

OO FCO

RR TRAFFIC RELAY

GRS 275

CONFIDENTIAL

FM BONN 151604Z JUL 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 651 OF 15 JULY

MIPT 650.

PERSONAL FOR PUS: CALL ON CHANCELLOR SCHMIDT.

(RC) Germany
 ADVANCE COPY
 IMMEDIATE

Prime Minister

I will let you have a draft
 message to Chancellor Schmidt
 to you consideration.

A.S.C. 14.

ms

1. DURING OUR DISCUSSION OF THE WORLD ECONOMIC SITUATION THE CHANCELLOR RECALLED HIS DISCUSSION WITH MRS THATCHER AT CHEQUERS IN MARCH WHEN HE TOLD THE PRIME MINISTER THAT SHE WAS PROBABLY THE ONLY PERSON WHO MIGHT BE ABLE TO INFLUENCE PRESIDENT REAGAN OVER AMERICAN ECONOMIC POLICIES. PRESIDENT REAGAN WOULD NOT LISTEN TO HIM, SCHMIDT, AND EVEN LESS TO MITTERRAND, BUT HE HAD A GREAT RESPECT FOR MRS THATCHER'S ECONOMIC VIEWS. HE THOUGHT THAT MRS THATCHER COULD EFFECTIVELY PUT OVER EUROPEAN VIEWS ON THE PROBLEMS AND ASKED ME TO SUGGEST THAT THE PRIME MINISTER SHOULD CONSIDER FINDING AN OPPORTUNITY FOR A DISCUSSION WITH THE PRESIDENT ON THESE ISSUES.

2. AS I RECALL FROM THE DISCUSSION AT CHEQUERS MRS THATCHER WAS WILLING TO CONSIDER THE POSSIBILITY OF TALKING TO THE PRESIDENT BEFORE THE VERSAILLES SUMMIT. THERE WAS SOME DISCUSSION ABOUT HOW THE MEETING MIGHT BE PRESENTED, EG BY ARRANGING FOR THE PRIME MINISTER TO GIVE A LECTURE AND THUS TAKE ADVANTAGE OF HER PRESENCE TO SPEAK TO THE PRESIDENT AND AVOID GIVING THE IMPRESSION OF A SPECIAL VISIT TO WASHINGTON, WHICH WOULD AROUSE UNDUE PUBLIC INTEREST. ALTHOUGH MRS THATCHER SEEMED READY TO CONSIDER FINDING A WAY OF MEETING THE PRESIDENT, MATTERS WERE OVERTAKEN BY THE FALKLANDS CRISIS.

3. THE CHANCELLOR CLEARLY CONSIDERS THIS AN IMPORTANT SUGGESTION AND I HOPE THAT THE PRIME MINISTER MAY BE WILLING TO GIVE IT CONSIDERATION (EVEN THOUGH IN VIEW OF HER FORTHRIGHT ATTITUDE ON THE AMERICAN EMBARGO ON GAS EQUIPMENT, HER INFLUENCE WITH PRESIDENT REAGAN MAY BE MORE DIFFICULT TO DEPLOY). WHATEVER THE PRIME MINISTER MAY DECIDE, I HOPE THAT SHE WOULD BE PREPARED TO SEND A MESSAGE ABOUT THIS PROPOSAL TO THE CHANCELLOR.

OO FCO

ADVANCE COPY

Germany

IMMEDIATE

PP WASHINGTON

PP PARIS

PP UKREP BRUSSELS

PP UKDEL NATO

RR TFC RELAY

GPS 1250

CONFIDENTIAL

FM BONN 151555Z JULY 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 650 OF 15 JULY

AND TO PRIORITY WASHINGTON PARIS UKREP BRUSSELS AND UKDEL NATO

YOUR TELNO 339: (NOT TO ALL) MEETING WITH CHANCELLOR SCHMIDT

1. I HAD AN HOUR AND A QUARTER WITH THE CHANCELLOR LAST NIGHT DURING WHICH WE RANGED OVER THE MAIN SUBJECTS COVERED IN YOUR BRIEFING. SCHMIDT WAS A LITTLE BRISTLY AT FIRST, HAVING PROBABLY BEEN BRIEFED THAT I WAS CONCERNED ABOUT THE EFFECTS ON OUR RELATIONS OF GERMAN ATTITUDES OVER E.C. AND FALKLANDS ISSUES: BUT AS THE MEETING WENT ON HE BECAME MORE AND MORE FRIENDLY AND SEEMED MORE PERSUADED OF THE GREAT RANGE OF COMMON INTERESTS AND VIEWS ON THE PROBLEMS WHICH WE WILL BE FACING IN THE NEXT MONTHS. AT THE END OF OUR TALK HE SUGGESTED THAT THE PRIME MINISTER (AND YOU IF YOU WISHED) SHOULD VISIT HIM PRIVATELY AT HIS HOUSE IN HAMBURG AFTER THE ANGLO/GERMAN SUMMIT EITHER ON HER WAY BACK FROM BERLIN (A VISIT HE WOULD WARMLY WELCOME) OR DIRECT FROM BONN IF A VISIT TO BERLIN WERE NOT TO TAKE PLACE. WHETHER OR NOT IT IS POSSIBLE TO ARRANGE A VISIT TO HAMBURG, THE INVITATION IS A MOST SIGNIFICANT INDICATION OF THE CHANCELLOR'S FRIENDSHIP. WE SHALL FOLLOW THIS UP SEPARATELY.

2. SINCE SCHMIDT WAS IN DISCURSIVE MOOD, (HE ASKED ME NOT TO TAKE NOTES OF HIS REMARKS) AND WAS CLEARLY NOT INFORMED IN DETAIL ABOUT MANY ISSUES, I WAS NOT ABLE TO GO DEEPLY INTO DISCUSSION ON MANY SUBJECTS MYSELF. THE MAIN POINTS OF INTEREST WERE AS FOLLOWS.

FALKLANDS

3. AFTER I HAD REFERRED TO MY CONCERN OVER POSSIBLE GERMAN LACK

Hd/WED

Hd/ECD (1)

Hd/ECD (E)

PS

PS/TG Hwd

PS/PUS

Sir J Bullard

TG Goodison

TG Hainay

Cab Office

~~to Dg St~~ (2)

RIC

[Standard]

XII

FALKLANDS

3. AFTER I HAD REFERRED TO MY CONCERN OVER POSSIBLE GERMAN LACK OF UNDERSTANDING OF THE SITUATION, AND THEIR EXAGGERATED WORRIE OVER THEIR RELATIONS WITH LATIN AMERICA AND THE THIRD WORLD, SCHMIDT WONDERED WHETHER WE REALISED THE COST TO GERMANY IN TERMS OF TRADE WITH ARGENTINA (DM 4,000 MILLION EXPORTS, MAINLY OF SHIPS) I ASSURED HIM THAT WE DID AND THAT YOU WERE MOST GRATEFUL FOR GERMAN SUPPORT. HE RESTATED HIS OPPOSITION TO THE IDEA OF SANCTIONS AS AN EFFECTIVE MEASURE BUT AGREED WHEN I POINTED OUT THAT AN EMBARGO ON MILITARY EQUIPMENT WAS A DIFFERENT MATTER. HE THEN SAID THAT HE REGARDED THE FALKLANDS CRISIS AS SOMETHING THAT IS NOW OVER AND NEED NOT IN ANY WAY TROUBLE OUR RELATIONSHIPS. IN VIEW OF THIS ATTITUDE I DID NOT ARGUE THE ISSUES WHICH I HAD EARLIER DISCUSSED WITH GENSCHER.

4. SCHMIDT SAID HE HAD RECENTLY MET TWO PERUVIANS WHO IMPRESSED HIM ENORMOUSLY. ONE WAS ULLOA, THE PRIME MINISTER, WHO HAD A REMARKABLE GRASP OF POLITICS AND OF WORLD ECONOMIC ISSUES AND WHO WAS FUNDAMENTALLY VERY HOSTILE TO ALL MILITARY REGIMES, HAVING HIMSELF HAD TO GO INTO EXILE: HE STRONGLY RECOMMENDED THAT HMG SHOULD CULTIVATE THIS IMPRESSIVE MAN. THE OTHER WAS PEREZ DE CUELLAR, AND I WAS ABLE TO EXPLAIN THAT YOU AND THE PRIME MINISTER HAD BEEN MEETING HIM THAT DAY AND EXPLAINING OUR POSITION. I WAS ALSO ABLE BRIEFLY TO EXPLAIN THE NEED FOR A LONG PERIOD OF SETTLING DOWN BEFORE DECISIONS ABOUT THE FUTURE COULD BE TAKEN, AND I REFERRED TO THE STATE OF PARLIAMENTARY AND PUBLIC OPINION IN THE UK.

COMMUNITY

5. SCHMIDT BEGAN BY REPEATING HIS WELL KNOWN STORY OF HOW, HAVING GROWN UP WHOLLY ANGLOPHILE, THE HISTORY OF BRITAIN'S MEMBERSHIP OF THE COMMUNITY AND THE VARIOUS QUOTE RENEGOTIATIONS UNQUOTE HAD DRIVEN HIM INTO THE ARMS OF THE FRENCH. HE THEN GAVE VENT TO HIS VIEWS ABOUT THE ABSURDITY OF MANY ASPECTS OF THE COMMUNITY, IN PARTICULAR THE CAP (WHERE IT WAS TOTALLY IMPOSSIBLE TO CONTROL AGRICULTURE MINISTERS, INCLUDING HIS OWN) AND THE FACT THAT BRITAIN AND GERMANY HAD TO BE LARGE CONTRIBUTORS. HE HAD LAST WEEK TOLD THE DUTCH PARLIAMENT THAT THE BUDGETARY SITUATION WAS INTOLERABLE FOR BRITAIN AND GERMANY. THIS ALLOWED ME TO MAKE THE POINT ABOUT THE IMPORTANCE OF GETTING A LONG-TERM SETTLEMENT AND THE INIQUITY OF THE SITUATION FROM OUR POINT OF VIEW. SCHMIDT WAS MOST DOUBTFUL ABOUT THE ABILITY OF THE COMMISSION AND THE DANISH PRESIDENCY TO PRODUCE A RESULT AND THEREFORE FEARED THAT IT WOULD FALL TO THE GERMAN PRESIDENCY TO SETTLE THE QUESTION. AFTER SOME SLIGHTLY DISOBLIGING REMARKS ABOUT GENSCHER'S ABILITY TO COME UP WITH A SOLUTION HE SAID IT WAS HIS VIEW THAT THE SOLUTION SHOULD BE WORKED OUT BETWEEN THE FEDERAL REPUBLIC, BRITAIN AND FRANCE AND

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WORKED OUT BETWEEN THE FEDERAL REPUBLIC, BRITAIN AND FRANCE AND
THEN SOLD TO THE OTHERS. HE ASKED ME TO TELL YOU THAT HE PERSONALLY
WAS CONVINCED OF THE NECESSITY OF MAINTAINING THE RIGHT OF VETO IN
THE COMMUNITY (THOUGH HE WAS PREPARED TO ACCEPT THE NEED FOR A
WRITTEN EXPLANATION OF A VETO): GERMANY, FRANCE AND BRITAIN COULD
NOW ALLOW THEIR VITAL INTERESTS TO BE VOTED DOWN. HE ADDED THAT
GENSCHER WAS LESS SOUND ON THIS POINT. HE DID, HOWEVER, REITERATE
THE GERMAN EXCUSE THAT OUR LINKING THE PRICE ISSUE WITH THE MANDATE
HAD FORCED THE VOTE IN MAY: I REBUTTED THIS.

FISHERIES

6. I TOOK THIS OPPORTUNITY TO POINT TO THE NEED FOR A SUCCESS
IN AGREEING THE CFP AND MADE THE POINTS CONTAINED IN YOUR BRIEFING.
SCHMIDT ONCE MORE WAS TOTALLY UNBRIEFED AND SAID THAT THE COMMUNITY
HAD KILLED THE GERMAN FISHING INDUSTRY AND HE DID NOT THINK THERE
WAS ANYTHING TO BE DONE. I EXPLAINED THAT THE SITUATION WAS NOT SO
DESPERATE FOLLOWING THE DISCUSSIONS THAT WE HAD HAD AND THAT
THE IMPORTANT THING WAS TO GET THE DANES TO COOPERATE. SCHMIDT
INSTRUCTED DEPUTY UNDER-SECRETARY VON DER GABLENTZ, WHO WAS PRESENT,
TO PURSUE THIS MATTER.

EMS

7. THE CHANCELLOR SAID THAT HE COULD SEE NO REASON WHY WE SHOULD
STILL REMAIN OUTSIDE THE SYSTEM. ITS VALUE LAY IN IMPOSING ON
GOVERNMENTS THE NEED FOR ECONOMIC DISCIPLINES SUCH AS HMG WAS
IN ANY CASE FOLLOWING. HE THOUGHT IT WOULD BE OF ENORMOUS POLITICAL
AND PSYCHOLOGICAL BENEFIT IF BRITAIN WERE NOW TO JOIN. THE FACT THAT
EVEN WITHIN THE SYSTEM EXCHANGE RATE ADJUSTMENTS HAD TO TAKE PLACE
WAS NO ARGUMENT AGAINST THE SYSTEM ITSELF: EVEN UNDER BRETTON
WOODS, EXCHANGE ADJUSTMENTS TOOK PLACE. JOINING NOW WOULD
GREATLY HELP US IN CREATING THE RIGHT ATMOSPHERE IN THE COMMUNITY
FOR SETTLING SOME OF THE OUTSTANDING PROBLEMS THOUGH, HE ADDED,
THE FRENCH WOULD WONDER WHAT WE WERE UP TO.

TRANS-ATLANTIC RELATIONS

8. THE CHANCELLOR CLEARLY SAW THAT OUR CONCERNS AND POLICIES HERE
WERE LARGELY IDENTICAL. HE WAS WORRIED ABOUT LACK OF PROGRESS IN
THE GENEVA INF TALKS AND FEARED THAT SOME AMERICANS REGARDED THIS
NEGOTIATION SIMPLY AS A SOP TO THE EUROPEANS WHILST PRIVATELY WISHING
TO CONTINUE THE ARMS BUILD-UP. IF THE AMERICANS COULD NOT
CONVINCE EUROPEANS THAT THEY WERE MAKING A REAL AND GREAT EFFORT
THERE WOULD BE SERIOUS DIFFICULTIES NEXT YEAR AS INF DEPLOYMENT
APPROACHED, AND BELGIUM AND THE NETHERLANDS AND POSSIBLY EVEN ITALY
MIGHT FALL BY THE WAYSIDE. HE WAS SLIGHTLY MORE OPTIMISTIC ABOUT

MIGHT FALL BY THE WAYSIDE. HE WAS SLIGHTLY MORE OPTIMISTIC ABOUT START.

9. ON US/EUROPEAN ECONOMIC RELATIONS (INCLUDING THE GAS PIPELINE AND STEEL) THE CHANCELLOR WAS CLEARLY HAPPY ABOUT THE LINE THAT HMG HAVE BEEN TAKING. ON THE QUESTION OF THE WORLD ECONOMY THE CHANCELLOR APPEARS STILL TO BE IN HIS APOCALYPTIC MOOD. FOLLOWING A TALK WITH MY AMERICAN COLLEAGUE ARTHUR BURNS, HE FEARS THAT THERE IS NO HOPE OF GETTING THE US BUDGET DEFICIT ADJUSTED AND INTEREST RATES UNDER CONTROL BEFORE NEXT SUMMER WHEN THE NEW CONGRESS WILL HAVE HAD A LOOK AT THE QUESTION. IF THIS SHOULD TURN OUT TO BE SO, HE FEARS FURTHER MASSIVE UNEMPLOYMENT AND STAGNATION IN OUR ECONOMIES.

10. ON EAST/WEST RELATIONS THE CHANCELLOR ALSO APPEARED REASONABLY HAPPY WITH THE GENERAL UNDERSTANDING BETWEEN OUR TWO COUNTRIES.

CHANCELLOR'S VISIT TO MR SCHULTZ

11. THIS PRIVATE VISIT TO MR SCHULTZ HAD BEEN FIXED LONG BEFORE SCHULTZ WAS PICKED AS SECRETARY OF STATE. THE CHANCELLOR THOUGHT THAT SCHULTZ WOULD HAVE A GREAT DEAL OF UNDERSTANDING FOR EUROPEAN CONCERNS BUT HE HAD INHERITED A LOT OF VERY DIFFICULT ISSUES ON WHICH US POLICY WAS NOT SATISFACTORY. THESE RANGED FROM CENTRAL AMERICA, THROUGH THE MIDDLE EAST, THE GAS PIPELINE PROJECT AND ECONOMIC RELATIONS. IT WOULD BE IMPOSSIBLE FOR SCHULTZ TO CHALLENGE ALL THE POLICIES AT ONCE AND THE CHANCELLOR THOUGHT HE WOULD HAVE TO CONCENTRATE ON THE MOST VITAL. SCHMIDT THOUGHT THAT SCHLUTZ UNDERSTOOD THE EFFECTS IN EUROPE AND THE REST OF THE WORLD OF US ECONOMIC POLICIES BUT IT WOULD BE VERY DIFFICULT FOR HIM TO EXERT ANY EFFECTIVE INFLUENCE. NONETHELESS, THE CHANCELLOR IS CLEARLY HOPING THAT SCHULTZ WILL HAVE A STEADYING AND BENEFICIAL EFFECT AND THAT HIS TENURE OF OFFICE WILL BE HELPFUL TO EUROPEAN INTERESTS.

TAYLOR

NNNN

SENT AT 151804 Z - LCD