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MR COLES

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL, 28 FEBRUARY

You have received from the Foreign and Commonwealth Office full briefs for the Prime Minister's meeting with Chancellor Kohl on 28 February. I had the opportunity in Bonn on Friday to discuss with Dr Grimm of the Federal Chancellery certain questions which Chancellor Kohl will certainly have in mind, particularly following his meeting with President Mitterrand on 24 February. This minute takes account of that.

2. Our Ambassador in Bonn reports that there now appear to be very close Franco-German discussions about the settlement of the post-Stuttgart negotiation and new moves thereafter on Franco-German initiatives, eg on security and on political cooperation, in Europe. German briefing is stressing that cooperation with France is central to Chancellor Kohl's approach to the European Council in March and to his wish to give a new political impulse to Europe. From this we conclude that

- it is important to stress to Chancellor Kohl that, when the twin issues of budget inequity and effective control of Community spending have been settled, the broad identity of interest between the United Kingdom and Germany on many Community issues will be even more apparent. Experience has shown again and again that, in the development of new policies, on international trading issues and on the major questions of economic policy British and German positions in the Community are normally close;

- there is some risk that the French, by holding out the prospect of greater Franco-German cooperation on new (not well defined) initiatives, will seduce the Germans

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into coming into line, against our interest, on figures to be inserted in a budget correction system giving a net contribution which would be unacceptably high for the United Kingdom. The Germans have stayed broadly in line with the United Kingdom so far because they have also been demanding a limit to their own net contribution but we know that some German advisers may now be more willing to abandon their request for a limit and to rely only on a strong control of agricultural and other spending. In order to encourage this tendency, the French are hotting up their ideas on control of spending (to our advantage also) but canvassing figures on the budget correction which are quite unacceptable for us.

3. The Germans share our view that the French Presidency does now seem to be making an effort to come to a solution at the European Council on 19-20 March, although the French are playing their hand in such a way that in the event of failure they can blame the United Kingdom. The Germans take the view that in a failure they too would be criticised.

4. The best course for the United Kingdom in these circumstances is simply to try to build on the progress which may now be achievable on the control of agricultural and other spending; to stress that there now seems to be a large measure of agreement on some features of the system of budgetary correction (ie that it would be incorporated in a revised Own Resources Decision and thus last as long as the problem; that the system should set a limit on the amount of money transferred from a member state to the Community based on relative prosperity and ability to pay; that the correction should be made by adjusting a member state's VAT contribution in the following year; that the system should be suitable for application in an enlarged Community; and that it should come into effect in time for a correction to apply to the 1984 imbalance); and to make clear that we are not prepared to accept a result which would leave the United Kingdom with an

/unacceptably

unacceptably high net contribution. The Prime Minister will recall the figures which she has given for an acceptable United Kingdom adjusted net contribution at the outset of a new system and using the relative prosperity of a Community of 12. The French have been canvassing an application of the system which would give a United Kingdom adjusted net contribution of 1200-1300 million ecu (relief of about 750 million ecu), which is plainly absurd. The Germans are more realistic but, in view of the fact that the French have proposed these figures to the Germans, it will be important once again to stress to Chancellor Kohl that the European Council should agree on a new budget correction system but the system must give a defensible result in terms of our adjusted net contribution.

5. I would recommend, therefore, that in her discussion with Chancellor Kohl the Prime Minister should take the opportunity to make these points -

(1) The next European Council can be the opportunity to establish a lasting and fairer basis for a Community which will have a stronger influence in the world. But the content of the settlement must be right.

(2) The United Kingdom and Germany often take similar positions on new policies, international trade and the major questions of economic policy. Therefore important to put the Community right, so that it can develop as we want. Enlargement negotiations have also dragged on too long and need new impetus.

(3) Effective control of agricultural and other spending is one of the conditions for any increase in own resources. There are now some signs that the Community may be able to set a guideline on the control of spending which, at least in relation to agricultural expenditure, will be incorporated in the budgetary procedures of the Community. This is essential. Some swing of opinion towards

/United Kingdom/German

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United Kingdom/German insistence on the need to ensure effective control of expenditure as precondition of other decisions. Recognise that there will be no immediate agreement on amending the Treaty provisions on the European Parliament's powers but we ought to leave this option open.

(4) On the correction of the budget inequity there is no question of a short term, ad hoc solution. The new system must be incorporated in a revised Own Resources Decision and hence last as long as the problem lasts. That is what Stuttgart was about: a fundamental attempt to "relaunch" the Community on the basis of lasting changes in its financing. Some limited progress on the elements of the new system (limits on money transferred to the Community, based on relative prosperity and ability to pay; correction through the VAT contribution; system must be suitable for application in an enlarged Community; revised system should come into effect in time to apply to the 1984 imbalance). But system must give equitable and satisfactory result for net contributors. French suggestion that United Kingdom would agree to a net contribution of 1200-1300 million ecu is absurd.

(5) Interests of the major two net contributors, as well as our political orientation, are similar. Not in our joint interest that quarrels about the budget and misuse of resources should drag on. Wider common objectives and benefits to be gained from a bigger role for the Community.

6. I am sending copies to Roger Bone (FCO), John Kerr (Treasury) and to Sir Robert Armstrong.

DF Williamson
D F WILLIAMSON

27 February 1984

Annexed: Latest statement of United Kingdom objectives in the post-Stuttgart negotiations.

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PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL, 28 FEBRUARY

Summary speaking note on the main elements in the
budget negotiation

I have been encouraged by the way in which President Mitterrand has now undertaken so many personal contacts in preparation for the next European Council. It is clear that he is putting a good deal of his personal credit into an attempt to reach a settlement. For the United Kingdom what is most important is that the content of this settlement should be right. We have a unique opportunity to settle on a lasting basis some of the problems which have plagued the Community in recent years and to provide a sound and fair basis for a stronger role for the Community in the world.

Need for a
lasting and
fair
settlement

I am particularly conscious of the fact that, when the twin issues of budget inequity and more effective control of Community spending have been settled, the broad identity between the United Kingdom and Germany on Community issues will be even more apparent. I have been struck by the fact that, in discussions in the Community on the development of new policies, on international trading issues and on the major questions of economic policy, British and German positions are normally very close. Thus we both have a national as well as a wider Community interest in a sound and lasting settlement in the post-Stuttgart negotiations which you launched.

/We, too, have

We, too, have had a large number of bilateral contacts in recent weeks and more are planned. It seems that the core of the discussion at the next European Council in Brussels will be the central financial issues - the control of spending, the budget inequity and the level of own resources. The enlargement negotiations have dragged on too long in our view and we need to find a new impetus to settle our internal problems and to complete the accession negotiations.

The budget
issues:

control of
spending

There is now, in our view, a much wider recognition in the Community that the sort of disciplines which we are all having to apply in our national budgets must also apply to the Community budget. I have some confidence, therefore, that we shall be able to arrive at a guideline on the control of spending which, at least in relation to agricultural expenditure, will be incorporated in the budgetary procedures of the Community. There seems now to be a wider acceptance within the Community that we may later need to go even further and look again at the text of the Treaty in relation to the European Parliament's powers. This should remain an option, even if we cannot get agreement to any change in the Treaty in relation to the Parliament's budgetary powers in the period immediately before the European elections.

The budget
inequity

On the correction of the budget inequity - that is what some member states sometimes refer to as the British and German problem, although it is, in fact, the problem /of all the

of all the other member states - we have had some setbacks which I hope to be temporary. We have made quite clear that the post-Stuttgart negotiation is quite different from the earlier ad hoc discussions. Consequently, we believe that the post-Stuttgart negotiations must lead to a lasting system of budget correction which would be included in a revised Own Resources Decision. There is no question of a short term solution. All our latest contacts with the French indicate that they have understood that this must be so. Accordingly, I believe that there is now at least a good measure of agreement on these features of the revised budgetary system:

- the system must be incorporated in a revised Own Resources Decision and thus last as long as the problem;
- that the system must set a limit on the amount of money which a member state transfers to the Community, based on relative prosperity and ability to pay;
- that the correction should be made by adjusting a member state's VAT contribution in the following year;
- that the system should be suitable for application in an enlarged Community;
- that it should come into effect in time to apply to the 1984 imbalance (ie in 1985).

We have perhaps made some progress on these points. It is, however, essential that the new system should

give an equitable and satisfactory result for the net contributors. For the United Kingdom we have made clear that we are prepared to remain a modest net contributor and, of course, the system we proposed would increase our limit as our relative prosperity rose, which would be the situation in an enlarged Community. The paper which we tabled would have left the United Kingdom with a net contribution of 437 million ecu in 1982, based on the relative prosperity of a Community of 12. It follows from this that certain suggestions which the French Presidency have been making that we would be prepared to accept a net contribution of about 12-1300 million ecu are absurd. I do believe that other member states must be realistic on this point.

We have been working on the assumption, based on the statements which the Federal Republic has made, that you do yourselves wish to have a limit on your net contribution. This is, of course, a matter for you but, in any event, we are advocates of a system containing limits and one which would give an equitable result for us.

We agreed at Stuttgart that the question of own resources could only be decided when the other elements of the package were clear. I myself made absolutely clear the conditions on which the United Kingdom would be prepared to consider an increase in own resources. I remain ready to do so subject to the conditions. I have been a little concerned, however, to hear that some

Own resources

/member states seem

member states seem to be still aiming for an unrealistically large increase in own resources, even if the conditions are met. I had concluded that the Federal Republic, France and the United Kingdom were all thinking in terms of a maximum new VAT ceiling of 1.4%, if the whole negotiation were successful. I hope that this remains your position.

I remain convinced that in the last analysis the interests of the major two net contributors to the Community budget, as well as our political orientation, are similar. I do not believe that it is in our joint interest that these quarrels about the budget and misuse of resources within the Community should drag on. We have wider common objectives and benefits to be gained from a bigger role for the Community in the world.

UK POSITION IN THE NEGOTIATIONS ON THE STUTTGART DECLARATION

1. The overall objective is to re-launch the Community.

Budgetary Issues

2. On budgetary imbalances we seek a solution designed to 'avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing'. This solution should consist of a corrective mechanism which would:

- be incorporated in the revised own resources decision and last as long as the problem it was designed to correct;
- be based on an objective measurement of the full budgetary burden borne by a Member State. The basis of calculation would be the current allocated budget (calculated on the basis used by the Commission in its note XIX/480/80 and its subsequent note of 16 June 1983);
- correct the measured burden by setting a threshold. This would vary in relation to each Member State's relative prosperity. It would be expressed as a percentage of a Member State's gross domestic product;
- provide net relief to that Member State for sums paid in excess of that threshold. The relief would take the form of a deduction on the revenue side of the budget in the year following that for which it was granted;
- operate in respect of 1984 and subsequent budget years.

3. We also seek greater budgetary discipline, to ensure effective control over the rate of growth of agricultural and other expenditure. To this effect we wish to see:

- the management of EC resources based on the same strict rules as those governing the management of public finance in the Member States ie expenditure must be determined by available finance.

- The establishment by the Council, at the beginning of the budgetary procedure, of a frame of reference ie the maximum overall resources available in the following financial year.

- Observance of this maximum throughout the budgetary procedure by all three institutions.

- Within this overall control, the setting of a financial guideline for FEOGA Guarantee Section expenditure which would hold its growth markedly below that of the own resources base defined on a three year moving average.

These provisions to be incorporated in the Community's budgetary procedures.

4. On the basis of decisions taken under paras 2 and 3 above, we are ready to decide on the future financial requirements of the Community.

CAP

5. We want to bring about changes in the operation of the CAP which will adapt it 'to the situation facing the Community in the foreseeable future, in order that it can fulfil its aims in a more coherent manner'. To this end we are seeking agreement on:

- commitment to a rigorous price policy, and to implementation of effective guarantee thresholds for all sectors which are, or are likely to be, in surplus; or where such measures prove necessary because of a significant increase in expenditure or where production is increasing more rapidly than consumption.

- Effective measures to control milk production. We would prefer to operate through price and, in any case, would like.

these measures to include at least a freeze on common prices for the next three years. They could also include a super-levy, on the line of the Commission's papers of July and September 1983 (COM(83)(500) and COM(83)(508)), subject to there being no significant exemptions; no unfair discrimination and an appropriate base arrangement.

- A decision to narrow progressively the gap between the Community's cereals prices and those in other producer countries over the next five years.

6. If decisions are taken on milk and cereals on the basis set out in the preceding paragraph, we are ready to authorise the opening of negotiations under Article XXVIII of the GATT with the United States and other principal suppliers designed to achieve the stabilisation of the Community's imports of cereals substitutes (corn gluten feed and citrus pellets). The results of the negotiation would be reported to the Council which would then decide whether to unbind the tariff.

7. We are not prepared to agree to the Commission's proposal for an oils and fats tax.

New Policies

8. We attach great importance to early agreement on a substantial list of measures designed to bring about improvements in the internal market and the strengthening of the Community's industrial competitiveness. To this end we would like to see agreement reached on:

- adoption of the blocked Article 100 directives designed to lead to harmonisation of industrial standards.

- Adoption of a Single Administrative Document for customs clearance.

- Adoption of the proposed Common Commercial Policy Regulation

which would enable the Community to respond rapidly to unfair trading practices by third countries.

- Implementation of a genuinely liberal regime for Non-Life Insurance Services.

- A programme for the abolition of road haulage quotas.

- Progress towards liberalisation of air transport services in the Community.

- A date no later than 1990 for the introduction of unleaded petrol.

- A solid fuels policy.

- The ESPRIT programme.

9. We are ready to work constructively on proposals for increasing industrial cooperation, particularly in the areas of high technology.

Structural Funds

10. We are working for early agreement on revised FEOGA Structure and Regional Funds. More work is needed on the Commission's proposals for Integrated Mediterranean Programmes which must be examined in close relation to the Community's structural funds.

Enlargement

11. We want to see the accession negotiations with Spain and Portugal effectively concluded by the end of September 1984, so that these two countries can enter the Community, as they wish to do, on 1 January 1986.

27 FEB 1984

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Foreign and Commonwealth Office

London SW1A 2AH

24 February 1984

Dear John,

Visit of Chancellor Kohl: 28 February

I enclose briefing for the Prime Minister's talks with the Chancellor on:

European Community topics
European Political and Defence Cooperation
East/West Relations
The Internal Scene

I have already sent you briefing for the FRG Ambassador's call on the Prime Minister at 1030 on 28 February.

Chancellor Kohl is bringing with him from Bonn Herr Teltschik and Dr Neuer from the Federal Chancellery and Frau Gisela Siebourg (interpreter). He will be accompanied at the talks by Herr Teltschik and Frau Seibourg.

We are enquiring whether a Minister of State might be available to meet Dr Kohl (no FCO Minister of State is, unfortunately, able to do so). In addition, the Foreign Secretary's Special Representative, Sir David Muirhead, will meet Dr Kohl at Northolt at 1455. The talks are due to begin at No 10 at 1545. Dr Kohl plans to return directly to Bonn from Northolt after the talks conclude at 1800.

Mr Rudi Lederer is available to interpret for the Prime Minister.

The Prime Minister will be talking to the Chancellor at a time when the Germans, including Dr Kohl himself, are developing and discussing with the French ideas on the future of Europe, including defence cooperation. The talks therefore represent an important opportunity not only to put across our points on the post-Stuttgart package, but also to get over to the Chancellor that we play a key part in all the major issues

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facing Europe, including security and defence and have positive ideas for the development of the Community; we therefore cannot be left out.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984
 EUROPEAN COMMUNITY: GENERAL BRIEF

INTRODUCTION

1. We remain close to the Germans on most of the issues in the negotiations particularly the need for budget discipline, and reform of the CAP. It is less clear where the Germans now stand on budget imbalances: they want a lasting solution but we do not know whether they have responded to the French tactic of trying to persuade them that they cannot have an upper limit on their own net contribution and should be satisfied with the control implicit in a mechanism for budget discipline. If the Germans have bought this apparent French suggestion, then they will be tempted by the French scheme for budget imbalances, which would limit reliefs to the UK to about 750 mecus in the first year, leaving us with an unacceptably high net contribution of between 1200 and 1300 mecus.

2. The Germans have also been developing ideas on the future of Europe, though these have not yet taken a concrete form. In a private speech to party members, shortly after the Athens summit, Chancellor Kohl appeared to be favouring a two-speed Europe with the original six proceeding at a faster pace than the more recent members. It was subsequently denied that Kohl had in mind a two-tier Europe, though it is clear that, when they met on 2 February, Kohl and Mitterrand did talk about giving a new political impulse to Europe through Franco-German cooperation on security policy. There has also been speculation in German quarters about closer Franco-German cooperation in other fields, eg, foreign policy, national and international economic policy and the introduction of new technologies. Kohl developed these ideas in a speech on 15 February (see separate brief on political and defence cooperation). Kohl tended to speak in rather general terms but we have been advised by the German Ambassador that Kohl is likely to respond if the Prime

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/Minister

Minister is able to pitch the conversation in something like the key which Kohl and Mitterrand have recently been using. It may therefore be helpful to presenting the specifics of our case on the Community if the Prime Minister could indicate at the outset that we are concentrating on the difficult issues, not because they are the beginning and end of our European interests, but because the process of reform is essential to creating the kind of Europe which can focus on new areas of cooperation and can look beyond immediate difficulties.

OBJECTIVES

(i) To convince Kohl that there can be no agreement on the post-Stuttgart package unless we get a lasting settlement on budget imbalances which leaves the UK with a net contribution in the region of 400 to 500 mecus.

(ii) To build on the common ground in the negotiations and persuade Kohl that we must stand firm on the need for a binding mechanism for controlling Community expenditure with special arrangements for agricultural expenditure.

(iii) To bring home to Kohl that the UK's key role in the defence of Europe, as well as our own far reaching ideas on the development of new Community policies, means that we must be closely involved in any discussion about giving a "new political impulse to Europe".

(iv) To convince Kohl that our attitude towards enlargement is constructive and to express concern at the position adopted by the Community (at French instigation) in the negotiation of Spanish agriculture (brief (d)).

/POINTS TO MAKE

POINTS TO MAKE

General

1. Must make decisive progress at March European Council. At a time when we are all thinking about future of Europe, essential that we establish sound basis for future developments. The one is an essential prerequisite of the other. There cannot be a Renaissance without a Reformation.

2. The Future of Europe

We have all been thinking about the shape of Europe in the future. UK has put forward practical ideas for completion of many of the provisions of the Treaty. Taken individually they are comparatively small practical steps. Taken together, they would significantly affect the shape of Europe: an important factor politically and economically. I have read your recent speech in Lubeck and President Mitterrand's speech at the Hague. Both have common theme that the European pillar in the Transatlantic Partnership must be strengthened. We have been thinking on similar lines, eg, Sir Geoffrey Howe's speech in Brussels on 20 February when he called on the 10 to develop a fuller political role which would better balance our extensive economic relations and our position in the Atlantic Alliance. (He also warned of damage to Europe's political and security objectives if Community problems are not solved.)

We are very interested indeed in your ideas and would like to discuss the whole subject further. Our security policy is firmly rooted in the NATO Alliance. But Europe does have a distinct voice and Britain's role in the defence of Europe is central eg British Forces in Germany, Berlin, size of our contribution to NATO etc. This aspect and future development of the European Community are not separate issues viz ideas we have in mind for developing industrial collaboration which clearly have potential implications for the security field. The agenda for our discussions, once post-Stuttgart negotiations have been successfully concluded,

/is

is almost unlimited: "the future of Europe" in its widest sense.

You have referred to the dangers arising from the present paralysis in the Community for Germany's European commitment. You set a far reaching and realistic agenda for reform at Stuttgart. We must continue to work together to achieve decisive progress in March. May therefore be helpful if I give you an account of our thinking on the main issues in the negotiation.

3. Budget Discipline

The Community has come a long way since Stuttgart - and even since Athens. Now generally accepted that discipline which we all apply at national level must be applied at Community level too: finance must determine expenditure, not expenditure, finance. President Mitterrand's speech at the Hague confirmed this.

You and we have always seen eye-to-eye on this. Community must establish framework for expenditure at the start of the year. The three institutions (Council, Commission and Parliament) must observe this maximum throughout the budgetary procedure. Within overall control, there must be guideline for CAP spending, holding its growth markedly below that of the own resources base. Must also ensure there is no bidding up of Commission proposals.

We are not saying that Treaty amendment is only way to secure this mechanism. But provisions must be incorporated in Community's budgetary procedures if whole scheme is to have any meaning at all (see recent history of action by the European Parliament). Commission recent paper on the subject inadequate but believe that you, we and the French will make common cause in the Council in insisting on stricter mechanism. If we do so, we can achieve framework agreement at the March European Council with detailed implementation to

/be

be worked out between March and June.

4. CAP (Brief (b))

Growing realisation within the Community that we must put paid to surplus production. President Mitterrand recognised this too in his speech at the Hague. You and we are once again in firm agreement on central issues:

(a) Need to curb milk production in accordance with Commission's target of 97.2 million tonnes. Prefer operating through price but if super-levy preferred by others there must be no exemptions to it. Any exemptions would lay us open to demands not only from Ireland but others - Italy, Greece, Luxembourg - and would make the whole idea of the super-levy unacceptable.

(b) Guarantee thresholds: we agree on need for effective guarantee thresholds for all sectors which are or are likely to be in surplus, or where such measures prove necessary because of a significant increase in expenditure or where production is increasing more rapidly than consumption.

(c) We share opposition to Oils and Fats Tax.

(d) We have a common approach to talks with the US over cereal substitutes, ie, we must not engage in formal talks under article 28 of the GATT before we can offer the US firm decision on CAP reform.

On MCAs

I understand MCAs is a crucial issue for you and the French. Interested to know where your discussions have got to. The vital thing for us is that whatever proposals you may be able to agree on should not be inflationary and should be consistent with our objectives on budget discipline.

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5. Budget Imbalances (Brief (a))

This remains trickiest area of the negotiations. Not now sure of your position. We understood and accepted earlier German view that there must be an upper limit on FRG's net contribution albeit at a high level, consistent with relative prosperity. Would continue to support you in that view. If, however, you are now content to achieve limit of burden on FRG through budget discipline, we could live with that too, though it would not make our own position any less difficult or reduce our need for a limit on our net contribution. Now widespread agreement on need for system rather than annual solutions; objective measurement of the size of the problem and need for the correction to be on the revenue side. Would like to leave you in no doubt on two points in particular:

(a) We could not agree to a time limited solution. We could consider solution linked to duration of any new own resources decision on assumption that such a decision would last for a very long time and presumption that any budget imbalances scheme should last as long as the problem it is designed to correct.

(b) Figure of reliefs for the UK in first year of new scheme of approximately 750 million have been bandied about. This would be quite unacceptable. The Community (not just UK) has consistently used basis of net contributions for its calculations. UK Parliament will judge outcome of the negotiations not on amount of reliefs but on adjusted net contribution for UK. An adjusted net contribution of 1200 mecus (taking 1982 figures) would be rejected out of hand. UK Parliament would not ratify any agreement on that basis. Nor would the Government recommend it. How sensitive this issue is is illustrated by pressure on ministers in UK Parliament over failure of Community to pay us £42 million risk-sharing element still outstanding ^{from} our 1982 refunds.

/That

This is why I suggested at Athens, that a scheme which left UK with a net contribution of 400 to 500 mecus in first year should be considered. Have looked at German proposal for scheme based on gap between our VAT share and our expenditure share. Should not however kid ourselves that we can overlook the fact the the scheme treats as if they were VAT the duties and levies element in our net contribution which has averaged about 350 mecus over last 4 years. Inadequacy in this respect is shown up by the fact that while, for France and Germany, own resources/expenditure share gap is actually smaller than VAT/expenditure share gap (and thus the scheme is attractive for you), for us the opposite is true: you are over protected, we are underprotected. Question we are however willing to explore is whether it is possible to build up a scheme based on VAT/expenditure share gap so that it gives equitable results on a sustainable basis.

We conclude that only basis on which we could consider a scheme based on VAT/expenditure share gap would be if parameters were very strictly drawn. This must mean a very high level of compensation above our threshold and no undermining of allocated budget as currently defined.

6. Level of own resources

Should mention level of own resources at this point. In accordance with Stuttgart declaration, on the basis of decisions taken on control of expenditure and on budget imbalances we would then decide on future financial requirements of the Community. But large increase to 1.8% or 2% now being banded about would be unnecessary and unacceptable.

Know your view that any increase in own resources should coincide with Spanish and Portuguese accession. We see correct link as being not with date of accession but with date of substantive completion of enlargement negotiations. This would protect you from any danger of having to pay twice

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- once for overall settlement and again for enlargement. Common point for us is that any new mechanism for budget imbalances must come into effect in 1985 in respect of 1984, as part of an amended own resources decision, even if any agreed increase in own resources comes into effect at a later stage.

Foreign and Commonwealth Office
24 February 1984

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VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984

a) EUROPEAN COMMUNITY: BUDGET IMBALANCES/BUDGET DISCIPLINE

POINTS TO MAKE

Budget Imbalances

1. Fundamental British requirement that solution should last as long as problem it was designed to correct. Share Dr Stoltenberg's desire for a "long lasting automatic compensation system that would apply to all Member States". We have no objection to the idea that scheme should last as long as Own Resources Decision or to a review clause subject to one vital proviso: that the system should continue unless there was unanimous agreement to change it.

2. We have been looking carefully at German proposals tabled in Athens. Our main concern is that by measuring VAT expenditure gap alone it treats levies and duties element in our burden as if they were VAT. On the basis of VAT/expenditure share gap, UK would have been uncovered to tune of about 350 mecu in each of last 4 years, ie the amount of our levies and duties. Whereas for Germany the own resources/expenditure share gap is actually smaller than the VAT expenditure share gap, for us the opposite is true: you are over-protected, we are under-protected. However, we are willing to explore whether it is possible to build up a system based on VAT expenditure share gap so that it could give equitable results on a sustainable basis.

3. Problem is that your proposal not only measures just part of the burden but only compensates for part of it. We see no reason why level of correction should not be 100% for anything over the limit. If Community agrees a measurement of what constitutes an unfair burden, only right that it should correct for that burden. A system based on GDP and relative prosperity would automatically ensure increasing UK
/contribution



contribution in enlarged Community. Nevertheless, we have already said that we are prepared to consider a modest contribution above our limit given the political importance which other Member States attach to it. But this would add to burden we are asked to bear.

4. We conclude that only basis on which we could consider a scheme based on VAT/expenditure share gap would be if parameters were very strictly drawn. This must mean a very low financing limit, a very small contribution above our limit and no undermining of the allocated budget as currently defined.

5. In last resort, important to look at outturn figures. "Net contribution" might be an unpopular term for other Member States but it is a political reality. Community has been talking about budget issue in terms of net contributions for the last 5 years. This means that our Parliament will judge the outcome of any agreement on budget imbalances by reference to the size of our remaining net contribution. Have to say that figure of 750 or 1000 mecu for our relief on 1982 figures is totally unacceptable. If I went to the House of Commons and said that I had negotiated a solution which would give us relief of 1000 mecu leaving us with a net contribution of 1000 mecu, Parliament would reject the package. That is why I come back to the figures I suggested at Athens as an indication of the kind of figures which it would be reasonable to expect.

6. On timing of the entry into force of the corrective mechanism and the increase in own resources, we share your desire to see completion of accession negotiations for Spain and Portugal by 30 September and to keep Community spending clamped down in 1985. But key point for us is that new Own Resources Decision incorporating budget mechanism with revenue-side reliefs should come into effect in 1985 in order to allow payment of our 1984 refunds in that year. Problem /of

of Germany being asked to "pay twice", could be overcome by making your agreement to increase in Own Resources conditional on completion of enlargement negotiations. It is not necessary that both decisions should be implemented simultaneously.

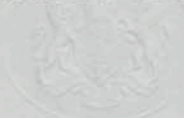
[If Kohl insists on linkage] Any mechanism for budget imbalances needs to come into effect as part of a revised own resources decision, in 1985, ie operating in respect of 1984 and subsequent years. Any agreement to an increase in own resources would need to form part of the same revised decision, but this does not necessarily mean that the two elements (the mechanism for budget imbalances, and the increase in own resources) need be implemented on the same time scale.

Budget Discipline

7. Both equally determined on need to seek economies. Encouraged by President Mitterrand's Hague speech and by progress made by Foreign Ministers at La Celle Saint Cloud. Now generally accepted that finance must determine expenditure; that Community budget must be subject to same strict discipline as public expenditure in Member States; that budgetary discipline should apply to all expenditure; and that there should be separate constraint on agricultural spending. Control of agricultural spending remains our major concern because it absorbs two-thirds of the budget. But effective control of all EC spending was one of my two conditions at Stuttgart for considering an increase in Own Resources. This too is an area where House of Commons will look critically at whatever is agreed. Must have watertight assurance that guideline will be effective.

8. Our first priority at March European Council should be to take outline decisions on ends we are aiming to achieve and then to consider appropriate means to achieve them. Not possible for us at this stage to decide what precise

/procedures



procedures are needed and on what legal base. Best way forward is for March European Council to invite Council of Ministers to take necessary decisions for embodying whatever framework is agreed in the Community's budgetary procedures.

9. Not looking for confrontation with the European Parliament but need to consider how to improve and clarify relationship between Council and the Parliament. Cannot be good for Community that Council is each year overridden by the Parliament over increase in maximum rate. Important that maximum envelope for budget as a whole should be established by Council at the beginning of budgetary procedure, and observed by all three institutions. Would be possible for Council to leave Parliament room for manoeuvre within overall ceiling so that it could exercise its powers in relation to maximum rate. Provision could also be made for Council to consult Parliament before fixing the annual framework. Problem with Commission's latest proposal is that they are too lax in treatment of non-obligatory expenditure. Not sufficiently binding on the Parliament. Important to keep all procedural options, including Treaty amendment, open at this stage. The important thing is to ensure that the mechanism binds all three institutions.

10. Commission proposals on agricultural expenditure are step in right direction. Willing to consider guideline based on three-year moving average, provided guideline is worked on a consistent basis, but we still have a number of problems with the Commission approach: must have firm commitment that Commission itself will observe the guideline in its proposals and the Council will be bound by it throughout price fixing. — there cannot be any bidding up of the Commission's proposals; formula for growth of agricultural expenditure must specify rate "markedly below" growth of Own Resources; must be stringent provisions for clawback; and cannot accept Commission's attempt to redefine agricultural expenditure.

VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984
EUROPEAN COMMUNITY TOPICS

ESSENTIAL FACTS

BUDGET IMBALANCES

Recent Developments

1. Teltschik (the Chancellor's Diplomatic Adviser) has confirmed that at Chancellor Kohl's meeting with President Mitterrand on 2 February, President Mitterrand had proposed compensation for Britain in the region of 750 mecu to which the FRG would contribute 250 mecu. This would be for a period of 5 years, subject to review. President Mitterrand had made no proposals with regard to an upper limit for the FRG but had indicated that the German position would be eased if budgetary discipline reduced the rate of increase in the budget. (It is clear from the latest French ideas, shown to us in confidence, that the French envisage no upper limit for the FRG). The Germans are concerned that the French proposal could add up to a substantial bill for the FRG which could affect their medium term financial plan. German officials are doubtful that a German position will be agreed in time for Chancellor Kohl's meeting with President Mitterrand on 24 February.

2. At La Celle Saint Cloud on 18/19 February, the German proposal for measurement of the VAT/expenditure share gap emerged as the front runner. Disadvantages of German proposal are that it ignores levies and duties element in our net contribution (350 mecu a year on average in period 1979-82), and that it also proposes a surcharge on our contribution above the threshold. In order to get adequate relief we would need to negotiate a very low financing limit and a very low surcharge to offset loss from excluding levies and duties.

/Duration

Duration

3. There were some disturbing signs after Chancellor Kohl's meeting with President Mitterrand on 2 February, when Chancellor Kohl shared French illusions that the UK would accept a time-limit solution. The Germans now appear to recognise that such a solution would be totally unacceptable to the UK and have been looking for ways of bridging the gap between us and the French by a technical revision clause for whatever system is adopted. At La Celle Saint Cloud, there was strong support for a mechanism which would last as long as the New Own Resources Decision. If this was agreed there would be no need for a revision clause. In a speech in Frankfurt on 13 February to mark the fifth anniversary of the European edition of the Financial Times, Dr Stoltenberg called for a "long lasting automatic compensation system that would apply to all Member States".

Size of Compensation

4. The Germans are discouraging about the size of compensation we could expect to achieve. At Athens they indicated that 1000 mecu was the right level of compensation for us and that we could not possibly expect more. The figure of 750 mecu mentioned at the Kohl/Mitterrand meeting on 2 February now seems to be gaining ground. We shall need to leave Kohl in no doubt that this figure is absurd and unacceptable.

Timing of entry into force of corrective mechanism

5. The Germans insist that any increase in Own Resources could only take effect at the same time as Spanish and Portuguese accession, ie January 1986. The standard German line is that:-

- (i) The Bundestag would not agreed to new Own Resources without at the same time ratifying Spain and Portugal's accession.

/(ii)

- (ii) The FRG did not want to be asked to pay twice, once for a post-Stuttgart package and once for enlargement.
- (iii) Desirability of keeping Community spending clamped down in 1985.

They may also calculate that shortage of headroom in 1985 could be used to screw down our relief in respect of 1984 and thus to prejudice the scale of relief and subsequently get under any corrective system.

But Teltschik has hinted that the Germans may be prepared to give ground on timing of an increase in own resources.

Budget Discipline

6. The Germans share our insistence on the need for effective control of agricultural and other spending as a precondition for considering an increase in own resources. But they set their sights much lower in terms of what can be achieved. The main points of difference between us are:

(i) Treaty Amendment: The Germans insist that Treaty amendment is not negotiable. They would be satisfied with a change in the Council's rules of procedures as the Commission has suggested. They fear that if we press too hard for a legally binding commitment we might end up with nothing. However, the Germans may have been impressed by the disposition at the La Celle Saint Cloud (even by Cheysson and Andreotti) to amend the Treaties should the European Parliament refuse to cooperate.

(ii) Agricultural Expenditure

The Germans support the Commission's latest proposals on agricultural expenditure, with the exception of the redefinition of expenditure to exclude ACP sugar and food aid restrictions. They do not support our "markedly below" formula for the growth of CAP spending and do not think that the French will accept it. They believe that a formula stipulating that CAP spending should grow less than spending as a whole is probably as much as can be achieved.

VISIT OF CHANCELLOR KOHL: 28 FEBRUARY

b) EUROPEAN COMMUNITY: COMMON AGRICULTURAL POLICY

Points to Make

1. A lot of common ground between UK and FRG on CAP:
 - Need for urgent decisions in the Agriculture Council on a package to put to the European Council in March.
 - Savings on CAP crucial to rest of Stuttgart package.
 - An effective financial guideline for agricultural expenditure.
 - Tight controls over milk, in particular, through immediate application of a 97.2 million tonne threshold.
 - A balanced CAP package including thresholds for 'other products' which are, or are likely to be, in surplus, or where expenditure is rising fast.
 - No oils and fats tax, which would destroy chances of an accommodation with the US over: cereals substitutes.

Firm decisions on CAP reform an essential precondition for formal talks with US.

2. Worth going over some points of possible disagreement:
 - (a) The latest texts on budgetary discipline are a great advance, but we continue to believe a financial guideline will only be effective if it can be formally embodied in the Community's budgetary procedures (if necessary through a Treaty amendment). Do FRG now agree?
 - (b) Prices are crucial. The FRG position of "no nominal price reductions" seems to us an obstacle to progress, and conflicts with wider FRG philosophy of balanced markets and need to secure savings. If they really cannot show flexibility on this point they should at least warn their farmers of the necessity for extended price freezes.
 - (c) On MCAs we are concerned about inflationary and budgetary implications of the "DM solution". Have FRG talks with the French made progress? How do FRG see this coming out?



VISIT OF CHANCELLOR KOHL: 28 FEBRUARY

b) EUROPEAN COMMUNITY: COMMON AGRICULTURAL POLICY

Essential Facts

1. Germany generates 18% of EC agricultural production, to the UK's 13%. Her largest sectors are milk (24%), pigmeat (20%), beef and veal (17%) and cereals (9%). German farmers represent a powerful political lobby - particularly with the CDU Government: (who tend to see the small farmer as the backbone of the nation, and the guardian of traditional virtues). Partly as a result, German performance in CAP negotiations falls systematically short of their free market principles. The German Ministry of Agriculture (Kiechle) has outflanked the Ministry of Finance in achieving a commitment to "no nominal price decreases for German farmers". This has created a conspicuous division between German philosophy and her detailed positions in the present agricultural negotiations. It strengthens the usual predisposition not to jeopardise Franco-German relations by pressing to radical CAP reforms (the battle with the French over MCAs, however, has proved unavoidable).

Strict Financial Guideline

2. Until recently FRG had been lukewarm, at best, over our Strict Financial Guideline proposal. Now much more receptive. Latest Commission text (see also brief (a)) is an improvement on earlier version. It provides for a guideline which relates a moving average rate of growth of expenditure to the rate of growth of the Own Resources base. The Commission's paper implies (and this is an improvement) that the Commission will always observe the guideline for agricultural spending in making its price proposals. To be effective, this will need to be made watertight, and formally incorporated into EC budgetary procedures. FRG need stiffening on what this means in practice.

3. What we know of French ideas suggests that their thinking is now quite close to our own. If so, the Germans will agree to that approach. But they do show a tendency to be weak on the need for all three institutions to be formally bound by any mechanism for budget discipline, of which the FRG would be a part.

Monetary Compensatory Amounts (MCAs)

4. Still no compromise in sight despite intense Franco-German negotiation. FRG have totally rejected the (French-backed) Commission proposals (phased Green Rate revaluation over four price-fixings, with the possibility of degressive aids to ease the transition). They have proposed instead a 3-stage process for eliminating their existing (+10%) MCA through a combination of the "DM Solution" (linking MCAs to the strongest currency) and the Commission's proposals. The "DM Solution" would apply to future MCAs.

5. UK interest is that the solution should be neither inflationary nor expensive (as we believe the "DM Solution" would be). We also want to maintain maximum discretion over our own variable MCA (currently +6.2%).

Milk

6. FRG are firm on need for a super-levy to enforce a threshold of 97.2 million tonnes. But:

- (i) They are hostile towards intensive farms, and may want to build in discriminatory elements.
- (ii) They oppose a sustained price freeze for milk which we see as an essential condition for the super-levy's effectiveness.

Oils and Fats Tax

7. The Germans have strongly opposed, with us, the Commission's proposal for an oils and fats tax, and now argue that if it was imposed there would be no chance of a deal with the US on:

/Cereals

Cereals/Cereal Substitutes

8. FRG have recently hardened their line in favour of UK position and against French. [That is, present informal talks must be without commitment. Must not catapult EC into formal Article 28 talks before we can offer the US firm decisions on CAP reform.] On cereals prices FRG could probably accept some form of price restraint, though nothing as tough or specific as we would wish.

'Other Products'

9. FRG are particularly firm on need to achieve a balanced package including Mediterranean products. We entirely agree.

CAP Finances in 1984

10. CAP spending increased some 30% last year. 16.5 billion ecu for EAGGF in this year's budget. Latest estimates are for claims of some 18 billion ecu. Using Commission's (3-year moving average) calculations there is no way in which the financial guideline can be met this year. Conclusions:

- (a) Urgent need for decisions on savings.
- (b) Even with progress on CAP savings there will be a financial squeeze later this year. Danger is that Commission will defer spending (eg allow stocks to accumulate).
- (c) Commission's methodology for calculating guideline is shaky.

Foreign and Commonwealth Office
23 February 1984

VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984

c) EUROPEAN COMMUNITY: NEW POLICIES/STRUCTURAL FUNDS

Points to Make

New Policies

1. New Policies are a key section of post Stuttgart negotiations: disappointing so little achieved on this before and at Athens. But we must maintain momentum. UK and German approaches very similar.

2. Despite current financial constraints, the Community can move forward in important and worthwhile ways:

. by implementing policies which involve little or no expenditure (eg removal of obstacles to trade in goods and services eg insurance; introduction of Community standards; reduction of frontier formalities; liberalisation of road and air transport);

. by concentrating on more economic use of existing resources (eg by application of strict criteria for cost effectiveness of Community action when measured against action at national level).

ESPRIT (if raised)

3. We attach importance to ESPRIT and want it to succeed. Hope that Research Council today can give it the go ahead.

Airbus (if raised)

4. Mr Tebbit is carrying out further discussions with British Aerospace on the financing of the project:- we hope that it will be possible to conclude this successfully soon.

Structural Funds

5. Two main issues:

. size of funds: we could support modest increase in the size of the Funds, but this must be related to available resources and real needs.

/IMPs

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. IMPs: must be looked at in context of Structural Funds review. Substantial overlap with other funds (ERDF, FEOGA). Implications of enlargement. Budgetary implications must be properly considered.

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VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984

c) EUROPEAN COMMUNITY: NEW POLICIES/STRUCTURAL FUNDS

Essential Facts

New Policies

1. Our priorities:

- . internal market: removal of barriers to intra Community trade in goods and services; Community standards initiative; reduction in frontier formalities for goods traffic (adoption of Single Administrative Document for customs clearance).

- . liberalisation of lorry movement (road haulage quota) and air transport services;

- . environment: introduction of unleaded petrol no later than 1990;

- . energy: solid fuels policy to promote economic production and use of coal.

2. The Germans entirely share our concern with budgetary restraint and cost effectiveness. They are keen on development of the internal market in goods - holding four Internal Market Councils under their Presidency - but not in services, particularly insurance.

Airbus

3. Discussions between the DTI and British Aerospace began on 7 February: it is not yet clear whether these will be successful.

Structural Funds

4. Like us the Germans are keen to control expenditure in areas other than agriculture and have taken a tough stand on the growth of the structural funds. Our position on this and on IMPs is close. FEOGA structures and ERDF revisions are under discussion in Working Group. Early agreement unlikely.

Foreign and Commonwealth Office

23 February 1984



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VISIT OF CHANCELLOR KOHL: 28 FEBRUARY

(d) ENLARGEMENT

POINTS TO MAKE

1. Welcome impetus that French Presidency has now decided to give to accession negotiations. Will give Presidency full support in any effort to complete substantive part of negotiations by 30 September 1984.
2. Glad negotiations have now begun on Spanish agriculture. But we believe Community's opening position to be unjustifiably unbalanced and harsh. Community will have to move a long way before the outlines of a deal can emerge. Understand France's problems. But what we would need to end up with is an enlarged Community in which interests of all twelve members are properly and fairly reflected. Otherwise Community will simply store up trouble for itself. We speak from experience.
3. Spaniards tell us that they have reached a general understanding in bilateral contacts with France on transitional arrangements in agriculture which Spaniards believe France will present to EC as basis for Community position. If so, the sooner the Community knows what they are the better.

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ESSENTIAL FACTS

4. After long dragging their feet on Spanish accession, the French Presidency are now trying to accelerate the negotiations and for the first time appear prepared to accept a timetable for their completion. They pushed through the first substantive Community declaration on Spanish Agriculture (presented to the Spaniards on 21 February) which was protectionist and largely designed to suit French interests; we tried to add balance and element of reciprocity but received no support even from Germans.
5. Behind the new French approach appears to be a private understanding reached between France and Spain in Ministerial level talks at Rambouillet on 11/12 February on the way forward on Spanish agriculture, although the French claim to their EC partners that they met the Spaniards only as France and not as Presidency - a distinction evidently not properly appreciated at the time by the Spaniards whose account of the deal struck on agriculture has yet to be reflected in any change in the French position in Brussels. The likelihood is, however, that a deal on terms favourable to France will be struck, though probably not for some months yet. The French are unlikely to want to press the Spaniards on a slow

dismantlement of their high industrial tariffs during the transitional period; the French have substantial industrial investment in Spain. The Germans should be as reluctant as we are to see maintenance at high levels during the transitional period and of protectionist barriers either for EC agriculture or Spanish industry, but cannot be relied on to stand up to the French on this (as on almost anything else).

6. There are increasing signs that the French - who may not be ready to make many more concessions in the enlargement negotiations this side of the European elections - hope to shift responsibility for any delays in the negotiations on to the UK, whether by spotlighting any points of difficulty for the UK in the accession negotiations; or - more generally and against the possibility of failure at the March/June European Councils - by exploiting our rejection of the immediate increase in own resources required by enlargement in the absence of agreement or post-Stuttgart. The Spaniards may be all too ready to swallow this specious line. The line the Prime Minister is recommended to take with Kohl is designed to help make him more resistant to French propaganda.

Foreign and Commonwealth Office
24 February 1984

VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984

GERMAN VIEWS ON EUROPEAN POLITICAL AND DEFENCE COOPERATION

POINTS TO MAKE

1. Interested in your thinking on European security policy. FLAG F I have read your speech at Luebeck on 15 February, and President Mitterrand's speech at The Hague on 7 February. Understand you envisage an initiative after the European elections. We should all be thinking about the shape of Europe in the future, and this includes the defence dimension. We are agreed that the European pillar in the Transatlantic partnership should be strengthened, and that nothing should be done to undermine NATO.
2. There has also been renewed interest in the Western European Union as a forum for discussion of European security perhaps by Foreign Ministers. Herr Genscher discussed this recently with Sir G Howe. The French also have ideas on strengthening WEU.
3. We are interested to know more about these ideas. It is essential that you, we and the French should be in basic agreement. We have a vital interest as a major contributor to Western security, through eg British forces in Germany.
4. How do you see the way forward? What subjects should European security consultations cover, and what institutional form should they take? President Mitterrand's views?
5. Important not to arouse American suspicions that we Europeans will present them with fait accompli and to avoid any step which might threaten transatlantic link. European security depends on NATO. But we are willing to look seriously at any opportunity to strengthen European cohesion on security matters and will consider partners' ideas with an open mind.

/6. [If raised]

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6. [If raised] We can agree to lifting WEU restrictions on German conventional arms production.

7. [If raised] We support reunification of Germany in peace and freedom on the basis of all German elections as laid down in the Bonn-Paris conventions.

Foreign and Commonwealth Office

24 February 1984

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VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984

GERMAN VIEWS ON EUROPEAN POLITICAL AND DEFENCE COOPERATION

ESSENTIAL FACTS

Kohl's Ideas

FLAG F

1. Extracts of Kohl's speech at Luebeck on 15 February are attached.
2. There is extensive recent evidence that Kohl fears that the European idea could perish by the end of this century if a new impetus is not given. He believes that idealism for Europe in Germany has diminished and that Europe and America are drifting apart (for which, Kohl believes, the Americans are mainly to blame). He fears that the Germans could be enticed towards neutralism by some Soviet initiative designed to give the impression of opening the way towards reunification. We know also that Kohl and Mitterrand have discussed ways of giving a new impetus to Europe, including impetus in the defence field.

German Proposals

3. The Germans have recently floated a number of ideas for closer European consultations on security matters. They say they want European Ministers to discuss defence and security so as to make a more concerted input in NATO. Kohl has suggested that this be done in Political Cooperation; those countries which preferred not to participate could be allowed not to do so. At his meeting with Sir G Howe on 6 February Genscher suggested using the WEU (whose seven members are the UK, FRG, France, Italy and the Benelux countries). This approach would cut out Ireland, Denmark and Greece; the countries whose attitudes meant that the proposal for security discussions among the Ten which formed part of the Genscher-Colombo scheme emerged in much more restrictive form than Genscher wanted. The Germans were frustrated at the failure of this proposal.

/French Proposals

French Proposals

4. The French have also recently shown a new interest in ideas for a 'European' dimension to defence cooperation. In his speech at The Hague on 7 February President Mitterrand, while making clear that there was no prospect of a European substitute for NATO, emphasised the value of Franco-German and Franco-British security links and suggested the idea of a European manned space station for defence.

5. The French have also recently circulated ideas for giving the WEU a higher political profile. These include giving more importance to the WEU Assembly; eliminating discriminatory controls on German production of conventional weapons; and finding new functions for the WEU including the verification of arms control agreements and collaboration on arms procurement.

UK Position

6. Our chief concerns are to prevent any action which would weaken NATO or the transatlantic link, and to bring home to Kohl that the UK's key role in the defence of Europe, and our far reaching ideas on the development of new Community policies, mean we must be closely involved in any discussion about giving 'new political impulse' to Europe.

WEU

7. In 1954, the 1948 Brussels Treaty was modified to allow the FRG and Italy to accede (name changed to Western European Union). Membership now comprises Belgium, France, the FRG, Italy, Luxembourg, the Netherlands and the United Kingdom.

8. Under the Treaty:

- Member States commit themselves to aid others suffering an armed attack in Europe
- The United Kingdom agrees to maintain on the mainland of Europe four divisions and the Second Tactical Air Force

- All the continental members agree to keep force levels within specified limits
- The FRG agrees not to produce atomic, biological or chemical weapons; and to accept limitations on the production of missiles, and bomber aircraft (original limitation on the production of warships was cancelled in 1980)
- Controls on the level of stocks of certain listed armaments held by the member states on the mainland of Europe are imposed.

Franco-German Treaty

9. The Elysée Treaty was signed in January 1963 by Adenauer and de Gaulle. It cemented Franco-German reconciliation and provided for cooperation between the two countries in every field and for meetings twice a year between the FRG Chancellor and the French President. In 1983, the French and Germans gave renewed impetus to their cooperation under the Treaty on security issues by putting into effect the following provisions: twice yearly meetings of Foreign and Defence Ministers to prepare a defence input to the Summits; a permanent commission of senior officials to prepare these Ministerial meetings; and three sub-commissions on strategy, military cooperation, and equipment collaboration

The Reunification of Germany

10. The objective of the UK, the US, France and the FRG as laid down in the Bonn/Paris Conventions which came into force in 1955 is a Germany reunited in peace and freedom on the basis of all German elections. The final communique of the North Atlantic Council Heads of Government meeting in Bonn on 10 June 1982 reaffirmed NATO support for the political objective of the Federal Republic of Germany to work towards a state of peace in Europe in which the German

/people

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people regains its unity through free self-determination. We take it as axiomatic that there can be no permanent stability in Europe as long as the German people remain divided against their will.

Foreign and Commonwealth Office

24 February 1984

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TRANSLATION OF EXTRACTS FROM A SPEECH BY CHANCELLOR KOHL ON
15 FEBRUARY IN LUEBECK TO A MEETING OF BUNDESWEHR COMMANDERS

II

. . . I should now like to consider the perspectives of German security policy in the 1980s.

After the debate on the NATO dual track decision and all the events which accompanied it our security policy requires consolidation. In this phase we must focus on two goals. Firstly, the INF problems must be restored to the politico-strategic context, where they properly belong. Secondly, future tasks which require a political answer, must now be addressed.

- The atlantic alliance must be adjusted to the conditions and demands of the future.
- The European pillar in the trans-atlantic partnership must be strengthened.
- NATO needs stronger conventional forces; the Bundeswehr will thus become even more important.
- East/West relations must be conducted in a positive spirit. . . .

(In INF) The Soviet Union could not achieve its goals. The Soviet Union tried to construct a conflict of interest between the US and the European allies and to employ the conflict as a means of pressure on the US.

III

. . . First, the preservation of peace in freedom remains the highest policy objective of the Federal Government.

Second, the North Atlantic Alliance, and friendship and partnership, with North Americans are the fundamental basis of German security policy. Only a strong and united Alliance can ensure peace in freedom. The Alliance guarantees our independence; it serves peace in Europe and the world; and remains the basis for a policy of genuine relaxation of tension. Good relations with the USA based on confidence and partnership remain of vital importance for us Germans.

Third, the unification of Europe strengthens western security, and stability in Europe

Fourth, Franco-German friendship and the close cooperation between the two states in security policy increase Europe's weight in the North Atlantic Alliance and enhances the latter's defence capability.

Fifth, the political concept of the Alliance, namely political solidarity and adequate military strength combined with efforts at progress in east/west dialogue and arms control, remains valid.

Sixth, the stabilisation and development of east/west relations, dialogue, and cooperation, are the basis and pre-condition for successful arms control and disarmament. The two
/states

states in Germany have a particularly important shared responsibility for peace in Europe.

Seventh, plausible deterrence remains a legitimate and morally justified means of preventing war. It embraces the totality of political, military, economic and other forces.

Eighth, the proven strategy of flexible response, a strategy which is exclusively defensive, remains valid. We shall also continue in the future to make a strong contribution to NATO in order to improve the ability of the Alliance to implement its strategy.

IV

What Europe does for its own security is relevant to the credibility of this strategy. Europeans must combine their efforts in defence so that a European security policy arises. It is worth strengthening the European pillar supporting the bridge between North America and Europe.

Franco-German efforts to overcome the crisis in the European Community also serve this goal, as do Franco-German efforts to deepen further their cooperation in the field of security policy. Such endeavours play a key role in the strengthening of the European pillar in the Atlantic Alliance. They are an expression of European solidarity in defence.

The contemporary requirements of security in Europe and throughout the world require western Europe to maintain its influence outside the region, not only in its relations with the United States and dialogue with the east, but also in its relations with Japan and its responsibilities towards the third world.

The deepened Franco-German cooperation in defence has already lead to remarkable successes. Coordination in strategic and operational questions and arms control; close cooperation in arms production; and numerous varied exchanges of information in defence matters - all these are an expression of our conviction that only together can we secure the future of our two peoples. We shall at the same time be doing justice up to our special responsibility for Europe.

The Federal Government is making efforts to ensure that all European friends join in this cooperation on the road to European unity.

V

At the same time we do not wish to forget that we Europeans can only safeguard our security together with the North Americans. We Europeans need the protection of American world and sea power. Conversely the Americans and Canadians know that the defence of their freedom begins in Europe.

Our Alliance's conception of deterrence and defence is based on the principle of the balance of forces. Deterrence should force a possible aggressor in the decision between war and peace, to

/decide

decide for peace. Thus deterrence is a means of maintaining peace. It is sensible in military terms and morally justified.

The balance of military forces must be seen in the context of political geo-strategic, economic, and demographic factors.

You all know that the conditions for the preservation of the balance of forces and effective deterrence have become more difficult. I list here only the most important factors.

- The Soviet Union is continually improving its conventional capabilities for world wide strategic intervention. The Soviet Union is forcing through the development of nuclear armaments in short and intermediate range weapons in the name of maintaining nuclear strategic parity.
- The dependence of the west on energy and raw materials from crises regions is growing. At the same time our ability to bring about stability in these vitally important regions has declined.

Economic problems are making the burden of defence expenditure heavier, and this at a time when in fact greater expenditure on stronger conventional forces and exploiting modern technology is required.

In this situation there are two particular requirements for us. On the one hand we must further stabilise East/West relations by numerous confidence building measures and efforts at arms control. On the other hand we have to make a decisive effort to strengthen our defence capability. And above all we have to impart

/the

the conviction that the democratic state, based on the rule of law which preserves our freedom, is worth defending.

Our fellow citizens have to understand the alliance strategy and know that they can have confidence in it. This strategy is neither exclusively nor primarily dependent on nuclear weapons. In the first instance an appropriate conventional defence capability is at one and the same time essential, both for the credibility of deterrence, and for the maintenance of our freedom of political decision taking in the case of an acute threat.

For us there are three basic criteria for alliance strategy. Firstly, for the Federal Republic of Germany the defence of all our territory has absolute priority. I shall mention here only the concept of coordinated forward defence close to our borders and air defence as means of defending our territory. Secondly, the rapid ending of conflict and limitation of material damage are further basic elements in our strategy. Thirdly, the principle of a multinational alliance is not only an expression of NATO solidarity for us, it is something we cannot afford to give up under any circumstances. The fundamental elements of a multinational alliance are the stationing of forces from six NATO countries (on FRG territory) and integrated NATO air defence. The German army has a special responsibility to maintain operational freedom for all NATO forces stationed on our territory.

In all this concentration of our strategic thinking on the defence effort in central Europe we should not overlook the fact that increasingly, conflicts arise in other parts of the world. The expansionist activities of the Soviet Union play an

/increasingly

increasingly significant role in these developments. In my government declaration on 4 May 1983 I said, "everybody knows that our vital interests extend beyond the NATO area. Crises which develop in other parts of the world also have an effect on us. So we need and practise solidarity and close coordination with those of our allies who have taken on world wide responsibilities.

I wanted to make clear in this way that we also see clearly the changing aspects of security problems both within and beyond the territory of the Federal Republic of Germany

VIII

. . . The task for the present is to preserve peace and freedom. The task for the future is to preserve the nation. Peace in Europe which transcends East/West antagonisms is the necessary precondition for overcoming the division of Germany

To overcome the division of Germany we need support in the alliance and in the European Community. We need the alliance and a united Europe more than others do.

In my Government declaration I said: "We stand in a long line of German patriots who sought German unity in a greater European homeland. A policy of peace in Europe is part of our history and is in our national interest".

In spite of their less satisfactory aspects the recent controversies about security policy have also produced encouraging

/signals

signals: the shared responsibility for peace of the two Germanies has been a proven, constant regulating factor in East/West relations.

I place my hope on the good sense of all those who bear responsibility for the fate of the entire German nation. In this spirit I also call on you to make your contribution to safeguarding the future of our German fatherland in peace and freedom.



VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984

EAST/WEST RELATIONS

POINTS TO MAKE

Chernenko succession

1. Chernenko looks like another interim leader, but too soon to pass judgement.
2. Not yet clear what effect his election will have on policy. Collective decision making in Politburo will continue. Gromyko (Foreign Affairs) and Ustinov (Defence) will have considerable influence.
3. Your impressions of Chernenko? Plans to invite him to Bonn?

East/West Policy

4. Important for West to maintain consistent approach over long term. Avoid overstimulating public expectations.
5. No compromise on principles. Will make clear our concerns about Soviet behaviour. But at same time argue for broader dialogue.
6. Important to avoid misunderstanding between East and West and to achieve better mutual understanding without which arms control negotiations unlikely to succeed. Recognise progress will be gradual.



7. Undiminished need to maintain close coordination in NATO, especially in US election year. Coordination before and at CDE showed what can be achieved. NATO East/West study offers a significant opportunity to agree general guidelines for a common approach.

Visit to Hungary

8. Surprisingly forthcoming. Hungarians keen to conclude agreement with EC. Sound political reasons for pressing ahead with this.

Poland: Western Policy

9. Have broadly similar views about Poland. Sanctions hurting Polish people more than Polish Government. Should build on Ten's agreement to gradual resumption of official and technical contactss. US hard line policy a problem.

Polish Church Scheme to Aid Private Agriculture

10. Useful that commission will now make detailed study of scheme and possible sources of funding. Latter is likely to be difficult.

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ESSENTIAL FACTS

Succession of Chernenko

1. Chernenko's claim to post of General Secretary based on seniority in Party Secretariat. Not best qualified candidate; lack of experience in international field. Next generation (Gorbachev and Romanov) presumably decided not to risk political futures by mounting serious challenge. Gromyko's position improved; spoke with authority at Andropov's funeral.

East/West Policy

2. No change of direction apparent in Chernenko's acceptance and funeral speeches but notable that US not singled out for criticism. Andropov's first speeches in 1982 more pointed.

3. Contradictions in Soviet position on arms control. Profess to be peace-loving but walked out of negotiations. Privately seem keen to stabilise superpower relationship, but do not want to help Reagan's re-election; want arms control agreements, but not to make first move.

US/Soviet Relations

4. Some signs of movement in US/Soviet relations. Reagan 16 January speech made clear US ready to improve East/West relations. Russians have taken constructive approach to discussions over a number of technical questions: hot line, demarcation of boundary in Bering Straits.

FRG/Soviet Relations

5. At Stockholm Genscher renewed suggestion of further meeting in 1984 in either Bonn or Moscow. Gromyko has since raised subject with German Ambassador in Moscow, but without fixing dates. When they meet in Moscow Kohl may have invited Chernenko to visit FRG (thus renewing invitation made to Andropov).

Poland

6. Situation in Poland generally stable. Internal situation still difficult but not as repressive as, eg Romania, Czechoslovakia.

7. US policy towards Poland remains hard-line and out of step with Ten who agreed (September 1983) on desirability of re-engaging Western influence and gradual resumption of official and technical contacts.

8. UK objective to engage in a touch, critical dialogue with Polish leadership and restore contact with Polish people. Germans also anxious to re-engage in Poland and extend contacts. (Not for use: we understand that Kohl has recently instructed his Finance and Economic Ministries to "revitalise" relations with Poland). Germans have pushed a scheme to channel money and political assistance from the West (specifically the European Community) to Polish Private Farmers via the Catholic Church in Poland. Whatever the overall merits of this scheme might be the financial implications need careful examination before any commitments are given.



Prime Minister's Visit to Hungary

9. We briefed Germans at official level in London on 8 February. Mr Unwin gave EC briefing in Budapest following visit.

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VISIT OF CHANCELLOR KOHL: 28 FEBRUARY 1984

THE FEDERAL GERMAN POLITICAL SCENE

BACKGROUND

1. Chancellor Kohl's CDU/CSU/FDP coalition came to power in October 1982 after Schmidt's SPD/FDP coalition broke up, primarily over economic policy. Kohl then led the CDU/CSU to their second best ever election result on 6 March 1983. But he needed the liberal FDP as a coalition partner (the Greens deprived the CDU/CSU of an absolute majority) and he was able to follow his personal preference in re-appointing Genscher (FDP) as Vice Chancellor and Foreign Minister, leaving Strauss (CSU) as Minister President in Bavaria. The SPD result was their worst for twenty years.

2. The Hesse and Bremen Land (regional) elections on 25 September 1983 constituted the first electoral test of the coalition's popularity. The results were a boost for the SPD at the expense of the CDU. The FDP cleared the 5% hurdle needed for parliamentary representation in the more important election in Hesse, but failed in Bremen.

3. During the latter part of 1983 the dominant issue was INF deployment. But the focus has now shifted to prospects for the coalition in the light of corruption charges against one of its main architects, Count Lambsdorff (the FDP Economics Minister) and Kohl's decision not to dismiss his (CDU) Defence Minister, Woerner. Lambsdorff is clinging to office but may resign if, as seems increasingly likely, his case comes to trial in June.

4. The essence of the case against Woerner is that he retired and humiliated a four star General (Kiessling) because his alleged homosexuality made him a security risk on the basis of flimsy evidence. Kiessling has been rehabilitated, but Woerner will have the greatest difficulty in regaining the confidence of the armed forces.

5. Kohl has kept Woerner and, for the time being, Lambsdorff because replacing them would have involved restructuring his delicately balanced coalition under pressure from Strauss. Kohl has kept Strauss in baulk, but at the price of stimulating speculation about his own future. The Finance Minister, Stoltenberg, who gets on well with Strauss, is the obvious successor.

6. Kohl's recent performance in foreign affairs has also been patchy. Most observers consider he mishandled his visit to Israel and doubts have surfaced about his relations with Mitterrand.

7. Kohl's own view is that the public are less interested in the Kiessling affair than in the improving economy. The election in Land Baden Wuerttemberg (Woerner's home state) on 25 March will be the voters' first opportunity (and only one in 1984) to pass judgement.

Foreign and Commonwealth Office

24 February 1984