

Germany.



File: CS

RM

10 DOWNING STREET

From the Private Secretary

26 July, 1982

ANGLO/GERMAN RELATIONS

Thank you for your letter of 22 July. The Prime Minister would be glad to discuss with the Foreign and Commonwealth Secretary and Sir Jock Taylor the various points relating to our policies towards West Germany. A meeting has been arranged for 1445 hrs on 28 July.

A. J. COLES

F Richards, Esq.,
Foreign and Commonwealth Office



Prime Minister

Agree to see Mr. Pym and

Sir J. Taylor at
1445 on 28 July?

Foreign and Commonwealth Office

London SW1A 2AH

22 July, 1982

A.J.C. $\frac{23}{7}$

Dear John,

Anglo/German Relations

Mr Pym would welcome an opportunity to discuss with the Prime Minister a variety of points relating to our policies towards West Germany.

// These points include our approach to the Anglo/German Summit at the end of October, negotiations within the Community and our bilateral relationship: they include questions arising from Sir Jock Taylor's long conversation with Chancellor Schmidt on 14 July (Bonn telegrams 650 and 651, of which I enclose copies). Chancellor Schmidt is preoccupied by transatlantic relations and is seeing the new US Secretary of State this week. There are also defence questions in the light of our own White Paper and the Report of the Long Term Planning Commission of the Bundeswehr. The latter was raised at a meeting held by the Prime Minister on the afternoon of 21 July; it has pointed to a number of serious potential weaknesses in the West German Armed Forces in the 1990s which will demand preventive action fairly soon on the part of the West Germans and which highlight the contribution BAOR makes to our common defence.

Mr Pym hopes to see Herr Genscher soon after the August holidays. It would be helpful if a convenient time could be found for the Prime Minister to see him before the holidays begin or, if this cannot be arranged, as soon as possible after her return. He believes that it would be helpful if Sir Jock Taylor were able to be present. We shall send a more detailed checklist of points to be covered at the meeting nearer the time fixed for it.

Yours ever,

(F N Richards)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

GRS 275
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FM BONN 151604Z JUL 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 651 OF 15 JULY

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TOP COPY
19 JUL 1982

MIPT 650.
PERSONAL FOR PUS: CALL ON CHANCELLOR SCHMIDT.

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.

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SIR J. BULLARD
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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 OF UNDERSTANDING OF THE SITUATION, AND THEIR EXAGGERATED WORRIES 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,

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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 GETING 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 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 DESPARATE 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

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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 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.

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