

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND HERR HELMUT SCHMIDT AT 11.30 AM ON FRIDAY, 7 OCTOBER, 1983, AT 10 DOWNING STREET

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The Prime Minister, after welcoming Herr Schmidt, said that she was worried about the delay in the debate in the Bundestag on deployment and the pressure for delay in deployment to which this was giving rise. Now that the Zero Option was not going to be negotiated, Britain and Germany must deploy before the end of the year; and delay could endanger the timetable. But Britain was being told that it could cause trouble in West Germany if we did not delay our deployment until after the Bundestag debate.

Herr Schmidt said that he would be speaking in favour of deployment in the Bundestag debate, breaking a silence of fourteen months. He would also be speaking in support of deployment at his party conference in the week before. His speech in the Bundestag would be critical of the West for its late start on serious negotiations. Putting himself into the place of Herr Kohl, Herr Schmidt said that he would want stationing in Britain and Germany to be simultaneous so that the photographs appeared in both countries at the same time and it did not appear that the Germans alone were being exploited by the Americans. From this point of view it was a pity that other European countries were not deploying at the same time. Mr. Lubbers had made clear to him that, as an individual, he was opposed to stationing.

The Prime Minister recounted the conversations she had had with President Reagan about the counting on of British and French missiles. Herr Schmidt recalled that two days before President Nixon initialled the SALT I agreement in 1971, the Russians had addressed a letter to him conveying their understanding that the limits in SALT I would also cover British and French missiles: the Americans had responded that the British and French missiles were not covered, but President Nixon had made sure that the actual number of missiles deployed by the Americans were always sufficiently below the SALT I limits to allow room for British and French missiles. Herr Schmidt said that he thought that some such

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outcome would eventually be necessary, at the end of the START negotiations, to cover British and French missiles, although he recognised that this might be more difficult if agreement was expressed in terms of warheads and the British and French governments by then had a more significant number of warheads.

The Prime Minister said she believed that the Russians had introduced the British and French missiles as a diversionary tactic to delay negotiations. Herr Schmidt recalled that, when he had had a meeting with the Politburo at the end of June 1980 and had urged them to negotiate, his meeting on the following day had been postponed while the Politburo considered their position: when the meeting took place and the Politburo said that they had agreed to negotiate, Mr. Gromyko had interjected some words which made it quite clear that the Russians were talking about the negotiations on American missiles and were not including British and French missiles. The British should have a note of this since Herr Schmidt had sent Herr Genscher to report it at the beginning of July 1980. Herr Schmidt also recalled that at the end of 1981, Herr Honecker had repeated, on the authority of the Soviet Government, that British and French missiles were excluded. A change appeared to have taken place in early 1982, and Herr Schmidt thought that there were two possible explanations. One was that somebody in the Politburo wanted a compromise which would give the Russians a pretext for retaining some SS20s; and the other was that somebody wanted to put an obstacle in the way of the negotiations. The motive was political, not military and he would be dealing with all this in his speech to the Parliament.

/Herr Schmidt

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Herr Schmidt said that he had a low opinion of those in the U.S. Administration who were effectively directing the arms negotiations. He had a high opinion of Schultz and Nitze, but a low opinion of Adelman. He also thought that damage had been done by some of Weinberger's speeches, particularly references to "the window of vulnerability" which seemed to him a silly concept, and by President Reagan's references to "regionally limited nuclear war". However, Reagan had handled the KAL 007 crisis well, particularly in not allowing it to interrupt dialogue with the Russians.

The Prime Minister recalled that in her Winston Churchill speech she had said that we stood ready, if and when the circumstances were right, to talk with the Russian leadership; but this had not been picked up by the press. The Americans had a dialogue, partly because there was a more experienced and weighty Russian ambassador in Washington than in London. Herr Schmidt said that contacts at a higher level than ambassador were needed, and he thought that the Americans had been unwise to insult Gromyko over the landing of his aeroplane before the U.N. General Assembly.

NATO SECRETARY-GENERAL

Herr Schmidt said that Lord Carrington was far the best candidate. The Prime Minister said that she agreed and had now got the support of the United States, Germany and other major countries.

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UNITED STATES

Herr Schmidt asked the Prime Minister whether she had raised with the Americans extra-territoriality, unitary taxation and their budget deficit. The Prime Minister gave Herr Schmidt an account of her talk with Secretary Regan about unitary taxation and said that she had raised the question of the US budgetary deficit with the President and Secretary Regan but it was obvious that they did not want to face up to the need for action to reduce it. Herr Schmidt said that he did not expect the United States Government to take action until mid-1985, i.e. a year after the Presidential election. But he thought that the situation was very serious, particularly because the present level of interest rates meant that investors could get a higher return on financial investments than on real investments.

INTERNATIONAL FINANCE

The Prime Minister said that she had found that Mr. Volcker continued to be worried about international debt and particularly about the current problem of Brazil.

EUROPEAN COMMUNITY

Herr Schmidt said that he saw a prospect that the European Community would break into pieces, if the member Governments could not elevate themselves above the current disputes about money. He believed that the British case for a reform of CAP and of the Community's financing arrangements

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was fair, although it could be argued that Britain had accepted the present arrangements in negotiations. But there was a fundamental requirement for leadership, particularly in view of the increasingly polarised positions of Russia and the United States and the possibility of a new United States President. Herr Schmidt said that he had recently visited both the Middle East and Eastern Europe, and had encountered widespread concern that the voice of the Western European countries was so muted. The Prime Minister remarked that the financial problems of the Community were exacerbated by the selfishness of France. She was arguing that a fair system of financing had to be found not only for the case of Britain but because a new generation in Germany would not accept the unfairness of the present arrangements in relation to Germany. On economic policy, she could count on Chancellor Kohl for support, but it was much more difficult to get a dialogue going with the leading members of the Community than it had been when M. Giscard d'Estaing had been President of France and Herr Schmidt had been Chancellor of West Germany.

Herr Schmidt said that he had just spent some time with President Mitterrand. Mitterrand was a bookish man with a good knowledge of history, but not well versed in economics or foreign policy. He had prejudices against both Britain and Germany. But he was a thoughtful man and the best way for the Prime Minister to make headway with him would be to have a long discussion only with interpreters present. He did not have a high

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opinion of M. Cheysson but he wondered if anything could be built on a dialogue between the British, French and German Finance Ministers.

MIDDLE EAST

The Prime Minister gave Herr Schmidt an account of the points which she had made to President Reagan about the Jordan factor and also about the efforts which the British Government were making to achieve the acceptance of United Nations observers in Lebanon, Herr Schmidt endorsed the Prime Minister's point about Jordan and said that it was also necessary that the United States should pay greater attention to the natural interests of Syria. Russia had been allowed to get not one foot but two feet in Damascus. The annexation of the Golan, which was not dealt with in the Camp David agreement, legitimised the deployment of Syrian forces in Lebanon. He was concerned about the decline in American prestige in the Middle East. He thought it certain that the Egyptians would exchange ambassadors with the Russians within 12 months and that other Arab countries would follow.

F.R.B.