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10 DOWNING STREET

From the Private Secretary

31 October 1980

Conversation with Chancellor Schmidt

As you may know, Chancellor Schmidt rang the Prime Minister late yesterday evening to talk about a problem which had arisen in the discussions in Luxembourg about Community quotas on steel production. I enclose a transcript of part of their conversation. The discussion also covered the Foreign and Commonwealth Secretary's visit to Poland.

Since the problem which had given rise to Chancellor Schmidt's telephone call was resolved later yesterday evening, I see no need for the Prime Minister to telephone the Chancellor again. However, there would probably be advantage in her sending him a short message and I have had the drafting of such a message put in hand.

I am sending copies of this letter and enclosure to Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

~~A. WHITMORE~~

M. O'D. B. ALEXANDER

R. M. J. Lyne, Esq.,
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PRIME MINISTER'S TELEPHONE CONVERSATION WITH CHANCELLOR

SCHMIDT, 30 OCTOBER 1980, 2100 hrs

Prime Minister Hello, how are you?

T213/80

Chancellor Schmidt: Rather well despite some little difficulties. I beg your pardon Margaret for calling you so late at night - are you still in your office?

PM: Actually no, I am just going over to the House of Commons in about an hour so I'm still working, yes.

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T213/80...**

CS: I beg your pardon indeed.

PM: No it's quite alright, its early for us.

CS: I'm still working too. I had a rather alarming call from Count Lambsdorf who is in a meeting, I guess, either in Luxembourg or in Brussels I am not really aware where that meeting is. Anyway it deals with that steel business. You are certainly aware of the general problem which they have on steel. Now I'm a little bit disturbed because he tells me that a British Minister of State by the name who I have forgotten, I do not know the gentleman in person but he seems to be the deputy to Sir Keith Joseph, if that is correct.

PM: Probably Adam Butler

CS: Maybe I don't know. At least this Minister of State has called into question some partial agreement which they had arrived upon in their last meeting last week they left open some questions regarding adhlstahl - I don't what the English word for that is - special alloys in steel. But otherwise they had agreed upon most of the questions last week and we were after a long discussion in Cabinet yesterday we were tending to grudgingly but nevertheless accept the compromise. Now he calls me from that meeting and tells me that your man has proposed to again alter some of the agreements of last week and I

/was going

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CS continued :- I was going to make it clear to your government that I didn't intend to call you in person Margaret but I could not reach Peter Carrington.

PM:- Peter is in Poland

CS: Yes he seems to be out of the country that is why I'm calling yourself. I just wanted you to know your Minister who was operating in that meeting that I think it would be very awkward if we should be forced to come up with a veto about something which had been agreed upon half a week ago and which was not changed again. I think that this gentleman might not be aware of the touchiness of the matter and this is my attempt to make your Cabinet aware of it. I now have the chance to speak to you in person its even better.

PM:- Now Helmut let me get it just right. Count Lambsdorf is at the steel meeting in Luxembourg, its in session, we had hoped it was going to agree, for example, on the quotas, this is the one. Now as I understand it you're agreed on the quotas for sheet steel and the main steel but there appears to be a question about a particular alloy of steel, is that right?

CS:- No, the question about special alloys had been left open for the meeting of tonight the other questions had been settled last week. And it seems that they are able to find a compromise about the alloy question tonight/^{but}at the same time some of the questions agreed upon last week are reopened by your delegate, and this is what caused trouble because it would have to be used for reasoning for our veto.

/PM

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PM:- The question refers to the reopening of the main steel agreement which you say was agreed last week. Helmut I will find out immediately.

CS:- Thank you very much Margaret. I don't wish to create any feeling of alarm but on the other hand it would be just nasty for us to table a veto there.

PM:- We would be very upset if there were a veto obviously.

CS:- We really wanted to avoid it. I have some difficulty to get my Cabinet behind me in avoiding that veto and Genscher wants to avoid it the rest were in favour of giving a veto.

PM:- Were they. Look Helmut I will make immediate enquiries. I will not phone back tonight because it will probably be too late.

CS:- Yes. Well how is it going in London?

PM:- How is ^{it} going - well we have the usual problems; the world recession and we've been paying our people too much for years so we're hit rather worse than anyone else.

CS:- We have a rough time here in meetings one day after the other to lay the agreement as the foundation for the next four years of coalition. And we find everywhere that we lack money and that we cannot spend the money Ministers wish to spend. And we will have some additional unemployment next year as well. We will have a zero growth next year and its not very pleasant the outlook.

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PM:- Well it isn't very pleasant because every spending Minister wants to spend more money and that just means more taxation because we cannot print it.

CS:- Yes. Has Peter given you any idea of his ...

PM:- No not yet, he's not back yet. He saw ^{Kania} Kahanya (?) just before he went to Moscow and this is Peter's second day and he'll be back soon. And we will just be very interested to see what's gone on because we're all a little bit worried at the moment.

CS:- I trust that he will give us some impressions.

PM:- Most certainly. We thought it a little bit important that he went, just to see what was happening.

CS:- Right. I fully agree. Because it's a dangerous point in time as regards the Polish development.

PM:- Yes very much so because all of the other Warsaw Pact countries are very jumpy about it and I didn't like Ceausescu's speech the other day at all. And one just hopes to goodness that the Poles will be left to sort it out themselves.

CS:- I think despite your economic difficulties your political situation is just fine regarding the state of the labour unions of the Labour Party.

PM:- Yes it is they are in acute difficulty but they

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PM continued:- they will just have to choose. We had two of them yesterday speaking in Parliament. Denis Healey whom you know and Michael Foot. And Michael Foot made one of these rather brilliant scintillating speeches, you know all presentation and no base. But unfortunately you know those speeches tend to go down rather well.

CS:- Does it mean that these two speeches were being made in order to compete between each other for the leadership.

PM:- That's right, yes. But we shall get two more from two other of those who want to be leader soon.

CS:- Is there any possibility that Wedgwood Benn would become leader?

PM:- None at all.

CS:- That's good.

PM:- He also spoke. He gave a total revolution/^{ary}speech. No you needn't worry about that Helmut, we're not that badly off.

CS:- I feel a little sorry for Jim Callaghan.

PM;- Well so do^{I,} he's such a nice man. I saw Brandt was over here the other day - Brandt was with Jim.

CS:- He only had a very slim chance to tell me one or two sentences; he conveyed the feeling of sympathy for poor old Jim

/PM

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PM:- Well Jim looks a different man. You know I just saw him quickly and he looks so relieved.

CS:- Yes, you know I don't know whether you know he is talking about you with a great amount of respect, if he talks to me anyway.

PM:- Well that is very kind of him and much appreciated. Helmut have you had a note from President Carter about the future chairman of the World Bank.

CS:- I have

PM:- You have, I have too and it will be a person whom I happen to know is extremely good.

CS:- I know him too. I am astonished that he is available for that job but I would as a person accept him easily and thankfully.

PM:- Well so would I - easily and thankfully. I just happen to be in a tricky position I can't take the lead on it in any way because I know that Ted Heath wants it. I don't believe he has a single chance of getting it because I have always thought that the Americans would insist on having an American and that is a very, very good candidate.

CS:- I am astonished that he should make himself available for that job but I know that man from San Francisco and he is just good.

PM:- He's very, very good. Indeed I think we would be even better than the present incumbent.

CS:- Yes, that's possible. Are you suggesting that I should do something?

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PM:- No, no. I was just wondering if you were supporting him, that's fine.

CS:- I don't know whether it's getting on my desk again but certainly I will have to answer it.

PM:- No I think he is a very, very good person but I can't in any way take the lead in supporting him because I think Ted would not like it.

CS:- I would certainly answer Jimmy Carter that I would, that my country would certainly assist such a proposal and make it be known.

PM:- Yes alright. And Helmut have you spoken to President Giscard recently?

CS:- No I have not.

PM:- I have just had Gaston Thorn here the other day and we were just talking about the agenda for the Luxembourg Council.

CS:- When is that?

PM:- It's at the beginning of December.

CS:- No I have no idea, I'm in the middle of all my domestic problems.

PM:- So am I. Let's leave the agenda. I will start to enquire about the other matter immediately.

CS:- I will wish you a good night in the House Margaret.