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NOTE OF A MEETING HELD BETWEEN THE FEDERAL CHANCELLOR AND THE PRIME MINISTER IN THE FEDERAL CHANCELLERY, BONN, AT 0910 HOURS ON WEDNESDAY 18 NOVEMBER 1981

Present:

Prime Minister

Mr. C.A. Whitmore

Chancellor Schmidt

Herr Otto von der Gablentz

Visit of President Brezhnev

The Prime Minister asked Chancellor Schmidt what he thought President Brezhnev's objectives would be when he came to Bonn at the weekend. She supposed that his main purpose would be to sound out Chancellor Schmidt and, through him, the West more generally, before the US/Soviet talks on theatre nuclear forces began on 30 November.

Chancellor Schmidt said that President Brezhnev was now a very old man. When he had met him three years ago, he was very frail and needed help in answering his questions. He questioned how great President Brezhnev's influence in the Politburo still was. The other members of the Politburo would go on using him as a front as long as he lived. They could exploit his popularity both in the Soviet Union and in the rest of the world and they were using him to postpone the inevitable struggle over the succession to him. On the other hand, President Brezhnev was, in his view, one of the few trustworthy leaders of the Communist world. He conformed to the conception of a Russian which he, Chancellor Schmidt, had gained from reading Russian literature when young. President Brezhnev came out of the pages of Tolstoy, Dostoiievsky and Pushkin. He was capable of great sentimentality. But was equally capable of being brutal and devious. Above all he wanted peace badly. This was his 7th meeting with President Brezhnev and he now had "a certain feeling for him". He was deeply afraid of war and he always came back in conversation to what he had experienced in the Second World War. He was now too old to be ambitious for himself and he knew that he would not live much longer. His quest for peace was plain.

/ While in Bonn,

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While in Bonn, President Brezhnev wanted to sound out the West as a whole. He did not understand the West. He had dealt with three former US Presidents - Presidents Nixon, Ford and Carter - on SALT II. All three had appeared to the Russians to be negotiating seriously, but in the end they had all shrunk back from finalising the Treaty. President Brezhnev was now dealing with his fourth American President - and one who had originally said that it made no sense to negotiate strategic arms limitation agreements but who was now saying that it was right to negotiate. What was the Soviet Union to make of it? Even though President Brezhnev almost certainly did not believe that the Americans wanted to go to war, they must appear very devious to him. Moreover, just as he could not read the West, nor could President Reagan read the Russians, even though he was now talking in a more sophisticated way than he had done 12 months earlier.

The Prime Minister said that the Soviet Union did not understand the constraints under which the democracies had to work. In the United Kingdom, for example, the Government could no longer count with complete certainty on the approval of Parliament for its actions. When her predecessors had negotiated international agreements in the 50s and early 60s, they could be sure that Parliament would ratify what they had done. Today the composition of the House of Commons was very different, with many younger Members who were making a profession of politics and who had no outside experience. They could not be relied upon to support the Government in the way their predecessors had done.

Chancellor Schmidt agreed that the Russians did not understand the Parliamentary limitations under which the governments of the West had to work. Nor did they understand that the media in the West were free and could say what they liked. They also found incomprehensible some of the quick changes in government which they saw in some Western countries. They had "a sympathy for continuity in their partner countries". They had got used to President Giscard after dealing with him for 7 years; and they were now familiar with him now that he had been Federal Chancellor for 7 years. He knew that President Brezhnev regarded him as honest and candid. He had "some limited trust" in him and so President Brezhnev would listen to him when he came to Bonn and so would his people.

/ Chancellor Schmidt

Chancellor Schmidt went on to say that Mr. Gromyko was one of the few members of the Politburo who understood the West. But his standing was not significant. He had joined the Politburo only three years ago after a lifetime of service in the Government. There was only one military man in the Politburo, Mr. Ustinov. He did not know how influential Mr. Ustinov was but when he had last been in Moscow, he had had talks lasting 2½ hours with him and Marshal Ogarkov and he had found them both very competent and very self-assured. "In their moderation they had scared him."

The Prime Minister said that she could not understand why the Soviet Union, which needed so much military strength to give itself self-assurance, then denied the same military strength to the West as a whole and to the United States in particular. She also wondered whether the Russians were becoming as worried as the West about the rapidly growing cost of sophisticated military equipment. If they were, that was the hope for the future.

Chancellor Schmidt said that he thought that the Russians were become more alarmed at the increasing cost of their defence capability. But they were equally worried about the planned deployment of American GLCMs and Pershing 2s in Europe. The fact that they had the SS20 did not reassure them. "Their SS20s were not aimed at Russian cities." This would be the first time since President Kennedy withdrew Thor missiles from countries like Turkey that NATO missiles in Europe were targetted at Soviet cities. The Russians would go a very long way - even as far as dismantling part of their own capability - to remove this threat. But he did not believe that they could agree to a mutual zero outcome of any arms limitation negotiation. They would have to keep some missiles deployed against China and they might argue that they needed some to counter-balance French ground-launched missiles, though they could not claim that they needed ground-launched missiles to offset the UK's Polaris missiles, since they could counter-balance those with their SLBMs.

The Prime Minister said that the Russians appeared to over-estimate the Chinese threat.

/ Chancellor Schmidt

Chancellor Schmidt agreed but said that the Russians nevertheless had a very deep fear of China. He had once discussed with Chairman Mao recent Russian leaders and he had branded them all as traitors to Communism, except, of course, Stalin. He had also had 10 hours of private talks with Chairman Hua two years ago and he had boasted quietly of Chinese ability to destroy Moscow with its missile forces. What, above all, gave the Chinese confidence in dealing with the Russians was their numerical superiority.

The Prime Minister said that two things underlay the strength of China's position. First, they shared with the Russians a disregard for human life, and this gave them a similar approach to politics to that of the Soviet Union. Second, they were so much more numerous than the Soviet Union. Their attitude to the Soviet Union was their value to the West.

Chancellor Schmidt said that Moscow saw the opening up of the West's relationship with China as a great offensive against the Soviet Union. When he saw President Brezhnev he would explain to him that the West felt threatened by the 200 SS20s which the Soviet Union had now deployed. He would tell him that these missiles had to be done away with. But he would warn him that he could not count on the so-called peace movement in Western Europe. Nor should he meddle in the internal affairs of Western countries. Any other government that might possibly succeed his in Bonn would adhere to NATO's double-track decision. He would tell President Brezhnev that he must reckon that theatre nuclear forces would be deployed at least in the Federal Republic and the United Kingdom. He had only until the summer of 1983 to negotiate an arms limitation agreement on TNF. He would make clear to President Brezhnev that if there was no agreement by then, GLCMs and Pershing 2s would be deployed in the autumn of that year. He would also urge him to meet President Reagan: only in this way would they realise that they were both human beings and not warmongers.

Chancellor Schmidt continued that there would also be some discussion with President Brezhnev on bilateral Soviet/German relations. The Soviet Union wanted to export raw materials and gas to the Federal Republic, and Germany wanted to supply machinery and other manufactured goods to the Soviet Union. Trade between

the two countries was still relatively small and its main value was that it created contact between the two nations.

Above all, he thought that President Brezhnev would want to project himself to the West as "the great peace lover". His visit would be "an attempt by the old man to stabilise peace", but it would be on his terms and not ours. He, Chancellor Schmidt, was at risk here and so he would make a speech at the dinner he was giving for President Brezhnev which would be frank rather than friendly and would give nothing away. He would report on his meeting with President Brezhnev to his colleagues in the Community at the European Council meeting in London and he would send an envoy to report to President Reagan.

The Prime Minister said that she thought President Brezhnev might be surprised when he met President Reagan. He might find that they understood each other more easily than he might have expected.

Chancellor Schmidt reiterated his hope that President Reagan would meet President Brezhnev fairly soon. After President Brezhnev left the scene, there could be a long power struggle in Moscow which meant that the Soviet Union ceased to operate effectively in the outside world, possibly for a period of years.

World Economy

Chancellor Schmidt said that he believed that the United States' budget deficit in 1982 would be in the region of \$95-100 billion. President Reagan's economic policies would not work, and the Administration appeared to be leaving the fight against inflation to the Federal Reserve Bank. As interest rates rose, private enterprise in the United States would be starved of funds. Investment would fall and this would lead to rates of unemployment which they had not seen since the war. The United States Administration had to change the course of its economic policy. Even if the economic policies of the British and German Governments were successful - and he had to admit that his own was not going very well at present - they would nonetheless be "infected" by what was happening in the United States. We were on the brink of turning world recession into world depression. Never before had

Europe had such high interest rates while at the bottom of a recession. If the Americans had to borrow some \$100 billion in 1982, interest rates were bound to go up still further. He did not believe that the United States Administration understood that when they decided on domestic United States economic policy, they were also deciding the economic fate of the world.

The Prime Minister said that many people did not grasp that a big deficit made not for boom but for a big depression.

Chancellor Schmidt agreed. It was possible to have a deficit and boom if a country did not need to borrow money from overseas and was able to have an autonomous interest rate policy. But neither the Federal Republic nor the United Kingdom - any more than the United States - could exist without foreign money. So as the United States borrowed more and its interest rates went up, we should have no alternative but to follow.

Middle East

The Prime Minister said that she was also very worried about American policy towards the Middle East. There was a real danger that another US President would be gone and nothing done to move towards a solution to the problem of the Middle East. Mr. Begin's position seemed to be getting stronger, and he plainly felt more free than ever to act in what he saw as his own interests. The United States appeared to have no realistic ideas about what to do next after the Israeli withdrawal from Sinai. The Arab world was, to put it mildly, disillusioned with the United States. The whole situation was a gift to the Russians who would do all they could to stir up trouble.

Chancellor Schmidt said that he shared the Prime Minister's pessimism. The Americans were not being nearly subtle enough in their policy. But they never had been. In his view Camp David had been a mistake from the beginning. It had never left a door open for the Soviet Union to come in again and to revive the Geneva talks. And it had been as much a slap in the face for the moderate Arabs as for the Soviet Union. He was particularly worried about Egypt after the death of President Sadat. She was in great

economic difficulties and he doubted whether the government would be able to feed the people this winter. Saudi Arabia still had no relationship with Egypt: this was an impossible situation when Egypt needed Saudi money so badly. Any Egyptian ruler who wanted to satisfy the people of Egypt had to have a close political and financial relationship with Saudi Arabia.

The Prime Minister said that when she had recently seen King Hussain of Jordan he had said that it would, in his view, be disastrous if President Mubarak became engaged in wholly artificial autonomy talks. It would vitally undermine his position in Egypt. King Hussain had put his views to the Americans.

In response to a question from Chancellor Schmidt, the Prime Minister added that it was true that King Hussain had his own dealings with the Soviet Union but basically he was very loyal to the West.

Chancellor Schmidt said that he did not doubt King Hussain's attachment to the West. But he was "a little King of a weak country with no oil". So far he had manoeuvred very well through the shallow and deep waters of the Middle East, ^{it was significant} but/ that he had had to open up a relationship with the Soviet Union. If Prince Fahd of Saudi Arabia disappeared from the scene, the West would have no more friends in the moderate Arab world. If Prince Fahd was not there what hope would there be of Saudi financial help for Egypt? It would be a major mistake to try to keep Egypt separate from the rest of the moderate Arab world. After the Israeli withdrawal from Sinai, the aim should be to restore Egypt's relationship with the other moderate Arab countries.

The Prime Minister said that this would not happen if the United States went ahead with the autonomy talks. An agreement resulting from those talks which created an artificial autonomy would put President Mubarak in a false position.

Chancellor Schmidt said that if President Mubarak went into these talks, all he would have to offer would be a promise not to attack Israel. But this would not impress Mr. Begin because he

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would see President Mubarak for what he was, a man in a weak position fighting for survival. What President Mubarak had to do, above all, was to find some-one to finance the Egyptian economy, and that some-one had to be Saudi Arabia.

The meeting ended at 1020.

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18 November 1981

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10 DOWNING STREET

From the Private Secretary

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CO ✓
MOD ✓
MAFF ✓
DUT ✓
DUI ✓
DIEMP ✓

HL
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20 November 1981

Prime Minister's visit to Bonn

I enclose the records of the Prime Minister's discussions with Chancellor Schmidt in Bonn on Wednesday. I should be grateful if these records could be given an extremely limited distribution. They should be seen only by those who genuinely need to see them.

I am sending copies of this letter and all the enclosures to John Kerr (H.M. Treasury) and David Wright (Cabinet Office).

I am also sending a copy of this letter together with the record of the tête-à-tête and appropriate extracts from the record of the expanded discussion to David Omand (Ministry of Defence). I am sending copies of extracts from the expanded discussion to Kate Timms (Ministry of Agriculture, Fisheries and Food), John Rhodes (Department of Trade), Ian Ellison (Department of Industry) and Richard Dykes (Department of Employment).

M. O'D. B. ALEXANDER

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Brian Fall, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

From the Private Secretary

20 November, 1981.

Anglo-German Summit: Arms sales to Yugoslavia

The Prime Minister saw your letter to me of 17 November on this subject, but did not raise the question with Chancellor Schmidt.

I am sending a copy of this letter to David Omand (Ministry of Defence).

M. O'D. B. ALEXANDER

CS

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

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