

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND CHANCELLOR SCHMIDT AT THE INTERCONTINENTAL HOTEL, BELGRADE, ON WEDNESDAY 7 MAY AT 2115.

Present

The Prime Minister
Mr. C.A. Whitmore
MR. M.O'D.B. Alexander

Chancellor Schmidt
Herr Genscher
Herr von Staden

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International Affairs

The Prime Minister said that the Foreign and Commonwealth Secretary had only returned the previous evening from Washington but had been able to brief her about his visit before her departure for Belgrade. The main impression he had brought back had been of the pressure on President Carter to take action on various fronts for electoral reasons. He did not think that this was likely to go as far as to lead the President to take military action. Nonetheless, Mr. Vance had stressed the need for Lord Carrington to emphasise in his conversations in Washington that there should be no resort to military action. Senator Muskie's appointment seemed likely to result in some restoration of the influence of the State Department. Lord Carrington had been concerned about the absence of recognition in Washington, particularly in the Senate, of the fact that the situation in Iran interacted with that in Afghanistan and elsewhere in the Middle East. Chancellor Schmidt said that he also had noticed the tendency in Washington to believe that the problems of Iran, Afghanistan and the West Bank could be handled separately. He found the failure to understand that actions on one problem would have an effect on the others very worrying. The Prime Minister said that while her sympathy for Israel was well known, she recognised that a considerable advance towards the Arab position was now required. The American Administration was now very pro-Israel. She was advised that any resolution on the Middle East which was put to the United Nations before the US elections in the autumn would encounter an American veto. Chancellor Schmidt said

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that this was no reason for the Europeans to desist. They had to push the issue a little further. The Americans had to be brought to talk more seriously with the Europeans about the Middle East and to understand the coherence of the three main problems there. It was ridiculous that they had had three special emissaries dealing with the Arab/Israel dispute in the space of two years.

The Prime Minister said that the Foreign and Commonwealth Secretary had repeatedly stressed during his visit the need for the US Administration to discard the idea of military action. The wives of the hostages had, of course, said the same thing. Chancellor Schmidt said that he tried to make the same point to President Carter but had failed to convince him. All the President had said, repeatedly, was "I understand". The Prime Minister said that she had no objection to the rescue attempt which she did not regard as being the same thing as military action. Chancellor Schmidt said that he, equally, had no objection. However, it was very difficult for outsiders to judge what the risks had been. He did not know how many people the Americans had had on the ground in Tehran and did not wish to know. The Prime Minister said that she hoped the Americans could continue to conceal the details of the enterprise. The United Kingdom also had had their difficulties with hostages in recent days. Chancellor Schmidt said the action taken in London had been very effective. The flash-bang grenades now available to the SAS appeared to be even more effective than those which had been used in Mogadishu.

The Prime Minister said that in addition to the difficulties with Iran, there were also difficulties in prospect in Anglo/Libyan relations. Taken together with the strained relations at present existing with Saudi Arabia, the overall picture of Britain's relations with the Middle East was rather gloomy. Chancellor Schmidt asked whether the difficulties with Saudi Arabia were likely to persist. The Prime Minister said that a major

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effort was being made to overcome the problem but contracts were probably being lost and there was always the possibility of further embarrassment being caused by some other television programme. Chancellor Schmidt said that he would be advising German TV companies not to buy the film "Death of a Princess".

Chancellor Schmidt asked whether the Foreign and Commonwealth Secretary had received any specific impression of current US policies towards China. There had been a difference between Mr. Brzezinski and Mr. Vance on this. Mr. Brzezinski believed that vague and rather ill-defined threats about American relations with China could be used against the Soviet Union. Mr. Vance thought this wrong and dangerous. He considered that there was a grave risk that Chinese expectations would be roused and disappointed while at the same time the Russians would be frightened. Chancellor Schmidt said that he agreed with Mr. Vance's analysis. He thought this subject should be included on the agenda for the political discussions in Venice. The Prime Minister said that she did not think the Chinese would allow themselves to be used in the manner advocated by Mr. Brzezinski. It was very unwise to imagine otherwise. The Chinese were more likely to be able to use the West than vice versa. Nonetheless, it was right to try in present circumstances to be friendly with the Government in Peking.

Chancellor Schmidt asked whether the Foreign and Commonwealth Secretary had discussed with the Americans the forthcoming meetings in Vienna and Venice. The Prime Minister said that she had a letter for Herr Genscher from the Foreign and Commonwealth Secretary (this was handed over later in the meeting). Herr Genscher referred to the tripartite meeting of Foreign Ministers which was due to take place in Bonn the following week. Chancellor Schmidt, to whom it was clear Herr Genscher's remark came as a surprise, welcomed the news that the three Foreign Ministers were meeting. He remarked, however, that the French were being very difficult about the political discussion of the Economic Summit in Venice. Their position remained that tripartite and

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quadripartite discussions of political issues were highly desirable but that discussion of these issues in larger fora were unacceptable. The Prime Minister said that she had heard about the difficulties being encountered in arranging a quadripartite dinner or breakfast in Venice. Perhaps there ought to be a quadripartite meeting followed by a meeting including the Italians. It was difficult to ignore the Italians who were both the hosts of the meeting and held the Presidency of the European Community. Chancellor Schmidt said that the Foreign Ministers would have to sort out the problem of the Venice discussion. However, the Italians had no reason as of right to be there. There would have to be some political discussion among the seven. The Japanese had to be associated with the political aspect of the Summit and the Canadian Prime Minister had every reason to expect to be consulted.

The Prime Minister raised the question of sanctions against Iran. She described the scope of the powers being taken by the Government in a bill which would be going before the House of Commons very shortly. The bill would give the Government powers to deal with new contracts in the service sector. Existing emergency powers would suffice to cover the bulk of existing contracts. Financial transactions would be omitted. There was little to be said in favour of sanctions but the United States were clearly putting great store on action being taken by the Europeans on 17 May. Chancellor Schmidt commented that American enthusiasm was related entirely to the electoral situation. The German, French and Italian Governments had enormous sums at risk. The Prime Minister said that the United Kingdom also had very substantial contracts with Iran. Chancellor Schmidt said that the higher the figure for British trade with Iran the happier he was because it made it the less likely that "all the nonsense would be carried out". He did not like having to take measures whose consequences would be entirely negative for the West simply in order that Jimmy Carter's campaign managers could proclaim that the Europeans had fallen into line under President Carter's pressure. The

/ Prime Minister

Prime Minister agreed that sanctions made no sense and, as Rhodesia had demonstrated, would not work. However, something had to be done. May 17 had become a symbol for the Americans. She would also be sending Sir John Graham back to Tehran in the hope that he might be able to do something in the aftermath of the rescue of the Iranian hostages in London. Chancellor Schmidt said that 17 May was only significant in the eyes of the United States' public opinion-makers. He did not believe that Europe or the Federal Republic would take action against trade with Iran to the extent that the American Administration expected. The Federal Republic was determined to act only to the extent that others did so. The Prime Minister agreed that it was essential that all the Europeans should act in the same way.

Chancellor Schmidt asked whether the Americans had asked the Foreign and Commonwealth Secretary whether, if Europe did not implement sanctions, the consequence would be American military action in Iran. The Prime Minister said that Mr. Brzezinski had seemed to imply this, but the Foreign and Commonwealth Secretary considered that it was an empty threat. The loose talk was worrying and the Foreign and Commonwealth Secretary had made it clear that Europe would not support military action.

Commenting on the inadequacy of American foreign policy at present, Chancellor Schmidt said that it was a great pity that President Carter had been unable to persuade himself of the need to come to President Tito's funeral. A very wrong impression had been created. The field had been left to President Brezhnev. A joke had been made in the German Cabinet that morning to the effect that President Brezhnev's presence in Belgrade was balanced only by that of Chairman Hua. The Prime Minister said that she had asked the Foreign and Commonwealth Secretary to urge, if a suitable opportunity offered, that President Carter should attend the funeral. Chancellor Schmidt said that he had sent a message to President Carter to the same effect. The Prime Minister wondered whether, if President

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Brezhnev were to die, all the Western leaders would go to Moscow. Chancellor Schmidt made it clear that he hoped that the Prime Minister would go. The present absence of contact between the West and the Soviet Union was dangerous. It was incumbent on Western leaders, in the present vacuum in Washington, to talk to the Russians while consulting closely with each other about their contacts.

Community Budget

The Prime Minister said that she hoped that the detailed discussions of the outstanding problems of the budget could be carried forward by Foreign Ministers and Finance Ministers. However, she wanted to explain her basic concern to Chancellor Schmidt. She considered that the agricultural prices package and the sheepmeat agreement which Heads of Government were being asked to endorse were taking the Community in the wrong direction. Chancellor Schmidt had repeatedly urged that the United Kingdom should take the lead in reforming the CAP. She agreed that the CAP needed reforming. At the same time they were being asked to take short-term steps which would make reform more difficult. Insofar as it involved price increases for milk and sugar, the price package was ridiculous. The result of the present approach to the sheepmeat problem would be to add a lamb mountain to the butter mountain and wine lake. Sooner or later the Community would have to get to grips with the reform of the CAP. At present people were doing nothing but talk. A Community that could not tackle the CAP was a weak Community. For this reason, it would be difficult for the United Kingdom to accept the other elements in the overall package even if the budget problem itself could be resolved. Chancellor Schmidt said that there seemed at present little chance of resolving the budget problem. As it was, he had been on the brink of losing Herr Matthoffer. He would not repeat the offer he had made in Luxembourg. The Prime Minister could not rely on getting a solution from him. Was he also to assume that in addition to being dissatisfied with what had been offered on the budget, the Prime Minister wished to reject the agricultural price package?

/The Prime Minister

The Prime Minister repeated that she found it difficult to accept a price package and a sheepmeat solution which were nonsense when she was being asked to initiate a reform of the CAP. She found it depressing that her colleagues would acknowledge privately that the price package was ridiculous but would vote for it when asked for their views in the European Council. Chancellor Schmidt said that he would not argue about sheepmeat since he did not understand it. He agreed that the structure of the CAP was monstrous. But reform of the CAP could not be achieved by denying farmers a price increase. It was necessary to distinguish between the need for reform and the need for farmers to be given some degree of protection against inflation. If the Prime Minister did not feel able to bring forward proposals for reform of the CAP - and he understood the Prime Minister's concern lest she should be accused of being non communautaire - somebody else would have to do so. Meanwhile annual price increases would occur. Farmers could not be denied increases which other members of society were getting. The Prime Minister commented that the farmers were being given treatment which was being denied to other manufacturers and enterprises. Chancellor Schmidt said that farmers within the Community had been exempted from competition for many years. The unified price system had perhaps been wrongly conceived - he was inclined to think so - but it had been in existence for many years and could not be reformed overnight.

The Prime Minister said that she might have to accept a 5 per cent increase in agricultural prices. She might even have to take, in the end, a 4 per cent increase in milk and sugar prices. But she thought that all such rises were ridiculous. Chancellor Schmidt said that co-responsibility levies would have to be increased on milk and sugar. He agreed that it was ridiculous. But sometimes ridiculous things had to be done because one's friends required one to do so. He was sorry that the present impasse had arisen

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and was concerned about its implications for Europe. The Prime Minister would have to be willing to compromise. The Prime Minister made it clear that she was not yet ready to do so.

The discussion ended at 2205.

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7 May 1980