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RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE
FEDERAL CHANCELLOR IN THE FEDERAL CHANCELLERY, BONN, AT
1115 ON WEDNESDAY 31 OCTOBER 1979

Present:

Prime Minister
Mr. C. A. Whitmore

Chancellor Schmidt
Dr. Jurgen Ruhfus

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Premier Hua's Visit to Western Europe

Copy on China May 79
Visit of Premier Hua Guo feng
to UK
and China -

The Prime Minister said that Premier Hua, who was Sino-Soviet Relations now in the middle of his visit to the United Kingdom, had told her how pleased he had been with his talks with the Chancellor in Bonn. She had herself discussed the international scene with him on Monday and Tuesday and was due to discuss bilateral issues with him the following day. She had first met Premier Hua in Peking three years ago and had been struck then by how very much he was in command. His present visit had served to confirm that impression. Until his present visit to Western Europe he had not previously been to a Western country. Yet he was handling the visit with remarkable self-confidence and ease of manner. He had given her a detailed account of his view of the position in a very wide range of countries: he seemed to have considerable knowledge of what was happening even in relatively obscure states. In talking about the inevitability of war with the Soviet Union, he had tempered slightly the view which he had taken three years earlier when he had told the Prime Minister that he thought that she was too soft on this. But the weakness of his present argument was his assumption that if the Soviet Union attacked China, NATO would attack the Soviet Union.

/ It was not clear

CONFIDENTIAL

- 2 -

It was not clear why he made this assumption since it was plain that China would not automatically come to the help of the West if the Soviet Union attacked us. She had told him that, in her view, the Soviet Union, faced with NATO firm in the West and with China in the East, were probing the soft underbelly which ran through Afghanistan, Iran and other Middle Eastern countries into the African continent.

Chancellor Schmidt said that he agreed with the Prime Minister's assessment of Premier Hua's qualities. He had found him clever and wise, with the outlook of a much bigger man than he had expected. He had been deeply impressed by Premier Hua. China had come a very long way since the death of Mao. It had been noticeable that Premier Hua had not mentioned Mao's name once in his speeches in the Federal Republic. He had given his German hosts an assured and detailed assessment of Sino/Soviet relations, which he had said was not his personal analysis alone, but the joint appreciation of the Chinese leadership as a whole. It was the Chinese view that there would not be a war with the Soviet Union in the 1980s. They were confident in their judgement that the Soviet Union would never dare to initiate a war on two fronts. Premier Hua had said that China could separate Eastern Siberia from the rest of Russia by cutting their railways. The Soviet Union knew that they could not destroy all of China's missile forces and so the prospect of a retaliatory strike against Soviet cities deterred them from attacking China. In making this fresh appraisal of the strategic relationship between China and the Soviet Union the Chinese were in effect abandoning their own propaganda. Premier Hua had also told him that the Chinese had thoroughly analysed the Soviet strategic position before they undertook what they had termed the self-defence operation in Vietnam. They had been confident that the Soviet Union would not intervene in response to China's involvement, and their assessment had been proved right in the event.

CONFIDENTIAL / THE Prime Minister

CONFIDENTIAL

- 3 -

The Prime Minister said that she had found Premier Hua rather uncertain about the present situation in South East Asia. She had told him that the United Kingdom regarded Pol Pot as a cruel and barbarous dictator. She had not, however, mentioned to Premier Hua that the United Kingdom would have to reconsider before very long whether we should continue to recognise Pol Pot. His regime was no longer in control of the whole of Kampuchea, and there might be a case for recognising neither him nor the regime of Heng Samrin for the time being. Chancellor Schmidt added that in deciding what to do about recognition, it would be important to take account of the views of the ASEAN countries.

Copy m
Kampuchea
Oct 79
Situation -
Message
from Prince
Sihanouk

In response to a question by Chancellor Schmidt, the Prime Minister said that she had last met Prime Minister Lee Kuan Yew at the Commonwealth Heads of Government Meeting in Lusaka. On that occasion he had offered a brilliant analysis of the world scene. He had seen two new factors of significance. The first was that despite having the widespread sympathy of the international community following the end of the Vietnam War, the Vietnamese Government had shown themselves to be unable to establish real peace and to build prosperity for their people. Second, we had to recognise that for many people conflict had become a way of life which they were reluctant to give up. Unfortunately this analysis had been Lee Kuan Yew's only intervention at Lusaka, and it was a pity that he had not done more to use his undoubted influence in a helpful way.

Chancellor Schmidt said that he regarded Lee Kuan Yew as a man of considerable judgement. He ought to be more influential, but the fact was that he was too successful and other developing countries disliked him for it. It was a pity that Singapore was so small a scene for him:

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CONFIDENTIAL

CONFIDENTIAL

- 4 -

he appeared to feel constrained from taking action which might put his tiny state into the middle of international controversy. He might make a good United Nations Secretary General. The Prime Minister disagreed with this. She thought that Lee Kuan Yew was too much of a man of action to be prepared to take on the United Nations job.

/ Rhodesia

CONFIDENTIAL

CONFIDENTIAL

- 5 -

Copy on Rhodesia Pt 8
Situation/Constitutional
Conference

Rhodesia

The Prime Minister said that she had had a long talk with Premier Hua about Rhodesia but she had found it difficult to get him to understand the basic concept of our approach to the problem. He had told her that the Front Line States would not accept Bishop Muzorewa as the leader of an independent Rhodesia. China had of course an interest in a Patriotic Front victory in Rhodesia, even though Mr. Nkomo was receiving Soviet help. She had told him that the battle was no longer one between black and white but between black and black. Our objective now was to see that the Rhodesian people could make a choice in free and fair elections, and if the Patriotic Front lost, they must accept the verdict of the ballot box and stop fighting. The concept of the ballot box was a difficult one to get over to Premier Hua, but she would return to this subject with him in their further talks the following day. She would also point out to him again that a stable Rhodesia would be a check on the expansionism of the Soviet Union in Southern Africa. If Rhodesia drifted into chaos, it would make the eventual loss of South Africa that much more likely, and this in turn would weaken the West as a whole since they relied on South Africa for certain vital raw materials.

Chancellor Schmidt said that the fundamentals of the British approach to Rhodesia appeared to him to be clear and simple and he would have expected Premier Hua to understand them. He had told him when he was in Bonn that he thought that the Foreign and Commonwealth Secretary was handling the Lancaster House negotiations extremely well. He would, however, be grateful for the Prime Minister's assessment of the chances of bringing the talks to a successful conclusion.

/ The Prime Minister

CONFIDENTIAL

CONFIDENTIAL

- 6 -

The Prime Minister said that successive British Governments had stipulated that six conditions should be fulfilled before Rhodesia could be restored to legality and given independence. The Rhodesian election of last April had returned a black majority Government with a 64 per cent turnout, and there were many people in the United Kingdom who thought that Bishop Muzorewa's Government had met all six conditions. There were, on the other hand, those who argued that there was some doubt about whether the fifth principle, which was that any settlement should be acceptable to the people of Rhodesia as a whole, had been adequately satisfied. It was also argued that the constitution on which his Government had been elected was deficient in two respects. It would have been possible to ask him to put right these two defects and then to recognise his Government as a legal and independent one. If the British Government had followed this course, however, we should almost certainly have not gained the support of the international community and this would not have been helpful to Rhodesia. We had therefore decided to take the route which we were now following, and our main purpose at the Lusaka Conference had been to carry other countries along with us. As a result of the Lancaster House negotiations so far we had obtained the agreement of the participants to a constitution which not only got rid of ^{the} two deficiencies in the existing Rhodesian constitution but was also comparable to the constitutions which we had granted in the past to former British colonies. We were now trying to negotiate the pre-independence arrangements, and this was the most difficult stage so far. The British Government were proposing that a British governor should be installed in Rhodesia during the transitional period in whom legislative and executive authority would be vested. It was envisaged that Bishop Muzorewa and his Ministers would devote themselves to contesting the elections. The present security forces would be answerable to the governor. Although we were expecting there to be a ceasefire, we wanted to keep the pre-independence period to no longer than two months.

/ The longer it lasted

CONFIDENTIAL

CONFIDENTIAL

- 7 -

The longer it lasted the more likely it was that guerrilla activity would increase and if events took a serious turn, the Governor would be helpless. There was no intention to support him with British troops. It would be for him to supervise the elections, thus fulfilling the undertaking which the British Government had given at Lusaka, and to ensure that they were free and fair. Bishop Muzorewa was prepared to go along with these pre-independence arrangements. Given the nature of the election which he had won in April, this was a big step for him to take and few people realised how far he was prepared to come. But it was by no means certain that the Patriotic Front would also agree to the British Government's transitional proposals. They were arguing that the pre-independence period should be longer than two months: they claimed that they needed more time to establish themselves inside Rhodesia. Britain could not accept this, since the Patriotic Front had been active for a long time and Mr. Nkomo and Mr. Mugabe were as well known in Rhodesia as Bishop Muzorewa.

Chancellor Schmidt said that President Kaunda had asked him to try and persuade the Prime Minister to lengthen the transitional period and to remove the army and police commanders during the pre-independence stage. He was simply reporting this approach from President Kaunda and was not offering any comment on it, though it did seem to him that Britain needed to carry with her the Front Line Presidents as well as those actually participating in the talks at Lancaster House. He also wondered whether the Prime Minister felt that she was getting enough support from the United States, Canada, France and the Federal Republic.

The Prime Minister reiterated the importance of keeping the transitional period as short as possible. The guerrillas were not a disciplined force in the way the Rhodesian Army was and they might cause trouble at any time. The British Government was

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CONFIDENTIAL

confident that the Army Commander, with whom we were in direct touch, would serve the Governor loyally once he was installed. She agreed on the importance of carrying the Front Line Presidents with us. We had succeeded in doing this in Lusaka, but both President Kaunda and President Nyerere were now worried that if the Patriotic Front lost the election, they would still have the guerrilla forces based in their territories. On the other hand, they should see that it was in their own interests to have a stable, independent Rhodesia. Zambia in particular, which already relied for vital supplies on the railway that ran through Rhodesia and which was heavily dependent on South Africa for foodstuffs, would benefit. But if Rhodesia was to remain a stable and prosperous society, it was imperative to retain the confidence of the white population there in the future of the country. All Britain could do was to restore Rhodesia to legality, at which point the sanctions would fall away, and to see that free and fair elections were held on the basis of the Constitution already agreed at Lancaster House. Once we had done that, the future of Rhodesia was in the hands of its own people. We were now within an ace of this goal and we were in particular need of our friends' support. The Foreign and Commonwealth Secretary had been very pleased with the response he had had from our European partners at Ashford Castle, and Mr. Vance was supporting us, though there were other members of the United States administration who were less helpful, even though Rhodesia was already, under its existing Constitution, a far more democratic state than many other African countries.

TNF Modernisation

*Copy on Defence. May 79
Modernisation of TNF in Europe*

The Prime Minister said that she saw President Brezhnev's recent speech in East Berlin as the opening shots in a psychological campaign to dissuade Western European members of NATO from agreeing to the modernisation of Theatre Nuclear Forces. The Soviet Union had applied similar pressure successfully over

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CONFIDENTIAL

- 9 -

ERW, and they plainly believed that they could arouse fears amongst the more faint-hearted allies once again. This was why she had spoken out strongly in her recent speeches in Blackpool and Luxembourg. Britain was determined to fulfil its obligations in the defence field, and this was why we had agreed without a moment's hesitation to take an additional flight of 16 GLCMs (for which Chancellor Schmidt said he was very grateful). She had discussed TNF modernisation at length with Sr. Cossiga when she had visited Rome and she did not believe that the Italians would waver. She had, however, been worried that the Belgians and Dutch would not accept TNF on their soil. She had herself found during discussions in September that M. Simonet accepted the need for TNF modernisation, but it had been less clear what view M. Martens, who did not yet appear to be fully in the saddle, took. The Dutch seemed to see the greatest difficulties, and we and the Germans should do what we could to help them to overcome them. She was, however, clear that the Alliance could not settle for as little as half the proposed number of TNF in Europe: an essential pre-requisite of deterrence was the maintenance of the military balance. Moreover, the Alliance should not let itself get into the position where the Soviet Union was able to bargain its obsolete weapons against our new missiles. If the Soviet Union did not want NATO to have modern TNF, they would have to give up the SS20 and Backfire.

Chancellor Schmidt said that the present problem with longer range Theatre Nuclear Forces in Europe had begun with a double mistake by the United States and the Soviet Union. They had defined strategic systems as those weapons which could be launched from the territory of one of them to reach the soil of the other. This had meant that intermediate range and medium range systems were outside the scope of then current arms limitation negotiations, and this had allowed the Soviet Union to build up in the 1960s a very considerable lead in systems of this kind. The Soviet Union had then decided to increase this lead still further with systems like the SS20, and they had made the mistake of thinking that they could get away with this step. The Americans had been slow to realise

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CONFIDENTIAL

CONFIDENTIAL

- 10 -

what was happening, and he had had to wake them up by making public speeches a couple of years ago. But once the United States understood what the Soviet Union had been doing, they had decided rapidly on the need to modernise the Alliance's TNF and expected the allies to agree with them immediately. But a number of the Western European members of the Alliance had political difficulties over this. They had never had nuclear weapons stationed on their soil which could reach the Soviet Union. This was true of Belgium and the Federal Republic, but it was the Dutch who felt the problem most acutely. We were now at a critical moment in the Alliance's consideration of TNF modernisation. If the Dutch could not be brought along on TNF, their attitude might quickly spread to Belgium and then to Italy and the Scandinavian allies and even, possibly, to the Federal Republic. For this reason he had telephoned President Carter a month ago to suggest that the decision on TNF modernisation should be taken immediately, but the President had taken the view that such action might precipitate the very split with the Dutch which it was essential to prevent. The present position was not wholly comparable with what had happened on ERW. On that occasion the European allies had not let the United States down but, on the contrary, had given them all the help that they needed, even though this had been politically difficult for a number of them. It was President Carter himself who had drawn back at the last moment and who had let down his European allies. The Germans were doing all they could to help the Dutch over TNF modernisation both openly and privately. He had himself talked not only to the Dutch Prime Minister but also, privately, to Mr. Joop den Uyl, the Leader of the Opposition. He thought that it might help Dutch Ministers to remain firm if they could be given a military presentation which included details of the scale and nature of the threat posed by Soviet systems like the SS20. It was hard to believe that such information was not already available to the Dutch Government, and it might be that they preferred not to know. It might be helpful if the Prime Minister or Lord Carrington spoke to their Dutch colleagues.

/The International Situation

CONFIDENTIAL

The International Situation

The discussion on the international situation is recorded separately.

EEC Budget

*copy on Envo 7/1 73
Future Policy towards EEC
Community Budget*

The Prime Minister said that the problem of the Community Budget was politically extremely difficult for the British Government. It might seem small to the Germans but it loomed very large for the United Kingdom. The facts were simple. Britain was unique within the Community in having below average gnp per head and being a net contributor to the Budget. We were in fact the seventh poorest member of the Community and in 1980 we would be the biggest net contributor. The domestic background to next year's net contribution of £1,000m was that, as part of its efforts to turn round the British economy, the British Government was having to cut expenditure on a number of socially important programmes: for example, spending on housing would be reduced by £700m in 1980 and the education programme by over £300m. There was a good deal of public opposition to these cuts, and this was made much stronger when people saw an outflow of £1,000m, most of which was going to other members of the Community who were far wealthier than Britain. She was now being urged from a number of quarters to withhold the British contribution to the Budget. But she was taking a firm line in reply and making it clear that the British Government would not flout the law. Once Community law was ignored, it would be the end of the Community. Hitherto the United Kingdom had always obeyed Community decisions carrying the force of law. She had told the House of Commons that to withhold our contribution would be contrary to European law and she was not prepared to do this. But this made it all the more necessary that the Community should accept the fairness of our case and agree to an equitable solution to the problem of the Budget. The United Kingdom was not asking

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CONFIDENTIAL

- 12 -

for a penny piece out of the Budget. We were seeking a broad balance between our gross expenditure and our receipts. This meant that Britain should not be a substantial net contributor. During a recent visit to London Mr. Roy Jenkins had told her that there were those who thought that Britain would accept a 50 per cent reduction in our net contribution. She had told him that this would not do: she would not be able to hold British public opinion if our net contribution was reduced by no more than half. It had also been suggested that it would be enough if Britain became the second biggest net contributor after the Federal Republic, but this was not acceptable either: if we were to be compared with anybody it should be with France who was only just becoming a small net contributor now. Because of the growing pressure on the British Government it was imperative that she came away from the Dublin European Council at the end of November with a full answer to the problem. It would not be sufficient for her to be offered a little now with the promise of more negotiations later. She had to return from Dublin with an arrangement which would bring the British contribution into broad balance in 1980. Moreover, Britain wanted to arrive at this solution without the total size of the Budget being increased.

The Prime Minister continued that she believed passionately that Britain should be in Europe. The reasons for her conviction were primarily international political reasons. But she could not stress enough the seriousness of the crisis which would arise if a solution to our Budget problem could not be found. We simply wished to be treated as equitably as our partners in the Community.

Chancellor Schmidt said that it was his personal conviction that the problem had to be solved. When he had spoken to President Giscard about it recently, the President had told him that he was being too forthcoming, but he had replied that a solution had to be found. But he did not believe that this could be done if those concerned staked out maximum positions now. It was essential to create a strong /was essential

CONFIDENTIAL

was essential to create an atmosphere in which it would be possible for people to move. It was not so much a question of what was fair and unfair but of adopting the right psychological approach. It would be, nonetheless, extremely difficult to find a solution acceptable to everybody for several reasons. First, because of their complexity, the mechanics of the Community Budget were not understood by the Heads of Government. Second, other countries would have to contribute more or receive less in order to relieve the United Kingdom, and none of them would want to do that. They would argue that the Community's finances were functioning precisely according to the arrangements which had been negotiated and there was no need to change them. The French, in particular, were likely to take this line. Third, a figure of £1,000m was an enormous sum, even if Heads of Government could be brought to comprehend the mechanics of the Budget and they were ready to compromise. An added difficulty was there was as yet no proposal from the Commission on the table, and time was now very short before the Dublin meeting in which to work out a solution to such a highly complex problem. For these reasons he believed that the most the British Government could hope for from Dublin was a clear-cut declaration of intent. It was no use expecting Heads of Government to grapple with the details of a technical solution. The European Council should give Finance Ministers a clear directive to work out a detailed solution, and this would allow the Prime Minister to report to Parliament that Britain had been given satisfactory undertakings. Even this would be difficult to achieve. He believed that the European Council would have to recognise at Dublin that an answer could be found only if expenditure on agriculture was substantially reduced next year: much of the present difficulty was caused because of the explosion in agricultural outlays. He had not made an assessment of which countries would suffer by such an approach, and he had not discussed the matter with his Agriculture Minister, Herr Ertl. But he wanted to find a way forward.

/The Prime Minister

The Prime Minister said that when the United Kingdom's gnp rose to an appropriate level, the British would expect to be net contributors. The Government was making every effort to improve the country's economic performance. One of their recent economic measures designed to make the economy freer was to lift exchange controls. Sterling had had to be supported hard the previous day. It was no part of the Government's policy to let sterling go down but if it did so at a reasonable pace, the Government would have to let it do so. We could not stop the market but only smooth movements in the value of sterling. Britain would not restore exchange controls. Generally, the Government would hold firm to its economic policies, although things would get worse before they got better. The Government was telling the trade unions that they had freedom to negotiate pay deals but that they should use it responsibly. The Government was not going to increase the money supply to finance excessive wage settlements. Chancellor Schmidt said that this was a line he had pursued over the years. He thought that sterling would hold up over the next few months. The British Government could look forward to another 4½ years in office, and he was sure that there would be light at the end of the tunnel by the end of that period.

The Prime Minister said that Britain was prepared to take the lead on many things in Europe such as the much needed reform of the CAP but only when a solution to the Budget problem had been found. Following the last meeting of the European Council, it was for the Commission to come forward with proposals for dealing with the problem, and we had already offered them a number of ideas of their own. She recognised that the other members of the Community would be reluctant to give up some of their present benefits in order to help solve Britain's problems, but if it was difficult for them each to give up something, how much more difficult was it for the United Kingdom to bear the whole burden of its net contribution as it was doing at present.

/Chancellor Schmidt said

CONFIDENTIAL

- 15 -

Chancellor Schmidt said that Britain should recognise that if a solution to the Budget problem was to be found, the other Governments would need to be able to show that they had got something out of whatever changes were agreed: they had their publics and Parliaments to think about as well. France, for example, wanted to remain in broad balance as she was now. Italy wanted a bigger slice of the cake than she had received hitherto. Sr. Cossiga thought that British and Italian interests were parallel. But the fact was that if the United Kingdom was relieved of its net contribution and the Italians received a bigger transfer of resources, other members of the Community were going to have to give up even more. Moreover, it was inevitable that the other members would not want to treat the Budget in isolation but would want to draw in other problems such as fisheries and energy. It was, in particular, important to give the French the feeling that we were ready to seek a fair deal on fish as well as on finance.

The Prime Minister said that the United Kingdom had tried to be fair in every field: we had not only played our part properly on agriculture by opening up our markets to the other members of the Community on fish and on energy but also on matters like defence which, though not strictly Community business, were of vital concern to members of the Community. But we could not go on being fair if others were not ready to treat us in the same way. At the time of the British accession negotiations in 1970 the Community had recognised that if unacceptable situations arose on our Budget contributions, the very survival of the Community would demand that the institutions find equitable solutions. Britain now expected that to be done. A solution to the fisheries problem should be found separately on its own merits. We wanted a solution and we would abide by any decisions of the European Court on fish as on other things. It was our view that we should reach agreement first on conservation: there would be no point in having a Common Fisheries Policy if there were no fish left. Similarly, we had dealt with energy on its merits and we did not wish to re-open recent decisions.

/Chancellor Schmidt said

CONFIDENTIAL

Chancellor Schmidt said that he wanted to be frank. It was essential that the Prime Minister should distinguish herself in the eyes of her European colleagues from her two predecessors and must not appear as a third edition of the last two Labour administrations. At present events within the Community were moving towards a clash between the United Kingdom and France. This must be avoided in view of the present world situation. If ever the Community broke up, the Soviet Union would pick its members off piece-meal. When the Commission's proposals on the Budget were on the table, Britain, France and Germany should concert together to establish what each other's vital interests were in an attempt to arrive at a solution. It was essential to do this before the meeting in Dublin. It was no good looking to Mr. Lynch as the Chairman of the meeting of the European Council for he knew nothing of the complexities of the problem and would not be able to bring about an agreement.

The Prime Minister said that her approach and that of her Government to the Community was entirely different from that of her Labour predecessors. She did not believe that they would have taken the decision to accept the 16 additional GLCMs or to go beyond self sufficiency in the recent decisions on oil import targets. Nonetheless she did not like the present atmosphere which she recognised would be associated by other members of the Community with previous Labour Governments, but she had to emphasise once again the need to find an equitable solution to a problem which imposed such a heavy burden on Britain.

C.A.W.

1 November 1979