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RECORD OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND
THE GERMAN FEDERAL CHANCELLOR AT 1825 HOURS ON THURSDAY 29 APRIL 1982

Chancellor Schmidt said that he understood that the Falklands situation was creating serious problems. He believed that we and Mr. Haig were working hard for a political solution and he wanted to offer his support for this approach. The Prime Minister said that the problem arose from the fact that Argentina wished to retain the Islands which it had acquired by invasion. The signs were that the Argentines were unlikely to accept a diplomatic solution. Chancellor Schmidt replied that he considered it very important that the United Kingdom retained the political initiative. It was necessary to show other Latin American countries and the Third World more generally that territorial aggression could not be allowed. He hoped the Prime Minister would make clear her support for a political solution. On the other hand, he assured her that German support for the British position was unchanged.

The Prime Minister reiterated that we wanted a political solution. If Mr. Haig's initiative did not succeed, we should have to think of another process quickly.

Chancellor Schmidt said that there had been some criticism in the German press of "military noise" in the United Kingdom. He had in mind recent comments by Admiral Woodward. The Prime Minister said that these comments had caused embarrassment. But they were unlikely to be repeated.

Chancellor Schmidt enquired about the role of the Soviet Union. The Prime Minister said that this caused her great concern. Eighty per cent of Argentina's exports went to the Soviet Union, which might export arms to Argentina to correct the imbalance of trade. Argentina also received some help from Soviet intelligence. Chancellor Schmidt said that he worried that the Russians might try to play a strategic role in the South Atlantic. Argentina might become a gate-way to the general area. The Prime Minister pointed out that if the Soviet Union could add the Falkland Islands and South Georgia to its facilities in Cuba, it would acquire a very commanding position. Chancellor Schmidt said that he saw the strategic situation in the same way.

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/ Chancellor Schmidt

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Chancellor Schmidt said he wished to raise a small point. There had been reports in the British media of the supply of nuclear materials by Germany to Argentina. These reports had not been true and it would be helpful if they could be corrected. Germany had made strenuous efforts to persuade Argentina to submit its nuclear programmes to IAEA control. The Prime Minister said that we would try to correct the reports by means of a Question and Answer in Parliament. Chancellor Schmidt said he would be most grateful and would ensure that wide publicity was given to the exchange.

Chancellor Schmidt then said that EC Agriculture Ministers were likely to reach a critical point in their discussion of farm prices in Luxembourg this evening. President Mitterrand had just telephoned him. He now wished to appeal to the Prime Minister to break the link between agricultural prices and the Budget. Otherwise, there would be a serious crisis in the Community. The Prime Minister said that she had to disappoint the Chancellor. Cabinet had decided yesterday that the link must be maintained because the inter-action between the two subjects was so great. Chancellor Schmidt warned again that a critical situation could develop later tonight. The Prime Minister reiterated that Cabinet had taken its decision. We still sought parallel progress on the three chapters of the Mandate.

After a brief exchange about the United Kingdom's receipts, Chancellor Schmidt said that it might be helpful if the Prime Minister were able to be in contact with the United Kingdom Representative at the Luxembourg meeting tonight. Germany would argue that the Commission demonstrated that there was no danger of the 1% VAT ceiling being breached. It was also important that agriculture expenditure should grow more slowly than general expenditure. The Prime Minister said that she agreed with these two points.

Referring to his recent Cabinet reshuffle, Chancellor Schmidt said that the only important point for cooperation with the United Kingdom was that Lahnstein had been made Financial Secretary.

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Finally, Chancellor Schmidt referred to the visit to Bonn of Mr. Kadar on 27/28 April. As on previous occasions he had been much impressed by Kadar's personality and political judgement. Hungary was showing great interest in joining the International Monetary Fund. Kadar wanted Germany to help him maintain his freedom of movement in the Communist world. Chancellor Schmidt said that HM Ambassador in Bonn would be given a full account of the visit but he hoped this could be kept confidential. The Prime Minister said she would be most interested to see the report in due course.

Duty Clerk
Mr A J. Coles

29 April, 1982.

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Subject

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10 DOWNING STREET

From the Private Secretary

29 April 1982

Chancellor Schmidt

The German Chancellor telephoned the Prime Minister at 1825 today. Their conversation covered the Falklands, allegations about German supply of nuclear materials to Argentina, the link between agricultural prices and the Budget discussion, the recent Germany Cabinet changes and the visit to Bonn of Mr. Kadar.

I enclose a record of the conversation.

I am copying this letter to John Kerr (HM Treasury), Robert Lowson (MAFF), David Omand (Ministry of Defence) and David Wright (Cabinet Office).

John Kerr

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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