran/Iraq and its repercussions in the area
 - + d. Southern Africa/Namibia
 - e. Central America
 - + f. East and Central Africa (Zimbabwe, Uganda)

+ g. Libya

- Attitude of the West towards Qadhafi
- Relationship between the US and Libya
- Qadhafi's forthcoming Presidency of the OAU

+ h. Cambodia

C. International Economic, Monetary and Energy Questions, North/South

- a. International economic questions
- b. Exchange of views on economic situation in the FRG and the UK
- c. International monetary questions (alignment of interest and exchange rate policies)
- d. US economic policy
- + e. North/South dialogue post Cancun

7. Bilateral Questions

- + a. Proposed meeting of German and British industrialists and trade-unionists.

Prime Minister Herr Schmidt Lord Carrington Herr Genscher	1145-1315	Poland Transatlantic relations The future course of East/West relations Preview of NATO Summit 30 May Mandate and CAP Price Fixing North/South post Cancun
Mr Nott Dr Apel	1030- 1230	Preview of NATO Summit Spain/NATO Greece/NATO INF/START UK and FRG Defence programmes Defence equipment collaboration
Sir G Howe Herr Matthoefer	1030- 1230	30 May Mandate Currency situation in the Community International economic and monetary questions Liberalisation in services sector (in particular insurance)
Mr Biffen Dr Schlecht	1030-1130	Internal market of the Community Community External Trade issues
Mr Jenkin Dr Schlecht	1130-1230	Community Steel policy International Tin Agreement
Mr Walker Herr Rohr	1030-1230	CAP Price Fixing

RESUME OF BRIEFS

Brief No 2: European Community Questions

See the European Community Steering Brief (Brief No 2a)

Brief No 3a: Ireland

Recent Irish elections inconclusive; not yet known who will form government. But excellent working relationship with both Dr Fitzgerald and Mr Haughey. Possibility of new political-initiative in Northern Ireland has aroused interest. Northern Ireland internal matter, but advantage in making our position known to Germans. Mr Prior has been holding discussions with the parties in the Province on the possibilities for devolution of power.

Brief No 3b: Review of Franco-German Summit

Cracks have appeared in the Franco-German relationship since the arrival of M Mitterrand. Germans profess relief at positive outcome of recent Summit, but not pretending the rapport extends very far into the area of practical policies other than East/West relations.

Brief No 3c: Spain/Gibraltar

Apart from Gibraltar, Anglo-Spanish relations are very good. We support Spain's entry to NATO and the EC. Hope that opening of Spain/Gibraltar border and start of negotiations on 20 April will lead to a closer and warmer relationship.

Brief No 3d: Eastern Mediterranean

Immediate tensions between Greece and Turkey now somewhat less acute than feared. But underlying problem remains. Papandreou's obsession with Turkish threat inevitably spilling over into Cyprus problem; real danger that
/intercommunal

intercommunal talks will not make sufficient progress to prevent Greek/Cypriot recourse to UNGA. Maximum effort likely to be needed from all, including Germans, who can influence the parties towards genuine negotiations.

Brief No 4: Poland

Useful to have an exchange of views on the situation in Poland and the future outlook, and to review effect of Western measures, particularly economic.

Brief No 5: NATO Summit and transatlantic relations

Useful ^{to} ~~the~~ exchange views on how the forthcoming Summit in Bonn can be used to narrow the transatlantic divisions revealed by differing responses to the Polish crisis.

Brief No 6: Future course of East/West relations

Useful opportunity to emphasise the damage done to East/West relations by Polish crisis and underline the need for Alliance unity. Declaration to be issued by NATO Summit provides instrument for sending a clear signal to the Russians and for establishing a broadly agreed framework within the Alliance for the future conduct of East/West relations.

Brief No 7: CSCE/CDE

Position in Madrid fluid.
 (The line to take will depend on whether agreement has been reached before the Summit to adjourn the Conference until the autumn. At ^{present} Western delegations are continuing to focus attention on ^{Polish} ~~policy~~ and Soviet violations of the Helsinki Final Act.

Brief No 8: Spain/NATO and Greece/NATO

On Spain/NATO important that Spanish accession be ratified by time of NATO Summit. On Greece/NATO possibility of devising a NATO guarantee which would meet Greek requirements but also be acceptable to Turks.

Brief No 9: Defence matters

We continue to attach importance to cooperation with the FRG in NATO, especially on the Central Front, and in defence equipment collaboration. Summit provides opportunity to examine resource problems, common to both countries, but also to emphasise the scope of the British contribution to the Alliance.

Brief No 10: Arms control and disarmament

We should remind the Germans of the need, for the present, to maintain European support for the US opening position in the Geneva INF negotiations as an significant step towards nuclear disarmament and ^{of} the importance of excluding third party systems. We should agree to press the Americans to announce a timetable for strategic arms control negotiations (START) at, if not before, the NATO Summit and thus by the first week of the Second UN Special Session on Disarmament.

Brief No 11a: Afghanistan

Essential to maintain pressure for Soviet withdrawal. Afghanistan Day on 21 March a useful means of maintaining domestic interest, but continued discussion in international fora very important. Refugees may become increasingly a central focus for international concern.

Brief No 11b: Middle East

No scope for further European activity until after completion

/of

of withdrawal from Sinai on 25 April. Beyond that, need to direct our efforts in the first place to encouraging the US to address the question of Palestinian rights.

Brief No 11c; Iran/Iraq

The war continues; neither side has the upper hand. King Hussein's decision to send volunteers to Iraq could have dangerous repercussions, if his example were followed by others. Gulf States (especially Bahrein) alarmed by threat of Iranian-backed subversion. Mediation ^{efforts} revived with recent visit (24-29 February) of Olof Palme (UN Secretary-General's representative); but no signs of early progress.

Brief No 11d: Southern African Africa/Namibia

Despite the delay in completing Phase I of the relaunched negotiations on Namibia, implementation of the UN Plan during 1982 is still possible. But we have no illusions about the difficult issues to be resolved in the next phase of negotiations. Cohesion of the Five remains important. The Germans are occasionally suspicious of American motives.

Brief No 11e: Central America.

We are concerned about the situation in the region. We welcome the Caribbean Basin initiative. The area has not been of direct interest to European countries in the past. We remain handicapped by lack of information. There is, therefore, a need to exchange views.

Brief No 11f: East and Central Africa

On Uganda we shall wish to inform the Germans of background to despatch of advance party of Commonwealth military training team and to bring them up-to-date on our most recent political and security assessment. In Zimbabwe the dismissal of Mr Nkomo has been a disturbing development. Nevertheless, the country seems basically stable. Mr Mugabe ^{is} giving assurances

to Whites on their future. Lord Carrington's visit **DSR 11C**
successful.

Brief No 11g: Libya

Need to keep in close touch with allies on planned US action
against Libya, including oil boycott and trade restrictions.
Germans share our interest in Airbus exports to Libya.

Brief No 11h: Cambodia

Lord Carrington impressed on recent tour to South-East Asia
by determination and coherence of ASEAN policy on Cambodia.
Important that Europe and the West should continue to support.

Brief No 12: International economic and monetary questions

Short-term falling oil prices produce beneficial effects
on Western economies, but must not relax oil conservation
measures or this would give the whip hand back to OPEC.
Slack OECD output cause for concern.

Brief No 13: US Economic Policy

Glad to see US inflation and interest rates falling. But
concerned about size of fiscal deficits. Substantial
reduction by Congress would be welcome.

Brief No 14: North/South dialogue post Cancun

The Germans seek a review of North/South relations in the
light of the continued deadlock on Global Negotiations.
Discussion could focus on prospects for sectoral approaches
to urgent problems, and on the need to avoid a
Community/US split.

Brief No 15: UK/FRG Bilateral Relations

At last Anglo-German Summit Chancellor Schmidt suggested (a) a meeting between British and German industrialists and trade unionists, and (b) a seminar of 'young geniuses' to discuss economic policy. We have put both these ideas to the Anglo-German Foundation which is pursuing them.

Brief No 16a: FRG Scene: Political

SPD/FDP Coalition remains in poor shape. Relations between two coalition partners increasingly uneasy. Particular problems within SPD over INF. Senior ministers involved in investigations into malpractices over party financing. But chances are still that Government will stand, for the time being at least.

Brief No 16b: FRG Scene: Economic

German inflation still low by international standards and export performance remains strong. But 1981 saw fall in GDP for first time since 1975 and unemployment has been rising very rapidly; the two million mark is about to be passed for the first time since the War.



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4 March 1982

ANGLO/GERMAN
SUMMIT

The Prime Minister has seen your Secretary of State's minute of 26 February and has no objection to him leaving the plenary session at 4.30 p.m.

A. J. COLES

Jonathan Spencer, Esq.,
Department of Industry.

A

Goring



DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3785
SWITCHBOARD 01 215 7877

From the Permanent Secretary
M. D. M. Franklin, CB CMG

3 March 1982

D J Wright Esq
Cabinet Office
70 Whitehall
London SW1

h.a.
W.M. J.

request
Dear David,

ANGLO-GERMAN SUMMIT: 19 MARCH

with OSC?

I have now seen a copy of Sir Michael Palliser's letter of 11 February about the next Anglo-German Summit.

The Department of Trade has no quarrel with the statements of objectives, although there is an ambiguity in Annex B, paragraph 5 to which I would like to draw attention. The reference to trade policy is a general one and should certainly include for example the problem of Japan: it should not be read as referring to the USA alone. Subject to the following small points we are also content with the proposed check-list of subjects for discussion (Annex A) and the arrangements for briefing (Annex D).

Item 1 (d) in Annex A, and the corresponding brief 2(g) in Annex D, "Internal Market of the Community", should we suggest include "duty free allowances". They need however only cover "liberalisation of air transport" if Transport Minister Hauff is among the German party.

Our brief 2(g) will also include a defensive line on origin marking. On the other hand "textiles" can now be deleted from item 1(g) in Annex A and from brief 2(j).

I am sending copies of this letter to the private secretaries of those who had Sir Michael Palliser's.

John ...
Jonathan

J PHILLIPS
Private Secretary

cc PS/Sir Michael Palliser GCMG
Foreign & Commonwealth Office

PS/Sir Douglas Wass GCB
HM Treasury

PS/Sir Brian Hayes KCB
MAFF

PS/Sir Frank Cooper GCB CMG
Ministry of Defence

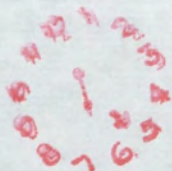
PS/Sir Peter Carey KCB
Department of Industry

PS/Sir Kenneth Barnes KCB
Department of Employment

PS/Sir Donald Maitland GCMG OBE
Department of Energy

C A Whitmore Esq
10 Downing Street

- 3 MAR 1982



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MR. WRIGHT

PRIME MINISTER'S BRIEFING MEETING FOR
ANGLO/GERMAN SUMMIT: 19 MARCH 1982

Thank you for your minute of 2 March. I agree to the proposed arrangements for Ministerial and official participation in the Prime Minister's briefing meeting at 4 p.m. on Thursday 18 March.

JC

3 March 1982

Germany 889

file



10 DOWNING STREET

From the Private Secretary

MR. WRIGHT
CABINET OFFICE

ANGLO-GERMAN SUMMIT - 19 MARCH 1982

The Prime Minister has seen Sir Robert Armstrong's minute of 1 March, reference A07650. She is content with the suggested agenda, assessment of objectives, and list of briefs, annexed to Sir Robert's minute. She has further commented that she feels that only "summary" briefs will be necessary, since Chancellor Schmidt does not interest himself in detail. As far as the deadline for the briefs is concerned, the Prime Minister is quite happy for those briefs which may need to be changed to reach her by 15 March. Indeed, she feels that any last minute changes could be brought to her attention at the briefing meeting on 18 March.

W. F. S. RICKETT

2 March 1982

SW

Ref. A07678

MR COLES

Yes not

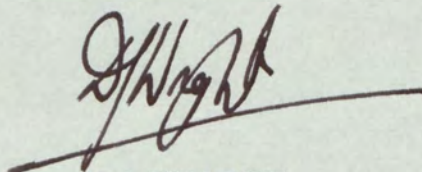
Prime Minister's Briefing Meeting for Anglo-German Summit: 19 March 1982

I should be grateful for your agreement to the following Ministers being invited to attend the Prime Minister's briefing meeting at 4.00 pm on Thursday 18 March:

Chancellor of the Exchequer
 Foreign and Commonwealth Secretary
 Secretary of State for Defence
 Secretary of State for Industry
 Secretary of State for Trade
 Minister of Agriculture

and also the following officials:

Sir Kenneth Couzens	Treasury
Sir Michael Palliser	FCO
Mr J L Bullard	FCO
Sir Jock Taylor	H M Ambassador, Bonn
Sir Frank Cooper	Ministry of Defence
Sir Peter Carey	Department of Industry
Mr Michael Franklin	Department of Trade
Sir Brian Hayes	MAFF
Sir Robert Armstrong	Cabinet Office
Mr D J S Hancock	Cabinet Office


 D J WRIGHT

2 March 1982



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Ref: A07650

MR. COLES

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Please - only a summary brief, The Chancellor, do initial draft agrees - any expected schedule of car for on the date of from the briefing meeting.

Prime Minister 1

Content

- (a) with the list of subjects for discussion at A?
- (b) with the assessment of objectives for the meeting at B?
- (c) with the suggested list of briefs at C?
- (d) with the deadline for briefing suggested by Sir Robert overleaf?

Anglo-German Summit - 19th March 1982

Wm 1/3

The next in the series of six-monthly Anglo-German consultations between the Prime Minister and Chancellor Schmidt will be held in Chequers/ London on 19th March. This minute concerns arrangements for briefing: the Foreign and Commonwealth Office have written to you separately about Ministerial participation and the administrative arrangements.

2. Since we are the home team on this occasion it is up to us to propose an agenda (or check-list of subjects for discussion, as the Germans prefer to call it). A suggested list is at Annex A. It has been cleared interdepartmentally around Whitehall and has been given to the German Embassy here on the understanding that it may be subject to revision. The Germans may of course also come up with some ideas of their own. It is not intended that the Prime Minister should cover all the subjects. Nearer the time of the Summit, the Foreign and Commonwealth Office will draw up a schedule identifying the subjects which individual participants are expected to cover. As before, this schedule will probably be annexed to the Steering Brief.

3. At Annex B, I attach an assessment of British and likely German objectives for the meeting, and at Annex C a suggested list of briefs, the preparation of which will be co-ordinated in the usual way by the Cabinet Office.

4. I should be grateful if you could confirm that the Prime Minister is content with the assessments of objectives, the list of briefs, and the list of subjects for discussion. I should also like to know if you would be content for briefs to reach you by close of play on Monday, 15th March. This would, I realise, mean that the Prime Minister would not have the briefs over the weekend. Experience has, however, shown that since the Summit is not to take place until 19th March, briefs which were prepared for a deadline of 12th March would inevitably have to be added to or raised. An alternative



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approach would be to ask for briefs to be submitted by Friday, 12th March if they were unlikely to be subject to subsequent changes but to allow a deadline of Monday, 15th March for briefs which needed somewhat longer to be finalised. The Prime Minister's briefing meeting is on Thursday, 18th March.

Robert Armstrong

1st March 1982

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ANGLO-GERMAN SUMMIT: 19 MARCH

DRAFT CHECK LIST OF SUBJECTS FOR DISCUSSION

1. European Community Questions

- (a) 30 May Mandate
- (b) CAP Price-Fixing
- (c) Enlargement of the Community
- (d) The internal market of the Community (including liberalisation of air transport, insurance services, 'reconquest' of French market)
- (e) Community Steel Policy
- (f) European Union
- (g) External trade issues (including textiles, EC/Japan, EC/USA, International Tin Agreement)

2. East/West and West/West Questions

- (a) Poland
- (b) Transatlantic relations in the light of the Polish crisis
- (c) The NATO Summit
- (d) The future course of East/West relations
- (e) CSCE/CDE

3. Defence/Arms Control

- (a) Defence Resource Issues including:
 - (i) UK Defence Programme
 - (ii) FRG Defence Programme
 - (iii) Defence equipment collaboration
- (b) Spain/NATO
- (c) Greece/NATO
- (d) INF/START
- (e) MBFR

4. World Political Issues

- (a) Afghanistan: how to keep the pressure on the Soviet Union
- (b) Arab/Israel
- (c) Turkey, Greece and the Eastern Mediterranean
- (d) Iran/Iraq and its repercussions in the area
- (e) Southern Africa/Namibia
- (f) Central America

5. International Economic Questions

- (a) International economic and monetary questions (including prospects in the UK and the FRG)
- (b) US economic policy

ANGLO-GERMAN SUMMIT - 19 MARCH

Primary United Kingdom Objectives

1. To bring home to the Germans the need for an early, fair and durable conclusion to the Mandate conclusions; to keep them in step as far as possible with our approach, and to press our interests on other Community topics.
2. To reach agreement on the best way to preserve Alliance unity in the light of recent and possible developments, especially in Poland, to discuss the future course of East/West relations, to seek to establish the views of the federal Government on objectives for the NATO Summit, and to define the scope for agreement between the United Kingdom and Germany on the proposed and desired outcome of that Summit.
3. To strengthen the UK/FRG relationship in the defence field, and to confirm our commitment, through the stationing of British forces in Germany, to the defence of Europe, in spite of budgetary constraints.
4. To build on the goodwill generated at the last Summit (the tenth in the series).

Subsidiary United Kingdom Objectives

5. To exchange views on the international economic situation, with particular reference to United States interest rate and trade policy, and on the objectives and outcome of the Versailles Economic Summit.
6. To ensure that the German approach to nuclear arms control, particular INF, remains closely aligned with our own.
7. To explain Her Majesty's Government's economic policies.

Likely German Objectives

1. In view of their concern at current divergences of policy and view within the Alliance, and in particular between the United States and Europe, to review and reach the widest possible agreement on:
 - a. current world political issues (especially Poland, arms control issues, East/West relations, Middle East, Southern Africa, Central America);
 - b. current economic issues (especially United States and French economic policies - in particular United States interest rates and their effect on the world economic situation - protectionism, inflation and unemployment, energy and North/South issues).
2. To further the prospects for an early conclusion to the discussion of the Mandate within the Community, and to promote their interests in other Community issues.
3. To review and reach the widest possible agreement on defence policy and planning issues in the light of the serious pressures on defence expenditure in both countries and with an eye to the handling of the NATO Summit in June.
4. To improve and strengthen their relationship with British Ministers, building on the present community of interest between the two governments.
5. To assess for themselves the prospects for Her Majesty's Government's policies in the light of current political and economic developments in the United Kingdom.

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ANNEX C

ANGLO-GERMAN SUMMIT - 19 MARCH

Proposed List of Briefs

	<u>Lead Department</u>	<u>In Consultation with</u>
1. Steering Brief	FCO (WED)	As appropriate
2. European Community Questions		
a. Steering Brief on the European Community	FCO (ECD(I))	MAFF, Treasury Trade, Industry
b. 30 May Mandate	FCO (ECD(I))	Treasury, MAFF, Industry
c. CAP Price-Fixing	MAFF	FCO(ECD(I)) Treasury
d. Common Fisheries Policy (Defensive)	MAFF	FCO (ECD(I))
e. Enlargement of the Community	FCO (ECD(E))	Treasury, Trade MAFF, Employment, Industry
f. EMS (Defensive)	Treasury	FCO (ECD(I)/ ESID)
g. Internal Market of the Community, Trade (including liberalisation of air transport, insurance services, 'reconquest' of French internal market)		FCO (ECD(I)), MAFF, Industry, Treasury
h. Community Steel Policy	Industry	FCO(ECD(I))
i. European Union	FCO (ECD(I))	As appropriate
j. External Trade Issues (including textiles, EC/Japan, EC/USA, International Tin Agreement)	Trade	FCO (ECD(E)/ TRED) Treasury
3. Poland	FCO (EESD)	Treasury, Trade, MOD
4. NATO Summit and Transatlantic relations in the light of the Polish crisis	FCO (Defence Dept/Planning Staff)	As appropriate
5. The future course of East/West relations	FCO (EESD)	As appropriate

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	<u>Lead</u> <u>Department</u>	<u>In consultation</u> <u>with</u>
6. CSCE/CDE	FCO (CSCE Unit)	MOD
7. Defence Matters	MOD	FCO (Defence Dept)
8. Arms Control and Disarmament	FCO (Defence Dept)	MOD
9. World Political Issues		
a. Afghanistan: how to keep the pressure on the Soviet Union	FCO (SAD)	
b. Arab/Israel	FCO (NENAD)	
c. Turkey, Greece and the Eastern Mediterranean	FCO (SED)	
d. Iran/Iraq and its repercussions in the area	FCO (MED)	
e. Southern Africa/Namibia	FCO/(SAID)	
f. Central America	FCO (MCAD)	
10. International Economic and Monetary Questions	Treasury	FCO (ESID/ERD)
11. US Economic Policy	Treasury	FCO (ESID/ERD)
* 12. Franco-German relations	FCO (WED)	As appropriate
* 13. FRG Scene		
a. Political	FCO (WED)	
b. Economic	Treasury	

* Background Brief

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Germany

MR. COLES

A.S.C. 3/3

Douglas Gordon rang this morning from Protocol Department to say that Schmidt would probably wish to stay the night at Chequers on 19 March and would this be convenient? I said it would.

es.

1 March, 1982

PART 3 ends:-

S/S Ind to PM 26.2.82

PART 4 begins:-

CS to Asc 1.3.82

