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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY AT NOON ON 19 MARCH 1982
AT CHEQUERS

Present:

Prime Minister	Chancellor Schmidt
Foreign and Commonwealth Secretary	Herr Genscher
Mr A.J. Coles	Herr von der Gablentz
	Interpreter

The Prime Minister explained that, during her tête-à-tête conversation with Chancellor Schmidt, there had been some discussion of whether approaches should be made to President Reagan about the current course of United States economic policy before the Economic Summit at Versailles in June.

The Prime Minister then suggested that the matter of the International Tin Agreement should be discussed. Herr Genscher said that his impression was that attitudes in Bonn were identical to those in Whitehall. There was a split between what might broadly be called foreign affairs arguments and arguments related to the tin market. The Prime Minister said that the recent manipulation of the tin market had left us with an unfavourable impression. There were a number of arguments against joining the Tin Agreement. On the other hand we had a strong interest in promoting trade with Indonesia and Malaysia. Chancellor Schmidt said that the Agreement could not function satisfactorily if the United States did not participate. But he did not see why we should take the blame for that. Germany and the United Kingdom should therefore sign and, if the Agreement did not function successfully, this would be blamed on the Americans. Lord Carrington observed that if the Agreement did not come into force, the producers would form a TINPEC. He believed that this would damage our interests more than the proposed Agreement. The possibility of the United States signing the Agreement was not worth pursuing since they were clearly determined not to do so.

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The Prime Minister said that whatever course was adopted, manipulation of the market of the kind which had been experienced recently was unacceptable. Lord Carrington said that there was a problem of timing. A decision about ratification had to be taken by the end of April. If we considered that we were bound to go ahead with signature, we should make this plain at the Foreign Affairs Council next week. Chancellor Schmidt agreed that this was the right course. The Prime Minister said that if we did so we must make it plain that the conventions of the market should be observed in future. Lord Carrington suggested that an attempt should be made to persuade our partners to endorse a joint statement upon signature of the Agreement to the effect that manipulation of the market should not occur.

The Prime Minister stated that the two sides agreed that we should go ahead on that basis.

Chancellor Schmidt then proposed that views should be exchanged on the objectives of the next NATO Summit. He believed it best that the meeting should not be over-dramatised. The NATO partners should not make claims which they could not live up to afterwards. Herr Genscher interjected that President Reagan had been invited by the Bundestag to make an address before the NATO Summit. This was envisaged for some time on 9 June. When he was in Washington recently, the Americans had told him that the Economic Summit was, in their view, more important than the NATO Summit. He had proposed that the United States should send a high level emissary to tour the participant countries to discuss preparations for the event. No decision had been taken but he thought that Mr. George Schultz might be given the task. He would be a very good choice.

The Prime Minister said that Western policy on relations with the Communist world was in a state of flux. The earlier concept of defence plus detente was difficult to maintain in the post-Afghanistan situation. It was clear that normal relations with the Soviet Union could not be restored while Afghanistan continued to be occupied. But the American position had not been re-formulated as yet and there was no clear understanding as to how relations with the Soviet Union should be conducted. Following events in Afghanistan and Poland and the critical situation with regard to the provision of

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credit to the bloc countries, a careful examination of policy was needed. Chancellor Schmidt said that he thought the United States were deluding themselves. Last year they had themselves increased exports to the Soviet Union by 88 per cent. All their grain exports had been based on credit. He was perfectly willing to respond to a proposal relating to credit for high technology which had military uses. He was also willing to reach an understanding that commercial credits provided to the Soviet Union should not be under-cut by governments. Governmental subsidies were a form of clandestine competition. Lord Carrington recalled that the European Community had agreed that a higher consensus rate should be applied to credits for the Soviet Union but wider agreement in OECD had not yet been obtained. Japan had not yet been brought in to the Western consensus. Chancellor Schmidt said that he did not believe it was possible to charge higher interest rates for trade with the Soviet Union than were available commercially in individual Western countries. The Prime Minister commented that Japanese trading policies, based on a very low rate for the Yen, were increasing the demands in the West for protectionist policies. Chancellor Schmidt agreed. Protectionist tendencies were growing in France as well as in the United States. It was not clear to him whether Japanese workers had in the last year suffered a decrease in real income as workers in European countries had done. The Prime Minister said that she thought they had but it was of less consequence to them given Japanese cultural attitudes.

Lord Carrington commented that the aims of current American policy with regard to credit for the Soviet Union were not clear. Did they envisage that all Western countries should apply the same interest rates and the same credit terms? Chancellor Schmidt said that he was prepared to envisage agreement on two points. The first was that governments should not subsidise interest rates. The next best alternative was that a minimum interest rate should be fixed for credits to the Soviet Union, beneath which no-one could go. Lord Carrington commented that the implication for countries with high interest rates, such as France, or the United Kingdom, was that their trade with the Soviet Union would suffer considerably. Chancellor Schmidt expressed the view that it was best to let interest rates be fixed by the market. In reply to a comment by the Prime Minister, he said that he did not believe that the Soviet Union would

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take on more credit than it could serve, though certain Eastern European countries might do so. The Prime Minister said that she believed that the sale of oil and gold by the Soviet Union was largely designed to meet extra financial obligations incurred as a result of the Polish situation. Chancellor Schmidt agreed. Polish debts to the West now amounted to some \$26 billion. This meant annual interest payments of some \$2-3 billion per year. The bulk of this burden was being carried by the Soviet Union and their hard currency reserves were diminishing accordingly. In the end it might be the Russians who caused the Poles to default. He did not believe that they could carry the burden of interest beyond the current year. It was worth noting that American credit to the Soviet Union had almost doubled in the past year. Herr Genscher commented that Western credits to Russia now amounted to \$18 billion which was perhaps not too much for such a large country.

Lord Carrington observed that the United States appeared to be linking the Buckley Mission with the problem of "non-undermining". If they received no satisfaction from the Mission their attitude on existing Western contracts would harden. Chancellor Schmidt replied that if the Americans tried to under-mine existing contracts, they would get bloody noses. The equipment which European firms at present sought from the United States could be produced elsewhere, though this might delay things by a year or so. The Prime Minister said that we had given Haig the clear message that this could happen. Lord Carrington said that Haig understood the point but he needed some results from the Buckley Mission in order to win his arguments in Washington.

Chancellor Schmidt said that he wished to revert to the NATO and Economic Summits. We had to consider what kind of image we should try to project. We must certainly avoid an impression of rift between the United States and Europe, although differences undeniably existed, for example those surrounding the Buckley Mission, the high US interest rates and the public pronouncements of Mr. Weinberger on defence. Were we simply to try to paper over the cracks or were we to attempt to reach common understanding? The Economic Summit would be even more difficult than the NATO Summit. Attempts could be made to try to influence President Reagan's economic policies before Versailles but he was sceptical about the prospects of making /progress.

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progress. He doubted if President Reagan would be able to attempt a change of economic course before the elections in November. It would not be easy at Versailles to paper over the cracks relating to world economic depression. He was determined, at some point in the future, to put the economic facts to the German people in "Churchillian style". The time for niceties was over. There was a real danger of irreparable depression for two to three years, accompanied by deep social unrest. At Versailles, the Japanese would be accused of exacerbating the problems. The French would be under attack for "re-conquering the domestic market". But all of us were engaged in protective bickering. The only value of the Economic Community at the moment lay in the political co-operation of Foreign Ministers - the rest was an empty shell. The Prime Minister said that the Community was failing to generate a philosophy for the future. With regard to the Economic Summit, she felt that the reduction of oil prices gave an opportunity for the world to come out of its recession. What was required in order to measure up to this opportunity? As regards the NATO Summit, the problem was to find the right path between the defence of our way of life and disarmament. This called for more skilful effort than had yet been realised. She was worried by the potent propaganda and subversion of the extreme left. Chancellor Schmidt said this was very skilfully exploited by Moscow and its instruments. Ordinary, honest people were afraid and anxious. Moscow did an almost perfect public relations job, partly publicly and partly clandestinely. American public relations were very poor. Many people were honestly disturbed by American speeches about a pre-war situation, about the possibility of limited nuclear war in Europe and the need to make greater defence efforts. All this had an adverse effect. It could be partly counter-balanced by a re-statement at the NATO Summit of NATO's basic philosophy of the last 15 years. This should reiterate the fundamental concepts in the Harmel Report (the annex to the final communique of the NATO Ministerial Meeting of December 1967). Essentially, we should make plain beyond doubt to the Soviet Union that we would not neglect the need to deter or to defend. But with that as our starting point we should work for negotiations and treaties on INF, START and on trade and economic co-operation on the basis of equal mutual benefit. A revival of these ideas would enable the West to do what was necessary for the defence effort. It would also show that the purpose of defence was to arrive at a balanced and stable situation in Europe. This was the best /result

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result which could be obtained at NATO. Lord Carrington commented that something of this kind ought to emerge from the Summit. In addition, the Americans should announce their willingness to commence the START negotiations. Otherwise, the good effect of President Reagan's zero option speech would begin to diminish.

Chancellor Schmidt said that he intended to attend the United Nations Special Session on Disarmament and the Prime Minister confirmed that she would also visit New York for this purpose. It was agreed that it would be useful for Foreign Ministers to concert our approach to the Session. Lord Carrington suggested that we should bring the French in as well if possible.

Herr Genscher said that he had asked President Reagan to make a strong speech before the NATO Summit announcing his readiness to launch the START negotiations and expressing a positive attitude towards disarmament and detente in order to influence European public opinion. He understood that the United States were considering the possibility of NATO appointing three wise men to make proposals for the future strategy of the Alliance. This appeared to be a compromise between the defence department's advocacy of a study of military strategy and Haig's desire to develop a political strategy. He (Genscher) doubted whether this device was useful. The Prime Minister and Lord Carrington shared these doubts. It was dangerous to launch a study by three wise men unless one knew what the product was going to be.

Chancellor Schmidt reverted to the "double track" approval of the Harmel Report. Lord Carrington expressed the view that it was important to incorporate the concept of mutual self-interest. The United States would be suspicious of advocacy of detente, following the events in Poland, unless it was linked to the idea of Western self-interest. The Prime Minister said that she believed that, following events in Afghanistan and Poland, the concept of detente was out-moded. Chancellor Schmidt said that he personally avoided using the word. But the essence of the double track philosophy was right. The precise label was a matter of choice. Lord Carrington stated that the concept of detente had to be re-interpreted in the light of Afghanistan and Poland. Agreeing, the Prime Minister said that otherwise the implication was that the Russians could get away with their actions.

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Lord Carrington thought it was possible to maintain our opposition to Soviet behaviour but seek co-operation where mutual self-interest was detected. Chancellor Schmidt then read extracts from the Harmel Report. The Prime Minister observed that this had been produced in 1967, the year before the Soviet invasion of Czechoslovakia, and reiterated that events in Afghanistan and Poland had since occurred.

Chancellor Schmidt asked that we should bear in mind that Germany was a divided country. He did not talk about re-unification but he had to think of 70 million Germans on the other side of the line. These meant more than the 35 million people in Poland. A disproportionate fuss had been made about Poland. He had to be careful not to give the German people the impression that the West was seeking to inject steel and concrete into the iron curtain. He would not use the word detente now. But it could not be wrong as a goal. Lord Carrington thought the concept needed a different expression. Chancellor Schmidt commented that the German situation was special. Given the status of Berlin, Germany was now in three parts. The soldiers of seven nations were on its territory. Germany was the only country in Western Europe that had denied itself nuclear ambitions. It was the principal battle ground. There were great dangers in emphasising world tensions. A balanced policy was necessary. If the German people were told that the aim was to roll back the Russians, they would be scared. The idea that it was possible to bring about a liberal democratic regime in Poland rang oddly in German ears. The psychology of Germany should not be under-estimated. If the right returned to power, the argument for German re-unification would again be publicly mounted. The Prime Minister questioned whether the word detente was an accurate description of what Chancellor Schmidt appeared to be seeking. He was advocating not good relations between West and East Germany but progress towards unification. Chancellor Schmidt said that he was rather attempting to create the circumstances for evolution. Whether unification occurred or not was a matter for the 21st Century. The Prime Minister commented that the concept of detente appeared defective in that ultimately the Soviet system could not survive.

Lord Carrington thought that in present circumstances it was difficult to talk of normalisation and detente. But, from the point of view of public opinion it was not sufficient simply to make one's stand on defence of the West. We also needed to argue for arms limitation and induce the Soviet Union to negotiate in this field.

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Chancellor Schmidt said that, in relation to Afghanistan, he had been astounded that the US grain embargo had first been lifted and then, six months later, the US had asked Europe to impose sanctions on the Soviet Union but not impose a grain embargo. He thought that in retrospect the 1981/2 period might appear to be the reverse of President Roosevelt's policy of speaking softly and carrying the big stick. Nowadays, it was a matter of the big mouth but no action.

The Prime Minister said that events in Poland had appeared specially significant because of the emergence of an alternative centre of power. Chancellor Schmidt thought this was not unprecedented. There had been uprisings in Eastern Germany but then there had been no great outcry. He was prepared to take action if he could be sure that the West would stick to it and we should reach our goal. But he was not interested in verbal crusades. The three great steps of Nixon's regime had been the decision to open up relations with Communist China, the withdrawal from Vietnam and the negotiations of SALT. The latter followed from the Harmel doctrine. Lord Carrington suggested that it would be better not to resurrect publicly the name of Harmel, though the philosophy of the latter might be put to some use.

In conclusion, Chancellor Schmidt and the Prime Minister agreed that before the NATO Summit the allies should attempt to work out a succinct statement of their broad strategy.

The meeting concluded at 1300 hours.

A. J. C.

19 March 1982

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