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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND
CHANCELLOR KOHL IN BONN ON 9 NOVEMBER 1983 AT 1100
HOURS: ANGLO-GERMAN CONSULTATIONS, PLENARY SESSION

PRESENT

The Prime Minister
The Foreign and Commonwealth
Secretary
Chancellor of the Exchequer
Secretary of State for Trade
and Industry
Secretary of State for Defence
Minister of State, Ministry of
Agriculture, Fisheries and
Food

Plus Officials

Dr. Helmut Kohl - Chancellor of
the Federal Republic of
Germany
Herr Hans-Dietrich Genscher -
Minister of Foreign Affairs
Dr. Gerhard Stoltenberg - Minister
of Finance
Otto, Count Lambsdorff - Minister
of Economics
Dr. Manfred Woerner - Minister of
Defence
Herr Hans Juergen Rohr - State
Secretary, Ministry of
Agriculture.

Plus Officials

/Chancellor Kohl

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Chancellor Kohl remarked on the friendly atmosphere in which the 14th Anglo-German Summit had been conducted, at a difficult moment in world affairs. There had been almost complete agreement between the two sides, and the few differences of view which had been revealed had not been significant.

He and the Prime Minister had agreed that the Americans had conducted the INF negotiations in Geneva with serious and sincere intent, and in close consultation with their allies. It was unrealistic to expect a positive result in Geneva, but equally important that the US should continue to strive for one under the eye of world opinion. If there were no result the Germans would commence deployment in two weeks' time, adhering strictly to the assurances they had given without conditions, and despite many psychological pressures to delay. German policy was not made in the streets but by the Government and the Bundestag. The latter would vote on the evening of 22 November, and it was clear there would be a majority for deployment. A new rumour had appeared in the press that deployment would be interrupted to permit negotiations, but the only breaks in the deployment programme would be for technical, not political, reasons.

The two Governments should endeavour jointly to make the European Parliament's debate on INF the following week as successful as possible. He thought personally that there was a good chance of a large majority in favour of the double decision, but he suggested Mrs. Thatcher might have a word with her political colleagues in Strasbourg to encourage them to achieve the right solution.

The two Heads of Government had agreed that they did not want a freeze in relations with the East or a reversion to cold war and that even after deployment the dialogue must continue. The East, too, had an interest in continuing negotiations, e.g. in the CDE in Stockholm beginning in January, which there was no question of putting on ice. The chances of an agreement in the INF talks would be greater once deployment had started, since there were still some people in the Kremlin who did not believe it would start. He thanked Mrs. Thatcher for the British Government's support in these difficult days, through maintaining both BAOR and its role as a protecting power in Berlin.

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/He had given

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He had given the Prime Minister an account of his recent journey to East Asia. They had also discussed the Lebanon, where there was a danger that the worrying situation might develop broader repercussions; Grenada, over which both of them had felt that the right course was to look to the future and a restoration of democracy in the island; and the coming European Council in Athens, where it was important that decisions on the package outlined at the Stuttgart Council should be taken and not postponed.

The Prime Minister agreed that there had been a remarkable degree of unanimity in their talks. The British Parliament had already held its debate on INF. H.M.G. had obtained a majority for their policy which they hoped would help the Federal Government with its public opinion. Equipment related to deployment of cruise missiles was already coming into the UK so that, in the absence of agreement in Geneva, it could be deployed at the end of the year: but deployment itself had not yet begun.

The British Government, though determined to maintain an adequate defensive posture, disliked having to spend so much money on defence and would continue to negotiate vigorously in all the existing disarmament fora to achieve balanced and verifiable reductions. No government wished more fervently for success in this field. On reform of the Community, we were determined to achieve results in Athens, building upon the excellent results achieved by Chancellor Kohl at Stuttgart. Our approach to transatlantic relations was also identical to that of the Germans. It was the essence of friendship that one should say when one disagreed, and the disagreements of recent weeks had no effect on the firmness of the Alliance.

As regards the economic situation, the prospects were now brighter. But there would be no sudden increases in output or productivity. The problems of the wider world would limit the speed at which we came out of recession.

Herr Genscher said that he and the Foreign Secretary had agreed that the importance of the twin track decision lay not merely in the military need for deployment but in showing that NATO was
/capable of

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capable of implementing decisions it had taken. In the Bundestag debate too there would be a clear majority for deployment. The message that third country systems could not be taken account of in INF needed to be repeated publicly again and again. We should make use of the fact that Ceausescu in his recent letter had advocated non-inclusion (the first time a Warsaw Pact country had done so) though his other proposals were not acceptable. He and Sir G. Howe had agreed that the East-West dialogue must continue both multilaterally and bilaterally.

Very close US/European relations were essential to persuading the USSR to make concessions. He and the Foreign Secretary had discussed ways in which the mechanics of transatlantic consultation could be improved. Early exchanges of views could prevent problems, and this was one lesson of Grenada, which had not been mentioned in transatlantic discussion before the military intervention.

A broadening of the Lebanon conflict must be avoided. The nearby Iran/Iraq war presented dangers in this respect. The Germans had advocated in POCO that those of the Ten who were not taking part in the MNF should give full support to their partners who were. But everyone should remember that the purpose of the MNF was to make a political solution possible.

In the discussion leading up to the Athens European Council the FRG and the UK must ensure the avoidance of an outcome in which an increase in own resources was agreed in concrete terms, while other aspects of the negotiation were covered only by general expression of intent. Both countries realised the importance of completing negotiations over Spanish and Portuguese accession as quickly as possible, and should say so at the press conference after the meeting. There could be no agreement to raise the 1 per cent VAT ceiling without first achieving economies especially in the CAP. The Commission's proposal to phase out MCAs automatically was not acceptable. A quota system for milk and cereals would be necessary. They also expected that German concerns about steel would be taken into account in the context of Athens. As the main contributors to the Community they could not accept arrangements whereby the Italians could underbid a German steel industry which was already largely reationalised. Both countries should advocate sound
/budgetary

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budgetary policies at Athens, but for the sake of progress in Europe they should at the same time do all they could to help reach a concrete decision.

The Foreign and Commonwealth Secretary agreed on the need to work for an agreement at Athens which was in line with the Stuttgart package and was specific on each individual issue. H.M.G.'s objectives were to obtain an equitable limit on budgetary imbalances which took account of relative prosperity, which measured the burden accurately and which took effect in 1984; to find legally binding ways to control the increase in agricultural and other expenditure; to secure inclusion of specific agreements on new policies; and to see the necessary conditions fulfilled for Spanish and Portuguese accession by 1 January 1986.

As regards the Lebanon, it was important to remember that the MNF was there to promote the process of reconciliation, and not to forget that the underlying problem was between the Israelis and the Palestinians. He was concerned that transatlantic consultation had not developed commensurately with the very close degree of European political consultation. Recent meetings with the US Secretary of State had tended to be too short and rushed. NATO was crucial both to our two countries' national security and the security of Europe. There was a need for ways of sharing concerns on questions arising outside Europe.

Dr. Woerner said that his talks with Mr. Heseltine had reached agreement on all important points. He expressed appreciation that the Defence Secretary had gone on record as saying that BAOR would remain at its present strength. BAOR made an indispensable contribution to the forward defence of Europe, and the Germans appreciated both the quality of its forces and its good relations with the German population.

They had discussed the programme for INF deployment and had agreed it must be adhered to: any delay in any form was out of the question. They had also discussed the peace movement's methods of opposing deployment, and how to deal with them. All attempts to influence public opinion must be based on the twin assumptions that a defence effort was necessary, and so was NATO.

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/They had

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They had agreed that the defence aspects of the CDE were important, and that any military results achieved there must not impede the timely arrival of reinforcements, or the rehearsing of reinforcement by means of exercises.

He and Mr. Heseltine had welcomed the various US initiatives for strengthening conventional capability (emerging technology, counter air, etc.) but NATO must develop a conceptual guideline for these at present largely unrelated initiatives. Moreover Europe had a common interest in using discussion of this subject to improve the two-way street in defence equipment procurement. Otherwise, there was a danger that US industry could corner the market in the new US weapons systems. In order to remain competitive, European industry must be prepared to co-operate closely.

The two Ministers had taken note, for the first time at one of these meetings, of a report by national Armaments Directors. This had shown that successful co-operation had brought progress in a number of projects (e.g. Tornado, third generation anti-tank weapons). They had agreed that air staff talks on the advanced combat aircraft had yielded promising results, and that as many Allies as possible should be associated with this project.

The Defence Secretary said he had nothing to add to Dr. Woerner's account of their talks. The talks had been part of a continuing dialogue, and they would be meeting again at the NATO Defence Ministers' meeting in two weeks' time.

Count Lambsdorff said that in considering trade policy questions he and Mr. Tebbit had agreed it was important to make progress on the development of the internal market. The 20 directives were frozen because the French and others had reservations, and would only agree if the Community introduced a separate common commercial policy instrument to defend it against imports from third countries. Recently, the French had shown some readiness to compromise - e.g. in recent talks with the French Industry Minister, about which he had informed Mr. Tebbit. But further French compromise would be necessary, and tenacious efforts would be needed to secure it.

/The main problem

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The main problem was over decision-making. The French wanted to give power to the Commission. The Germans wanted the power to lie with the Council and decisions to be taken by qualified majority. However keen they were to see the internal market develop they thought yielding on the question of qualified majority would be too high a price to pay. The introduction of measures to restrict third country imports would be popular with the public, but short-sighted. If we sealed ourselves off from outside competition, we would lose our own competitiveness in third markets. Patience and determination would be needed. Decisions might not be possible until the French Presidency.

Mr. Tebbit had mentioned the need for progress in services (especially banking and insurance policy). The Germans agreed, and were determined to make progress.

On the A320 airbus, both Governments had agreed that they did not want another purely "political" aircraft and were only prepared to proceed on the basis of a proposition which made commercial sense. A320 did not yet meet this condition, and needed further development. He had told Mr. Tebbit in response to a question that the Federal Government had given an amber light to the project. He himself had pointed out that the French had a legitimate interest in wanting to get their engine into operation as soon as possible; Rolls Royce had a later schedule for their engine. He and Mr. Tebbit had agreed that if the A320 project went ahead, it should be capable of taking both alternative engines. The basic questions were whether we should maintain a European aircraft industry for aircraft of this size or whether the market for 150-seaters should be left to Boeing. The German view was that strenuous efforts should be made to keep the European industry going, while not losing sight of economic factors. He and Mr. Tebbit had also discussed the management and structure of AI. They agreed that it could be made more effective, but that the question would need careful presentation to the French, who were easily offended.

He and Mr. Tebbit had agreed that Community steel prices could only be stabilised if subsidies and capacity were reduced. Member countries had to be prepared to make greater efforts to reduce capacity. Mr. Tebbit had emphasised that the UK had done most of /what it could

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what it could to contribute to this, and he (Count Lambsdorff) had said that even though the German industry had already reduced its capacity over the past two decades there would be further reductions over the coming year. Both had stressed that negotiations over steel imports from third countries should take account of existing trade patterns and volumes. The Commission should face its responsibility for the proper functioning of steel rationalisation measures. There could be no concept for the Community's finances without a concept for steel. It was agreed that a special Steel Council in December would be valuable. The Ministers had agreed that the Article 58 quota system should be continued, but Mr. Tebbit had said that a deterioration in the British position would not be acceptable.

The Trade and Industry Secretary endorsed this account of their discussions. H.M.G. was particularly concerned to avoid protectionism in external trade and the danger of trade wars. He had noted with regret that the CAP encouraged a tendency towards protectionism by producing surpluses that had to be dumped. Discussion of Airbus had been frank and useful, and they had agreed to consult closely and keep in step. H.M.G. were also concerned about the need to co-operate on research and development in Europe, on a commercial and not a bureaucratic basis. Only through co-operation could the Community take advantage of the opportunities in telecommunications and fend off the growing challenge from IBM in that field.

Dr. Stoltenberg said that he and Mr. Lawson had discussed international debt problems in the light of the meeting. They had agreed on the importance of co-ordinating the policy of the industrialised countries, in discussions in which the banks should take part, to keep the third world's huge debts under control. After Williamsburg there was no need for a major conference on the world monetary system, but certain studies should be pursued in the IMF.

/The new Commission

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The new Commission proposals on the EC budget had been received only yesterday, and it had only been possible to study them briefly. But they, and the paper by the Greek Presidency, fell far short of expectations. These did not meet joint UK/FRG requirements on financing. Little time was now left before the European Council, where a package agreement was necessary. It was important to emphasise the need to curb the growth in agricultural expenditure. Changes would affect German agriculture, but there was no sense in securing economies on temperate products and incurring new expenditure in the Mediterranean. The UK set great store by a legally binding financial guideline. He and the Chancellor were united in their view that new policies should be in low-cost areas like the internal market and environmental protection. The structural funds needed to be more efficient. They did not need more funds. Finance Ministers should have a greater say in all decisions with budgetary implications. The central problem was to achieve equitable burden sharing: the club of net contributors must be expanded. A new financing system should be calculable in its effects. The UK wanted a limits system based on a GDP limit and on net balances. That would be ideal but the Germans had doubts about its acceptability by the others. As far as any increase in own resources was concerned, other points would need to be solved first, e.g. enlargement. The increase in own resources would have to be far lower than proposed by the Greek Presidency, though it was not possible to suggest precise figures now. The increase would have to be linked to Spanish and Portuguese accession.

There could be no question of the Germans accepting the automatic dismantling of MCAs, as the Commission had recommended. Perhaps the best way forward would be to prolong the gentlemen's agreement of 1979.

The Chancellor of the Exchequer said that in discussion of burden sharing, he had insisted that the burden must be measured in terms of net contributions, not receipts, and that whatever was agreed must apply to 1984. He and Dr. Stoltenberg had agreed that firm control of agricultural expenditure was necessary, in addition to the adjustment of individual commodities regimes.

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/In the UK

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In the UK view this would only be effective if there was a legally binding financial guideline. It was vital for the Germans and the British to continue to stick together.

Dr. Rohr, State Secretary at the Federal Ministry of Agriculture, said that he and Mr. MacGregor had discussed the items due to be raised at the Special Council in Athens. The financial guideline had been discussed in terms similar to those reported by Dr. Stoltenberg and the Chancellor of the Exchequer. On price policy and guarantee thresholds, he and Mr. MacGregor had agreed that other commodity sectors as well as milk and cereals must also be covered. There was a need for a precise price formula, about which they would need to stay in close touch.

They had agreed that the proposed oils and fats tax was unacceptable. On cereals, they had agreed that policy should be to narrow the gap between EC prices and those of the main competitor countries.

On cereal substitutes, the Community had been given a mandate to hold talks with the US, and they had agreed that such talks were desirable. They had also agreed that cereals subjects were likely to be an important element in the discussions at Athens.

The problem of expenditure on milk must be resolved. Mr. MacGregor had emphasised H.M.G.'s preference for action through a restrictive price policy. However, they had agreed that if a quota arrangement was necessary, around 97 million tonnes would be the right quota figure.

He and Mr. MacGregor had also agreed that the proposed change in the calculation of MCA's should be rejected. On the proposals on agricultural structures there had been a wide measure of agreement.

/The Minister of State for

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The Minister of State for Agriculture (Mr. MacGregor) agreed with this account of their talks and had nothing to add.

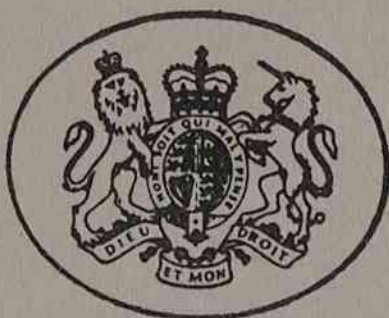
The Federal Chancellor, winding up, commented that the good bilateral relations which had been established between individual Ministers and Departments were a good basis for further co-operation. Once relationships had been established, business could more easily be transacted by telephone.

The Prime Minister thanked the Chancellor for his hospitality and for the excellent atmosphere in which the talks had been conducted.

The meeting concluded at 1201 hours.

14 November 1983

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With the compliments of

THE PRIVATE SECRETARY

Jean (via Kay Dover)

He spoke. Herewith, a list of those Ministers present at the plenary session. Embassy in Bonn checking on the German officials:— Can the record issue without these?

FOREIGN AND COMMONWEALTH OFFICE

SW1A 2AH

Helen

14/11



Dr. Helmut Kohl - Chancellor of The Federal Republic of
Germany

Herr Hans-Dietrich Genscher - Minister of Foreign Affairs

Dr. Gerhard Stoltenberg - Minister of Finance

Otto, Count Lambsdorff - Minister of Economics

Dr. Manfred Woerner - Minister of Defense

Herr Hans Juergen Rohr - State Secretary, Ministry of
Agriculture

The Rt Hon Margaret Thatcher - Prime Minister

Sir Geoffrey Howe - SoFS Foreign and Commonwealth
Affairs

M. Nigel Lawson - Chancellor of the Exchequer

Mr. Norman Tebbit - SoFS Trade and Industry

Mr. Michael Heseltine - SoFS Defense

Mr. John MacGregor - Minister of State MAFF

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BRITISH EMBASSY

BONN

11 November 1983

A J Coles Esq
10 Downing Street

J.L.

Type read pl.

J.S.C. =

Dear John,

ANGLO-GERMAN CONSULTATIONS: PLENARY SESSION

I enclose a draft record of the Plenary Session on 9 November which we agreed would be provided by the Embassy.

Mans m.

A. J. Hunter

A J Hunter

cc: B J P Fall Esq
PS/Secretary of State
FCO

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DRAFT: ~~minute/letter/teletype/letter/despatch/note~~

TYPE: Draft/Final 1+

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SUBJECT: ANGLO-GERMAN CONSULTATIONS, BONN: PLENARY
SESSION, 9 NOVEMBER AT 11.00 HOURS

.....In Confidence

CAVEAT.....

[We need a
list of those
present. It will
be F/C.O. to provide]

~~The Federal~~ Chancellor ^{Kohl} remarked on the friendly atmosphere in which the 14th Anglo-German Summit had been conducted, at a difficult moment in world affairs. There had been almost complete agreement between the two sides, and the few differences of view which had been revealed had not been significant.

He and the Prime Minister had agreed that the Americans had conducted the INF negotiations in Geneva with serious and sincere intent, and in close consultation with their allies. It was unrealistic to expect a positive result in Geneva, but equally important that the US should continue to strive for one under the eye of world opinion. If there were no result the Germans would commence deployment in two weeks' time, adhering strictly to the assurances they had given without conditions, and despite many psychological pressures to delay. German policy was not made in the streets but by the Government and the Bundestag. The latter would

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Enclosures—flag(s).....

vote on the evening of 22 November, and it was clear there would be a majority for deployment. A new rumour had appeared in the press that deployment would be interrupted to permit negotiations, but the only breaks in the deployment programme would be for technical, not political, reasons.

~~He~~ Kohl proposed that ~~the~~ two Governments should endeavour jointly to make the European Parliament's debate on INF the following week as successful as possible. He thought personally that there was a good chance of a large majority in favour of the double decision, but he suggested Mrs Thatcher might have a word with her political colleagues in Strasbourg to encourage them to achieve the right solution.

The two Heads of Government had agreed that they did not want a freeze in relations with the East or a reversion to cold war and that even after deployment the dialogue must continue. The East, too, had an interest in continuing negotiations, eg in the CDE in Stockholm beginning in January, which there was no question of putting on ice. ~~The Chancellor believed~~ ~~that~~ The chances of an agreement in the INF talks would be greater once deployment had started, since there were still some people in the Kremlin who did not believe it would start. He thanked Mrs Thatcher for the British

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Government's support in these difficult days, through maintaining ~~both~~ ^{both} BAOR and its role as a protecting power in Berlin.

He had given the Prime Minister an account of his recent journey to East Asia. They had also discussed the Lebanon, where there was a danger that the worrying situation might develop broader repercussions; Grenada, over which both of them had felt that the right course was to look to the future and a restoration of democracy in the island; and the coming European Council in Athens, where it was important that decisions on the package outlined at the Stuttgart Council should be taken and not postponed.

The Prime Minister agreed that there had been a remarkable degree of unanimity in their talks. The British Parliament had already held its debate on INF, ~~and~~ HMG had obtained a majority for their policy which they hoped would help the Federal Government with its public opinion. Equipment related to deployment of cruise missiles was already coming into the UK so that, in the absence of agreement in Geneva, it could be deployed at the end of the year: but deployment itself had not yet begun.

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vigorously in all the existing disarmament fora to achieve balanced and verifiable reductions. No government wished more fervently for success in this field. On reform of the Community, ~~the British position was the same as the German one,~~ and we were determined to achieve results in Athens, building upon the excellent results achieved by Chancellor Kohl at Stuttgart. Our approach to transatlantic relations was also identical to that of the Germans. It was the essence of friendship that one should say when one disagreed, and the ~~minor~~ disagreements of recent weeks had no effect on the firmness of the Alliance.

As regards the economic situation, the prospects were now brighter. But there would be no sudden increases in output or productivity. The problems of the wider world would limit the speed at which we came out of recession.

Herr Genscher said that he and the Foreign Secretary had agreed that the importance of the twin track decision lay not merely in the military need for deployment but in showing that NATO was capable of implementing decisions it had taken. In the Bundestag debate too there would be a clear majority for deployment. The message that third country systems could not be taken account of in INF needed to be repeated publicly again and again. We should make use of the fact that Ceausescu in his recent letter had advocated non-inclusion (the first time a Warsaw Pact

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country had done so) though his other proposals were not acceptable. He and Sir G Howe had agreed that the East-West dialogue must continue both multilaterally and bilaterally.

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A broadening of the Lebanon conflict must be avoided. The nearby Iran/Iraq war presented dangers in this respect. The Germans had advocated in POCO that those of the Ten who were not taking part in the MNF should give full support to their partners who were. But everyone should remember that the purpose of the MNF was to make a political solution possible.

In the discussion leading up to the Athens European Council the FRG and the UK must ensure the avoidance of an outcome in which an increase in own resources was agreed in concrete terms, while other aspects of the negotiation were covered only by general expression of intent. Both countries realised the importance of completing negotiations over Spanish and Portuguese accession as quickly as possible, and should say so at the press conference after the meeting. There could be no agreement to raise the 1% VAT ceiling

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without first achieving economies especially in the CAP. The Commission's proposal to phase out MCAs automatically was not acceptable. A quota system for milk and cereals would be necessary. They also expected that German concerns about steel would be taken into account in the context of Athens. As the main contributors to the Community they could not accept arrangements whereby the Italians could underbid a German steel industry which was already largely rationalised. Both countries should advocate sound budgetary policies at Athens, but for the sake of progress in Europe they should at the same time do all they could to help reach a concrete decision.

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The Foreign Secretary agreed on the need to work for an agreement at Athens which was in line with the Stuttgart package and was specific on each individual issue. HMG's objectives were to obtain an equitable limit on budgetary imbalances which took account of relative prosperity, which measured the burden accurately and which took effect in 1984; to find legally binding ways to control the increase in agricultural and other expenditure; to secure inclusion of specific agreements on new policies; and to see the necessary conditions fulfilled for Spanish and Portuguese accession by 1 January 1986.

As regards the Lebanon, it was important to remember that the MNF was there to promote the process of reconciliation, and not to forget that the underlying problem was between the

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Israelis and the Palestinians. He was concerned that trans-atlantic consultation had not developed commensurately with the very close degree of European political consultation. Recent meetings with the US Secretary of State had tended to be too short and rushed. NATO was crucial both to our two countries' national security and the security of Europe. There was a need for ways of sharing concerns on questions arising outside Europe.

Dr Woerner said that his talks with Mr Heseltine had reached agreement on all important points. He expressed appreciation that the Defence Secretary had gone on record as saying that BAOR would remain at its present strength. BAOR made an indispensable contribution to the forward defence of Europe, and the Germans appreciated both the quality of its forces and its good relations with the German population.

They had discussed the programme for INF deployment and had agreed it must be adhered to: any delay in any form was out of the question. They had also discussed the peace movement's methods of opposing deployment, and how to deal with them. All attempts to influence public opinion must be based on the twin assumptions that a defence effort was necessary, and so was NATO.

They had agreed that the defence aspects of the CDE were important, and that any military results achieved there must not impede the timely arrival of reinforcements, or the rehearsing of reinforcement by means of exercises.

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He and Mr Heseltine had welcomed the various US initiatives for strengthening conventional capability (emerging technology, counter air etc) but NATO must develop a conceptual guideline for these at present largely unrelated initiatives. Moreover Europe had a common interest in using discussion of this subject to improve the two-way street in defence equipment procurement. Otherwise, there was a danger that US industry could corner the market in the new US weapons systems. In order to remain competitive, European industry must be prepared to cooperate closely.

The two Ministers had taken note, for the first time at one of these meetings, of a report by national Armaments Directors. This had shown that successful cooperation had brought progress in a number of projects (eg Tornado, third generation anti-tank weapons). They had agreed that air staff talks on the advanced combat aircraft had yielded promising results, and that as many Allies as possible should be associated with this project.

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Count Lambsdorff said that in considering trade policy questions he and Mr Tebbit had agreed it was important to make progress on the development of the internal market.

The 20 directives were frozen because the French and others had reservations, and would only agree if the Community introduced a separate common commercial policy instrument to defend it against imports from third countries. Recently, the French had shown some readiness to compromise - eg in recent talks with the French Industry Minister, about which he had informed Mr Tebbit. But further French compromise would be necessary, and tenacious efforts would be needed to secure it.

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Dr Stoltenberg said that he and Mr Lawson had discussed international debt problems in the light of the meeting. They had agreed on the importance of co-ordinating

/the

the policy of the industrialised countries, in discussions in which the banks should take part, to keep the third world's huge debts under control. After Williamsburg there was no need for a major conference on the world monetary system, but certain studies should be pursued in the IMF.

The new Commission proposals on the EC budget had been received only yesterday, and it had only been possible to study them briefly. But they, and the paper by the Greek Presidency, fell far short of expectations. These did not meet joint UK/FRG requirements on financing. Little time was now left before the European Council, where a package agreement was necessary. It was important to emphasise the need to ^{curb} the growth in agricultural expenditure. Changes would affect German agriculture, but there was no sense in securing economies on temperate products and incurring new expenditure in the Mediterranean. The UK set great store by a legally binding financial guideline. He and the Chancellor were united in their view that new policies should be in low-cost areas like the internal market and environmental protection. The structural funds needed to be more efficient. They did not need more funds. Finance Ministers should have a greater say in all decisions with budgetary implications. The central problem was to achieve equitable burden sharing: the club of net contributors must be expanded. A new financing system should be calculable in its effects.

/The

The UK wanted a limits system based on a GDP limit and on net balances. That would be ideal but the Germans had doubts about its acceptability by the others. As far as any increase in own resources was concerned, other points would need to be solved first, eg enlargement. The increase in own resources would have to be far lower than proposed by the Greek Presidency, though it was not possible to suggest precise figures now. The increase would have to be linked to Spanish and Portuguese accession.

There could be no question of the Germans accepting the automatic dismantling of MCAs, as the Commission had recommended. Perhaps the best way forward would be to prolong the gentlemen's agreement of 1979.

The Chancellor of the Exchequer said that in discussion of burden sharing, he had insisted that the burden must be measured in terms of net contributions, not receipts, and that whatever was agreed must apply to 1984. He and Dr Stoltenberg had agreed that firm control of agricultural expenditure was necessary, in addition to the adjustment of individual commodities regimes. In the UK view this would only be effective if there was a legally binding financial guideline. It was vital for the Germans and the British to continue to stick together.

Dr Rohr, State Secretary at the Federal Ministry of Agriculture, said that he and Mr MacGregor had discussed the items due to be raised at the Special Council in Athens.

/He

~~He said~~ The financial guideline had been discussed in terms similar to these reported by Dr Stoltenberg and the Chancellor of the Exchequer. On price policy and guarantee thresholds, he and Mr MacGregor had agreed that other commodity sectors as well as milk and cereals must also be covered. There was a need for a precise price formula, about which they would need to stay in close touch.

They had agreed that the proposed oils and fats tax was unacceptable. On cereals, they had agreed that policy should be to narrow the gap between EC prices and those of the main competitor countries.

On cereal substitutes, the Community had been given a mandate to hold talks with the US, and they had agreed that such talks were desirable. They had also agreed that cereals subjects were likely to be an important element in the discussions at Athens.

The problem of expenditure on milk must be resolved. Mr MacGregor had emphasised HMG's preference for action through a restrictive price policy. However, they had agreed that if a quota arrangement was necessary, around 97 million tonnes would be the right quota figure.

He and Mr MacGregor had also agreed that the proposed change in the calculation of MCAs should be rejected. On the proposals on agricultural structures there had been a wide measure of agreement.

/The Minister

The Minister of State for Agriculture (Mr MacGregor) agreed with this account of their talks and had nothing to add.

The Federal Chancellor, winding up, commented that the good bilateral relations which had been established between individual Ministers and Departments were a good basis for further cooperation. Once relationships had been established, ~~telephone contact was possible~~ *business could more easily be transacted by teletype.*

The Prime Minister thanked the Chancellor for his hospitality, and ~~said the talks had been conducted in a wonderful atmosphere~~ *to the credit in which the talks had been conducted.*

The meeting concluded at 1201 hours.

AD ¹⁴/₁₁