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From the Principal Private Secretary

9 November 1983

Dear Brian,

I enclose a record of a meeting between the Prime Minister and Chancellor Kohl, subsequently joined by Foreign Ministers, in Bonn today. I should be grateful if circulation of this record could be strictly limited to those with a need to see it.

I am copying this letter and the enclosure to John Kerr (HM Treasury), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Robert Lawson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

Brian Fall Esq
Foreign and Commonwealth Office.

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NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND CHANCELLOR KOHL, SUBSEQUENTLY JOINED BY THE FOREIGN AND COMMONWEALTH SECRETARY AND HERR GENSCHER AT THE CHANCELLERY AT 0915 ON WEDNESDAY 9 NOVEMBER

Present:

Prime Minister	Chancellor Kohl
Mr F E R Butler	Herr Starbreit
Interpreter	Interpreter

Deployment and relations with the United States

Chancellor Kohl said that it would be important to agree a line to be taken with the press in reply to questions about Grenada. Journalists would try to create reports of differences between the United Kingdom and Germany on the one hand and the United States on the other, and would in particular ask why Britain and Germany had abstained in the United Nations vote on Grenada. Mr. Dam had commented in Bonn that the US had regarded the European decision to abstain as precipitate, although in public he had thanked the German Government for their abstention. The Prime Minister replied that the British press had mis-represented her discussion with Mr. Dam and she had tried in Parliament to correct the false impression which had been given. Mr. Dam had not said in London that the US regarded the European decision to abstain as precipitate. She suggested that the best way to deal with Grenada was to concentrate on the future and to welcome the chance that Grenada now had to return to democracy; and to say that nothing would be allowed to damage the great Western Alliance of which the United States was a vital part. The decision of Britain and Germany to abstain had been explained at the time, and it had to be recognised that the United States had a different perspective on the situation in the Caribbean. The Prime Minister asked Chancellor Kohl what aspects she could most helpfully emphasise at the Press Conference in relation to INF deployment.

Chancellor Kohl said that there was no problem internally over INF deployment. There was unanimity of view between Britain, France and Germany and, while the German Government also kept in close touch with the other partners concerned in deployment in Europe, it was agreement between Britain, France and Germany which was most crucial. It needed to be emphasised that the British and German Governments were in favour of serious negotiations

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on disarmament and would continue these as long as possible; and that we had confidence in the efforts which the United States were making to negotiate a genuine agreement on disarmament. But deployment would take place on time and, while there would be intervals between the phases of deployment, it was worth bringing out that these occurred only for technical reasons and did not have significance in relation to negotiation with the Russians. It would be valuable also to remind public opinion of the meeting in Stockholm in January, to emphasise that even if the present round of discussions in Geneva was broken off following deployment, talks with the Russians would continue: this would counter references being made by the Social Democratic Party in Germany to the onset of a new "ice age" between East and West following INF deployment.

Presidency of the European Commission

The Prime Minister said that the view of the British Government was that it would be timely for the next President of the European Commission to come from Germany, if the German Government wished to put forward a candidate. It would be essential to have a strong figure as the next President of the Commission. Chancellor Kohl said that the German Government had only begun to think about this matter in a preliminary way and were not yet sure whether they would be putting forward a candidate. Neither of the present German Commissioners would be appropriate. It was not his intention to renew Haferkamp's term, but he did intend to appoint in his place somebody from the SPD: he did not agree with Chancellor Schmidt's action in excluding candidates from the Opposition party, and the appointment of an SPD Commissioner would be helpful to Germany particularly in dealing with the steel unions. The German Government had been hoping to secure the appointment of a German candidate as Secretary General of OECD and were hoping for British support for such a nomination: he had been considering for this the other German Commissioner in Brussels, Herr Narjes, but he recognised that it would be difficult to appoint Germans both as Secretary General of OECD and as President of the Commission and he would consider the matter further in this light. He asked the Prime Minister whether she had views on other candidates for the Presidency of the European Commission.

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/The Prime Minister

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The Prime Minister said that Count Davignon would like the Presidency but she was doubtful whether it would be right to appoint a further President from the Benelux countries. Signor Pandolfi had also been suggested, and he was a skilful and experienced politician, but she was not certain that his personality and sense of purpose were quite what the Commission required at this time. It was for the German Government to decide whether they gave priority to OECD or the European Commission: she was inclined to think that the Commission was more important, particularly in view of prospective enlargement. In that connection, she wondered whether the present arrangement of having two Commissioners from each country should be continued. The United Kingdom would be prepared to change to an arrangement by which each country produced only one Commissioner if other partners agreed.

Chancellor Kohl agreed that the Commission was much too big and tended to create unnecessary work. He was having a drive against bureaucracy which added to current economic problems. In finding training places for young people, he had encountered a number of bureaucratic obstacles, and the amount of returns which industrialists were required to make to Brussels played a large part in the administrative burdens loaded on industry. The Prime Minister said that it would be worth raising this point at a European Council, and it supported the need for a strong figure as the next President of the Commission.

Developments in the German economy

Chancellor Kohl said that German economic policy was now on course, but this had required a major effort. The budget had been reduced to bring the national debt within constitutional limits: his predecessor had allowed these limits to be exceeded. Thirty million Germans had now been affected by the economy measures introduced, and progress was like driving a tractor through a marsh: one had to edge gradually forward until eventually firmer ground was reached. The German Government had now almost achieved the firm ground. Unemployment had stopped rising at 2.2 million, which was below the German Government's forecasts for 1983 and 1984. Growth in the present year would be just

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over 1%, compared with a forecast of $\frac{1}{2}$ %, and the Government's forecasts for growth for next year were being put at 2% although the Bundesbank expected 3%. The main outstanding problem was that growth was coming from domestic demand rather than exports. Further retrenchment would be needed by large companies as they rationalised their activities. This would involve a critical period of negotiations with trade unions which wanted to maintain wages while reducing the retirement age to 58 and the working week to 35 hours: the German Government was clear that these demands had to be resisted but, since it was not a party to negotiations in the private sector, it would have to hold the line in negotiations in the public sector.

[At this point the Foreign Ministers, Sir Jock Taylor and Dr. Jurgen Ruhfus joined the meeting.]

European Community negotiations

The Prime Minister said that the United Kingdom Government wanted to get as far as possible at the European Council in Athens, building on the excellent foundation laid under the German Presidency at Stuttgart. The French Government were taking the view that, if agreement was not reached at Athens, it was unlikely to be reached in the next six months because the European elections would make it impossible for Governments to make the necessary concessions. So if agreement was not reached at Athens, there was the prospect of a long delay. There were certain aspects to which the United Kingdom Government attached particular importance. On the Community budget, we had studied very carefully the German paper and noted that it said at the outset that net contributions were the correct measure of the burden. The United Kingdom and Germany were agreed that the aim should be to achieve equitable burden sharing and this demanded an equitable limit on contributions. We felt that the German paper did not carry through the logic of this approach and that the proposal in it would allow the German contribution to grow substantially in the future because it was linked to gross rather than net contributions. Progress had been made with the French towards agreeing that the UK and France would make similar net contributions (although, to meet French sensitivity, the term "net contribution" need not be used). She felt that it would be in the interests of Germany similarly to set an

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equitable limit which would check subsequent growth in German contributions even if this were at the cost of a somewhat higher contribution at the outset.

On agriculture, the Prime Minister stressed two points. Firstly, firm control was needed on the growth of the agricultural budget: otherwise any increase in own resources would be spent on agriculture rather than other objects of high priority, for example electronic development. Secondly, while there was much to be said for reaching voluntary agreement with the United States on trade restrictions, it was essential to avoid unilateral measures which would create another area of disagreement with the United States.

Herr Genscher said that the timetable required that

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From the Principal Private Secretary

9 November 1983

Dear Brian,

The record of the tete-a-tete with Chancellor Kohl which I have circulated includes a truncated version of page 5, excluding the agreement to nominate a representative of each Government to conduct private bilateral negotiations. I enclose the full version of this page and should be grateful if you would arrange for it to be seen only by those who need to be aware of this aspect of the discussions.

I am copying this letter and the enclosure to John Kerr (HM Treasury), Robert Lawson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

Brian Fall Esq
Foreign and Commonwealth Office,

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equitable limit which would check subsequent growth in German contributions even if this were at the cost of a somewhat higher contribution at the outset.

The Prime Minister continued that Mr. Papandreou had given her the impression that the Greek Presidency expected to put up compromise proposals at Athens to which the other members would be expected to agree. This would be wrong. The role of the Presidency was to act as Chairman, not as Court of Appeal. During President Mitterrand's visit to London she had agreed that, in the interests of achieving agreement in Athens, she and President Mitterrand should each appoint a single representative to undertake bilateral discussions, with which the Heads of Government would keep in close touch. The British representative was Mr. Williamson, and she suggested that a similar arrangement should be made with the German Government. It would be important to keep such contacts private. The Foreign and Commonwealth Secretary added that it was essential that discussions between Britain, France and Germany should be conducted on a bilateral basis in the interests of maintaining confidentiality.

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Chancellor Kohl said that he fully agreed with the Prime Minister's proposal that bilateral discussions should take place privately between Britain and Germany. He would nominate Herr Lautenschlager. He noted in passing that Mr. Papandreou had wanted to come to Bonn, but it had not been thought helpful that he should come before the Bundestag debate on deployment and his visit had therefore been postponed. Herr Genscher said that discussions between the British and German nominees should begin immediately. The timetable required that

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agreement should have been reached before the meeting of Foreign Ministers on 28 November, which would give the other partners a week to consider the proposals before Athens. It was important to reach agreement at Athens not only because of the timing of the European elections but because agreement was necessary to give Europe an effective voice on current issues. In the Presidency papers the only firm figure was for the increase in own resources. This was unacceptable: firm figures for own resources must be matched by equally firm figures on savings. The Prime Minister interjected that without such firm figures there was no question of Britain agreeing to an increase in own resources.

Herr Genscher continued that there were two points of great importance to Germany. One was on MCAs. Germany could not help other partners by revaluations of the Deutschmark if this imposed a heavy burden on German farmers. The other aspect was steel. Germany had expected understanding of its problems with its steel industry, and the Commission, instead of fulfilling this expectation, had given subsidies to the Italians which were allowing them to undercut the price which German manufacturers were charging for steel in their domestic market. The Bundestag could not be asked to provide more funds to the European Community if it was also going to have to give more support to the German steel industry.

Chancellor Kohl, reinforcing the latter point, said that Germany had made a great effort to modernise its steel industry. The Americans were turning eleven major steel companies into four, and the Germans were aiming to turn five steel companies into two. The Commission had not developed a structural policy which was equal to the problem. In Germany, the problems of the coal and steel industry were concentrated in the Ruhr. It was impossible to say to those who had depended on these industries for 150 years that they should switch overnight to electronics. The present quotas lasted until 1986, but the German Government could not continue on the present basis / ^{thereafter,} On this matter the employers were as much of a problem as the unions: they wished to

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privatise profits and socialise losses. But the German Parliament would not agree to meeting more of the costs of the Community unless this problem was solved.

The Prime Minister said that on this matter Chancellor Kohl was preaching to the converted. The British Government had started earlier in rationalising its steel industry and had closed more steel plants than any other European country. We were also closing down mines in areas where there was no alternative employment, and the only way of doing this was to provide very generous redundancy terms. She agreed that the Italians appeared to have found ways of getting bigger quotas for themselves. But the problem was not just confined to Europe or even the United States. Most under-developed countries were putting up their own steel plants, and it was ironic that these were being subsidised by the industrialised countries. Also, new mechanical products tended to be more compact and required less steel. All European countries were bound to face a difficult period ahead on steel, coal and shipbuilding. The Foreign and Commonwealth Secretary added that in his home town of Port Talbot employment in the steel industry had more than halved over the last four years. He accepted that Europe had to negotiate a continuation of the steel regime after 1986. But this was not one of the matters allocated to the agenda for Athens at Stuttgart: it had been the subject of a separate resolution and was a matter to be pursued urgently by the Steel Council.

Chancellor Kohl said that this was a fundamental matter for Germany. Germany was prepared to make sacrifices for Europe and was prepared to slim down its industry, but there had to be some light at the end of the tunnel. The Prime Minister commented that it was difficult to see the way through at present but she agreed that there had to be some hope for the industries in difficulty.

Reverting to Herr Genscher's remarks about the budget, the Foreign and Commonwealth Secretary said that the United Kingdom considered it essential to have a clear and firm discipline on agricultural expenditure in order to give Agriculture Ministers a way of

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resisting pressures for continually growing agricultural support. On Germany's frontier problems with France, the United Kingdom recognised the practical difficulties. But if the outcome was to link MCAs to the strongest European currency, this would build in pressure for inflationary rises in agricultural prices. He did not have an immediate alternative solution, but saw considerable difficulties in this aspect of the German proposals. Herr Genscher recalled the difficulties which had been encountered when the EMS currencies had been realigned in March. Some change in the mechanism was necessary so that such changes could take place without unacceptable damage to German farmers.

Summing up the discussion, the Prime Minister and Chancellor Kohl agreed that their line with the press should stress the strenuous efforts they were making to reach agreement at Athens, without building up expectations which might be disappointed if no agreement were reached. It would be best to say that the British and German Governments would keep in close touch with the aim of reaching agreements on the points covered in the Stuttgart Communiqué without going into too much detail on the British and German positions.

East/West relations

The Prime Minister asked Chancellor Kohl whether the German Government were getting any information about Soviet attitudes through their contacts with Eastern European countries. Chancellor Kohl said that Germany had good sources of information. They knew President Ceausescu had not made his recent proposal on disarmament without good reason. The Hungarian and Czech Foreign Ministers would shortly be visiting Bonn. The Hungarian Deputy Prime Minister had recently visited Bonn and had made proposals on co-operation with the Community which seemed astonishing. But the Hungarians appeared confident that they could achieve them, given help from the Community. If this involved providing a credit arrangement which costed the Community something this would be well worth the price, but he was not confident that the Commission would take a sufficiently far-sighted view of the matter. The German Government might well want to have further discussions on this subject with the British

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in the New Year. The Foreign and Commonwealth Secretary commented that, in fairness to the Commission, it had to be recognised that Eastern European Countries often proposed favourable trading arrangements on goods which provided great problems for European countries.

German Ambassador to Britain

The Prime Minister said that, since this was the last bilateral meeting which Dr. Ruhfus would be attending as the Federal Government's Ambassador she wanted to say how sad she was that his term as Ambassador to Britain was coming to an end. She understood why the Federal Government would want a man of his great ability back in Bonn, but he had been a first-class representative of his country and he would be greatly missed in London. Chancellor Kohl and Herr Genscher expressed their gratitude for the Prime Minister's comments.

Date of the next bilateral

After discussion, Chancellor Kohl and the Prime Minister agreed that the next bilateral working meeting should be held on 2 and 3 May. Chancellor Kohl hoped to combine this with giving the Konrad-Adenauer lecture at Oxford on 3 May. The Prime Minister said that she hoped that it would be possible to arrange the bilateral at Chequers, and Chancellor Kohl said that this would give him great pleasure.

F.R.B.

9 November 1983

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