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Part A.

CONFIDENTIAL
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Begins: 25/5/82.
Ends: 28/10/82.



PO -CH /GH/0070



PART A

Chancellor's (Howe) Papers:

**ANGLO GERMAN SUMMIT
OCTOBER 1982**

Disposal Directions: 25 Years

[Signature]
25/7/95

PART A

The Secretary-General

Brussels, 25 May 1982

OUTCOME OF THE INFORMAL MEETING OF

MINISTERS FOR FOREIGN AFFAIRES

ON 24 - 25 MAY 1982

25 MAY 1982

NB. Ref. having not spell-out in

this version. See 26 October version for

finality (Brussels lets 3980 and 3981, 27 Oct)

lhm

Ministers reached the following agreement on the question of compensation for the United Kingdom for 1982 :

1. On the basis of the Commission's estimate (*) compensation for the United Kingdom for 1982 is fixed at 850 mio ecus (net).
2. Corrections to be made for 1980 and 1981 in the light of the actual figures will be taken into account when negotiating the subsequent solution.
3. At that time adjustments to be made in the event of the 1982 base referred to in point 1 proving to be lower than the actual figure will be made in accordance with the proposals submitted by the Commission on 16 May 1982.

At the same time adjustments to be made in the event of the base referred to in point 1 proving to be higher than the actual figure will have to be calculated accordingly.

4. The budgetary effect of the present agreement on compensation to the United Kingdom for 1982 on the Community budget for 1983 will be limited to the amount corresponding to the net compensation mentioned in 1. Possible corrections will figure in the budget for 1984.

(*) 1530 mio ecus

.../...

5. Ministers confirm the conclusion provisionally reached by them on 14 and 15 January 1982, reading as follows :

"Compensatory payments are to be incorporated in the budget. The measures adopted will respect the principles of solidarity, which the Community intends to apply with regard to its least prosperous members, and will take appropriate account of the problem of the Federal Republic of Germany's contribution. (Compensation to the United Kingdom must have only a minor effect on the burden to be borne by Germany.)" (*)

6. Ministers undertake to take a decision before the end of November 1982 on a solution for 1983 and later.

7. Ministers invited the Commission to submit proposals for the implementation of this agreement with a view to adopting the necessary formal texts at the session of the Council (General Affaires) on 21/22 June 1982.

A number of Ministers made unilateral statements. Delegations are invited to submit to the Secretariat the texts of statements which are to be included in the record of the meeting.

(*) Ministers - while agreeing on the principles contained in this text - noted that the present drafting was not acceptable to all delegations. With regard to the Federal Republic of Germany's contribution Ministers agreed that for the 1982 solution the Federal Republic would only bear a burden equal to 50 % of its normal budgetary contribution to the compensation to the United Kingdom.

FCO

PS/MR HURD
SIR J BULLARD
~~MR G STAPLETON~~
MR HANNAY

EVANS

RESIDENT CLERK
HD/ECD(I) (3)
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HD/ERD
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HD/

PLUS FCO

1/1/84 (100/10)

<p><u>CABINET OFFICE</u> <i>15/10/82 K. Stansbury</i> MR D HANCOCK MR G STAPLETON MR G STAPLETON <i>Mr J N Pearson</i> MR DRC DURIE</p>	<p><u>D O T</u></p>	<p><u>PLUS OGDS</u> MR P KENT, H M CUSTOM AND EXCISE</p>
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<p>H M TREASURY <i>15/10/82 Chancellor</i> SIR K COUZENS MISS J E COURT MR J G LITTLER MR EDWARDS <i>15/10/82 J. G. Little</i></p>	<p>M A F F SIR B HAYES</p>
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1982 REFUNDS
28 MAY / 27 OCT

RESTRICTED
FRAME ECONOMIC
DESKBY 271130Z
FM UKREP BRUSSELS 271016Z OCT 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 3980 OF 27 OCT
INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
DOWN LUXEMBOURG ATHENS

FOREIGN AFFAIRS COUNCIL : 26 OCTOBER 1982
1982 REFUNDS
FOLLOWING IS THE TEXT OF THE COUNCIL CONCLUSIONS AS AGREED, SUBJECT
TO FRANCE'S GENERAL RESERVE.

CONCLUSIONS OF THE FOREIGN AFFAIRS MINISTERS ON COMPENSATION TO
THE UNITED KINGDOM FOR 1982 (1)

- ON THE BASIS OF THE COMMISSION'S ESTIMATE (+), COMPENSATION FOR
THE UNITED KINGDOM FOR 1982 IS FIXED AT 850 MILLION ECU (NET).
- CORRECTIONS TO BE MADE FOR 1980 AND 1981 IN THE LIGHT OF THE
ACTUAL FIGURES, WILL BE TAKEN INTO ACCOUNT WHEN NEGOTIATING THE
SUBSEQUENT SOLUTION.
- AT THAT TIME, ADJUSTMENTS WILL BE MADE IN THE EVENT THAT THE
ACTUAL FIGURE PROVES TO BE HIGHER OR LOWER THAN THE 1982 BASE
REFERRED TO IN PARAGRAPH 1.

IF THE ACTUAL FIGURE IS HIGHER THAN 1530 MILLION ECU BUT LOWER
THAN 1580 MILLION ECU, THE NET COMPENSATION TO THE UNITED KINGDOM IS
UNCHANGED. IF THE ACTUAL FIGURE IS HIGHER THAN 1580 MILLION ECU BUT
LOWER THAN 1730 MILLION ECU THE NET COMPENSATION IS INCREASED BY 50
PER CENT OF THE DIFFERENCE BETWEEN THE ACTUAL FIGURE AND 1580 MILLION
ECU. IF THE ACTUAL FIGURE IS HIGHER THAN 1730 MILLION ECU, THE NET
COMPENSATION IS INCREASED BY 75 MILLION ECU PLUS 75 PER CENT OF THE
DIFFERENCE BETWEEN THE ACTUAL FIGURE AND 1730 MILLION ECU.

IF THE ACTUAL FIGURE IS LOWER THAN 1530 MILLION ECU, BUT HIGHER

THAN 1480 MILLION ECU, THE NET COMPENSATION TO THE UNITED KINGDOM IS UNCHANGED. IF THE ACTUAL FIGURE IS LOWER THAN 1480 MILLION ECU, THE NET COMPENSATION TO THE UNITED KINGDOM IS REDUCED BY AN AMOUNT EQUAL TO 75 PER CENT OF THE DIFFERENCE BETWEEN THE ACTUAL FIGURE AND 1480 MILLION ECU.

4. THE BUDGETARY EFFECT OF THE PRESENT AGREEMENT ON COMPENSATION TO THE UNITED KINGDOM FOR 1982 ON THE COMMUNITY BUDGET FOR 1982 WILL BE LIMITED TO THE AMOUNT CORRESPONDING TO THE NET COMPENSATION MENTIONED IN PARAGRAPH 1.

5. COMPENSATION TO THE UNITED KINGDOM WILL AMOUNT TO 1092 MILLION ECU (GROSS)(++). IT WILL TAKE THE FORM OF ADDITIONAL MEASURES WITHIN THE MEANING OF REGULATION NO 2744/80 WHICH WILL BE EXTENDED AND ADAPTED ACCORDINGLY. APPROPRIATIONS TO THIS END WILL BE ENTERED IN THE COMMUNITY BUDGET FOR 1982. THE TOTAL AMOUNT WILL BE ADVANCED TO THE UNITED KINGDOM BEFORE THE END OF DECEMBER 1982. SURPLUSES WHICH EXIST FROM THE 1981 AND 1982 BUDGET YEARS WILL SERVE TO FINANCE THIS COMPENSATION.

IF THE FINANCIAL MECHANISM YIELDS ANY PAYMENT TO THE UNITED KINGDOM FOR 1982, THE AMOUNT OF SUCH PAYMENT WILL BE DEDUCTED FROM PAYMENTS TO THE UNITED KINGDOM UNDER THE ADDITIONAL MEASURES.

6. COMMUNITY RESOURCES WILL BE ALLOCATED TO PROJECTS OR MEASURES OF COMMUNITY INTEREST IN GERMANY, TO TAKE ACCOUNT OF THE NEED TO IMPROVE THE BUDGETARY IMPACT OF COMMON POLICIES IN THAT COUNTRY. THESE COMMUNITY RESOURCES WILL AMOUNT TO 148 MILLION ECU (NET) OR 210 MILLION ECU (GROSS)(++). THE PROJECTS AND MEASURES WILL BE CARRIED OUT IN 1983. THE PAYMENTS WILL BE MADE NO LATER THAN 1983. THE RESOURCES NEEDED FOR THIS WILL BE ENTERED IN THE 1982 BUDGET. SURPLUSES WHICH EXIST FROM THE 1981 AND 1982 BUDGET YEARS WILL SERVE TO FINANCE THESE PROJECTS AND MEASURES. PAYMENTS WILL BE MADE ON THE BASIS OF A REGULATION BASED ON ARTICLE 235 TO BE PROPOSED BY THE COMMISSION. THE TOTAL AMOUNT WILL BE COMMITTED BEFORE THE END OF DECEMBER 1982. ADVANCE PAYMENTS IN 1982 ARE POSSIBLE

7. THE MINISTERS UNDERTAKE TO TAKE A DECISION BEFORE THE END OF NOVEMBER 1982 ON THE SUBSEQUENT SOLUTION.

(1) RESERVATION BY THE FRENCH DELEGATION

(+) 1530 MILLION ECU

(++)THE ADJUSTMENT OF THE GROSS FIGURES IN PARAGRAPH 5 TO TAKE ACCOUNT OF THE POSSIBLE CORRECTIONS FORESEEN IN PARAGRAPH 3 AS WELL AS THE ADJUSTMENT OF THE GROSS FIGURE IN PARAGRAPH 6, ACCORDING TO THE COMMITMENT TAKEN BY MINISTERS ON 25 MAY 1982 IN FAVOUR OF GERMANY, WILL BE ENTERED IN THE BUDGET FOR 1983.

THE GROSS AMOUNTS HAVE BEEN CALCULATED ON THE BASIS OF THE VAT SHARES CONTAINED IN THE BUDGET OF THE RELEVANT BUDGETARY YEAR. THEY WILL BE ADJUSTED SO AS TO REFLECT THE ACTUAL VAT FIGURES OF THE YEARS IN QUESTION.

FCO ADVANCE TO :

FCO - PS/SOS EVANS HANNAY SPRECKLEY FRY
CAB - PS/ARMSTRONG HANCOCK DURIE
TSY - PS/CHANCELLOR COUZENS HEDLEY-MILLER EDWARDS

DUTLER

NET CONTRIBUTIONS TO THE ALLOCATED BUDGET

million ecus

	1979	1980		1981		1982*	
		Before	After	Before	After	Before	After
		UK Refunds		UK Refunds		UK Refunds	
<u>Germany</u>	-1430	-1526	-1957	-1750	-2251	-1850	-2060
(As envisaged in 30 May Agreement)	..	(-1192)	(-1623)	(-1360)	(-1836)
<u>United Kingdom</u>	- 849	-1512	- 337	-1422	- 12	-1846	- 834
(As envisaged in 30 May Agreement)	..	(-1784)	(- 609)	(-2140)	(- 730)

Source : Commission (except 1982 estimates).

* Estimates based on a German net contribution of 1850 mecu (before refunds) a UK net contribution (before refunds) of 1800 mecu (increased to 1846 mecu after allowing for the UK's contribution to German refunds).

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FRAME GENERAL

FM UKREP BRUSSELS 300958Z MAY 80

TO FLASH FCO

TELEGRAM NUMBER 2654 OF 30 MAY

INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN,
PARIS, BONN, LUXEMBOURG.

FOREIGN AFFAIRS COUNCIL, 29-30 MAY.

CONVERGENCE/BUDGETARY QUESTIONS.

MIPT: FOLLOWING IS TEXT OF CONCLUSIONS.

1. THE NET UNITED KINGDOM CONTRIBUTION FOR 1980 WILL BE CALCULATED ON THE BASIS OF THE PRESENT COMMISSION ESTIMATE (1,784 MEUA). 1,175 MEUA WILL BE DEDUCTED FROM THIS FIGURE. THIS LEAVES A UNITED KINGDOM CONTRIBUTION OF 609 MEUA FOR 1980.
2. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 WILL BE CALCULATED ON THE BASIS OF THE COMMISSION ESTIMATE OF 2,140 MEUA. THE UNITED KINGDOM'S 1980 NET CONTRIBUTION WILL BE INCREASED BY A PERCENTAGE EQUAL TO THE DIFFERENCE BETWEEN 1,784 AND 2,140 MEUA, NAMELY 19.9 PER CENT OR 121 MEUA. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 THEREFORE BECOMES 730 MEUA.
3. THE UNITED KINGDOM CONTRIBUTION, BASED ON THE ABOVE CALCULATIONS, IS REDUCED FOR 1980 AND 1981 BY 2,585 MEUA (1,175 PLUS 1,410).
4. IF THE UNITED KINGDOM'S ACTUAL CONTRIBUTIONS FOR 1980 AND 1981 ARE HIGHER THAN 1,784 AND 2,140 MEUA RESPECTIVELY THE DIFFERENCE WILL BE SPLIT - FOR THE FIRST YEAR 25 PER CENT WILL BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHER 8 MEMBER STATES. FOR THE SECOND YEAR - INCREASE FROM 730 TO 750 TO BE BORNE IN FULL BY THE UNITED KINGDOM; FROM 750 TO 850, 50 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 50 PER CENT BY THE OTHER 8 MEMBER STATES; ABOVE 850, 25 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHERS.
5. PAYMENTS OVER THE PERIOD 1980-82 SHOULD BE MADE BY MEANS OF THE ADAPTED FINANCIAL MECHANISM AND THE SUPPLEMENTARY MEASURES PROPOSED BY THE COMMISSION. THE FINANCIAL MECHANISM WILL CONTINUE TO FUNCTION AUTOMATICALLY UNTIL THE END OF 1982.
6. THE CREDITS ARE INSCRIBED IN THE BUDGET OF THE FOLLOWING YEAR, FOLLOWING THE PRECEDENT OF THE FINANCIAL MECHANISM. AT THE REQUEST OF THE UNITED KINGDOM THE COUNCIL CAN DECIDE EACH YEAR ON A PROPOSAL BY THE COMMISSION TO MAKE ADVANCES TO PERMIT THE ACCELERATED IMPLEMENTATION OF THE SUPPLEMENTARY MEASURES.

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7. FOR 1982, THE COMMUNITY IS PLEDGED TO RESOLVE THE PROBLEM BY MEANS OF STRUCTURAL CHANGES (COMMISSION MANDATE TO BE FULFILLED BY THE END OF JUNE 1981. THE EXAMINATION SHOULD CONCERN THE DEVELOPMENT OF COMMUNITY POLICIES, WITHOUT CALLING INTO QUESTION THE COMMON FINANCIAL RESPONSIBILITY FOR THESE POLICIES, WHICH ARE FINANCED FROM THE COMMUNITY'S OWN RESOURCES, NOR THE BASIC PRINCIPLES OF THE COMMON AGRICULTURAL POLICY. TAKING ACCOUNT OF THE SITUATIONS AND INTERESTS OF ALL MEMBER STATES, THIS EXAMINATION WILL AIM TO PREVENT THE RECURRENCE OF UNACCEPTABLE SITUATIONS FOR ANY OF THEM). IF THIS IS NOT ACHIEVED, THE COMMISSION WILL MAKE PROPOSALS ALONG THE LINES OF THE 1980-81 SOLUTION AND THE COUNCIL WILL ACT ACCORDINGLY.

8. THE COUNCIL REAFFIRMS THE CONCLUSIONS ADOPTED BY IT (IN ITS COMPOSITION OF MINISTERS OF ECONOMIC AFFAIRS AND FINANCE) ON 11 FEBRUARY 1980 ((CF ANNEX TO DOC. 5081/80 PV/CONS 5 ECO/FIN 9)), WHICH INCLUDED REFERENCE TO THE 1 PER CENT VAT OWN RESOURCES CEILING.

9. IT IS IMPORTANT FOR THE FUTURE WELL BEING OF THE COMMUNITY THAT DAY TO DAY DECISIONS AND POLICY MAKING SHOULD FUNCTION EFFECTIVELY AND THIS PARTICULARLY DURING THE PERIOD WHEN THE REVIEW FORESEEN IN PARAGRAPH 7 IS UNDER WAY. WITH THIS OBJECTIVE IN MIND ALL MEMBER STATES UNDERTAKE TO DO THEIR BEST TO ENSURE THAT COMMUNITY DECISIONS ARE TAKEN EXPEDITIOUSLY AND IN PARTICULAR THAT DECISIONS ON AGRICULTURAL PRICE FIXING ARE TAKEN IN TIME FOR THE NEXT MARKETING SEASON.

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THOMSON, MISS WRIGHT (+7 COPIES)
NO 10 ALEXANDER

BUTLER. [ADVANCED AS REQUESTED]

FRAME GENERAL
ECD(I)

UNCLASSIFIED
 FM UNDEL VERSAILLES 051810Z JUNE
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 11 OF 6 JUNE
 INFO IMMEDIATE BONN (FOR PS/MINISTER OF TRADE).

SECOND TERM SECRET OF
 OVERSEAS FINANCE SECT

ACTION	COPIES TO
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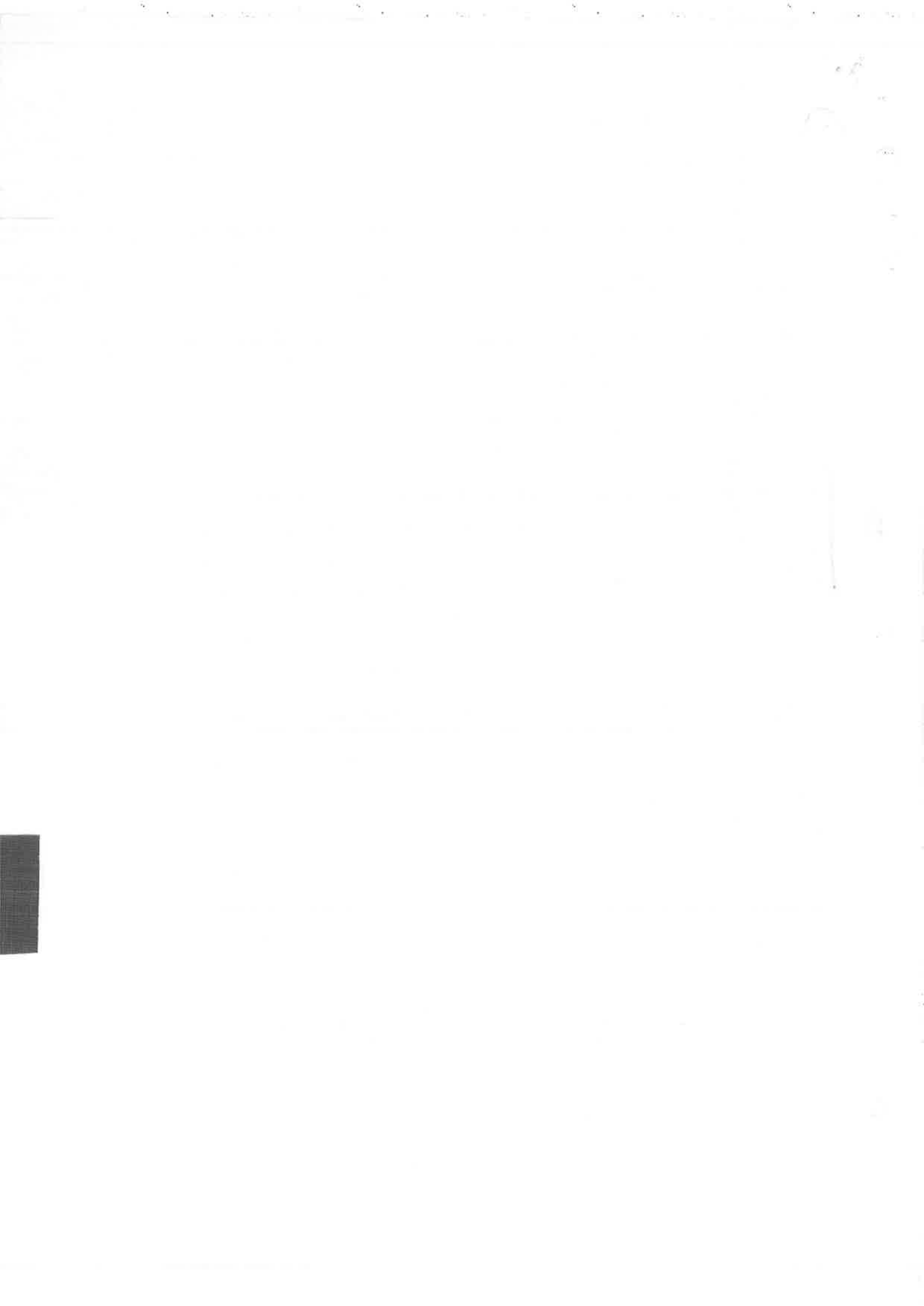
VERSAILLES ECONOMIC SUMMIT.
 1. FOLLOWING IS TEXT OF SUMMIT DECLARATION
 BEGINS:

DECLARATION OF THE SEVEN HEADS OF STATE AND GOVERNMENT AND REPRESENTATIVES OF THE EUROPEAN COMMUNITIES.
 IN THE COURSE OF OUR MEETING AT VERSAILLES WE HAVE DEEPEINED OUR MUTUAL UNDERSTANDING OF THE GRAVITY OF THE WORLD ECONOMIC SITUATION, AND WE HAVE AGREED ON A NUMBER OF OBJECTIVES FOR URGENT ACTION WITH A VIEW TO IMPROVING IT.

WE AFFIRM THAT THE IMPROVEMENT OF THE PRESENT SITUATION, BY A FURTHER REDUCTION OF INFLATION AND BY A RETURN TO STEADY GROWTH AND HIGHER LEVELS OF EMPLOYMENT, WILL STRENGTHEN OUR JOINT CAPACITY TO SAFEGUARD OUR SECURITY TO MAINTAIN CONFIDENCE IN THE DEMOCRATIC VALUES THAT WE SHARE, AND TO PRESERVE THE CULTURAL HERITAGE OF OUR PEOPLES IN ALL THEIR DIVERSITY. FULL EMPLOYMENT PRICE STABILITY AND BALANCED GROWTH ARE AMBITIOUS OBJECTIVES. THEY ARE ATTAINABLE IN THE COMING YEARS ONLY IF WE PURSUE POLICIES WHICH ENCOURAGE PRODUCTIVE INVESTMENT AND TECHNOLOGICAL PROGRESS. IF, IN ADDITION TO OUR OWN INDIVIDUAL EFFORTS, WE ARE WILLING TO JOIN FORCES, IF EACH COUNTRY IS SENSITIVE TO THE EFFECTS OF ITS POLICIES ON OTHERS AND IF WE COLLABORATE IN PROMOTING WORLD DEVELOPMENT.

- IN THE SPIRIT WE HAVE DECIDED TO IMPLEMENT THE FOLLOWING LINES OF ACTION:
- GROWTH AND EMPLOYMENT MUST BE INCREASED. THIS WILL BE ATTAINED ON A DURABLE BASIS ONLY IF WE ARE SUCCESSFUL IN OUR CONTINUING FIGHT AGAINST INFLATION. THAT WILL ALSO HELP TO BRING DOWN INTEREST RATES, WHICH ARE NOW UNACCEPTABLY HIGH, AND TO BRING ABOUT MORE STABLE EXCHANGE RATES. IN ORDER TO ACHIEVE THIS ESSENTIAL REDUCTION OF REAL MONETARY POLICIES AND ACHIEVE GREATER CONTROL OF BUDGETARY DEFICITS IT IS ESSENTIAL TO INTENSIFY OUR ECONOMIC AND MONETARY COOPERATION." IN THIS REGARD WE WILL WORK TOWARDS A CONSTRUCTIVE AND ORDERLY EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM BY A CLOSER COOPERATION AMONG THE AUTHORITIES REPRESENTING THE CURRENCIES OF NORTH AMERICA, JAPAN AND OF THE EUROPEAN COMMUNITY IN PURSUING MEDIUM-TERM ECONOMIC AND MONETARY OBJECTIVES. IN THIS RESPECT WE HAVE COMMITTED OURSELVES TO THE UNDERTAKINGS CONTAINED IN THE ATTACHED STATEMENT.
 - THE GROWTH OF WORLD TRADE IN ALL ITS FACETS IS BOTH A NECESSARY ELEMENT FOR THE GROWTH OF EACH COUNTRY AND A CONSEQUENCE OF THAT GROWTH. WE REAFFIRM OUR COMMITMENT TO STRENGTHENING THE OPEN MULTILATERAL TRADING SYSTEM AS EMBODIED IN THE GATT AND TO MAINTAINING ITS EFFECTIVE OPERATION. IN ORDER TO PROMOTE STABILITY AND EMPLOYMENT THROUGH TRADE AND GROWTH, WE WILL RESIST PROTECTIONIST PRESSURES AND TRADE-DISTORTING PRACTICES. WE ARE RESOLVED TO COMPLETE THE WORK OF THE TOKYO ROUND AND TO IMPROVE THE CAPACITY OF THE GATT TO SOLVE CURRENT AND FUTURE TRADE PROBLEMS. WE WILL ALSO WORK TOWARDS THE FURTHER OPENING OF OUR MARKETS. WE WILL COOPERATE WITH THE DEVELOPING COUNTRIES TO STRENGTHEN AND IMPROVE THE MULTILATERAL SYSTEM AND TO EXPAND TRADING OPPORTUNITIES IN PARTICULAR WITH THE NEWLY INDUSTRIALIZED COUNTRIES. WE SHALL PARTICIPATE FULLY IN THE FORTHCOMING GATT MINISTERIAL CONFERENCE IN ORDER TO TAKE CONCRETE STEPS TOWARDS THESE ENDS. WE SHALL WORK FOR EARLY AGREEMENT ON THE RENEWAL OF THE OECD EXPORT CREDIT CONSENSUS.
 - WE AGREE TO PURSUE A PRUDENT AND DIVERSIFIED ECONOMIC APPROACH TO THE USSR AND EASTERN EUROPE, CONSISTENT WITH OUR POLITICAL AND SECURITY INTERESTS. THIS INCLUDES ACTIONS IN THREE KEY AREAS. FIRST FOLLOWING INTERNATIONAL DISCUSSIONS IN JANUARY OUR REPRESENTATIVES WILL WORK TOGETHER TO IMPROVE THE INTERNATIONAL SYSTEM FOR CONTROLLING EXPORTS OF STRATEGIC GOODS TO THESE COUNTRIES AND NATIONAL ARRANGEMENTS FOR THE ENFORCEMENT OF SECURITY CONTROLS. SECOND WE WILL EXCHANGE INFORMATION IN THE OECD ON ALL ASPECTS OF OUR ECONOMIC, COMMERCIAL AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE. THIRD, TAKING INTO ACCOUNT EXISTING ECONOMIC AND FINANCIAL CONSIDERATIONS WE HAVE AGREED TO HANDLE CAUTIOUSLY FINANCIAL RELATIONS WITH THE USSR AND OTHER EASTERN EUROPEAN COUNTRIES, IN SUCH A WAY AS TO ENSURE THAT THEY ARE CONDUCTED ON A SOUND ECONOMIC BASIS, INCLUDING ALSO THE NEED FOR COMMERCIAL PRUDENCE IN LIMITING EXPORT CREDITS. THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WILL BE SUBJECT TO PERIODIC EX-POST REVIEW.

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THE PROGRESS WE HAVE ALREADY MADE DOES NOT DIMINISH THE NEED FOR CONTINUING EFFORTS TO ECONOMISE ON ENERGY, PARTICULARLY THROUGH THE PRICE MECHANISM, AND TO PROMOTE ALTERNATIVE SOURCES INCLUDING NUCLEAR ENERGY AND COAL, IN A LONG-TERM PERSPECTIVE. THESE EFFORTS WILL ENABLE US FURTHER TO REDUCE OUR VULNERABILITY TO INTERRUPTIONS IN THE SUPPLY OF ENERGY AND INSTABILITY OF PRICES. COOPERATION TO DEVELOP NEW ENERGY TECHNOLOGIES AND TO STRENGTHEN OUR CAPACITY TO DEAL WITH DISRUPTIONS CAN CONTRIBUTE TO OUR COMMON ENERGY SECURITY. WE SHALL ALSO WORK TO STRENGTHEN OUR COOPERATION WITH BOTH OIL-EXPORTING AND OIL-IMPORTING DEVELOPING COUNTRIES.

- THE GROWTH OF THE DEVELOPING COUNTRIES AND THE DEEPENING OF A CONSTRUCTIVE RELATIONSHIP WITH THEM ARE VITAL FOR THE POLITICAL AND ECONOMIC WELL-BEING OF THE WHOLE WORLD. IT IS THEREFORE IMPORTANT THAT A HIGH LEVEL OF FINANCIAL FLOWS AND OFFICIAL ASSISTANCE SHOULD BE MAINTAINED AND THAT THEIR AMOUNT AND THEIR EFFECTIVENESS SHOULD BE INCREASED AS FAR AS POSSIBLE WITH RESPONSIBILITIES SHARED BROADLY AMONG ALL COUNTRIES CAPABLE OF MAKING A CONTRIBUTION. THE LAUNCHING OF GLOBAL NEGOTIATIONS IS A MAJOR POLITICAL OBJECTIVE APPROVED BY ALL PARTICIPANTS IN THE SUMMIT. THE LATEST DRAFT RESOLUTION CIRCULATED BY THE GROUP OF THE 77 IS HELPFUL AND THE DISCUSSION AT VERSAILLES SHOWED GENERAL ACCEPTANCE OF THE VIEW THAT IT WOULD SERVE AS A BASIS FOR CONSULTATIONS WITH THE COUNTRIES CONCERNED. WE BELIEVE THAT THERE IS NOW A GOOD PROSPECT FOR THE EARLY LAUNCHING AND SUCCESS OF THE GLOBAL NEGOTIATIONS, PROVIDED THAT THE INDEPENDENCE OF THE SPECIALISED AGENCIES IS GUARANTEED. AT THE SAME TIME WE ARE PREPARED TO CONTINUE AND DEVELOP PRACTICAL COOPERATION WITH THE DEVELOPING COUNTRIES THROUGH INNOVATIONS WITHIN THE WORLD BANK, THROUGH PROGRESS IN COUNTERING INSTABILITY OF COMMODITY EXPORT EARNINGS, THROUGH THE ENCOURAGEMENT OF PRIVATE CAPITAL FLOWS, INCLUDING INTERNATIONAL ARRANGEMENTS TO IMPROVE THE CONDITIONS FOR PRIVATE INVESTMENT, AND THOUGH A FURTHER CONCENTRATION OF OFFICIAL ASSISTANCE ON THE POORER COUNTRIES. THIS IS WHY WE SEE A NEED FOR SPECIAL TEMPORARY ARRANGEMENTS TO OVERCOME FUNDING PROBLEMS FOR IDA VI, AND FOR AN EARLY START TO CONSIDERATION OF IDA VII. WE WILL GIVE SPECIAL ENCOURAGEMENT TO PROGRAMMES OR ARRANGEMENTS DESIGNED TO INCREASE FOOD AND ENERGY PRODUCTION IN DEVELOPING COUNTRIES WHICH HAVE TO IMPORT THESE ESSENTIALS, AND TO PROGRAMMES TO ADDRESS THE IMPLICATIONS OF POPULATION GROWTH.

IN THE FIELD OF BALANCE OF PAYMENTS SUPPORT, WE LOOK FORWARD TO PROGRESS AT THE SEPTEMBER IMF ANNUAL MEETING TOWARDS SETTLING THE INCREASE IN THE SIZE OF THE FUND APPROPRIATE TO THE COMING EIGHTH QUOTA REVIEW.

- REVITALIZATION AND GROWTH OF THE WORLD ECONOMY WILL DEPEND NOT ONLY ON OUR OWN EFFORT BUT ALSO TO A LARGE EXTENT UPON COOPERATION AMONG OUR COUNTRIES AND WITH OTHER COUNTRIES IN THE EXPLOITATION OF SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT. WE HAVE TO EXPLOIT THE IMMENSE OPPORTUNITIES PRESENTED BY THE NEW TECHNOLOGIES, PARTICULARLY FOR CREATING NEW EMPLOYMENT. WE NEED TO REMOVE BARRIERS TO, AND TO PROMOTE, THE DEVELOPMENT OF AND TRADE IN NEW TECHNOLOGIES BOTH IN THE PUBLIC SECTOR AND IN THE PRIVATE SECTOR. OUR COUNTRIES WILL NEED TO TRAIN MEN AND WOMEN IN THE NEW TECHNOLOGIES AND TO CREATE THE ECONOMIC, SOCIAL AND CULTURAL CONDITIONS WHICH ALLOW THESE TECHNOLOGIES TO DEVELOP AND FLOURISH. WE HAVE CONSIDERED THE REPORT PRESENTED TO US ON THESE ISSUES BY THE PRESIDENT OF THE FRENCH REPUBLIC. IN THIS CONTEXT WE HAVE DECIDED TO SET UP PROMPTLY A WORKING GROUP OF REPRESENTATIVES OF OUR GOVERNMENTS AND OF THE EUROPEAN COMMUNITY TO DEVELOP, IN CLOSE CONSULTATION WITH THE APPROPRIATE INTERNATIONAL INSTITUTIONS, ESPECIALLY THE OECD, PROPOSALS TO GIVE HELP TO ATTAIN THESE OBJECTIVES. THIS GROUP WILL BE ASKED TO SUBMIT ITS REPORT TO US BY 31 DECEMBER 1982. THE CONCLUSION OF THE REPORT AND THE RESULTING ACTION WILL BE CONSIDERED AT THE NEXT ECONOMIC SUMMIT TO BE HELD IN 1983 IN THE UNITED STATES OF AMERICA.

STATEMENT OF INTERNATIONAL MONETARY UNDERTAKINGS.

1. WE ACCEPT A JOINT RESPONSIBILITY TO WORK FOR GREATER STABILITY OF THE WORLD MONETARY SYSTEM. WE RECOGNISE THAT THIS RESTS PRIMARILY ON CONVERGENCE OF POLICIES DESIGNED TO ACHIEVE LOWER INFLATION, HIGHER EMPLOYMENT AND RENEWED ECONOMIC GROWTH, AND THUS TO MAINTAIN THE INTERNAL AND EXTERNAL VALUES OF OUR CURRENCIES. WE ARE DETERMINED TO DISCHARGE THIS OBLIGATION IN CLOSE COLLABORATION WITH ALL INTERESTED COUNTRIES AND MONETARY INSTITUTIONS.
 2. WE ATTACH MAJOR IMPORTANCE TO THE ROLE OF THE IMF AS A MONETARY AUTHORITY AND WE WILL GIVE IT OUR FULL SUPPORT IN ITS EFFORTS TO FOSTER STABILITY.
 3. WE ARE READY TO STRENGTHEN OUR COOPERATION WITH THE IMF IN ITS WORK OF SURVEILLANCE; AND TO DEVELOP THIS ON A MULTILATERAL BASIS TAKING INTO ACCOUNT PARTICULARLY THE CURRENCIES CONSTITUTING THE SDR.
 4. WE RULE OUT THE USE OF OUR EXCHANGE RATES TO GAIN UNFAIR COMPETITIVE ADVANTAGES.
 5. WE ARE READY IF NECESSARY TO USE INTERVENTION IN EXCHANGE MARKETS TO COUNTER DISORDERLY CONDITIONS AS PROVIDED FOR UNDER ARTICLE IV OF THE IMF ARTICLES OF AGREEMENT.
 6. THOSE OF US WHO ARE MEMBERS OF THE EMS CONSIDER THAT THESE UNDERTAKINGS ARE COMPLEMENTARY TO THE OBLIGATIONS OF STABILITY WHICH THEY HAVE ALREADY UNDERTAKEN IN THAT FRAMEWORK.
 7. WE ARE ALL CONVINCED THAT GREATER MONETARY STABILITY WILL ASSIST FREER FLOWS OF GOODS SERVICES AND CAPITAL. WE ARE DETERMINED TO SEE THAT GREATER MONETARY STABILITY AND FREER FLOWS OF TRADE AND CAPITAL REINFORCE ONE ANOTHER IN THE INTEREST OF ECONOMIC GROWTH AND EMPLOYMENT.
- ENDS.

2. FCO PLEASE COPY FURTHER AS NECESSARY.

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STANDARD

ERD
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CABINET OFFICE

The General Assembly

Having considered the item entitled "launching of the Global Negotiations on international economic cooperation for development",

In accordance with resolution 34/138,

1. Decides to convene a United Nations Conference for Global Negotiations on international economic cooperation for development from 3 May 1982. Such negotiations should be action-oriented and proceed in a simultaneous manner in order to ensure a coherent and integrated approach to the issues under negotiations;
2. Decides that the Conference will function throughout and reach agreement on the basis of consensus ;
3. Decides that the Conference will in a preliminary phase establish the procedures agenda and timeframe for the Global Negotiations ;
4. Decides that the Conference will exercise the central role in the Global Negotiations. The jurisdiction, competence, functions and powers of the specialized fora within the United Nations system will be respected ;
5. Decides that due attention shall be given in the preliminary phase to the inter-relationship between the central role of the Conference and the specialized fora which, together with the ad hoc groups it may create, will be entrusted with specific agenda items or parts thereof. Both the specialized fora and the ad hoc groups will proceed with their work on the basis of the relevant and appropriate objectives and guidance established by the Conference ;
6. Decides to accord high priority to the Conference in relation to other United Nations activities except those of the principal organs established by the Charter of the United Nations in respect of facilities and services and requests the Secretary-General to provide the necessary documentation to the Conference ;
7. Decides that the Conference will report to the General Assembly at its thirty-seventh session.

Vesalies amendments

Recalling the resolution 34/1

As soon as a consensus is reached
the Conference will enter
the substantive phase

... will be respected by the
Conference

... with the ad hoc groups it
 create without duplication
of existing appropriate fora,
 will be entrusted...



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19 October 1982

COPY NO 9

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

POLAND

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Ban on Solidarity odious and tragic; will deepen popular distrust of Government and weaken prospects for peaceful reconciliation in Poland, on which ultimately depend economic and political progress.
2. UK position clear: deplore this retrograde step. A further obstacle to the restoration of more normal relations with Poland.
3. Unrealistic to expect early improvement of situation in Poland but West must continue its efforts to persuade Polish Government to fulfil undertakings to restore renewal and reform. Must continue to work together closely in Ten and NATO to ensure we adopt the most effective policies to achieve our common objectives.

Rescheduling (If raised)

4. Strong financial case for official rescheduling; could be presented politically as consistent with firm line, ending the free ride Poles currently enjoy and bringing Polish Government to book. But must proceed on basis of Alliance-wide agreement.

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BACKGROUND

1. On 8 October the Polish Parliament passed new trade union legislation which dissolved all previous trade union organizations including Solidarity. This has been condemned by both the Polish Church and the Vatican. The underground Solidarity organization has called for a 4 hour protest strike on 10 November (the second anniversary of the registration of Solidarity).
2. Shipyard workers in Gdansk (the birthplace of Solidarity) demonstrated on 11 and 12 October. Demonstrations in other cities have also taken place and one person was killed by the security forces during riots in Nowa Huta on 13 October.
3. Most NATO partners including the UK (see Statement attached) have condemned the action as a retrograde step which will make the normalization of relations with Poland more difficult. President Reagan has announced the suspension of Poland's Most Favoured Nation (MFN) status; although this has not yet been formally approved by Congress.
4. At an informal meeting on 16/17 October, EC Foreign Ministers agreed food aid to Poland should be continued but showed no enthusiasm for withdrawing MFN. A reinforced meeting of the North Atlantic Council on 20 October confirmed that there was no support for further sanctions. It was agreed that NATO should prepare for a further statement at the Foreign Ministers meeting in December.
5. Commercial banks have reached provisional agreement to reschedule 1982 debts. Meeting in Paris 25/6 October to define and cost the options open to official creditors. But United States political opposition is likely to prevent any talks with the Poles being held for the time being.

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RETRACT

LATE SPOKESMAN

SOLIDARITY

Her Majesty's Government, while wishing to develop its relations with Poland and the Polish people, strongly deplores the recent action by the Polish regime against Solidarity. The clear intention of the new legislation is to effect the dissolution of a free trade union which before the imposition of martial law in December 1981 (nineteen-eighty-one) had the support of ten million members.

HMG regards the action taken as contrary to the objective stated on several occasions by the Polish leadership in seeking to justify martial law which was to establish unity and the process of renewal and reform and to resume the dialogue with the various elements of Polish society. It is also inconsistent with the spirit of the Helsinki Final Act.

This deplorable action renders the resumption of genuine dialogue in Poland very difficult and indeed suggests that the policy of the Polish Government is one of confrontation rather than reconciliation. As the Foreign Ministers of the Atlantic Alliance stated on the 11 (eleven) January 1982 (nineteen-eighty-two): 'only with reconciliation and genuine negotiation can the basic rights of the Polish people and workers be protected and the economic and social progress of the country be secured'. HMG regard this development as constituting a further obstacle to the restoration of normal relations with Poland.

ENDS LATE SPOKESMAN

CENTROFORM LONDON

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19 October 1982

ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

NORTH/SOUTH DIALOGUE

Brief by Foreign and Commonwealth Office

POINTS TO MAKE (IF RAISED)

1. Important that all Summit partners stay united around position on Global Negotiations established at Versailles.

BACKGROUND

2. In March 1982 the G77 produced a new text for launching Global Negotiations, which was recognised as constructive and moderate. At the Versailles Summit President Reagan bowed to pressure to accept the text as a basis for consultations. Four amendments were agreed at Versailles by Heads of Government and put to the G77. They have accepted two of these, and produced two counter-amendments.

3. All EC and OECD delegations at New York have endorsed the Versailles position on Global Negotiations. Soundings in G77 capitals indicate that G77 will not accept the four Versailles amendments without a further move from the West (eg an interpretative statement). Some countries eg France and the Nordics, are pressing for more flexibility by the West. But it would be a mistake to change the Western position now or to break Western unity. The Versailles amendments remain the only realistic way in which Global Negotiations could be launched with the consensus of the West.

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- 2 -

4. Next major North/Scuth events are the GATT Ministerial Meeting (24-27 November 1982) and UNCTAD VI (June 1983). Global Negotiations should not be allowed to distract attention from these meetings.

Foreign and Commonwealth Office
19 October 1982

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19 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

UNLOSC

Brief by Foreign & Commonwealth Office

POINTS TO MAKE (if raised)

1. Regret failure to achieve consensus in these negotiations. Examining texts in light of UK national interests and views of other governments. Ministers meeting to decide UK attitude to signature next month.
2. Share FRG concerns about deep sea mining regime; believe that in the long run system which will attract investment funds and provide security can only exist if there is general agreement; in short term need to keep our options open.
3. Convention covers other aspects of great importance to UK Government including continental shelf and navigation provisions.
4. Above points have been similarly made to recent US high level emissary (Mr Rumsfeld).

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BACKGROUND

5. UNLOSC met again in New York on 22-24 September. British/French/German exploration of possibility of obtaining improvements to deep sea mining texts unsuccessful. Final Session in Jamaica on 6-10 December, after which Convention will be open for signature. FRG have not yet made up their minds about signature. Nor have HMG.

6. Convention covers much besides deep seabed mining. In many of these areas (navigation, continental shelf, marine pollution) balance of advantages in Treaty are in our favour. But deep seabed mining provisions present problems. We are anxious to avoid challenge to our seabed mining companies under the Convention, while at the same time safeguarding them under US national legislation. Possible resolution of this dilemma through signature of Convention and conclusion of a Reciprocal States Agreement with US and others. We are also keen to safeguard important defence interests in connection with Gibraltar and Gulf. These arguments now being considered urgently at official level pending submission to Cabinet Committees for decision in November.

Foreign and Commonwealth Office

19 October 1982.



Sir Peter Carey GCB
Permanent Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7003
SWITCHBOARD 01-212 7676

19 October 1982

Sir Kenneth Couzens KCB
HM Treasury
Whitehall
LONDON SW1

Dear Sir Kenneth,

ANGLO-GERMAN SUMMIT: 28-29 OCTOBER 1982

When we met under Robert Armstrong's chairmanship this morning, I spoke of the opportunity the Summit provided for assessing current developments on the A320 in advance of the Anglo-French Summit.

We agreed that it would be appropriate for the Chancellor to discuss this with Count Lambsdorff on the basis of a note by this Department.

..... I attach a note for inclusion in the Chancellor's briefing. Amendment may of course be required in the light of anything which emerges on the Franco German discussions.

Yours sincerely,

P.P.
Peter Carey

(approved by Sir Peter
and signed in his absence)



ANGLO-GERMAN SUMMIT: 28-29 OCTOBER 1982

AIRBUS - A320

With the A300/A310 wide-bodied aircraft established in the civil airliner market, Airbus Industrie is considering a programme for the next generation of aircraft. The A320 single-aisle 150 seat aircraft is the front runner. It is designed as a replacement for the present generation of narrow bodied aircraft such as the Boeing 727 McDonnell Douglas DC9 and BAC 1-11.

There is a large potential market for aircraft within the A320 specification but no positive launch commitment has yet been made by Airbus Industrie or the Governments of the partner countries.

The poor financial state of the majority of the world's airlines and, perhaps of more immediate significance, the absence yet of any positive commitment by the aero-engine manufacturers to develop a suitable engine is inhibiting the launch. The two engines in prospect for the A320 are a General Electric (US)/SNECMA (France) derivative of their current CFM-56 series and a Rolls Royce/Pratt & Whitney/Japanese new technology engine. The derivative engine would be less fuel efficient but have a cheaper capital cost and shorter development period than the new technology engine.

British Aerospace have submitted an application for launch aid in support of their participation in the A320. Launch aid will depend on commercial viability, adequate launch orders, and resolution of uncertainties over the engine.

The UK position on the A320 is very closely in line with that of the Germans as expressed at the Trilateral Ministerial Meeting (Mr Lamont (DOI), Mr Fiterman (France) and Herr Gruner (Germany)) held at Farnborough in September. It is not yet known if the recent change of Government in Germany will significantly alter the German position. Herr Franz Josef Strauss however is Chairman of the Airbus Industrie Supervisory Board and his influence may have greater impact with the new coalition government in Airbus matters. The French are keen to go ahead without evidence of commercial viability and are pressing for a decision.



THE UNIVERSITY OF CHICAGO

1950 - 1951

The first part of the report is devoted to a description of the experimental apparatus and the results obtained. The second part is devoted to a discussion of the results and their significance.

The results show that the rate of reaction is first order with respect to the concentration of the reactant and zero order with respect to the concentration of the catalyst.

The rate constant, k , is found to be independent of the concentration of the catalyst, but it is dependent on the temperature. The activation energy of the reaction is found to be 15.5 kcal/mole .

The results are in good agreement with the theoretical predictions based on the proposed mechanism.

The rate of reaction is found to be independent of the concentration of the reactant, but it is dependent on the temperature. The activation energy of the reaction is found to be 15.5 kcal/mole .

1950 - 1951



POINTS TO MAKE

- 1 Hope that German position on launch aid for A320 remains that this should be dependent on evidence of commercial viability.

- 2 Grateful to know if France expressed any views at Franco-German Summit.



MEMORANDUM

TO : [Illegible]

FROM : [Illegible]

SUBJECT : [Illegible]

1. [Illegible]

2. [Illegible]

3. [Illegible]

4. [Illegible]

5. [Illegible]

6. [Illegible]

7. [Illegible]

Recent Developments

5 Since we last reported to you the A 320's prospects of early launch have diminished. The two major problems are the absence of launch orders and the lack of an engine for the aircraft.

6 At the trilateral meeting of the Airbus Ministers at Farnborough last month Airbus Industrie representatives made it clear that no airline was close to placing an order. Airbus Industrie had planned to "launch" the aircraft when they had received a minimum of 60 orders from 4 airlines. At the moment they have no launch orders and no prospects of any in the near future. Both the UK and West German Governments have said that launch orders are a precondition of support.

7 Airbus Industrie has no engine for the A 320. There are two possibilities: the RJ 500 which may be developed by a consortium including Rolls Royce, Pratt and Whitney (USA) and three Japanese companies; and the CFM 56 2K2 which would be a joint SNECMA (France) and General Electric(USA) engine. At Farnborough Airbus Industrie were leaning towards the CFM 56 2K2, which would be a derivative of an existing engine, rather than a new one like the RJ 500. Airbus argued that the real fuel price over the next 20 years was unlikely to rise enough to justify a new engine. We suspect that they said this under pressure from the French Government who are very keen to get the CFM 56 2K2 on the A 320. It represents a reversal of their previous assertion that the aircraft would only be economic with a new engine and casts doubt on the case for a new aircraft at all. Intermediate technology aircraft like the Boeing 737 - 300 and DC 9.80 will be nearly as fuel efficient as the A 320 and a lot cheaper. If real oil prices will not justify a brand new engine they may not justify a new aircraft either.

8 Present discussion of engine choice is academic because neither consortium has offered to produce the engine for Airbus. They have both said that they will not commit resources to development until enough airlines have placed launch orders to provide a reasonable commercial prospect.

9 We have reached stalemate. Airbus cannot launch the aircraft until Governments have agreed to assist it. The UK and West German Governments will not commit assistance until airlines have placed launch orders. Airlines will not do this until they know what engine will be on the aircraft. And engine producers will not commit themselves to developing an engine until the airlines place launch orders.

10 The aircraft will not be launched until there is a consensus in the industry that it will be needed. Positive interest from airlines will be necessary before Airbus and engine producers consider starting the programme. Airlines, who are currently experiencing an unprecedented recession, will be slow to place launch orders and without these the A 320 will not be launched. Indeed there is a possibility that Airbus may eventually abandon the project. The A 320 is aimed at the replacement market for old 727 and 737s, which will start becoming obsolete in the late 1980s. If the A 320 is not ready by then or soon after it risks missing its market unless airlines decide to postpone replacement of their old aircraft until the early 1990s. There must be some chance that Airbus will abandon the project if launch orders are not forthcoming fairly soon.

11 This could be a welcome outcome. We do not think the A 320 is viable and fear that any launch aid would be wasted. For the moment we can rest on the points made by Mr Lamont at the Airbus Ministers' meeting. He said that the UK Government would only support a commercially viable project and that launch orders would be essential before launch as evidence of viability. You will recall that Mr Jenkin made the same points at the bilateral.

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KB put in A-G folder.

✓ Now reorganised to give Sir with Lambsdorff & Sir with Stoltenberg

FROM: C J A CHIVERS
DATE: 20 October 1982

JR 22/10

good

Jur

1 SIR KENNETH COUZENS

cc: Chief Secretary
Minister of State (R)
Sir Douglas Wass
Mr Littler
Mr Quinlan
Mr Lavelle
Mr Lovell

→ 2 CHANCELLOR OF THE EXCHEQUER

ANGLO-GERMAN SUMMIT: 28-29 OCTOBER:
AIRBUS A 320

The Department of Industry, who will not be represented at the Summit, have sent over via Sir Kenneth Couzens the attached note about the A 320. They would like the Chancellor to check with Count Lambsdorff that the German Administration agrees with HMG that launch aid for the A 320 should be dependent on evidence of commercial viability. They also suggest that he might ask whether the subject came up at the Franco-German Summit.

2 There is no objection to this from the Treasury point of view if the Chancellor is willing to do it.

3 The DOI's note has the merit of brevity but it may be a bit cryptic:
... I attach an extract from Mr Halligan's recent brief on the subject which I think is more lucid, though it says the same thing.

KIT CHIVERS

VFC

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20 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

FRANCO-GERMAN RELATIONS

Brief by Foreign and Commonwealth Office

BACKGROUND

1. With the departure of both Schmidt and Giscard, the Franco-German relationship can be expected to become less exclusive. But both sides continue to attach fundamental importance to it as the foundation of Western European unity. The Franco-German Summit is taking place on 21-22 October.
2. The relative inexperience of the new Coalition in Bonn could enable the French to increase their influence over the Germans. But re-adjustment between Paris and Bonn could also create opportunities for the UK to achieve a better balance in trilateral relations. There are four key areas:
 - a) Security issues. Dr Kohl's visit to Paris underlined his concern at French attitudes towards the security of Western Europe. The Germans will want the French to play a more openly positive role in the defence of Europe, while the French will be anxious to exact a price in terms of collaboration over procurement (and perhaps in other areas). The French remain anxious not to appear to be reducing France's strategic independence. Doubts over future size and efficiency

/of

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of the Bundeswehr may encourage closer collaboration. Britain's defence credentials (budget and capability) remain strong and can be invoked to promote closer defence links with both partners.

b) East/West Relations. The French and Germans have more direct if different interests in the Soviet Union and Eastern Europe than the UK. But since Afghanistan and Poland there has been a growing convergence of views on East/West strategy. The French will always wish to retain some freedom of manoeuvre, but President Mitterrand has a clearer grasp than his predecessor of the Soviet threat. He is keen that INF deployment in the FRG should go ahead.

c) Transatlantic Relations. The Germans are quite clear that they want to improve their relations with the Americans. This may conflict with hardening French attitudes.

d) European Community. We have a common interest with the Germans, as net contributors, in a long-term reform of the Community's financial structure. In the past the French have been able to secure German support by playing on their sense of debt to the Community in their post-war political rehabilitation. The new German government may be less inclined automatically to line up with the French. But the French will try to keep the axis in good repair, for example by exploiting the agreement reached in Paris to work in the spirit of the Genscher/Colombo initiative for a deepening of European political cooperation.

Foreign and Commonwealth Office
20 October 1982

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ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

TRANSATLANTIC RELATIONS

Brief by Foreign and Commonwealth Office

Points to Make

1. We must maintain transatlantic Unity and deny the Russians opportunities for wedge-driving. This means:

(a) Working urgently to resolve transatlantic differences (while avoiding divisive rhetoric);

(b) Turning recent disputes to good advantage by developing a more comprehensive East/West policy;

(c) Emphasising Soviet political and economic difficulties, but without suggesting that these make the Soviet Union any less dangerous militarily; and

(d) reminding our own people how much we benefit from the Alliance.

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2. We shall also continue to remind the Americans that differences of transatlantic perception are inevitable but that these must not be exaggerated nor permitted to undermine alliance unity.

Foreign and Commonwealth Office

20 October 1982

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ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

EAST/WEST POLITICAL RELATIONS (INCLUDING AFGHANISTAN)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Alliance must tackle basic issues. Dispute over pipeline only a symptom of differences. Need to re-examine underlying strategy of East/West relations. Must present Russians with series of choices: either arms build-up or genuine reductions; either international restraint or a hostile Western response.
2. Must leave Russians in no doubt of determination to make necessary sacrifices for defence if they are not prepared to reach agreements which represent genuine reductions in their own arms build-up.
3. Must impress on Russians need for restraint in international relations. Stand over Afghanistan and Poland has shaken Soviet self-confidence, and must be maintained. Must keep firm on Afghanistan. Need further strong UNGA resolution. Support Cordovez's mediation effort, which helps pressurise Russians. Sceptical of current Soviet hints of flexibility.
4. West has also taken high ground over arms control, Middle East, and relations with the Third World. Need to maintain this advantage and link it to concrete negotiating goals.
5. Time not far away when Brezhnev will be unable to carry on. Need to decide how to manage relations with Soviet Union in state of transition.

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BACKGROUND

6. There is likely to be a broad measure of agreement between HMG and Chancellor Kohl in analysis of Soviet behaviour. He is likely to take a firm attitude over the need for restraint in Soviet foreign policy; but his approach will also be coloured by inner German relations and by a pragmatic concern for the protection of the FRG's economic and commercial relationship with the Soviet Union. He can be expected to share the approach set out in Genscher's recent article in 'Foreign Affairs' that the West should adopt a dual strategy combining maintenance of the military balance with hard headed use of detente as a means of "fostering an evolutionary process in Eastern Europe and the Soviet Union itself".

7. Chancellor Kohl is likely to take the view that it is important to keep open lines of communication to the Russians, and that this will be of particular importance during the leadership transition. Kohl has already met Solomentsev (Prime Minister of the Russian republic, a candidate member of the Politburo) who travelled to Dusseldorf to open a Soviet international fair on 7 October. He may well try to meet Brezhnev and Honecker at a fairly early stage.

Afghanistan

8. The Afghanistan debate at the UNGA is now likely to be in late November. Pakistan and other Islamic countries will table a resolution almost identical to last year's, which was carried by 116.23.12.

9. "Indirect talks", involving the foreign ministers of Pakistan and the Karmal regime, were held in Geneva in June, under the auspices of the UN Secretary-General's personal representative, Diego Cordovez. Cordovez claimed to detect signs of Afghan (ie Soviet) flexibility, but these were probably aimed at reducing criticism at the UNGA.

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ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

CSCE

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

Tactics for Madrid

1 Alliance should undertake a critical review of Eastern violations of the Helsinki Final Act during the implementation debate, but should also work for resumption of negotiation of a substantive and balanced concluding document (including a mandate for a conference on disarmament in Europe or CDE). The US attitude will be important. Rest of the Alliance should continue their efforts to persuade them to agree to resume genuine negotiation. Western unity at Madrid has kept East on the defensive and we must not lose the initiative to them.

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BACKGROUND

Course of Madrid Meeting

2 The second conference to review the implementation of the Helsinki Final Act and to agree new measures reconvened in Madrid on 9 November. A consolidated draft concluding document tabled by the Neutral and Non-Aligned (NNA) countries on 16 December is the agreed basis for further negotiation. Negotiation was halted by the imposition of martial law in Poland and in the last session in spring 1982 the West concentrated exclusively on criticisms of Soviet and Polish violations of the Final Act.

Western Tactics for Forthcoming Session

3 Consultations are taking place in the Ten and the Alliance on the position the West should adopt. On 16/17 October Foreign Ministers of the Ten agreed that the Ten should

- (i) participate vigorously in a critical review of the implementation of the CSCE process;
- (ii) work for the resumption of negotiation of a substantive and balanced document including a mandate for the CDE, maintaining contact with the United States and others with a view to coordinating positions;
- (iii) use the NNA draft as a basis.

The Germans, particularly, want to resume negotiations because they have special interests (relations with East Germany and family contacts) in keeping the CSCE dialogue going.

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4 The United States have not yet decided to agree to resume negotiation. The rest of the Alliance is trying to persuade them that to confine the proceedings at Madrid to the implementation debate would limit the scope for maintaining pressure on the Soviet Union and forego the opportunity to press for points in the concluding document of importance to the West, eg on the rights of Helsinki monitoring groups in the Soviet Union and Eastern Europe. There would then be a serious danger of losing the initiative to the Soviet Union.

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20 October 1982

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ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

INNER-GERMAN RELATIONS

Brief by Foreign and Commonwealth Office

BACKGROUND

1. In the 1970s, Inner-German relations developed productively on the basis of the Quadripartite Agreement (1971) and the Basic Treaty between the two German states (1972). Transit traffic between West Berlin and the FRG and visits to East Berlin and the GDR by West Berliners and West Germans expanded enormously.
2. The relationship cooled post-Afghanistan and more particularly as a result of a very substantial increase by the GDR in October 1980 in the Minimum Hard Currency Exchange Requirement (MER) imposed on Western visitors to the GDR. The effect has been a drastic reduction in the number of visitors to East Berlin and the GDR. The FRG complained that by this move the GDR was no longer giving as much in humanitarian concessions as it was obtaining economically.
3. Following Brezhnev's visit to Bonn, Herr Schmidt met Honecker in December 1981. But there was little to show for it on the FRG side. In June 1982 the FRG agreed an extension of the interest-free 'Swing' credit to the GDR in return for only minor humanitarian concessions.
4. The new FRG Government seems likely to combine a continuing policy of developing relations with more robust attempts to wring concessions from the GDR. Chancellor Kohl

/probably

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probably still intends to keep open Schmidt's invitation to Honecker to visit the FRG. But criticism of the new Government's public statements on inner-German relations and in particular referral to the German nation as a whole suggests a suspicious, uncompromising attitude among the GDR leadership.

Foreign and Commonwealth Office
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ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

ARMS CONTROL AND DISARMAMENT

Brief by Foreign and Commonwealth Office

Points to Make

INF (INTERMEDIATE RANGE NUCLEAR FORCES)

1. Next 12 months crucial. Pressure from anti-nuclear movements in run-up to arrival of first cruise and Pershing II missiles will increase importance of coordinated tactics in Alliance.
2. In negotiations should stick to zero option for present. May force compromise from Russians next year. Premature to examine other possible negotiating positions.

START (STRATEGIC ARMS REDUCTION TALKS)

3. US approach to renewal of strategic arms control welcomed in UK. NATO should continue public support for US focus on ballistic missiles as most destabilising systems.

MBFR

4. New Alliance proposal comprehensible and defensible. Must continue to stand firm on basic data and verification requirements.

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DISARMAMENT AT UN

5. At General Assembly, as at UN Special Session, need for robust approach to explain that arms control and disarmament cannot be detached from other security issues. Need to explain to public opinion rejection of Soviet initiatives.

Essential Facts

INF

6. The third round of negotiations began on 30 September. The NATO position is unchanged and the Russians continue to take a hard line. We expect no Russian concessions until much nearer the time for the first deployments of cruise and Pershing II missiles. The CDU party of the new Government does not contain dissenters in the manner of the SPD but will be under intense pressure from anti-nuclear movements in 1983, and from the SPD if it moves to the left.

START

7. The second round began on 6 October. The US will pursue its proposals for substantial reductions in ballistic missiles and their warheads and try to draw out the Soviet delegation on their proposals for cuts of up to 25% in the total number of strategic systems. The Germans have welcomed the US approach to START.

MBFR

8. Alliance July draft treaty meets one major Eastern

/ concern

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concern (equal commitments by all parties) but continues to insist on agreement on current force levels and effective verification. No Eastern concessions in sight. Occasional signs of FRG inclination towards 'verification for data' trade-off. To be discouraged; would remove Alliance's only guarantee against Soviet exploitation of negotiations.

DISARMAMENT AT UN [Not for use]

9. The previous Federal government was not always firm enough in defending Alliance security policies from non-aligned criticism at the UN.

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ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

ARAB/ISRAEL AND LEBANON

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Arab/Israel. Ten still have important role in sustaining Arab moderates. No early move likely towards negotiations, but encouraging degree of interest and discussion. Mr Pym in Syria/Egypt. Expect the Arab League delegation in London in early November.
2. King Hussein moderately satisfied so far with Arafat talks. But US should not expect him to move further than moderate Arabs can accept. Key test will be whether Arafat can win broad support in PLO for closer cooperation with Jordan.
3. Lebanon. Amin Gemayel gaining in stature. Withdrawal of foreign forces will be long haul. Glad that extension of UNIFIL's mandate keeps UN option open. (If asked) We would look very seriously at a request for UK contribution to a peacekeeping force. But heavy commitments elsewhere.

BACKGROUND

4. Arab/Israel. The Arab League Follow-up Delegation led by King Hassan of Morocco are to visit Washington on 22 October. Composition and dates for the visit to London to be fixed but likely to be on 7-8 November.
5. King Hussein's message to the Prime Minister showed that he was satisfied with the outcome of his first round of talks with Arafat. Arafat had shown realism in accepting that some form of unity between Jordan and the Palestinian entity must be found. Jordan/PLO talks are to continue. Arafat must now seek endorsement for his policy at the Palestine National Council

/meeting

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meeting expected to be held before the middle of November; there are rumblings of dissent from some PLO factions.

6. The West Germans are consistently close to us in their analysis of all aspects of the Middle East scheme. The change of Government is unlikely to have altered this.

7. Lebanon. The Security Council renewed UNIFIL's mandate on 18 October for a further 3 months, and gave authority to carry out humanitarian tasks, but at Lebanese and American insistence does not allow for UNIFIL's deployment in Tyre and Sidon.

8. UNIFIL could play a part in peacekeeping arrangements required for Southern Lebanon, as part of Israeli and Syrian withdrawal. The Lebanese view is that an international force will be needed for up to 3 years. We consider that the Security Council should at least attempt to set up a UN force for this role. If that fails, a non-UN force will be less open to objection from the Soviet Union.

9. We have not yet received a formal invitation from the Lebanese to contribute to any international force, but can expect one in the near future. Our line so far has been that we would consider any such request very seriously but that we have heavy commitments elsewhere.

10. Gemayel's visit to the USA, France and Italy is going well, has increased his stature and will have given him confidence. As a more moderate, if less charismatic, figure than his late brother Bashir, Amin is in a better position to promote reconciliation in Lebanon. But he does not have full control over the Kataib (Christian) militia. Disarming of the latter, wider deployment of the Lebanese army outside Beirut and what to do with the 500,000 Palestinians remaining in Lebanon are problems which will have to be faced. The Ten have formally asked the Lebanese government to ensure humane treatment for the Palestinians.

11. Main task of new Lebanese Government to get on with reconstruction, estimated to cost some \$12 billion. The US has pledged \$110 million. We and the Ten have yet to decide on a contribution UK humanitarian aid to Lebanon stands at £3.34 million.

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COPY NO 9

20 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

EUROPE/LATIN AMERICA (INCLUDING THE FALKLANDS)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Wrong to exaggerate damage caused by Falklands crisis. Despite hiatus in relations with Argentina, wish to continue developing our links with region in cooperation with Ten.
2. You know our position at United Nations from my recent message to you - will vote against Argentine draft resolution. Cannot accept call to negotiate on sovereignty (and other objectionable features).
3. Could understand German abstention. But a 'yes' vote would show disregard for wishes of the people most concerned and for what they have been through. It would be interpreted as support for Argentina's claim. Divided Community vote would be wrong signal to Argentina. And would not be understood in Britain.

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4. No prospect of any resolution emerging that would be acceptable to Britain and Argentina. So no point in proposing amendments to South American draft.

5. Agreement among the Ten (1977) to try to avoid contrary voting at the UN, particularly when important national interests of one of their number are involved.

6. Continued control of arms supplies to Argentina essential in view of her failure unequivocally to renounce further resort to force. Hope you will exercise utmost care and restraint with new orders.

BACKGROUND

7. Germans have lifted embargo on delivery of arms ordered by Argentina before Falklands invasion. Deliveries will include four frigates with Rolls Royce engines between end of 1982 and 1984.

Foreign and Commonwealth Office
20 October 1982

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20 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

BRITISH POLICY TOWARDS CHINA

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE

1. Relations good despite some differences over Hong Kong and the Falklands.
2. Hong Kong. Our first goal to start talks aimed at maintaining stability and prosperity. Achieved. Follow up meetings have begun. May take time, and must be confidential. Believe differences can be reconciled given common aim.
3. No surprises during my visit to Peking in the Chinese presentation of their position on other international questions. In particular no sign at that time of basic change in Chinese attitude towards Soviet Union: difficult yet to evaluate subsequent movements.
4. Will continue to work to reinforce China's recent economic and geopolitical orientation towards the West. But do not intend to subsidise economic development to the extent that the Chinese want: hope Germans agree.

BACKGROUND

5. Chinese position on Hong Kong treaties and sovereignty strong, but not new. Difference of approach to solution for future therefore inevitable. Vital nothing be said or done that might damage confidence in Hong Kong. Offers of help, while appreciated not useful at this stage.

/6.

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6. Unhelpful statements on Falklands in the summer now reinforced by unreasonable references in a recent UN speech by Foreign Minister Huang Hua. Ambassador taking this up with the Chinese MFA but in measured terms (Chinese line probably for Third World consumption - subject not mentioned during Prime Minister's visit to Peking). On other issues (Afghanistan, Cambodia, Soviet threat to world peace etc.) share broadly similar perceptions.

7. On attitudes towards the super powers Premier Zhao emphasised during the Prime Minister's visit the importance for China of the development of Sino-US relations. Terms of recent joint communiqué on arms supply to Taiwan may provide basis if implemented satisfactorily. But on prospects for improved Sino-Soviet relations Zhao not optimistic, as Soviet policy of seeking world supremacy had not changed. Too early to say whether recently resumed contacts (visit of Soviet deputy Foreign Minister to Peking: apparent undertaking to hold further talks in Moscow) will be productive.

8. Opening to the West and priority of modernisation confirmed both during 12th Party Congress and during Prime Minister's visit. Ambitious development targets provide substantial opportunities for Western companies. But Chinese looking for bilateral as well as multilateral aid, and special export credit terms. Some Western European countries have made or are considering concessions. Danger of a soft credit competition.

Foreign and Commonwealth Office
20 October 1982

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20 October 1982

ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

WORLD POLITICAL ISSUES:

IRAN/IRAQ AND THE SITUATION IN THE GULF

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

State of War:

1. No sign of preparations for major Iranian offensive. Iranians may now concentrate on recapturing small pockets of Iranian territory still occupied by Iraqis at minimal cost. Iranian oil exports continue.

Mediation:

2. Algerians active but without success. Others inactive. Iranians reject role for UN until it condemns Iraqi aggression.

Prospects for Peace:

3. Iraqis very willing to negotiate. Iranian hardliners show little interest in peace talks. Prospects for early peace remain poor.

Situation in Gulf:

4. Gulf States calm. Not keen on overt indications of Western support. Wish to avoid antagonising Iranians. Saudi Arabia main target of Iranian propaganda.

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/ESSENTIAL FACTS

ESSENTIAL FACTS

State of War:

5. Iranians launched relatively small scale attack (20,000 men) on 1 October at Mandali (113 km north east of Baghdad). Recaptured small pocket of occupied territory but subsequent advance repulsed. Indications of preparations by Iranians for further similar attacks to recapture other pockets of occupied territory.

FRG/Iran:

6. Relations have deteriorated sharply following expulsion of pro-Khomeini students who attacked anti-Khomeini students in Mainz in April.

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20 October 1982

ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

EC/ASEAN

Brief by Foreign and Commonwealth Office

BACKGROUND

1. EC/ASEAN Foreign Ministers first met in Brussels in November 1978. The cooperation agreement was signed in March 1980 at the second EC/ASEAN Ministerial meeting in Kuala Lumpur and runs for five years. It is a non-preferential agreement providing for most favoured nation treatment and commercial, economic and development cooperation. It grants no preferential access although ASEAN are major users of the EC's Generalised Scheme for Tariff Preferences.
2. Political cooperation has grown faster than economic cooperation, particularly over Cambodia (see also brief lli below) where ASEAN hold a firm common line despite differing views on Vietnam and China. They promoted the 1981 International Conference on Kampuchea and have resisted Indochinese attempts (most recently the Lao Foreign Minister's initiative) to set up an alternative conference.
3. With ASEAN, eight EC (less France and Ireland) now back the DK seat at the UN and all Ten should vote for ASEAN's

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annual resolution on the Cambodian item (the Germans and ourselves are again co-sponsoring this year).

4. ASEAN are keen on joint Foreign Ministers' meetings with the Community (every 18 months so far). The Community have agreed in principle to attend a meeting in Bangkok early next year (probably 13/14 February). The Thais have already lobbied for our attendance. Only Greece and Netherlands missed last October's in London, and Genscher has already said he will attend again (FRG will be EC President). But substance may be slight, and it may prove difficult to get all Ten to Thailand - despite ASEAN's important stabilising rôle in a dangerous part of the world.

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ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

SOUTHERN AFRICA/NAMIBIA

Brief by Foreign and Commonwealth Office

BACKGROUND (May be used freely except where shown otherwise)

1. Agreement has now been reached on nearly all issues preventing implementation of Security Council Resolution 435. Foreign Ministers reviewed progress in New York on 1 October, and in their communiqué reiterated their commitment to early implementation of the UN Plan. However, there has so far been no breakthrough on the withdrawal of Cuban troops from Angola, on which a Namibia settlement in practice now depends. The Americans have come a long way since they began their dialogue with the Angolans last January, and recent Angolan statements have acknowledged their willingness to consider Cuban withdrawal when the external and internal security threats are removed. The Americans now need agreement on timing and numbers. For domestic political reasons, both sides have understandable difficulties in making compromise proposals; but the Americans have agreed to prepare a possible phased programme for Angolan consideration.

2. Although linkage of Cuban withdrawal with a Namibia settlement remains unpalatable to the Africans, Front Line pressure on the Five has been muted so far, suggesting that they accept the political reality. The rest of the Five should do the same. There are some signs of tension in the Five: Cheysson spoke out strongly against linkage on his recent African tour, although he probably held to the Five's agreed line at his private talks with African leaders.

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3. We encourage the Americans to maintain the momentum of their dialogue with the Angolans. It is unrealistic to expect an early outcome given the complexities: Cuban support is seen by Angolan Ministers as vital to MPLA survival - at least in the short term. If the current initiative brings a Namibia settlement, there could be further scope for joint Western action in the region. If it fails, we shall need to persuade the Americans not to walk away from the problem. The Five must prepare to stick together, resist pressure for sanctions, and hold out the hope of trying again in due course.

GERMAN POSITION ON NAMIBIA

4. (NOT FOR USE) Particularly because of Genscher's personal interest and long experience, the Germans have been the keenest of the Five to maintain the purity of the UN Plan. There is a large German-speaking community in Namibia with whom the CDU/CSU have links: Herr Strauss visited Namibia earlier this year. But (unlike us) the SDP/FDP coalition, and Genscher personally, maintained close links with SWAPO and the African National Congress. Over recent months, however, the German profile has been lower.

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28-29 OCTOBER 1982

CAMBODIA

Brief by the Foreign and Commonwealth Office

BACKGROUND

Opposition to Vietnam

1. The coalition of Cambodian opposition groups announced in June led by Prince Sihanouk, Khieu Samphan of the Khmer Rouge and M Son Sann, President of the Khmer People's National Liberation Front has held together despite well-known mutual suspicions. But it is unlikely to have an immediate effect on the ground, where 20-30,000 Khmer Rouge present the only serious challenge for the 150,000 Vietnamese troops who maintain the puppet Heng Samrin in Phnom Penh.
2. Even so, the non-communists may soon muster as many as 15,000 men with - we believe - military supplies and training from nearby ASEAN states. They will need to defend their enclaves in Western Cambodia from the Vietnamese who are preparing more dry season operations (from next month) and seem ready to risk clashes with Thai forces. We are considering the possibility of special medical supplies for the KPRLF on the same lines as the Germans provided earlier in the year. Son Sann called on Mr Pym on 15 September on his way to New York - and asked for help.

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United Nations

3. The Chinese, and ASEAN (the latter did a great deal to bring the coalition into being), have sought to strengthen Democratic Kampuchea's position at the UN. Prince Sihanouk's attendance has helped. On 6 October the credentials committee endorsed DK representatives without a vote (though USSR and Seychelles spoke against); but presentation to plenary, where Vietnam may challenge, has been deferred to 25 October. We will continue to support the DK seat (like other EC, except France and Ireland who will again abstain).

4. We also support the recommendations of the July 1981 International Conference on Kampuchea (ICK) calling for full withdrawal of foreign forces and UN-supervised elections for a neutral and non-aligned Cambodia. The Vietnamese boycotted the ICK and have tried to obfuscate by declaring a partial troop withdrawal this summer (which proved phoney), and suggesting an alternative regional conference, but without takers so far.

Relief

5. Humanitarian problems are lessening. The monsoon crop looks good and the relief operation inside Cambodia could be wound up by December. World Food Programme and ICRC's work on the Thai border (among 200,000 refugees) is fully funded. (UK contribution should reach £900,000 this year).

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28-29 October 1982

PROSPECTS FOR THE WORLD (INCLUDING US ECONOMIC POLICY)

Brief by HM TREASURY

Points to make

(i) Output in the major economies appears to have recovered at least partly last spring after the downturn of last winter. Latest estimates suggest further modest growth in the US, but activity in the major European economies remains depressed and it is too early to say a broad upturn has started.

(ii) Weak export revenues, high debt service costs and restrictions on the availability of credit appears to have caused many developing countries to reduce imports with adverse consequences for world trade.

(iii) Important, though, not to forget faster than anticipated progress that has been made in reducing inflation (down now to 7 per cent in major industrial countries compared to 10 per cent a year ago) and interest rates (down more than 4 per cent in the US and about 2 per cent in other industrial countries since the summer).

(iv) These should help to create conditions for recovery in world economy next year, although present indicators are that this will be modest, particularly in Europe.

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(v) Important to consider major countries' policies carefully in these circumstances. Continued downward pressure on inflation needs to be consistent with recovery of output.

(vi) Control of monetary growth still essential, but important to take wide range of factors into account in assessing degree of tightness. Welcome Mr Volcker's firm but flexible approach in US.

(vii) Important that fiscal deficits should be put on a declining path in the medium-term, but need to take account of recession in assessing how fast to reduce deficits.

(viii) Countries with good inflation performance and improving balance of payments should rely on domestic rather than external expansion. Welcome recent Japanese package of fiscal measures.

(ix) Fiscal deficits still a cause for concern in many other countries, particularly US. Congressional approval of tax package welcome but further measures needed. Many smaller OECD countries also facing very high deficits.

(x) Developing countries' problems need to be tackled mainly by firm adjustment policies to improve the structure of their economies and to restore credit-worthiness.

(xi) Concern expressed in Toronto about effects of over-borrowing on international banking system. Need to avoid both complacency and unnecessary alarm. Lower interest rates should help, as should IMF programmes. Further progress needed on banking supervision, including risk assessment and prudential standards, also watertight allocation of supervisory responsibilities.

Background

GDP in the major economies which fell in both the last quarter of 1981 and the first quarter of this year, has only partly recovered. US output rose $\frac{1}{2}$ per cent in the second quarter, and the 'flash' estimate suggests a further slight rise in the third. Indicators for the rest of the year, however, are very hesitant. Japan showed modest growth in the first half of this year but there are signs that demand faltered in the summer. In the major European economies

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as a whole, output was flat in the first half of this year with increases in France and Italy offset by falls in Germany, the Netherlands and Belgium.

2. Most forecasters have been revising down their projections for next year. The EC Commission's autumn forecasts expect output in the industrial economies to rise by only 2 per cent next year. This is lower than the summer forecasts by OECD and the IMF. Our own view is closer to the EC. The Commission in particular expects growth in Europe to be only about 1 per cent, which would be lower than that expected in either the US or Japan. Unemployment has in general continued to rise in the major countries and the modest growth prospects for next year offer no prospect of an early fall.

3. Forecasts of world trade are being revised down similarly with no growth or even a fall expected this year now and only a modest recovery next year. A feature of the slowdown in world trade has been a reduction of imports by developing countries as a result of the fall in bank lending to many of them.

4. The slowdown in activity, however, has been accompanied by a faster than anticipated reduction in inflation which averaged 7 per cent year-on-year in the major industrial countries in August with the US at 6 per cent, Germany 5 per cent and Japan 3 per cent, the lowest.

5. Interest rates, too, have fallen steeply in recent months. Three-month money market rates in the United States have fallen from a peak of around 15 per cent in June to around 11 per cent now. The falls reflect both some at least temporary easing in the US Federal Reserve's monetary stance as well as a slackening in credit demand. Interest rates in other countries have typically fallen by rather less.

6. The current balances of the major industrial countries moved into small surplus in the second quarter. Japan and Germany are moving into increasing surplus. The US surplus, however, is dwindling

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and in August the US showed a \$4 billion deficit. France continues in significant deficit as do many of the smaller industrial countries. The counterpart of the overall improvement in the industrial countries' position has been a reduction in the OPEC surplus to close to zero. Information on developing countries' external payments is scarce for this year, but financing constraints may be forcing them to cut their deficits from last year's total of almost \$80 billion.

7. The dollar has remained strong on the foreign exchange markets in spite of the narrowing of interest differentials and worsening of trade trends. The yen, however, has continued to weaken. The deutschemark effective rate has been on a steady appreciating trend over the past year or so - largely against European currencies while remaining weak against the dollar.

8. Most countries are persevering with firm policies as agreed at the OECD, IMF and Versailles meetings. Control of monetary growth remains an important part of this although controversy surrounds the current stance of the US Federal Reserve which has reduced its discount rate successively over the past few months to 9½ per cent, while all the main monetary aggregates have been growing faster than the target rates. Mr Volcker said in July that it was important to take account of all factors, including the liquidity position of companies, in assessing monetary tightness. Most recently he has said that the M1 figures will be distorted in the near future and the Fed would attach 'much less than usual weight' to them. The financial markets have tended to interpret these developments as a change in the Fed's tight stance, but Mr Volcker has made it clear that reduction of inflation remains a priority and monetary targets have not been abandoned.

9. In Germany, Switzerland and Canada, monetary growth is within target. In France, however, M2 growth is well above the 12½-13½ target range.

10. The various international ministerial meetings over the summer agreed that monetary control needed to be supported by adequate control of budget deficits. The emphasis, however, has been on the medium-term. The approval by Congress of a \$98 billion tax package

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mark a welcome first step in reining back the US deficit. Smaller countries such as Denmark, Belgium and the Netherlands have all announced tough budgets. These moves are welcome.

11. The pace of reduction of budget deficits in strong economies, such as Japan, however, has been a source of international concern for fear that inadequate allowance is being made for the effects of recession. The recent Japanese measures to increase spending on public works, therefore, are welcome, albeit modest, steps to correct this. (See also Germany brief 14(b)).

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FRG SCENE : POLITICAL

Brief by Foreign and Commonwealth Office

BACKGROUND

1. The fall of Schmidt's centre-left Coalition on 1 October brought a centre-right government to power in Bonn for the first time in 13 years. The Coalition between the CDU/CSU and the FDP, Schmidt's former partners in government, followed the resignation of FDP Ministers and the successful tabling by Kohl of a 'constructive vote of no confidence' in the Bundestag. While there is no doubt as to the constitutional legitimacy of the new government, the electorate has shown its concern about the morality of toppling Schmidt without elections, by decisively rejecting the FDP in the recent Hessen and Bavarian Land elections.
2. Kohl and Genscher have sought to limit criticism by promising new Federal elections on 6 March 1983. This leaves Kohl with only five months to establish his Government's mark in domestic and foreign affairs, and particularly to push through the vital 1983 Budget.
3. Genscher has taken the full force of public criticism of the break-up of the SPD/FDP Coalition. Opinion polls now show him to be the least popular top politician in the FRG. He has also come under increasing attack from within his own Party. At a Party Conference on 5-7 November, Ronneburger (Leader of the Schleswig-

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Holstein FDP) will challenge for the leadership; but he is given little chance of success.

4. Schmidt's future is uncertain. His reluctance to commit himself to be the SPD's Chancellor candidate for the March elections could be tactical. The odds must be that he will stand, although he may well retire not too long afterwards. If Schmidt does stand, the special SPD Conference on 19 November may not produce any major changes in official party positions, although there may be a move towards more interventionist economic policies. If he does not stand, the party could become more radical, not least on nuclear issues.

5. Early moves by the new Federal Government on foreign affairs seem intended to demonstrate continuity; this is reflected in the reappointment of Genscher as Foreign Minister. The administration's declared policies are little different from those of the former SPD/FDP Coalition. More emphasis has, however, been placed on the need for closer political co-operation within the EC, for more Alliance solidarity and for 'genuine' détente with the East.

6. On defence, the Government is likely to press for the strengthening of conventional defences (though budgetary constraints may limit this) and, if there is no progress on INF, to prepare the German population for the stationing of Cruise and Pershing II Missiles on FRG soil before the end of 1983. This is likely to become a major issue in domestic German politics in the course of next year.

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GERMAN ECONOMY

Brief by HM TREASURY

Points to make

- (i) Share concern of German government about low level of activity in economy and rise of unemployment. Slowdown in German economy serious for Europe as a whole where growth prospects generally weaker than in US and Japan.
- (ii) Note that German slowdown reflects slower growth of domestic economy as well as slower growth of world trade.
- (iii) Welcome German progress in containing inflation (currently 5 per cent and expected to fall to 3-4 per cent next year).
- (iv) Welcome, too, reduction in German interest rates which has been achieved without undermining monetary targets or DM exchange rate.
- (v) Share German belief that continued downward pressure on inflation through sound monetary and fiscal policies still needed.

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(vi) Important, though, that monetary growth should be adequate to allow for rise in real output and that pace of reduction in budget deficit should take account of impact of recession.

(vii) Important that both domestic and external sectors should play a part in recovery of German economy.

Background

Output in Germany is now expected officially to fall 1 per cent this year followed by no growth next year. The Council of Economic Advisers ('wise men') is only slightly more optimistic than the German government, expecting a modest 1 per cent rise in 1983. EC Commission forecasts are similar.

2. The German economy has relied heavily on external demand both last year and this at a time when domestic demand has been falling steeply. The EC Commission estimates that export growth, which was about 8 per cent last year, will be 3-4 per cent for this year as a whole while imports are flat or falling. In the most recent period both have turned downwards - imports more so than exports. The current balance has moved from a deficit of \$8 billion last year to a modest surplus in recent months and is forecast to move further into surplus next year.

3. This net boost from the external sector would have added about 2 per cent a year to GDP but has been entirely offset by lower domestic demand. The problems faced by the traditionally export-led German economy at a time when world trade slows have been illustrated in recent months when the combination of lower export orders and falling retail sales have led to a steady decline in industrial production.

4. Unemployment has risen from 6 per cent a year ago to more than 8 per cent in September, equivalent to close to 2 million.

5. The low level of activity has been accompanied by a hard-won reduction in inflation which was 4.9 per cent year-on-year in September. The government expects it to fall to 4 per cent next year.

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The EC Commission puts it even lower. This places Germany second only to Japan in terms of inflation performance.

6. The outgoing government of Chancellor Schmidt was firmly committed to anti-inflationary policies and the new Kohl coalition promises to do likewise. It will be important, however, for both the German economy and the rest of Europe that the impressive performance on inflation and the balance of payments is matched by domestic growth. This requires careful choice of policies.

7. Monetary growth which slowed sharply last year has picked up and between the fourth quarter of 1981 and this August was running at 6½ per cent annual rate. This is within the 4-7 per cent target range set for the chosen aggregate, Central Bank Money, but about 2 per cent above the inflation rate, leaving some room for real growth. The previous government was aiming for the top of the range and in present circumstances it seems appropriate for the new government to do likewise as long as this can be achieved without jeopardising the exchange rate of the DM which has appreciated gradually over the past year but should probably rise further.

8. The Schmidt government was particularly sensitive to the size of the budget deficit in the wake of Germany's experience as one of the 'locomotives' of the world economy in the late-1970s. The general government deficit rose to 3 per cent of GDP in 1979, then rose further under the impact of recession to 4½ per cent in 1981. The Schmidt coalition made strong efforts to counter-act the rise in the deficit. Public investment was reduced sharply and the growth in government current consumption curbed.

9. Nevertheless, it is already clear that the deficit for 1982 will be higher than projected. The Kohl government is committed to curbing the deficit and will announce details of a revised 1983 budget on 27 October. It has already proposed a 1 per cent increase in VAT, a temporary loan from higher income earners, postponed pension increase, reduced child allowance, higher hospital charges and a 2 per cent limit on civil servants' pay increases to offset concessions to industry.

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10. We share the German government's desire to curb the budget deficit over the medium-term, but it will be important that this is not done too rapidly - prolonging the domestic recession and forcing German companies into a renewed export drive. The previous German government agreed with the IMF staff at the time of the last Article IV consultation in July, that a large and sudden reduction in the deficit would be inappropriate given the current weak level of activity.

HM Treasury
20 October 1982

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ENLARGEMENT

Brief by Foreign and Commonwealth Office

POINTS TO MAKE (see MHM below)

General

1. We agree with Germans on importance of maintaining momentum of accession negotiations, put in doubt by positions of France and Italy. Applicants (especially Spain after election) will be looking for and need encouragement at what may be critical stage in democratic development. Would favour expression of this by declaration from December European Council.

2. For any signal from European Council to have value, must register progress in accession negotiations with Spain.
(Portugal well ahead)

(If raised) Italians ideas: Phased Entry

3. Sceptical; would cause major political problems over extent of participation in policies and decision making. Postponement of decisions on Spanish/Portuguese participation in most important areas of Community policy will not help EC resolve them satisfactorily.

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French ideas: Linkage between enlargement and own resources

4. Must make clear we do not see why accession negotiations should be held up while Community sorts out own internal problems or why accession should await, and be simultaneous with, creation of new own resources. Important Spain and Portugal realise blame for delay because of linkage lies with France, not UK and Germany. No reason why costs of enlargement cannot be accommodated within 1% ceiling provided CAP expenditure kept under control. Developments on CAP much more important pressure: moreover enlargement costs will have full impact only towards end of transitional period. Political dangers of keeping Spain and Portugal waiting.

EC/Spain 1970 Agreement

5. Important to us that Spanish accession leads, after only short transitional period, to ending of imbalance in trading conditions inherent in, and exacerbated by deficient Spanish implementation of, EC/Spain 1970 Agreement. This was concluded when Spanish industry much less competitive, and now favours Spain quite unreasonably. Delays to accession negotiations make this harder to tolerate meanwhile. Creating serious problems for some sectors of UK industry (Ford and General Motors cars imported over 4% tariff against 37% tariff in Spain); effects causing real concern. Working for a solution through Community action.

Gibraltar

6. If frontier stays closed, reserve right to raise matter in relevant chapters of accession negotiations. Have made clear to Spain and Parliament inconceivable that there should be closed frontier between two parts of EC.

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Social Affairs: Freedom of Movement (If raised)

7. Understand German concerns. But wonder if Community can be more rigorous with applicants than with Greece?

BACKGROUND

1970 EC/Spain Agreement

8. We are starting a campaign to draw the attention of our partners to the unfair trading advantages Spain gets under, as well as by not fully implementing, the 1970 EC/Spain Agreement. Spain has taken advantage of the very high tariff protection the Agreement provides to become highly competitive and export oriented in certain sectors sensitive for British industry, notably cars/components. There is no more prospect now of renegotiating it than at the time of earlier unsuccessful attempts. France and Italy are not prepared to make the necessary concessions on agriculture. But we should shortly be ready to put to our partners ideas for dealing with the sensitive sectors in the transitional period after accession; and for measures before accession to safeguard our industry from unfair competition. Meanwhile it would be useful to flag our concern, not least because the Germans are likely to be the most difficult of our partners.

Italian Ideas: Phased Entry

9. French and Italians both fear impact of Spanish accession on their growers of Mediterranean produce. Italians envisage 'political accession' by Spain and Portugal in 1984 with decisions on their participation in most difficult EC policies (notably CAP) left until 2 years later. Though they are not now suggesting that other EC members join the 'slow stream' with the new entrants, the concept has obvious dangers for us.

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French Ideas: Linkage Between Own Resources and Enlargement

10. French, with gathering support from all our partners except the Germans, insist the Community must decide on more own resources before enlargement, and that new own resources decision and accession treaties should be ratified together. This means:

- a) enlargement bound to slip by years - 1986 would be optimistic;
- b) French likely to try to shift blame on to us for delay because of our position on EC budget and new own resources.

Social Affairs: Freedom of Movement

11. Germans acutely concerned about present and potential 'Gastarbeiter' (foreign workers) and flagged this concern in their reply to M Thorn. (New Government expected to be even more sensitive) They are currently trying to persuade the Community to toughen its previous position (not less than for Greece - eg, 7 years) on the transitional period for freedom of movement for Portuguese workers in the accession negotiations. Domestically have no objection to German line. However, vis-à-vis Portuguese do not wish to be in forefront of arguing for tougher terms and would not therefore wish to give any commitment to Germans.

Foreign and Commonwealth Office

20 October 1982

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EC BUDGET AND ENLARGEMENT (See further Brief 2(c))

Points to make

- Enlargement can only aggravate problem of budgetary imbalances. Much of the bill will come to the UK and Germany, already the only net contributors.

- Mediterranean products régimes need especial care. France, Italy and Greece all have as much interest as Spain and Portugal in expensive arrangements, which again would be paid for by Germany and the UK.

- Danger also that France and others will treat enlargement as occasion for increase in own resources. No reason for this; but must avoid position where German/UK opposition to extra own resources regarded as responsible for delay in enlargement. Must firmly establish that developments on CAP expenditure more critical than enlargement in deciding when 1 per cent ceiling reached.

- Most sensible solution must be new budgetary arrangements, which would cover acceding states and existing members, to place limits on net contributions.

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PMVX(82)2e

COPY NO. 9

21 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

EUROPEAN ACT

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Have noted your government's interest in advancing the work on this. Agree that it is important for Community not to lose sight of its wider objectives. Hope exercise can be brought to successful conclusion. Willing to continue to contribute constructively to work on this. How does German government envisage the exercise being carried forward under your Presidency, assuming no agreement reached this year?
 2. [If title is raised] Cannot agree to "Act" as title since this has legislative overtones in UK. Of alternatives so far suggested, we favour "Declaration".
 3. [If Germans raise majority voting] Agree this is one of main outstanding problems. Any text must make clear a Member State's right to have a majority decision deferred where it considers its important interests to be involved.
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BACKGROUND

4. The Genscher/Colombo proposals for an Act on European Union were last considered by Foreign Ministers at their meeting on 20 June, who agreed that the ad hoc group should continue its work under the Danish Presidency.

5. The new German Government has given prominence to the proposals in its statements on foreign policy as an affirmation of its faith in European unification. The Germans do not expect rapid progress under the Danish Presidency but, for obvious reasons, will press for adoption of a final text before the Federal elections in March 1983. Genscher and Colombo addressed the European Parliament about the proposals on 14 October, but did not raise any new points.

6. One of the main outstanding points is the title. We have asked for the document to be called something other than 'Act', which has legislative overtones in the UK. A number of alternatives have been put forward, including 'Charter', 'Declaration' and 'Manifesto'. Of these, we favour 'Declaration' and do not like 'Charter'. The Germans continue to be attached to 'Act', however.

7. Another outstanding point is majority voting, where the four alternative texts which Foreign Ministers considered on 20 June remain on the table. The President of the ad hoc group concluded, on 13 September, that this question could only be resolved, if at all, by Ministers. If, as is probable, no agreement can be reached on any of the alternatives, this section of the proposals may be dropped altogether.

Foreign and Commonwealth Office

21 October 1982

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COPY NO. 9

21 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

EUROPEAN MONETARY SYSTEM

Brief by HM Treasury

Points to Make

1. HMG is committed to the aims of the EMS, and in particular the achievement of greater exchange rate stability between EC countries.
2. The question of sterling's participation in the exchange rate mechanism is kept under review. But we have to be confident that conditions were appropriate. The premature participation of sterling could intensify realignment pressures.
3. The pound and the deutschemark are both widely used in international finance and hence particularly vulnerable to speculative pressures. Therefore we need to be confident that market conditions were appropriate before linking such currencies.
4. Unlike other EMS countries, the UK is an oil producer. When international oil markets are unsettled and oil prices are moving sharply the pound tends to rise and fall in line with oil prices, whereas other EMS currencies show the

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opposite tendency. This complicates the decision on sterling's participation.

5. Further success by all EC countries in combatting inflation and cutting their fiscal deficits will create conditions more conducive to exchange rate stability in the EC.

Background

1. The UK is a founder-member of the EMS and participates in negotiations on its modification and in realignment conferences, but the pound does not participate in the exchange rate mechanism.
2. The fundamental difficulty with participation is that an exchange rate target and a monetary target might conflict. In such a case the monetary target would have to be given precedence.
3. After enjoying a relatively tranquil two years from its inception in 1979, the EMS has in the last 18 months encountered more difficult conditions with major realignments taking place in October 1981 and February and June 1982. Recently the market has seen the French franc and Danish krone as being liable to devaluation against the relatively strong deutschemark and guilder, but speculative pressures have so far been resisted by the authorities.
4. Since June the pound has enjoyed a period of relative stability against the deutschemark, with the rate mostly remaining in the range DM 4.26-4.30. This stability results from market confidence in the currencies, and is not the result of our pursuing any exchange rate objective.

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21 October 1982

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28-29 OCTOBER 1982

DEFENCE MATTERS

Brief by Ministry of Defence

Points to Make

UK AND FRG DEFENCE POLICY

1. Need for closer bilateral cooperation on management of main issues now bearing on alliance strategy - conventional/nuclear balance of emphasis, better use of defence resources, INF (Intermediate Range Nuclear Forces) deployment, etc - and to review opportunities for collaboration in procurement and sales of equipment. Hope you can agree to instruct officials to carry bilateral dialogue further. New strategic ideas in the air - SHAPE (Supreme Headquarters Allied Powers Europe) study, Air Land Battle, Air Land Battle 2000. These must be studied in NATO - but also suitable topics for bilateral dialogue.
2. Falklands experience has not changed thrust of UK defence policy. Main threat still comes from USSR. Our commitment to NATO, and to our four main roles, as firm as ever. We shall also maintain our out of area capability.
3. Understand demographic and financial pressures in FRG. We too have problems. But for UK defence has priority.

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UK committed to 3% target until at least 1985/6 (Falkland apart). Future of FRG policy, spending plans? Vital for US perceptions that Europeans pull their weight. We must also use existing resources better - have put forward ideas in NATO, hope you will support.

EQUIPMENT ISSUES

4. Welcome progress on important collaborative programmes. But very concerned about arrangements for sales of collaborative projects. Essential that proposed MOU allowing UK to take political responsibility for sales - while FRG retains industrial benefits - should cover existing Tornado and 155 mm gun projects.

Background

UK AND FRG DEFENCE POLICY

5. Main direction of UK defence policy remains as set out in Cmnd 8288. We shall maintain our four main roles - Strategic Deterrent, Central Region, Eastern Atlantic and defence of Home Base - and strengthen capability to deploy out of area at short notice. Falklands lessons to be in December White Paper.

6. FRG record on 3% target good (annual average 1979-81: 2.4% compared with UK's 2.2%): but future plans uncertain. Commission on Long-Term Planning of the Bundeswehr foresaw serious manning problems, because of declining birthrate, and equipment cost escalation in face of developing threat. Remedies exist, eg more regular soldiers, but are expensive. Little sign that new government intends to tackle problems

energetically. Many influential Americans still unconvinced that Europeans are pulling weight - threat of neo-Mansfieldism.

7. UK committed to 3% - but has long realised that this will not suffice unless existing resources are used better. UK suggestions over last two years for wide-ranging studies into NATO organisation fell on deaf ears: but June Summit endorsed need for more rational resource use. UK has therefore approached problem from other end, suggested short studies by specialist groups into limited areas of activity, to streamline procedures and save money. If successful, scope could be widened. Sample subject areas - military traffic control, equipment codification, use of civil resources. FRG reaction cautious, unimaginative - fears new bureaucracy. But need for new, radical ideas - NATO risks becoming hidebound.

8. New strategic concepts recently aired - some by SACEUR, some by US Army.

a. SHAPE study - plans mainly airborne interdiction of advancing Warsaw Pact second echelon forces by conventional, but 'Smart' - precision guided - munitions. Now ACE (Allied Command Europe) doctrine, but not accepted formally by nations.

b. Air Land Battle - US Army (not ACE nor NATO) doctrine. Seeks to achieve same result by land-based forces using latest technology to acquire and destroy targets. Can be read to call for early nuclear/chemical release.

c. Air Land Battle 2000

A vaguer concept, derived from b), calling for high mobility and initiative by small units in a complex,

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highly technological battlefield of 1995 +. Again, role of nuclear/chemical weapons unclear - some claim that new weapons will raise nuclear threshold.

These concepts are easily confused with each other, and with SACEUR's separate but repeated argument (to IISS, RUSI) that 4% real increase in spending Alliance-wide during each of next six years would assure conventional deterrence by end of decade. UK military experts criticise elements of all of them; the new technology would be expensive - US industry main beneficiary? Germans anxious to channel discussion into NATO, prevent debate being pursued in the press. We share this wish, but want to discuss the concept further with Germans; eg. greater conventional emphasis could enable us at least to change (? reduce) nuclear stockpile, thus defusing 'peace' movements and possibly generating new arms control initiatives. Other topics suitable for bilateral dialogue: political game plan for INF deployments - 1983 will be tense, Soviet pressure great - and use of resources. Political impetus from Heads of Government would ensure that more intensive consultation process got off to good start.

EQUIPMENT ISSUES

9. Valuable UK/FRG collaborative links. Immediate difficulties caused by German budget problems now largely overcome.

Important new Anti-Tank Guided Weapon and Air to Air Missile projects moving forward. But German Government has so far shown no interest in joining research work being launched by UK on new Combat Aircraft.

10. Restrictive German arms export policies have frustrated most efforts to sell Tornado and FH70 Howitzer. Revised

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German guidelines allowing more flexibility for collaborative projects were introduced in May and to exploit this UK has proposed a draft MOU (mirroring an earlier Fr/FRG arrangement) whereby one partner could take political responsibility for a sale. Agreement on terms has been reached except that FRG has not agreed to 'retrospective' application to sales of existing projects, so excluding Tornado and FH70. This is unacceptable. (Prospective sales possibilities awaiting German clearance are RB199 for India and Tornado for Saudi Arabia, Kuwait, UAE and Oman).

Ministry of Defence

21 October 1982

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21 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

INTERNATIONAL DEBT PROBLEMS

Brief by HM Treasury

UK interest

To agree on the need for continual surveillance of the international banking scene until the transition to global economic recovery is further advanced.

Points to make

(i) Strains inevitable in transitional period. Borrowers had to learn they can no longer rely on inflation to solve debt problems. Counterpart is prospect of growth and stability built on effective adjustment.

(ii) Common interest in health of system as a whole. Defaults would be in no one's interest, debtors or creditors. For a major debtor to default would mean closure to them of world's banking and capital markets and severe disruption of their trade.

(iii) Nature of problems widely debated. Greater understanding that precipitate action, by banks or countries, would be counter-productive. Less tendency to lump all

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countries in a region together. Mexican exercise so far impressive example of international co-operation. Recent improved tone of inter-bank market.

(iv) Recent easing of US nominal interest rates important in relation to dead-weight of debt, possible reduced delay in global recovery, general climate.

(v) Substantial anxieties remain. Political instability eg in Argentina. No guarantee yet that Mexican and other negotiations with IMF will be concluded satisfactorily.

Eastern Europe remains precarious. Banking confidence still fragile: reduced private sector loans to developing countries associated with 15% fall in ldc imports. As yet no assurance that US interest rates will not go up again.

(vi) For problem countries need to judge in each case optimum mix: of adjustment, IMF/IBRD assistance, and if necessary rescheduling. Blanket solutions would undermine agreed counter-inflationary global strategy. Rescheduling should not be automatic or painless.

(vii) Although cannot displace role of banking sector, IMF's position central in '80s. Important to reach agreement at forthcoming meeting of Interim Committee on adequate and timely increase in resources.

(viii) Oil price increases spur to progress in seventies, but continuing responsibility on banking supervisory authorities to strengthen worldwide surveillance arrangements and level up standards.

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Background

1. The international banking scene is still fragile. Much depends on the satisfactory resolution of the Mexican problem and no serious reverse after the Brazilian election in November. The German banking system is also vulnerable because of exposure to Eastern Europe. It will be important to avoid exacerbating problem through blanket defensive action by banks.

2. The debt problem should prove transitional but is very large. The IMF estimate that the long term external debt of NODCs, some \$300bn in 1978, will have risen to \$500bn in 1982 (about \$200bn to official creditors and \$300bn to private creditors). However on their central economic prospect forecast debt service/export ratios can be expected to decline with a recovery of global economic activity:

Debt Service/Export Ratios for NODCs* (per cent)

	<u>1972</u>	<u>1977</u>	<u>1981</u>	<u>1982</u>	<u>1986</u>
Net Oil exporters	25.3	25.1	33.0	37.1	31.1
Major exporters of mfrs	17.7	13.1	18.8	20.1	15.0
Low-income countries	10.1	9.9	26.8	30.2	21.9
Others	12.3	12.5	20.4	21.4	18.8

* excluding short term debt.

3. It was agreed in Toronto in September to seek to accelerate settlement of the question of increased IMF resources at the next Interim Committee meeting. The US have recently suggested informally a new approach combining

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a quota increase of SDR 25bn, a smaller figure than others have so far favoured, with a GAB "window" of SDR 10bn under which G-10 countries would provide additional resources in emergencies. It has also been suggested that countries might try to make the quota increase effective not later than mid-1984. This possible compromise is currently being considered by G-5 Finance Ministers with a view to soundings being taken of developing countries and the possibility of advancing the Interim Committee meeting.

4. The Basle Committee drew up a set of guidelines on the supervision of banks' foreign establishments in 1975. These guidelines, known as the Concordat on banking responsibilities, can be summarised as follows: the supervision of branches' solvency falls to the parent authorities, whilst liquidity of branches and subsidiaries falls to the host authorities. Solvency of subsidiaries is in the first place for host authorities, but the principle of consolidation means a substantial - sometimes pre-eminent role - for the parent authorities.

H M TREASURY

21 October, 1982

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ANNEX

NOTES ON PROBLEM COUNTRIES, OCTOBER 1982

A - LATIN AMERICA

ARGENTINA. Total debts \$37 billion (end June 82). \$15 billion in interest and principal is due in the second half of this year. But Argentina's creditworthiness is deteriorating due to the inflationary policies being followed by the Bignone regime and growing signs of political and social instability. A major rescheduling seems unavoidable, despite Argentine reluctance. Instead Argentina is trying to negotiate short-term bridging finance with the international banks to tide them over until January 1983 when they hope to obtain a 3 year IMF standby. ECGD remain off cover.

BRAZIL. Total debts approaching \$80 billion. Brazil needs to raise \$3-5 billion in the last quarter of the year to service debt and meet an increasing current account deficit, expected to reach \$14 billion in 1982. Brazil has recently experienced difficulty in raising loans and liquid reserves fell from \$4½ billion to \$2½ billion in the first 20 days of September. Despite November elections the Government has introduced a series of emergency measures over the last month including curbs on monetary expansion, imports and foreign travel. Further restrictive measures are expected after the November elections and if necessary the authorities may consider opening negotiations with the IMF.

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MEXICO. Total indebtedness about \$80 billion.

A flight of capital earlier this year and inability to borrow further led to emergency economic measures by the Mexicans and international assistance comprising several forms of support including the BIS bridging loan in which the Bank of England participated. The second of the three tranches of the BIS loan has just been made available (conditionally - because of slow progress in the IMF talks) but this has not been announced. Longer term support must come from the IMF in conjunction with an economic adjustment programme that will have to be severe. Negotiations are proving difficult because of the Mexicans' attitude to the IMF, their initial mishandling of the situation and the scale of adjustment required, but agreement is expected by mid-November on a 3 year programme worth up to \$4 billion. The Mexicans are separately negotiating with the banks about refinancing their debts (currently subject to a 90 day moratorium on repayments). The new President de la Madrid succeeds President Lopez Portillo in December.

The Mexicans have not asked to reschedule their officially supported debts. ECDG remains technically on cover, but with a limit that allows very little new business.

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B - EAST EUROPE

YUGOSLAVIA. Total convertible currency indebtedness \$20 billion. Yugoslavia has failed to come to grips with increasingly severe payments imbalances despite an IMF upper tranche programme. She may have great difficulty in avoiding a debt rescheduling, but imports are being cut drastically, and the Yugoslavs say they will not reschedule. Negotiations have been taking place for some months with a group of US, Canadian and Japanese banks for a \$300 million loan (with moral support from the State Department) and the BIS has been sounded on the possibility of providing a large 3 year stand-by facility. The Governor of the National Bank of Yugoslavia visited London last month to assess the prospects for further loans from British banks; the latter were not enthusiastic; but they may eventually offer a relatively small loan although this would be far less than the Yugoslavs say they need. ECGD has a substantial exposure (£700 million) but is now virtually off cover except for short term business.

POLAND. Total convertible currency indebtedness \$27 billion. Virtually none of the \$10 billion convertible currency obligations falling due in 1982 has been paid. Progress is being made on the rescheduling of unguaranteed banking debt due in 1982. An agreement may soon be signed under which the Poles will receive back half the interest paid this year in the form of a 3 year credit. Western official creditors agreed after the imposition of martial law not to resume talks on official rescheduling for the time being. The

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effect of this refusal is to allow Poland 100% de facto relief on both principal and interest and some creditors are now reconsidering. But the US (and France) still firmly oppose the resumption of talks.

HUNGARY. Total convertible currency indebtedness \$7.5 billion. Hungary faces short term liquidity problems, and a substantial debt burden over the next few years. The immediate position was eased by a \$210 million BIS support package earlier in the year (in which Bank of England participation without official backing is \$30 million) and a new commercial bank loan of \$260 million. The BIS renewed \$100 million of the original facility, which matured in October, and agreed to lend a further \$300 million. However \$100 million of this will be made available only when the \$110 million balance of the original facility matures in November. Hungary's prospects will be helped by the conclusion of an IMF stand-by arrangement which requires tough adjustment measures. Rescheduling remains a possibility. ECGD commitments are modest and under tight control.

GDR. Total convertible currency indebtedness \$16 billion. GDR is unable to raise substantial new credits from Western banks. It has introduced measures to cut imports from the West and boost exports to convertible currency markets. A request for debt rescheduling cannot be ruled out in 1982, though is more likely to occur in 1983. We understand, in confidence, that an approach has been made to the FRG government for assistance in raising a DM 3.5-5 billion (\$1.5 billion) financial credit. ECGD has introduced tighter market limits but is still on cover.

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ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

ANGLO-GERMAN BILATERAL QUESTIONS

Brief by Foreign and Commonwealth Office

BACKGROUND

1. We have no bilateral problems with the Germans.
2. Dr Kohl's visit to London has set our relations with the new German Government off to a good start. We shall hope to build on this at the Summit and at subsequent meetings at official level. Among meetings planned are:
 - bilateral discussions on Japan in Bonn: ? November
 - bilateral discussions of the Third World in Bonn: ? November
 - Anglo-German information talks in Bonn: 8-9 November
 - German Deputy Political Director MFA to London: 6 December.
3. A number of bilateral meetings between the CDU/CSU and the Conservative Party are also planned, notably the visit to Bonn by Mr Parkinson with some 20 MPs and MEPs, planned for the end of September but postponed until early in the New Year because of political uncertainties in the FRG.
4. These exchanges are to be seen as part of the general exercise of 'thickening up Anglo-German relations' which was endorsed by the Prime Minister and Chancellor Schmidt at last November's Anglo-German Summit (joint press statement attached at Annex).

Foreign and Commonwealth Office

21 October 1982

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REPORT
FROM THE FEDERAL REPUBLIC OF GERMANY

Nov. 20, 1981

THE FOLLOWING JOINT STATEMENT WAS ISSUED AT THE END OF THE TALKS BETWEEN MRS. MARGARET THATCHER, THE PRIME MINISTER, AND HERR HELMUT SCHMIDT, THE FEDERAL CHANCELLOR, IN BONN ON NOV. 18, 1981:

On the occasion of the 10th in the series of regular Anglo-German consultations held at Head of Government level, which have reaffirmed the broad agreement of the two Governments on all important issues, the Chancellor of the Federal Republic of Germany and the Prime Minister of the United Kingdom paid tribute to the large number of links which have grown up between the German and British peoples and which support and complement the close co-operation of the two Governments.

1. They welcomed the multiplicity of contacts which have been further strengthened since Britain's accession to the European Community and which are also an expression of the will of the German and British peoples, together with their partners and allies, to defend their common external security and their common values.

2. The two Heads of Government noted that bilateral relations are interwoven in the closest and most varied fashion with those arising from the two countries' membership of the European Community and their participation in European Political Co-operation. They welcomed the fact that the range and intensity of contacts is greater than at any other stage in the history of the two countries, partly as a result of activities within the European framework.

3. The Federal Chancellor and the Prime Minister recalled that their two countries make a significant contribution to common defence within the framework of the Atlantic Alliance. In this context, the Federal Chancellor paid tribute to the indispensable role of the British forces in the Federal Republic of Germany. The two Heads of Government underlined the Alliance's objective of a military balance which is to be achieved and stabilised at the lowest possible level.

4. The two Heads of Government stressed the particular importance for relations between the two countries of the contributions made by the following Anglo-German organisations:

The regular meetings of groups of Parliamentarians from both countries;
The Anglo-German Society with its annual Königswinter conference;
The Anglo-German Association.

They also commended the contribution made by the international conference centre Wilton Park, which began as an Anglo-German initiative and developed into an international meeting-place.

5. The Federal Chancellor and the Prime Minister paid tribute to the bilateral partnerships and exchange programmes, in particular to:

The more than 300 town-twinning arrangements;
Scientific and academic exchanges;
Anglo-German youth exchanges; and
Anglo-German exchanges of public servants.

6. In the economic and social sectors they welcomed the work of the German Chamber of Commerce and Industry in London, the British-German Trade Council in Cologne and the Anglo-German Foundation for the Study of Industrial Society which was set up in 1973 on the initiative of the late Federal President Heinemann and is becoming an increasingly important forum for social and economic contacts.

7. The Heads of Government paid tribute to the work of the Goethe Institut in Great Britain and the British Council in the Federal Republic of Germany. They emphasised the need further to promote the learning of each country's language by the people of the other and welcomed all efforts to this end.

8. The two Heads of Government stressed the importance they attach to the role of the press, radio and television in conveying to the citizens of each country a comprehensive picture of the other. They paid tribute to the existing close co-operation between the media.

9. The Federal Chancellor and the Prime Minister drew attention to the following possibilities for improving and expanding bilateral relations:

Increased involvement of the younger generation in all Anglo-German meetings and an even broader spread of existing contacts and exchanges for apprentices, trainees, young trade unionists, industrial and professional associations and similar groups;

An increase in co-operation in the information sector, above all in the field of television;

Concentration of the work of the Anglo-German Foundation on activities designed to bring together opinion-moulders on both sides and to increase the Foundation's impact on public opinion.

10. The two Heads of Government agreed that the further development of Anglo-German relations and the regular co-ordination of the European and international positions of their two countries would serve not only the citizens of their two countries but also the cause of European unity and common security within the Alliance.

They instructed their officials to keep the bilateral relationship under review with the aim of reinforcing the links that already exist and of developing others where necessary and to make a progress report to the Heads of Government at a future summit meeting.





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ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

STEERING BRIEF

Brief by Foreign and Commonwealth Office

INTRODUCTION

1. This Summit, the twelfth in the series of regular consultations at Head of Government level, will be Chancellor Kohl's first. The Prime Minister met him on 19 October and got on well. The Summit will allow the two leaders to forge clear links and to talk in detail about subjects covered in London, especially the Community. The Prime Minister will want to thank the Chancellor for rallying to the Community position on steel exports to the US. We shall need to bring home to the Chancellor the case for a lasting solution to the Budget problem, while the Germans are likely to press their ideas for 'new impulses' within the Community. We can expect the other main themes to be international economic and trade questions, transatlantic and East/West relations and defence.

2. Dr Kohl has little experience of international affairs. In the four weeks since he has held the Chancellorship the focus of his attention has been almost entirely domestic - although he has visited both Paris and London briefly and has already

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experienced his first Franco-German Summit (21-22 October). His government had a difficult birth. The method by which it came to power - the 'constructive vote of no confidence' - has met with the disapproval of much of the electorate: Herr Schmidt was a popular Chancellor and Herr Genscher is widely blamed for disloyalty to the SPD/FDP Coalition.

3. The months leading up to the March 1983 elections will not be easy ones for the new administration. The German economy is still in trouble - unemployment may hit the two million mark before the end of the winter and growth is virtually zero - and there is a tough budget to push through the Bundestag. Herr Strauss is waiting in the wings for an opportunity to return to the centre stage. Herr Genscher's position as FDP Chairman is under threat and there is a serious danger that the FDP will not be in the Bundestag after the March elections. Without them the CDU may not win a majority.

4. Dr Kohl thus has five months to stamp his mark on the Chancellorship before he seeks a mandate from the country. The prestige to be gained from international diplomacy will be important to him. He will therefore want the Summit to be a success; we clearly share that interest.

OBJECTIVES

5. Both sides will wish to use this occasion to underline the high importance attached to Anglo-German understanding and to continuity in our bilateral affairs; and to emphasise the extent to which British and German interests coincide. The Prime Minister may wish to express the hope that a strong relationship can be built up between the UK, the FRG and France

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to the benefit of the Community, transatlantic and East/West relations. Specific aims fall under five broad headings:

(a) The Community

See Community Steering Brief.

(b) International Economic and Trade Questions

Ministers will wish to exchange views on their domestic economies and on the world economic situation. The Prime Minister could explain that our two countries' approach on trade, as on economic and monetary policy, is similar, but the UK has further to go in restoring competitive efficiency: we shall need help during the transition. She may also wish to continue discussion with the Federal Chancellor on Japanese trading policy. She might stress the need for a constructive approach by the EC to the GATT ministerial meeting next month, but without excluding recourse to specific restrictive action against imports when justified. She could explain to Dr Kohl her views on the timing of the Economic Summit. He may raise the issue of concerted action within the Community on unemployment.

(c) Transatlantic relations

Ministers will wish to continue their consideration of how to put transatlantic relations back on a more even keel. Chancellor Kohl may wish to discuss further with the Prime Minister how he should use his visit to Washington in mid-November to encourage the Americans to take account of European pre-occupations.

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We should stress our willingness to play a constructive role in transatlantic affairs, while reaffirming our support for European positions on the substance of many current issues in dispute.

(d) East/West Relations

Ministers will wish to exchange views on the present state of East/West relations, particularly the pipeline problem, the situation in Poland and the prospects for the Madrid CSCE review meeting when it resumes in November. Chancellor Kohl will explain his belief in 'genuine' détente and the need for dialogue with the Eastern bloc, although his opposition to Russian adventurism and their interference in the internal affairs of other states is in no doubt. We shall wish to stress our common perception of Soviet behaviour, while reassuring the Germans that we too believe in keeping channels of communication open to the East.

(e) Defence and Security

The change of Government in Bonn gives us a valuable opportunity to give a new impulse to Anglo-German coordination on how to manage Alliance strategy, both nuclear and conventional, and to review the opportunities for collaboration on procurement and sales of equipment. This will take place against a background of strains within the Alliance and on the FRG defence effort, rapidly

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accelerating equipment costs, budgetary constraints and the consequent need to make better use of existing resources. We shall need to reassure the Germans of our commitment to the Central Front (the Falklands notwithstanding) and to underline the importance of sticking to the 'dual track' decision on INF.

STRATEGY AND TACTICS

6. The most pressing UK aim will be to put over to the new German team, and particularly to Dr Kohl, our case on the Community Budget. But, before discussing this, or indeed any other international issues, it might be politic to devote a little time to discussing lessons from HMG's experience of the last three and a half years and the situation facing the Federal Government. It would also be appropriate to express admiration for the vigorous and confident start which Dr Kohl has made, particularly his determination to give top priority to getting the German economy back on the right path.

7. Discussion could then move to the Community (see Community Steering Brief). The Budget will not be uppermost in the Federal Chancellor's mind and he will no doubt wish to explain first his general approach to the Community.

8. Dr Kohl is no expert on world economic and financial issues; detailed discussion of these should be left to Finance Ministers. He must realise however the importance of getting an early grasp of this field, given the repercussions it has for his own domestic economy. The Prime

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Minister might give him a full account of her current preoccupations, concentrating perhaps on the problem of indebtedness and the prospects for recovery.

9. Given the priority Dr Kohl attaches to improving relations with Washington there will be advantage in according a fair share of time to this subject. There should be little difference between the two sides on the nature of the problem and on how to approach a solution. The Prime Minister might invite Dr Kohl to expound his views on East/West relations including his intentions as regards meetings with Soviet and other East bloc leaders.

10. On defence, the Prime Minister might concentrate on seeking Dr Kohl's agreement to our objectives for close bilateral coordination on defence issues and fixing firmly in his mind the value of our contribution, leaving it to Defence Ministers to have more detailed discussion of hardware etc. Foreign Ministers will cover the political aspects, eg arms control, where Anglo-German cooperation is highly developed and of great benefit to the Germans. The Prime Minister may also like to ask Dr Kohl for his impressions of French defence policies in the light of his meeting with President Mitterrand on 21/22 October.

11. The Prime Minister may also wish to take a suitable opportunity of reaffirming the great importance we attach to a German abstention on the Latin American draft UN resolution on the Falklands.

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PROGRAMME

12. In addition to Chancellor Kohl, the German team will include:
Herr Genscher, Vice-Chancellor and Federal Foreign Minister
Dr Wörner, Federal Minister of Defence
Herr Stoltenberg, Federal Minister of Finance
Graf Lambsdorff, Federal Minister of the Economy

The Prime Minister will be accompanied by:

The Chancellor of the Exchequer
Secretary of State for Foreign and Commonwealth Affairs
Secretary of State for Defence
Secretary of State for Industry.

The British team will leave London late in the afternoon of 28 October, arriving in Bonn in time for talks before dinner with their German opposite numbers. The Foreign and Commonwealth Secretary will join Heads of Government for dinner; other Ministers will dine separately. The following morning's programme will begin at 0900 with an official welcoming ceremony at the Federal Chancellor's Office, followed by a series of short tête-à-tête meetings at 0915 and then a plenary session at around 0945, attended by all Ministerial participants with advisers. At 1130 the Prime Minister and the Federal Chancellor will give a press conference in the press room of the Federal Chancellor's Office. At 1230 the British party will leave for Cologne/Bonn airport from where the Prime Minister will fly to Berlin. Other Ministers will return to London, arriving at RAF Northolt at around 1320.

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ANGLO-GERMAN SUMMIT: 28th-29th OCTOBER

UNITED KINGDOM OBJECTIVES

Primary

1. To establish a good working relationship with the new Federal Government.
2. To stress Her Majesty's Government's commitment to the European Community and our common ground with the Germans on many Community issues (economic policy, enlargement), while emphasising the importance of finding a fair and lasting solution to the Budget problem.
3. To discuss how to improve transatlantic relations and to exchange views on East/West political and economic relations.
4. To consider world economic and monetary problems, including international indebtedness; to co-ordinate positions on international trade issues to be discussed at the GATT Ministerial meeting; to establish firmly in German minds that we are close in our approach on internal economic policy, and that this should be reflected by close collaboration in international meetings.

Subsidiary

5. To impress on the Germans the extent of our involvement with them on defence issues and our cooperation on a whole range of security interests; to reaffirm our commitment to maintain British Forces in Germany and to test the water on the possibility of closer bilateral discussions on the future of defence policy in Europe.
6. To explain British policy on the Falklands and to seek German diplomatic support at the UNGA.
7. To underline our interest in and enlist German support for securing early agreement on the Common Fisheries Policy; to respond positively to any German priorities on European Community issues, e.g. Genscher/Colombo, which are not inimical to our interests.
8. To seek convergence of views on other current international issues, particularly the Middle East.

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PROBABLE GERMAN OBJECTIVES

Primary

1. To stress that a CDU/FDP Government intends to work even more effectively with Her Majesty's Government than its SDP/FDP predecessor.
2. To explain that the broad outline of German foreign policy will remain unchanged, but emphasise the need to improve transatlantic relations and to take a firm view of relations with the Soviet Union
3. To try to advance the Genscher/Colombo proposals and to sound out the prospects for future discussions of the Community budget dispute.

Subsidiary

4. To reach the widest possible agreement with us on East/West political and economic relations and world economic and monetary problems.
5. To assure themselves that the balance of United Kingdom defence policy will not be altered by the Falklands dispute and in particular that BAOR will not be reduced.
6. To concert strategy on enlargement and to seek United Kingdom support for German interests on other Economic Community issues, notably Turkish immigrant workers.
7. To exchange views on other current international issues, particularly on the Falklands and the Middle East.

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ANGLO-GERMAN SUMMIT, 28-29 OCTOBER

CHECK LIST OF SUBJECTS FOR DISCUSSION

1. European Questions

- EC Budget (inc CAP)
- enlargement
- EC/Turkey
- European 'Act'
- CFP
- Franco-German Summit, 21-22 October
- prospects for December European Council and German Presidency

2. West/West and East/West Questions

- transatlantic relations (including steel)
- East/West economic relations (including pipeline)
- Poland (including rescheduling)
- CSCE
- inner German relations

3. Defence and Disarmament Questions

- British defence policy after the Falklands (including BAOR)
- German defence policy (including the report of the long term defence planning commission)
- INF
- START
- conventional arms control in Europe (MBFR, CDE)
- equipment collaboration and sales

4. World Political Questions

- Arab/Israel and Lebanon
- Europe/Latin America (including the Falklands)
- British policy towards China (including Hong Kong)
- Central America
- Iran/Iraq and the situation in the Gulf
- Afghanistan
- North/South dialogue
- UNLOSC
- EC/ASEAN
- Southern Africa/Namibia
- Cambodia

5. International Economic and Monetary Questions

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ANGLO-GERMAN SUMMIT: 28-29 OCTOBER

Subjects for Discussion by Individual Ministers

Prime Minister Chancellor Kohl	The Community (incl. Community Budget and the Genscher/ Colombo proposals) International Economic and Trade Questions (incl. indebtedness, Japan, protectionism) Transatlantic Relations East/West Relations Defence and Security Falklands British Policy Towards China (incl. Hong Kong)
Mr Pym Herr Genscher	Community Budget (including CAP) EC Enlargement Genscher/Colombo Proposals CFP Franco-German Summit 21-22 October Prospects for December European Council and German Presidency Poland CSCE Inner-German Relations INF, START, Conventional Arms Control in Europe (MBFR, CDE) Arab/Israel and Lebanon Europe/Latin America (incl. Falklands) Central America Iran/Iraq and the Situation in the Gulf Afghanistan North/South Dialogue UNLOSC EC/ASEAN Southern Africa/Namibia Cambodia
Mr Nott Dr Wörner	British Defence Policy German Defence Policy Current NATO issues Nuclear Issues Arms Control Equipment Collaboration and Sales
Sir G Howe Herr Stoltenberg	International Economic Questions (incl. indebtedness) Community Budget Domestic Economies
Sir G Howe Graf Lambsdorff	International Economic and Trade Questions
Mr Jenkin Graf Lambsdorff	Steel Airbus - A320 Industrial Technology Collaboration
Mr Jenkin Herr Stoltenberg	Industrial Policy Questions

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RESUME OF BRIEFS

Brief No 2: European Questions

See the European Community Steering Brief (Brief No 2a).

Brief No 3: Transatlantic Relations

We must maintain transatlantic unity and deny the Russians opportunities for wedge-driving. We shall also continue to remind the Americans that differences of transatlantic perception are inevitable, but that these must not be exaggerated.

Brief No 4: East/West Economic Relations

The Germans are also involved in talks with Americans about broad East/West economic questions following La Sapinière. They share our wish to resolve the pipelining problem on an acceptable basis as rapidly as possible. We must continue to work closely together on this.

Brief No 5: East/West Political Relations (including Afghanistan)

Alliance unity is a primary requisite for dealing with the Soviet Union. The right approach must be to make clear to the Russians that negotiations aimed at real reductions are the only alternative to rising expenditure on arms. The West has advantages in all spheres, technology, economy, politics, etc, except arms. We must build on these advantages. We need to examine together fundamentals of East/West policy, in particular with a view to examining our relations with the Soviet Union in a transitional post-Brezhnev phase.

Brief No 6: Poland

We shall wish to deplore recent events in Poland and emphasise the importance of maintaining a united and co-ordinated Alliance approach based upon commonly agreed policies and objectives.

Brief No 7: CSCE

The Alliance position for the reconvened Madrid Conference has not yet been decided. All are agreed on the need for a critical review of Eastern violations of the Helsinki Final Act but the Americans are not yet persuaded that the negotiation of a substantive concluding document should be resumed. Unity is important if the West is to maintain pressure at Madrid.

Brief No 8: Inner-German Relations

Kohl has said his government will continue to develop relations with the GDR. But he is likely to put more emphasis on Germany as a whole and to bargain more toughly for humanitarian concessions from the GDR. The initial GDR reaction has been strongly negative.

Brief No 9: Defence Matters

We should aim for closer bilateral cooperation on the management of the main challenges facing the Alliance and for better collaboration on procurement and equipment sales.

Brief No 10: Arms Control and Disarmament

We should underline to the Germans the need for a steady nerve and patience over the next year in the lead up to the first Cruise and Pershing II missile deployments. We should stress to the Germans that NATO's INF (and START) proposals still carry credibility with the public and that it would be premature to consider changes.

Brief No 11a: Arab/Israel and Lebanon

We should consider with the Germans the Ten's role in encouraging a realistic approach in the Arab world to the opportunities created by the Reagan initiative and the Hussein/Arafat discussions. On Lebanon, the most important question is the form and scope of peacekeeping operation required as part of the withdrawal of all foreign forces.

Brief No 11b: Europe/Latin America (including Falklands)

We should explain that we cannot accept any call for negotiations with Argentina over the Falklands and urge German abstention in the UN vote.

Brief No 11c: British Policy towards China (including Hong Kong)

Our relations with China are good, despite some differences over Hong Kong and the Falklands. On Hong Kong we have achieved our first goal of starting talks aimed at maintaining stability and prosperity.

Brief No 11d: Iran/Iraq and the situation in the Gulf

The war continues at a lower level of intensity. The prospects for a negotiated settlement are poor.

Brief No 11e: North/South Dialogue

It is important that all Summit partners stay united around the position on global negotiations established at Versailles.

Brief No 11f: UNLOSC

We are still examining the texts and no decision has yet been taken on signature (which we believe can be separated from ratification). Like us, the FRG have still to make up their minds about the Convention. We are conscious of the defects in the deep sea mining aspects, but we also have to consider the longer-term prospects for stability in this area and the other important UK interests deriving from existing continental shelf and navigational provisions of the Convention.

Brief No 11g: EC/ASEAN

ASEAN set great store by Foreign Ministers meeting with their EC colleagues and have already lobbied in London. There are obvious difficulties in the way of their wish for full EC

participation at the meeting in Bangkok next February.

Brief No 11h: Southern Africa and Cambodia

If Namibia is raised, we could stress the importance for an early settlement of agreement on Cuban troop withdrawal from Angola.

If the current initiative should fail, the Five must stick together and keep hopes of a negotiated settlement alive.

Brief No 11i: Cambodia

The new Coalition has allowed the Cambodian opposition and its ASEAN backers to retain the political initiative at the UN and in the region. But the resistance forces must be able to look after themselves in Cambodia, while ASEAN and the West must avoid breaking ranks as Vietnam tries to evade the consequences of her Cambodian policy.

Brief No 12a: Prospects for the World Economy

Output in the major economies has recovered slightly, though it is too early to say whether a broad upturn has started. Inflation and interest rates have been reduced and should foster recovery next year. Monetary policy should remain firm if inflation is to be contained, but welcome flexible approach adopted in US.

Brief No 12b: International Debt Problems

We need to agree with the Germans on the need for continual surveillance of the international banking scene until the transition to global economic recovery is further advanced.

Brief No 12c: International Trade Problems

We share the Germans' concern to avoid unjustified recourse to protectionist measures and believe the EC must keep pressure on its trading partners (Japan, US) to maintain the open trading system. But the Community cannot afford to appear indifferent to the

/difficulties

difficulties facing domestic industry.

Brief No 13: Anglo-German Bilateral Questions

There are no bilateral problems. Kohl's visit to London has set our relationship with the new German Government off to a good start. We shall hope to build on this.

Brief No 14a: FRG Scene: Political

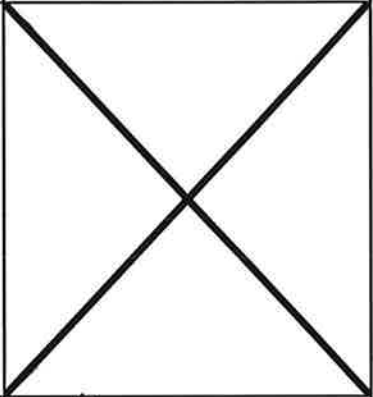
The new CDU/CSU/FDP Government has only five months to make its mark before Federal Elections next March. Genscher has borne the brunt of criticism for the break up of the SPD/FDP Coalition. It is not yet clear whether Schmidt will stand again as the SPD's Chancellor candidate. If not, the SPD may move to the left.

Brief No 14b: FRG Scene: Economic

Activity in the FRG remains depressed, partly reflecting slower world trade growth. Unemployment has risen sharply. Inflation has been reduced to 5% and is expected to fall again next year. The new CDU/CSU/FDP government remains committed to anti-inflationary policies.

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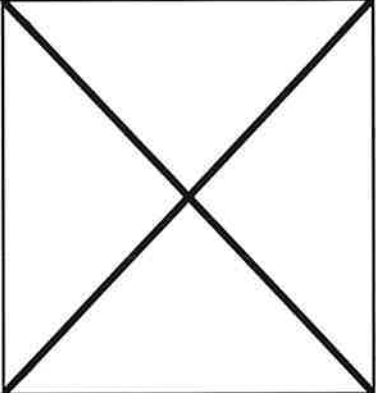
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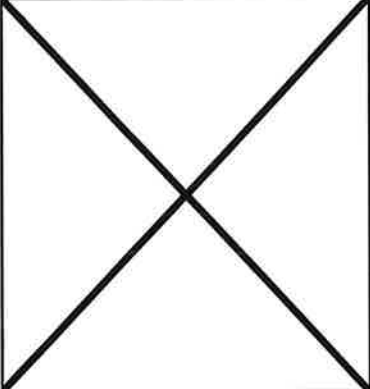
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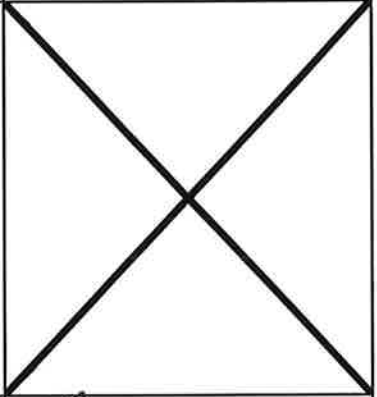
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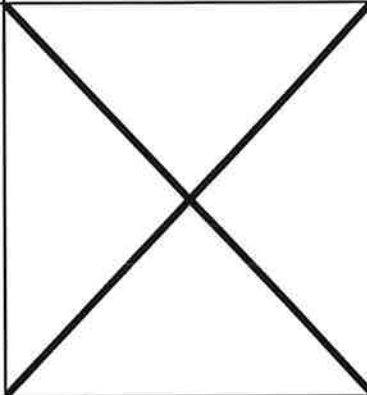
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FEDERAL REPUBLIC OF GERMANY - BASIC STATISTICS

Population	1980	61.57
(millions)	1981	61.66
Labour Force (estimates)	1980	23,365
(millions)	1981	23,435
	Aug 1982	24,285
Unemployed (% of	1980	3.7
civilian labour force)	1981	5.5
	Aug 1982	7.4
Gross Domestic Product	1980	819.12
(US \$ bn)	1981	685.10
Gross Domestic Product	1980	13,303.9
per head (US \$)	1981	11,110.9
Annual Rate of growth	1980	1.9
of GDP (%)	1981	-0.3
Annual Rate of growth	1980	-0.8
of Industrial Production	1981	-0.9
	July 1982	-4.7
Consumer Prices (% change	1980	5.5
on year earlier)	1981	5.9
	Oct 1982	4.9
Balance of Payments on	1979	-6.11
Current Account (US \$ bn)	1980	-16.46
	1981	-7.20
<u>Trade</u>		
UK Exports to FRG	1979	£4,234.6 million
	1980	£5,113.0 million
UK Imports from FRG	1979	£5,801.0 million
	1980	£5,700.9 million
<u>Defence</u>		
Spending (as a % of GDP)	1981	3.0%
Total Armed Forces	495,000 (225,000 conscripts)	

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ANGLO-GERMAN SUMMIT
28/29 OCTOBER 1982

EUROPEAN QUESTIONS: STEERING BRIEF ON THE EUROPEAN COMMUNITY

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. This Anglo-German Summit provides a useful opportunity to explain our views on Community matters to the new German Government in advance of the negotiations on budget arrangements for 1983 and later. We shall want to convince them of the need to find a lasting solution to the budget problem which is fair, both to Germany and the United Kingdom. The German rôle will be all the more important in that they will hold the Presidency during what is likely to be a decisive six months beginning next January.

2. We do not yet know the detailed views of the new German Government on Community matters but the general thrust is reasonably clear. They are firmly committed to the development of the Community and have called for "new impulses" and in particular for the Community to reach agreement on the Genscher/Colombo ideas for a European "Act". They are probably more dependent on the agricultural lobby than their predecessors. Some of those mainly responsible for German Community policy (Herr Genscher and Herr Ertl in particular, as well as the officials who advise them) have kept their jobs and it seems unlikely that there will be fundamental changes of policy. The Schmidt government

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declined to co-operate with us in finding a lasting and Community solution to the budget problem and they took the line that Germany only had a problem because of the need to contribute to refunds insisted on by the United Kingdom. They led the pack in pressing for a low figure for our basic refund and then, in addition, refused to pay their normal share of it. It was largely this which led to the breakdown in the Spring and the current difficulties about financing the 1982 refunds.

UK OBJECTIVES

3. Our main objective must be to convince the new German government that they ought, in their interests as well as ours, to cooperate with us over the budget problem. If we are to stand any chance of success in this aim, we must convince them that we are dedicated to Community membership and have a broad and constructive attitude to its current problems. We must, above all, avoid giving them the impression that we are only interested in money - or, as is frequently alleged on the Continent, that we have a narrow "accounting" or "balance sheet" approach to the Community.

4. It will clearly be very difficult for the Kohl government to concede a normal financing share for UK refunds in respect of 1983 and 1984, given what their predecessors achieved for 1982. But we must not miss this opportunity to persuade them to be more constructive than their predecessors. We need to convince them that it is in their interest to establish both a better system of control over Community expenditure and also a permanent check on the size of the net contributions of the net contributors. To achieve our joint objective of giving new impetus to the Community it is essential to get this problem out of the way. In doing this, we must be very careful not to give the Germans the impression that we are trying to gang up against France. Kohl will not cooperate in an explicitly anti-French policy.

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ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

EC BUDGET (INCLUDING CAP)
Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. I mentioned to you last week the Community budget problem. There is a problem not just for Britain; it affects you too and it derives from the whole structure of the Community budget. A Community solution is required.

2. The problem is that the financial burdens and benefits of the Community are not shared equitably among the Member States. Because we have a relatively small and efficient agricultural industry the preponderance of agriculture in the budget works against us despite the fact that we are below the Community average in prosperity. Because you too are more an industrial than an agricultural economy and benefit little from the Community's other policies your exposure to any increase in Community spending is virtually open-ended.

3. Some object to talking about net contributions, but fact is that British and German taxpayers are transferring real money to the recipients of Community expenditure in the other Member States. The UK is already transferring a sum close to our total spending on aid to the third world to Member States most of which are more prosperous than us. Enlargement likely to increase the burden on existing members. Not reasonable that it should fall mainly on the UK and Germany.

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4. On present policies, Portugal could end up as net contributor. Generally recognised that that would be wrong because it is a very poor country. The same principle of relative prosperity should be applied to Community finances as a whole. If we are to see a Community of Ten or Twelve prospering and developing as we would both wish it to, there must be a fair sharing of burdens.

5. So something must be done about the budget problem, not just a stop-gap short-term solution but a more fundamental approach which however must take account of the real interests of all Member States. The United Kingdom warned about this problem before our accession and the Community promised to find solutions if necessary. This was one of the understandings on which the United Kingdom joined the Community and it must now be respected. For the last 3 years temporary, limited refunds have, with great reluctance been agreed for the United Kingdom. The negotiations have been difficult and divisive. The Community have been wasting time and effort on repeated sterile battles without facing up to the underlying problems.

6. [If 1982 Agreement not completed] This problem must be resolved at the November Foreign Affairs Council. If it remains outstanding at the Copenhagen Summit, I will have no alternative but to raise it there and failure on that occasion would have disastrous consequences for the Community, because it would mean that the Community was going back on an agreement already reached.

7. For 1983 and later years a lasting solution must be found. The United Kingdom would be prepared to accept one based on the same principles as the 30 May Agreement. Such an agreement should last until such time as a more fundamental reform of Community finances was made as a result of enlargement or any other change in circumstances.

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8. [If Chancellor Kohl refers to the "overpayment"] If the rest of the Community agreed to an arrangement such as I have just discussed, then, in return for this, the United Kingdom would be prepared to make some further restitution of the alleged over-payments but certainly nothing like the amounts the French have suggested, no doubt for negotiating reasons. This would be a contribution by the United Kingdom to the agreement. There is no legal or moral obligation to make any further repayment of the alleged over-payments and, in the absence of a satisfactory solution for 1983 and later, no further restitution will be made.

9. We understand that at some stage the Commission might suggest a review of the Community's financial arrangements in the context of enlargement and the exhaustion of own resources. The UK is not convinced that any increase in own resources will be necessary even after enlargement. We have however to take note of the views of some other Member States that own resources will have to be increased at the time of enlargement and that a review of the Community's financial arrangements is therefore necessary. Our attitude to such a proposal, if it were made, would be determined by the purpose and nature of the review and the proposed terms of reference. The Government would need to be convinced of the value of a review before agreeing to it. No preconditions about the outcome could be accepted. The objectives of any such review would need to include the construction and implementation of a lasting solution to the British budget problem.

10. These are major issues, where we have important interests in common. I think it would be sensible for us to keep in close contact at Ministerial and official level in the weeks ahead. Could we agree that at the plenary?

Foreign and Commonwealth Office
22 October 1982

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ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

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Brief by Department of Trade

[+ note on German protectionism by
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14a. FRG SCENE: POLITICAL

Brief by Foreign and Commonwealth Office

14b. GERMAN ECONOMY

Brief by Treasury

Cabinet Office

25 October 1982

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PMVX(82)2a Corrigendum

COPY NO. 9

25 October 1982

ANGLO-GERMAN SUMMIT

28/29 OCTOBER 1982

EUROPEAN QUESTIONS: STEERING BRIEF ON THE EUROPEAN COMMUNITY

Brief by Foreign and Commonwealth Office

1. The attached sheet should be inserted in place of the present third page of the brief.

Foreign and Commonwealth Office

25 October 1982

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HANDLING

5. The Prime Minister might start the discussion on Community matters by reassuring Herr Kohl of our firm commitment to the Community as one of the twin pillars, with NATO, of our foreign policy and of the Government's determination to contribute to the Community's strength and development. In this connection, she could refer to the continuing series of speeches which British Ministers have been making on European themes. We too, like Herr Kohl, want to get the Community moving again. We have made constructive suggestions about the progress of the Community (Mr Pym), information technology (Mr Baker), the future of the social fund (Mr Tebbit), and regional policy (Mr Prior). We intend to continue to play a constructive role in discussion of the Genscher/Colombo proposals for a European 'Act' (brief 2e).

6. The Prime Minister will then want to explain the vital need for the Community to get an equitable and lasting solution to the budget problem (brief 2b) and to point out that it is a problem for Germany and the Community as a whole as well as for Britain; that the problem arises because of the excessive dominance of agriculture in the Community budget so that Britain, with a relatively small agricultural sector, receives only a small share of Community expenditure and Germany, which is also a mainly industrial country, is at risk from any increases in Community spending. She could suggest that the prospect of enlargement will make the need for a fairer sharing of burdens still more evident. To avoid the extra cost falling on Britain and Germany and to prevent Portugal's becoming a net contributor, the Community should adopt the principle that relative prosperity must be applied to Community finances. She might remind Chancellor Kohl that at the time of the UK's accession, the Community promised to find solutions and this must now be respected.

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HANDLING

5. The Prime Minister might start the discussion on Community matters by reassuring Herr Kohl of our firm commitment to the Community as one of the twin pillars, with NATO, of our foreign policy and of the Government's determination to contribute to the Community's strength and development. In this connection, she could refer to the continuing series of speeches which British Ministers have been making on European themes. We too, like Herr Kohl, want to get the Community moving again. We have made constructive suggestions about the progress of the Community (Mr Pym), information technology (Mr Baker), the future of the social fund (Mr Tebbit), and regional policy (Mr Prior). We intend to continue to play a constructive role in discussion of the Genscher/Colombo proposals for a European 'Act' (brief 2e).

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7. If no agreement has been reached on 1982 refunds, she will want to warn him of the serious consequences if this has not been resolved by the time of the European Council. On 1983 and later she will want to suggest that the time has come for a solution which would last until there is a fundamental reform of Community finances, eg as a result of enlargement. If Chancellor Kohl raises the "overpayment" she could say that if this approach is accepted the UK would as a gesture of good will be prepared to negotiate further about overpayments. She will want to explain our attitude to the idea of a review of Community finances. Finally, she might suggest that they agree at the plenary that there should be close contacts between the two sides in the weeks ahead.

8. The Prime Minister might then turn to enlargement (brief 2c), a subject on which German views are close to our own. She might urge Chancellor Kohl of the advantages of a positive declaration by the December European Council to reassure the applicants (particularly Spain after their elections) about the Community's intentions despite the "technical brake" which the French have tried to put on the negotiations. She might also urge him not to support the French idea that enlargement could not take place before the completion of a review of the Community's own resources. She might say that the imbalance on industrial trade is a matter of serious concern to us (see brief).

9. The German side may refer to Germany's wish to prevent full freedom of movement of workers between Turkey (brief 2d) and the EC, a commitment which the Community promised in 1970 to implement by 1986. We need not take a firm position until the Commission produces its overdue proposals on this issue. The Prime Minister could assure Chancellor Kohl that, in this matter, the United Kingdom will pay close regard to German interests - just as Germany was sympathetic to the interests of her Community partners in dealing with the Falklands crisis and the steel crisis. It would however be necessary

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to consider how German wishes could be reconciled with our joint interest in maintaining Turkey's links with the West.

10. On the Common Fisheries Policy (Brief 2g) discussion will depend on developments at the Fisheries Council on 25/26 October. If no agreement has been reached at that Council, the two sides will want to consider how further pressure can be put on the Danes to achieve a settlement before the end of the year. They will also wish to confirm the agreement reached in Luxembourg on 18 October for effective action to prevent anarchy if no agreement is reached by the end of the year.

11. One other subject which could be raised is the European Monetary System (Brief 2h) on which Chancellor Schmidt was strongly of the view that Britain should participate fully in the exchange rate mechanism. We do not know the views of the new German Government but a defensive brief is provided in case the subject is raised, though we see no reason to suppose that it will be.

Foreign and Commonwealth Office
22 October 1982

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PMVX(82)2d Second Revise

COPY NO 9

25 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

EC/TURKEY

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We shall pay close regard to German interests in this matter, just as the FRG was sympathetic to the interests of her Community partners in dealing with the Falklands crisis and the steel crisis. When the Commission produce their proposals, now overdue, we shall look at them very carefully.
2. It will be necessary, however, to consider how the Federal Government's wishes can be reconciled with our joint interest in maintaining Turkey's links with the West.

BACKGROUND

3. A 1970 Additional Protocol to the EC/Turkey Association Agreement provides for full freedom of movement of workers between Turkey and the Community by 1986. This is a matter of great sensitivity to the Germans. There are already 1.5 million Turks in the FRG (over 90% of all Turks in the Community). The new German Government are firmly committed to ensuring that no more come. We must expect them to ask the Community to renege on this commitment.

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4. COREPER told the Commission in May to produce proposals, but - despite German pressure - they have still not done so. Until they do we need not take up a firm position. This topic was not raised with the Prime Minister by Dr Kohl nor with the Secretary of State with Herr Genscher during their visit. The Turks have recently reminded us of their intention to seek membership of the EC when democracy has been restored in 2 or 3 years time. This would pose serious economic problems for the Community.

5. HM Ambassador Bonn has suggested that the Prime Minister might offer the Chancellor expert talks in which we could pass on to the Germans the fruits of our experience in integrating indigestible ethnic minorities. This may prove a useful offer at the right time: but we shall have to be careful that it is not misinterpreted either as patronising or as no more than a polite rebuff.

Foreign and Commonwealth Office

25 October 1982

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PMVX(82)9 (Addendum)

COPY NO 9

25 October 1982

ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

DEFENCE MATTERS

Brief by Ministry of Defence

Please delete para. 4 of Brief PMVX(82)9 and insert the following:

EQUIPMENT ISSUES

4. Welcome progress on important collaborative programmes. But very concerned about arrangements for sales of collaborative projects. Essential that proposed MOU allowing UK to take political responsibility for sales - while FRG retains industrial benefits - should cover existing Tornado and 155 mm gun projects. German agreement for UK to sell RB199 to India, and TORNADO to Kuwait, Saudi Arabia, Abu Dhabi and Oman is required urgently.

Ministry of Defence

25 October 1982

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PMVX (82) 2f Addendum

COPY NO 3

26 October 1982

ANGLO-GERMAN SUMMIT
28-29 OCTOBER 1982

FRANCO-GERMAN RELATIONS

Brief by Foreign and Commonwealth Office

The following two Points to Make and four paragraphs of Background should be added to the brief, to take account of the Franco-German Summit on 21-22 October:

POINTS TO MAKE

1. Interested in anything you can tell me about the defence and security aspects of your talks with President Mitterrand.
2. Encouraged by anything you can do to bring French back more into the main stream of European defence, although we appreciate the unlikelihood of rapid progress.

BACKGROUND

3. Following their Summit meeting on 21/22 October, President Mitterrand and Chancellor Kohl announced the establishment of a system for the regular bilateral coordination of security policy. President Mitterrand said publicly that the talks had concentrated on the modernisation of French tactical forces and that those aspects of this question particularly affecting German interests should be examined by both countries.

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4. The new consultative framework reflects the decision of both sides to rectify what had hitherto been a lack of any real dialogue on security matters. Franco/German bilateral contacts have traditionally been devoid of much content (much less regular and substantive than UK bilateral contacts with each country). However, it is clear from what the Germans have already told us about the Summit meeting that this closer dialogue is not likely to lead to any fundamental changes in the bilateral security relationship or in French defence policy. The Germans are for instance in no doubt that the French will in no case reintegrate their military forces in NATO.

5. The Germans have already told us that press speculation about a Franco/German 'nuclear axis' is quite wrong. The French, as expected, made it clear that they would not yield any sovereignty over decisions on deployment of nuclear weapons: the most the Germans could expect to achieve, and this was uncertain, would be agreement to consult before their use, if this involved targets on German soil.

6. The French are pressing the Germans on collaborative defence projects - tanks, anti-tank helicopters and future combat aircraft-but the Germans say they will make no decision until after their election in March 1983.

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New pps marked with blue flags.

From : Mrs M Hedley-Miller

Date : 26 October 1982

Chancellor

cc FST Supplementary MHM
EST below. JR
Sir Douglas Wass 27/10
Sir K Couzens
Mr Littler o/r Mr Lavelle
Mr Edwards o/r
Miss Court

CHANCELLOR OF THE EXCHEQUER

Schultz ()
- SCUM.M. PIPELINE 7423 (LB)
- G.77 / G.77 / VERSAILLES AMMUN (KB)
- 2 E.C. BDR ALGERIA } MH-M
- 7 ABZ & FILS
- A.320 / ARBUS ✓

ANGLO-GERMAN SUMMIT, OCTOBER 1982. TALK WITH HERR STOLTENBERG

You have the set of briefs prepared for the Summit talks. You may find it useful also to have some supplementary notes for your own bilateral with Herr Stoltenberg.

2. You will want to make quite sure that there is enough time for you to try hard to influence the way the Finance Minister looks at the question of the financing of the Community Budget. But it will no doubt be polite and indeed appropriate first to learn about Herr Stoltenberg's views on the prospect for the West German economy, and the new government's policies in this regard; and to be ready to answer his questions about your policies here in the UK. All this would no doubt lead to some exchanges about the world economic background and international monetary issues.

3. So it will be important to watch the clock : it really is essential to grab this opportunity of a heart to heart talk about Community finances. Mercifully Herr Stoltenberg speaks English : there should be no time-consuming translation.

4. The first attachment to this note contains some points to make, for which I am indebted to Mr Lavelle, about the German economy and the international scene. The second contains a note on the Community Budget. This last is being shown also to the Foreign Office and Cabinet Office.

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5. Brief PMVX(82)2h is about the EMS. The Embassy in Bonn think that there will be no pressure on you about sterling and the margins arrangement, but that there will be some praise for the way the EMS has worked, and some expression of hope for sterling's membership.

6. For the dossier I also attached (not to all) :

- personality note
- the Green Book on The Budget Problem - English and German versions
- the table of net contributions
- Mr Edwards' EPR Article
- the Hague speech

MHM

MRS M HEDLEY-MILLER

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ANGLO-GERMAN SUMMIT: CHANCELLOR'S MEETING WITH HERR STOLTENBERG

THE GERMAN ECONOMY AND THE WORLD SCENE

German Economy (PMVX(82)14(b))

The 21 October Cabinet minutes indicate that Dr Kohl outlined his general approach at the informal meeting in Downing Street on 19 October. You may wish to underline your satisfaction with German progress in containing inflation and reducing interest rates, the latter without undermining the DM exchange rate. At the same time you might express the hope that monetary growth should be adequate to allow for a rise in real output and that the pace of reduction in the Budget deficit should take account of the impact of recession.

World Economic Prospects (PMVX(82)12(a))

We believe the conditions now exist for a recovery in world output although present indications are that this will be modest, particularly in Europe. We welcomed the Japanese fiscal package. There still seems some ambivalence about the US monetary stance and the interest rate prospect following the welcome reductions of recent weeks.

IMF issues, International debt (PMVX(82)12(b))

It would be useful to see how far Herr Stoltenberg has taken on board the general UK analysis as set out at Toronto and summarised in your Mansion House speech : the need for adjustment, rescheduling not automatic, the respective roles of the commercial banks and central authorities/international institutions. We are by no means out of the wood on Mexico and Brazil but recent months have seen a process of education in this area.

On the positive side we attach great importance to agreement at the next Interim Committee meeting on an adequate and timely increase in IMF resources. We saw some merit in the revised US proposals

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that emerged from the recent meeting of G5 Deputies (the latest indications we have are that the Germans have not yet reached a view on this package). But if for some reason this initiative founders we believe the US should accept a straight IMF quota increase of 50% plus. We also see a case for a review of the GAB - the resources of the G10 club - in its own right, given the evident erosion in its value over the last two decades.

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ANGLO-GERMAN SUMMIT, OCTOBER 1982

CHANCELLOR'S MEETING WITH GERMAN FINANCE MINISTER

THE EUROPEAN COMMUNITY BUDGET

Points to Make

Want to use this occasion to discuss the financing of the Community. Opportunities for such talk directly with German colleague not frequent. If concentrate this time on this aspect of Community, should not be taken to mean that the approach of the British Government to the Community is the purely book-keeping one which some people allege.

2. On the contrary. The Community is central to British policies. We want to see it prosper and develop for the greater benefit of its peoples, and in order that it should take its rightful place in the world's consels.

3. We thus acknowledge the Federal Chancellor's hopes for the Community. Our deep concern is precisely that the present financing arrangements are divisive, and that the perpetual squabbling is a drag on the momentum of the Community's development.

4. Believe that German interests and ours must be very similar. The two net contributors to the Community Budget. Both trying to contain public expenditure and reduce the public deficit. Net Community Budget contributions are significant public expenditure elements for both. Both need to be sure that the size of the contribution is fair, and not open-ended. Both have an interest in fostering good financial control.

5. No apology for referring to "net contributions". Some dislike the concept. But the net contributions are real. British and German

taxpayers transfer money to recipients of Community expenditure in other countries. There is no gainsaying this. Some of the recipients are in countries with a higher per capita income. The British people feel profoundly that their net contribution is unfairly high, given our GDP per head, which is the fourth lowest, and below the average.

6. Not only is the present system of financing the Community inequitable. It is also inimical to the proper control of Community expenditure. Member countries who are net recipients need not bother to count the cost, or demand cost-effectiveness, if someone else is paying.

7. Community has paid some lip-service to avoidance of "unacceptable situations" for any member country. But have never tackled fundamental issues.

8. The stop-gap arrangements of 1980 and 1982 have not been solutions. On the contrary they have wasted time on repeated sterile battles. They have in some ways inflamed the situation. Herr Stoltenberg will know that there have been new frictions arising from the German desire to limit their contributions to refunds to the UK. Must frankly say that this seems a rather barren approach. Understand wish to limit the cost. But limits should be approach in the context of how best and most fairly to finance the Community, not in terms of members refunding to each other, with special and complex arrangements about who is contributing to whom. The outcome on the implementation of the 1982 agreement contains lessons for the future.

9. One possibility for 1983 and beyond may be to go on using the principles of the 30 May 1980 Agreement, until such time as something more rational is agreed. Can Germany and the UK not consider together what a more rational approach might encompass?

10. 1981 Hague speech suggested that the Community should take conscious decisions on how the Budget as a whole should affect

individual member states. These decisions would be based on objective criteria, notably relative prosperity and population size.

11. In individual countries resources have to flow from more to less prosperous regions. How can a Community which is supposed to support the idea of economic convergence justify a system which brings about the opposite?

12. No answer at all to say that burden-sharing would destroy the own resources system. Just because the Community has its own resources this does not mean that they have to be perversely distributed.

13. Could there not at any rate be some coherent system by which limits are set, on an agreed and objective basis, to the net contributions of member states? We have some ideas. The objective basis would take into account, particularly, relative prosperity and population size. When the limit for a country was reached, the other countries would make up any shortfall this caused in proportion to where their actual position stood in relation to their agreed "objective" position. There would admittedly be complications in devising the details of a scheme on these lines. But it is absolutely simple in its essence. It would be fair. It would be a reassurance to Germany that its contribution would not endlessly rise. And it would at last engage the other countries who would in certain circumstances have to pay more in the search for financial control, efficiency, value for money etc. We could let Herr Stoltenberg have some papers setting all this out.

14. Can certainly be other approaches, but seems to us that this family of ideas could produce a springboard for the future. Hope to have engaged Herr Stoltenberg's interest. Sensible principles could be robust enough to withstand enlargement. Adequacy of own resources also a separate issue. UK not convinced that there should be any increase even after enlargement.

False Charges etc

15. Page 7 of the Green Book "The Budget Problem" contains answers to the raft of false charges which are frequently encountered.

Documents

16. If this seems appropriate, documents from the dossier could be handed over.

MEH-M

26 October 1982

STOLTENBERG, DR GERHARD, HON GCMG

Federal Minister of Finance.

Born 1928 in Kiel, the son of a clergyman. War Service 1944-45. Studied history, social science and philosophy at Kiel University, taking his doctorate in 1954 with a thesis on the work of the First Reichstag. Thereafter worked as an assistant at Kiel University. Appointed Lecturer in Modern History in 1960, his special topic being Tirpitz and his naval policy. 1965 and again 1969-70, a Director of Friedrich Krupp, and Head of the company's Economic Policy Department.

He entered politics through the Young CDU, of which he was Federal Chairman from 1955-61. A member of the Schleswig-Holstein Land Parliament from 1954-57, and again since 1971. A member of the Bundestag from 1957-71. 1965-69 Federal Minister for Scientific Research. Elected a Vice-Chairman of the CDU in 1969 and from 1969-71 was Vice-Chairman of the CDU-CSU Parliamentary Party. He resigned from the Bundestag in 1971 to lead the CDU campaign in the Schleswig-Holstein Land elections, as a result of which he became Minister-President. Re-elected in 1979 after a hard and close-fought contest. Returned to Bonn as Finance Minister on the formation of the CDU/CSU/FDP Government in October 1982.

Stoltenberg was the first of the younger generation of CDU politicians from North Germany to reach the top rank. He appeared to be Dr Kohl's main rival within the CDU for the nomination in 1975 as CDU/CSU Chancellor-Candidate. But in the event Kohl's control of the party machinery allowed him to out-manoeuvre Stoltenberg completely, and the latter's candidature never got off the ground. This has reportedly left a legacy of some bitterness between them. His age and abilities should ensure him an important future in the CDU. The CDU's unimpressive showing in Schleswig-Holstein in the 1976 and 1980 Federal elections slightly tarnished his image but in the latter contest his loyal support for Herr Strauss' cause (he stood as Vice-Chancellor candidate) earned him much credit with the Union as a whole, particularly in Bavaria. The obvious choice as Finance Minister in Chancellor Kohl's Cabinet.

Stoltenberg is tall, well-built and good-looking. Reserved, even a little cool, but an effective speaker. He is normally courteous and friendly, but occasionally shows signs of impatience or a touch of arrogance. As Minister for Scientific Research, he favoured European cooperation in the scientific field and showed himself well-disposed to the UK. He often refers to the fact that the Angles came to Britain from his Land. Visited the UK as the guest of HMG in 1974.

Protestant. Married. One daughter and son. His wife is quiet and takes little part in her husband's public life. He speaks good English.



FCO

PS/MR HURD
SIR J BULLARD
~~MR HANNAY~~
MR HANNAY

EVANS

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13/10/82 K. J. ...
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MR G STAPLETON

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MR P KENT,
H M CUSTOM AND
EXCISE

H M TREASURY

15/10/82 ...
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MISS J E COURT
MR J G LITTLER
MR EDWARDS

M A F F

SIR B HAYES

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TELEGRAM NUMBER 3980 OF 27 OCT

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FOREIGN AFFAIRS COUNCIL : 26 OCTOBER 1982

1982 REFUNDS

FOLLOWING IS THE TEXT OF THE COUNCIL CONCLUSIONS AS AGREED, SUBJECT
TO FRANCE'S GENERAL RESERVE.

CONCLUSIONS OF THE FOREIGN AFFAIRS MINISTERS ON COMPENSATION TO
THE UNITED KINGDOM FOR 1982 (1)

1. ON THE BASIS OF THE COMMISSION'S ESTIMATE (+), COMPENSATION FOR
THE UNITED KINGDOM FOR 1982 IS FIXED AT 850 MILLION ECU (NET).

2. CORRECTIONS TO BE MADE FOR 1980 AND 1981 IN THE LIGHT OF THE
ACTUAL FIGURES, WILL BE TAKEN INTO ACCOUNT WHEN NEGOTIATING THE
SUBSEQUENT SOLUTION.

3. AT THAT TIME, ADJUSTMENTS WILL BE MADE IN THE EVENT THAT THE
ACTUAL FIGURE PROVES TO BE HIGHER OR LOWER THAN THE 1982 BASE
REFERRED TO IN PARAGRAPH 1.

IF THE ACTUAL FIGURE IS HIGHER THAN 1530 MILLION ECU BUT LOWER
THAN 1580 MILLION ECU, THE NET COMPENSATION TO THE UNITED KINGDOM IS
UNCHANGED. IF THE ACTUAL FIGURE IS HIGHER THAN 1580 MILLION ECU BUT
LOWER THAN 1730 MILLION ECU THE NET COMPENSATION IS INCREASED BY 50
PER CENT OF THE DIFFERENCE BETWEEN THE ACTUAL FIGURE AND 1580 MILLION
ECU. IF THE ACTUAL FIGURE IS HIGHER THAN 1730 MILLION ECU, THE NET
COMPENSATION IS INCREASED BY 75 MILLION ECU PLUS 75 PER CENT OF THE
DIFFERENCE BETWEEN THE ACTUAL FIGURE AND 1730 MILLION ECU.

THAN 1480 MILLION ECU, THE NET COMPENSATION TO THE UNITED KINGDOM IS UNCHANGED. IF THE ACTUAL FIGURE IS LOWER THAN 1480 MILLION ECU, THE NET COMPENSATION TO THE UNITED KINGDOM IS REDUCED BY AN AMOUNT EQUAL TO 75 PER CENT OF THE DIFFERENCE BETWEEN THE ACTUAL FIGURE AND 1480 MILLION ECU.

4. THE BUDGETARY EFFECT OF THE PRESENT AGREEMENT ON COMPENSATION TO THE UNITED KINGDOM FOR 1982 ON THE COMMUNITY BUDGET FOR 1982 WILL BE LIMITED TO THE AMOUNT CORRESPONDING TO THE NET COMPENSATION MENTIONED IN PARAGRAPH 1.

5. COMPENSATION TO THE UNITED KINGDOM WILL AMOUNT TO 1092 MILLION ECU (GROSS)(++). IT WILL TAKE THE FORM OF ADDITIONAL MEASURES WITHIN THE MEANING OF REGULATION NO 2744/80 WHICH WILL BE EXTENDED AND ADAPTED ACCORDINGLY. APPROPRIATIONS TO THIS END WILL BE ENTERED IN THE COMMUNITY BUDGET FOR 1982. THE TOTAL AMOUNT WILL BE ADVANCED TO THE UNITED KINGDOM BEFORE THE END OF DECEMBER 1982. SURPLUSES WHICH EXIST FROM THE 1981 AND 1982 BUDGET YEARS WILL SERVE TO FINANCE THIS COMPENSATION.

IF THE FINANCIAL MECHANISM YIELDS ANY PAYMENT TO THE UNITED KINGDOM FOR 1982, THE AMOUNT OF SUCH PAYMENT WILL BE DEDUCTED FROM PAYMENTS TO THE UNITED KINGDOM UNDER THE ADDITIONAL MEASURES.

6. COMMUNITY RESOURCES WILL BE ALLOCATED TO PROJECTS OR MEASURES OF COMMUNITY INTEREST IN GERMANY, TO TAKE ACCOUNT OF THE NEED TO IMPROVE THE BUDGETARY IMPACT OF COMMON POLICIES IN THAT COUNTRY. THESE COMMUNITY RESOURCES WILL AMOUNT TO 148 MILLION ECU (NET) OR 210 MILLION ECU (GROSS)(++). THE PROJECTS AND MEASURES WILL BE CARRIED OUT IN 1983. THE PAYMENTS WILL BE MADE NO LATER THAN 1983. THE RESOURCES NEEDED FOR THIS WILL BE ENTERED IN THE 1982 BUDGET. SURPLUSES WHICH EXIST FROM THE 1981 AND 1982 BUDGET YEARS WILL SERVE TO FINANCE THESE PROJECTS AND MEASURES. PAYMENTS WILL BE MADE ON THE BASIS OF A REGULATION BASED ON ARTICLE 235 TO BE PROPOSED BY THE COMMISSION. THE TOTAL AMOUNT WILL BE COMMITTED BEFORE THE END OF DECEMBER 1982. ADVANCE PAYMENTS IN 1982 ARE POSSIBLE

7. THE MINISTERS UNDERTAKE TO TAKE A DECISION BEFORE THE END OF NOVEMBER 1982 ON THE SUBSEQUENT SOLUTION.

(1) RESERVATION BY THE FRENCH DELEGATION

(+) 1530 MILLION ECU

(++)THE ADJUSTMENT OF THE GROSS FIGURES IN PARAGRAPH 5 TO TAKE ACCOUNT OF THE POSSIBLE CORRECTIONS FORESEEN IN PARAGRAPH 3 AS WELL AS THE ADJUSTMENT OF THE GROSS FIGURE IN PARAGRAPH 6, ACCORDING TO THE COMMITMENT TAKEN BY MINISTERS ON 25 MAY 1982 IN FAVOUR OF GERMANY, WILL BE ENTERED IN THE BUDGET FOR 1983. THE GROSS AMOUNTS HAVE BEEN CALCULATED ON THE BASIS OF THE VAT SHARES CONTAINED IN THE BUDGET OF THE RELEVANT BUDGETARY YEAR. THEY WILL BE ADJUSTED SO AS TO REFLECT THE ACTUAL VAT FIGURES OF THE YEARS IN QUESTION.

FCO ADVANCE TO :

FCO - PS/SOS EVANS HANNAY SPRECKLEY FRY
CAB - PS/ARMSTRONG HANCOCK DURIE
TSY - PS/CHANCELLOR COUZENS HEDLEY-MILLER EDWARDS

BUTLER



From the Secretary of State

CONFIDENTIAL

Michael Scholar Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

TELETYPE
27 OCT 1982
Mr Lavelle 28.10
CST, EST, EST
MTC, MTR, Sir D was
Sir K. Conzen, Mr Carey
Mr Little, Mr Tragnor
Mr Kemp,
Mr Ridley
26 October 1982

Dear Michael,

ANGLO-GERMAN SUMMIT: PROTECTIONISM

At her briefing meeting this afternoon the Prime Minister asked for a note of some examples of what might be termed German protectionism.

The most glaring relate to the services sector, notably:-

Insurance:

the Germans are among the most rigid Community countries in their insistence on retaining national controls, impeding operation of the proposed non-life insurance services directive and so obliging United Kingdom insurance companies to establish subsidiaries in Germany rather than write business for German policyholders direct from the United Kingdom.

Air Transport:

again the Germans are one of the most illiberal of our partners. Their attitude to the modest Community reforms that have been proposed - in respect of both fares and new services - is dominated by regard to the cost of support for their railways and by energy-conservation considerations.





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From the Secretary of State

Road Transport:

the Germans have a very restrictive quota against movements by lorries operated by, and from, other Member States. The United Kingdom is permitted only 40,000 lorry movements per annum: our quota is particularly small, being based on our pre-Accession trade pattern. We operate a similar quota only by means of retaliation. Germany's quota is only matched in its severity by the Italians'.

In trade in goods, the German market is in theory as open as any. However, the operation of their machinery safety regulations creates, in practice, as the Germans well know, significant impediments to the sale of foreign machinery, particularly if it is not constricted to a German standard.

A celebrated German non-tariff barrier is the medieval law on the "purity of beer", which in practice prevents the sale of foreign beer in Germany. This has, we believe, recently caught M. Mitterand's attention, and the Commission are at last taking the matter up in Bonn.

The Prime Minister will no doubt prefer to avoid the area of public procurement.

I am copying this to John Kerr (Treasury), Brian Fall (FCO) and to Jonathan Spencer (Industry).

Yours sincerely,

JOHN RHODES
Private Secretary

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FM BONN 261717Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 910 OF 26 OCTOBER

INFO IMMEDIATE MODUK BMG BERLIN

INFO ROUTINE UKDEL NATO UKREP BRUSSELS WASHINGTON PARIS

COPENHAGEN EAST BERLIN

INFO SAVING ANKARA ATHENS BRUSSELS DUBLIN THE HAGUE LISBON

LUXEMBOURG ROME OSLO OTTAWA REYKJAVIK MOSCOW CICC(G) ALL CONSULATES-
GENERAL IN THE FRG.

ANGLO-GERMAN CONSULTATIONS, 28-29 OCTOBER: THE POLITICAL
SITUATION IN THE FRG.

1. THE NEW FEDERAL GOVERNMENT, WHOM THE PRIME MINISTER, YOU AND
YOUR COLLEAGUES WILL BE VISITING IN BONN THIS WEEK, HAVE COMMITTED
THEMSELVES TO AN ELECTION NEXT MARCH. THEY MUST CONVINCING THE
ELECTORATE BEFORE THEN OF THEIR FITNESS TO GOVERN. THEY INTEND TO
ACHIEVE THIS BY AN APPEARANCE OF DETERMINATION, UNITY AND COMPETENCE
RATHER THAN BY ORIGINALITY.

2. AT HOME, THEY WILL BE CONCENTRATING ON ECONOMIC POLICY. APART
FROM OBTAINING QUICK AGREEMENT ON A 1983 BUDGET, THEIR MAIN AIM WILL
BE TO PUT ACROSS THE MESSAGE THAT TIME IS NEEDED TO PUT RIGHT THE
MESS THEY HAVE INHERITED. FOR MORE DETAIL, SEE MIFT (NOT TO ALL).

3. IN FOREIGN AFFAIRS, THERE WILL BE LOTS OF ACTIVITY BUT NOT MUCH
NEW POLICY. THE NEW CHANCELLOR NEEDS TO CONVINCING THE ELECTORATE, AS
WELL AS HIS ALLIES, OF THE CONTINUITY OF GERMAN FOREIGN POLICY AND
OF HIS OWN CREDIBILITY, DESPITE HIS INEXPERIENCE, AS A WORLD
STATESMAN IN SUCCESSION TO SCHMIDT. HE LACKS CHARISMA AND, IN FOREIGN
AS IN HOME AFFAIRS, WILL NOT ATTEMPT FIREWORKS. CALM CONFIDENCE IS
THE IMAGE HE PROJECTS. HIS FIRST MAJOR ENCOUNTER, WITH THE FRENCH
LAST WEEK, WENT DISTINCTLY WELL: SEEING HIMSELF AS ADENAUER'S HEIR,
HE INTENDS THAT THIS SHOULD REMAIN THE EUROPEAN RELATION-
SHIP WHICH MATTERS MOST TO GERMANY. BUT HE WILL ALSO WISH TO BE
SEEN TO GET ON WELL WITH HMG, ESPECIALLY GIVEN THE NOW GREATER
POLITICAL AFFINITY BETWEEN THE GERMAN AND BRITISH GOVERNMENTS. AFTER
HIS ENCOURAGING PRELIMINARY VISIT TO LONDON ON 19 OCTOBER KOHL WILL
BE OPTIMISTIC THAT THIS CAN BE ACHIEVED IN A SUCCESSFUL SUMMIT THIS
WEEK. AT THE SUMMIT, HE WILL OF COURSE BE READY TO DEVOTE TIME TO
EC QUESTIONS, AND I AM SURE THAT IT WILL BE RIGHT FOR THE PRIME
MINISTER TO EXPLAIN OUR CONCERNS VERY CLEARLY, MAKING THE MOST OF
THE POINT THAT NO GOVERNMENT NOWADAYS CAN AFFORD TO GO ON BEARING
AN UNFAIR SHARE OF THE COMMUNITY'S FINANCIAL BURDENS. BUT I THINK
THAT KOHL'S MIND WILL ALREADY BE FOCUSED ON HIS VISIT TO WASHINGTON
ON 14-15 NOVEMBER AND THAT HE WILL THEREFORE BE INTERESTED ABOVE
ALL IN DISCUSSING TRANSATLANTIC RELATIONS.

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/PROSPECTS

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PROSPECTS FOR THE ELECTIONS

4. THE CDU/CSU ARE CURRENTLY PROFESSING CONFIDENCE THAT THEY WILL BE ABLE TO FORM A GOVERNMENT AFTER THE MARCH ELECTIONS, EITHER WITH THE FDP OR ALONE. THE FDP, BY CONTRAST, REMAIN VERY DIVIDED AND UNHAPPY. ATTACKS ON GENSCHER SHOW NO SIGN OF ABATING. WHILE HE SHOULD DEFEAT THE LEFT WING CHALLENGER, RONNEBURGER, FOR THE PARTY CHAIRMANSHIP AT THE PARTY CONFERENCE IN EARLY NOVEMBER, THE LEFT WING ARE THREATENING TO SPLIT THE PARTY IF HE DOES SO.

5. THE FDP'S PROSPECTS FOR STAYING IN THE BUNDESTAG AFTER THE ELECTIONS ARE THEREFORE DIM. KOHL CANNOT BE HAPPY ABOUT THIS: IF RETURNED TO POWER WITHOUT THE FDP HE WOULD LOSE HIS PERSONAL FRIEND GENSCHER AS VICE CHANCELLOR, AND WOULD ALMOST CERTAINLY HAVE TO REPLACE HIM WITH THE DIFFICULT AND POWERFUL STRAUSS.

6. SCHMIDT HAS JUST ANNOUNCED THAT HE WILL NOT STAND AS THE SPD'S CHANCELLOR CANDIDATE IN MARCH. HE IS LIKELY TO BE REPLACED BY EITHER BY HANS JOCHEN VOGEL, THE OPPOSITION LEADER IN BERLIN, OR CONCEIVABLY BY JOHANNES RAU, THE MINISTER PRESIDENT OF NORTH RHINE WESTPHALIA. WITHOUT SCHMIDT, THE SPD ARE UNLIKELY TO WIN MORE SEATS THAN THE CDU/CSU IN THE ELECTIONS. BUT THE ELECTIONS COULD PRODUCE A HUNG PARLIAMENT WITH THE GREENS HOLDING THE BALANCE. THAT WOULD OPEN VARIOUS POSSIBILITIES, INCLUDING A MINORITY CDU/CSU GOVERNMENT OR A GRAND COALITION OF CDU/CSU AND SPD.

FCO PLEASE PASS SAVING ALL ADRESSEES EXCEPT CICC(G) AND CONSULATES-GENERAL IN THE FRG.

(REPEATED AS REQUESTED)

TAYLOR

FCO/WHITEHALL
WED

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FRAME [ECONOMIC]

Chancellor

FM BONN 261800Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 911 OF 26 OCTOBER

INFO IMMEDIATE UKDEL OECD UKREP BRUSSELS WASHINGTON TOKYO BMG BERLIN

INFO SAVING ATHENS EMBASSY BRUSSELS COPENHAGEN DUBLIN THE HAGUE

LUXEMBOURG PARIS ROME CGS IN FRG

MIPT (NOT TO ALL) : THE FEDERAL GOVERNMENT'S ECONOMIC POLICY

1. ALTHOUGH WE ARE STILL SHORT OF FACTS ON WHICH TO BASE CONSIDERED JUDGEMENTS YOU MAY FIND IT HELPFUL, IN PREPARING FOR THE UK/GERMAN CONSULTATIONS, TO HAVE AN ASSESSMENT FROM HERE OF THE FACTORS AFFECTING THE NEW GOVERNMENT'S ECONOMIC POLICY.
2. ECONOMIC POLICY POSES TRICKY PROBLEMS FOR THE GOVERNMENT. THEIR ROOM FOR MANOEUVRE IS NARROW. IT WAS DISAGREEMENT ABOUT ECONOMIC POLICY THAT BROUGHT THE LAST GOVERNMENT DOWN. BUT IN THE FOUR MONTHS TO MARCH THERE IS LITTLE PROSPECT OF ACHIEVING MUCH. IN ORDER TO MAKE THIS PLAIN TO THE VOTER THEY NEED TO EMPHASISE THE DIFFICULTIES OF THE SITUATION THEY HAVE INHERITED AND SHOW THAT TIME WILL BE NEEDED TO PUT IT RIGHT. AND THEY HAVE BEEN DOING THAT. BUT SUCH A LINE CAN DAMAGE THE GROWTH OF CONFIDENCE SO ESSENTIAL TO IMPROVING THE PROSPECTS FOR GETTING THE ECONOMY MOVING AGAIN. UNCERTAINTIES ABOUT THE DEVELOPMENT OF THE ECONOMY, ESPECIALLY ABOUT DEMAND AND INVESTMENT PROSPECTS, ARE INCREASED BY THE TEMPORARY CHARACTER OF THE GOVERNMENT. ROOM FOR MANOEUVRE IS FURTHER NARROWED BY THE NEED TO GET EARLY AGREEMENT ON A 1983 BUDGET SO AS TO MAKE IT POSSIBLE TO DISSOLVE THE BUNDESTAG IN TIME TO GO TO THE POLLS IN MARCH 1983.
3. BUNDESBANK PRESIDENT POEHL, AFTER ANNOUNCING REDUCTIONS IN THE BANK'S INTEREST RATES ON 22 OCTOBER (BONN TELNO 50 SAVING), URGED THE BANKS AND OTHER CREDIT INSTITUTES TO PASS ON THE REDUCTIONS TO THEIR CUSTOMERS. THIS ECHOED AN APPEAL THAT HE MADE, WITHOUT ANY MARKED SUCCESS, WHEN INTEREST RATES WERE LAST REDUCED (IN AUGUST) UNDER THE PREVIOUS GOVERNMENT (BONN TELNO 45 SAVING). ON THIS OCCASION HE WAS FLANKED BY STOLTENBERG WHO HAD ATTENDED THE BUNDESBANK'S BOARD MEETING THAT DECIDED THE NEW INTEREST RATE CUTS. MOST BANKS HAVE ALREADY FOLLOWED THE BUNDESBANK DOWN. ALTHOUGH BUDGETARY DIFFICULTIES ARE ACUTE, BOTH THE BUNDESBANK AND THE GOVERNMENT BELIEVE THAT THE UNDERLYING SITUATION OF THE ECONOMY IS SOUND AND PROVIDES FAVOURABLE CONDITIONS FOR GROWTH.
4. ON 27 OCTOBER THE CABINET WILL DECIDE ON STOLTENBERG'S BUDGET PROPOSALS. INDICATIONS WE HAVE HAD FROM THE FINANCE MINISTRY ARE THAT, FAR FROM CUTTING GOVERNMENT EXPENDITURE, THE NEW GOVERNMENT WILL ADOPT A BUDGET FOR 1983 PROVIDING FOR HIGHER EXPENDITURE (DM 254 BILLION) THAN THAT OF THEIR PREDECESSORS (DM 250.9 BILLION

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/BUT

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BUT BASED ON MORE OPTIMISTIC GROWTH ASSUMPTIONS). THE 1982 FIGURE IS DM 246 BILLION. WITHIN THIS TOTAL THERE WILL BE A SHIFT IN GOVERNMENT EXPENDITURE FROM CONSUMPTION TO INVESTMENT, AND WEAKER REVENUE ESTIMATES AND HIGHER UNEMPLOYMENT PAYMENTS WILL BE COVERED BY HIGHER BORROWING (DM 41 BILLION). GOVERNMENT SPOKESMEN HAVE JUSTIFIED THE INCREASE BY UNDERLINING THE NEED TO AVOID ACTING COUNTER-CYCLICALLY AT THIS POINT IN THE CYCLE, ESPECIALLY WHEN THE GOVERNMENT IS, IN ANY CASE, HAVING TO CUT SOCIAL SECURITY SPENDING TO KEEP PUBLIC SECTOR FINANCING UNDER CONTROL. THE PROPOSED REDUCTION IN PUBLIC EXPENDITURE ON PENSIONS, SICKNESS BENEFIT AND PUBLIC SECTOR PAY DOES NOT EXTEND TO CUTS IN UNEMPLOYMENT PAY, YET LAMBSDORFF AS A MINISTER IN THE PREVIOUS GOVERNMENT LOUDLY CHAMPIONED SUCH CUTS. WITH THE PROSPECT OF UNEMPLOYMENT RISING TO 2.5 MILLION THIS WINTER THERE IS OBVIOUS ATTRACTION IN AVOIDING GRASPING THIS PARTICULAR NETTLE.

5. THE REPORT OF THE 5 INSTITUTES PUBLISHED YESTERDAY IS RATHER CRITICAL OF GOVERNMENT POLICY AND, WITHOUT COMING TO ANY CLEAR CONCLUSIONS, EXPRESSES THE FEAR THAT POLICY COULD HAVE THE EFFECT OF WEAKENING ALREADY WEAK DEMAND FURTHER. THIS FEAR IS TO A CERTAIN EXTENT SHARED BY THE BUNDESBANK. SPECULATION AS TO THE IMPACT OF THE BUDGET IS RIFE. OBSERVERS ARE UNCERTAIN WHETHER ITS EFFECT WILL BE INFLATIONARY, DEFLATIONARY OR NEUTRAL. ONE COMMENTATOR SUMS THE SITUATION UP BY DESCRIBING THE BUDGET (NOT YET, OF COURSE, PRESENTED) AS QUOTE WITHOUT CONTOURS UNQUOTE. SINCE OCTOBER 1981, THE BUNDESBANK HAVE BEEN GRADUALLY EASING MONETARY POLICY. IT IS ACCEPTED THAT FURTHER EASEMENT OUGHT TO BE POSSIBLE IN DUE COURSE. THE NEW GOVERNMENT'S ACCEPTANCE OF THE NEED TO INCREASE BORROWING AND THE RELATIVE MODESTY OF THEIR ATTACK ON SOCIAL EXPENDITURE SUGGESTS THAT THEY TOO ARE CONSCIOUS OF THE DANGER OF DEFLATING THE ECONOMY AND WILL BE KEEN TO AVOID IT, ESPECIALLY IN THE RUN UP TO THE ELECTION NEXT MARCH.

FCO PLEASE PASS SAVING TO ABOVE ADDRESSES EXCEPT CGS IN FRG.

TAYLOR

(REPEATED AS REQUESTED)

FRAME ECONOMIC

WED

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Mr Chivers ←


Mr Jenkin will now
be seeing Graf Lambsdorff
himself, so I assume there
is no need for the Chancellor
to raise?

PS/CHANCELLOR

JR
26/10.

FROM: C J A CHIVERS
DATE: 26 October 1982

Miss Rutter
No, that's fine: it's not
really Treasury business.


27/10.

cc: PS/Chief Secretary
PS/Minister of State(R)
Sir Douglas Wass
Sir Kenneth Couzens
Mr Littler
Mr Quinlan
Mr Lavelle
Mr Lovell
Mr Halligan o.r.

ANGLO-GERMAN SUMMIT: 28 - 29 OCTOBER:

AIRBUS A 320

I forwarded to the Chancellor on 20 October a note by the Department of Industry in which they requested the Chancellor to check with the Germans that they agreed with HMG that launch aid for the A 320 should be dependent on evidence of commercial viability.

2 The Foreign Office have learned from the French that at the recent Franco-German Summit the new German administration said that they would maintain this line. There is therefore no need now for the Chancellor to make an enquiry about it.

3 The Department of Industry would however still see advantage in the Chancellor mentioning the subject to Count Lambsdorff if an opportunity presents itself, as a matter on which, he takes it, we are in agreement.


KIT CHIVERS

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PMVX(82)4

COPY NO

9

26 October 1982

ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

EAST/WEST ECONOMIC RELATIONS (INCLUDING PIPELINE)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We must both do all we can to ensure that discussion in Washington of the Shultz text reaches early agreement which enables Americans to lift their sanctions, while protecting our and our companies' interests.
2. The Americans are clearly as keen as us to resolve this dispute. They have been ready to make concessions. But President Reagan not only still believes his measures are correct, but will also need to demonstrate domestically that withdrawing them is not just a climb-down.
3. I also believe that the incentive for the Americans to settle may be less after the mid-term elections on 2 November. So there is genuine urgency. Meanwhile your and our companies are suffering.
4. The French are taking a very hard line. We understand their difficulty over credit, and over commitments on gas purchases and advanced technology. But I believe they misjudge the price we shall have to pay to get sanctions lifted. M Cheysson told the Foreign and Commonwealth Secretary in Luxembourg on Monday that the French wanted rapid progress, but needed more changes to the text. We shall never solve this problem if we lose momentum.

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BACKGROUND

5. After four-power, and Summit Seven (plus Commission and Presidency) discussions in Washington last week of the text from which Shultz spoke at La Sapinière, the Americans drafted a revised version. This redraft modified the wording of the criteria and included an additional one stating that it was not intended to engaged in economic warfare, and that East/West trade should be conducted 'in a prudent manner'. This makes the rest of the text more acceptable. The passages on harmonising credit, suspending purchases of Siberian gas, and examining possible controls on advanced technology not subject to COCOM, were square-bracketed.

6. The new version was discussed by Shultz and the British, French and FRG Ambassadors on 24 October. The German Ambassador joined Sir O Wright in general support for the redraft. But the French Ambassador took a hard line, on instructions from Cheysson. He said the French could not accept the commitments on credit, gas, and advanced technology. But he was not prepared to discuss drafting changes. In response to this Shultz said he did not believe the time was ripe for another meeting of the Summit Seven. It was left that the Ambassadors would refer back to capitals for fresh instructions.

7. M Cheysson told Mr Pym on 25 October that the French accepted the need for quick progress, but objected in principle to the commitment not to purchase gas, preferred to draft in Summit Seven meetings (where Japan would take a hard line, and the Commission might suggest changes), and had genuine difficulties with the credit proposals, because of high interest rates and inflation in France.

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PMVX (82) 2g REVISE

COPY NO. 9

27 October 1982

ANGLO-GERMAN SUMMIT

28-29 OCTOBER 1982

COMMON FISHERIES POLICY

Brief by Ministry of Agriculture, Fisheries and Food

Points to Make (If necessary)

1. Glad substantial progress was made in negotiations at Fisheries Council on 25/26 October. Hope Danes will be able to agree to full implementation of package agreed by the Nine. Pleased that the United Kingdom and Germany were able to work together successfully on this issue.

Background

2. At the Fisheries Council on 26 October the Commission tabled compromise proposals on the outstanding CFP issues including quotas and access to waters. They were accepted by all Member States except Denmark.

3. The Danish delegation have been given until 5 November in which to take a decision on the package. If the Danes do not agree the Nine expect to implement the essential components of the package nationally with Commission approval.

Ministry of Agriculture, Fisheries and Food

27 October 1982

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27 October 1982

ANGLO-GERMAN SUMMIT

28/29 OCTOBER 1982

INTERNATIONAL TRADE PROBLEMS

Brief by the Department of Trade

POINTS TO MAKE

Protectionism

1 It remains important to resist pressure on the open trading system. Growth of protection is worrying. But this cannot be a unilateral effort. Disrupted markets cannot be ignored. EC must take a tough line on some issues, such as Japan, textiles and the protectionist practices of some other countries (especially NICs), in view of the difficulties of its own industries. UK is now most concerned about lack of fair balance in market access and proposes to raise this in the Community as a matter of urgency.

Spain

2 Seriously concerned at imbalance in market sectors (cars and components) between EC and Spain arising out of terms and Spanish non-implementation of 1970 EC/Spain Agreement. Will be seeking Community action on this.

GATT Ministerial Meeting

3 Outcome will be scrutinised closely in current trade climate. Must show commitment to open trading system and GATT itself. But UK has consistently warned against excessive expectations. Not all divergent interests can be reconciled, but disarray manifested by EC at October Foreign Affairs Council is damaging. EC has legitimate interests to promote, and must decide how to do so quickly.

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Japan

4 Japan's trading practices put a unique strain on the open trading system. The EC must act. EC Governments cannot appear indifferent to the long term future of Community industries. A collective response is vital. We are not advocating a retreat into protectionism, but a tough approach on Japan is necessary.

5 Japanese exports to EC fallen slightly in first 7 months this year. But deficit remains vast in absolute terms. Measures taken by Japanese Government this year to improve access to their market will not significantly affect EC trade with Japan.

6 Useful, incidentally, to co-ordinate views on political consultations with Japan (a main theme of my recent visit). Suggest officials might discuss soon.

EC/US Steel

7 Glad this particular dispute resolved, which will enable reasonable trade to continue. Very grateful indeed for German Government's acceptance of the arrangements. Recognise the sacrifices that German industry will have to make. Indeed, UK industry will have to make sacrifices too.

8 We are still concerned about US methodology used in calculating subsidies in these cases. Freedom given to private petitioners under US Trade Law is worrying for the future.

9 French Measures

Continuing concern in the UK at French measures to "recapture home market" and new package announced on 20 October. What is German view?

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BACKGROUND

10 Protection

The current trade climate is poor. There is a growing sense of confrontation despite continued statements of support for the open trading system. The Germans, with a tradition of very liberal trading policy, are particularly concerned and critical of some attitudes developing in the EC. It is too early to know how, if at all, the new government will change trade policy but it is, on the face of it, unlikely to become less liberal. They are likely to be chary of UK's new approach to problems of lack of balance in market access, particularly if referred to as reciprocity. It is worth reminding them of the need for the EC to take a firm line on issues like Japan, textiles and the protectionist practices of other countries, unless they are to appear insensitive to the difficulties facing domestic industry.

11 Spain

1970 EC/Spain Association Agreement provides for high tariff protection against EC in Spain and preferentially low tariffs for Spain in EC (37% and 4% respectively on cars). Spain has taken advantage to create competitive export-oriented car industry which is now exporting in quantity to UK. Other aspects of Spanish protection are in breach of EC/Spain Agreement:

- (a) discriminatory taxation ("home compensation tax" and luxury tax on imports, export refunds on exports);
- (b) arbitrary quota administration (quotas announced late and subject to revision);

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- (c) discriminatory commercial legislation (General Franco's "Buy Spanish" Law of 1939).

The Germans are likely to be unhappy about proposals to restrict Spanish access to the EC. But as they themselves have found in connection with the 1970 Protocol to the EC Association Agreement with Turkey as it applies to immigration, there has been a radical change of circumstances.

12 The GATT Ministerial Meeting 24-27 November

Preparations are now in the final stages. EC position was considered at Foreign Affairs Council on 25 and 26 October when the French blocked discussion and insisted that principles should be discussed at a special Council in early November. This is disappointing but not entirely surprising. It will make the position of EC negotiators in Geneva more difficult at a critical time. The Germans share our disappointment at this turn of events, but are still trying to make the EC's contribution more "positive."

13 Japan

Exports from Japan to the EC have fallen by nearly 8% so far this year (7 months) and to FRG by 14½%. In particular exports from Japan to FRG have declined in a number of sensitive sectors such as cars, machine tools and colour TV tubes. In contrast, the UK (+ nearly 9%) and the USA (+ 3%) have suffered rising imports from Japan this year.

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14 This improvement in their trade position both overall and in specific sectors has reinforced the traditional German anti-protectionist stance. Their view on Japan continues to be that pressure should be maintained on the Japanese to buy more from abroad and to remove the non-tariff barriers limiting imports, but that it would be a mistake to remove competitive pressures from EC industry by reducing Japanese access to the Community market.

15 The FRG last year agreed the introduction of surveillance on certain Japanese imports, and the initiation of action against Japan under the dispute settlement procedure of GATT Article XXIII on the grounds that difficulties encountered by EC exporters to Japan amounted to nullification and impairment of their GATT rights. Three rounds of consultations with the Japanese have now taken place and the Foreign Affairs Council of 25 October decided to make one more attempt under the consultation procedure to persuade the Japanese to face up to their responsibilities. The decision on whether to proceed to the second phase of the Article XXIII procedure, referring the issue to the GATT Contracting Parties has been deferred to the December Council.

16 Following these and other representations from the EC and US, the Japanese Government announced this year two packages of measures intended to improve access to the Japanese market for foreign exporters. These include the abolition or reduction of non-tariff and tariff barriers to trade, and the introduction of an ombudsman procedure to deal with complaints about foreign importers. Overall, the substance of the packages is disappointing and unlikely to have much impact on Japanese trade surplus with the EC.

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17 Pressure on Japan's trading partners would be relieved either by an increase in the value of the Yen or by shift of emphasis from external to internal demand as the engine of growth. The German Government regards discussion of these issues with the Japanese Government as inappropriate for the less successful economies, but it has come up with no convincing alternative policy for dealing with the growing trade imbalance.

Political Consultations with Japan

18 Community countries have not yet reached full agreement on policy consultations with Japan, a main theme of the Prime Minister's recent visit. It would be useful to have full discussions with Germans on this, perhaps at Under Secretary level, soon.

EC/US Steel

19 Agreement was reached between the EC and US on 21 October for limiting exports of certain carbon steel products to the US until end 1985. A separate monitoring arrangement for pipe and tube products is included. US industry accordingly withdrew their anti-dumping and countervailing cases.

20 Agreement was reached literally minutes before the deadline after which the US authorities, under statute, would have had to go ahead and impose countervailing duties. Main obstacle on the EC side was Germany, whose exports to the US were largely unaffected by the US industry cases. The new German Government finally agreed only after heavy pressure had been put on them by their Community partners, including the UK.

21 UK remains concerned about US methodology for calculating subsidies, as used in the steel cases. Question still being pursued in GATT. US Trade Laws give particular freedom to private petitioners, so further trouble could still

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result in respect of steel products not covered by the 21 October Agreement (indeed, some special steel cases, involving the UK, will continue).

French Measures/"Buy British"

22 In December 1981, the French Government announced a programme for the "reconquête du marché intérieur" in fourteen industrial sectors, to include new state aids and measures to reduce imports. The UK joined other member states in voicing strong concern. The Commission has already criticised some measures, and is still investigating others. In the Summer Mitterrand began to be quoted as describing the policy in terms of improving the quality of French goods and adapting them to the requirements of the French market.

23 In the face of a 1982 trade deficit estimated at FF 100,000,000,000 the French Government have just announced some further measures including universal origin marking; a requirement that customs documents must be in French; strengthened surveillance of unfair commercial practices with regard to imports; control on the transfer of patents and licences abroad; and bilateral commercial negotiations with a view to restoring the balance to French trade with certain partners. Details of these measures are not yet available in Paris.

24 The CBI's "Think British" campaign and recent Ministerial comments that purchasers should give thought to UK products in making their buying decisions have been noted particularly critically in Bonn. It would be useful to persuade the Germans, who may be inclined to see the French and the British in something of the same light, that on the contrary, we should make common cause with them against French measures inspired by statism, dirigism and socialism.

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PMVX(82) 12(c) (Revise)
ADDENDUM

COPY NO

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ANGLO-GERMAN SUMMIT

28/29 OCTOBER 1982

INTERNATIONAL TRADE PROBLEMS

Brief by the Department of Trade

ORIGIN MARKING

POINTS TO MAKE (IF RAISED)

- 1 We have consistently emphasised that our origin marking requirements are a consumer measure, and in our view are fully consistent with Community law.
- 2 We will need to see details of the new French origin marking measures before deciding whether these will impede Community trade. We are confident that our own arrangements do not.

BACKGROUND

- 3 Last year, at the instigation of Count Lambsdorff, the Germans criticised our new origin marking Order on the grounds that it would damage Community trade. The Order, which came into effect on 1 January, requires the origin marking of textiles, clothing, cutlery, footwear and domestic electrical appliances - both British and foreign.
- 4 The Germans may revert to this in the light of the recent French announcement of measures for the origin marking of "all goods sold in France". Before deciding how to respond to these we will need to know more precisely what the French intend, and whether the Commission will challenge them - as we would certainly expect - in the European Court. In the meantime, attacking the French decision could, by implication, call into question the legitimacy of our own Order,

Department of Trade
27 October 1982

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C/

Papers to be handed
over to Stoltenberg.

JR

27/10



FROM: MISS M O'MARA

DATE: 27 October 1982

cc Sir D Wass
Sir K Couzens
Sir A Rawlinson
Mr Burns
Mr Littler
Mr A J C Edwards
Miss Court
Mr Sedgwick

MRS HEDLEY-MILLER

ANGLO-GERMAN BRIEFING

It has occurred to the Chancellor that there may be a number of simple propositions relating to the EC Budget which UK Ministers have long taken for granted and which their opposite numbers in the previous German administration had discounted but which might strike their successors with fresh force. He has in mind such subjects as the prospective growth of the German contribution to the Community Budget and the prospective shape of the Budget itself; the growing share of the Budget which agriculture will take if it is allowed to continue unchecked and the likely date on which we shall reach the VAT ceilings.

2. He would therefore be grateful if he could be armed with a number of graphs and tables making these and similar points which he could hand to Herr Stoltenberg, should a convenient opportunity arise. It would be most helpful if we could have this material by close of play today.

MOM

MISS M O'MARA

Das Haushalts- problem

Zusammenfassung der Argumente

- **Das Haushaltsproblem wurde während der britischen Beitrittsverhandlungen vorausgesehen. Es war zugesagt worden, es zu lösen, wenn eine nicht akzeptable Situation eintreten sollte.**
- **Der Gemeinschaftshaushalt transferiert nach einem nicht zu rechtfertigenden Verfahren erhebliche Geldmittel zwischen den einzelnen Mitgliedstaaten. Insbesondere Großbritannien, eines der weniger wohlhabenden Mitgliedsländer, überweist große Summen an andere Länder, darunter auch einige der wohlhabenderen Partnerländer.**
- **Der Hauptgrund dafür ist, daß landwirtschaftliche Unterstützungsmaßnahmen den Löwenanteil an den Gemeinschaftsausgaben haben. Großbritannien zieht jedoch aufgrund seines relativ kleinen Agrarsektors daraus nur wenig Nutzen.**
- **Diese Überweisungen bedeuten für die britische Wirtschaft eine echte Kostenbelastung und erreichen fast den Umfang des gesamten britischen Wirtschaftshilfeprogramms.**
- **Alle Mitgliedsländer genießen aufgrund ihrer Mitgliedschaft in der Gemeinschaft erhebliche politische und wirtschaftliche Vorteile, doch nur Großbritannien und Deutschland müssen Nettohaushaltsüberweisungen an ihre Partner vornehmen.**
- **Großbritannien fordert keine exakte Gegenleistung und hat auch nicht die Absicht, das Finanzsystem der Gemeinschaft oder die Gemeinsame Agrarpolitik zu unterminieren.**
- **Das Haushaltsproblem wurde nicht dadurch verursacht, daß Großbritannien seine Handelsstruktur und seine Wirtschaft nicht der Mitgliedschaft in der Gemeinschaft angepaßt hat.**
- **Das Problem löst sich nicht von allein. Es ist ein Problem für die Gemeinschaft insgesamt.**
- **Eine dauerhafte Lösung muß gefunden werden.**

Das Haushaltsproblem

Für die Jahre 1980 und 1981 erhielt Großbritannien besondere Rückerstattungsbeträge aus dem Gemeinschaftshaushalt, um seine überhöhten Nettozahlungen zu verringern. Rückerstattungen werden auch für 1982 gezahlt. Demnächst beginnen die Diskussionen über die Regelungen für 1983 und die folgenden Jahre. Trotz dieser Entscheidungen der Gemeinschaft ist die Frage der Rückerstattungen weitgehend mißverstanden und gelegentlich sogar falsch dargestellt worden.

Diese zusammenfassende Darstellung untersucht dieses Problem und macht klar, warum im langfristigen Interesse der Gemeinschaft insgesamt eine dauerhafte Lösung gefunden werden muß.

Geschichtlicher Hintergrund

Während der Verhandlungen im Jahre 1970 über den britischen Beitritt zur Gemeinschaft verwiesen die britischen Verhandlungsteilnehmer darauf, daß die finanziellen Regelungen der Gemeinschaft, sofern sie nicht geändert würden, nach Ablauf der Übergangsperiode zu einer überhöhten britischen Beteiligung am Gemeinschaftshaushalt führen würden. Dies werde sich aus dem Vorrang der Gemeinsamen Agrarpolitik (GAP) ergeben, von deren Ausgabenprogrammen Großbritannien aufgrund des geringen Umfangs seiner Landwirtschaft nur geringfügig profitieren werde. Die Gemeinschaft erwiderte darauf, daß dies nicht geschehen werde, da das Schwergewicht der Ausgabenpolitik der Gemeinschaft geändert werden würde. Insbesondere die Landwirtschaft werde einen geringeren Anteil an den Ausgaben unter dem Gemeinschaftshaushalt haben. Außerdem würden andere Programme entwickelt, an denen Großbritannien wesentlich mehr profitieren könne. Die Gemeinschaft fügte jedoch hinzu, „sollten jemals nicht akzeptable Umstände eintreten . . . dann müßten die Institutionen im Interesse des Überlebens der Gemeinschaft gerechte Lösungen finden“.

Mit der Erhöhung des Regional- und des Sozialfonds wurden bereits einige begrüßenswerte Änderungen in der Ausgabenpolitik der Gemeinschaft vorgenommen. Diese Entwicklungen sind jedoch noch nicht weitreichend genug, um das Haushaltsproblem zu lösen. Die Existenz eines derartigen Problems wurde bereits 1975 ausdrücklich in der Gemeinschaftsgesetzgebung anerkannt, als ein finanzielles Instrumentarium zu seiner Behandlung geschaffen wurde, das sich jedoch nicht als ausreichend erwies. Der Ministerrat der Gemeinschaft stellte daher im Mai 1980 übereinstimmend fest, die Bürde des britischen Haushaltsbeitrags erfordere eine sofortige Korrektur durch Rückerstattungen und verpflichtete sich ferner, eine langfristige strukturelle Lösung zu finden (Mandat vom 30. Mai). Die Rückerstattungen werden gezahlt, die langfristige Lösung muß jedoch noch erzielt werden.

Ein Gemeinschaftsproblem

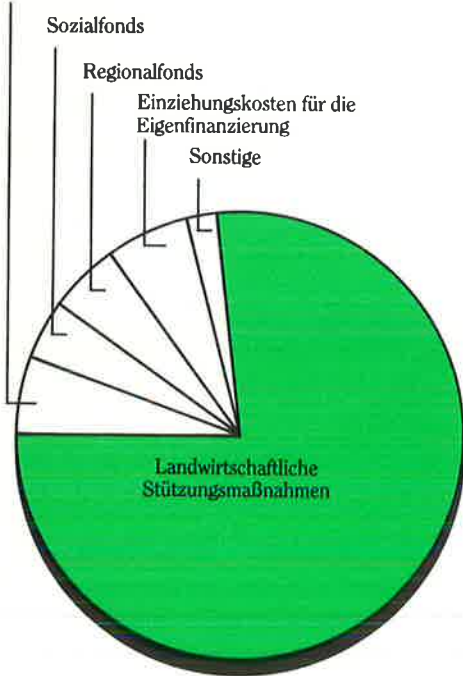
Das Ungleichgewicht des Haushaltsbeitrags ist ein Problem für die Gemeinschaft insgesamt. Es betrifft zwar Großbritannien am meisten, doch hat sich inzwischen auch für Deutschland das gleiche Problem ergeben, und in der Zukunft könnten auch andere Mitglieder betroffen werden, und dies insbesondere nach einer Erweiterung der Gemeinschaft. Auf dem Wege über den Gemeinschaftshaushalt werden riesige Geldsummen von einem Mitgliedstaat zum anderen umgeleitet. Acht Mitgliedstaaten, von denen fünf wohlhabender als die Gemeinschaft im Durchschnitt sind, erhalten zur Zeit mehr aus dem Haushalt, als ihre Steuerzahler zu ihm beitragen. Zwei Mitglieder, nämlich Deutschland und Großbritannien, nehmen Zahlungen an die anderen vor.

Die Grundursache des Problems

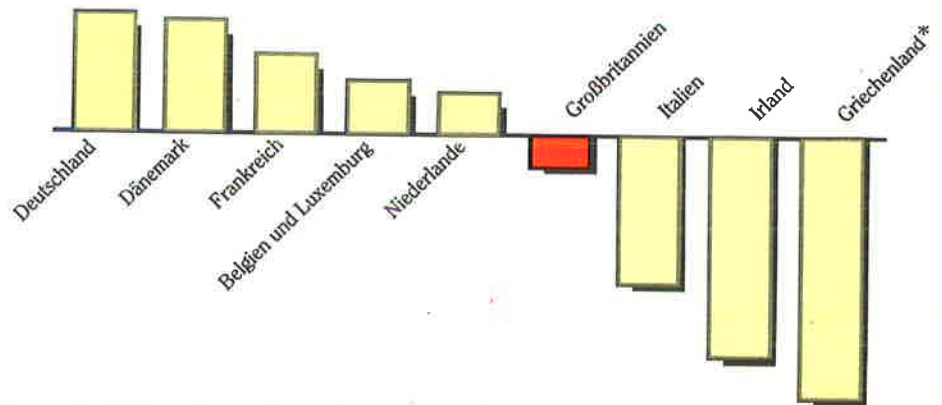
Die Gemeinschaftseinnahmen stammen aus landwirtschaftlichen Abschöpfungen, Zöllen und Mehrwertsteuerteilen bis zu einer Grenze von 1% des MWSt-Aufkommens. Dies sind die eigenen Finanzierungsquellen der Gemeinschaft, und die Einnahmen werden für Gemeinschaftsmaßnahmen ausgegeben. Der Löwenanteil entfällt heute trotz ermutigender Fortschritte bei der Entwicklung anderer Gemeinschaftsprogramme noch immer auf landwirtschaftliche Stützungsmaßnahmen (siehe die folgende Darstellung).

Haushaltszuweisungen im Durchschnitt der Jahre 1980 und 1981

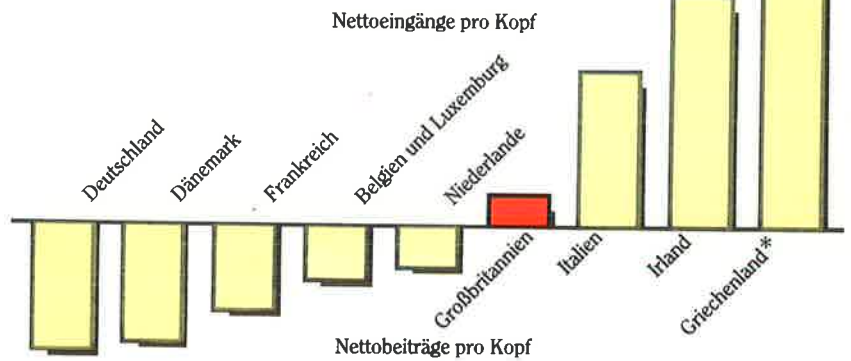
Verwaltung



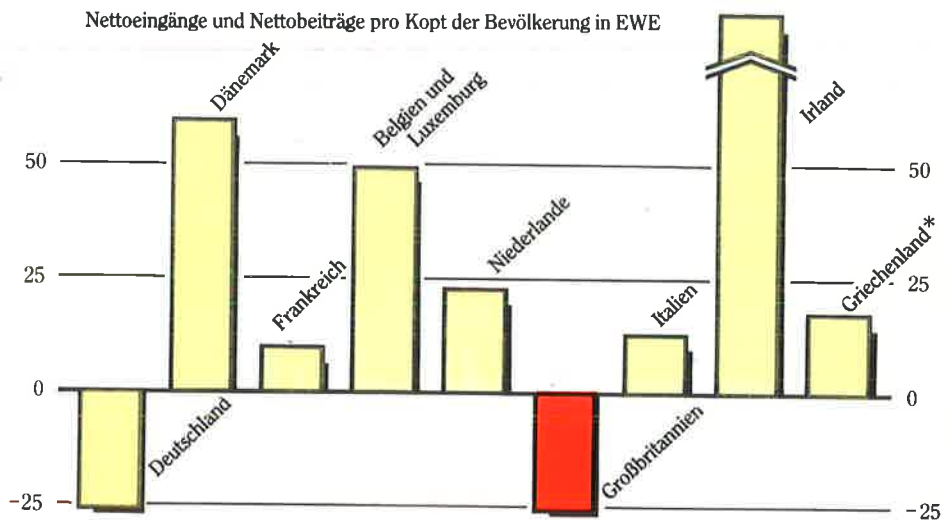
Das Ergebnis dieser Politik ist, daß die Gemeinschaft Finanzmittel aus Mitgliedstaaten mit einer relativ kleinen Landwirtschaft zu solchen umleitet, die Nettoexporteure landwirtschaftlicher Erzeugnisse sind, und dies ungeachtet ihres Wohlstands im Vergleich zu den anderen gemeinschaftsmitgliedern. Die folgende Darstellung zeigt, wer die reicheren und wer die ärmeren Mitgliedstaaten sind. Die auf der linken Seite haben ein überdurchschnittliches, und die auf der rechten ein unterdurchschnittliches Prokopfeinkommen.



Wenn die Richtung der Zahlungsbeiträge über den Gemeinschaftshaushalt von der reicheren zur ärmeren Seite verlaufen würde, dann sähe die Darstellung ungefähr wie folgt aus:



Tatsächlich sieht es jedoch sehr anders aus. Für 1980 und 1981 ergab sich zum Beispiel (ohne die Sonderrückerstattungen an Großbritannien) folgendes Bild:



Die folgenden Zahlen vermitteln eine kleine Vorstellung vom Umfang des Problems: Ohne die Rückerstattungen würde Großbritannien von 1980 bis 1982 rund 4,5 Mrd EWE (£2,5 Mrd, DM 11 Mrd, FF 27 Mrd) an andere Länder der Gemeinschaft gezahlt haben. Dieser Betrag ist fast ebenso hoch wie das gesamte britische Auslandshilfeprogramm der gleichen Jahre.

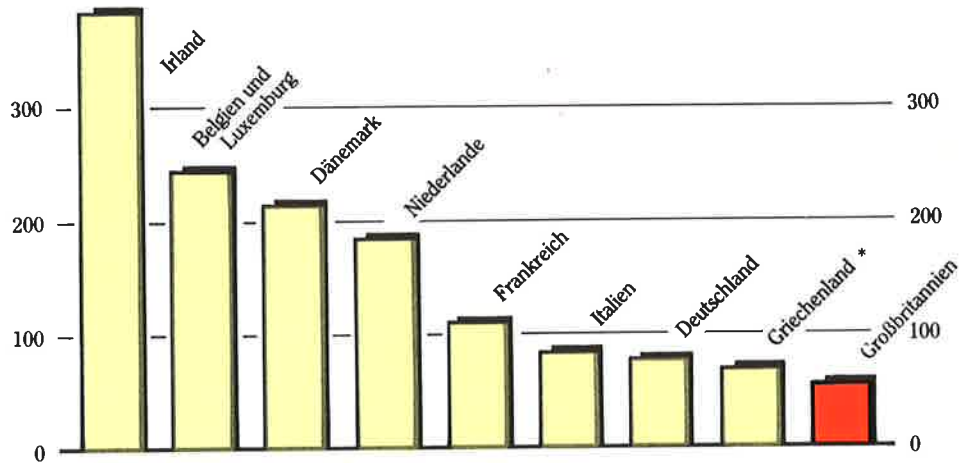
Tatsache ist:

★ Pro Kopf der Bevölkerung hat das britische Volk den geringsten Nutzen aus dem Gemeinschaftshaushalt.

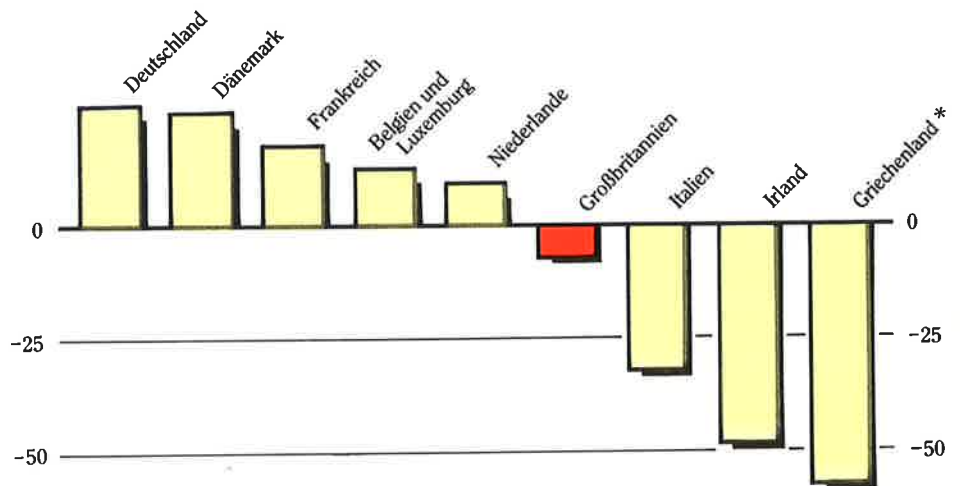
★ Großbritannien gehört nicht zu den wohlhabenderen Mitgliedern der Gemeinschaft.

★ Das britische Volk leistet seinen vollen Beitrag zu den Gemeinschaftseinnahmen.

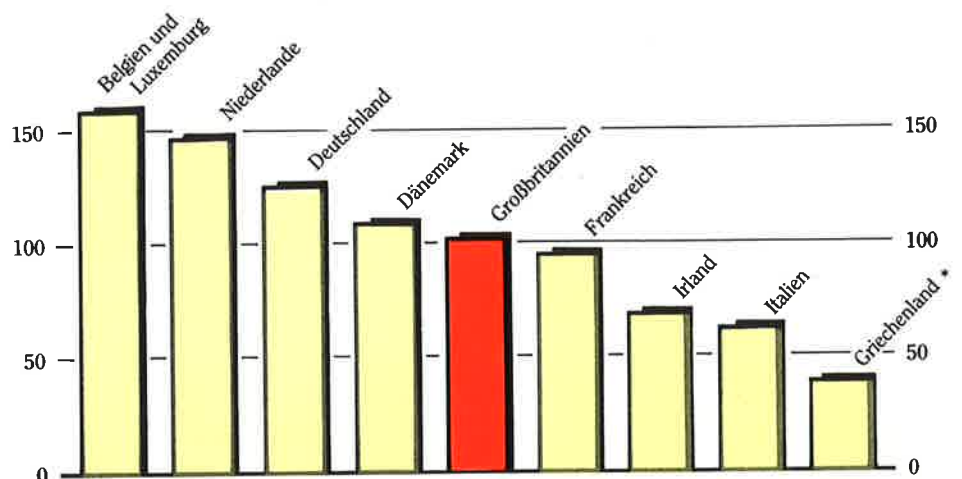
Eingänge aus den Haushaltszuweisungen pro Kopf der Bevölkerung als prozentualer Anteil am EG-Durchschnitt 1980 und 1981



Das Bruttozialprodukt als prozentuale Differenz zum EG-Durchschnitt 1980 und 1981



Haushaltsbeitrag pro Kopf der Bevölkerung in Prozent des EG-Durchschnitts 1980 und 1981



* Die Ziffern für die Beiträge und Eingänge Griechenlands gelten nur für 1981.

Wie das Geld fließt

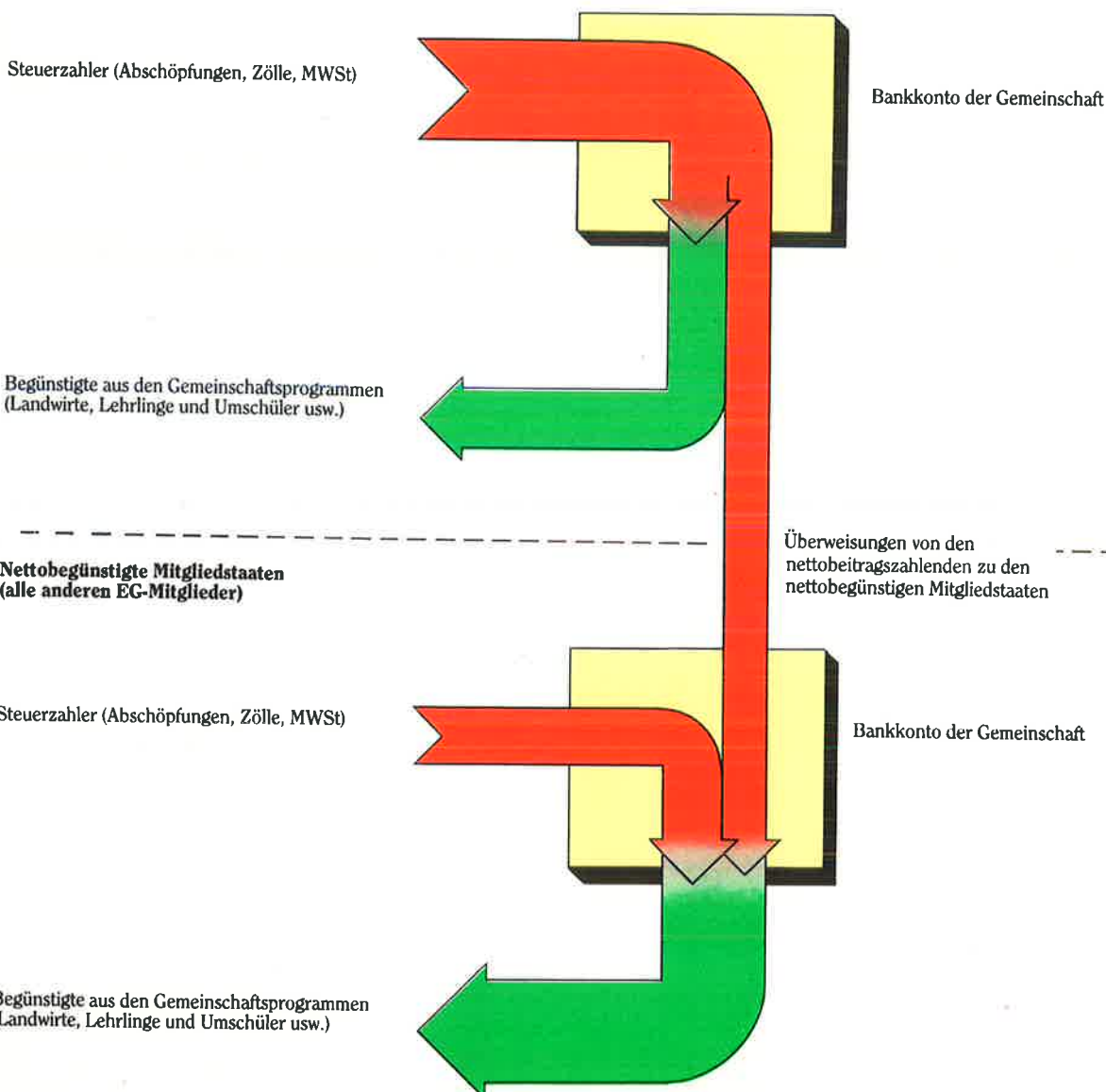
Die Überweisungen sind kein abstrakter Vorgang. Sie sind real aus einigen Ländern abfließende und anderen Ländern zufließende Gelder. Sie ergeben sich wie folgt: Jeder Mitgliedstaat zieht die Eigeneinnahmen der Gemeinschaft von seinen Steuerzahlern ein und zahlt sie auf ein von der Kommission in dem betreffenden Lande unterhaltenes Konto ein. Die Kommission leistet mit diesen Beträgen Zahlungen an Landwirte, Händler, Industrieunternehmen und andere Begünstigte aus den Gemeinschaftsprogrammen in dem betreffenden Lande. In acht Mitgliedsländern übersteigen die Gemeinschaftsausgaben die eingenommenen Beträge, und daher müssen

diese Konten durch Überweisungen aus den beiden anderen, nämlich Großbritannien und Deutschland, ergänzt werden. In diesen beiden Ländern liegt der Umfang der an die Begünstigten aus den Gemeinschaftsprogrammen geleisteten Zahlungen unter dem der eingezogenen Steuern. Die Kommission sammelt daher Überschüsse an, die von Zeit zu Zeit auf ihre Konten in anderen Ländern überwiesen und dort ausgegeben werden. Diese Überweisungen sind echte Einnahmen für die Nettoempfänger und echte Kosten für die Nettobeitragszahler. Sie sind gleichzeitig eine Belastung des erzielbaren Steueraufkommens, die Großbritannien und Deutschland in ihren nationalen Haushaltsplänen berücksichtigen müssen.

Die folgende Darstellung illustriert diesen Geldfluß, und es ist leicht zu verstehen, warum die Bevölkerung in den nettobegünstigten Ländern mit den Haushaltsregelungen der Gemeinschaft zufriedener ist als die in den nettobeitragszahlenden Ländern. Selbst Deutschland, das größte und eines der wohlhabendsten Mitgliedsländer, beginnt, den Umfang seines Nettobeitrags als eine Bürde zu empfinden. Die britische Bevölkerung betrachtet sich als in ungerechtfertigter Weise ausgenutzt, da sie weiß, daß Großbritannien weniger wohlhabend als der Gemeinschaftsdurchschnitt ist.

Wie die Steuerzahler in einigen Mitgliedstaaten Gemeinschaftsprogramme in anderen Mitgliedstaaten finanzieren

Nettobeitragszahlende Mitgliedstaaten (Großbritannien und Deutschland)



Mißverständnisse beim Haushaltsproblem

Es wird mitunter behauptet:

● *Großbritannien versuche, die gemeinsame Grundlage der Gemeinschaftsfinanzierung durch das bestehen auf einer „exakten Gegenleistung“ zu unterminieren, d.h. es verlange, aus dem Gemeinschaftshaushalt genau soviel zurückzuerhalten, wie die britischen Steuerzahler dazu beitragen:*

Großbritannien verlangt nichts dergleichen. Es akzeptiert, daß über den Gemeinschaftshaushalt Geldmittel überwiesen werden. Diese Überweisungen sollten aber von den reicheren zu den ärmeren Mitgliedstaaten erfolgen, wenn die Gemeinschaft getreu der Forderung in den Römischen Verträgen „die zwischen den verschiedenen Regionen bestehenden Unterschiede abbauen“ will. Großbritannien gehört nicht zu den reicheren Mitgliedsländern, hat sich aber bereit erklärt, ein Nettobeitragszahler in vertretbarem Umfang zu sein.

● *Großbritannien versuche, das System der Gemeinschaftseinnahmen zu zerstören (das System der Eigenfinanzierung der Gemeinschaft):*

Großbritannien greift nicht die vereinbarten Regelungen der Gemeinschaft an. Großbritannien war im Gegenteil eines der ersten Länder, die das Eigenfinanzierungssystem in vollem Umfang einführten. Großbritannien verlangt lediglich eine sinnvolle Verteilung von Kosten und Nutzen. Es besteht keinerlei Notwendigkeit, zu diesem Zweck das Eigenfinanzierungssystem zu ändern.

● *Großbritannien versuche, die GAP zu unterminieren:*

Großbritannien erkennt die im Vertrag von Rom verankerten Grundprinzipien der GAP uneingeschränkt an. Es hat stets die versuche der Kommission unterstützt, die praktische Ausführung der GAP zu verbessern, um sie den geänderten Umständen anzupassen. Großbritannien unterstützt insbesondere die Ansicht der Kommission, daß die Gemeinschaft einen Weg zur Verringerung der Überschußproduktion und der zu ihrer Beseitigung erforderlichen Kosten finden müsse und daß es eine bessere Orientierung der Ausgabenprioritäten im Haushalt mit einem kleineren Anteil für die Landwirtschaft geben solle. Dies kann aber sicherlich ohne eine Änderung der Grundlagen der GAP erreicht werden.

● *Großbritannien sei nicht an der Weiterentwicklung der Gemeinschaft, sondern nur daran interessiert, sein geld zurückzubekommen:*

Großbritannien hat stets eine beschleunigte Entwicklung der regional- und sozialpolitischen Maßnahmen der gemeinschaft befürwortet. Es würde weitere Fortschritte bei der Schaffung des Gemeinsamen Marktes und seiner Ausweitung auf den Dienstleistungssektor begrüßen. Es setzt sich für eine aktivere Energiepolitik ein, so insbesondere auf dem Kohlesektor.

● *Großbritanniens Nettobeiträge werden durch die Handelsgewinne mehr als ausgeglichen:*

Die Kosten der Gemeinschaftsmaßnahmen sind für Großbritannien höher als nur der Nettobeitrag zum Haushalt. Großbritannien ist ein Nettoimporteur von Lebensmitteln. Es kauft Lebensmittel von anderen Mitgliedsländern zu Gemeinschaftspreisen, die aufgrund des Preisstützungsmechanismus der GAP über den Weltmarktpreisen liegen. Die sich daraus für Großbritannien ergebende Kostenbelastung wird nicht durch entsprechende Einnahmen auf dem Industriesektor ausgeglichen, da die Gemeinschaft kein vergleichbares Preisstützungssystem für Industrieerzeugnisse betreibt. Überdies ist Großbritannien in jedem Falle ein Nettoimporteur sowohl von Fertigwaren als auch von Lebensmitteln aus den anderen Gemeinschaftsländern.

● *Das Problem ergebe sich daraus, daß Großbritannien sich nicht der Mitgliedschaft in der Gemeinschaft angepaßt habe:*

Großbritannien hat sich angepaßt. 43% des gesamten britischen Handels werden jetzt mit anderen Mitgliedstaaten abgewickelt, während es vor dem Beitritt nur rund 30% waren. Dies bedeutet eine schnellere Umstellung als in allen anderen Mitgliedstaaten und bedeutet weiter, daß Großbritannien mit den anderen Partnern mehr oder weniger gleichgezogen hat. Selbst eine weitergehendere Anpassung Großbritanniens würde wenig zur Verringerung des Problems beitragen, das sich in erster Linie aus dem geringen britischen Anteil an den Zuwendungen aus dem Gemeinschaftshaushalt ergibt.

Die Größeren Vorteile der EG-Mitgliedschaft

Großbritannien ist stolz darauf, ein Partner in der Europäischen Gemeinschaft zu sein, die eine so entscheidende Rolle in der Nachkriegsentwicklung Europas gespielt hat. Die wirtschaftlichen Vorteile eines massiven Gemeinsamen Marktes und gemeinsamer Maßnahmen sind eindeutig. Großbritannien schätzt auch die politischen Vorteile der Zugehörigkeit zu einer so bedeutenden

internationalen Gruppierung hoch ein. Die Gemeinschaft bietet vor allem begründete Hoffnungen für die künftige Entwicklung Europas. Doch alle diese Vorteile sind nicht auf Großbritannien beschränkt. Alle Mitgliedstaaten genießen sie. Doch nur Großbritannien und Deutschland zahlen mehr in den Haushalt ein, als sie aus diesem erhalten.

Ein anhaltendes Problem

Die von der Gemeinschaft für 1980-82 vereinbarten Rückerstattungen für Großbritannien waren eine Hilfe, jedoch nur eine vorübergehende. Es wurde verschiedentlich behauptet, daß sie außergewöhnlich großzügig waren. Doch selbst unter Einbeziehung dieser Rückerstattungen leistet Großbritannien für diese drei Jahre einen Nettobeitrag von über einer Milliarde EWE (£600 Mio, FF 6,4 Mrd, DM 2,5 Mrd). Acht andere Mitgliedstaaten werden unter den Finanzierungsregelungen der Gemeinschaft selbst bei Berücksichtigung der Rückerstattungskosten unvergleichbar großzügiger behandelt.

Die Entwicklung des Regional- und des Sozialfonds in den letzten Jahren war ebenfalls eine Hilfe, doch waren die betreffenden Beträge viel zu gering, um die Auswirkungen der GAP auf Großbritannien auszugleichen.

Die künftige Entwicklung der GAP, wie z.B. die Vergrößerung des Unterschiedes zwischen Gemeinschafts- und Weltmarktpreisen, könnte das Problem noch vertiefen.

Dies könnte sich auch aus der Erweiterung der Gemeinschaft um zwei neue Mitglieder ergeben, die relativ ärmer als der Gemeinschaftsdurchschnitt sind und die durchaus erwarten können, Nettobegünstigte aus dem Haushalt zu werden.

Schlußfolgerung

Der Ministerrat beginnt demnächst neue Verhandlungen über das Haushaltsproblem, und es ist unerlässlich, daß er eine dauerhafte Lösung dieses Problems findet. Geschieht dies nicht, würde der Streit um den Haushalt verlängert und die Gemeinschaft würde geschwächt und von den eigentlichen Aufgaben und Möglichkeiten in den achtziger Jahren abgelenkt werden.

Die anhaltende Prosperität und Weiterentwicklung der Europäischen Gemeinschaft, der Großbritannien sich voll verschrieben hat, können nicht gesichert werden, wenn nicht alle Völker in allen Mitgliedsländern überzeugt sind, daß die Gemeinschaft ihnen eine echte und faire Chance gibt. Eine anhaltende Lösung des Haushaltsproblems muß daher gefunden werden. Dies ist die Aufgabe, die es im Herbst 1982 zu lösen gilt.

Großbritannien in der Europäischen Gemeinschaft

Das Haushalts- problem

Herausgegeben für das Foreign and Commonwealth Office,
London, vom Central Office of Information,
27. September 1982

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Britain in the European Community

The Budget Problem

Summary of Points

- The budget problem was foreseen in Britain's accession negotiations. An assurance was given that, if an unacceptable situation arose, it would be put right.
- The Community budget results in large transfers of resources between member states, following no justifiable pattern. In particular, Britain, which is one of the less prosperous member states, makes large transfers to the others, including several of its more prosperous partners.
- This is mainly because the lion's share of Community expenditure still goes to farm support from which Britain gets relatively little benefit, since its agriculture is relatively small.
- The transfers are a real cost to the British economy, nearly as large as Britain's total aid programme.
- All the member states derive substantial political and economic benefits from Community membership. Only Britain and Germany are obliged to make net budgetary transfers to their partners.
- Britain is not asking for a *juste retour*, nor is it seeking to undermine the Community's financial system or the Common Agricultural Policy.
- The budget problem is not caused by any failure on Britain's part to adjust its trade or its economy to Community membership.
- The Community budget problem will not just disappear. It is a problem for the Community as a whole.
- A lasting solution must be found.

The Budget Problem

For 1980 and 1981, the United Kingdom received special refunds from the European Community budget to reduce its excessive net payments. Refunds are also to be paid for 1982. Discussions will soon start on arrangements for 1983 and later. Despite these decisions by the Community, the case for the refunds has been widely misunderstood and occasionally misrepresented.

This brief explains the nature of the problem and shows why a lasting solution to it has to be found in the long-term interests of the Community as a whole.

History

During the 1970 negotiations over Britain's accession to the Community, the British negotiators pointed out that the Community's financial arrangements, if unchanged, would leave Britain carrying an excessive burden from the budget after the transitional period. This was because of the dominance of the Common Agricultural Policy (CAP), from which Britain's share of expenditure would be low because of the relatively small size of its agriculture. The Community replied that this would not happen, because the balance of the Community's spending policies would change. In particular, agriculture would take a much smaller share of budget spending. Other programmes would be developed, from which Britain could expect to benefit much more. However, the Community added that "should unacceptable situations arise . . . the very survival of the Community would demand that the institutions find equitable solutions."

There have been some welcome changes in the balance of the Community's spending policies with the growth of the Regional and Social Funds. But these developments have not been nearly enough to solve the budget problem. The existence of such a problem was explicitly recognised in Community legislation as early as 1975, when a financial mechanism was introduced to deal with it. This did not prove effective. The Council of Ministers of the Community therefore agreed in May 1980 that the budgetary burden on Britain required immediate correction through refunds and, for the longer term, pledged itself to find a structural solution (the 30 May Mandate). The refunds are being paid; the longer-term solution has yet to be achieved.

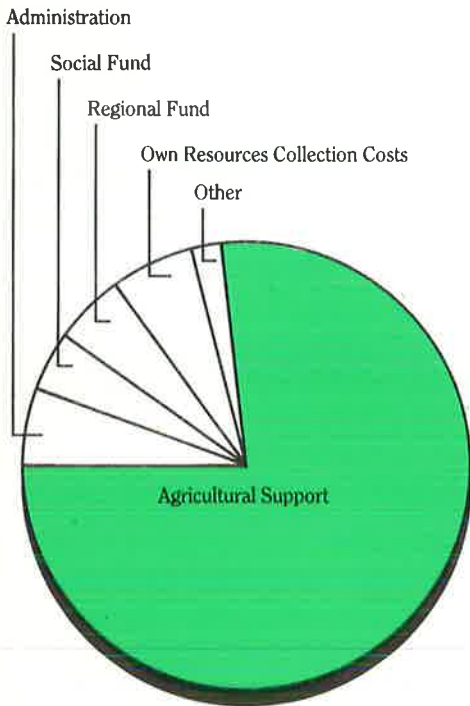
Community Problem

The imbalance in the budget is a problem for the Community as a whole. It happens to affect Britain most; but a similar problem has already emerged for Germany; and it could, in future, do so for others, especially after enlargement. At present, eight member states, of which five are more prosperous than the Community average, receive more from the budget than their taxpayers contribute to it. Two, Germany and Britain, make transfers to the others.

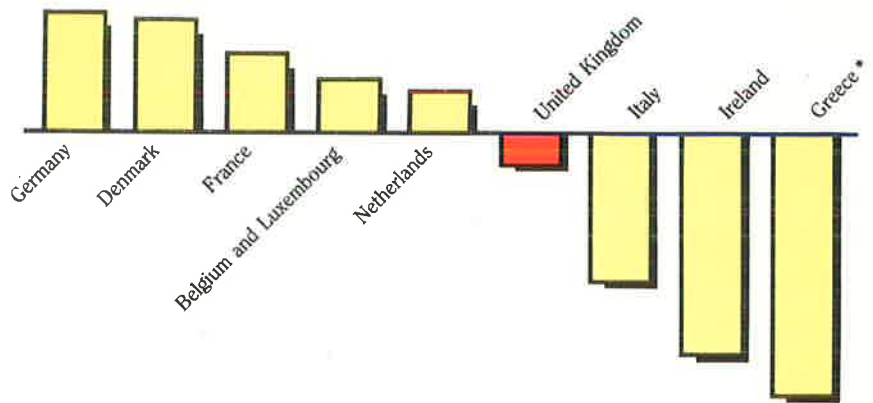
Basic Cause of the Problem

The Community gets its revenues from agricultural levies, customs duties, and Value Added Tax within a ceiling of 1%. These revenues are the Community's own resources, used to fund Community policies. Today, the lion's share of Community expenditure still goes to agricultural support, despite encouraging progress in developing other Community programmes (see chart below).

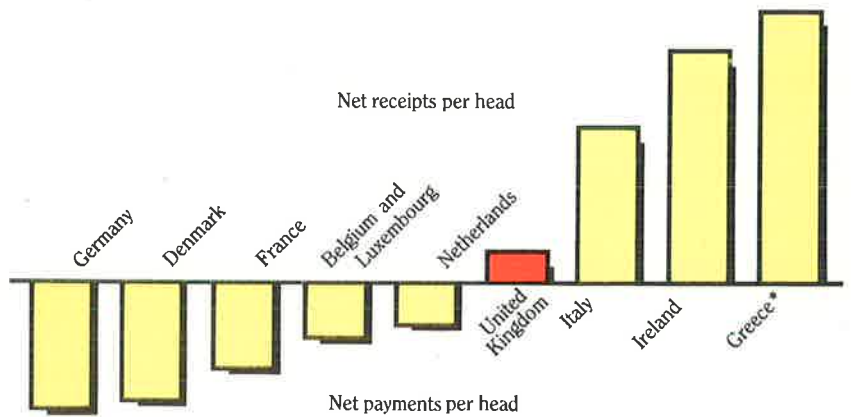
Allocation of Budget, average 1980 and 1981



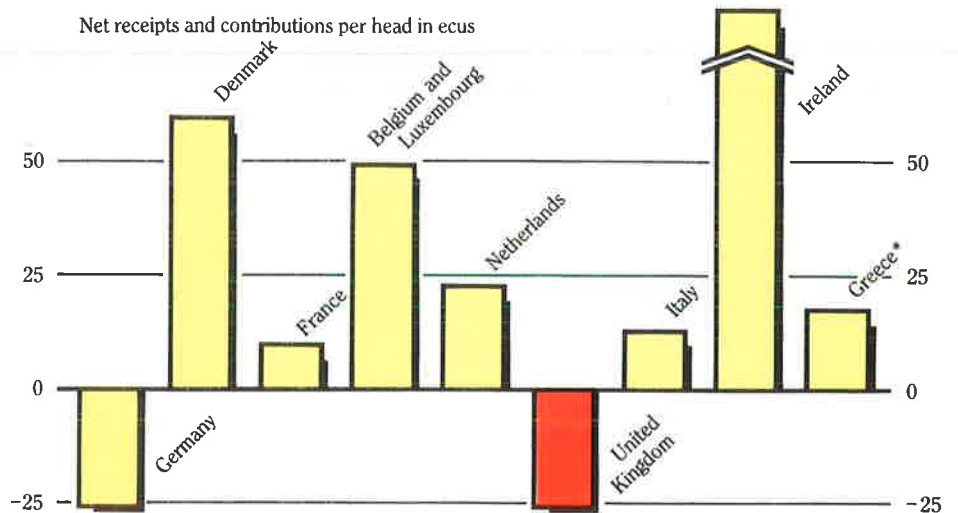
The result is that the Community budget transfers resources from member states with relatively small agricultural sectors to those which are net exporters of agricultural products, regardless of their relative prosperity. The diagram below shows which are the richer and which are the poorer member states—those on the left have above average income per head and those on the right have below average income per head.



If the transfers of money through the Community budget went from richer to poorer, then the pattern might look something like this:-



The actual pattern is quite different. For example, in 1980 and 1981 (leaving out the special refunds to Britain), the pattern was:-



To give some idea of the scale of the problem, without refunds the UK would have transferred to other Community countries in 1980 to 1982 some 4.5 billion ecus (£2.5bn, Dm 11bn, Ff 27bn). That is nearly as large as Britain's entire overseas aid programme in those years.

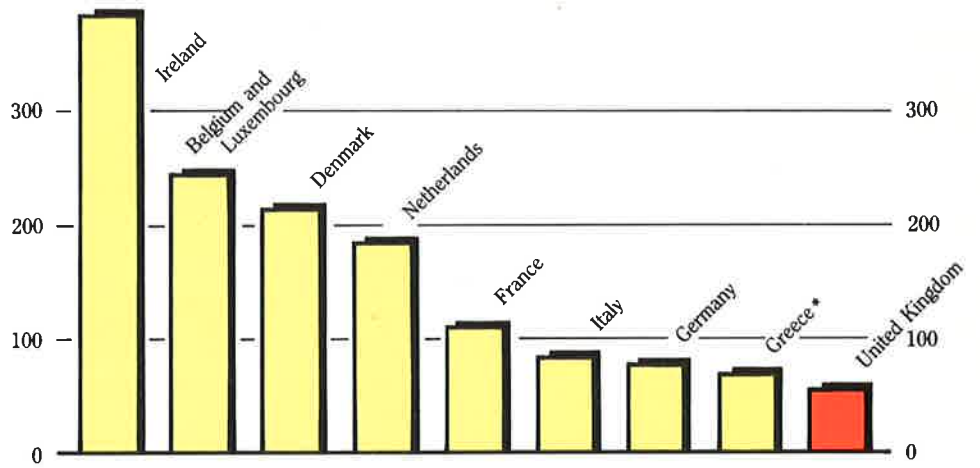
The facts are:

★ **The British receive the least benefit per head from the Community Budget . . .**

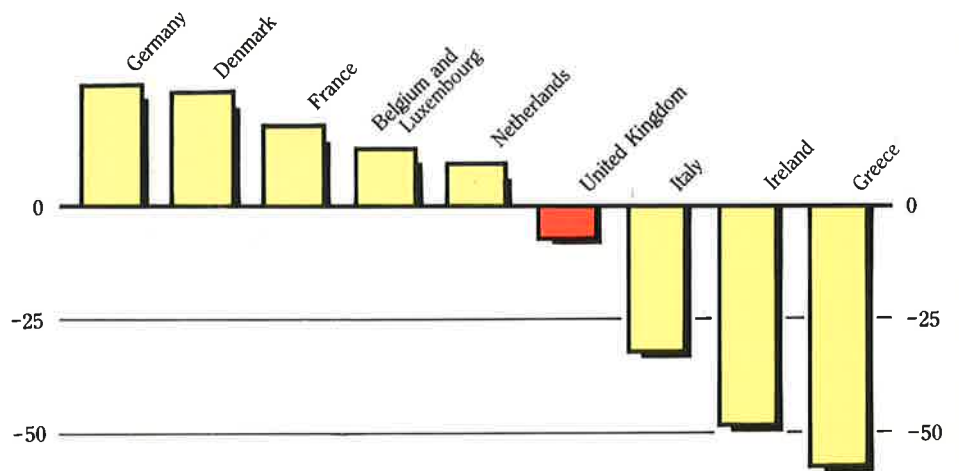
★ **Though they are not amongst the most prosperous . . .**

★ **And they pay their full share to Community revenues.**

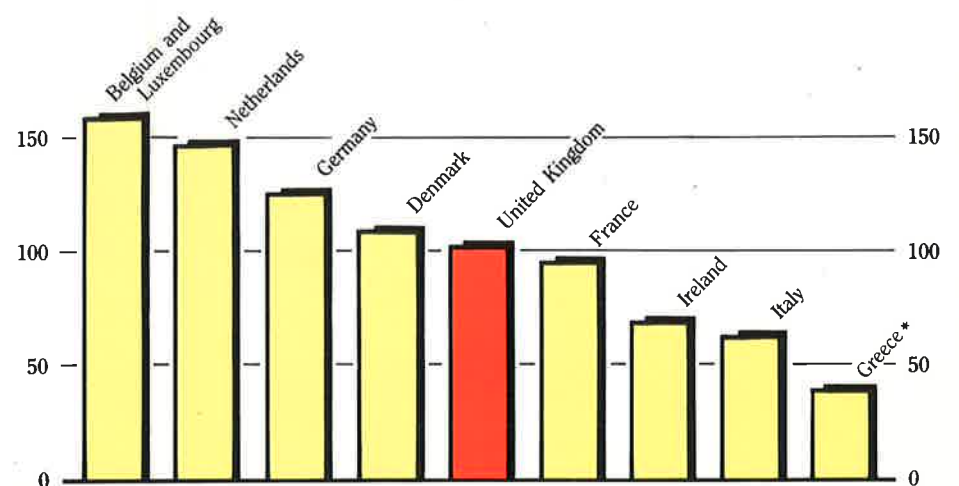
Receipts from allocated budget per head of population as a percentage of European Community average 1980 and 1981



GDP per head as a percentage deviation from European Community average 1980 and 1981



Contribution to allocated budget per head of population as a percentage of European Community average 1980 and 1981



* Greek figures for contributions and receipts relate only to 1981

How the Money Flows

The transfers are not an abstraction. They are money actually flowing out of certain countries into others. They arise as follows. Each member state collects the Community's own resources from its taxpayers and pays them into a bank account kept by the Commission in its country. The Commission uses this money to make payments to farmers, traders, industrial enterprises and other beneficiaries of Community programmes in that country. In eight member states, Community expenditure exceeds the resources collected and the accounts have to be topped up by transfers from the other two, Britain and Germany. In these two countries, the payments to beneficiaries of Community programmes are

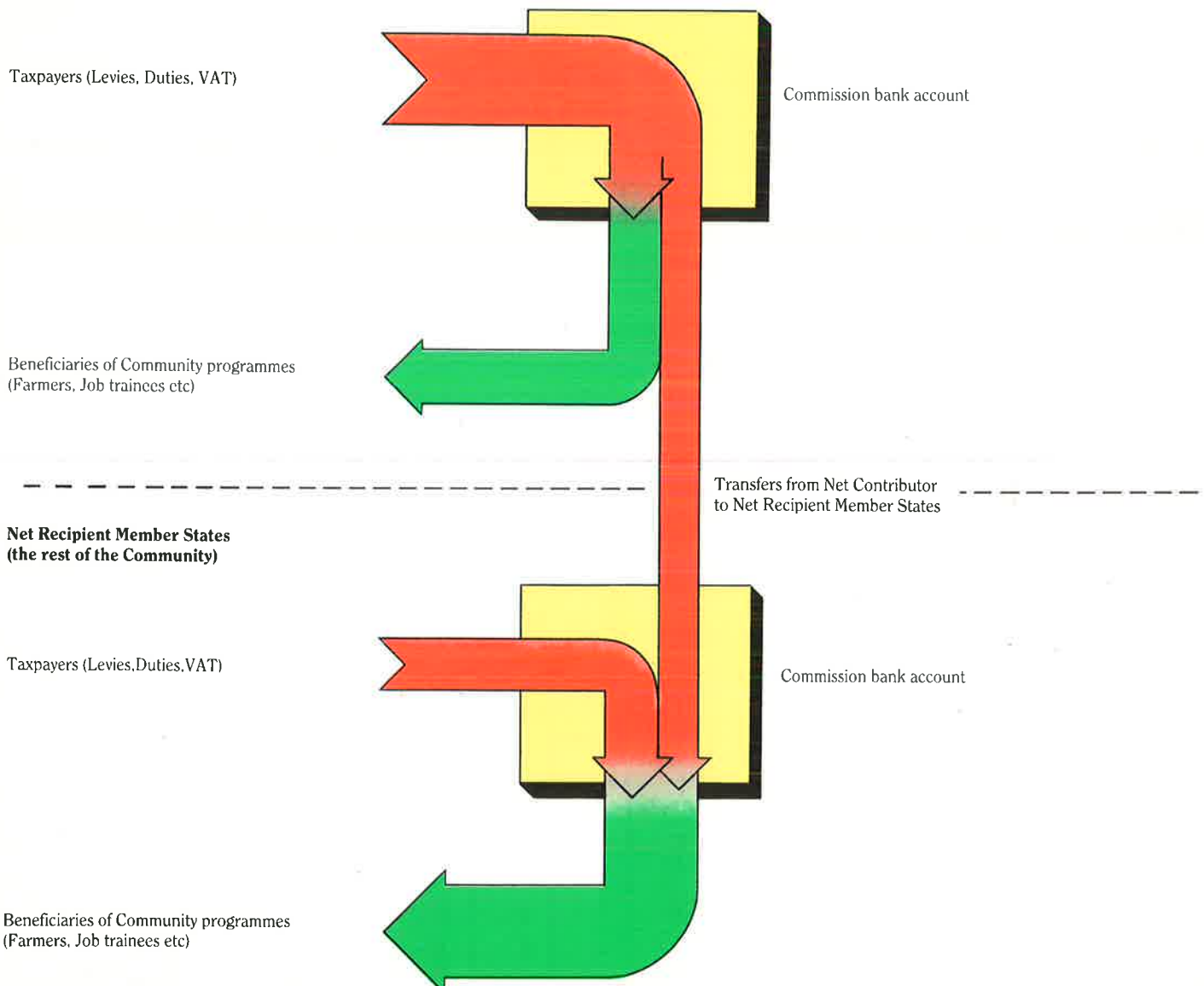
less than the taxes collected. The Commission therefore builds up surplus funds which, from time to time, it transfers to its accounts in other countries and spends there. These transfers are a real benefit to the net recipients and a real cost to the net contributor countries. They are also a charge on taxable capacity, for which Britain and Germany have to make allowance in their national budgets.

The diagram below illustrates these flows. It is easy to understand why people in the net recipient countries are more satisfied with the Community budget arrangements than those in the net contributor countries. Even Germany, the largest and one of the most prosperous of member states, is beginning to

find the size of its net transfer a burden. The British public, knowing that Britain is less prosperous than the average, feels that it is being unjustifiably exploited.

How taxpayers in some Member States finance Community programmes in other Member States

Net Contributor Member States (United Kingdom and Germany)



Misunderstanding of the Budget Problem

It is sometimes suggested that:

● *Britain is trying to undermine the common basis of Community financing by insisting on a juste retour, ie getting back from the budget exactly what British taxpayers put in:-*

Britain is asking for no such thing. It accepts that there may be transfers of resources through the budget. Such transfers, however, should be from the richer to the poorer if the Community is to "reduce the differences existing between the various regions", as required by the Treaty of Rome. Britain is not one of the richer member states, yet it has made it clear that it is willing to be a modest net contributor.

● *Britain is trying to undermine the Community's revenue system (the 'own resources' system):-*

Britain is not challenging the agreed rules of the Community. It was, in fact, one of the first countries to introduce the own resources system in full. All it is asking is that the costs and benefits should be distributed rationally. There is no need to alter the own resources system for this purpose.

● *Britain is trying to undermine the CAP:-*

Britain fully accepts the basic principles of the CAP as laid down in the Treaty. It has consistently supported the Commission's efforts to bring about improvements in the operation of the CAP to adjust it to changed conditions. In particular, it shares the Commission's view that the Community must find some way of limiting surplus production and the cost of disposing of it, and that there must be a better balance in the budget with agriculture taking a smaller share. But that can certainly be done without altering the fundamentals of the CAP.

● *Britain is not interested in developing the Community, but only in getting its money back:-*

Britain has consistently supported a more rapid development of the Community's regional and social policies. It would like to see more progress made towards completion of the Common Market and its extension to the services sector. It would like to see a more active energy policy, eg for coal.

● *Britain's budget contributions are more than balanced by the gains from trade:-*

The cost of Community policies to Britain is more than just its net budget contribution. Britain is a net importer of food. It buys food from other member states at Community prices which are higher than world prices because of the price support mechanisms of the CAP. The resulting cost to Britain is not matched by equivalent gains on the industrial side, because the Community does not have a comparable system of price support for industrial products. Britain is, in any case, a net importer of manufactures as well as food from the rest of the Community.

● *The problem arises from Britain's failure to adapt to Community membership:-*

Britain has adapted. 43% of its total trade is now with other member states, compared with some 30% before accession. That is a faster change than in any other member state, and brings Britain broadly into line with its partners. Even if Britain were to adapt further, this would do little to reduce the problem, which arises mainly from its small share of receipts from the Community budget.

Wider Advantages of the Community Membership

Britain is proud to be a partner in the European Community, which has played such a crucial role in the post-war development of Europe. The economic benefits of a massive Common Market and of joint policies are clear enough. Britain values, too, the political benefits of belonging to such an important international grouping. Above all, the Community offers hope for the future development of Europe. But these advantages are not confined to Britain. All member states enjoy them. Yet only Britain and Germany pay more into the budget than they receive from it.

Continuing Problem

The refunds for Britain agreed by the Community for 1980-82 were helpful, but only temporary. It has been suggested that they were excessively generous. Yet even after these refunds, Britain is making a net payment over these three years of more than one billion ecus (£600m, Ff 6.4bn, Dm 2.5bn). Eight other member states are far more generously treated by the Community's financial arrangements, even allowing for the cost of refunds.

The development of the Regional and Social Funds in recent years has also been helpful; but the sums in question are far too small to offset the effect on Britain of the CAP.

Future developments in the CAP, such as a widening of the gap between Community and world prices, could make the problem worse. So could the enlargement of the Community which will add two new members well below the Community average in prosperity, who could well expect to be the net beneficiaries from the budget.

Conclusion

The Council of Ministers is shortly to begin new negotiations on the new budget problem. It is essential that they should find a lasting solution to it. Failure to do so would prolong the controversy, weaken the Community and divert it from the real challenges and opportunities of the 1980s. The continuing prosperity and development of the European Community, to which Britain is firmly committed, cannot be assured unless the peoples of all the member states believe that the Community gives them a fair deal. A lasting solution to the budget problem must therefore be found. This is the task for the autumn of 1982.

Prepared for the Foreign and Commonwealth Office, London, by the Central Office of Information.
27 September 1982

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Britain in the European Community

The Budget Problem

NET CONTRIBUTIONS (-) AND RECEIPTS (+) BY MEMBER STATE

million ecus

	1975	1976	1977	1978	1979	1980	1981 (provisional)
<u>I. Net positions before UK refunds</u>							
Belgium/Luxembourg	+135	+346	+329	+337	+610	+439	+568
Denmark	+237	+294	+293	+381	+380	+327	+285
Germany	-1007	-1054	-1467	-597	-1430	-1526	-1750
Greece	-	-	-	-	-	-	+167
France	+35	+58	-310	-371	-78	+431	+597
Ireland	+175	+158	+212	+326	+545	+650	+586
Italy	+40	+248	+294	-334	+534	+737	+778
Netherlands	-27	+222	+88	+41	+288	+454	+191
United Kingdom	+104	-90	+126	+228	-849	-1512	-1422
<u>/Residual/</u>	<u>/+308/</u>	<u>/-179/</u>	<u>/+435/</u>	<u>/+445/</u>	<u>/- /</u>	<u>/- /</u>	<u>/- /</u>
<u>II. Net positions after UK refunds</u>	Actual	Pro- visional	As expected at time of 30 May agreement				
	1980	1981	1980	1981*			
Belgium/Luxembourg	+377	+494	+709	+846			
Denmark	+294	+248	+389	+523			
Germany	-1957	-2251	-1623	-1836			
Greece	-	+155	<u>/- /</u>	<u>/- /</u>			
France	+81	+160	-335	-421			
Ireland	+639	+572	+524	+656			
Italy	+527	+539	+598	+589			
Netherlands	+376	+95	+347	+463			
United Kingdom	-337	-12	-609	-730			

Source: Commission.

As the residuals show, the figures for 1975 to 1978 are unsatisfactory, but they give some guidance as to the orders of magnitude; the figures for 1981 remain subject to revision.

* The residual of -90 reflected a last-minute revision to the UK figure which the Commission made without revising the figures for other member states.



F. Pym's speech in Denmark
~~had~~ was construed in Germany
— wrongly — as suggesting
we were prepared to give up
the 10% ceiling quite soon.

If post not
w'end of 15th Jan.

On "sending a message to
Reger" [Liz's question] you
did of course signal, via
Ker to Sprinkel, that you
bought the "compromise"
negotiated in GSD on
5 October.

27/10/82.

1 PROPOSE TO SAY 5 WMS / 3 WMS
L.V. WMS

1) DOMESTIC ECONOMIC POLICY - 40 DAYS
17 DAYS

- NIL, SAME COMMON OBJECTIVE
" METHODS

KEEP CLOSELY IN TOUCH IN
DEVELOPMENT OF OUR POLICY, REVIEW OF ENTERPRISE

2) EEC / BDU / CAP

ADD: THE ARGUMENTS / PASSAGES
UNDERLINES 2 YR NOTE

3) WORLD

SPT NIM. → NOT LESS THAN 50%
U.S. PROGRAM

IMPLIC & EARLY AGREEMENT,
ACCEPTANCE OF MTC'S DESIRE

- PROVIDED NOT ON FALSE HOPE } COULD BE
PROCURE

U.S. ECONOMY

7R NOTE

Community Budget

1% Ceiling

On the British side we explained why we thought it was in the interests of the Community as well as the United Kingdom that there should be a more permanent solution to the problem of ^{our} excessive net contribution to the Community budget; and why this was politically important in the U.K. We wanted to avoid ~~prevent~~ damaging disputes every year or two years about this. We also explained our view that a situation in which there were only two net contributors to Community finances — one of them among the less prosperous members — was bad for the Community & for the control of its expenditure. We would like to see a more rational system which would avoid an open-ended contribution for any member and distribute the burden more widely, taking ^{some} ~~due~~ account of relative prosperity. This would help us to keep within the 1% V.A.T. limit and to cope with the costs of enlargement.

General idea

10% (initial)

On the first side we explain why we thought it was
 in the spirit of the community as well as the United
 Kingdom that the state be a more formal solution to
 the problem of the state's contribution to the
 community budget; and why the more formal solution
 in the UK. We would like to avoid (perhaps) changing aspects
 every year or two years about this. We also explain on
 why that a situation in which the state only has
 solution to community finance — one of them would be
 two separate members — we had for the community a few
 the benefit of its operation. We would like to see a more
 national system which would avoid an extra-ordinary contribution
 for any member and distribute the burden more widely, taking
 account of other factors. This would help to keep
 within the 10% V.A.T. limit and to cope with the cost

of adjustment.

Agriculture & the Community

It was the British view that it should be from Community policy to ensure that expenditure on agriculture should grow less rapidly than the Community budget as a whole. ^{Agreed was} The long-standing objective of achieving a better balance in the Community budget ought to be achieved, not by huge increases in other expenditure but by moderate but sustained reduction of the share of agricultural expenditure.

That Tighter control of agricultural expenditure was essential to living within the 1%. We hoped there could be exchange of view between our 2 Finance Ministers on this.

AND OF WORLD ECONOMY, LDCs

We stressed the importance for both our economies, and for the whole Community, of a resumption of growth in the United States and of avoiding any new upward movement of interest rates there. We hoped our German friends would join us in urging American colleagues to ensure a

progressive reduction of the American budget deficit so
as to underpin their counter inflation programme & reduce the
risk of higher interest rates.

[Doves holding:

C/i / deficit / growth / inflation
3% ↑]

C/f:

World:

Cable / Fund / growth / rate

| L higher rate / US / CDE

~~Commodity~~ goods

require more gold

when they grow

balancing problem

CONFIDENTIAL

From : Mrs M Hedley-Miller

Date : 27 October 1982

CHANCELLOR OF THE EXCHEQUER

cc Sir D Wass
Sir K Couzens
Mr Edwards
Mr Matthews

EC BUDGET. PAPERS FOR THE ANGLO-GERMAN SUMMIT

I attach the following, in response to Miss O'Mara's note of today, and to a request made orally by Miss Rutter :

- a. the texts of the May 1980 and May 1982 Agreements
- b. a precis of some figures related thereto
- c. some historical data about UK and German contributions and receipts, with a graph : and about the CAP share of the Budget
- d. some notes on enlargement pitfalls, which help with the case for a more sensible approach to financing

But I am afraid that the future - the graph you most wanted - has proved impossible today, because the sketchy data lead to implausible conclusions. This is being pursued.

2. The exhaustion of own resources may come in 1985, but this is not certain : the decisive and unknowable factor is the growth of agricultural expenditure.

3. On your general point about opening the minds of the new German government, Herr Stoltenberg is our only hope. Herr Genscher, Count von Lambsdorff and Herr Ertl are still much very there. I venture to suggest that a direct presentation to Herr Stoltenberg about the evils in store for him may not be ideal. The new German government does seem to realise that Europe is expensive, and likely to remain so. The trouble is precisely that they propose to cut the cost by refusing to pay their appropriate share of refunds to the UK. It is this blinkered vision of where their interests lie that we want to change. They should be thinking of how to make Community financing fair from the start, not how to design an absurd square dance about who is to contribute to whose refunds after it is found to be unfair.

CONFIDENTIAL

4. Moreover, the full conclusions of yesterday's Foreign Affairs Council meeting on the 1982 refunds just received, include yet another reference to their determination to follow the current self-determined limit of 50% of normal with a cut to 25% of normal for ¹⁹⁸³ and beyond. Thus the record says :

"The German delegation refers to the statement by the Federal Minister for Foreign Affairs, Mr Genscher, on 25 May 1982, that Germany will be contributing to future compensation settlements only 25% of its normal financial share".

5. 50% ^{of normal} / caused enough trouble this time round. ("Normal" is just under 28% in 1982, compared with just under 22% for the UK).

6. This German insistence on limiting their payments in this way causes the maximum disruption, difficulty, and bad feeling. UK representatives are often told, sometimes ^{more} in/picturesque language than I can bring myself to dictate "we don't so much mind paying you, but we don't see why we should pay those Germans". So it really is very important to try to persuade Herr Stoltenberg that even if they had gone ^{to be} on with their earlier line, and still more now that their line is/ hardened, the Germans will be adding further strain to a situation already far too fraught for the health of the Community. It would be infinitely better for them, and for the rest of us, that they should look for a more fundamentally rounded and rational approach.

7. Finally, I see that I failed to draw attention in my note of yesterday, to paragraph 10 of PMVX(82)12(b), the main brief on the EC Budget. The Prime Minister is here invited to secure Herr Kohl's agreement to the proposition that the Germans and ourselves should keep in close contact at Ministerial and official level in the weeks ahead, and to say this in the final plenary session. Your own efforts

CONFIDENTIAL

with Herr Stoltenberg should add force to this.

MHM

MRS M HEDLEY-MILLER

- MHM has also done a supplement to 2(c) on enlargement.

CONFIDENTIAL

+25

FCO

PS

PLUS FCO

PS/MR HURD
SIR J BULLARD
~~LORDS BRIDGES~~
MR HANNAY

Mr EVANS

~~RESIDENT CLERK~~

HD/ECD(1) (3)
HD/NEWS D
HD/ERD
HD/
HD/

ECD(1) Mr Fry

CABINET OFFICE

D O T

PLUS OGDs

MR D HANCOCK
MR G STAPLETON
PS/SIR R ARMSTRONG
Mr J N Pearson
MR DRC DURIE

MR P KENT,
H M CUSTOM AND
EXCISE

H M TREASURY
PS/CHANCELLOR
SIR K COUZENS
MISS J E COURT
MR J G LITTLER
MR EDWARDS

M A F F

SIR B HAYES

GR 600

DESBY

RESTRICTED

DESKBY 271130Z

FRAME ECONOMIC

FRM UKREP BRUSSELS 271017Z OCT 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 3981 OF 27 OCTOBER

INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG ATHENS.

FOREIGN AFFAIRS COUNCIL : 26 OCTOBER 1982.

1982 REFUNDS.

FOLLOWING IS THE TEXT OF THE ENTRIES IN THE COUNCIL MINUTES AS
AGREED, SUBJECT TO FRANCE'S GENERAL RESERVE.

DECLARATIONS CONCERNING THE LEAST PROSPEROUS MEMBER STATES.

MINISTERS DECLARE THAT IN THE DEVELOPMENT OF THE COMMON

MINISTERS DECLARE THAT IN THE DEVELOPMENT OF THE COMMON STRUCTURAL POLICIES, AS FORESEEN IN THE DRAFT CONCLUSIONS OF THE EUROPEAN COUNCIL IN NOVEMBER 1981, THE COMMUNITY WILL INCREASE ITS EFFORTS TO MANIFEST SOLIDARITY VIS-A-VIS ITS LESS PROSPEROUS MEMBERS. THE COMMISSION WILL FORTHWITH MAKE PROPOSALS FOR COMMUNITY ACTIONS IN FAVOUR OF THE LEAST PROSPEROUS MEMBER STATES AND THE COUNCIL WILL TAKE DECISIONS IN SUFFICIENT TIME FOR THESE ACTIONS TO BE FINANCED IN THE 1983 BUDGET.

THE IRISH DELEGATION RECALLED ITS EARLIER DECLARATION ACCORDING TO WHICH ITS OVERALL AGREEMENT IS CONDITIONAL ON A SATISFACTORY IMPLEMENTATION OF THIS DECLARATION.

DECLARATION CONCERNING PARAGRAPH 5.

THE COMMISSION DECLARES THAT IT HAS THE INTENTION OF ADVANCING THE AMOUNT WITHOUT MODIFYING THE AVERAGE BALANCE ON ITS ACCOUNT IN THE BANK OF ENGLAND.

DECLARATION CONCERNING PARAGRAPH 6.

STATEMENT BY THE ITALIAN AND FRENCH DELEGATIONS :
THE DECISION ON THE METHOD OF FINANCING SET OUT IN PARAGRAPH 6 IS TAKEN IN ANTICIPATION OF THE ADVANTAGE TO THE COMMUNITY BUDGET WHICH CAN BE FORESEEN AS A RESULT OF THE CORRECTIONS INDICATED IN PARAGRAPH 2.

STATEMENT BY THE UNITED KINGDOM DELEGATION :
THE UNITED KINGDOM DELEGATION POINTS OUT THAT PARAGRAPH 2 OF THE OUTCOME OF THE INFORMAL MEETING OF MINISTERS FOR FOREIGN AFFAIRS ON 24/25 MAY 1982 STATED THAT QUOTE CORRECTIONS TO BE MADE FOR 1980 AND 1981 IN THE LIGHT OF THE ACTUAL FIGURES WILL BE TAKEN INTO ACCOUNT WHEN NEGOTIATING THE SUBSEQUENT SOLUTION UNQUOTE. THE UNITED KINGDOM IS NOT WILLING TO PREJUDICE THE OUTCOME OF THESE DISCUSSIONS.

STATEMENT BY THE GERMAN DELEGATION :
THE FINANCING OF THE RESOURCES ALLOCATED TO MEASURES IN GERMANY IS INDEPENDENT OF THE SOLUTION TO THE PROBLEMS OF EXCESS PAYMENTS TO THE UNITED KINGDOM.

DECLARATION CONCERNING PARAGRAPH 7.

THE UNITED KINGDOM DELEGATION CALLS ATTENTION TO THE FACT THE TEXT BEFORE MINISTERS ON 25 MAY 1982 USED THE WORDS QUOTE 1983 AND LATER UNQUOTE. IT ALSO REFERRED TO A STATEMENT WHICH WAS CIRCULATED BY THE FRENCH DELEGATION ON 2 JUNE 1982 WHICH EXPRESSED THE VIEW THAT

THE FRENCH DELEGATION ON 2 JUNE 1982 WHICH EXPRESSED THE VIEW THAT THE SOLUTION TO BE DECIDED ON BEFORE THE END OF NOVEMBER 1982 C JERNS ONLY 1983 AND 1984.

THE GERMAN DELEGATION REFERS TO THE STATEMENT BY THE FEDERAL MINISTER FOR FOREIGN AFFAIRS, MR GENSCHER, ON 25 MAY 1982, THAT GERMANY WILL BE CONTRIBUTING TO FUTURE COMPENSATION SETTLEMENTS ONLY 25% OF ITS NORMAL FINANCIAL SHARE.

OTHER DECLARATIONS.

MINISTERS DECLARE THAT THE UNITED KINGDOM CONTRIBUTION TO THE MEASURES OF COMMUNITY INTEREST IN GERMANY FORMS PART OF THE ALLOCATED EXPENDITURES FOR THE PURPOSE OF CALCULATING THE RISK SHARING.

THE COMMISSION DECLARES THAT IN THE EVENT THAT THE UNITED KINGDOM UNADJUSTED NET CONTRIBUTION DOES NOT IN THE EVENT FALL IN THE 75% RISK-SHARING BRACKET THE COMMISSION WILL MAKE PROPOSALS WHICH THE COUNCIL WILL DISCUSS.

THE BELGIAN DELEGATION DECLARES THAT THE COMMUNITY RESOURCES TO BE ALLOCATED TO PROJECTS OR MEASURES OF COMMUNITY INTEREST IN GERMANY AS WELL AS THE COMPENSATION TO THE UNITED KINGDOM ARE TO BE CONSIDERED OBLIGATORY EXPENDITURE.

FCO PLEASE PASS TO ALL.

FCO ADVANCE TO :

FCO - PS/SOS EVANS HANNAY SPRECKLEY FRY
CAB - PS/ARMSTRONG HANCOCK DURIE
TSY - PS/CHANCELLOR COUZENS HEDLEY-MILLER EDWARDS

BUTLER

NNNN

2
10

100-100000-100000

27/10/82.

TXY 408/309/3

ADMINISTRATIVE ARRANGEMENTS
FOR THE
ANGLO-GERMAN SUMMIT, BONN
28-29 OCTOBER 1982

Chancellor

This was issued before
the plans for you were
finalised. Correct details
are on the diary.

JR
27/10

1. DATE AND PLACE OF MEETING

The Prime Minister, accompanied by the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Defence and the Secretary of State for Industry, together with those shown at Appendix I, will attend the Anglo-German Summit in Bonn on 28-29 October. The Prime Minister will visit Berlin on 29 October.

2. PROGRAMME

The outline programme, as at present known, is shown at Appendix II.

3. TRAVEL

(a) Complete travel details are shown at Appendix III.

(b) Outward

The Prime Minister and those listed at Appendix III will travel to Bonn in an HS125, departing from RAF Northolt on Thursday 28 October at 1605 hours, arriving Cologne/Bonn at 1825 hours (flying time 1 hour 20 minutes). The accompanying Ministers and those listed at Appendix III will travel to Bonn in an RAF Andover, departing Northolt at 1610 hours, arriving Cologne/Bonn at 1900 hours (flying time 1 hour 50 minutes). All times local. (UK = GMT, Germany = GMT + 1).

(c) Return

The Prime Minister will travel to Berlin and back to the UK in the RAF Andover on 29 October. The Foreign and Commonwealth Secretary, Chancellor of the Exchequer, Defence Secretary and the Secretary of State for Industry will return to the UK in the HS125. Other officials will return to the UK by commercial flights.

(d) Labels

Baggage labels are enclosed as follows:-

HM Ambassador's Residence	BLUE
Staying with Mr Unwin, Mr Smith and	RED
Staying with Mr Mallaby	Mr Fowler GREEN

Staying at hotels	ORANGE
Official equipment	WHITE

The baggage of those travelling to Berlin will, in addition, carry a yellow tag. (All baggage on the Andover and HS125 is cabin loaded).

- (e) Suitcases should be left unlocked to enable RAF to carry out the necessary security checks.

4. BAGGAGE REGULATIONS FOR SPECIAL FLIGHTS AND INSURANCE

Advice on this is enclosed in a separate note at Appendix IV.

5. TRAVEL DOCUMENTS AND HEALTH REQUIREMENTS

- (a) All travelling must be in possession of a valid passport.
 (b) There are no special health requirements for Germany.

6. LIVING ACCOMMODATION

Details of accommodation are shown at Appendix I.

7. WORKING ACCOMMODATION

(a) Bonn

- (i) Offices for the UK Delegation will be provided in the Federal Chancellery. (No 108 for Advisers/Private Secretaries, No 110 for Duty Clerk/Personal Assistants)
 (ii) A Private Office will also be provided in the Ambassador's Residence.

(b) Berlin

A Private Office will be set up in the Ambassador's suite in the BMG Office.

8. OFFICE EQUIPMENT AND STATIONERY

Office equipment, including photocopiers and electric and manual typewriters, will be provided in all Private Offices. Common-user stationery will be provided by the Embassy/BMG Office.

9. EMBASSY/BMG ASSISTANCE

A member of the Embassy/BMG Office will be available to act as a contact point between the UK Delegation and Chanceries and to help where necessary.

10. COMMUNICATIONS

(a) BONNTelegrams

The Embassy Communications Section will maintain a constant watch from the time the Prime Minister and accompanying Ministers leave London until the Prime Minister leaves for Berlin and other Minister departs for the UK.

Telephones

The Embassy switchboard will be manned throughout the visit. There are direct tie lines between the Embassy switchboard and (a) No 10 Downing Street and (b) the Whitehall CBX (dial 2920). There are also direct extensions from the Embassy switchboard to the Private Office in the Residence (extension 246) to the Delegation Office in the Federal Chancery (extension 120) and to the Residence switchboard, which will be manned during the night of 28 October.

(b) BERLINTelegrams

The BMG Office will maintain a constant watch from the time the Prime Minister leaves Bonn until her departure from Berlin for the UK.

Telephones

The BMG Military Exchange will be manned throughout the visit. There is a direct dial telephone in the Private Office (Tel No: 305 2377) and one on the Military exchange which can also be dialled direct. (No 309 5200).

(c) GENERALTelegram Distribution

Telegrams should generally be addressed 'Following for UK Delegation' in which case they should be distributed to all senior members of the party. Telegrams should only be addressed 'Following for Private Secretary/Prime Minister/Chancellor of the Exchequer/Foreign Secretary/Defence Secretary, if it is intended that the telegram should be given further distribution only on his authority. These latter telegrams should be distributed initially to the Prime Minister, Principal Private Secretary, Private Secretary, Duty Clerk or Minister and Private

Secretary as appropriate.

Telephones

A list of useful telephone numbers is given at Appendix V

11. SECURITY

- (a) A security brief is attached for members of the party (not to be taken abroad).
- (b) London office security passes should not be taken abroad.
- (c) There will be a safe hand service as required between Chancery and wherever the Private Office is located. Safe hand boxes have been sent to Bonn/Berlin by bag.
- (d) Mr Logan and Miss Pearey will be documented as Special Couriers. Boxes and briefcases containing classified material must be entered on the respective Courier's waybills; those concerned are asked to contact Mr A S Chapman, COD, Foreign and Commonwealth Office (Tel no 233 3706).
- (e) Secretarial Assistants are asked to observe the limitations laid down governing the use of electric typewriters for classified work in certain venues. To accord with this, manual typewriters will be supplied in Private Offices and in the offices in the Federal Chancellery.

12. TRANSPORT

- (a) All transport will be provided by the host government/British Embassy, Bonn/BMG Office, Berlin.
- (b) Safe hand transport will be provided by the Embassy/BMG Office.
- (c) A schedule of transport on arrival will be issued later and the posts will issue on arrival a schedule of transport during the meeting.

13. NEWSPAPERS AND COI PRESS SUMMARY

- (a) The Embassy will make arrangements for 6 sets of British newspapers of 29 October to be provided.
- (b) The COI Press Summary will be telexed to Bonn in the early hours of 29 October.

14. ENTERTAINMENT AND CLOTHING

- (a) Dress for the dinners being given in Bonn on the evening of 28 October and Berlin on 29 October will be informal.

15. FINANCE

- (a) Costs will be borne by parent departments. Common service costs will be charged to Management and Personnel Office (Treasury).
- (b) FCO costs will be charged to DSC Vote C3(2)(e).
- (c) BONN

Subsistence rates for Bonn are:-

Class A 189 DM

Class B 142 DM

Rate of Exchange (as at 19 October) - £1 = DM4.295

- (i) Those members of the party staying with colleagues will receive one-third of the appropriate rate.
- (ii) Serials 3, 4, 5, 6, 16 and 24 will receive Class A/Class B conference terms as appropriate.
- (iii) Serial 23 will also receive Class A conference terms, charging COI.
- (iv) For those detectives accommodated in a hotel, the cost of the room and breakfast should be paid by the Embassy, charging Metropolitan Police. No further subsistence required.
- (d) BERLIN

Subsistence rates for Berlin are:-

Class A 189 DM

Class B 142 DM.

Members of the party visiting Berlin should receive one-sixth of the appropriate rate.

/16. ADMINISTRATION

RESTRICTED

16. ADMINISTRATION

The British Embassy, Bonn/British Military Government Office, Berlin, will be responsible for the administrative arrangements for the party. Any enquiries at the London end should be addressed to the undersigned.

S Sheila Waghorn

S M Waghorn (Miss)
Conference and Visits Section
Protocol and Conference Department
Tel No: 273 3633

25 October 1982

ANGLO-GERMAN SUMMIT, BONN

28-29 OCTOBER 1982

COMPOSITION OF THE PARTY

(Not in protocol order)

<u>Serial No</u>	<u>Name</u>	<u>Designation</u>	<u>Accommodation - Bonn</u>
1.	The Rt Hon Margaret Thatcher MP	Prime Minister	HM Ambassador's Residence
NO 10 DOWNING STREET			
2.	Mr F E R Butler	Principal Private Secretary	HM Ambassador's Residence
3.	Mr A J Coles	Private Secretary	Dreesen Hotel
4.	Mr B Ingham	Chief Press Secretary	Tulpenfeld Hotel
5.	Mr A Logan	Duty Clerk	Dreesen Hotel
6.	Mrs T Montgomery-Pott	Secretarial Assistant	Dreesen Hotel
7.	Chief Inspector J Russell	Detective	HM Ambassador's Residence
.	Sergeant B Kingston	Detective	Dreesen Hotel
CABINET OFFICE			
9.	Sir Robert Armstrong KCB, CVO	Secretary of the Cabinet	HM Ambassador's Residence
HM TREASURY			
10.	The Rt Hon Sir Geoffrey Howe QC, MP	Chancellor of the Exchequer	Minister's (Economic) Residence
11.	Sir Kenneth Couzens KCB	Second Permanent Secretary	Minister's (Economic) Residence
12.	Mr J O Kerr	Private Secretary	Minister's (Economic) Residence
FOREIGN AND COMMONWEALTH OFFICE			
13.	The Rt Hon Francis Pym MC, MP	Secretary of State for Foreign and Commonwealth Affairs	HM Ambassador's Residence

- | | | | |
|-----|---------------------------------|--|------------------------------|
| 14. | Sir Antony Acland KCMG,
KCVO | Permanent Under Secretary
of State | HM Ambassador's
Residence |
| 15. | Mr B J P Fall | Private Secretary | Minister's
Residence |
| 16. | Miss D J Pearey MBE | Personal Assistant to
Private Secretary | Dreesen Hotel |
| 17. | Sergeant D Abbott | Detective | Dreesen Hotel |

MINISTRY OF DEFENCE

- | | | | |
|-----|---------------------------|---------------------------------------|-------------------------|
| 18. | The Rt Hon John Nott MP | Secretary of State for
Defence | Minister's
Residence |
| 19. | Sir Frank Cooper GCB, CMG | Permanent Under Secretary
of State | Minister's
Residence |

DEPARTMENT OF INDUSTRY

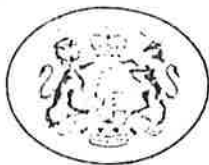
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| 20. | The Rt Hon Patrick Jenkin
MP | Secretary of State for
Industry | Counsellor's
(Commercial)
Residence |
| 21. | Mr K G H Binning CMG | Under Secretary | " |
| 22. | Ms C Varley | Private Secretary | Counsellor's
Residence
(Mr P J Fowler) |

CENTRAL OFFICE OF INFORMATION

- | | | | |
|-----|-------------|----------------------------------|------------------|
| 23. | Mr J Ensoll | Chief Political
Correspondent | Tulpenfeld Hotel |
|-----|-------------|----------------------------------|------------------|

INTERPRETER

- | | | | |
|-----|--------------|--|---------------|
| 24. | Mr R Lederer | | Dreesen Hotel |
|-----|--------------|--|---------------|



ANGLO-GERMAN SUMMIT: 28-29 OCTOBER: PROGRAMME FOR THE PRIME MINISTER

Thursday 28 October

1605 Take off from RAF Northolt in HS 125
 1825 Arrive at Cologne/Bonn airport
 1835 Leave Airport for HM Ambassador's Residence
 1900 Arrive Residence
 1920 Leave Residence for Federal Chancellor's Office
 1930 Arrive Federal Chancellor's Office
 1935 Talks with Chancellor Kohl at Federal Chancellor's Office
 2045 Dinner at Federal Chancellor's Office for Heads of Government, Foreign Ministers, Ambassadors and two note-takers
 2230 Return to Residence

Friday 29 October

0730 Hairdresser
 0815 Briefing Meeting at Residence
 0850 Leave Residence for Federal Chancellor's Office
 0900 Arrive Federal Chancellor's Office. Official welcoming ceremony, guard of honour
 0915 Tête-à-tête between Prime Minister and Chancellor Kohl
 0945 Plenary Session at Federal Chancellor's Office
 1130 Joint Press Conference with Chancellor Kohl in press room of Federal Chancellor's Office
 1230 Leave Federal Chancellor's Office for Cologne/Bonn Airport
 1300 Take off for Berlin in Andover

PRIME MINISTER'S VISIT TO BERLIN: 29 OCTOBER

PROGRAMME

All times local

- 1300 Depart Bonn with Chancellor Kohl. Lunch on the plane.
- 1430 Arrive Gatow, Berlin. Met by:
General Mostyn, General officer Commanding, Berlin
Dr Richard von Weizsaecker, Governing Mayor
US and French Commandants
Press photo facility.
- 1433 - 1439 Guard of Honour. Prime Minister and GOC only mount saluting base and inspect guard.
Press photo facility.
- 1440 Depart Gatow
- 1510 Arrive at the Wall, just north of the Reichstag. Lay flowers at memorials to East Germans killed in attempting to cross to West Berlin. Visit one of the British army teams which patrol the Wall. Join the patrol in the Landrover for a short distance. Drive past the Brandenburg Gate and stop at a viewing-point by the Wall.
Press and TV facilities.
- 1545 Arrive Rathaus, Schoeneberg.
Discussion with Governing Mayor.
- 1615 - 1715 Golden Book Ceremony, Brandenburg Hall of Rathaus. Speeches by Governing Mayor, Prime Minister, Chancellor Kohl. Mingle with guests.
Press and TV facility.
- 1720 Prime Minister and British party only depart Rathaus for HQ, British Military Government
- 1745 Arrive BMG. Meet representatives of garrison for tea or drinks (approx 50 individuals of different ranks and units, including wives.
Press photo facility.
- 1820 Leave BMG

1835 Arrive HM. Ambassador's residence
1900 Leave for Charlottenburg Palace
1915 Dinner in Oak Gallery. Approx 60 present
including wives.
Exchange gifts over coffee in the ante-room
2115 Depart Charlottenburg
2130 Arrive Tegel Airport. Informal farewells,
no ceremonial. Press photo facility
2140 Aircraft departs
2330 Arrive London Heathrow (Terminal 3)
Hillingdon Suite.



ANGLO-GERMAN SUMMIT: 28-29 OCTOBER: PROGRAMME FOR THE CHANCELLOR
OF THE EXCHEQUER

Thursday 28 October

1610 Take off from RAF Northolt in Andover
 1900 Arrive at Cologne/Bonn Airport
 1905 Leave Airport for Federal Finance Ministry
 1930 Talks with Herr Stoltenberg
 2030 Leave Federal Finance Ministry for the Redoute
 2045 Dinner at the Redoute, given by Graf Lambsdorff and Herr Stoltenberg
 2230 Leave Redoute for im Etzentel 17 (Residence of Minister Economic)

Friday 29 October

0800 Leave im Etzentel 17 for HM Ambassador's Residence
 0815 Prime Minister's Briefing Meeting at HM Ambassador's Residence
 0850 Leave HM Ambassador's Residence for Federal Chancellor's Office
 0900 Arrive Federal Chancellor's Office. Official welcoming ceremony
 0915 Tête-à-tête with Graf Lambsdorff at Federal Chancellor's Office
 0945 Plenary Session at Federal Chancellor's Office
 1130 Observe joint Press Conference given by Prime Minister and Chancellor Kohl/conclude talks with Herr Stoltenberg
 1230 Leave Federal Chancellor's Office for Cologne/Bonn Airport
 1305 Take off for London in HS 125
 1325 Arrive at RAF Northolt

ANGLO-GERMAN SUMMIT: 28-29 OCTOBER: PROGRAMME FOR SECRETARY OF STATE
FOR FOREIGN AND COMMONWEALTH AFFAIRSThursday 28 October

1610 Take-off from RAF Northolt in Andover
1900 Arrive at Cologne/Bonn Airport
1905 Leave Airport for HM Ambassador's Residence
1930 Arrive Residence
1950 Leave Residence for Federal Chancellor's Office
2000 Arrive Federal Chancellor's Office
2005 Talks with Herr Genscher at Federal Chancellor's Office
2045 Dinner at Federal Chancellor's Office for Heads of
Government, Foreign Ministers, Ambassadors and two
note-takers
2230 Return to Residence

Friday 29 October

0815 Briefing Meeting at Residence
0850 Leave Residence for Federal Chancellor's Office
0900 Arrive Federal Chancellor's Office. Official welcoming
ceremony
0915 Tête-à-tête with Herr Genscher
0945 Plenary Session at Federal Chancellor's Office
1130 Observe joint Press Conference given by Prime Minister
and Chancellor Kohl/conclude talks with Herr Genscher
1230 Leave Federal Chancellor's Office for Cologne/Bonn
Airport
1305 Take-off for London in HS125
1325 Arrive at RAF Northolt.



ANGLO-GERMAN SUMMIT: 28-29 OCTOBER: PROGRAMME FOR THE SECRETARY
OF STATE FOR DEFENCE

Thursday 28 October

1610 Take off from RAF Northolt in Andover
 1900 Arrive at Cologne/Bonn Airport
 1905 Leave Airport for Federal Ministry of Defence
 1930 Talks with Dr Worner
 2030 Dinner at Federal Ministry of Defence given by
 Dr Worner
 2230 Leave Federal Ministry of Defence for Fasanenstr
 (Residence of Minister Political)

Friday 29 October

0800 Leave Fasanenstrasse for HM Ambassador's Residence
 0815 Prime Minister's Briefing Meeting at HM Ambassa
 Residence
 0850 Leave HM Ambassador's Residence for Federal Chan
 Office
 0900 Arrive Federal Chancellor's Office. Official wel
 ceremony
 0915 Tête-à-tête with Dr Worner at Federal Chancello
 Office
 0945 Plenary session at Federal Chancellor's Office
 1130 Observe joint Press Conference given by Prime
 and Chancellor Kohl/conclude talks with Dr Worn
 1230 Leave Federal Chancellor's Office for Cologne/B
 Airport
 1305 Take off for London in HS 125
 1325 Arrive at RAF Northolt



ANGLO-GERMAN SUMMIT: 28-29 OCTOBER: PROGRAMME FOR THE SECRETARY
OF STATE FOR INDUSTRY

Thursday 28 October

1610 Take off from RAF Northolt in Andover
 1900 Arrive at Cologne/Bonn Airport
 1905 Leave airport for accommodation
 1945 Leave accommodation for the Redoute
 2000 Talks with Graf Lambsdorff at the Redoute
 2045 Dinner at the Redoute, given by Graf Lambsdorff
and Herr Stoltenberg
 2230 Leave Redoute for accommodation

Friday 29 October

0800 Leave im Etzental 17 for HM Ambassador's Residence
 0815 Prime Minister's Briefing Meeting at HM Ambassador's
Residence
 0850 Leave HM Ambassador's Residence for Federal Chancellor's
Office
 0900 Arrive Federal Chancellor's Office. Official welcoming
 0915 Tête-à-tête with Herr Stoltenberg at Federal Chancellor's
Office
 0945 Plenary session at Federal Chancellor's Office
 1130 Observe joint Press Conference given by Prime Minister
and Chancellor Kohl/conclude talks with Graf Lambsdorff
 1230 Leave Federal Chancellor's Office for Cologne/Bonn
Airport
 1305 Take off for London in HS 125
 1325 Arrive at RAF Northolt

TRAVEL ARRANGEMENTS

(all times local)

UK = GMT
Germany = GMT + 1Tuesday 26 October

Chief Inspector J Russell	BA 742	ETD LHR	1025
		ETA Berlin	1420

Thursday 28 October

Chief Inspector J Russell	BA 3003	ETD Berlin	0830
		ETA Cologne/Bonn	0935
Mr R Lederer	Train	Dep Brussels	1210
		Arr Bonn Station	1540
Prime Minister	RAF HS125	Dep Northolt	1605
Mr Butler		Arrive Cologne/Bonn	1825
Mr Coles			
Mr Ingham			
Mr Logan			
Mrs Montgomery-Pott			
Sgt Kingston			
		Refreshments will be served	
		1 hour 20 minutes flying time	
		7 passengers	
Chancellor of the Exchequer	RAF Andover	Dep Northolt	1610
Mr Kerr		Arr Cologne/Bonn	1900
Secretary of State for Foreign and Commonwealth Affairs			
Mr Fall		Refreshments will be served	
Secretary of State for Defence		1 hour 50 minutes flying time	
Secretary of State for Industry			
Mr Binning		15 passengers	
Private Secretary			
Sir R Armstrong			
Sir A Acland			
Sir F Cooper			
Sir K Couzens			
Miss Pearey			
Sgt Abbott			
Mr Ensoll			

/Friday 29 October

Friday 29 October

P	ne Minister	RAF Andover	Dep Cologne/Bonn 1300
			Arrive Berlin 1430 (Gatow)
	Mr Butler		
	Mr Coles		
	Mr Ingham		
	Mr Logan		
	Mrs Montgomery-Pott		
	Chief Inspector Russell		Cold lunch will be served
	Sergeant Kingston		
	Sir A Acland		1 hour 30 minutes flying time
	HM Ambassador		
	Mr Ensoll		
	Mr Lederer		18 passengers

Chancellor and Mrs Kohl
Dr Ruhfus
Herr Teltschik
Herr von Bredow
~~Herr Schreckenberger~~

Chancellor of the Exchequer	HS125	Dep Cologne/Bonn 1305
Secretary of State for Foreign and Commonwealth Affairs		Arr Northolt 1325
Secretary of State for Defence		Cold lunch will be served
Secretary of State for Industry		1 hour 20 minutes flying time
Sir R Armstrong		
Sir F Cooper		7 passengers
Private Secretary		

Sir K Couzens	LH 058	Dep Cologne/Bonn 1400
Private Secretary		Arr LHR 1420
Miss Pearey		
Ms Varley		
Mr Binning		

Sgt Abbott	LH 058 or BA 745	Dep Cologne/Bonn 1725 Arr LHR 1740
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Prime Minister	RAF Andover	Dep Berlin 2140 (Tegel)
Mr Butler		Arr LHR 2330
Mr Coles		Terminal 3
Mr Ingham		Hillingdon Suite
Mr Logan		
Mrs Montgomery-Pott		
Chief Inspector Russell		Refreshments will be served
Sergeant Kingston		
Sir A Acland		2 hours 50 minutes flying time
Mr Ensoll		10 passengers

Saturday 30 October

Mr Lederer	PA 639	ETD Berlin 1025
(Staying overnight 29 October Am Studio Hotel, tel No 30 20 81)		ETA Frankfurt 1125
	LH 102	ETD Frankfurt 1305
		ETA Brussels 1410

TRAVEL ON SPECIAL FLIGHTS
BAGGAGE AND INSURANCE REGULATIONS

1. BAGGAGE

- a. Those travelling by RAF aircraft are reminded that baggage should be left unlocked for the customary check. Butane gas lighter refills and matches, other than safety ones, may not be taken on the aircraft; certain aerosol sprays are now accepted on flights, provided they are not used on the aircraft. Any electrical items must be disconnected from their batteries.
- b. For space reasons those travelling in the RAF aircraft are asked to limit their personal baggage to one suitcase.

2. INSURANCE

- a. No refund of insurance premium is payable from public funds for officers on short-term visits overseas. When the personal property (other than money or luxury articles) of an officer sent overseas on a short-term visit is lost or damaged during transit to or from the UK or while he or she is in receipt of subsistence allowance during his stay overseas, and the loss or damage is not covered by an existing insurance policy, and the officer himself has not been negligent, compensation would be based on the current cost of replacing the articles, less the amount for depreciation or, if less, the full cost of repair.
- b. Those travelling in the ^{RAF} planes are advised to check whether their insurance policies provide cover for travelling by non-commercial flights and to consult their insurers if they are in any doubt about their position. At present claims on HMG for compensation are subject to a liability limit of £25,000.

Conference and Visits Section
Protocol and Conference Department

USEFUL TELEPHONE NUMBERSBONN

Direct dialling code from London to Bonn is - 010 49 228

British Embassy Bonn Tie line from No 10 or
Tie line to Whitehall CBX = 2920
or direct dial 23 40 61

UK Delegation Offices in Federal Chancellery

Room 108 (Advisers/Private Secretaries) 56 20 88
Room 110 (Duty Clerk, Personal Assistants) 56 21 26
56 22 19

Embassy extension No: 120

British Ambassador's Residence

Tie lines as above or direct dial 36 47 21

Residence of Minister (Economic) 35 59 43
(Mr P W Unwin CMG)

Residence of Minister 33 24 09
(Mr C Mallaby CMG)

Residence of Head of Chancery 36 41 74
(Mr A J Hunter)

Residence of Counsellor (Commercial) 36 31 84
(Mr B Smith OBE)

Residence of Counsellor (Mr P J Fowler) 36 28 76

Residence of Defence and Military Attaché 35 45 94
(Brigadier C W Woodburn)

Residence of First Secretary (Information) 23 19 24
(Mr T T Macan)

Dreesen Hotel 36 40 01

Tulpenfeld Hotel 21 90 81

Eden Hotel (RAF Crew) (code 221) 23 61 23

BERLIN

Direct dialling code from London to Berlin is - 010 49 30

British Military Government Office (Military Exchange) - 3091

Direct line to No 10 Private Office in Ambassador's suite,
BMG Office 305 2377

British Ambassador's Residence 309 5199
RAF contact No. Tegel Airport, British Airways Ops 410 126 77
410 126 89

RESTRICTED

D I S T R I B U T I O N

NO 10 DOWNING STREET

Mr F E R Butler
Mr A J Coles
Mr C Rylands
Duty Clerks

CABINET OFFICE

PS to Sir Robert Armstrong
Mr J L Wright
Establishments: Mr J W Stevens
Accountant: Mr M Long

MANAGEMENT AND PERSONNEL OFFICE

Mr C Jones
Mr J Needle

HM TREASURY

PS to Chancellor of the Exchequer
Establishment and Organisation Group: Miss B Randall

FOREIGN AND COMMONWEALTH OFFICE

Private Secretary to the Secretary of State (4)
Sir Julian Bullard
Western European Department: Mr W B McCleary
Miss K J Himsworth
Communications Operations Department: Mr L T Charrington (7)
Mr J M Eastwood
Mr A S Chapman
Communications Technical Services Department: Mr H Ware (Hanslope)
Mr M Ekins (MPS)
Finance Department: Travel Accounts
IDC
News Department: Press Facilities Unit
Mr A G Copcutt
PCCU: Mr I P Kennedy
Permanent Under Secretary's Department: Mr E Mason
Personnel Services Department: Overseas Service Unit
Protocol and Conference Department (10)
Resident Clerks
Security Department: Mr D B Goodsir (for circulation)
Mr G Hay

D I S T R I B U T I O N (cont'd)

MINISTRY OF DEFENCE

PS to Secretary of State
Wing Commander B Ball (Room 5166)
SY(2)(RAF), Metropole Building
DD Ops (AT) RAF
S9C1 (Air)
MOV OPS (RAF) Desk Officer (2)

RAF NORTHOLT

OC Ops Wing
OC 32 Group
Senior Air Movements Officer

NEW SCOTLAND YARD

Det Chief Supt K Pryde

CENTRAL OFFICE OF INFORMATION

News Room

BRITISH EMBASSY, BONN

BMG OFFICE, BERLIN

EACH MEMBER OF THE DELEGATION



Chancellor

Bonn.

Here are some very hurriedly
dictated & typed notes which
you may like to glance at.
I shall send a u. across to
Nicholas Schuler for the N 910
Briefing, too.

I have not been able to
check ppb et seq, so must
apologise for any omissions
there!

M 28/10.

CONFIDENTIAL

B.7

FROM: ADAM RIDLEY
28 October 1982

CHANCELLOR OF THE EXCHEQUER

VISIT TO BONN: OCTOBER 25/26

As you know I visited Bonn on Monday and Tuesday with a number of the other political advisers, in response to a long standing invitation from the CDU. As it happened, this trip took place at a most interesting moment, and it may conceivably be of some interest if I note very quickly some of the salient points of what we learnt. Thanks to the great goodwill towards the Party, which the CDU feel, our hosts were able to arrange an extremely interesting series of interviews, involving the Ministers of State of the Departments both of the Economy, Finance and Labour; and with Horst Teltschik, Mr Kohl's Special Adviser.

General Impressions

2. Our overwhelming impression was of an extreme and unexpected lack of preparedness for assuming government. While long term policy planning may have been proceeding in a sensible way, there seems to have been little effective analysis of what would need to be done in the short run if the CDU/CSU won their confidence vote this September, despite the fact that they knew well enough in the summer that the possibility existed. This is all the odder since the CDU have massive resources for research and active Parliamentary committees. Despite all this, there seemed to be unbridgeable gaps between the Party's leadership [Herr Kohl and his immediate colleagues], the powerful backbench committees in the Bundestag, and the Party bureaucracy. This criticism does not, however, apply to their electoral tactics, which seemed to have been well thought out, backed up by very expert and interesting opinion polling, and to have been jeopardised only by Genscher's mistake in allowing Schmidt to provoke him to withdraw from the old coalition.

3. The corollary of this state of unpreparedness is particularly clear in the economics sphere. Such plans as the CDU were preparing and now putting forward appear to derive very largely from the FDP analysis of what now needs to be done, and to draw very heavily on the recent published paper by Lambsdorff. This arises partly in a natural way, and from the fact that the programme has to be

given the FDP's view

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agreed with the FDP as a new coalition partner; but it also stems from the fact that the CDU have an extremely narrow range of highly placed civil service sympathisers on whose expertise to draw.

4. In many respects the CDU are facing a position not unlike ours in 1979. The economic position is in many ^{ways} respects much worse than they expected or believed before they saw the figures. Expenditure is higher, growth is lower, and ^{public} expectations are ^{still} ~~unreal~~ ^{unreal}. I did not get the impression that they had set their sights on a sufficiently stringent control of expenditure and the deficit, given the inevitable need - which we now understand all too well - to "lay off" to allow for the fact that the world almost inevitably turns out to be worse than one expects it to be initially. How far this impression is to be attributed to their over-optimism, or rather to what they deem to be unavoidable political constraints, is not at all clear. But I suspect it is in some measure a reluctance to prepare for the worst which is the key issue.

5. It is worth underlining the remarkable extent to which the new government is hampered by the fact that the SPD and FDP have gone a long way towards the American "spoils" system of introducing politically sympathetic senior officials into key posts during their 13 years in power. In ^{the} Chancellor's office itself, which is over 400 strong, there is scarcely a dozen CDU party card holders, and getting on for 400 members of the SPD! This means that Herr Kohl has only been able to introduce so far around half-a-dozen trusted colleagues, who are so uncertain of the reliability and loyalty of the remaining staff that they have been driven to set up their own minute organisation inside the Chancellor's office; and Herr Kohl's principal adviser, Herr Teltschik, had himself to do the photocopying of the drafts of the Chancellor's important address to the nation in Parliament the other day. The problem is little better in a number of other key departments, such as the Ministry of Finance. All in all, the new government's experience is not a very good argument for going all the way with John Hoskyns, and with a wholesale sweep out of senior officials each time the government changes! Amongst the moves that have been made at the level of very senior appointments, by far the most important is the departure

of Hans Tietmeyer from the Minister of State position with Lambsdorff in the Ministry of Economics to a similar position with Stoltenberg. Tietmeyer is one of the few senior CDU people to have worked under the old regime. He wrote, in effect, the famous Lambsdorff paper. Stoltenberg, for whom he now works, is clearly destined to be the key figure in German economic policy. The CDU have obviously done wisely in moving ^{him} across.

(Tietmeyer)

Discussion with Tietmeyer

6. In the course of a long discussion with Tietmeyer, a number of interesting points emerged which it may be worth summarising very briefly. His basic diagnosis was that the Germany economy had, for the first time, failed ^{to carry through a recovery} ~~for probably~~ through a recession on the basis of an export-led recovery. For this reason he was extremely cagey about the prospects for growth next year^k was clear that unemployment would rise, though he would not be pinned down precisely as to where its level would lie between the figures of 2 and 2½ million. He said that the failure to recover could be interpreted in terms of the "British disease", ~~and~~ spoke eloquently of the growing weakness of the German economy in the face of foreign competition, and graphically described the world of policy making that had come to be more and more dogged by absurd and over-optimistic official forecasts! Looking ahead, he said that in the short run they had to think in terms of three priorities:

- first, and most important, the whole business sector was suffering from uncertainty and a lack of confidence. It was vital to ^{above all} ~~all this~~ to restore this, and since so much of it stemmed from uncertainty about the political situation, that alone was a very powerful argument for the early election now proposed:
- not only the CDU and other analysts, but, increasingly, the ~~whole~~ German ^{public} population were getting worried about the growth of the public sector deficit. A start had to be made now in tackling it, and at least the prospect of its ultimately being eliminated held out plausibly, so that interest rates could come down and investment recover:

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- in the longer run the major structural problems of the German economy would have to be tackled. But all that would have to be for a later date, once the election was over.

7. All the government could now do in the few months before the planned election in March was to focus on a few key issues. These could be reduced to the following ten point programme:

- Restructure public spending, to favour investment and to cut back on consumption.
- Change the structure of taxes (as we have done, but more slowly...) with a higher level of VAT, and tax cuts to help ^{help smaller & smaller} businesses.
- By both these means already mentioned, and by a forced loan from higher taxpayers, finance a major expansion of construction activities, which had fallen back particularly hard recently and been a major reason for stagnant output.
- Encouraging technology. ⁱⁿ And/particular exploit ^{the} tele-communications revolution as quickly as possible, in practice by following our kind of measures to out-flank the Bundespost's postal monopoly. ^(Cable, Satellite, etc.)
- Press on with plans for more civil nuclear energy, and disregard the political opposition of the SPD of the greens.
- Stand very firmly behind the traditional German commitment for liberal trading policies. This means, in practice, to seek an agreement on steel [I am sure we should express our great gratitude to the CDU for their co-operative line in reaching ^{the} recent agreement], press on urgently in collaboration with us in seeking a solution to the Russian pipeline problem, and look very carefully at the problems proposed by trade with third countries, and particularly Japan. [While explaining all this, Tietmeyer digressed to ask me very pointedly about the recent reports in British newspapers that the Government was considering imposing import controls, and asked me if I could comment in any way. I stressed to him our long standing commitment

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to open trading conditions, underlined our traditional open markets in a variety of commodity groups in which the third world were growing strong, such as textiles, underlined the enormous sacrifices we had made in recent years in sectors such as steel, and put over the general thought that a certain amount of direct intervention in world trading conditions was, in essence, the price we would have to pay to preserve the free trading system.]

- Full commitment to support the Bundesbank's monetary policy.
- Put State's finances in order - but respect the important distinction between the need to master the underlying deficit, and the need to accept that it can diverge from its proper underlying level to the extent that the economy is, for example, in recession.

8. In response to questioning, he was clear that there would be no year-on-year growth in GDP between the years 82 and 83, and that he did no more than expect as to be the possibility of the 2% p.a. rate of increase by the latter half of 83 if all went well with the elections. I asked him about the prospects as seen by the Germans for decoupling their interest rates from US trends. He was cautious, if not agnostic, on this, and did not seem very hopeful that it could be done. He mentioned in passing his own great sympathy for our arguments on Community agricultural policy where "you have all the good arguments". He did so in such a way as to suggest to me that there might be a linkage to be made between our taking a relatively pure line on liberal trading policies if the Germans would take a tougher line on agricultural policy. He referred briefly to the recent German/French Summit, at which the French had apparently suggested an initiative with OPEC to get oil producers to use a currency other than the dollar for pricing oil. He thought this interesting but rather implausible - ²1 who was going to price oil in francs!?

Other discussions

9. Mr Tietmeyer's colleague Herr Häfele clarified the Party's attitudes towards its longer term strategy and in particular its

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public spending planning. He said that their initial view in the discussions with the FDP was that one should seek something like a 10% across the board reduction in expenditure for the coming year, that this had not been acceptable to the FDP.

The idea is so crude that it is not surprising that it was rejected! He added that their objective, still rough and not worked through, was now to seek a falling share of public spending in GDP over the years, but he did not clarify this goal any further. He strengthened the feeling of a somewhat leisurely and optimistic approach to life by saying how the Party was thinking in terms of an initial four years in office to get public finances broadly in order, and then of there being a need for at least another four or perhaps eight years in office to get the German economy right... It is clearly prudent to take this line in rhetoric, that one should, I felt, take a much tougher line in setting one's internal objectives.

10. We were treated to a fascinating analysis of the significance of the new "green alternative" Party. The key point which emerged was how far they are no longer an ecological party, but a frankly anti-capitalist and anti-constitutional grouping, which has been taken over, not necessarily at the direction of the East, by a rag bag of marxists, syndicalists, school teachers and others with job security and inflation proof pensions. In essence they are harnessing the widespread anxiety about civil nuclear power to orient the whole direction of their so-called policy platform in a neutralist direction. The need for the SDP to regain voters they had lost to the "greens" is clearly going to be a decisive factor in determining where SDP policy will go in the next few months and years.

11. Over a hurried lunch, Herr Teltschik, Mr Kohl's personal adviser, mentioned a number of interesting if somewhat atmospheric points. He stressed that Herr Schmidt's withdrawal had far less to do with his health than public statements would suggest, and stemmed almost totally from his Party's refusal to continue to conduct policy on the relatively sensible lines he was advocating. He reported private polls which showed that Herr Kohl had already, even before Schmidt's withdrawal, overtaken Schmidt as the most

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popular actual or potential Chancellor; that the greens' position appeared to be weakening in the eyes of the public, while that of the FDP was still not beyond redemption if they could resolve their disagreements in their Party Congress; and hence the chances of a satisfactory election outcome were not too bad. He mentioned in passing the great French concern that we and Reagen seem to have been plotting an earlier date for the Summit than that originally intended. He made it clear that the government would not be contemplating any initiatives whatever until after the election except in the most essential areas. In other words they were not going to unveil EEC initiatives or anything else for a considerable time. He also conveyed a great feeling of warmth towards the Conservative Party, and one felt a strong desire though of a somewhat unfocussed kind to intensify cooperation and exchanges of views.

ANR

A N RIDLEY

