



CONFIDENTIAL

PRIME MINISTER

Proposed Visit by Chancellor Kohl

When you saw the German Federal Chancellor on 29th October he suggested that he should come to London "with a minimum of supporting staff" to discuss commercial policy and the problem of protectionism. Your other commitments have not permitted you to respond to this suggestion up to now; and the Chancellor is likely to be entirely preoccupied with his election campaign by (say) the beginning of February. It is, therefore, I suggest, appropriate to consider now whether to arrange for such a meeting in January. If so, I should have the chance to take the first step when I see Herr Grimm of the Chancellor's office at the next meeting of the Personal Representatives of the Economic Summit Heads of Government in France next Saturday, 11th December.

2. The Federal Chancellor's suggestion is further evidence that, for both electoral and substantive reasons, he wants to build up a close personal relationship with other Western leaders and especially with President Reagan, President Mitterrand and yourself. He would no doubt welcome a positive reply to his suggestion; indeed, a failure to follow it up might be unfavourably interpreted. But would such a visit be to the United Kingdom's advantage?

3. On this point, I have consulted the Permanent Secretaries of the Departments chiefly concerned with these matters. Our belief is that a meeting with the Chancellor in the New Year would be beneficial, and would justify the call on your time provided that the scope of the meeting were broadened to cover:-

- (i) not just commercial policy but the whole world economic and financial scene as part of the preparations for the Williamsburg meeting;
- (ii) key Community issues which are important to both Government for electoral reasons and to the Germans because of their Presidency.



CONFIDENTIAL

4. So far as commercial policy is concerned, we can take some credit for what the Germans acknowledged to be Mr. Rees's helpful role at the GATT Ministerial meeting. The Germans are also likely to regard us as allies in resisting a drift of French policy into protectionism, including protectionism within the Community market. It would be to our advantage to go along with this in order to protect our own exports to France and to reduce the risk of a trade war with the United States. You could use the opportunity to try to secure German help in putting effective pressure on Japan.

5. More widely on international matters, we have a common interest with the German government in securing an increase in IMF quotas and a successful economic summit in Williamsburg. The Federal Chancellor could well play a significant role at Williamsburg. His recent visit to Washington was more successful than expected, and he is reported to have got on well with President Reagan.

6. On Community issues, the Chancellor is likely to wish to secure our co-operation to ensure a successful German Presidency. We need a satisfactory budget settlement for 1983 and later. On this point the Germans hold the key. The new Kohl Government has endorsed the decision by its predecessor that the German contribution to United Kingdom refunds in 1983 should be only 25 per cent of their normal VAT share. If they go into their election campaign with this as part of their platform, it will be that much more difficult to ride them off it afterwards. Their predecessors' decision to limit the German contribution to only 50 per cent of normal in 1982 nearly destroyed the agreement, and the French and Italians have made it clear that a satisfactory settlement for 1983 and later will not be possible if the Germans carry out their threat and go down to 25 per cent. A visit by the Federal Chancellor in January would provide a unique opportunity to convince him that an intransigent line will guarantee a disaster in the middle of the German Presidency.

CONFIDENTIAL



CONFIDENTIAL

7. I should be glad to know whether you would wish me to take further the possibility of a visit by the Federal Chancellor when I see Herr Grimm on Saturday.

RA

Robert Armstrong

9th December 1982

CONQUEROR

CONFIDENTIAL