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RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND
CHANCELLOR HELMUT SCHMIDT AT THE CHANCELLERY IN BONN
ON 31 OCTOBER 1979 AT 1530

PRESENT

The Prime Minister
Foreign and Commonwealth Secretary
Mr. M. O'D. B. Alexander

The Federal Chancellor
Herr Genscher
Dr. von der Gablenz

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Rhodesia

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Rhodesia situation
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The Prime Minister said that the Rhodesia talks in London had reached a critical stage. Agreement had been reached on a Constitution and on the installation of the Governor. It would be ridiculous and absurd if the talks were to break down on the problems of the interim period. It would mean that those responsible for the break-down are not genuinely interested in democracy. Britain intended to go ahead with the internal elections. If the Patriotic Front decided not to participate that would be their decision and theirs alone. That the talks had got as far as they had was due largely to the superb way the talks had been handled by the Foreign and Commonwealth Secretary. Chancellor Schmidt said that he shared the Prime Minister's admiration for the way Lord Carrington had handled the negotiation.

The Foreign and Commonwealth Secretary said that there was a feeling abroad that HMG only needed to negotiate with the Patriotic Front. The Chancellor said that he recognised that Britain was dealing with three parties or even, if one included Mr. Smith, with four. The Foreign and Commonwealth Secretary said that Bishop Muzorewa had been given no credit for accepting a British Governor with executive powers or for accepting that the Governor would in fact run the country while the Bishop was fighting the election. For a man who had recently won the support of 64 per cent of the electorate to make these concessions, and to agree to submit himself to another election, was remarkable. The Patriotic Front had themselves made concessions on the Constitution. They would now have to trust Britain over the appointment of the Governor and the handling of the interim period. The Chancellor agreed.

/Theatre Nuclear

Theatre Nuclear Forces (TNF)

The Prime Minister said that the immediate question was how to help the Dutch take the right decision about the deployment of theatre nuclear forces on their soil. The Foreign and Commonwealth Secretary pointed out that he would be seeing the Dutch Foreign Minister, Dr. Van Der Klaauw in the following week. The Chancellor said that both Dr. Van Der Klaauw and the Dutch Defence Minister were sound on the question of TNF modernisation. However, this was not the case where the Labour Opposition and the Christian Democratic Party were concerned. Herr Genscher added that the Christian Democratic Party had decided the previous evening that there would have to be two years of arms control negotiations with the Warsaw Pact before they would agree to the deployment of TNF. The Foreign and Commonwealth Secretary said that it was not clear exactly what the Christian Democratic Party had decided. If it merely meant that the missiles could not be deployed until after two years of negotiations, this would be of no particular significance since the missiles could in any case not be deployed before 1983. The Chancellor said that even if this was all that the Christian Democratic Party had said, it would be a decision of weakness. He asked whether the Prime Minister would be able to bring some influence to bear on the Dutch Prime Minister, Mr. Van Agt. He for his part intended to make a further attempt to persuade the Leader of the Opposition. His attitude was important because of the effect it would have on the actions of the Belgian Parties. The Foreign and Commonwealth Secretary said that it might be possible for him to see the Dutch Prime Minister during his forthcoming visit. The Prime Minister said that it might be helpful if she were to send a message to the Dutch Prime Minister asking him to see the Foreign and Commonwealth Secretary.

Herr Genscher said that the Dutch Government might suggest reducing deployment on missiles in the Netherlands to half the proposed figure. The Foreign and Commonwealth Secretary and the Prime Minister said that this approach was unacceptable. Herr Genscher agreed and observed that if one country started to talk in terms of halving the number of missiles it would accept, the public elsewhere would wonder why the deployment in every country should not be halved. The Chancellor said that even though the

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 Modernisation of
 TNF in Europe

agreed figure of 576 missiles was an artificial one. it was essential that the Alliance should now stick to it. The Prime Minister said that it would be a very good idea for the whole of the Dutch Cabinet to see the NATO presentation on the military balance in Europe. She had seen it recently and had once again been impressed by the extent of the Soviet lead in various areas. Chancellor Schmidt said that this was an excellent idea. The Foreign and Commonwealth Secretary should find out whether the Dutch Cabinet had seen it and if not try to persuade Dr. Van Der Klaauw that they should do so. The Foreign and Commonwealth Secretary said that he would do this, He added that his discussions with the Norwegians on this subject had not been easy. Even though the Norwegians would not have to accept the missiles on their territory, they had seemed to be in some doubts about approving the programme. However, they were now coming round.

Chancellor Schmidt said that he had talked to President Carter on 29 October about the possibility of a US offer to withdraw unilaterally one thousand obsolete nuclear warheads from the Federal Republic. News of this idea had leaked to the newspapers. By making it official the Americans would:-

- (a) pre-empt the Dutch decision and make it easier to resist a reduced deployment of new weapons; and
- (b) counter balance the effect on world opinion created by Mr. Brezhnev's speech in Berlin.

NATO had 7,000 nuclear warheads on German soil: they probably needed only 700 or possibly 70! NATO's position would look more credible if 1,000 warheads were removed. However, President Carter had not so far been convinced. He accepted that it would be right to remove the warheads but thought that the decision should wait until the December NATO meetings. Chancellor Schmidt said that ^{the fact that} the leaks that had already taken place meant that the potential impact of the proposal was already diminishing. The Prime Minister said that she was anxious that NATO should not make a gesture of this kind without making sure of getting something in return. The Foreign and Commonwealth Secretary said the return would be that the Dutch would remain on board. The Prime Minister wondered whether there was not a risk that NATO /would give up

would give up the warheads but fail to bring the Dutch along. Chancellor Schmidt said that one day soon he would in any case have to tell the Americans to take "this rubbish" away. The gesture of a unilateral withdrawal now would cost nothing and would look very good. It could be linked with the Option Three proposal which had been discussed in the context of the MBFR negotiations. The Russians had been offered this sort of reduction in NATO Forces in return for diminishing their own forces by 30,000 men and 1500 tanks. Mr. Brezhnev's statement had, in a sense, signalled that the Russians were willing to carry out their part of the Option Three bargain. NATO could do the same. It would not alter the military balance but would make it more difficult for the Dutch to insist on still further reductions.

The Community Budget

*Copy in
Envoy for #3
Future Policy towards
Community budget*

The Prime Minister stressed the importance of this problem for Britain. Popular resentment on the question was very great. She was constantly being faced in the House of Commons with statements that if no solution was found in Dublin, Britain should withhold its contribution. She had constantly replied that the Government intended to remain within the law. Nonetheless, it was essential that Britain should get satisfaction. There could be no half measures. There had to be a broad balance. Although entitled to it as one of the poorer members of the Community, Britain was not asking for net benefit from the Community budget. But it would be impossible for Britain to make an annual contribution of £1,000 million or more. Chancellor Schmidt said that the English newspapers were over-stating Britain's case. The take-it-or-leave-it attitudes which were being expressed were not prudent. The Prime Minister said that the media were merely reflecting general resentment at Britain's position as the main contributor to the budget.

The Chancellor said that he agreed that Britain had a case. But the psychology of the situation was of great importance. The Prime Minister should be under no illusions about what would happen if the future of the Community came into doubt. It would not fragment: the other eight members of the Community would remain together. However, a split between Britain and the rest of the
/Community

Community would represent a terrible weakening of the West's position in the 1980s. There was now no US leadership and no prospect of it. The Foreign and Commonwealth Secretary said that the Community must not break up. Chancellor Schmidt said that it was necessary to look at the worst option. The tone of the British press was detrimental to the prospects of success in Dublin. The French were saying it reflected official briefing. President Giscard was telling him not to be flexible. Chancellor Schmidt was replying to President Giscard that it was essential to be flexible and that no member must be left feeling so dissatisfied as Britain at present did. Nonetheless, President Giscard was building up a tough position.

The Prime Minister said that President Giscard's position was not a strong one. France had after all been a net beneficiary from the budget for many years. Britain's position was neither fair nor equitable. At the same time as she was reducing planned expenditure on education, housing, health and other things of importance to her electorate, she was having to increase Britain's contribution to the budget. Moreover, the budget was going to countries with lower rates of tax. Chancellor Schmidt said that the difficulty with Britain's membership had of course been that she had had to make the necessary structural changes so rapidly. The original members had had many years in which to do it. Nonetheless, Britain would only get the undertakings she required in Dublin if there was an atmosphere there of give-and-take. All the participants would have to be able to defend the outcome of the European Council meeting when they returned to their own countries. The Prime Minister repeated that Britain was paying more than she could afford. The Foreign and Commonwealth Secretary said that it seemed to him legitimate for the other members to say it was Britain's own fault that she was in such a mess. He was ashamed at having to point out that Britain was the third poorest member of the Community. The Prime Minister was determined to rectify the situation but this would take time and would involve the British Government in taking some extremely unpalatable decisions. As and when these decisions were taken and cuts were made, there would be major repercussions. People were going to have to do without things to which they had become accustomed. If the economy was prospering, there might be fewer objections to a major British contribution to the Budget. But how could the present contribution be justified when people were in any case having to make sacrifices?

/Chancellor Schmidt

Chancellor Schmidt said that he fully understood the British problem. But to solve it, the Prime Minister would have to put herself in the shoes of the other members. The German Government had no intention of making difficulties. Equally they could not and would not fight with the French on the question. The Prime Minister said that she had not asked the German Government to do so. Nonetheless, it was difficult to accept the attitude of the French Government. Chancellor Schmidt said that the French would argue that there had already been three negotiations about British membership and that the Dublin mechanism, even if functioning imperfectly, was in place. Their position would be that everyone must obey the agreements which already existed and that a solution should be found by adapting the corrective mechanism. The Prime Minister said that the British people were not prepared to go on financing the other members. Chancellor Schmidt said that the only payment from the British budget was the one per cent VAT contribution. The contribution from levies and tariffs did not go through the budget. The Foreign and Commonwealth Secretary said that nonetheless they represented a transfer of resources. Chancellor Schmidt agreed but went on to argue that if the CAP were abolished, Britain's budget would not benefit in any way. The Prime Minister said that if sugar and beef were de-budgetised, Britain would derive a major benefit. Chancellor Schmidt said that the Prime Minister was right to focus on the question of the financing of the agricultural surpluses. A reduction in the overall outlay on agriculture would reduce the deficit of those who were net contributors. An attack on the financing of the surpluses would have the support of Community Finance Ministers. In approaching the problem in this way, the Prime Minister might find the allies that she needed. No one would lightly agree to shoulder their share of the 1.5 billion units of account needed to bring Britain into a position of broad balance. The Prime Minister said that if the other members were not prepared to pay their share, how could Britain be expected to bear the entire burden. Chancellor Schmidt said that the Federal Republic was certainly prepared to pay more. It was equally clear that Italy, Ireland and France were not at present prepared to pay more. Luxembourg did not count. Belgium, the Netherlands and Denmark were all in surplus. But even if they were prepared to pay, that would not be enough. A way had to be found to bring intelligent people together to find ways of tackling the problem. It could not be left to the last moment

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because Heads of Government did not understand all the intricacies. The Prime Minister said that the problem was a political one and recalled the language approved by Community Ministers in 1970, during Britain's accession negotiations, about the need to take action to avoid unacceptable situations arising. Chancellor Schmidt said that he recognised that Britain had a legitimate case. Unfortunately to state this was not sufficient. A way of solving the problem also had to be found. The problem should be tackled in slices. Agreement should be sought on the need to decrease the outlay on agricultural products. It would be difficult for President Giscard to reject this since it would not hit France specifically. Other problems could be dealt with later. The regional and structural funds should not be touched but changes in the operation of FEOGA were badly needed. Eight of the Agriculture Ministers would no doubt threaten to resign but the Finance Ministers would be sympathetic and President Giscard would understand. (Chancellor Schmidt suggested that the Prime Minister should remind President Giscard that Communist firms in France sold butter out of intervention to the Soviet Union and used the profits to finance the French Communist Party.)

Chancellor Schmidt said that it was essential that the meeting in Dublin should be carefully prepared. If the various locomotives now in motion ran on down the rails without action being taken, there could only be a collision with unforeseeable consequences. The meetings of Finance Ministers and Foreign Ministers in mid-November would be important. Perhaps there could be a private meeting of Foreign Ministers in the evening. The Foreign and Commonwealth Secretary said there would have to be a technical in-put because the Foreign Ministers would not be familiar with the detail. Chancellor Schmidt agreed that the technical problems were formidable. He instanced the problem of how the net transfers would be divided up assuming the scale of relief for Britain had been agreed. Germany could not accept payment on a GNP basis because she would then end up paying more than would be indicated by the one per cent VAT contribution. This would be totally unacceptable. If the budget had to be decreased, there would be a quarrel as to where and how the reduction should take place. Unless the Commission produced a paper with sensible

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options and unless the Foreign Ministers (not the Ministers of Agriculture) had discussed the paper, the Community would find itself in considerable trouble. Mr. Lynch was unlikely to prove a sufficiently strong President to be able to pull things together in Dublin.

The Prime Minister pointed out that she had been willing to take a decision to accept an extra flight of GLCMs without hesitation and without bargaining. She had been prepared to contribute to the achievement of the targets laid down at the Tokyo Summit (with the establishment of which she had disagreed) without haggling. But when it came to meeting Britain's grievances no one was willing to help. She felt deeply resentful that Britain's grievances were not being dealt with. Chancellor Schmidt pointed out that the decision on the GLCMs and on oil were unilateral decisions. A decision to solve Britain's budgetary problem would have to be a multilateral decision. The Prime Minister said that her unilateral decision in this area appeared to be to contribute £1,000 million per year to the Community budget. The Foreign and Commonwealth Secretary said that the problem was to persuade our friends in the Community that there was a problem and that action had to be taken. Chancellor Schmidt said that if Britain failed to persuade her friends she would have to leave the Community. In order to persuade them, it would be necessary to offer them a means of maintaining face vis-a-vis their own electorates. (The other Heads of Government could not simply pay over several hundred MUAs and then return with equanimity to face their respective Parliaments. The Federal Republic might be the only member of the Community who could get away with an offer of as much as two or three hundred MUA per year. Compared with President Giscard, who had to deal with M. Chirac as Leader both of the Guallist Opposition and of the agriculture lobby, the situation of the German Government was relatively easy. Their opponents tended to say

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that the Government was not doing enough for the Community. But even within his own Cabinet there would be trouble with Herr Ertl if the agriculture budget was cut, and with the rest of the Cabinet if cuts were made elsewhere. The position in some of the smaller member countries would be even less favourable. In Denmark, where Mr. Jørgensen had just been returned with a reduced majority, it would be very difficult indeed for him to agree to transfer 100 MUA to Britain.

The Foreign and Commonwealth Secretary asked what steps Britain should take to help the other members to reach the right kind of decision. Chancellor Schmidt said that a solution of the fisheries problem might be helpful with the French and the Danes. Energy was the greatest unsolved problem facing the Community. The UK, the Netherlands and Germany had some resources. The other members had nothing, and were getting no help from the Community. France, it was true, had a very large nuclear programme, and by the late 1980s would have substituted nuclear power for something like 70 per cent of its present oil requirements. But they would be awkwardly placed in the interim. Germany would rely on coal and on oil derived from coal. The cost of such oil would be three times the cost of oil today in real terms. The Germans' position would probably be manageable eventually. But as with France, there would be a difficult interim period. Italy, Denmark and Ireland had no energy resources and no alternative programme in prospect.

said

The Prime Minister/that Britain had already made a concession on energy. As regards fish, the present difficulties had arisen because Britain had conserved her resources, and the French had not. France's waters had been fished out. Britain had done the right thing where others had failed to do so. Chancellor Schmidt said that the British Government should not think they were doing the right thing and others were not. This was not true. Britain had joined a club

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with fixed rules. She had discovered that the rules were unbearably unjust. But in order to change them, the consent of the other members would be necessary. It would be necessary to campaign with them to convince them of the need for change. They knew that Britain had a case and that they ought to give something up. But Britain would have to give up something as well. If they were given a pretext for saying no or for delaying and confusing the issue, they might well decide that it suited them to take this way out. They would have to be persuaded to subscribe to an undertaking in Dublin. If Britain's attitude were to be one of "take-it-or-leave-it", the other members might well say leave it. This was a real and serious danger. The Prime Minister said that the attitude of the other members, as described by Chancellor Schmidt, mirrored the attitude of her electorate. She herself had always been strongly pro-European, and did not wish to be faced with the prospect of having to tell the anti-Europeans that they had been right.

The Chancellor said that part of the problem was that the judges were party to the dispute. Even a good case needed a good lawyer. For the other eight members to help Britain out, they would have to accept that they would suffer financially. The Foreign and Commonwealth Secretary said that it would be a terrible thing for the Community to break up. But if Chancellor Schmidt was correct in suggesting that President Giscard did not accept that Britain had a case, the Eight would have some very difficult decisions to take. Was it possible that they wanted Britain to wreck the Community? Chancellor Schmidt said that the other members of the Community had long since ceased to believe the previous British Government. They had got fed up with hearing from No. 10 that the situation was intolerable. So far, most of them had only got as far as accepting that Britain wanted yet another renegotiation, they were disinclined to agree. The Foreign and Commonwealth Secretary said that the present British Government had spent

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its first five months in office trying to remove misunderstandings inherited from their predecessors. However, the lack of a fair deal on the budget was a serious obstacle. The Prime Minister said that Mr. Callaghan had set out Britain's budgetary problem plainly in his speech at the Lord Mayor's Banquet twelve months previously. The situation was worse now than it had been then. Chancellor Schmidt repeated that he agreed that Britain had a legitimate grievance. He agreed that a solution had to be found. But the presentation of that solution in the other member countries would be a matter of the greatest importance. It would be difficult for all the members, notably for the Italians and the Danes. Foreign Ministers would have to meet informally to try to find relevant procedures and principles. If the principles could be agreed in Dublin, the difficulties would be on the way to a solution. If the principles were not agreed, the break-down of the Community could follow within a year.

The Prime Minister said that her Government would probably face considerable criticism following the publication of the Public Expenditure Paper the following day. There was an increasing likelihood that the Government would be faced on the issue of the Community budget with increasingly strong anti-Community feeling. Chancellor Schmidt said that nonetheless it was necessary for Britain to do more than simply ask for a solution to be found. If everyone was to ask for their money back, the Community would be bankrupt within a very short time. In the search for a solution, much would depend on the way the President of the Commission presented the problem. One difficulty was that Mr. Jenkins was English. Nonetheless his standing and reputation were good. He would have to produce the options. The British Government would have to be clear before Dublin which options it preferred. It would be essential for Britain's representatives to be concrete. The German Government would consider before going to Dublin what concessions it could make. They would adopt a middle of the road position, but would not be willing to act as mediators.

/The Prime Minister

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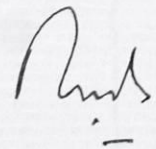
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The Prime Minister stressed that she was not prepared to seek a solution which involved a larger budget. Expenditure on the CAP would have to be reduced. Chancellor Schmidt urged the Prime Minister to have this worked out in concrete terms. Without cutting into the CAP, the problem would not be soluble. The Prime Minister said that one way of reducing the expenditure on surpluses would be to de-budgetise a substantial part of the CAP and to fund it nationally.

Chancellor Schmidt said "the man on the moon", looking at the problem, would say it was difficult but not impossible to solve. If it were to be solved, there would have to be contacts before Dublin. The number of options on the table would have to be limited and clear. It was no use expecting Mr. Lynch to do much more than call the speakers in order. There was a risk that the performance of the Presidency would be as weak as that of the Japanese in Tokyo. The Prime Minister said that in the end the problem came down to finding the money. She was afraid that those who were getting it at present would want to go on getting it. She would be looking closely at the legal position in regard to withholding contributions. Chancellor Schmidt said that he hoped the Prime Minister would also look closely at all the various mechanisms which might be used to assist in resolving the issue. Commissioner Gundelach might turn out to be an essential participant in any discussion, Even if there were no problem with net transfers, the CAP might explode under the pressure of existing problems.

The discussion ended at 1700 hours.



1 November 1979

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