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Note of a Discussion over Lunch at Chequers on Friday, 19 March, 1982

Present:

Prime Minister	Chancellor Schmidt
Foreign and Commonwealth Secretary	Herr Hans-Dietrich Genscher
Sir Jock Taylor	Dr. Jurgen Ruhfus
Mr. Clive Whitmore	Herr Otto von der Gablentz

30 May Mandate

The Prime Minister said that the Community staggered from one expedient to another and never tackled the fundamental changes that were essential. As Burke had said, a society without the means of change was a society without the means of conservation.

Chancellor Schmidt said that the pity was that the United Kingdom had joined the Community 10-12 years too late. It was very difficult to change now the rules that were established at the creation of the Community, especially as those rules brought substantial benefits to some members of the Community.

The Foreign and Commonwealth Secretary said that he and Herr Genscher had concluded earlier in the day that it was unlikely that next week's Foreign Affairs Council would make much progress on the Mandate. They would probably suggest that the European Council should discuss the problem and then instruct them to meet again to make further efforts to find a solution. The Prime Minister said that in that case it would be better if the European Council discussed the budget over dinner rather than in formal session.

Chancellor Schmidt said that "the feeling in his stomach was that President Mitterrand would be bellicose about this". He would say that the principles of the Community budget were laid

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down long ago and that if a member was in trouble, it was right for the Community to try to alleviate its burdens but not for eternity.

The Foreign and Commonwealth Secretary said that approach was all very well when the person in trouble was in that situation through his own fault. But that was not the case with the United Kingdom and the budget.

Chancellor Schmidt asked whether it was the Federal Republic's fault that it was transferring 2 billion ecus a year to the Community. The Council of Ministers had taken wrong decisions in the past, and British Ministers had participated in them. They were there and could not be ignored. Was it worth breaking up the Community over the Mandate? That was the danger.

The Prime Minister said that nobody had believed when the Community was established that so much of its resources would be absorbed by the CAP. The fault was not with the rules as such but with the way that they were applied so that the majority benefited and the minority of Britain and Germany paid. The majority were using the Community budget in a way never intended originally. She had no intention of breaking up the Community, but the inequitable application of the Community's rules would break it up. The Community would not be able to settle the issue until we were at the brink; and we would get to the brink before long because of France's need to fix new farm prices. She hoped the Community would settle on a basis of equity.

Chancellor Schmidt, in reply to a question by the Foreign Secretary, said that he believed that President Mitterrand felt so strongly about the question of the Mandate because he had a lot of small and poor farmers and because France believed herself entitled to the CAP as we knew it because this was based on the rules laid down when the Community was founded.

The Foreign and Commonwealth Secretary said that Britain had said in 1970 that we thought that the CAP would cause problems

eventually and we had made clear then that the CAP would not be able to continue unchanged if it gave rise to unacceptable situations. He could see the political embarrassment for the French if a revised CAP gave them a reduced level of benefits. But the French did not even begin to see the United Kingdom's problem.

The Prime Minister said that it was wrong that the Federal Republic contributed so much. Britain and Germany were subsidising the rich members of the Community.

Chancellor Schmidt said that the CAP had gone wrong. But the structure of the policy had been laid down at the creation of the Community. All members had since then contributed by their decisions to the unfairness of the policy. So for the United Kingdom to attack the others on this score was itself not fair.

He believed that Britain should use only one argument in its search for equity. She should say that an unacceptable situation had arisen for her, and all members had earlier agreed that if that happened, they must deal with it. Britain should rest on that position. He was trying to help strengthen her case.

The Foreign and Commonwealth Secretary said that if economic convergence remained, as it did, a political aim of the Community, he could not believe that nine of the members wanted to single out the one remaining member for unfair treatment. We had accepted the existing conditions when we had joined the Community, but we had also made the specific proviso about the need to deal with an unacceptable situation if it arose, just because we had foreseen the problem of CAP expenditure.

The Prime Minister added that the solution had to endure as long as the unacceptable situation endured. We had known that the three years of the 1980 agreement would not be enough. Now M. Thorn was even suggesting a one-year agreement. If the formula was related to the situation, the problem would not recur. She did not

want a pitched battle. She wanted a lasting solution.

Central America

The Foreign and Commonwealth Secretary said that Mexico was trying to get a negotiation going on El Salvador, but the United States were very suspicious of Senor Castaneda.

Herr Genscher added that this was due in no small measure to the fact that Senor Castaneda's wife had been born in the Soviet Union and her son was the leader of the Mexican Communist Party.

The Foreign and Commonwealth Secretary continued that the elections in El Salvador would have one of two possible outcomes. Either nobody would take part and they would turn into a farce. Or General Duarte would win against the Right but the Left would take no part; and in that event it would be difficult for Duarte or the United States to claim the election as decisive. But even if that happened, it might give the situation just that push that was needed to make a negotiation possible. A negotiaton was the only way out. Otherwise the war would go on. But it was not easy to see who could undertake the mediation. Certainly Mexico could not.

Central America would be more and more to the forefront in the next few months and might well obscure bigger and more serious problems like Poland.

Chancellor Schmidt said that the situation in Central America today was not President Reagan's fault. No American Administration had had a policy for Central America for years. It was no use trying to apply Western European standards of democracy to countries like these or in Black Africa or in Turkey. It would be a wonder if democracy worked in Turkey.

Greece and Turkey

The Foreign and Commonwealth Secretary said that there was a danger that Greece would get NATO into difficulties over Turkey.

She might well become no more than a lukewarm member of the Alliance, while alienating the Turks from NATO.

Chancellor Schmidt said that the present situation was not all the fault of Greece. Turkey had made mistakes too. It might be possible to agree a form of words with Greece and Turkey which, without mentioning them by name, said that members of NATO agreed to settle disputes between them in a peaceful way. Mr. Averoff had recently told him that we should not worry too much about Mr. Papandreou's foreign policies. He would not leave the Community or NATO but he had to give a public appearance of trying to live up to his election undertakings. Chancellor Schmidt added that he had found Mr. Papandreou very reasonable privately. Mr. Papandreou had told him that he was prepared to put problems like territorial limits in the Aegean on ice. On the other hand, Mr. Karamanlis did not take such a favourable view of Mr. Papandreou.

The Foreign and Commonwealth Secretary said that Mr. Papandreou seemed to want an assurance that if Turkey attacked Greece, NATO would come to the help of Greece, but it was obviously very difficult to give such an assurance. In the meantime, Turkey's NATO allies went on complaining about the lack of human rights there. Until they returned to Parliamentary democracy, countries like Norway, the Netherlands, Denmark and even France would go on attacking them. Nor did the Turks help themselves; for example, the recent series of public executions had given rise to a great deal of criticism. The Turks were likely to tire soon of constant attacks on them.

Chancellor Schmidt commented that we could only hope that Turkey would muddle through. We should not take too much notice of Greece: if we did this, it would reduce their nuisance value.

Herr Genscher added that we should remember that Greece had very close relations with its neighbours, especially Bulgaria, and that it exported a lot of its produce to the Soviet Union.

Spain

The Foreign and Commonwealth Secretary said that he hoped very much that Greece and the Netherlands would not seek to block Spain's entry into NATO. He wanted to see Spain at the June Summit. He thought that Spain was very much on edge at present. This was partly due to the trial of the officers who had taken part in the attempted coup. The evidence in the trial had involved the King, and this was likely to damage his position in the country.

Chancellor Schmidt said that Spain and Portugal were not established democracies. It was a great mistake to enlarge the Community and the Alliance, for it made both organisations unwieldy and ineffective. But we could not say no to countries like Spain when they asked for membership. "We were all guilty."

The Gulf

The Foreign and Commonwealth Secretary said that the Sultan of Oman had been in the United Kingdom for a State Visit this week. Oman was much more worried about Iran than the Arab/Israel problem. She feared ^{rule,} subversion by Iran in the Gulf. Oman expected fundamental Islamic/ and with it the export of revolution, to continue in Iran for some time regardless of Ayatollah Khomeini's fate. One consequence of the fall in oil prices would be a reduction in Saudi Arabia's ability to use its financial strength to persuade other Arab countries to be moderate.

The Prime Minister added that the Sultan of Oman was a very good friend of the West. Kuwait, on the other hand, would compromise with anybody. The Soviet Union exerted a good deal of influence in Kuwait. The recent attempt to overthrow the Ruler of Bahrain had left everybody in the Gulf feeling nervous.

Middle East

Chancellor Schmidt said that it would be very important in future to give help, including training, to Egypt and Saudi Arabia. Egypt was very vulnerable economically and therefore politically.

The Prime Minister said that President Mubarak was doing well at present, but the great unanswered question was what would happen after the Israeli withdrawal from Sinai was complete.

The Foreign and Commonwealth Secretary said that he thought that after the Israeli withdrawal the United States would probably say that the autonomy talks must continue. Israel would not object because this would waste time. Similarly, Egypt would not mind because she wanted American money and American defence equipment. By the time everybody was forced to admit that the talks were getting nowhere, we should be so close to the United States Congressional Elections that everybody would again say that there was nothing that could be done. Once the Congressional Elections were out of the way, we should then be approaching the run up to the United States Presidential Election. In short, the talks were likely to be in an impasse, but at least that would postpone trouble.

Chancellor Schmidt said that today's situation in the Middle East was another example of the failure of American strategy. For too long the Americans had chopped and changed, and had no underlying strategy for the Middle East.

The lunch ended at 1500.

Law.

19 March, 1982.