

070



With the Compliments
of

ADAM RIDLEY

Special Adviser

N. Butler.

What a muddle.

Treasury Chambers,
Parliament Street,
S.W.1.

I very much hope there
will be no such contact
with Elysis which would
not possibly be helpful A.T.C.

CONFIDENTIAL

B 7

FROM: ADAM RIDLEY
25 January 1984

CHANCELLOR

cc Economic Secretary
Sir P Middleton
Mr Littler

Mr Houston
(Special Adviser,
FCO)
— > Mr R Butler, No 10

VISIT TO FEDERAL GERMAN CHANCELLERY: JANUARY 12 1984

Here are some notes on the points covered in the informal trip I made on January 12 following the discussion with the Germans just before Christmas on which I reported on December 12. This account is inevitably a bit late and dated, as I fell ill almost immediately after, before I could commit my notes to paper. The account is a little fuller in places than it probably need be, partly because I wished to convey the flavour and partly because I did not wish to cut out marginal points which might be of interest to others. I should add the following comments about the exercise:

- (1) The Germans in the Chancellery clearly want to talk to us about Budget imbalances and remain concerned our formula is'nt negotiable.
- (2) They earnestly hope we will develop a comparable bilateral with the Elysée soon, on the same family of issues.
- (3) They could be hinting, by the rather independent way they are putting out their tentacles to us, at the idea that it is the Chancellery rather than the Auswärtiges Amt which we ought to be courting at this time. Perhaps both because Kohl will be "calling in" these issues so much in the coming weeks, and because their Foreign Office is more hostile to us and too Franco-phile.
- (4) They clearly feel that satisfactory resolution of the issues which are central to the current crisis calls not only for Heads of State to get on top of things, but for their personal staffs to play a greater role than hitherto in "preparing the way".

M

A N RIDLEY

CONFIDENTIAL

B.7

NOTE FOR THE RECORD

DISCUSSIONS WITH THE FEDERAL GERMAN CHANCELLOR'S OFFICE:
JANUARY 12, 1984, WITH DR GRIMM, DR LUDEWIG AND DR KÖHLER
(FINANCE MINISTRY)

My visit to Bonn was an informal, quickly arranged personal trip at the invitation of the Germans, to follow up the day of informal discussions held in London on December 9 at the end of 1983. Its basic purpose was simply to further the process of "getting to know you", as the Germans described it, the new faces being Dr Grimm and Dr Köhler, Herr Stoltenberg's closest political confidant in the Finance Ministry. There was no formal agenda, and the discussions were held in relaxed circumstances.

2. The first topic, which led to a prolonged interrogation on the part of Dr Köhler, was privatisation. It appeared that the CDU Government are beginning to get to grips with this subject; are very keen to learn how we have approached it and what difficulties we have encountered, what lessons we have learnt; and worried that they may have neither a coherent policy framework nor effective consistent strategy pursued unless they get a grip on things. I discussed at considerable length the goals, coordination procedures, political problems, presentational considerations, and much else involved in British policy. Dr Köhler expressed keen interest to pursue all this further, and I expect he will seek to come to London within a month or two to try and pick our brains more closely.

3. Towards the end of lunch, Dr Köhler had to leave and Dr Grimm turned to the EC negotiations. A number of points were made:

- It was agreed by all that the French objectives for the Presidency and their intended modus operandi was still curiously obscure. The Germans observed tartly that they would have got off to a far quicker and more coherent start if they had been in the chair. Though there was a pretty firm plan for a private Mitterrand/Kohl working summit, there was not yet a firm date, though it was expected to be early in February. They would hope to try and clear up the MCA issue as far as possible, since it otherwise represented a dangerous source of bilateral difficulty. Beyond that they would necessarily be entering the discussions in a somewhat probing frame

CONFIDENTIAL

of mind, though not, Dr Grimm hastened to add, with any intention of departing from the broad position which they had followed for some time.

- Turning to the UK's particular difficulties, Dr Grimm underlined very meaningfully how crucial it was to make further progress in the discussion of the problem of budgetary imbalances. It was clear that a formula was needed for a lasting solution. It would be intolerable to go ^{on} much longer with annual haggles. But, he appeared to imply, the UK's position would surely have to be modified in some respect. He fished hard to see whether I gave any hints or intimations of any change in the UK position. I inevitably stonewalled in reply, stressing that Ministers were in no position so soon after the breakdown of Athens and after the resumption of business in the New Year to have a fully worked out new position on the matter of budgetary imbalances before the French had given even the most tentative indication as to how they wanted to handle the Presidency! Dr Grimm understood; but went on to stress how much he would welcome sensible working discussions on this issue particularly over the weeks leading up to the Brussels Summit. He greatly hoped that we in the Treasury would recognise the need to have a good informal exchange of views, if need be on the phone, as events unfolded. The Federal Chancellery would certainly be hoping that they would be able to sustain the same kind of intimate contacts with Mitterrand's staff in the Elysee, building on the bilateral discussions they had recently had with their opposite numbers there.

Wrong reply. He should not have implied that there was any prospect of a new initial point.
A.S.C. 28.
1

4. We then moved on to exchange views on what further and longer term objectives for EC development after the solution of the current crisis German and British Ministers might be most concerned about. I think this may well have been in part, on the German side, an indirect way of getting at the question as to whether we would have any new initiatives or procedures which we would wish to pursue during the course of the current negotiations. I recalled the increasing importance of Parliamentary opinion at home; and underlined the significance of the Government's position.

CONFIDENTIAL

as recently re-stated by the Prime Minister in her ITN interview with Alastair Burnett. I stressed, as usual, the desperate psychological difficulty of launching in the UK 'new ideas' about the Community at a time when there were so many obstacles to getting the machinery that we already had working properly.

5. The discussion then turned to the French Presidency's possible ideas for "relance economique". The Germans felt, as one might have expected, that it was very unlikely to include anything new or desirable. They did not anticipate any great embarrassment for Governments of the centre or centre-right in Community fora; but could see clearly enough the use that such rhetoric and proposals would be put ^{to} in a more political context, and in the EC Parliamentary campaign itself. Like us, the Germans had found it difficult to identify even the shadow of concrete proposals, so far at any rate, lying behind the endless French references to variable geometry, the need to promote the high technology industries, and so on. This led to a discussion about German attitudes to limited and prudent industrial policy of the kind both our Governments might either be willing to consider, or at least have to be willing to contemplate as part of a wider EC deal. Both Dr Grimm and Dr Ludewig took an extremely sceptical attitude to any kind of industrial policy or intervention going much beyond projects such as Esprit or the kind of research and development support which both our countries are currently involved in. Indeed their views represented as pure a statement of "Treasury doctrine" as anything I have heard for a considerable time! This strongly suggested that their advice, at least, would be pretty negative if Mitterrand ultimately put flesh on such proposals as part of the French Presidency.

6. We then turned to EMS, on which I pressed Dr Grimm and Dr Ludewig fairly hard, in order to determine not only their attitudes in the short term, but what kind of use they or their masters might have for it in the longer term. It was difficult to arouse much enthusiasm in either of them. Their intellectual position emerged increasingly under questioning, and could be summarised in the following way. To go significantly further with the EMS one had to recognise the institutional logic of an effectively unified system of exchange rates. That demanded as a minimum a truly independent and reasonably dominant

CONFIDENTIAL

Central Bank for Europe, operating with the same kind of autonomy as the Bundesbank. How soon could one see something like that evolving in the foreseeable future, they asked? They made no effort, interestingly, to turn my questioning back to probe the UK's future attitudes to the system.

7. At this point Dr Grimm had to leave to attend a meeting, and Dr Ludewig and I returned to the issue of what policy priorities would really matter in the Community once the present crisis was solved. Speaking rather personally, Ludewig said that it was clear that the key issue after such a solution would not so much be policies as decision-making procedures and institutions. Would the Community's members not have to look rather carefully at the Luxembourg compromise? Could one really carry on with an ill-defined right of veto dependent on it, at least in some areas? Might it not be necessary to invert the philosophy inherent in the present situation, in essence so that majority voting would ultimately have to triumph everywhere except in certain stipulated areas (or Councils of Ministers) where certain matters would still be reserved for unanimity? At this stage substantive discussion ended, and I was unable to discover how far this little speculation reflected private enterprise or deeper, if rather informal, discussions within the Federal Chancellor's Office. Judging from what Dr Ludewig and Dr Teltschik had been saying before Christmas, it is quite likely that at least the Chancellor's personal advisers have been spending a fair amount of time at odd moments discussing ways in which the Community's decision-making procedures can be speeded up, in which case Dr Ludewig's speculation was certainly not frivolous.

8. Dr Ludewig also reminded me that in industrial policy areas the Federal Government had little or no "competence", for basic constitutional reasons. So he and Dr Grimm were less worried by any wild ideas the French might come up with than other Governments might be.

AR

A N RIDLEY

28 JAN 1994

12-20-93
1000