

SUBJECT.

NOTE OF A CONVERSATION OVER DINNER IN THE FEDERAL CHANCELLOR'S RESIDENCE AT 2030 HOURS ON SUNDAY 16 NOVEMBER 1980

Present:

The Prime Minister	Herr Helmut Schmidt
The Foreign and Commonwealth Secretary	Herr Hans-Dietrich Genscher
Sir Oliver Wright	Dr Jurgen Ruhfus
Mr. C.A. Whitmore	Herr Otto von der Gablentz

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THE FOREIGN AND COMMONWEALTH SECRETARY'S VISIT TO EASTERN EUROPE

In response to Chancellor Schmidt's invitation, the Foreign and Commonwealth Secretary reported on his recent visit to Eastern Europe. He said that he had found Mr. Kadar impressive and authoritative during his talks with him while he was in Hungary. (Chancellor Schmidt interjected that Mr. Kadar was a fine man.) Mr. Kadar had said it was most important that nothing was done to internationalise the crisis in Poland, for otherwise there would be a catastrophe. The Soviet Union had decided not to intervene, but if the West did something provocative, they might change their mind and go in. Mr. Kadar had said that he was not worried in the smallest degree about the possibility of the advent of free trade unions in Poland affecting Hungary. He had also said that the longer the West could keep Mr. Brezhnev in power, the better it would be: what came after Brezhnev would be worse.

Chancellor Schmidt said that <sup>when</sup> he had seen Mr. Kadar in 1978 he had said something very different to him. His view then had been that Soviet policies were so established that a change of leadership would not matter.

The Foreign and Commonwealth Secretary said that he had gone on from Hungary to Poland where he had found Mr. Kania more reassuring than he had expected. Because of Mr. Kania's previous responsibility for internal security matters he had thought he

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would be a hardliner. He appeared, however, to be open to reason and he made no pretence that what was happening in Poland was purely economic and not political as well. Nonetheless, he had appeared to be determined to overcome the political problems. He did not want any confrontation. He had said that the free trade unions were on the whole moderate but that they contained a minority which wanted to destabilise the system and bring it down, and if that happened there would be trouble. He did not seem to think, however, that events were likely at present to take such a turn. Mr. Pinkowski, the Polish Prime Minister, had taken a similar line.

The Foreign and Commonwealth Secretary said that his own assessment was that the Poles would sort out their political problems. They would, however, have much more difficulty in solving their economic problems. The potato crop had failed, and all round the country there were queues in the food shops. He doubted whether the Government would be able to satisfy the rising expectation of the free trade unionists for better food and more consumer goods. The Catholic Church was obviously much involved in recent events in Poland, but he thought that it was more in alliance with the trade unions rather than managing them from behind the scenes.

Herr Genscher said that he had thought that Mr. Walesa could control his trade unionists. He was a responsible and careful man, but there was no doubt that he was under considerable pressure.

Herr Schmidt said that he had asked the Pope the night before for his evaluation of the Polish situation. The Pope knew Mr. Kania and had talked approvingly of him. He did not believe, however, that the Polish authorities would be able to keep their economic promises. Herr Schmidt added that when he had suggested that trouble leading to Soviet intervention might flare up when disillusionment set in, the Pope had said that much depended on whether the people's dignity was being acknowledged and honoured by the Polish Government. If it was, they would be ready to accept hard decisions by the Government.

NATO

The Prime Minister said that she and the Federal Chancellor had discussed the state of the Alliance in their tete-a-tete before dinner. He had not shown himself unduly worried about NATO's military strength compared with that of the Warsaw Pact. But she felt strongly that the Alliance had lost its vigour and dynamism. She did not believe that we were getting maximum value for all the money that was put into our defence effort in NATO. The UK would have difficulty in making the 3 per cent target in 1981/82, but she doubted whether it was all that vital for members of the Alliance to reach the 3 per cent aim in a year of recession. What was much more important was to achieve an improvement in the collective effort to make the Alliance work and to get a maximum return on the investment of resources in our military capability. A big step in this direction would be to replace Dr. Luns with a new Secretary General who might infuse new energy and determination into NATO's activities. Another area where a big improvement should be made was in collaboration on equipment. The UK, France and the FRG would all need a new tank in the 1990s, and this offered a splendid opportunity to collaborate on producing a common tank. When the Warsaw Pact forces all used the same tanks, it made no sense at all for the Alliance to go on having 12 different tanks.

Chancellor Schmidt said that he agreed that Dr. Luns should go by August 1981 at the latest. But it was important to be clear that the Secretary General and the NATO bureaucracy were not the key to improving the condition of the Alliance. The answer lay with national governments.

As regards collaboration, all his experience made him sceptical about its value in the development of complex weapons. All too often such projects consisted simply of an amalgamation of national operational requirements and not a genuine synthesis of them. This usually made the final product much more expensive than it would have been if it had been developed and produced nationally. The Tornado was a good example. This was costing 60 million DM an

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aircraft, and it might have cost 30 per cent less if it had been a national project. A more rational approach would be complete specialisation, so that, for example, the UK produced fighters for all members of the Alliance, the FRG tanks and so on.

The Foreign and Commonwealth Secretary said that he thought it would be very helpful if when Chancellor Schmidt saw Mr. Reagan's advisers in Washington later in the week he could put it to them that there was a need for a new dynamism in NATO which was not simply associated with the aim of 3 per cent annual increases in defence expenditure. He shared some of Chancellor Schmidt's reservations about collaboration: the failure of the UK and FRG to develop a common tank for the 1980s was an example of the inability of national military staffs to reconcile requirements. Nonetheless, we should not give up trying. We were facing a common enemy and one day we might be fighting the same war: that surely made it necessary for us all to have the same tank.

The Prime Minister said that she doubted whether it would ever be possible to achieve complete specialisation on the lines suggested by Chancellor Schmidt. Nor should we be too pessimistic about collaboration. The Tornado and the FH 70 gun had been successes, and she hoped that he was not saying that the FRG would not join in collaborative projects in future.

Chancellor Schmidt replied that he had only been expressing personal doubts. Officially he and his Government remained in favour of collaborating with their NATO allies. More generally, he was not too worried about NATO's total military capability. The FRG, for example, could put 1.25 million trained soldiers into the field in three days, and he had no "inferiority complexes" about Germany's forces, though he could not claim he was entirely free of anxiety about the Dutch and the Danes. Nonetheless, he was not saying that NATO was perfect and that it should be left just as it was. He accepted the need for a new Secretary General, and he thought that there should be much more give and take in discussion at Ministerial meetings which were now too formal and rhetorical. Above all, the Alliance needed two things which went together - leadership from the United States and much more consultation.

/ Herr Genscher

Herr Genscher said that much would be gained if NATO Foreign and Defence Ministers had private, informal meetings, such as the Foreign Ministers of the European Community had. He would like to see these taking place between the formal meetings in December and May. The need for NATO Foreign Ministers to meet the new US Secretary of State would provide a good pretext for a meeting of this kind in February 1981. The French, of course, would have difficulty in agreeing to such meetings, and the first step would be to discuss the idea with M. Francois-Poncet.

The Foreign and Commonwealth Secretary said that he doubted whether anything would come of Herr Genscher's suggestion but he thought it well worth a try, if only to get away from the formal stereotyped meetings which NATO Foreign Ministers had now.

Chancellor Schmidt said that if progress was to be made with Herr Genscher's idea, it would be important to let the initiative come from the French after it had been agreed privately by all concerned. His meeting with President Giscard the previous week had suggested that his mind too was moving in this direction. He was looking forward to more dependable American leadership. In his own view, too, if Mr. Reagan meant what he had said about his approach to NATO, there would have to be more consultation within the Alliance. The United States had not had a grand strategy for dealing with the Soviet Union since President Nixon left office, and it would be important to get over to Mr. Reagan's advisers that a new strategy of this kind was now the main need.

The Foreign and Commonwealth Secretary said that he hoped that Mr. Reagan would not say publicly that the United States was inferior to the Soviet Union in nuclear weapons and had to catch them up. If he took that line, the Russians would respond and this would be the beginning of a new arms race. In approaching the new Administration, we had to bear in mind that the Americans were feeling lonely. They believed that they were not properly supported, for example, over Iran and the Gulf. The new Administration was also likely to say that they were carrying a much bigger share of the defence burden than their European allies and that they wanted them

to make a greater effort. There was a real possibility of a recurrence of Mansfieldism. For this reason the European allies should be considering now how best to influence Mr. Reagan's advisers over the next two months.

Chancellor Schmidt said that he did not believe that the United States was inferior to the Soviet Union in military capability but he feared that if there was an arms race, we should lose the Dutch and the Danes. There was a danger that underneath tough talk about the Soviet Union the United States would revert to a "Fortress America" mentality. The most sensible position Mr. Reagan could adopt publicly would be to say that the United States would be second to none in military strength.

The Prime Minister said that Mr. Reagan had been greatly underestimated and for this reason he was in danger of being misunderstood. It would be a very serious mistake if we antagonised him from the outset by trying to tell him what he should and should not do. Unless we handled our consultations with him very carefully, there was a real risk that Europe would not get off on the right foot with him and would be weakened as a result. Nonetheless, we should have to get over to him the complexity of relationships within the Alliance and the fact that all its members saw NATO from different perspectives.

Chancellor Schmidt said that there was no question but that Europe had to look to Mr. Reagan to provide American leadership in the political, economic and military fields. They had to exert this role by virtue of their sheer size and power. But this did not mean that their leadership was a kind of dictatorship and that their ideas and policies should not be questioned by their allies. When he was in Washington later in the week he would make it clear to Mr. Reagan's advisers that the Europeans were glad to have a firm and reliable leader but he would tell them that leadership had to embrace consultation. He would also impress upon them the need for the Americans to have what he had called a grand strategy in dealing with the Soviet Union. He would explain to them the importance of continuing the SALT process and in particular of the need for progress in the talks on limitations on missiles stationed in Europe, if the

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adherence of all the European allies to the decisions on TNF was to be sustained. He would also urge Mr. Reagan's advisers to listen to the Arab case as well as that of Israel; and he would try to discover what their approach to China was.

Herr Genscher added that he and Chancellor Schmidt would propose that Mr. Reagan<sup>would</sup> send a team of his advisers over to Europe shortly to consult the United States' allies. Firm leadership from his Administration would be all the more necessary since all the signs were that the Soviet Union was about to mount a major offensive on disarmament with a view to undermining the readiness of the West to defend itself. Chancellor Schmidt added that these considerations all emphasised how superficial it was for the Alliance to focus all its attention on whether or not member countries achieved a 3 per cent annual increase in defence expenditure.

#### MIDDLE EAST AND SOUTH WEST ASIA

The Prime Minister said that the UK would have to make up its mind about future arms sales to Iran once the American hostages were released. A further complication was that the Iranians were also holding four British citizens as prisoners. Britain had embargoed military equipment which Iran had paid for but<sup>which</sup> had not been delivered. The British Government was inclined to take the view that once the hostages had been freed, there was no reason for denying Iran civil goods but that as regards military equipment, each case should be looked at on its merits. One factor to be taken into account would be the effect of arms exports on Arab governments.

In reply to a question by Chancellor Schmidt, the Prime Minister said that the UK was not selling military equipment to Iraq at present but that we were to Saudi Arabia. We believed that it was right to build up the Saudi forces and we were hoping to sell them the FH 70 gun but we needed FRG consent for this. We also hoped to sell the RB 199 engine to Yugoslavia.

Chancellor Schmidt said that he was reluctant to see the RB 199 engine supplied to Yugoslavia for security reasons but he was ready to give German agreement for the sale of the FH 70 to Saudi Arabia, provided there were no objections from the Americans. More generally,

/ he thought

he thought that European Foreign Ministers, including M. Francois-Poncet, should consider together whether it was in the joint interests of the West to supply weapons to the countries of South West Asia. This was the sort of problem on which we ought to have a concerted position with which we could then go to the Americans whose perspective in this area was likely to be different from our own because of their particular concern about Israel. He was particularly concerned about Saudi Arabia which he thought was feeling increasingly isolated. It must surely be in the interests of the West as a whole to stabilise Saudi Arabia.

The Prime Minister said that there were <sup>really</sup> only five Western countries concerned with this matter - the United States, the FRG, France, Italy and the UK. She doubted very much whether it would be possible to reach agreement with the United States and the French on a joint arms sales policy towards the countries of South West Asia, but she saw no harm in trying.

QUADRIPARTITE CONSULTATION

The Prime Minister continued that this was an example of the kind of problem which was best pursued through the quadripartite machinery, though there would often be occasions where it would be desirable for the three European allies to consult together first before approaching the Americans. If we were to give substance to the quadripartite forum, it would need a proper secretariat.

Chancellor Schmidt said that he agreed about the importance of the quadripartite forum, but he thought it important that it operated not just at official level but also at Foreign Minister level. There should be full-scale meetings of the four Foreign Ministers, if possible in secret. It was not good enough for the four of them to meet always in the margins of other occasions.

The Foreign and Commonwealth Secretary said that it would be important to get Mr. Reagan's advisers to understand quickly the importance of the quadripartite machinery in the spectrum of allied

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consultation. There was of course a perpetual problem with the Italians over the use of the quadripartite forum. Their objections to it were understandable, particularly in view of the courageous decision they had taken over the stationing of United States cruise missiles.

Chancellor Schmidt said that Signor Forlani was anxious for an early meeting with him, and it was likely that he would come to Bonn for three or four hours of talks, including a working lunch, on 9 December. The Prime Minister added that she would be in Rome in a week's time for her regular six monthly meeting with the Italian Prime Minister.

/Arab/Israel

ARAB/ISRAEL

Chancellor Schmidt said that he was due to see the Israeli Foreign Minister the following day. He was under considerable pressure to agree to visit Israel but he did not want to go because if asked publicly, he would have to make it clear how profoundly he disapproved of Mr. Begin's policies. Yet it was difficult for him to reject outright the suggestion that he should go to Israel because of the obligation the FRG peculiarly was under to Israel due to the past. He retained great sympathy for the Israeli people but he was deeply afraid of the consequences of their Government's policies. If there was another Arab/Israel war, they would lose and this time find themselves without the support of the West.

The Prime Minister said that it was clear that it would not be timely for the Federal Chancellor to visit Israel in the near future. If he had to give a reason for not going, he might simply say that he would be glad to pay a visit but not yet. As regards Mr. Begin's policies, she wondered whether it was right that Israel would lose a future conflict with the Arabs. Egypt would not fight, and that left only Syria and Jordan, not a formidable combination.

The Foreign and Commonwealth Secretary added that while Egypt remained neutralised militarily - and they did not get back the rest of Sinai until 1982 - Israel would probably not be defeated. This no doubt accounted for Mr. Begin's arrogance, which was reinforced by Arab divisions over the Iran/Iraq war. But elections had to be held in Israel by November 1981 at the latest and this might lead to changes in the present short-sighted policies. In the meantime there should be no new initiatives, but this did not mean that M. Thorn's mission should not be followed up.

COMMUNITY AFFAIRS

The Prime Minister said that she was concerned not to do anything in the European Community in the next few months which would make things more difficult for President Giscard in the run-up to the French Presidential elections. This was why the agricultural price fixing was more of a problem than it might otherwise be. France

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wanted a large price increase, while the UK was in favour of very severe price restraint in products in structural surplus. We were absolutely determined not to break the 1 per cent VAT ceiling, and the higher the price increase the nearer we should get to the ceiling. A possible formula was, as the Germans had themselves proposed, to restrict the rate of growth of CAP expenditure to the growth of the Community's own resources. In addition to price restraint the UK would like to see a heavy supplementary levy on milk production.

Chancellor Schmidt said that in 4½ hours' discussions the previous week President Giscard had not once said that he must have a price settlement before his election, whereas he had repeatedly referred to the need to stay within the 1 per cent VAT ceiling. The German approach was similar: indeed, he would like to see agreement between the UK, France and the FRG that they would not consent to any policies which would result in the ceiling being breached. Moreover, he would go further than the formula suggested by the Prime Minister and argue that the cost of the CAP should increase by considerably less than the growth in own resources. He agreed about a supplementary levy on milk. He also believed that the Commission's interventions in the market should be less strict: this would involve removing from the farming communities the present floor guarantees. There should be a limit on the amount of money the Commission could spend in this way.

The Prime Minister said that the Community should solve the outstanding problem of New Zealand butter quickly. Only the French were holding out. This was a political issue: New Zealand was a friend of the West on the other side of the world and should be treated accordingly.

Chancellor Schmidt said that he understood the problem. But the butter surplus was too big. His Cabinet had recently decided, however, that the FRG should no longer agree to the sale of cheap butter to Russia. The Prime Minister added that the UK always voted against such sales in the Commission management committee but member countries had no veto.

/Chancellor Schmidt

Chancellor Schmidt said that political co-operation among the Nine should be far more important than everlasting strife about butter, sugar and so on. Political co-operation was going fairly well, but the Community was not doing enough to get this over to the public.

UK/FRANCE

Chancellor Schmidt said that it had been clear from what President Giscard had told him the previous week that the UK and France were now getting along much better both at the Governmental level and on a personal basis.

The Prime Minister said that that was a fair assessment. The improvement between France and the UK had only been possible because of the lead that had been given from the top on both sides. Both she and President Giscard had been determined that things should take a turn for the better. Her bilateral meeting with the President in September had been a very good one, and apart from New Zealand butter, all our problems with the French had been solved or were on the way to being solved. This was why she did not want to make difficulties for President Giscard before the French Presidential election.

SPAIN

Herr Genscher said that while he had been in Spain for the opening of the Madrid Conference, he had talked to the King, the Prime Minister and the Foreign Minister about the internal situation. All three of them seemed to be changing in their attitude to the Basque problem. Their difficulties were growing, and it was clear that they were under pressure from the Army to do something different. The ETA were now active throughout Spain: they had enough money and seemed to be getting all the training and arms they needed. They were supported by the majority of the Basque population, and their objective appeared to be a regime like that in Cuba. Senor Suarez was now in a dilemma. If he introduced much tougher measures against the terrorists such as martial law, there would be an outcry from every left wing party in Europe. People would think this was the beginning of a return of the past. Spain faced a crisis of democracy.

/PRESS CONFERENCE:

PRESS CONFERENCE: DEFENCE EXPENDITURE

In discussing the following morning's Press Conference, Chancellor Schmidt said that if he was asked about German defence expenditure, he would point out that hitherto the FRG had always honoured its NATO obligations. Defence expenditure in 1980 would increase by about 3 per cent in real terms. He was not prepared to speculate about 1981 but would tell questioners that they should wait until the end of the year to see what the increase in real terms was after the figure in money terms had been established and had then been deflated.

The conversation ended at 2330.

*JWH.*

17 November 1980