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## 10 DOWNING STREET

From the Private Secretary

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DISCUSSIONS AMONG HEADS OF GOVERNMENT  
IN LUXEMBOURG

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I have discussed with the Prime Minister the points raised during the Heads of Government dinner on 27 April and the tripartite breakfast the following morning. The discussion on both occasions was largely concerned with international problems.

Dinner

The Prime Minister said that the most substantial part of the discussion at dinner related to the question of sanctions against Iran. She had asked her colleagues whether or not they were prepared to break existing contracts. And whether, if contracts were broken, they proposed to compensate those who suffered. Chancellor Schmidt said that the German Government did intend to pay compensation. There were contracts to the value of £2,000 million between the two countries. When the Prime Minister pressed him on the question of whether the Government had already decided to sever those contracts, Chancellor Schmidt said that no decision had yet been taken. The Federal Government had passed an order instructing all companies engaged in contracts with Iran to refer to the Government. The Government had not yet decided how to respond when the references were made.

President Giscard, in the Prime Minister's view, made it clear that the French Government did not intend to break existing contracts. A very large number of contracts were at risk (fewer than Germany had outstanding but more than the UK). In particular there was a major nuclear power station contract. President Giscard thought that the Iranians would sue - he implied successfully - those who broke existing contracts. It would be for the Foreign Ministers of the Nine to determine whether or not the French view of the international legal situation was correct. The Prime Minister commented that there was little time available for them to do so.

At one point in the conversation about sanctions, Mr. Haughey said that it seemed clear to him that the Foreign Ministers had been ignorant of the full implications when they had taken their sanctions decision. It having been agreed that this was the case, Mr. Haughey asked whether it should not be made clear to the Americans that new factors were becoming apparent. It was agreed that this would be

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wrong. Indeed, there was a remarkable absence of criticism of American policy towards Iran and unanimity on the need to show solidarity. As regards the rescue attempt, Chancellor Schmidt said that he would not have expected to be consulted and had no complaint on that score.

On the Middle East, it was agreed that it would be best to postpone any discussion of a Middle East initiative until after the expiry of the 26 May deadline. Mr. Haughey raised the question of problems relating to UNIFIL. He wondered whether an effort should not be made to revise the conditions under which there was a UN presence in South Lebanon. However, it was agreed it would be inopportune to try to do so at present. President Cossiga was asked to consider whether an approach could not be made to Haddad asking him to restrain the forces under his command.

### Breakfast

The discussion at breakfast was almost exclusively about extra-Community affairs. There was a reference to the Community budget when the Prime Minister said that she was pessimistic about the chances of achieving a settlement that day. President Giscard said that if agreement could not be reached, Heads of Government would no doubt have to revert to the issue on a later occasion.

Chancellor Schmidt and President Giscard both complained about the discussion at dinner the previous evening. They said that it was a thoroughly unsatisfactory forum in which to discuss international issues. Chancellor Schmidt argued that the Foreign Ministers of France, the UK and the Federal Republic should meet, without publicity, twice a month. In other words, a regular triangular arrangement should be established. In the Prime Minister's view there seemed to be a clear intention to enlarge the Franco/German axis to include the UK. (She also commented that the other two may now, of course, be less enthusiastic).

In relation to the proposal that Chancellor Schmidt should visit Moscow, the Prime Minister said it was clear that the Chancellor had not yet finally made up his mind about going. President Giscard was not enthusiastic. He thought that the Russians would try to use the occasion to single out Chancellor Schmidt from his colleagues and to divide Europe from America. Chancellor Schmidt made it clear that he would only go after the Venice Summit. The Prime Minister suggested to him that the proximity of the Olympic Games might make a visit in July awkward.

Chancellor Schmidt was angry that the Americans had failed to bring out their dead after the failure of the rescue bid in Iran. The strong impression was of a departure in panic. President Giscard was generally scornful about the operation. Both men criticised recent lack of consultation by the Americans but agreed on the overriding need to back the United States.

The idea of a quadrupartite summit before Venice received no support. Chancellor Schmidt commented on the need for any such summit to be carefully prepared. It was not clear what could be achieved at a summit held before the meeting in Venice.

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