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10 DOWNING STREET

From the Principal Private Secretary

9 June 1984

Dear Len,

I enclose the record of the Prime Minister's and the Foreign and Commonwealth Secretary's bilateral meeting with Chancellor Kohl and Herr Genscher at Lancaster House on 8 June during the Summit Meeting.

I am sending copies of this letter and enclosure to David Peretz (H.M. Treasury) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

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RECORD OF A BILATERAL MEETING BETWEEN THE PRIME MINISTER AND
THE FOREIGN AND COMMONWEALTH SECRETARY AND CHANCELLOR KOHL
AND HERR GENSCHER AT THE SUMMIT MEETING AT 1800 HOURS ON
FRIDAY 8 JUNE 1984

PRESENT

The Prime Minister
Foreign and Commonwealth Secretary
Sir Julian Bullard
Mr. F.E.R. Butler

Chancellor Kohl
Herr Genscher
Herr Horst Teltschik
Interpreters

COMMUNITY ISSUES

The Prime Minister reminded Chancellor Kohl that she had undertaken to prepare some thoughts on the future of Europe. She handed him a copy of this paper and said that she would also make it available to Signor Craxi during the Summit and give it to other members of the Community before Fontainbleau.

Turning to the budget issues, the Prime Minister said that she had been very pleased with her meeting with Chancellor Kohl at Chequers and had hoped that, following her subsequent meeting with President Mitterrand, progress would be made towards agreement on the budgetary system and strict financial guidelines before the European elections. These hopes had not been fulfilled and she now did not know whether agreement would be reached at Fontainbleau. The UK Government wanted an agreement but she had heard

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reports that the agenda at Fontainebleau would provide very limited time for discussion of this issue. That would only be acceptable if the task left for Fontainebleau was to endorse an agreement which had been substantially agreed beforehand.

Chancellor Kohl said that it would not be acceptable to leave inadequate time to settle the budget problems at Fontainebleau. The best course would be for Heads of Government to know when they went to Fontainebleau what the outlines of the solution would be. He had expressed this view to President Mitterrand. Herr Genscher intervened to ask whether M. Dumas had put a new proposition to the Foreign and Commonwealth Secretary this week. The Foreign and Commonwealth Secretary said that M. Dumas had not put any new proposition: their talk had been on the basis that the negotiations should start again at Fontainebleau from the position reached in Brussels.

Chancellor Kohl said that the German interest was in achieving a system which would give certainty about their contribution even if they had to pay more. He would try to speak to President Mitterrand again during the Summit and would let the Prime Minister know of any outcome. He would also talk to Signor Craxi and Mr. Martens before Fontainebleau. He hoped that this matter could be settled at Fontainebleau because the present situation was psychologically bad for the whole Community. People could not understand why the Community was not achieving the opportunities available from being the biggest market in the world. The Foreign and Commonwealth Secretary agreed. In his speeches in the European elections he had found a sense of impatience and frustration with the Community. But there would not be progress to achieving the Community's potential until its financial structures were reformed. The

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Prime Minister added that another reason for settling the financial issues was to get Spain and Portugal into the Community.

CHANCELLOR KOHL'S VISIT TO ARGENTINA

The Prime Minister referred to Chancellor Kohl's forthcoming visit to Argentina. The UK Government were having difficulty in making progress towards normalising relations with Argentina as they wished because the Argentines insisted on discussing the sovereignty of the Falklands. She hoped that Chancellor Kohl would urge them to be realistic about this. She could not discuss sovereignty after British lives had been lost in recovering the Islands, but this should not be an obstacle to moving towards normal commercial relations.

Chancellor Kohl said that he would do what he could. Now that Argentina had a democratic government, there was everything to be said for moving towards normal relations. He reminded the Prime Minister that, following her request to him, the German Government had refused to supply torpedoes to Argentina and were maintaining their position now. The Prime Minister said that Britain was very grateful for this.

Herr Genscher mentioned reports that British salesmen were exploiting the German refusal to supply arms to Argentina by saying that the Germans were not reliable trading partners. The Prime Minister said that if he would let her have details she would have any such reports investigated.

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IDA REPLENISHMENT

The Prime Minister said that the \$9 billion IDA replenishment was not sufficient. She hoped that other countries would agree to increase it. Britain was ready to do so. She had not raised this during the general meetings at the Summit because she knew that it would be unwelcome to the United States. Chancellor Kohl said that Herr Genscher favoured subscription by Germany and the German Government would be considering this further.

SUMMIT ISSUES

Referring to the Summit discussion of the Declaration of Democratic Values, The Prime Minister said that she had been concerned by France's reluctance to agree to the inclusion of a statement that the security of each was of concern to all. Chancellor Kohl agreed. But President Mitterrand's position on defence in Europe was nevertheless a strong one and he was a reliable partner. Chancellor Kohl said that he had felt unable to see why Mr. Trudeau could not accept that there could be no satisfactory peace without freedom. Mr. Trudeau could not understand the problems of Europe where peace in Poland, for example, was merely the absence of war. What was the value of peace if people did not have the basic personal freedoms of action and expression? The Prime Minister agreed, but commented that nevertheless satisfactory sentences had eventually been achieved in the Declaration.

In further discussion of Summit issues, the Prime Minister said that she hoped to include in the Declaration some elements which would give hope for young people. That was why she had wanted to include an initiative on the environment. She was worried about the greater difficulty

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in Europe in achieving new jobs, compared with the United States and Japan. There was a culture of enterprise in the United States which made it much easier to start new businesses: although it was difficult to say so, one factor might be the greater featherbedding of people through the social security systems in Europe. Chancellor Kohl agreed. Germany was now possibly paying the price for Hitler since people who had lost everything were reluctant to risk what they had now achieved. Another factor was the excess of bureaucracy and legal regulation. The Foreign and Commonwealth Secretary referred to the absence of standardisation in Europe and the greater regulation of employment, compared with the United States, which made employers reluctant to take on labour.

The meeting ended at 1845 hours.

9 June 1984