

ANGLO-GERMAN CONSULTATIONS: 28 and 29 October 1982

RECORD OF CONVERSATION AT THE PALAIS SCHAUMBERG, BONN,
29 October 1982

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Present:

Graf Lambsdorff,
Federal Economics Minister

Sir Geoffrey Howe,
Chancellor of the Exchequer

Herr Stoltenberg,
Federal Finance Minister

Mr Patrick Jenkin,
Secretary of State for Industry

Dr Tietmeyer,
Deputy Secretary, Federal
Economics Ministry
State Secretary-designate at
the Federal Finance Ministry

Sir K Couzens,
HM Treasury

Mr K Binning,
Department of Industry

Dr Müller-Thuns,
Deputy Secretary,
Federal Economics Ministry

Mr P Unwin,
British Embassy

Dr Goldschmidt,
Federal Economics Ministry

Mr J Kerr,
HM Treasury

Dr Heck,
Federal Finance Ministry

Miss Caroline Varley,
Department of Industry

Mr A J Beamish
British Embassy

GATT

1. Graf Lambsdorff, referring to exchanges the previous evening at dinner, said that the German view was that it was very important to hold the proposed Ministerial meeting. Earlier in the week at Luxembourg the French had been very pessimistic about the prospects for a meeting and inclined to doubt whether it should be held. This line of thinking should be resisted. Holding the meeting was important as a demonstration of the industrialised countries' continuing

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faith in an open trading system. It was also very important that the meeting should be a success, if only a modest one. He thought that it ought to be possible for the industrialised countries to agree some compromise with the developing countries on safeguards. But it would be important at the same time for the newly-industrialising countries to accept some of the GATT disciplines. He pointed out that the GATT was an operational organisation and that a renewal of the OECD pledge on trade would not be enough. His mention of the services sector provided an opportunity for Sir Geoffrey Howe and Mr Jenkin to stress the need for progress on freeing insurance services and air fares. Mr Jenkin also mentioned the telecommunications sector and pointed out that the British telecommunications authorities had the most liberal purchasing regime in the world. Others should follow suit. Referring to the meeting earlier this week in Luxembourg, Graf Lambsdorff said that the contribution of Mr Rees had been very valuable insofar as it helped to contribute to bridging the gap between the Germans and the French. There were still differences between the UK and the FRG however. He understood British concern about tariff imbalances but reaffirmed German commitment to maintaining open markets and combatting restrictions to trade. Sir Geoffrey Howe said that the British attached great importance to reasserting the commitment to free trade and on that account the GATT Ministerial was an important occasion. A key factor however was the readiness of the NICS to liberalise their tariff policies. From the United Kingdom's point of view the problem was to persuade public and industrial opinion that free trade was actually beneficial. In present circumstances this was becoming increasingly difficult. For example British motor car exports to Spain had to cross a 36 per cent tariff barrier

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whereas Spanish car imports to Britain had to cope with only four per cent. Spain was no longer a developing country. On the contrary, especially in the motor field and given these tariff advantages, she was highly competitive. Such an imbalance might not pose such problems for Germany but the British car industry was not as competitive and could not be expected to cope indefinitely with the present situation. Some argued that the problems with Spain would be solved by her entry to the Community but that was still some years off, could be delayed and there were likely in any case to be transition periods. Brazil and Japan and Korea and other countries also presented problems in particular sectors. If such countries were unwilling to make a move then the UK would have to consider taking measures herself. UK frustration arose partly from the slowness of international consultation and agreement. This had been the experience on Japan. The UK did not want to restrict Japanese imports but the present situation was very difficult. Europe would have to act together. Unless it did so or unless it threatened to do so, the Japanese would make no move. If free trade did not bring visible benefits, why should people continue to subscribe to it?

Gas Pipeline

3. Graf Lambsdorff said that it was his view that the US sanctions would be lifted, not because of anything the Europeans could give the Americans, but because of the growing pressures from American industry on the American administration. He also pointed out that the American decision to supply grain on credit to the Soviet Union undermined one of the major US objections to the pipeline deal. But he did not expect the sanctions to be lifted before 2 November. In the light of this there was now no call for the Europeans to make any

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concessions of substance but they should try to help the Americans presentationally. The Germans were in favour of a tighter COCOM and better implementation of it. They opposed widening it to cover high technology that was not military in character. As for credit, they thought that was extremely difficult. The French would point to their 25-year agreement with the Soviets. The Japanese would also be awkward but without the French and the Japanese and indeed some of the smaller countries like Austria and Switzerland, nothing effective could be achieved. Sir Geoffrey Howe noted with interest Graf Lambsdorff's assessment of the situation in America. The decision on credit for grain helped the process of the American policy collapsing under the weight of its own contradictions. Mr Jenkin, referring to discussions about the Shultz non-paper, said that the talks posed some very awkward points for us. It was absolutely essential to make clear to the Americans that agreement to study the issues implied no a priori commitment to particular courses of action. Graf Lambsdorff agreed.

4. Broadening the discussion on EC/US relations, Sir Geoffrey Howe said that lower American interest rates were critical, not only for recovery there but in the United Kingdom and Germany too. Volker's policy adjustments were helpful in this regard but could not be sustained without action on the US budget deficit. The Americans must either cut the deficit or raise taxes, otherwise the American / would never believe that interest rates would come down. Given the policy stance of both the United Kingdom and the Federal Republic, this was a message that both Governments could give to the Americans, not as hostile criticism but as helpful partners. He thought Chancellor Kohl's visit to the United States next month would provide an valuable opportunity for getting this point across and hoped he would be able to take it. Graf Lambsdorff and Herr Stoltenberg agreed.

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29 October 1982

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