

Ref: A07821

Prime Minister

(2)

PERSONAL AND CONFIDENTIAL

ms. A-J.C. 17.3

MR. COLES

below

In my minute of 15th March (A07793) I recorded the main points from my conversation with Herr Lahnstein in the Bundeskanzleramt at Bonn on Wednesday, 10th March 1982.

2. The note did not record one detail which may have some significance in relation to the Anglo-German consultations on 19th March.

3. When I went to see Herr Lahnstein, he had received a request from the British Ambassador to receive him at 12.00 noon the following day (11th March). The Ambassador had been unwilling to state his business. Herr Lahnstein asked me what the Ambassador was coming about. I reminded Herr Lahnstein that I had been sent in July 1980 to inform the Chancellor's office about the decision to acquire Trident 1. Herr Lahnstein would be aware from the newspapers that, in the light of the United States Administration's decision to bring forward the acquisition of Trident 2, the British Government was considering its own position. The Government was near coming to a decision, and the purpose of the Ambassador's call the following day would be to tell him what that decision was.

4. Herr Lahnstein said that he had been speculating to himself about the possible reasons for the Ambassador's visit. He had decided that it must be to tell him that the British Government had decided to enter the exchange rate mechanism of the European monetary system. Such a decision would of course have been welcome to the Federal Chancellor. He understood that the British Government's position on this might be evolving favourably. I said that the British Government's position remained as it had been: we were committed to joining the exchange rate mechanism of the European monetary system when the time was right, but that time had not yet in our judgment come.

5. I am sending copies of this note to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

RA

Robert Armstrong

17th March 1982

PERSONAL AND CONFIDENTIAL



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CONFIDENTIAL

In my notes of 13th March (1973) I recorded that the British...
 conversation with Her Majesty's Ambassador in the Embassy...
 Wednesday, 14th March 1973.
 The note did not record any detail which would have been of assistance in...
 relation to the Anglo-German negotiations on 13th March.
 As I went to see Her Majesty's Ambassador, he had received a request from the...
 British Ambassador to visit the Embassy at 12.00 noon the following day (14th March).
 The Ambassador had been unwilling to state his business. I was I believe...
 asked to write the Ambassador's name down for the Ambassador. I mentioned that I...
 that I had been coming to the Embassy to inform the Ambassador's office about the...
 decision to accept the British Ambassador's proposal to accept the...
 However, that in the light of the United States Administration's decision to...
 being to withdraw the recognition of the P.R.C. the British Government was...
 considering its own position. The Government was now coming to a decision...
 and the purpose of the Ambassador's call the following day would be to tell...
 him what that decision was.
 Her Majesty's Ambassador said that he had been speculating to tell me about the...
 possible reasons for the Ambassador's visit. He had decided that it was best to...
 to tell me that the British Government had decided to enter the exchange with...
 a collection of the European money system. I had a decision about it of course...
 have been welcome to see the British Ambassador. He understood that the British...
 Government's position on this was the result of a decision. I said that the...
 British Government's position was that it had been: we were committed to...
 joining the exchange with a collection of the European money system. I said...
 that it was right, but that it was not yet in our final decision stage.
 I am sending copies of this note to the British Ambassador to the...
 Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

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Robert A. ...

14th March 1973

CONFIDENTIAL

SIR ROBERT ARMSTRONG

The Prime Minister has noted the contents of your minute of 15 March about your conversation with Herr Lahnstein in Bonn on 10 March.

AJC

16 March 1982

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MR. COLES

This note records the main points from my conversation with Herr Manfred Lahnstein in the Bundeskanzleramt at Bonn on Wednesday, 10th March 1982.

2. On the internal German situation, Herr Lahnstein made three points:
 - (i) The state of the Coalition was better than the Press made out.
 - (ii) The Federal Chancellor was on the whole less apocalyptically gloomy about the implications of American economic policy on his own and other European countries than he had been, or than Herr Schulmann was. The German current account balance was improving, and interest rates in Germany had been easing, despite high interest rates in the United States.
 - (iii) The Federal Chancellor was going to have a difficult time at the annual conference of the SPD in April, with too many fights on his hands at once. His task was not simplified by the activities of the Chairman of the Party, Herr Brandt.
3. The Federal Chancellor would certainly want to use the Versailles Summit as an occasion for reminding the President of the United States of the potential effects of high interest rates and volatile exchange rates on the European countries, economically, politically, militarily and socially. But he would not want to adopt a "bashing" tone or to indulge in prescription: it was for the Americans to decide how to run their affairs, and we could not tell them to cut their defence expenditure or reverse their tax cuts. He would not want the Versailles Summit to appear to be a Reagan-bashing occasion.
4. He would probably want to concentrate at Versailles on the general international economic situation, including the economic and financial aspects of East-West relations. I interjected that the Prime Minister would want to take stock of the implications of the fall in oil prices for international economic prospects. Herr Lahnstein said that the Federal Chancellor would also no doubt want to reassert adherence to the principles of the multilateral trading system.



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5. We briefly discussed the representation of the European Community at restricted sessions of Heads of State or Government at the Versailles Summit. Herr Lahnstein said that the Federal Chancellor's preference would no doubt be that there should be one representative from the Community only. He would probably prefer that that representative should be Monsieur Thorn. But above all he would want to leave it to the French and the Belgians to sort out as far as possible. I said that we very much agreed with the last point, but I thought that the Prime Minister might think that, if there was to be only one representative, it would be difficult to overlook the claims of the Belgian Prime Minister.

6. Herr Lahnstein thought that the Federal Chancellor would certainly want to use the Versailles Summit as an occasion for some political discussion, in preparation for the NATO Summit in Bonn three days later. He envisaged, however, that that would be private discussion, both bilaterally and multilaterally, by way of preparation for Bonn, and that it might be better to think of having no political declarations or statements out of the Versailles Summit.


7. It was obvious that the Germans were worried about the NATO Summit in Bonn. Some of the worry is about procedural, physical and security arrangements. They are wondering whether they can confine attendance to Heads of State or Government and Foreign Ministers only, because it would be very difficult to accommodate Defence Ministers as well; and Defence Ministers will have attended a large number of preparatory meetings. They are worried because the amount of time available will in practice be very short. There will be an opening ceremony on the morning of 10th June, when three or four speeches will have to be made. There will then be a working session; lunch; a second working session; and a Press conference. Given the number of people present, there will be a limit to the amount of work which working sessions can get through. There will be a dinner on the evening of Wednesday, 9th June. Herr Lahnstein said that President Mitterrand had agreed to attend that dinner; and they had not given up hope of getting him to attend at least some part of the conference itself. Herr Lahnstein thought that there might be scope for a smaller meeting of three or four European Heads of Government after the dinner.

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8. On substance, the Germans were looking for a political declaration, for something on arms control, and possibly for a commitment to put in hand some kind of review of strategy towards the Soviet bloc. The second would be very important to them: the SPD Party Conference was due to take place in April, and it was not going to be easy. The Federal Chancellor might well be seeking to persuade the President of the United States to make a speech about arms control before the conference, in order to help him to handle the conference.

9. As to the meeting of the European Council on 29th and 30th March, we noted that it would be the last meeting of the Council before the Versailles Summit. There ought therefore to be a discussion of the Summit issues, and particularly of the international economic situation, trade and North-South relations, which would give the Community's representatives at the Summit their briefs. There would no doubt also be a need to discuss Community issues, including the Mandate.

10. On the Mandate, I said that the Prime Minister and the Foreign and Commonwealth Secretary would like to find an acceptable agreement without precipitating a crisis, and they recognised that, if there was a crisis, it could be profound and difficult. Herr Lahnstein supposed that we were linking the budget and the agricultural price-fixing; that would be a perfectly logical thing for us to do. But it might be that the French were calculating that, if we were thinking that that linkage put us in a strong negotiating position, they could counter that by resorting to national aids if the price-fixing were not agreed. So far as the Germans were concerned, it was not important for them to get a settlement by a particular date. On the British budget contribution, Herr Lahnstein said that in the end the money itself would not be a difficulty for the Germans, given the improvement in their current balance of payments. But they would have to go along with the French on degressivity. I said that British Ministers could not accept "arbitrary" degressivity. I reminded him of the background, starting with the Community's commitment of 1970 to the avoidance of unacceptable situations. Herr Lahnstein said that the French were looking for a solution which, if not necessarily final on this round, preserved the principle that special arrangements for us were essentially temporary



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and that we were committed to coming into full line with the Community financing system. I said that, if Community policies altered the distribution of expenditure in the ways which had been envisaged as possible in 1970, the problem would right itself: our net contribution would come down, and we could accept the degressivity which followed that. We might be able to look at formulae for degressivity which related the reduction in our refund to an objective reduction in the need for it; but a purely arbitrary degressivity would be very difficult for British Ministers to sell at home. I returned to the matter of the linkage between the budget and the agricultural price-fixing. I said that we did not look for a formal linkage; but in practice it would be impossible for British Ministers to present domestically the kind of agricultural price settlement which the French would need except in the context of a settlement of the British budget contribution which met our need to keep to a very modest net contribution.

11. Herr Lahnstein and I discussed a possible agenda for the Prime Minister's meeting with the Federal Chancellor at Chequers on 19th March. Herr Lahnstein asked if there were any bilateral issues which the Prime Minister would want to raise. I said I thought not. If there were any bilateral issues, they were of a kind that could be raised between the Ministers concerned. The Prime Minister would want to concentrate on the main issues of the international economic situation, including the effects of United States policies, and on East-West relations. Herr Lahnstein and I agreed that the Prime Minister and the Federal Chancellor would need to talk about the "Mandate", and it would be a useful opportunity for the Prime Minister to explain to the Federal Chancellor the British position on degressivity. It would also be an opportunity to discuss the handling of the Mandate discussions in the Community. We were inclined to think that the discussion now could not and probably should not be brought to a head at the meeting of the European Council on 29th-30th March, given the other subjects which would need to be discussed. The Prime Minister and the Federal Chancellor might therefore want to consider how the European Council could give a strong impetus and steer to the Council of Ministers to solve the problem. If the Council of Ministers (Foreign Affairs) could not solve the problem, it would presumably have to come to the European Council at its meeting in June. But



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it would clearly be preferable that the Community should not go into the Versailles and Bonn Summits in a state of crisis on Community issues.

12. Herr Lahnstein asked whether the Prime Minister would want to talk to the Federal Chancellor about the Middle East. He thought that the Federal Chancellor and Herr Genscher would probably want to discuss the subject with the Prime Minister and Lord Carrington. The evacuation of Sinai was due to be completed in April, and that stage of the Camp David process would then be complete. What was to be the European position on the Middle East after that? Herr Lahnstein thought that the Federal Chancellor did not know what it should be, but would like to discuss the subject with the Prime Minister. I said that I thought that this was something which could very usefully be discussed between the Prime Minister and the Foreign and Commonwealth Secretary and the Federal Chancellor and his Foreign Minister at Chequers. It was probably now too late to try to define a European Community position at the meeting of the European Council on 29th-30th March, but it should be time enough to do so at the June meeting. This was no doubt something which could be considered at Chequers.

13. We agreed that it might be useful to have a further meeting in May.

14. I am sending copies of this note to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

REA

Robert Armstrong

15th March 1982