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Foreign and Commonwealth Office

London SW1A 2AH

1 February 1983

Jan T. ...

Visit of Chancellor Kohl (and Herr Genscher)
to Chequers on 4 February

in attached folder.
/ I enclose briefs for the talks with Chancellor Kohl on Friday. Copies are being submitted in parallel to the Secretary of State this evening.

The Department of Trade are providing supplementary briefing on the outcome of today's Internal Market Council in Brussels, and also on US speciality metals (which we understand Kohl may raise).

Yours ever
R B Bone

(R B Bone)
Private Secretary

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VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS
ON 4 FEBRUARY

LIST OF BRIEFS

Steering Brief

1. Trade Brief. Commercial Policy and Protectionism (including Japan, transatlantic trade issues and the Community's internal market);
 - 1.A Spain
2. East/West Relations (including economic)
3. Arms Control and Defence (including Gromyko's visit to Bonn and Vice-President Bush's European Journey)
4. Genscher/Colombo Proposals
5. The Community Budget and agriculture (excluding Mediterranean Agriculture)
6. Enlargement
7. EC/Turkey
8. Falklands
9. Spain/NATO (including Gibraltar)
10. CSCE
11. Poland (including debt rescheduling)
12. International Economic Issues
13. Internal Political Background
14. *Internal Market Council in Brussels*
15. *vs Speciality Metals*



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VISIT BY CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS
ON 4 FEBRUARY 1983

STEERING BRIEF

Introduction

1. Dr Kohl suggested at the Bonn Summit on 29 October 1982 that he and the Prime Minister should later continue their discussions on commercial policy and the problems of protectionism. He has since agreed with the Prime Minister that the meeting on 4 February should also cover other international and Community issues.

Objectives

2. Both we and the Germans have to see the visit in the context of the run-up to the FRG elections on 6 March. Genscher's political future is especially precarious given the strong possibility that his Free Democrat Party will not get the 5% of total votes that is required for representation in the Bundestag.

3. The three main areas for concern for both sides are likely to be security and economic questions and the Community.

(a) Security, and especially the stationing of INF, is a major issue in this FRG election. Since Schmidt's departure the SPD has shifted ground on its support for NATO's 'dual-track decision'. Genscher has been making an electoral virtue out of calls for flexibility. Kohl himself has so far stuck rather single-mindedly

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to the zero-option perhaps for tactical reasons. He sees transatlantic harmony as a major priority and, unlike Schmidt, has no ambitions to act as 'interpreter' between Washington and Moscow. The Prime Minister may wish to discuss with Kohl in the light of Vice-President Bush's visit to Bonn (he is due here on 9 February) what line to take with the Americans on INF at this sensitive stage of the decision-making process in Washington, and perhaps to explore Kohl's thinking about the American negotiating tactics in relation to his imminent elections. We ourselves believe that a new initiative in the negotiations is now required to secure a balanced outcome on the way to zero. But it will be important not to give the United States the impression that the Europeans have concerted together in order to force the issue. The Prime Minister may be pressed about the timing of arrival and deployment of GLCM equipment in Britain: Genscher is anxious that nothing should be done before the German election which could give the impression of negatively prejudging the outcome of the talks in Geneva. The Prime Minister may wish to tell the Germans the outcome of recent Ministerial discussion on this point (MOD will be pursuing with the Americans at senior level in Washington on 4 February).

(b) on trade, it would be helpful if the leaders agreed to send a joint message to President Reagan warning him of the danger that the Alliance will be damaged if US trade policy is determined by protectionist forces and, in particular, if agricultural trade

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policy is determined entirely by the US Department of Agriculture and its Congressional supporters. It would be worth touching also on the question of the United States fiscal deficit. We believe the Germans share our concern. Recent US statements have done nothing to allay it. These will be an opportunity for the German Finance Minister and the UK Chancellor to pursue this in Washington next week. The Prime Minister and Dr Kohl might also agree to act in concert to come to an understanding with the French whereby, in return for German and UK agreement to tighter Community procedures for dealing with imports and German agreement to a tougher line on Japan, France should agree to the removal of barriers to trade within the Community. Thirdly, it would be helpful if Chancellor Kohl could be persuaded to make a sympathetic public statement after the meeting about UK problems with Spain.

(c) Chancellor Kohl faces an election next month - the British Budget problem is the least of his worries. The Prime Minister cannot expect him to be very well briefed or very interested. But he suggested the meeting and he wants it to be a success. The Prime Minister should therefore exploit the opportunity to get him to acknowledge the validity of the following three simple points:-

(i) the British Government has an overriding need to secure a credible solution to the Budget problem before the end of the German Presidency;

(ii) if the Germans stick to their line that they will pay only twenty-five per cent of their normal share of the cost of any future refunds, they will prevent all hope of agreement and precipitate a crisis during their Presidency;

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(iii) the argument of the previous German government that Germany 'only has a budget problem because of UK refunds', and not because Germany's total net contribution is too large, can only be construed in this country as hostile to the United Kingdom.

Strategy and Tactics

4. Kohl and Genscher will see the 4 February meeting as useful to them in electoral terms. The Prime Minister might invite Kohl to talk first about the German elections and speak herself about the political scene in Britain. The two Heads of Government could then review East/West and transatlantic relations in the context of the visit of Vice-President Bush. The Prime Minister might also invite Dr Kohl to give an account of the French position: he and Mitterrand exchanged visits on 20/21 January to celebrate the 20th anniversary of the Elysée Treaty, and Mitterrand's call for resolute Western defence policies seems both to have made a profound impression in Germany and to have helped the CDU. The Prime Minister might then invite Dr Kohl to explain his views on commercial policy and protectionism, which he had originally proposed as subjects for the meeting.

5. In parallel talks, with officials present, Mr Pym and Herr Genscher might aim to cover in more detail East/West political economic relations, transatlantic relations and defence policy. Herr Genscher may want to speak about his visit to Washington on 25/26 January. Depending on the time available, the two Foreign Ministers may join the Prime Minister and Kohl before lunch.

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6. At lunch, with officials present, some account could be given of the main ground covered during the morning. The Prime Minister and Mr Pym could thank Dr Kohl and Herr Genscher for their help in resolving the long standing Fisheries problem. Detailed discussion could then take place of commercial policy, protectionism and the internal market of the Community, followed as necessary by arms control and defence, before moving on to other Community issues, including the Budget, CAP, enlargement and the Genscher/Colombo proposals. The Germans have suggested departure from Chequers at 1400 immediately after lunch.

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VISIT OF CHANCELLOR KOHL : 4 FEBRUARY

TRADE BRIEF

OBJECTIVES

It will be in our interests to persuade Chancellor Kohl that:

- (i) The UK is the FRG's prime partner in trade policy matters given the weight we both carry and the fact that we are both fully committed to the maintenance of the opening trading system.
- (ii) The UK and FRG should act together in particular to restore a healthy relationship between the EC and the US; the leaders could for example agree to send a joint message to President Reagan urging the US to avoid provocative protectionist policies eg. in agriculture, and to moderate US claims to apply political export controls to companies in Europe.
- (iii) While the UK fully supports the FRG in pressing for French agreement to improvements in the internal market, the FRG should in turn agree to go some way to meet French demands for tightening up Community procedures for dealing with difficulties which arise in trade relations with countries outside the Community (particularly in relation to disruptive or unfair exporting practices) and some way to meet the UK on services.
- (iv) The FRG should recognise that Japan is putting an unacceptable strain on the open trading system and continuing pressure, particularly at the February Foreign Affairs Council, is needed to add momentum to the moves Japan is starting to make.



LINE TO TAKE
PROTECTIONISM

Remains a grave threat. Both UK and FRG fully committed to open trading system. May differ on individual items, but can work well together, and should continue to do so. UK is not protectionist. Emphasis of policy is on more free trade. But cannot ignore certain specific problems and domestic sensitivity they create. Therefore attach great importances to EC policy towards Japan and Spain.

EC/US RELATIONS

General

Management of EC/US trade relations will be difficult in 1983. Protectionist pressure is high in Congress, and Administration cannot conceal completely extent to which GATT Ministerial Meeting fell short of its expectations. Will need careful handling.

Most sensitive area is agriculture. EC must neither provoke (by high price fixing) nor be provoked (by US aggressive marketing), and resist any French inclination to have a row with Americans. What is required is a measure of restraint on both sides in export sales in particular.

UK and FRG should cooperate to reduce tensions. Happy to explore scope for joint move eg. possible message to President Reagan urging resistance to protectionism, and touching on such difficulties as extraterritoriality.

Extra-territoriality

Pipeline dispute politically disruptive and economically damaging. UK attaches great importance to satisfactory resolution of the general problem. We have had exploratory talks at official level with the American Administration. But important that US perceives problem as one shared by European partners. Hope FRG can themselves raise issue with US. Would greatly enhance prospects for progress.



JAPAN

Must recognise that Japan is putting unacceptable strain on open trading system. Japanese measures and Prime Minister Nakasone's statement are welcome, but do not solve problem. For example, some large capital purchases by Japan would help. Continuing pressure necessary to maintain momentum to existing Japanese response: including setting up of a working party under Article XXIII(2) of the GATT. Hope very much Germany can accept positive line at February Foreign Affairs Council. Vital EC should not falter now.

COMMON COMMERCIAL POLICY

French link progress on internal market with progress on their proposals for strengthening Common Commercial Policy. These latter stem from understandable concern at operation of present policy. EC has sometimes been slow to respond.

UK is similarly disappointed, but any new instrument would most likely suffer from the same handicaps.

UK would be reluctant to see nothing result from French initiative. But for EC to institute S 301 type procedure would be wrong signal to a more protectionist Congress in US. Preference is for improved operation of existing mechanisms. UK/FRG agreement on this would promote satisfactory solution and might offer French sufficient to secure the removal of their block on moves to open up the internal market.

INTERNAL MARKET

Welcome emphasis of German Presidency on internal market (and close collaboration between our two delegations and progress made at the Internal Market Council on 1 February). We also attach special importance to work on services. We are anxious to see acceleration of work towards a genuinely liberal directive on non-life insurance services and welcome the German effort at the start of their presidency to overcome our differences of approach on approval and notification of policy conditions. Hope that agreement on this important measure to free the movement of insurance services will be reached as soon as possible. Important also to make progress on liberalising air transport.



ESSENTIAL FACTS

Protectionism

The FRG attitude to trade policy tends to be more self-consciously liberal than that of the UK. They are worried by the growth of protectionism and lead the resistance in the EC to measures which could restrict trade. The UK is generally in the middle ground between the FRG on one hand and the French and Italians on the other.

It will be important to reassure Chancellor Kohl that the UK is not turning protectionist. What we want is German acceptance of the existence of certain trade problems and support in dealing with them. So far they have cooperated reluctantly in the EC's policy on Japan. We need to encourage them to see it through. And also support British efforts to open up the Spanish market. Chancellor Kohl should be reminded that the emphasis of the UK's policy is on more free trade and better access to markets, not on restriction and control.

EC/JAPAN

December's Foreign Affairs Council (FAC) agreed the following strategy on Japan, though its implementation remains for discussion at the February FAC.

- (i) To seek a move to a working party of GATT contracting parties under the second stage of GATT Article XXIII case.
- (ii) To seek 'clearly defined and effective moderation of sensitive exports. Commission representative visit Tokyo in mid-February for a further round of discussions on export restraint for VTRs and colour television tubes and more generally assurance on a range of other sensitive products.



The Japanese Government have responded with a package of import liberalisation measures conceding 15 tariff cuts of interest to the EC (notably confectionery, biscuits and cigarettes) and a number of non-tariff barrier improvements. These include a high level review of standards and certification procedures, accelerated liberalisation of the tobacco distribution system, and relaxation of import requirements for pharmaceuticals, cosmetics and other items (covering total UK trade of some £30m last year). The package addresses a number of areas of EC/US discontent but others, such as quotas on leather goods and, more widely, restrictions on foreign financial services and investment in Japan, are omitted. The latest package was accompanied by a useful statement from Mr Nakasone stressing the need for Japan to increase manufactured imports and avoid excessive concentration of exports.

Moderation of Japanese exports to FRG last year in total and in some sensitive sectors (eg cars) has strengthened the FRG's traditional anti-protectionist stance. (According to Japanese figures, FRG deficit in 1982 was \$2.7 billion, UK \$2.6 billion, EC \$9.5 billion). Discussions with the Japanese Foreign Minister, Mr Abe, earlier this month apparently focused exclusively on the opening of the Japanese market. Nevertheless, FRG emphasised their support for a united Community approach. Japanese exports of cars to FRG in 1982 were 9.8% of the market (down from 10% in 1981).

EC/US

Rise of Protectionist Pressures in US

The new Congress (assembled on 24 January) is likely to be much more protectionist minded than its predecessor. As deep recession and high unemployment continue, and given the wide perception in the US that GATT Ministerial Meeting failed to solve the world's trade problems, the pressures in Congress to protect US exports and jobs, and enforce US



trade rights against 'unfair' foreign practices will continue to grow. The main US problem is industrial trade with Japan, but the EC/US agriculture dispute is potentially very damaging, and there was a major row last year over steel exports. Protectionist Bills before Congress include 'Reciprocity' (the Danforth/Frenzel Bill), which will give the President greater negotiating authority to enforce US trade rights, and the Ottinger Bill on local content in automobiles.

The Community should, in its own interest, work with the Administration to reduce friction in EC/US relations so that these pressures may be successfully resisted.

Extraterritoriality

Extraterritorial (ETT) application of US law in commercial matters has long been a bone of contention between the UK and US. Pipeline affair involving US export controls in support of foreign policy objectives and their unilateral application to British and other European companies, dramatic illustration of problem.

The UK have so far been alone among the Community trying to take matters forward. But we know from official talks with the Germans that they share our views, and it would help greatly if they could add their voice to ours. A wider European approval will be helpful to progress with the US. Count Lambsdorf is believed to be willing to raise the question in Washington.

Common Commercial Policy

Last spring the French launched a set of proposals for strengthening the Common Commercial Policy. The most contentious of these is that the EC should have a new instrument akin to S 310 of the US Trade Act, which in the US is used to harass exporters regardless of whether GATT



rights were being infringed. The purpose of this innovation would be to give the EC more muscle in an unfair world.

The proposals have been extensively discussed at working level and while Member States can go along with measures to improve use of surveillance, there are divisions on the question of a new S 301 type instrument.

The Commission have been asked to produce proposals and will be doing so at a leisurely pace. They are unlikely to satisfy the French. But the Commission sensibly point out that what is currently wrong is not the mechanism for Community policy, but the speed, or lack of it, with which Member States reach decisions on what should be done. The real need is for an improved decision making procedure.

The Germans have been consistently reluctant to go along with the proposal for a new instrument. They see it as protectionist and unnecessary. We should like to enlist their support for improved decision making procedures, which are not evidently protectionist and improve the working of the Community. We want the Community to be able to respond firmly, within its GATT rights, to any trade problems which arise, but we do not want to exacerbate protectionist tendencies particularly in the US. The problem needs delicate handling, not least because the french are linking progress in moves to open up the internal market (to which both we and the Germans attach importance) with progress on Common Commercial Policy.

THE INTERNAL MARKET

Following the Copenhagen Summit's December remit, a special session of the General Affairs Council, devoted solely to Internal Market matters, is being held on 1 February.



This session will concentrate on the three issues endorsed as priorities by the Copenhagen Summit (ie unblocking the Article 100 harmonisation programme through a procedure to deal with certification of products of third country origin, procedures to improve transparency in technical standards and regulation making, and frontier facilitation). The German Presidency will also seek to establish procedural arrangements for linking into the work of this Council other issues relevant to the Internal Market but currently being dealt with by other Community bodies. A further session of this Council is likely to be held in March to prepare a progress report for the next European Council. The UK is being represented by the Minister for Trade. The Germans attach priority to improving the Internal Market (in goods if not in services). They wish to use their Presidency to establish a sustained impetus which will carry through not only the Greek, but also the French and Irish Presidencies. They are not however the most imaginative when it comes to tackling the broader political realities or in devising constructive possibilities.

The UK's main priorities, as far as Internal Market work during the German Presidency is concerned, are to secure progress on services (including transport) and to increase transparency in Member States' procedures. An updated progress report will be supplied in the light of the 12 February meeting.

The non-life insurance services directive is of particular interest to the UK. This is designed to facilitate cross-frontier insurance of large industrial, commercial and professional (ICP) risks. It was first proposed by the Commission



in 1975 but is still a long way from being agreed. Our insurance industry would gain considerably from a real liberalisation of services. It would enable them to cover EC risks without being subject to the much more onerous regimes operated by most other Member States. The Germans have taken the lead in insisting on elaborate controls of policy conditions, which we consider unnecessary in respect of ICP risks. But we now think the Germans are considering a more flexible position on the control of CIP policy conditions. The German and British insurance industries are discussing the issue in parallel. Progress on liberalising air services, air tariffs and competition in air transport has been disappointingly slow in spite of strong UK commitment. December transport council again failed to reach agreement on a Regional Services Directive. The Germans have been among a majority of member states reluctant to accept change, but bilateral contacts suggest that the new government may prove somewhat more flexible.

Department of Trade
27 January 1983



VISIT OF CHANCELLOR KOHL: 4 FEBRUARY 1983
SPAIN (1970 AGREEMENT)

Objective

To persuade Kohl to speak sympathetically at his press conference of the UK's objective of securing an immediate improvement in the imbalance of trading conditions between the Community and Spain.

Line to take

1. Spain, a candidate for Community membership, is a worrying example of outdated and damaging protectionism on our own doorstep. Meanwhile she pursues a complex and doubtfully legitimate export policy. This is seriously undermining support in the UK for the open trading system and faith in the Community. Spain must be brought by the Community to play her part in sustaining that system.
2. (If necessary) We cannot wait for Enlargement - though we support it. We do not suggest renegotiating the 1970 Agreement. We want Spain to observe the Agreement properly but also, above all, to make some further unilateral cuts in the now quite unnecessarily high tariff which its long outdated provisions permit her.
3. (If appropriate) We are not looking for restraints on Spanish trade, but we could be forced to this if we are not able to export on fair terms to Spain. Investment in Spain is no substitute, particularly in the short term.
4. Hope that, as an opponent of protectionism, you can before you leave London express public sympathy with our objective.



Background

1. There are two facets to the problem: the large tariff imbalance (legal, but now anomalous) particularly for cars (contrast Spain's 36.7% duty with the Community's 4.2%); and Spain's breaches of the 1970 Agreement, most notably fiscal manipulation in favour of domestic production, poor quota administration and specific discrimination against imports of tobacco and whisky.
2. Since being given a Community mandate at the December Foreign Affairs Council (largely as a result of UK pressure), the Commission has held three discussions with Spain about aspects of the problem, but concentrating on the breaches of the 1970 Agreement. At the invitation of the Spanish Foreign Minister, Sr Moran, senior UK officials have also held parallel, but unpublicised, talks in Madrid. (The Commission has been kept fully informed.) These are to be resumed shortly, after allowing Spain time to consider her response to a number of proposals which would improve access for UK exports. The Commission will probably also hold further talks before the February Council.
3. The Germans have so far shown no interest. They probably regard our concern as exaggerated, our problems as due to our own weakness, and our objectives as unrealistic. Germany has a large visible trade surplus with Spain (£430mn in 1981) and some investment there that might be damaged by tariff cuts (eg. VW in the Spanish public car company Seat). Moreover she wishes to avoid antagonising Spain so as to strengthen her political influence there. [There has been no serious discussion to date about our ideas floated last autumn for faster tariff abolition post accession on those products where Spain is demonstrably export competitive (see brief No.).]
4. Anglo-Spanish visible trade (though not of course tourism) is approximately in balance. Unlike France vis-a-vis Germany (or Japan), we are seeking a fair balance of opportunity for trade, not a more even balance of trade itself.

Department of Trade
January 1983



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VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS
ON 4 FEBRUARY

EAST/WEST RELATIONS (INCLUDING ECONOMIC)

Points to Make

East/West Political

1. Impressions of Gromyko's visit to Bonn?
2. Andropov has developed a subtle style; impressive timing. Foremost (and transparent objective) to undermine 'double decision' and outflank governments by appeals to public opinion.
3. West must present its case clearly and firmly. Essential to keep focus of attention on Soviet actions, not words. But must also think through our political options and be prepared to take advantage of any openings or genuine moves.
4. Bush visit a valuable opportunity to assess direction of White House thinking.

East/West Economic Relations

5. Germany has unique role as major East/West partner and Presidency. Most grateful for your decisive impetus to Community aspects of follow-up work. Must get Commission paper to OECD quickly.

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6. Glad studies going ahead even though difficulties with some (eg Other High Technology). In our interests to work with Americans: influence US thinking and improve transatlantic harmony.
7. [Defensive, if appropriate] First step in studies must be analysis. Policy considerations can come later. Have not yet considered how these should be undertaken, though individual national inputs necessary. What are your ideas?
8. [Defensive, if appropriate] Open mind on question of Community coordinating role, but Community must not restrict or slow down work.

Extraterritoriality

9. Fundamental issue highlighted by pipeline dispute was US claim to extraterritorial jurisdiction in trade matters. This is damaging to economic and political interests of US and allies, and invalid in international law.
10. British officials discussed problem in Washington. Outcome disappointing. Little evidence of US readiness to change policies. Intend to underline our concern during visit of Vice-President Bush next week.
11. Do not wish to discuss in detail now. Simply wanted to register that we take this very seriously and we value support from our partners. We had already had bilateral discussions at official level with FRG and Canada before talks in Washington. Believe that

/Count Lambsdorff

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Count Lambsdorff may well raise this issue when he visits Washington.

Essential Facts

Gromyko's Visit to Bonn (16-19 January)

1. Gromyko kept accent on INF in discussions with Genscher and in public statements. Also spoke of interest in Soviet/US Summit, accusing Americans of reacting negatively; and of prospects for increased Soviet/FRG cooperation. In comments (public and private) on internal scene, signalled support for SPD if it chose good relations and friendship. Genscher accepted invitation to Moscow.

East/West Political

2. Andropov has not yet introduced any real change into the direction of Soviet foreign policy. No evidence of genuine flexibility on Afghanistan, Poland or Eastern Europe generally.
3. He has nevertheless adopted a presentationally new (and superficially non-confrontational) note in his first major foreign policy speeches. In his Central Committee speech of 22 November he emphasised the Soviet commitment to détente (on Soviet terms), while stressing that there could be no question of making improved relations with the West conditional on concessions by the Soviet Union. In his 21 December Supreme Soviet speech, almost half of which was devoted to foreign policy, the emphasis was on 'peace'. There was a strong element of trying to appeal to Western, particularly

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European, public opinion over the head of Western European Governments, notably on the INF proposal (see brief no 3). The same was true of the Warsaw Pact Summit declaration (see brief no 3).

4. There has been close consultation within the Ten and NATO about relations with the new Soviet leadership. Western unity on the main issues has remained firm, but there have been some moves to explore whether there is any underlying willingness on Andropov's part to take more account of Western concerns. During Gromyko's visit, Genscher agreed that a senior German official, Ambassador Ruth, should visit Moscow in February to discuss arms control issues. Cheysson will be visiting Moscow on 18-19 February, and Mitterrand took the initiative of holding a meeting with Soviet Deputy Prime Minister Yuri Marchuk, leader of the Soviet delegation to the Franco-Soviet Grande Commission, in Paris (12-13 January).

East/West Economic

5. Commission paper forming basis of Community follow-up action and covering export credit policy, energy policy, trade in agricultural products and technology items, was circulated in Coreper on 20 January. Council on Monday 24 January did not consider it, but in later Corepers German Presidency emphasised urgency of feeding Community contribution into OECD discussions, and need for Community mandate (eg on Energy study) to be drawn up where necessary.

6. Germans as Presidency favour overall coordinating role for Community in follow-up work. In UK view, this would have little

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effect on work in NATO and COCOM but might allow Community decisions (taken at Foreign Affairs Council or Coreper) to inhibit our freedom of action in OECD once studies underway. But we should be free to argue as the facts and our interests warrant in the OECD studies. We should therefore retain a clear distinction between the three areas of work:

- i) Where Community Competence exists, the Commission should speak and the member states should act in support (eg Export Credit Consensus);
- ii) Where a substantial Community interest exists, the Commission should be present at the meetings, and speaking, as well as the member states (eg Energy study, OECD reports);
- iii) Where there is no real Community interest (eg NATO Security Aspects Study, COCOM).

7. Some EC nations (not Germans) have asked whether and when policy conclusions would be drawn from the studies, and by whom? On whom would they be binding? As Presidency, Germans feel obliged to discuss such questions. Our view is that consideration of these points should wait until completion of the studies, but that initial assessments should be made nationally.

Extraterritoriality

8. The extraterritorial application of US law in commercial matters has long been a bone of contention between the UK and the US. The pipeline affair illustrated a particularly worrying aspect of

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this practice: the use of export controls in support of foreign policy objectives and their application to overseas subsidiaries of US companies. This involved recourse to powers under the US Export Administration Act which comes up for renewal this September. The UK aim is to secure amendments to this Act to limit its extraterritorial effects.

9. At the time of the settlement of the pipeline episode last November, it was agreed in the margins of discussions on East/West economic relations that the Americans and other western nations would hold urgent talks on extraterritoriality. There is no explicit link with work on East/West relations. The UK have been alone in pressing for matters to be taken forward. Bilateral talks with the Americans took place in Washington on 19/21 January. The outcome was disappointing.

10. The talks in Washington were preceded by discussions with the Canadians on 18 January and the Germans on 11 January. The Germans are in broad agreement with our views. On 11 January the Germans said that Count Lambsdorff (Economics Minister) would be prepared to raise the question of extraterritoriality in Washington.

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BRIEF NO 3

VISIT OF CHANCELLOR KOHL AND HERR GENSCHER TO CHEQUERS ON
4 FEBRUARY 1983

ARMS CONTROL AND DEFENCE

Points to Make

INF

1. Remain firm on both tracks of 1979 decision despite vociferous opposition. First cruise missiles will be deployed at Greenham Common by end of 1983 in absence of agreement on zero option. But we are telling Americans we do not want heavy equipment arriving in UK until November. This should also meet German concerns.
2. Need to re-establish principle of NATO flexibility in negotiations. Hence now talking of need to negotiate balance, if zero option unobtainable. Grateful for account of Chancellor's discussions on this with Vice-President Bush. Chancellor's views on timing of a new initiative in Western negotiating position? Why wait until 6 March?
3. Subject to German views, we shall urge on Bush flexibility in negotiations, and need for new initiative soon. Any such modified Western position must maintain basic Alliance principles of - equal ceilings on ~~missiles~~ ^{warheads} for US and Soviet Union, exclusion of French and British systems, global approach and zero option as ultimate goal. But need to avoid appearance of Europeans ganging up in public on Americans.

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4. Gromyko in Bonn on 21 January? Anything of substance beyond Andropov 21 December speech?

CHEMICAL WEAPONS (CW)

5. West should seize initiative and press for a fully verifiable and comprehensive ban on CW, tackling verification problems first. Glad to see US views becoming more flexible.

Essential Facts

INF

1. The Germans do not want Cruise missile, or Pershing II equipment to arrive in Europe before September. They fear that NATO will appear to be pre-judging the INF negotiations. Herr Genscher has been in contact with Mr Pym who has replied that we were still considering the possibilities, We have made it clear that the factors in Britain are rather different from those in the FRG. Nevertheless Ministers have now decided in favour of equipment arriving in UK no earlier than November and senior MOD officials will be pursuing this with the Americans in Washington on 4 February - the day of the Kohl talks in London. It would therefore make sense to set German anxieties at rest on this score.



2. Chancellor Kohl has so far remained firm in support of the zero option as the only NATO negotiating position for the present, although both Herr Genscher and Herr Strauss, for different reasons, have publicly promoted the idea of negotiating towards agreement on a reduced number of missiles on each side. For tactical/electoral reasons. Chancellor Kohl may believe that NATO should not modify its position before the German election on 6 March. If so, it would be useful to have a full account of his thinking on this point. His opinion will have an important effect on American views on the timing of any new initiative.

3. Vice-President Bush is coming to Europe primarily to listen to European views. He should take broadly the same message from each capital - in the run-up to first deployments of INF European governments need to point to visible signs of US flexibility and seriousness in the Geneva negotiations and, in particular, to answer critics who say that NATO is offering the zero option on a 'take it or leave it' basis.

Chemical Weapons

4. New round of negotiations began on 1 February under new (Canadian) chairmanship. Americans have told us (and Germans) that they will table a major paper in response to Soviet paper tabled last summer. (This may be announced by Vice President Bush

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in Europe this week). Germans have long pressed for Western initiative because of popular concern about CW stationed in FRG and spin-off for INF stationing. We agree, and are pleased Americans are overcoming their reservations about negotiations. But verification will be difficult and cannot be ducked.

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VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS
ON 4 FEBRUARY

GENSCHER/COLOMBO PROPOSALS

Points to Make [If Raised]

1. Will support early adoption of final text subject to the outstanding points being satisfactorily resolved.

[If there is discussion of the outstanding points]

(i) Title

Prefer a title other than 'Act' which denotes legislation. Understand others also have difficulty. Prefer 'Declaration'.

(ii) Majority Voting

Understand the German Presidency will be circulating a new text. Will examine carefully. Calls for increased majority voting must be balanced by reference to Member State's ability to have a decision deferred where it considers its important interests to be involved.

(iii) The European Parliament

Understand Presidency have proposed a new text. Dislike provision for Parliament to have a 'confidence' debate on the Commission's programme. Programme does not require the Parliament's endorsement, which has no force without Council agreement. 'Confidence' is misleading.

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(iv) Provisions for a Review

We cannot accept a commitment to a future Treaty on European Union, but no objection to a review after five years.

(v) A Common Foreign Policy

Understand the French and Danes have difficulty with the concept of a 'common foreign policy'. We can accept it as an ultimate objective. Term has been used before.

Essential Facts

1. The German Presidency have made clear that they would like to see early adoption of a final text, though they have not yet decided whether to aim for the March or June European Council.

2. A meeting of the ad hoc Group of Officials took place on 26 January and another meeting is due to be held on 7/8 February. The Germans envisage that this will be the final meeting of the Group and that any points still outstanding should be referred to Ministers. The main outstanding points are:

(i) The Title

We cannot accept 'Act' and have argued for 'Declaration'. The Presidency's latest proposal is a two-line heading, 'European Act' on top and 'Declaration on European Union' below.

(ii) Majority voting

Our position is that any exhortation to increased majority voting must be balanced by a reference to a Member State's ability to have



a majority decision deferred where it considers its important interests to be involved. The Presidency have said they will circulate some compromise language.

(iii) The European Parliament

The text on the European Parliament has been much watered down from earlier versions, and the only point on which we now have a reserve is the provision for the Parliament to hold a 'confidence' debate on the Commission's programme.

(iv) The European Community Section

We have a reserve on the section on the CAP, where we should like to see a reference, originally proposed by the Germans, that the rate of increase in CAP expenditure should be less than the rate of increase in own resources. At the last ad hoc Group meeting, the Presidency proposed deleting this, but including a new sentence on Mediterranean agriculture, which we could not accept. We also have a reserve on the paragraph on 'own resources' but the Presidency have proposed deleting this from the text.

(v) A Common Foreign Policy

The French and the Danes have objected to the reference (in paragraph 1.4.2 and 3.2) to a common foreign policy. We can accept this as an ultimate objective, and it has already been implicitly accepted in earlier Community texts such as the 'European Identity' document of 1973.



(vi) The Provisions for a Review

We are unable to accept a commitment on a future Treaty on European Union. The Presidency are planning to circulate a compromise text, saying that Member States will after 5 years consider the possibility/desirability of proceeding to a new Treaty. We could think about this.



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VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS
ON 4 FEBRUARY

THE COMMUNITY BUDGET AND AGRICULTURE (EXCLUDING MEDITERRANEAN
AGRICULTURE)

Objectives

1. Chancellor Kohl faces an election next month - the British Budget problem is the least of his worries. The Prime Minister cannot expect him to be very well briefed or very interested. But he suggested the meeting and he wants it to be a success. The Prime Minister should therefore exploit the opportunity to get him to acknowledge the validity of the following three simple points:-

(i) the British Government has an overriding need to secure a credible solution to the Budget problem before the end of the German Presidency;

(ii) if the Germans stick to their line that they will pay only twenty-five per cent of their normal share of the cost of any future refunds they will prevent all hope of agreement and precipitate a crisis during their Presidency;

(iii) the argument of the previous German Government that they 'only have a Budget problem because of UK refunds' and not because Germany's total net contribution is too large can only be construed in this country as hostile to the United Kingdom.

Points to Make

2. As well as protectionism, there is another very real problem.
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which if left unsolved would represent a major danger to the future and well-being of the Community - the defects of its financial system. The problem has two aspects, - first, the imbalance of budgetary burdens among the Member States and second, the need for proper financial control over CAP expenditure.

3. On burden sharing, agree with Herr Genscher that the Community needs a fairer division of financial burdens among the Member States. Our two countries currently bear the full burden. Feel strongly that Britain's net contribution of some DM 4 billion cannot be fair for a country below the Community average GDP per head.

4. The Community gave a commitment that it would deal with the problem we face for 1983 and later, by November 1982. The Community agreed in 1980 and again last year that the UK's burden was excessive and that it should be corrected. The Community must live up to its commitments. Its own deadline has passed. Glad that the German Government has said that this subject is one of the priorities for its Presidency.

5. A key element in doing so is going to be your own national position. I do not believe that the Community can reach agreement if the German Government continues to maintain that it will only contribute 25% of its normal share of the cost of future compensation for the United Kingdom. We have seen the problems which the 50% abatement of the German contribution to the UK's 1982 compensation has already caused. I hope therefore that you will reconsider

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your position. Failure to reach agreement would be bound to precipitate a major crisis during your Presidency. We really must avoid this.

6. Moreover, I must confess that I do not understand the logic behind the German position. The previous German Government used to tell us that Germany only had a budget problem because of UK refunds, and not because Germany's total burden was too large. The German Government has always been willing to pay its full share towards all agreed Community policies through the own resources system. I really do find it strange that Germany should make an exception in this one area. It really is very hard to explain to critics in this country that your position is not in some way directed against us.

7. I do hope that you will reflect on this.

Other Points

8. For the longer term, I hope that we can work closely together to achieve a lasting Community solution. Such a solution must be one of the key objectives of any review of the financial system. There are various ways in which this can be done, eg, through a fiscal equalisation system which placed limits on net contributions, or a new form of CAP financing. Our officials should get together to discuss these ideas.

9. As the only two net contributors to the Community budget, crucial that our two countries should work together on this. If we do not press for sensible financial reforms, we cannot expect the other

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Member States to do so.

10. On financial control, we both agree that too much money is spent on disposing of uneconomic agricultural surpluses. We must stick by the principle that CAP expenditure should grow at a markedly slower rate than the own resources base. Prospects this year give cause for alarm; that principle will be breached, and supplementary budget required. Commission's latest price proposals much too generous - will only exacerbate problem of surpluses. This price-fixing must start the process of getting CAP expenditure under control. Community must also demonstrate to Americans over next few weeks genuine readiness to tackle CAP problems if agricultural trade war is to be averted.

11. On own resources, we, like you, believe that the present own resources will be sufficient even after enlargement; as I have said, the real need is rather to control the growth of CAP expenditure.

12. On 1982 refunds, know the problems you have had with your own MEPs, but hope you will contribute both nationally and as Presidency to do all you can to get 1983 Supplementary Budget through.

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VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS ON
4 FEBRUARY

ENLARGEMENT

Points to Make

1. German Presidency is key period in accession negotiations. Following Greek and French Presidencies each have special interests. Both Spaniards and Portuguese need evidence that the Community is capable of overcoming the obstacles to progress. We will support German aim of making progress.

Mediterranean Agriculture

2. Most important step would be to complete the reform of the Mediterranean agricultural regimes. But this must be done on satisfactory terms which do not lead to undue increase in costs or creation of surpluses. Will not be easy to get French and Italian agreement - how do Germans plan to get around this? Glad Germans are keeping up the pressure and welcome special Agriculture Council in March.

Link Between Own Resources and Enlargement

3. French link between own resources and enlargement is gaining ground. Apart from UK and FRG, most of Community seem prepared to accept that Mediterranean producers will have to be bought off - presumably on assumption (quite mistaken where UK is concerned) that

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UK and FRG will pay most of the bill.

4. Must discuss urgently the Commission's paper on own resources and reform of the financial system. French objective if agreement on new own resources as a precondition to accession must be resisted. Link is artificial and unjustified. Must make it plain to our partners that problems cannot be solved by throwing British and German money at them. We need to focus attention on the real cause of pressure on own resources - the growth of CAP expenditure.

Industrial Tariff Transitional Period

5. On Spanish accession there must be a rapid reduction and early elimination of the high protection afforded under the EC/Spain 1970 Agreement to all Spanish industries, particularly sensitive industries like cars which have since become highly competitive and export oriented. Hope Germans agree that this should take no longer than three years in such sensitive sectors, even if the general transitional period for industrial tariffs is extended beyond the three years now on offer by the Community.

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Essential Facts

1. The December European Council conclusions sought to give a signal of encouragement to Spain and Portugal (although it was not seen as such in either capital) and also set a timetable of end February for concluding the work on the reform of the Mediterranean agricultural regimes (which is unlikely to be met).

German Presidency

2. The German Presidency is a particularly important one in the current accession negotiations, since it will be followed by the first Greek Presidency (unlikely to be particularly effective or impartial), and then the French, whose special interests will be even more inimical to progress. The French have set major preconditions to enlargement: a prior increase in own resources, a heavy price in terms of support for their Mediterranean agricultural producers, and agreement within the EC on arrangements for its Mediterranean Associates (who would be damaged as much by French insistence on greater protection for EC Mediterranean agriculture as by new competition for EC markets from Spain and Portugal). So far the Germans have themselves only modest targets in the accession negotiations and they are only now starting to put on the pressure on the Mediterranean regimes. It will be a considerable achievement to meet the deadline of the next European Council laid down by the last European Council for decisions on the reform of the Mediterranean regimes (particularly olive oil) but it is not impossible if the Germans put the squeeze on. The

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uncertain German performance is no doubt in large part because of Ministers' preoccupation with the impending election. It may however also be because they increasingly see the French pre-conditions as an immovable object and there are signs in the German Government (certainly Genscher and possibly even Kohl) of a feeling that the French opposition will have to be bought off.

Industrial Tariff Transitional Period

3. In her letter to Thorn, the Prime Minister stressed the importance of a short Spanish industrial tariff transitional period. The Community has proposed three years. The Spaniards argue for close to ten years. We have subsequently told our EC partners that, even if the EC goes beyond 3 years (as it probably must; the UK have five), tariffs on cars and other products in which Spain has become internationally competitive must come down sharply and be eliminated within three years.

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VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS ON
4 FEBRUARY

EC/TURKEY

Points to Make (if raised)

Aid

1. Western interests will be jeopardized if Community continues to block Aid. Will do all we can to support Germans over this.

Free movement of Labour

2. Sympathise with German concerns. Commission should produce proposals before negotiations with the Turks in June.

Turkish application to join Community

3. Full membership in foreseeable future, is not in interests of anybody. In the absence of progress on aid, Turks may see an application as a way of putting the Community on the spot. Hope they can be discouraged. Application could only lead to a rebuff. We will do what we can.

Essential Facts

EC/Turkey relations

1. These are at a low ebb. Greece, Denmark, the Netherlands and France have blocked EC aid because of political developments in

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Turkey. The Turks have other grievances. Their preferential trade advantages under the 1963 EC/Turkey Agreements have been eroded. They particularly resent EC restrictions on their textiles and clothing exports (Turkey's only internationally competitive industry (they claim especially preferential treatment because their Association Agreement envisages eventual full membership). But Turkey has imposed an illegal duty of 15% on Community iron and steel products.

Germany/Turkey

2. The Germans have a traditionally close relationship with Turkey. They have made the improvement of EC-Turkey relations, and in particular restoration of all EC aid, a priority for their Presidency. They may also press for concessions to Turkey on textiles.

3. They hope resumption of aid will help them with their 1.5 million Turkish guest workers. The EC has a commitment to allow complete free movement of labour to Turkey in 1986. Commission proposals for negotiation with Turkey for the period 1983-86 are expected soon. The problem has become less acute for the Germans since Genscher received informal bilateral assurances from Evren at the end of last year which they regard as satisfactory. The Germans will however still want the EC-Turkey problem resolved in a way which does not prejudice her position.

4. The UK has consistently supported the unblocking of EC aid. We want to help the Germans over guest workers, but without prejudicing our bilateral interests (eg over textiles).

5. The Turks told Lord Belstead on 14 January that Turkey would apply to join the Community in 1984 (ie after an elected government

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was in office). Given Turkey's extreme economic backwardness, membership in the foreseeable future is not on. The Community would prefer to deflect an application than to rebuff it.

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VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS
ON 4 FEBRUARY

FALKLANDS

Points to Make

1. No question of negotiating with Argentina on sovereignty as if nothing had happened and in view of what is happening. Grateful to the Germans for their reaction to our approach regarding possible further Argentine aggression.

Arms for Argentina

2. We continue to be concerned about arms sales to Argentina, particularly in view of the recent bellicose statements from Argentina (at variance with her conciliatory line in public international fora and their continuing refusal to accept any final cessation of hostilities.) Important to avoid any acts or gestures which might encourage the regime.

German Warships

3. Understand legal difficulties which German government believe prevent them from blocking handover of first frigate to Argentina this week. Even so, we are bound to regret it. Public opinion here bound to be vocal, not least in view of our unpopular decision to release Rolls Royce engines for last 2 frigates to help Germans. But will do our best to keep reactions here in proportion. Hope German government will do what it can to help.

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4. Believe first of two submarines being manufactured in FRG for Argentina likely to be delivered in November. Submarines even more controversial than Surface Warships: must this decision stand?

Essential Facts

Warships

1. Ministers decided in August to allow Rolls Royce to supply engines for two frigates being built in the FRG for Argentina without a separate assurance, which it was clear we were not going to get, from the Germans that they would not release the ships without our agreement. Engines for two others were delivered before the Falklands were invaded.
2. The lifting of the German embargo was announced on 20 September, and the frigates will now be delivered, the first at the beginning of February and the second in mid-1983 (both with engines delivered before 2 April 1982). The other two will be delivered in 1984.
3. The Germans, under contracts dating from 1977, are manufacturing the TR 1700 diesel-electric powered submarines for Argentina. The first is due for delivery in November 1983. The delivery date for the second is not known. The Argentines are starting to manufacture four more TR 1700 submarines and six more MEKO 140 frigates in Argentina under licence.
4. There have been indications that Herr Genscher may at one stage at least have toyed with the idea of visiting Argentina.

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BRIEF NO 9

VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO
CHEQUERS ON 4 FEBRUARY

SPAIN/NATO (Including Gibraltar)

Points to Make

Spanish Membership of NATO

1. Important not to pressure Gonzalez into premature moves: he needs time to influence his public and parliamentary opinion. Best to try quietly to convince Spanish Government of advantages of membership. Must avoid Spain having membership outside integrated military structure.

Gibraltar

2. No possibility of concessions by us on NATO/Gibraltar while restrictions on Gibraltar remain. Key is in Spanish hands. Hope Lisbon agreement will be implemented in the Spring. This should greatly facilitate discussions of e.g. Command boundaries.

Essential Facts

NATO

1. Spanish Government have frozen negotiations about terms of membership of NATO and are committed to hold a referendum on membership. But Spain have agreed to continue to participate in several NATO Committees.

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2. Signs are that Felipe Gonzalez is in no hurry to call a referendum; that PSOE Government might not advocate a negative vote; and that they hanker after membership outside integrated military structure on French lines. US, FRG and France agree with us that a French-type outcome must be avoided. Gibraltar interests prevent us taking a lead. Spanish Foreign Minister may visit Bonn in February to discuss NATO and EC membership.
3. Allies and Spaniards are aware that we cannot accept subordination of GIBMED to higher Spanish NATO command, or Spanish military presence on the Rock, so long as border is shut.
4. Implementation of Lisbon agreement would probably allow us to concede these and so help PSOE Government convince public of desirability of NATO membership (if they felt so inclined). But restrictions must be lifted first.
5. Preliminary signs are that Spaniards have over-ambitious aims for command boundaries (eg creation of a new major Command commanded by a Spaniard). But a key objective likely to be to have overall command of Gibraltar area.

Gibraltar

6. Partial opening of border, to certain pedestrians, in December is a welcome step in the right direction. But no substitute for full lifting of restrictions, as envisaged in Lisbon agreement.

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7. When Mr Pym met Spanish Foreign Minister on 10 December 1982 in Brussels they reaffirmed commitment to Lisbon agreement and agreed that officials should meet to prepare for implementation in the Spring.

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VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO CHEQUERS
ON 4 FEBRUARY

CSCE

Points to Make

1. Outcome of latest session reasonably satisfactory. Good that Western unity was maintained. Any sign of Soviet willingness to pay a price in human rights - eg, release of dissidents - in return for Conference on Disarmament in Europe?

Essential Facts

The Madrid Review Conference

1. The latest session in November/December concentrated on Western amendments to the Neutral and Non-Aligned draft concluding document (known as RM 39). These amendments aim to make RM 39 reflect developments since it was drawn up in late 1981 - especially Poland - and to secure greater provision for human rights, freer exchange of information, human contacts, etc. Despite known US doubts before the session began, Western unity was maintained well. The East concentrated on the need for a Conference on Disarmament in Europe (CDE). Though the session ended with some expectation that agreement on a concluding document might be reached by Easter,

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success will depend largely on US/USSR relations and on Soviet calculations of the price they can pay in the human rights' field for a CDE. Some NATO countries were alarmed by recent indications that the USA might agree to drop the Western amendments if the USSR made a sufficient gesture by releasing dissidents. But it is not yet clear whether this will be the American position when the Conference resumes on 8 February.

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BRIEF NO 11

VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO
CHEQUERS ON 4 FEBRUARY

POLAND (Including Debt Rescheduling)

Points to Make

Martial Law

1. Suspension of martial law more of a procedural than substantive change although full effect not yet clear. Government appear to have crushed active dissent. But without cooperation of workforce, economy will not recover and political instability will continue.

Western Policy

2. Not the time to change broad lines of policy. Must keep this under review. Polish authorities' actions should be judged by their practical effects. Pope's visit (if it goes ahead) likely to be most significant indication of where popular sympathies lie and extent of tolerance by the regime.

Debts

3. Must also keep under review problem of Polish debt rescheduling. Aware of growing pressure among Western Creditor Governments to move towards rescheduling talks. Risk of a damaging split cannot be excluded. Important we should maintain a united position; may therefore need to consider movement on this issue soon.

/Humanitarian Aid

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Humanitarian Aid (If raised)

4. Believe humanitarian aid from West has significantly helped to improve food and medical supply situation in Poland. Aid resources however inevitably limited. Must consider carefully allocation of these in view of our main aid priorities in the Third World.

Essential Facts

Martial Law

1. Martial law in Poland was suspended on 31 December and all but 7 of the detainees were released. Measures voted by Parliament to replace martial law however may be equally repressive if they are fully implemented. Regime have announced a possible amnesty for 700 people imprisoned for martial law offences but some 3-4,000 people remain in jail. Authorities appear to have subdued remnants of Solidarity. But there is little popular support for Jaruzelski's policies and further outbreaks of discontent or violence cannot be excluded. The Church has publicly criticised the limited nature of the martial law relaxations; there is some doubt whether Pope's visit will go ahead in June as planned.

Western Policy

2. The Western reaction to the suspension of martial law has been cautious; the NATO Ministerial communique of 9/10 December (attached) emphasised that "the Polish Government's actions would be judged by their practical effects". No further EC or NATO

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statement is planned until a full assessment has been made of the recent developments; work on this is now under way in both fora. The situation in Poland is on the agenda for the session of the UN Human Rights Commission which began on 31 January.

Debt

3. Polish debt is a particularly awkward problem. Refusal to reschedule official debt has in fact given the Polish authorities 100% relief. Several Western countries, not only non-NATO ones are pressing for early talks on 1982/83 debt rescheduling. Pressure is likely to grow now it is becoming apparent that the banks have managed to achieve repayment of part of their debt through their agreement in 1982. If the US (and French) remain opposed, there is a risk of a split, both in the Paris Club (the forum for collective Western treatment of international debt questions) and the Alliance. Discussions resumed in the Paris Club on 2 February. Problem may be referred to EC Ministers on 1 March.

Humanitarian Aid

4. The aid programmes funded by the Community (£14 million allocated in 1982) will come to an end in March and a new decision will be required if aid is to continue. As there is no possibility of transferring funds from the agricultural budget, as in 1982, a decision to continue aid would require additional funds from member states. This is likely to cause us difficulty in view of the constraints on our aid budget and our desire to restrict new Community expenditure.

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EXTRACT ON POLAND FROM NATO MINISTERIAL COMMUNIQUE ON
9/10 DECEMBER 1982

The violations in Poland of the Helsinki Final Act and of the Conventions of the International Labour Organisation, in particular by the banning and dissolution of Trade Unions including Solidarity, continue to cause the gravest concern.

The Allies call upon the Polish Authorities to abide by their commitment to work for national reconciliation. Recalling their declaration of 11 January 1982 (Footnote: the Greek Delegation recalled its position on various aspects of this declaration.), the criteria of which are far from being fulfilled, the Allies have noted the recent release of a number of detainees and continue to follow closely developments in Poland, including possible relaxation of Military rule. They emphasise that in this regard the actions of the Polish Authorities will be judged by their practical effects. The Allies consider that the improvement of relations with Poland depends on the extent to which the Polish Government gives effect to its declared intention to establish civil rights and to continue the process of reform. Freedom of association and the rights of workers to have Trade Unions of their own choice should not be denied to the Polish people. The dialogue with all sections of Polish society must be resumed. The Allies call on all countries to respect Poland's fundamental right to choose its own social and political structures.

VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO
CHEQUERS ON 4 FEBRUARY

INTERNATIONAL ECONOMIC ISSUES

Points to Make

1. International meetings throughout 1982 reaffirmed success of current strategy to reduce inflation. Further progress needed on lowering interest rates; US fiscal policy is the key. Important to follow up Versailles statement of international monetary undertakings. Must continue efforts to stabilize exchange rates although further adjustments, particularly of dollar and also yen and deutschemark, are necessary.
2. Estimate of economic activity in 1982 and prospects for growth for 1983 have been revised downwards. Unemployment is rising alarmingly in many countries; pressure for protectionism remains evident. Recent OECD report urges governments to minimize risks to economic recovery from protectionism and from threats to international financial system.
3. Growing pressure for some form of concerted reflation. Agree some policy coordination is necessary to ensure a steady recovery and convergence on non-inflationary growth. But excessive expansion would undermine basis for recovery.
4. Welcome German position over credits to Yugoslavia. German banks exposed in both Eastern Europe and Latin America. Are they coping? Believe we may be over the worst on debt problems, but



still many countries to be tackled. What is German assessment?

5. Important that forthcoming meeting of IMF's Interim Committee is successful. Much attention will be focussed on it. All participants, particularly the US, will need to show flexibility.

Essential Facts

1. GDP Growth in OECD countries is likely to remain below 2% in 1983 after falling by $1\frac{1}{2}\%$ in 1982. Although inflation has fallen more rapidly than expected in some countries, and interest rates have also fallen, unemployment will probably continue to rise throughout 1983. The volume of world trade fell in 1982; only a sluggish recovery is expected in 1983. Exchange rates remain volatile. Current account balances are likely to diverge significantly in 1983 which may generate further exchange rate adjustments. In present circumstances the overriding need is to tailor policies to specific circumstances.

2. Lower inflation allows more room for manoeuvre. Delayed recovery calls for careful assessment of economic developments and the impact of policy. Monetary policy needs to be operated flexibly but firmly while fiscal deficits, particularly in the US, should be put on a convincing declining path in the medium term. Recession has made management of deficits more difficult. It has also led to increasing demand for protectionist measures and difficulties in trade relations.

3. The problems of many of the major debtor countries have now been tackled. The three main Latin American debtors have IMF programmes. The Commercial Banks have played their part by putting together packages of new lending. But the problems of other countries in Latin America, e.g. Ecuador, still have to be faced. In Africa the co-ordinated approach also involves the aid donors. In Eastern Europe the main focus of attention is currently Yugoslavia. The UK contribution to the rescue package is of high quality. The announcement of the UK package is expected shortly. Final disbursement will, however, depend on satisfactory contributions by others, the IMF, the BIS, commercial banks, and on comparable governmental assistance from the FRG and other countries.

4. The meeting of the G-10 in Paris on 17-18 February agreed to enlarge the General Arrangements to Borrow (GAB) to SDR 17 billion. This is an important first step towards achieving the overall package of measures necessary to ensure that the IMF has adequate resources. Negotiations are taking place with Saudi Arabia on arrangements for lending in parallel with the GAB. But the main element in the package is the increase in IMF quotas. This will be discussed and hopefully agreed at the next meeting of the Interim Committee on 10-11 February, which the Chancellor will chair. It will be important for all participants to show flexibility. The German position is close to that of the UK: a 50% increase, to



SDR 92 billion is the minimum required and we could accept any figure in the range SDR 92-100 billion.

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BRIEF NO 13

VISIT OF CHANCELLOR KOHL (AND HERR GENSCHER) TO
CHEQUERS ON 4 FEBRUARY

INTERNAL POLITICAL BACKGROUND

1. Germany goes to the polls on 6 March unless the Federal Constitutional Court vetoes the early election promised by Dr Kohl when he came to power last October. Judgement is expected on 16 February. The legitimacy of Kohl's CDU/CSU/FDP Government is an issue in the campaign which falls on the 50th Anniversary of the final collapse of Weimar democracy and Hitler's (constitutional) accession to power. The Basic Law (constitution) was supposed to prevent a Chancellor, who enjoys the confidence of a stable parliamentary majority, contriving an early election for political advantage.
2. The result of the election (which is likely to go ahead) cannot be predicted with any certainty. Genscher's FDP are still bearing the brunt of public criticism of the break-up of Schmidt's SPD/FDP coalition. His frenetic electioneering is unpopular. If the FDP survive it will be because at least 5 per cent of the voters regard them as indispensable if Kohl is to control the Bavarian CSU leader Strauss. An absolute CDU/CSU majority remains a distinct possibility. Although the SPD's recovery in the opinion polls (confirmed in regional elections late last year) has been dramatic, they are unlikely to become the largest party. SPD Chancellor candidate Vogel has not ruled out governing with "Green" support, and the polls still suggest that the Greens

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might scrape into the Bundestag. But differences between the SPD and the Greens run very deep.

3. Economic and social policy are important in the campaign. The SPD Opposition stress that 400,000 have been added to the unemployed since Dr Kohl became Chancellor (total rising towards 2.5 million). But increasingly INF problems overshadow everything else. The controversy centres on how the FRG is to : maintain satisfactory relations with the Soviet Union and Eastern Europe; protect the interests of Germans (particularly 16 million in the GDR) imprisoned behind the Iron Curtain; and remain a loyal member of NATO and the European Community. However unhelpful Vogel's (and Genscher's) manoeuvrings on INF deployment may be, the SPD leadership are not neutralist.

4. In the personality battle Vogel is proving an able challenger to Kohl, who is nonetheless probably happy not to be facing Schmidt. Kohl is showing quiet self-confidence and has acquired authority in office. Strauss has entered the missile controversy with loud reassertions of his well-known position that the zero option is unattainable and that the West should go ahead with INF deployment. On past form his intervention may weaken Kohl and help both SPD and FDP.

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MEETING WITH CHANCELLOR KOHL, FRIDAY 4 FEBRUARY 1983

INTERNAL MARKET

SUPPLEMENTARY BRIEF

INTRODUCTION

1. This reports outcome of first Internal Market Council held on 1 February; further Council planned for 1 March.

OBJECTIVE

2. To express appreciation to Chancellor Kohl for effective and constructive German Presidency of the Council and to encourage Germans to maintain impetus at 1 March Council.

LINE TO TAKE/POINTS TO MAKE

3. First Internal Market Council made quite a good beginning. Much credit must go to the effective and constructive Presidency of Count Lambsdorff (and Herr Schlecht for the later items).

4. UK very keen to secure real progress on Internal Market items. Hope that next Internal Market Council can agree the three substantive items (frontier facilitation, standards information system, Community certification of goods from third countries), to meet the timetable laid down by European Council last December.

5. Welcome Presidency's acknowledgement of UK's concern for progress on services and transport and to inclusion of these items in Council's future work programme.



6. Hope Count Lambsdorff will be able to Preside over 1 March Council but UK will of course understand if domestic election pressure prevent this.

ESSENTIAL FACTS

7. The European Council last December instructed the Council of Ministers to "decide before 31 March 1983 on the priority measures proposed by the Commission to reinforce the Internal Market". These measures concerned: (i) unblocking the harmonisation programme through a procedure to deal with Community certification of goods from third countries (the "Third Country Problem") (ii) establishing a system to notify new technical standards and regulations to the Commission and to allow Member States to intervene if these appear to raise non-tariff barriers and (iii) frontier facilitation measures.

8. At the first Internal Market Council on 1 February the UK was represented by the Minister for Trade, Mr Rees. No substantive decisions were taken on the three items. None was really expected but quite a bit of progress was made (in particular the Germans offered helpful flexibility on the standards item). We think the standards notification system and some frontier facilitation proposals will be approved at the next Council on 1 March.

9. The Third Country problem will be much more difficult. Common External Policy problems have intruded into the essentially technical issue of certification. The French and Italians want an effective right of ^{national} veto against third country goods entering their market. The remainder want this issue decided on its technical merits by qualified majority voting. (We fear a French right of veto may disrupt the internal market and increase retaliatory pressures against Community as a whole from offended third countries.)



COREPER will try to resolve this issue before 1 March.

10. The 1 March Council should also agree a longer term work programme (for completion before the June European Council). The German Presidency acknowledged our concern for services (especially insurance and air transport) and indicated that this would be on the work programme.

VISIT BY CHANCELLOR KOHL (AND HER GENSCHER) TO CHEQUERS
ON 4 FEBRUARY 1983

US DEFENSE APPROPRIATIONS ACT: SPECIALITY METALS

Points to Make (for use if raised)

1. Share your concern about protectionist mood in Congress, and in particular about the Speciality Metals restriction in the Defense Appropriations Act. The limited waiver goes some way but by no means all the way to meet European concerns, but unclear how it will be interpreted.
2. Have already made our concern known to US Administration, but key lies with Congress. Will continue to take every opportunity to press our concern in both quarters.

Essential Facts

1. So-called Berry Amendment in the annual Defense Appropriations Act dates back to 1950s. It required that no equipment containing 'speciality metals' (special steels and alloys used inter alia in manufacture of defence equipment) be purchased outside US for defence purposes, unless the metals had been produced or processed in US. Legislation remained in force until 1977 when waiver was introduced for UK and other Allied countries, as part of effort to promote a 'two-way street' on purchases of defence equipment between the two sides of the Atlantic.



2. Under pressure from US steel industry the waiver was lost in the 1982 Defense Appropriations Act. Strenuous efforts were made last year by European Allies to have it restored. However, the 1983 Defense Appropriations Act excludes only 'Weapons/Weapons Systems' from the restriction. Unclear how this will be interpreted. We shall continue to press for the waiver to apply generally to 'Defence Items'.

3. Germans particularly exercised about this problem. They regard it as undermining any pretence at equal relationship between European Allies and US in the purchase of defence equipment. They have already spoken very strongly to Americans. Chancellor Kohl's office have indicated that he may raise it with the Prime Minister.



MEETING WITH CHANCELLOR KOHL, FRIDAY 4 FEBRUARY 1983

INTERNAL MARKET

SUPPLEMENTARY BRIEF

INTRODUCTION

1. This reports outcome of first Internal Market Council held on 1 February; further Council planned for 1 March.

OBJECTIVE

2. To express appreciation to Chancellor Kohl for effective and constructive German Presidency of the Council and to encourage Germans to maintain impetus at 1 March Council.

LINE TO TAKE/POINTS TO MAKE

3. First Internal Market Council made quite a good beginning. Much credit must go to the effective and constructive Presidency of Count Lambsdorff (and Herr Schlecht for the later items).

4. UK very keen to secure real progress on Internal Market items. Hope that next Internal Market Council can agree the three substantive items (frontier facilitation, standards information system, Community certification of goods from third countries), to meet the timetable laid down by European Council last December.

5. Welcome Presidency's acknowledgement of UK's concern for progress on services and transport and to inclusion of these items in Council's future work programme.



6. Hope Count Lambsdorff will be able to Preside over 1 March Council but UK will of course understand if domestic election pressure prevent this.

ESSENTIAL FACTS

7. The European Council last December instructed the Council of Ministers to "decide before 31 March 1983 on the priority measures proposed by the Commission to reinforce the Internal Market". These measures concerned: (i) unblocking the harmonisation programme through a procedure to deal with Community certification of goods from third countries (the "Third Country Problem") (ii) establishing a system to notify new technical standards and regulations to the Commission and to allow Member States to intervene if these appear to raise non-tariff barriers and (iii) frontier facilitation measures.

8. At the first Internal Market Council on 1 February the UK was represented by the Minister for Trade, Mr Rees. No substantive decisions were taken on the three items. None was really expected but quite a bit of progress was made (in particular the Germans offered helpful flexibility on the standards item). We think the standards notification system and some frontier facilitation proposals will be approved at the next Council on 1 March.

9. The Third Country problem will be much more difficult. Common External Policy problems have intruded into the essentially technical issue of certification. The French and Italians want an effective right of ^{national} veto against third country goods entering their market. The remainder want this issue decided on its technical merits by qualified majority voting. (We fear a French right of veto may disrupt the internal market and increase retaliatory pressure against Community as a whole from offended third countries.)



COREPER will try to resolve this issue before 1 March.

10. The 1 March Council should also agree a longer term work programme (for completion before the June European Council). The German Presidency acknowledged our concern for services (especially insurance and air transport) and indicated that this would be on the work programme.

SUPPLEMENTARY BRIEF

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