

SUBJECT  
de Harter

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE  
CHANCELLOR OF THE FEDERAL REPUBLIC IN BONN ON WEDNESDAY,  
18 NOVEMBER AT 1015 HOURS

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Present

The Prime Minister

Chancellor Schmidt

The Foreign and Commonwealth  
Secretary

Herr Genscher

Sir Jock Taylor

H.E. Dr. Jurgen Ruhfus

Mr. M.O'D.B. Alexander

Herr Zeller

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Joint Press Statement

Chancellor Schmidt asked if the Prime Minister was content with the terms of the joint press statement which it was proposed should be issued in their names. The Prime Minister confirmed that she was. In response to a question from Chancellor Schmidt, Dr. Ruhfus said that Herr von Haase was taking an interest in the question of increasing co-operation in the field of television, particularly where news broadcasting was concerned.

Sinai

The Prime Minister asked about the present position on the Sinai MFO. The Foreign and Commonwealth Secretary said that the Federal Republic, although not providing a participating contingent, had been extremely helpful during the discussions within the Ten. Regarding the current difficulties, he had come to the conclusion that the text of the statement to be made by the Ten was relatively unimportant. European participation in the MFO had now been discounted by most of those interested. His only remaining concern was to ensure that whatever statement was issued did not give the Israelis an excuse to torpedo the whole exercise. Most of the previous day's discussions in the European Council had been sterile. However there seemed a reasonable chance that a high level French intervention with the Greeks, perhaps from President Mitterrand to Mr. Papandreou personally, would result in a satisfactory compromise being achieved. There would then

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be an agreed European statement, even though the Americans might not like it very much. There could be no question of changing it any further to meet American concerns.

If however the Greeks refused to shift, one would be faced with a choice of going ahead without them, going ahead with no statement by the Ten, or putting the problem on one side for two or three weeks in the hope that it might solve itself. None of these outcomes would be satisfactory. It would be better to try to ensure that the Greeks accepted the compromise language under discussion. Was there any possibility that the Federal Government could bring pressure to bear on Papandreou? Chancellor Schmidt at first expressed some doubt as to whether his Government had much influence in Athens but, after a whispered exchange with Herr Genscher, agreed that there was a member of the SPD who was an old friend of Mr. Papandreou and who would probably be prepared to speak to him on the telephone in the course of the day.

Chancellor Schmidt enquired about the closeness of Anglo-American contacts on the Middle East. Were the Americans consulting us regularly and closely? The Foreign and Commonwealth Secretary said that they were not. Chancellor Schmidt said that his Government were fully behind what HMG had been trying to achieve in recent months.

#### Policies of the new Greek Government

Chancellor Schmidt speculated that Mr. Papandreou was one of those politicians who made sweeping and unrealistic statements when in opposition but who learnt rapidly on the job. Was there yet any indication that the learning process had started? The Foreign and Commonwealth Secretary said that if the performance of Greek representatives in the various Ministerial Councils of the Community were any guide, the process was not yet under way. As regards the policies of the Greek Government, he thought they would ask for a renegotiation of the terms of their membership of the Community but would not withdraw. On the other hand, Mr. Papandreou probably would insist that the NATO bases were withdrawn from Greece. Both the Prime Minister and Chancellor

/Schmidt

Schmidt stressed that the withdrawal of the bases would inevitably result in reinforcement of Turkey's military position. Could this not be got across to Mr. Papandreou? Chancellor Schmidt added that Mr. Papandreou really ought to be able to see that throwing the United States out of Greece would be a disservice above all to Greece. The Foreign and Commonwealth Secretary remarked that Greek attitudes towards Turkey would not be improved by the imminent prospect that the Council of Europe would expel Turkey. Chancellor Schmidt expressed impatience at this. Military and civilian regimes had always alternated in Turkey. By the time the Council of Europe got round to taking action, there would probably be a civilian regime in Turkey again.

The Prime Minister said that sadly the prospect of Mr. Papandreou coming to power had complicated the task of getting talks going on the Cyprus problem. The Foreign and Commonwealth Secretary commented that Mr. Papandreou's attitude had improved somewhat. In opposition he had taken the position that there should be no talks so long as the Turks were occupying part of Cyprus. Since coming to power, he had said that he supported the talks.

#### The European Council

The Prime Minister said that Mr. Papandreou would want to make a statement to the European Council about his Government's position. It seemed unavoidable that any such statement would have to be made at the outset of the meeting. The Danish Prime Minister would also probably have to make a statement. Would Chancellor Schmidt want to make a statement about his discussions with President Brezhnev? Chancellor Schmidt confirmed that this would be his intention and that he would want to speak at the Heads of Government dinner or immediately afterwards rather than at a formal meeting. He thought there would be advantage in Foreign Ministers being present and wondered therefore whether Foreign Ministers could join the Heads of Government after they had finished eating. The Prime Minister thought this an excellent idea. Chancellor Schmidt said that he would want no-one other than the Foreign Ministers to arrive. He thought that 21 people in the room would be quite enough. The Prime Minister agreed.

/Chancellor

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Chancellor Schmidt said that he intended to make a general statement about Germany's role at some early stage in the Council Meeting. He would say that countries like Belgium and the Netherlands with <sup>a</sup>large GNP per capita could not expect other countries, notably the Federal Republic, both to support their standard of living and be responsible for their nuclear defence. If only the Federal Republic and Italy of the non-nuclear states were to accept cruise missiles, the arrangements previously envisaged would not work. The German Government would not accept the "singularization" of the Federal Republic in this way. There were the strongest reasons of foreign policy and security for this. He recognised that Mr. van Agt was an honest man. He would have to keep his country's promises.

#### 30 May Mandate

The Prime Minister said it was essential that progress should be made at the European Council on the implementation of the 30 May Mandate. It was highly undesirable that the Community should get itself into a position where progress would be seen to be impossible on specific problems until members were up against a deadline such as that provided by agricultural price fixing. If decisions were postponed until the Spring, the European Council Meeting then would be long and very difficult and probably acrimonious. Britain would, of course, not be in the Chair! The Community faced fundamental problems. It would be a great pity if they could only be dealt with as subjects for horse trading. Lord Carrington had been struggling in recent weeks to make progress. She herself had reminded the President of the Commission of the need for him to be active. But little seemed to be happening. She could hardly present absence of progress next week as a victory for the Community.

At the Prime Minister's request, the Foreign and Commonwealth Secretary summarised the outcome of his discussions in the last two days. He had discerned no disposition on the part of anyone to look at the fundamental problems. (The Prime Minister referred to this as a "tragedy".) It might not be all that difficult to agree on Chapter 1, though even here the French were likely to seek to insert difficult language on matters such as the length of the working week. Chapters 2 and 3 were much harder, the problems

of the CAP being particularly difficult. Chancellor Schmidt expressed some scepticism as to whether any of the Heads of Government understood the CAP.

The Foreign and Commonwealth Secretary said that the Community was fundamentally divided about the CAP. Some countries took the view that there had to be a ceiling on agricultural expenditure and that the rate of growth on agriculture should be markedly less than that on other elements in the Budget. Britain and Germany were among those who supported this line. However it was absolutely unacceptable to France, Ireland, Italy, Greece and Denmark. The Community was also deeply divided on the question of Mediterranean products. The Southern Europeans considered themselves badly treated in comparison with the Northern producers of dairy products and cereals. The Federal Republic was absolutely opposed to giving them satisfaction. Thirdly there was the question of milk. This was at heart a social problem. Those member states with a large number of small farmers wanted to see small farms exempted from the Community's levies. On the other hand those countries with large intensive milk producers considered such an exemption, for social reasons, quite wrong.

As regards the 30 May Mandate itself, everyone agreed there was a British problem which had to be tackled. Not everyone agreed that there was a German problem. The position of the Commission was that the Federal Republic's difficulties should be looked at in the light of the outcome of the negotiations on the British problem. Early progress on the latter seemed unlikely since both the scale and method of possible solutions were in dispute. The French position, as presented by Messrs. Chandernagor and Beregovoy, was that they would not pay any more. If there was to be no progress on Chapter 3 and Chapter 2 of the Mandate, there would certainly be no progress on Chapter 1. The problems of Britain and Germany would then be permanent. Chancellor Schmidt said that he would be making it very clear that he did not intend to allow the present position to continue. The constant growth in the Federal Republic's contribution could no longer be tolerated. The Prime Minister recalled that M. Thorn had told her that the German Government were willing to go on contributing at the present level but that

Federal Republic would not accept any growth in their contribution. She had told M. Thorn that it was wrong for the Federal Republic to be contributing so much more than anyone else. Chancellor Schmidt said that the present situation would undermine the cohesion of the Community, lead to alienation within it and to a loss of support in the Federal Republic.

The Foreign and Commonwealth Secretary said that at the end of what had been a dispiriting meeting the previous day, he had asked his colleagues to reassemble on 19 November. The best he was hoping for from the meeting was agreement to go for a set of guidelines which could be submitted to Heads of Government next week and which would lay down a basis on which work could continue thereafter. The Prime Minister expressed some scepticism as to whether satisfactory guidelines could be agreed. After all three of the participating countries did not have proper governments. Perhaps it was time to start preparing the press for a failure to agree, using the argument that the fact that three governments "lacked a mandate" made progress difficult. Chancellor Schmidt asked whether it was necessary to get very far with the Budget next week. The Prime Minister said it would be necessary to make progress with all three chapters of the Mandate at the same time. Chancellor Schmidt asked whether the Budget was yet approaching the 1% ceiling. The Prime Minister said that the Community was not approaching that ceiling as rapidly as had been expected and that this had removed one of the incentives to action. In the absence of the discipline provided by the 1% ceiling, one had to look forward to the agricultural price fixing. The press were likely to be very critical of a failure to produce results at the London meeting. She wondered whether the fact that Chancellor Schmidt intended to make his position plain would introduce additional realism into the discussions. Chancellor Schmidt repeated his intention to speak clearly, adding that he might well mention that in some circumstances it "could happen that someone would not pay their full contribution". The Foreign and Commonwealth Secretary said that no-one in Brussels the previous day had believed there was any urgency about the matter. They did not accept that the '13th hour' (which was the only time the Community moved) had yet arrived. Perhaps it would help if the Prime Minister and Chancellor Schmidt made it clear that things could not go on as at present. Chancellor Schmidt said that he intended to speak

/softly

softly but to be brief, clear and firm. He hoped that no-one would take offence. The Prime Minister said she could see nothing in what the Chancellor had said at which anyone could take offence.

The Prime Minister asked whether Chancellor Schmidt favoured the Commission's scheme for implementing the Mandate or whether he favoured an approach based on limiting contributions or on restructuring the Budget completely. Chancellor Schmidt said that he was unfamiliar with the Commission's scheme and asked Herr Genscher whether he could speak on it. Herr Genscher declined. The Foreign and Commonwealth Secretary said that it was, after all, a matter for Finance Ministers. It would in any case only be feasible under present circumstances to go for guidelines. Chancellor Schmidt wondered whether it would not be wise to envisage guidelines being agreed initially between London, Paris and Bonn. The Foreign and Commonwealth Secretary said that some drafting had been done in London and that we would send representatives to discuss them in Bonn and Paris before the European Council. The Prime Minister expressed scepticism as to whether France would agree.

The Prime Minister repeated her concern about the way the press would treat the outcome of the Council. They would focus on the disagreements. The Foreign and Commonwealth Secretary said that he had already begun to damp down expectations about the Council. Chancellor Schmidt said that he thought other subjects were more important than the 30 May Mandate and that the press would recognise this. The matters about which the public really wanted to hear from their Heads of Government were Transatlantic relations, East/West relations and the economic prospects for the world as a whole.

#### Economic Prospects

The Prime Minister agreed that the economic prospects were a source of general concern. It was clear that Western economies were unlikely ever to get back to their previous rates of growth. Chancellor Schmidt said that he agreed: the consequences would be higher rates of unemployment. He doubted whether people in the long run would accept this. There was therefore a credibility problem for all governments. In his view people generally would

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within a few months begin to draw parallels with what had happened between 1930 and 1932. Europe had, after all, not seen unemployment at present levels since 1946. The US rates were the highest since the early days of President Roosevelt's Administration. Things were not going to get any better. He did not believe that governments had yet recognised the gravity of the imminent depression. Certainly no-one was ready to take the necessary measures. The Prime Minister said that the parallel with 1930 was often drawn but did not stick. The numbers looked large but the percentage of the working population at present unemployed was much lower. The out of work were better looked after. The cash economy was on a much larger scale. Of course there were very real problems. Parents were, for instance, worried that their children might not find jobs. Therefore they sought to keep them longer in education and argued that more apprenticeships were needed. This resulted in added costs e.g. on manufactured goods, which were not borne by the newly developed countries where the expectations of the working population were much lower. Nonetheless overall the analogy with the Great Depression did not hold water.

Chancellor Schmidt said that there was no need to convince him of the point. The difficulty was with public attitudes. Soon there would be a "homogeneous public opinion" in Western Europe. If the German trade union movement were to go for a radical solution to the present crisis, one could be sure that trade unions elsewhere would abandon moderation. He had very close links with the German trade union movement. It was clear to him that the moderates in the German trade union movement were losing their nerve. If they did so there would be a general "quest for relance" i.e. for printing money. Governments would have to give in. The Prime Minister said this would only make things worse. Chancellor Schmidt agreed and added that it would undermine the confidence of people in the future of the European Community. That was why he thought that people would want to hear the opinion of Heads of Government on this question rather than on the price of milk. Whether or not the figures justified it, memories of the Great Depression were going to revive.

/Chancellor Schmidt



Chancellor Schmidt said he did not know the answers. But he was clear that it was essential for the United States to bring down interest rates. The Prime Minister said that she assumed by this that he meant a fall in interest rates would stimulate production of capital equipment and the like. Unfortunately industry was now less labour intensive than had once been the case. How was one to keep people occupied? We in the United Kingdom did not even have the draft, which kept young people occupied for 15 months, or apprenticeship schemes on the scale of those in the Federal Republic. Chancellor Schmidt said that the draft was no help. Merely keeping people occupied did not solve the problem. Unemployment in the Federal Republic was at present 1.4 million. The prospect that it might rise further was making people nervous. The gap between people's expectations and reality was bigger than it had been for 20 years. The CDU had no ideas. He did not blame them for this: he did not know whether the Federal Government's ideas would work either. The US Administration was likely next year to have the biggest deficit of all time. It would be of the order \$95/100 billion. American saving rates were quite inadequate to finance this. The Prime Minister wondered whether President Reagan would abandon his programme of tax cuts. Chancellor Schmidt said that whatever he did he did not have much time left.

Chancellor Schmidt went on that it was impossible to believe that the Soviet Union would fail to exploit the present situation. Economic weakness was leading to social weakness and this would lead, in turn, to instability. The Soviet Union could afford to feed their people less and to build up their military power. They would seek at the same time to undermine the stability of the "political set-up" in the West. This was a major strategic problem. The growth of influence of the Communists in the trade union movement and the protest movements in Germany over the last 12 months had been noticeable. There might well be a similar development in France once the post-election honeymoon was over.

/The Foreign

The Foreign and Commonwealth Secretary said that while the situation was certainly bad in the West, it would be wrong to overlook the terrible problems in Eastern Europe. Chancellor Schmidt said that, of course, he agreed. Poland's GNP had dropped by 25%. Romania and Czechoslovakia were almost as bad. The GDR was running into trouble. The Russians were not fulfilling their plans. The Federal Republic had spent vast sums in guaranteeing Polish debts and providing credits that would never be repaid. They could not go on doing so on the present scale. However, the troubles in Eastern Europe would not "lead the Communists to undermine themselves". The Prime Minister said that this might be so. / <sup>But</sup> the fact was that the situation, e.g. in Poland, was already highly unstable. Chancellor Schmidt agreed that there was more fluidity in the international situation than was desirable. East-West relations were acquiring a new dimension.

Chancellor Schmidt then reverted to the question of interest rates. He thought that the present interest rates in the United States could be justified at the height of a boom, but not in the depths of a recession. The Prime Minister observed that inflationary expectations were now world-wide. People and countries were determined not to allow their money to lose its value and therefore sought high interest rates. The Chancellor agreed that there was a risk of "protectionism" in money markets as well as in international trade. In the latter context he was particularly worried about the position in the steel industry. No single steel mill in the Federal Republic was making profits. The banking system was "a house of cards". No bank of European dimensions was profitable: they all had too many bad debts. There had been 10/12 thousand bankruptcies in the Federal Republic in the last twelve months; each one of those meant a loss of money to one bank or another. There was a possibility of a domino type failure later in the winter. The European financial system, and indeed Europe generally, was more vulnerable than at any time since he had entered politics. He was not being a pessimist, merely a realist. Governments had no plans for cooperation. Instead they spent their time arguing about the price of milk and M. Thorn's proposals. The problems

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that were about to hit Western Europe were of a different order of magnitude. The Prime Minister observed that British banks were making profits. Chancellor Schmidt said that he did not believe it. The Prime Minister should try to have a private talk with her top bankers and ask them about their real balance sheets as opposed to those which they published.

The Chancellor said that he admired the Prime Minister for pursuing her policies stubbornly, but "deep down" he felt that the recipes at present being tried were not working and would not work. The Prime Minister said that her policies were designed to bring the country through the depression with the least damage and the most hope for the future. If, for instance, she were to resort to exchange controls, money would in fact pour out of the country. Chancellor Schmidt said that he was not thinking only of the United Kingdom. He was thinking of the broader picture. If unemployment in Germany reached 3 million, the European Community would collapse. If the U.S. refused to exercise self-discipline, the countries of Europe would not do so. The present fluctuations in exchange rates were helping to generate wide-spread uncertainty. Chancellor Schmidt asked about the present level of the PSBR in the U.K. and, on being told the answer, said that it was too much. The comparable figure in Germany was about half: even so, the German Government were cutting Government expenditure hard. The suggestion that the German Government should match the recent increases in the United States defence budget was impossible. The Americans had to show greater awareness of the implications of their leadership of the West. It was a self-deception on their part to suppose that they could take decisions only for the United States. The Prime Minister commented that in February there had been unanimity that the economic programme of President Reagan was about right. Chancellor Schmidt evinced some scepticism but added that even if this had been so, it was certainly gone now. What, it seemed to him, was needed was an international financial community on the lines of the international defence community of which he himself had been a member some 25 years ago. There was no

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forum in which "the young geniuses" could meet together and discuss international economic problems. Governments dealt with tomorrow but not with next year or the next decade. He himself could think of two or three Germans, some officials and some not, who were, while having sound judgement, prepared to "think exotic thoughts". He was conscious that if people like Keynes and Schacht had been listened to earlier, the great crises of the 'Thirties might never have occurred. Was there someone around at present whose voice was not being heard? The Prime Minister commented that the difficulty about such discussions was that they tended to be excessively theoretical. Exotic thoughts were all very well, but the world needed something which would work in the next two or three years.

The Prime Minister asked whether, when the European Council discussed the world economic scene, Chancellor Schmidt would be prepared to take the lead. Chancellor Schmidt said that he would not. He was "full of sorrow" but had no counsel to offer except that the United States should lower interest rates. The Prime Minister observed that this might result in President Mitterrand taking the lead. Chancellor Schmidt, agreeing that this was possible, expressed some concern about the impact of President Mitterrand's economic ideas. He wondered, however, whether it would be possible to make the idea of a 35 hour week workable. If, for instance, all the members of the Community agreed to implement the 35 hour week simultaneously, on the basis, of course, that workers were paid at a rate appropriate to a 35 hour week, he himself was not convinced that this need necessarily be all that damaging. The Germans for instance already worked fewer hours per year than almost anyone else in Europe, although their production was higher. He thought the 35 hour week might be a major topic of discussion in the coming year. The Prime Minister commented that if overall productivity was the same with a 35 hour week, no more jobs would result. Moreover, she saw no prospect whatever that British trade unions would be prepared to accept the implied cut in income. They would expect the same total weekly wage. Nor did she wish to put additional constraints on management in the United Kingdom at the very moment when they were beginning to turn the corner.

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If, by some chance, it was agreed that the reduction in the working week should be used to create more jobs, there would of course be extra overheads, extra social security charges, etc., all of which would serve to reduce our competitiveness.

Chancellor Schmidt said that he did not intend to propose a 35 hour week. But he regarded it as the most likely of President Mitterrand's ideas to attract support. He believed that German workers could probably be brought to accept the 35 hour week on the basis he had earlier proposed.

Chancellor Schmidt wondered whether a meeting between German trade unions and entrepreneurs and their British equivalents to discuss the economic situation might not be helpful. He envisaged about twenty participants from each side. The meeting would not be a secret one, but its deliberations would be conducted in private. It could perhaps be financed by the Anglo-German Foundation. The Prime Minister and the Foreign and Commonwealth Secretary both agreed that such a meeting might serve a most useful educational purpose in the United Kingdom. It was agreed that the idea should be pursued. (Dr. Ruhfus mentioned that the Bundesanstalt in Nuremberg might be prepared to finance such a meeting).

#### US/Europe

The Prime Minister said that since the dominance of the U.S. economic situation was so obvious, it might be helpful to get President Reagan to visit Europe early next year and to let him see at first hand the difficulties being experienced here. Chancellor Schmidt said that he entirely agreed. Indeed he had already urged the President to make the journey. He had written him a letter "a couple of days" previously. This had been devoted partly to President Brezhnev's visit and partly to the economic situation in Germany. The Prime Minister said she thought it was important to keep open personal channels of communication with President Reagan. It seemed likely that things were kept from him by his staff. As had been clear in Cancun he was himself prepared to take clear and sensible decisions when matters were put to him. He was probably still

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under the impression that his economic policies were directed at solving the problems of the Europeans as well as those of the United States. Chancellor Schmidt said that the Prime Minister might well be right: if so, President Reagan was deceiving himself. He himself was going to the United States in January, partly to take a holiday in Florida, and partly to see the President. The visit had not yet been announced.

The Foreign and Commonwealth Secretary said that the earlier discussion on international economic problems had, of course, a bearing on relations between the United States and Europe. There was a generation growing up in Europe which no longer gave the benefit of the doubt to the United States. They were inclined to make judgements between the Soviet Union and the United States in a way which the previous generation had not done. Chancellor Schmidt commented that the same could be said about attitudes towards Europe in Washington. The Foreign and Commonwealth Secretary went on that a recent poll in the United Kingdom had shown that while the great majority of British voters accepted Britain's nuclear deterrent, as many as 50% of them wanted to close American bases and to ensure that U.S. nuclear weapons in the United Kingdom were controlled by HMG. Chancellor Schmidt said that the United Kingdom was of course in a better position than the Federal Republic because we had our own deterrent. The Germans did not like being in the hands of the Americans any more than did the British. 75% of the West German electorate were still in favour of the alliance with the United States. But the uncertainties created by the recent contradictory statements in Washington had been "devastating". Chancellor Schmidt said that he had the feeling that Mr. Haig understood Europe better than his colleagues in Washington, but that it was by no means clear that he was in charge of foreign policy. The Foreign and Commonwealth Secretary said that the influence of Mr. Meese, unlike that of Mr. Allen, was very strong. Herr Genscher said Mr. Baker was also a significant figure in foreign policy discussions.

/ Defence Subjects

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Defence Subjects

The Prime Minister, recalling Chancellor Schmidt's remarks about the difficulty of matching American defence expenditure, said it was a pity we were inhibited from exporting some of the weapon systems we were manufacturing. Chancellor Schmidt retorted that he would never again enter into the joint production of any weapons system. It invariably resulted in doubling of the cost. Moreover, the partners spent all their time asking for the addition of this or that refinement. The Prime Minister agreed that the Tornado had become extremely expensive. Nonetheless, the cost had to be met. It could be reduced if the Tornado could be sanitised and exported. Herr Genscher said that the unfortunate fact was that the Federal Republic could veto the sale. Chancellor Schmidt said that HMG would have to put the Federal Government under very strong pressure. They would then have to go to the Bundestag and tell them of HMG's intentions. The mood there was strongly against exports of weapon systems like Tornado outside NATO. It would be a re-run of the AWACS debate with the difference that the Federal Government would be heavily defeated.

European Council

Resuming the discussion of what should come out of the European Council meeting, the Prime Minister said that it would be of prime importance to avoid magnifying any disagreements among the participants on world economic questions. Chancellor Schmidt's report on his meeting with President Brezhnev could be highlighted. The Foreign and Commonwealth Secretary said that there would have to be a statement on the Middle East. Chancellor Schmidt said that the opening of the TNF talks in Geneva and President Reagan's statement should be welcome. The emphasis should be on the fact that U.S. Soviet arms control negotiations were in Europe's interests. (Chancellor Schmidt noted in passing that he thought the Irish would not make difficulties about such a statement. Indeed he believed that if they were given satisfaction on matters such as agriculture, they would probably be prepared to join NATO. The Prime Minister expressed scepticism). The Foreign and Commonwealth Secretary said that the German/Italian initiative

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on European union ought to be mentioned. Herr Genscher added the CSCE to the list. The Foreign and Commonwealth Secretary thought Portugal and Spain would need a paragraph in the conclusions about enlargement, (This led Chancellor Schmidt to comment that the Community was developing into a "club of unsatisfied gentlemen asking for more money"). The paragraph would have to be a harmless one: France would not agree to anything substantive unless progress had been made with Chapter 2 of the Mandate. (At Chancellor Schmidt's request, the Foreign and Commonwealth Secretary described the present situation on the negotiations with Spain over Gibraltar. It had been made plain to Spain that there could be no question of her joining the Community while the border was closed and that the obvious time for them to make a move was at the moment of their joining NATO). The Prime Minister closed the discussion about the conclusions of the European Council by reiterating that she was not prepared to have matters referred to in them which had not been discussed by Heads of Government.

The discussion ended at 1250.

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19 November 1981



Private Secretary

Copied to: PUS  
HM Ambassador

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1. Mr Hurd telephoned at 1115 to make two points:-
  - (a) he was afraid that the continued delay was damaging the credibility of Britain's Middle East policy as a whole. We were in the role of St Sebastian and our position was starting to become awkward (in domestic political terms, I think he meant, as well as internationally);
  - (b) Sir J Graham and the Middle East side of the Office took quite seriously the risk that, if the Sinai affair was not settled this week, the extremists among the Arab States might force through some warning statement at the Arab Summit which would make the task of the Ten even more difficult.
2. Mr Hurd's advice therefore was against taking it calmly, allowing things to blow over, waiting for the Christmas mood etc.
3. This is also the conclusion to which we have been coming round at the PUS's talks with State Secretary von Staden. We see the risk of an unholy alliance of the United States, France and Greece in favour of no statement by the Ten. We and the Germans think this would be unacceptable. We also agree in finding the French position as hard to understand as that of the Greeks. The Germans seem disposed to use their

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influence in Paris and Athens, especially Paris. Perhaps you could encourage this idea with Herr Genscher, and promote it at the Head of Government level also ?

*J L Bullard*

18 November 1981

J L Bullard