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RECORD OF CONVERSATION AT A WORKING DINNER GIVEN BY THE PRIME MINISTER
FOR THE CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY ON TUESDAY
19 OCTOBER 1982 AT 10 DOWNING STREET

Present:

Prime Minister	His Excellency Dr. Helmut Kohl
Chancellor of the Exchequer	His Excellency Herr Hans-Dietrich Genscher
Foreign Secretary	Professor Dr. Waldemar Schrenkenberger
Sir Antony Acland	H.E. the Ambassador of the Federal Republic of Germany
Sir Jock Taylor, H.M. Ambassador	Dr. Lothar Ruehl
Mr. A.J. Coles	Herr Horst Teltschik

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Netherlands

The Prime Minister said that she was sorry that Mr. van Agt had resigned. She much admired him. Chancellor Kohl agreed. Van Agt had said to him some time ago that he did not wish to continue in politics. He could not carry the physical burden any longer. He had been supported in this by his wife. Chancellor Kohl did not, however, exclude the possibility that in the end van Agt might accept the foreign affairs portfolio.

Enlargement

The Prime Minister said that she had noted a statement by the spokesman of the Federal Republic that Germany did not envisage any breach in the 1% ceiling for the Community's own resources. Mr. Genscher said that the German Government had stated last week that the 1% ceiling should not be exceeded so long as Spain and Portugal were not in the Community. The Prime Minister pointed out that if, after enlargement, the present financing system were maintained, Germany would continue to pay an unfair contribution. There should be a limit on net contributions. Otherwise some countries would continue to subsidise richer ones.

Chancellor Kohl said that he had read with great interest, and even greater displeasure, the electoral programme of the Spanish

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Socialists. If this became policy, it would have serious consequences for Europe. In particular, their policy on NATO and on American bases was damaging. In some respects, the Spanish Socialists would be worse than the Greeks. The Prime Minister agreed that this situation was worrying. Spanish democracy was very fragile. We had hitherto believed that it was important to admit Spain into the Community in order to protect democracy. Chancellor Kohl commented that it must be "our type of democracy".

Sir Antony Acland said that he believed much of what the Spanish Socialists said could be attributed to the rhetoric of an election campaign. But membership of the Community was not itself an issue in Spain. Chancellor Kohl said that he wished to avoid a situation where some countries incurred all the obligations and others took the benefits. Sir Antony Acland agreed that it was very important to make clear to Spain that they must shoulder the obligations as well as the benefits of membership of NATO. Mr. Genscher said that much would depend on the position of the Socialist party in Parliament, after the Spanish elections. Gonzalez was personally in favour of accession to NATO but the majority of his party were against it. Gonzalez had said that he wished to avoid the issue of NATO membership becoming the focus of a street campaign against the Government. It remained to be seen whether the eventual Parliamentary party would be more representative of the views of Gonzalez than of the left wing of his party. It also remained to be seen who would be the coalition partner of the Socialists who could not obtain an overall majority.

Sir Antony Acland pointed out that there was a danger that Spain would be polarised again as it had been in the past. Chancellor Kohl said that that danger was a predictable one. His own party had spent a great deal of time cultivating like-minded parties in Europe and elsewhere. But it had not much success in Spain. Part of the reason was that Suarez did not understand the role of a party. He (Kohl) had discussed this with him for eight hours. But Suarez thought that everything could be achieved by manipulation of the media. The Prime Minister commented that someone would have to

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provide advice and finance for moderate parties in Spain, because the Soviet Union would certainly finance the Communists.

Sir Antony Acland said that Suarez had had no clear political philosophy. Calvo-Sotelo, on the other hand, was clearly identifiable as a right of centre politician. Chancellor Kohl said that his prognosis for Spain was bad - and there was also the problem of the armed forces.

The Prime Minister asked whether it was necessary for Spain and Portugal to enter the Community together. Portugal was ready to come in - and in the interests of democracy we should facilitate this. Chancellor Kohl said that he had stated in his Bundestag speech that Germany favoured the entry of both Spain and Portugal. That position remained valid. But if new circumstances arose in Spain after the election then we should have to consider what should happen. Sir Antony Acland observed that Spain was a weightier country. We had to make allowance for Spanish pride and the question of face. If we rejected Spain, the Spanish reaction could put democracy in that country in danger. The Prime Minister commented that President Mitterrand would find great difficulty in allowing Spain to enter the Community. So there was still a question of whether Portugal should move ahead alone. Chancellor Kohl said that he was much in favour of bearing in mind the Spanish national character, but not at any price. As regards Portugal, the present Government deserved every support. The fact that changes in the Constitution had been effected smoothly was creditable.

EC budget

The Prime Minister reverted to Mr. Genscher's remark that if the Community were enlarged then the own resources ceiling could be reconsidered. But in that case it would be necessary to ensure that no country was unfairly treated. Mr. Genscher said that this could imply an amendment to the Treaty. The Prime Minister said that new situations could arise. No Treaty could endure unless it adapted to changing circumstances. She thought that a difficult

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time lay ahead in the European Community. Some countries had vested interests which they were determined to protect. The budget issue was bound to be disruptive until a solution was found. Europe needed to pull together more. The issue should be discussed at the Bonn Summit. Chancellor Kohl agreed that this matter should be fully discussed in Bonn.

Fisheries

The Prime Minister stated that there ought to have been agreement before now on a common fisheries policy. We had been dealing with the matter for seven years. Only Denmark was holding it up.

Steel

Chancellor Kohl said that the German Cabinet would tomorrow weigh very carefully the arguments which the Prime Minister had put forward in respect of steel. On the one hand, his Government had its European policy to consider. But there were also domestic problems. The trade unions could make considerable difficulties for the Government. Moreover, the decision had to be taken in the very week when he had announced difficult decisions on the social services. The Prime Minister said that she very much hoped that the German Government would agree to join the Community position. The consequences of any other course would be very far-reaching. She was very critical of the US attitude. In our case, subsidies had been directed towards rationalising the steel industry. The Chancellor of the Exchequer emphasised the numbers of jobs which had been lost in the steel industry in the UK.

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Japan

The Prime Minister raised the problem of trade with Japan. Italy and France managed to limit Japanese imports. France, indeed, seemed to be able to place limits on any area of trade it wished. Britain could not negotiate satisfactorily through the Community because of the Italian and French attitudes. Mr. Genscher observed that the forthcoming GATT meeting ought to be concerned with removing restrictions on trade rather than the opposite. The Prime Minister asked whether the Chancellor was concerned about the level of Japanese imports into Germany. Chancellor Kohl said that imports of Japanese cars were declining. In his view protectionist methods would not solve the problem. German industry was meeting the Japanese challenge in various sectors. The Prime Minister said that the Japanese market ought to be as open as our own markets were. The IMF was projecting a further huge Japanese surplus next year. Problems in the GATT Conference were probably unavoidable. Mr. Genscher said that German industry did not do enough to conquer the Japanese market. It was true that there were barriers of various kinds, including language. But there were more Japanese in Dusseldorf than Germans in the whole of Japan. The Chancellor said that there were examples of small and medium German companies which were successful in Japan. But it was important to send more German students to that country, not just to learn the language but to absorb the wholly different culture.

The Chancellor of the Exchequer said that we were all convinced of the virtues of free trade. But we were not so confident that our industry could respond quickly enough to the Japanese challenge. The Japanese were most resistant to imports and their exchange rate was heavily undervalued. The United States was willing to employ strong defensive tactics.

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Europe, too, ought to be able to take strong action but tended to be divided.

Mr. Genscher suggested that the Japanese impediments to trade were not governmental in nature. The Prime Minister disagreed. The value of the yen was kept low artificially and Japan had the biggest and most effective bureaucracy in the world. In addition, there was a cultural propensity to prefer Japanese goods. The European Community seemed unable to negotiate as a unit. If that were so, its Member States might have to negotiate separately. Those of us who tried to keep our markets open found the markets of other countries closed.

Chancellor Kohl said that he could agree with nearly all that the Prime Minister had said. In Germany in the past few years there had developed a kind of fascination with Japan. Japanese commercial superiority had come to be accepted as inevitable. The result was lethargy. But there was no reason to think that the Japanese businessman was invincible. He was convinced that by 1990 at the latest Japan would be confronted with the bill for its barbaric environmental policy. German industry must be told to stop complaining and go and tackle the Japanese on their own ground. In the long run Japanese society could not escape the influence of the Japanese in Dusseldorf who conveyed a picture of what it was like to live in Europe. Mr. Genscher said that the main problem was not the Japanese market but Japanese competition in third markets.

Chancellor Kohl said that these difficulties should not convert us to protectionism. We should use the free market to tackle the problems. The Prime Minister asked whether Germany did not have a voluntary restraint arrangement with Japan for cars. Chancellor Kohl said that Japan ought to spend more on defence. The Prime Minister said she was loath to see Japan develop a major defence industry though it had to protect its own seas.

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There was then some discussion of the statements that the Prime Minister and the Chancellor would make to the press after the meeting.

The discussion concluded at 2130 hours.

A.S.C.

19 October 1982

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10 DOWNING STREET

From the Private Secretary

20 October 1982

✓ HMT
DUI
MOD
Cabinet Office

VISIT OF CHANCELLOR KOHL

I enclose copies of the records of conversation at:

- (a) the Prime Minister's tete-a-tete with the Federal Chancellor;
- (b) the working dinner which followed the tete-a-tete discussion.

I should be grateful if these records could be carefully protected and not circulated beyond Private Offices, except where this is essential for operational reasons.

I am copying this letter and enclosures to John Kerr (HM Treasury), Robert Lawson (MAFF)-Jonathan Spencer (Department of Industry), John Rhodes (Department of Trade), Richard Mottram (MOD) and Richard Hatfield (Cabinet Office).

E. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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