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MR COLES

Anglo-German Consultations: 8-9 November 1983

The next in the regular series of Anglo-German consultations, led by the Prime Minister and the Federal Chancellor, will be held in Bonn on 8-9 November.

2. Anglo-German relations are in good shape. Thanks to frequent meetings at the top, the will to co-operate is strong, but there is still plenty of scope to give this political and practical effect. There is a need to make sure that the Germans give us maximum support on Community issues. The Prime Minister is likely to find the Federal Chancellor preoccupied with the controversy over INF deployment. By the time of the Summit, cruise missiles are due to start arriving in Britain and Pershing II will be shortly due in Germany. The Opposition SPD hold their special conference on 18-19 November. It is expected to come out against deployment, notwithstanding Helmut Schmidt's role in Government as a main European author of the dual track decision.

3. For the average German voter economic problems, notably unemployment, appear to be the number one priority. The economy is growing only slowly by German standards. The OECD forecasts GNP growth of  $1\frac{3}{4}$  per cent in 1984, following  $\frac{1}{2}$  per cent in 1983. Such growth as there is has arisen mainly from private consumption and construction. Doubts have been raised about the recovery being sustained in the absence of increased export demand, of which there is little sign. In the course of the winter, the Government will face continuing problems over unemployment, and acute difficulties in the steel, shipbuilding and mining industries. Public expenditure cuts already made will not make the handling of these problems easier. As the Federal Chancellor's CDU has a strong trade union wing, he will be particularly concerned about unemployment, especially among the young. The rise in consumer prices in 1982 was 5.3 per cent and is expected to stabilise at around 3 per cent for both 1983 and 1984. Despite the uncertainties, the Government has expressed increasing optimism about prospects; it continues to attach great importance to budgetary consolidation.

4. The Federal Chancellor's personal position remains strong, although his supremacy is not as clear cut as it was at the time of the London Summit on 22 April, following his outstanding victory in the Federal elections on 6 March. As problems have arisen, there has been criticism in the media and elsewhere of his lack of grip and of his relaxed management style. As the Land elections in Hesse and Bremen in September made clear, the electorate is becoming impatient with the Government's failure to deliver on its promise of an economic upturn. Although these elections were bad for the CDU (who in Hesse lost 6 per cent), they did serve to stabilise the FDP, who despite their failure in Bremen had an unexpected and psychologically important success in the much more important election in Hesse. This will have served as endorsement of their alliance with the CDU in Bonn and will have helped to dispel doubts about Herr Genscher's future as Party Chairman, and by extension, as Vice Chancellor and Foreign Minister.

5. For the Prime Minister, a major backdrop to the Summit will be her recent visit to Canada and the United States. The Prime Minister will also have just seen Monsieur Mitterrand at the Anglo-French Summit, 20-21 October. The Federal Chancellor will have visited Japan and Indonesia from 31 October to 5 November.

6. The initiative for Ministerial attendance at the Summit lies with the Federal Chancellor, but the Prime Minister has said that she would like the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for Trade and Industry and the Minister of Agriculture to accompany her. Informal soundings reveal that the Germans would be happy to invite them and would field their Post Minister as well as Count Lambsdorff for talks with the Secretary of State for Trade and Industry. This would enable us to bring home to the Germans that the protectionist attitudes of the German Bundespost seriously inhibit co-operation in the field of high technology.

7. The main areas for discussion will closely resemble those for the Anglo-French Summit and are likely to be:

- (i) East/West Relations, Defence and Arms Control  
 The Federal Chancellor will undoubtedly want to pursue in some detail discussion of East/West relations in the light of the Korean airliner incident, the Prime Minister's visit to Washington, and Mr Andropov's statement of 28 September. A powerful Soviet propaganda offensive is being mounted. The Federal Chancellor is likely to express serious concern about the continued downswing in East/West relations and to echo Herr Genscher's view that the East/West dialogue is in danger of ceasing. He may be critical of the harshness sometimes evident in the United States approach, and he can be expected to repeat his view that a United States/Soviet Summit would be beneficial. However, his mind will be largely on the defence aspects of East/West relations. Although the Korean airliner and the new United States INF proposals will have helped, he still needs to work hard to convince those on the middle ground of the nuclear debate (who are influenced by the active German peace movement) that serious negotiations are going on in Geneva. The press briefing on INF after the Prime Minister's visit to Bonn on 21 September was a valuable joint contribution to the debate, and we should aim for a similar public reassurance on 8-9 November that deployment will go ahead in the absence of success at the INF talks. The picture has been complicated by the decision to put back the Bundestag debate until 21 November.

This will be the first Summit at which national armament directors will report to Ministers of Defence on equipment collaboration. The Summit will follow the first trilateral Defence Ministers' meeting for four years. We hope the Summit can

take forward the task of identifying possible areas of defence collaboration, especially the Future Combat Aircraft.

(ii) The European Community, especially Prospects for the Athens European Council on 6 December

If we can convince the Federal Chancellor that we share his enthusiasm for a more successful Community, this would encourage him to persuade his colleagues and officials that the present negotiations offer a unique opportunity for a new departure. The Prime Minister's discussions with him on 21 September revealed that there are still some important differences between the British and German Governments. In the last resort the Germans will probably move to support more decisively a "safety net" approach to budgetary contributions but they have been less determined than we would wish so far; this is perhaps surprising, given that Germany is an even larger net (unadjusted) contributor than the United Kingdom; and paradoxical at a time when French Government views seem to be moving a little closer to ours (particularly on the need for adjustments to be on the payments rather than the receipts side of the account). But the largest difference is on our proposal for a legally binding financial framework for CAP expenditure. A flow of financial support for uneconomic family farms, especially in Bavaria, remains as, if not more, important to a German Government incorporating the CSU than it was to its predecessor. The long-term consequences for the Community of failure to come to grips with CAP expenditure would be extremely serious for all the partners. The Prime Minister will have the opportunity to impress on the Germans the need for effective control of CAP expenditure.



(iii) The Outlook for the World Economy and the Economic Summit

North America is leading the world economy out of recession. Europe is recovering more slowly. The United Kingdom is growing at a faster rate than Germany, although inflation there is less than in the United Kingdom. High American interest rates, fuelled by large prospective United States budget deficits, remain a particular bone of contention with the Germans. Prospects for growth, inflation and unemployment are likely to form the centrepiece of discussion at next year's Economic Summit in London; the problems of exchange rate variability and international debt will also be considered.

8. The subjects I have outlined and others which will inevitably come up by November will all, as usual, have transatlantic relations as a backdrop. In addition, the Prime Minister may want to discuss in some depth the Middle East, Central America and Falkland Islands, and perhaps Southern Africa. The elections in Argentina and, almost certainly, the United Nations General Assembly vote on the Falkland Islands will take place in the week before the Summit. The Germans, like several other major allies, will come under increasing pressure after the Argentine elections to relax their policy on the supply of arms to Argentina. Our regular contacts on this subject with the German Administration at Ministerial level will need to be followed up.

9. It was announced at the November 1981 Summit that officials should keep the bilateral relationship under review and produce a progress report to Heads of Government at a further meeting. Officials have started work in London and Bonn on a report, but the results will not be ready for submission to Heads of Government before the spring 1984 Summit.



10. I enclose a suggested list of briefs, the preparation of which will be co-ordinated in the usual way by the Cabinet Office.

11. I should be grateful if you would seek the Prime Minister's approval for preparations for the Anglo-German consultations to go ahead on the basis of the proposals outlined above.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive script.

ROBERT ARMSTRONG

18 October 1983

LIST OF BRIEFS FOR ANGLO-GERMAN SUMMIT  
8-9 NOVEMBER 1983

<u>PMVC(83)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
1.	General Brief	FCO(WED)	as appropriate
2.	European Questions		
(a)	General Brief on the European Community	FCO(ECD(I))	as appropriate
(b)	EC Financing	FCO(ECD(I))	Treasury
(c)	Agricultural Matters	MAFF	FCO(ECD(I)) Treasury
(d)	Enlargement	FCO(ECD(E))	Treasury DTI
(e)	EC/Turkey	FCO	MAFF Employment Treasury
(f)	International Trade Issues, inc EC/United States and EC/Japan	DTI	MAFF FCO(ECD(E), ERD, FED)
(g)	Internal Market	DTI	FCO(ECD(I)) Treasury
(h)	Industrial Policy/ Future of Airbus Industrie	DTI	FCO(ECD(I), MAED)
(i)	Steel	DTI	FCO(ECD(I))
(j)	Lead-Free Petrol	DOE	FCO(ECD(I))
(k)	EC/Greenland	FCO(ECD(E))	
(l)	Political Co-operation	FCO(ECD(E))	
(m)	Implementation of The Solemn Declaration	FCO(ECD(I))	
(n)	European Development Fund	FCO(ECD(E))	ODA

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<u>PMVC(83)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
3.	International Economic Issues		
	(a) Prospects for the World Economy	Treasury	FCO(ERD/ESID)
	(b) International Debt	Treasury	FCO(ERD/ESID)
4.	Arms Control and Disarmament, including CDE and MBFR	FCO(Def Dept)	MOD FCO(ACDD,NED)
5.	Bilateral Defence Matters, British Forces Germany	MOD	FCO(Def Dept,WED,MAED) Treasury
6.	East/West Relations (including Poland)	FCO(EESD)	Treasury FCO(SAD,TRED,ESID) MOD
7.	Inner-German Relations and Berlin	FCO(WED)	MOD
8.	Other International Issues		
	(a) Arab/Israel and Lebanon	FCO(NENAD)	MOD
	(b) Iran/Iraq	FCO(MED)	MOD
	(c) Falklands	FCO(FID)	MOD FCO(ERD/SAmD)
	(d) Argentina	FCO(FID)	
	(e) Cyprus	FCO(SED)	MOD
	(f) Gibraltar	FCO(SED)	MOD
	* (g) Chad	FCO(WAD)	FCO(NENAD)
	(h) Southern Africa/ Namibia/Zimbabwe	FCO(SAFD)	FCO(CAFD) MOD
	* (i) Central America	FCO(MCAD)	FCO(SAmD)
	* (j) Hong Kong	FCO(HKD)	FCO(FED)
	(k) UNLOSC	FCO(MAED)	

\* Denotes Background Brief only



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<u>PLC(83)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
9.	Bilateral Relations		
	(a) General	FCO(WED)	as appropriate
	(b) Energy	Energy	DTI FCO(ESSD,NED,MAED)
	*(c) Culture	FCO(CRD)	DES, FCO(WED)
10.	German Scene		
	(a) Political	FCO(WED)	
	*(b) Economic	Treasury	FCO(ESID)
11.	Relations between the United Kingdom, France and Germany	FCO(WED)	MOD

\* Denotes Background Brief only