



PM/85/5

PRIME MINISTEREuropean Community: Your Meeting with Chancellor Kohl

1. You may like to have some thoughts on the handling of Community issues in your talks with Chancellor Kohl. Speaking notes have been provided in a self-contained form (Brief No 3).

2. Over the past few months we have been finding the Germans quite difficult partners in the Community. They feel that they were out-manoeuvred at Fontainebleau, when we got our budget correction and they did not. They are strongly committed to enlargement of the Community and suspect that, given half a chance, it is not only the Greeks who might back-slide. The German Government has given firm undertakings to the Bundestag that new own resources will not be made available until enlargement takes place. This is creating difficulties over the financing of the 1.3 billion ecu shortfall this year and the 1,000 mecus abatement agreed for us at Fontainebleau. The Germans are our natural allies on the question of integrated Mediterranean programmes, but are still likely in the end to go further than we would wish, even though they will have to pay 33% of whatever sum is agreed for IMPs (while our own net contribution post-Fontainebleau will be 7%). You will have seen Michael Jopling's disturbing account of his talks with the German Agriculture Minister, in which Kiechle argued that large price increases will be required in the next price-fixing.

3. Beyond these immediate issues, Kohl is the main force behind the proposals for new steps in the development of the Community. He believes that unless improved decision-making procedures are agreed and existing cooperation intensified, the enlarged Community will be unmanageable. He also thinks that in President Mitterrand he has found a kindred spirit;

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that Mitterrand is prepared to go further than his predecessors over moves towards European integration; and that this opportunity must be seized. Mitterrand in fact will probably not be prepared to go as far as Kohl imagines. But the French, concerned about trends in opinion in Germany, are disposed to help Kohl politically; and for their own reasons- because they see it as an effective way of promoting French interests in the Community - they will be prepared to go along with a watered down version of what Kohl wants.

4. We need to establish common ground with the Germans on the points where our interests coincide; and to encourage them towards our own positive but more practical ideas for the development of the Community.

5. On the development of the Community I suggest that our approach should be to convince Kohl that it should be possible to reach agreements of practical value which would meet his political requirement while not asking the impossible of us. It would, I think be worth taking up his suggestion, made to Sir Julian Bullard, that he might come to Chequers for a discussion of this subject between the Brussels and Milan European Councils. But we need to start influencing his thinking now and your meeting provides the opportunity to put some key points to him.

6. You might argue as follows:

- we recognise the problems which enlargement will pose, and very much want to see the Community move forward;
- but this work should not be carried forward in a way which, far from strengthening unity, would create new divisions;
- we hope that Ruhfus will concentrate his efforts in the Dooge Committee, as Malcolm Rifkind will be doing, on achieving the widest possible area of agreement. That

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is the Committee's mandate;

- we want the existing Treaty provisions to be fulfilled: that means completion of the common market;
- we could agree to formalising the arrangements for political cooperation, where our record is second to none;
- we are also prepared to look at ways of guarding against abuse of the claim that very important national interests are at stake;
- this could be done by requiring the member state concerned formally to justify its position in a special procedure of the Council. (We believe that our ideas on this are not far from those of the French.)
- but the cohesion of the Community itself requires that no member state should be voted down on a matter which really is of great importance to it (eg the FRG in relation to vehicle emission standards, or the sugaring of wine, to take two recent instances);
- we are open to practical ideas of increased cooperation in areas like science, education, health and internal security, though a great deal of practical cooperation is going on already;
- our attitude to this work will depend on whether we see a genuine commitment to make a reality, within an agreed time-scale, of the key provisions in relation to completion of the common market (eg liberalisation of transport, insurance, banking etc where the Germans so far have been just as opposed to a genuine opening up of their market as have the French);
- we want this not just because Britain is strong in the services sector, but because creation of a genuine common market is a way to create jobs and keep Europe competitive.

7. On enlargement it will be worth emphasising that:

- our commitment to enlargement is just as strong as that

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- of the Germans, and for the same reasons;
- enlargement will make the Community more cumbersome.
But it is a political necessity if we are to help consolidate democratic pro-Western Governments in Spain and Portugal;
 - it already has paid dividends in this regard, viz our own agreement with Spain over the opening of the border with Gibraltar and the Spanish Prime Minister's declaration of support for NATO membership at his recent Party conference;
 - if Spain enters the Community on schedule on 1 January 1986, the prospects will be good for a positive vote in the referendum on NATO membership;
 - following the agreements in Dublin, the outstanding issues in the negotiations should be resolved by the time of the European Council in March;
 - enlargement must take place as planned, on 1 January 1986.

8. You will want to mention another area on which we shall need to remain in close touch - the way to deal with Papandreou's demands on integrated Mediterranean programmes. You might point out that:

- the ideas put forward by Natali for programmes costing 6.6 billion ecus were absurd;
- Greece last year got £570 million (2 billion Deutschmarks) and Italy £700 million (2.5 billion Deutschmarks) net benefits from the Community;
- expenditure on Mediterranean agriculture programmes has increased by 250 per cent over the last three years;
- Greece has a GDP per head only slightly below that of Spain, and much higher than that of Portugal;
- even so, something will have to be done for Greece;
- but it is not reasonable that Italy, which is much more
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prosperous, should receive a high proportion of IMPs;

- we should adopt a common approach and agree a figure for IMPs which we should then defend in the Community.

9. It will be important to seek to enlist Kohl's support in countering the pressure his own Agriculture Minister is currently exerting for a substantial increase in agricultural prices. The financial guideline under the budget discipline arrangements agreed at the Dublin European Council must not be breached in the price-fixing. The pressure on the own resources and the 1984 and 1985 budget over-runs are largely due to the high rate of increase in agricultural spending (on average 18% per annum over the past three years). A serious effort to start correcting this situation was made in the 1984 price-fixing. The effects of the guarantee thresholds which have now been introduced for milk, cereals, wine, etc will be negated if the Community does not continue to pursue a restrictive pricing policy. You might like to cite one or two examples eg:

- Community expenditure on milk in 1984 was nearly £3.5 billion (12.6 billion Deutschmarks) - one fifth of the total Community budget;
- the Community this year has an exportable surplus of 45 million tonnes of cereals. Real levels of support per hectare for cereals have risen steadily with higher yields;
- there is no possibility of disposing economically of surpluses on this scale. Stocks of cereals in intervention could rise from 11 million to 22 million tonnes by this summer;
- the cost of the wine regime has increase by seventeen times over the last six years (from 62 million to 1.1 billion ecus).

You may wish to emphasise to Kohl that a determined effort to being about a proper balance between supply and demand through a restrictive pricing policy is the more essential as the US

Administration



Administration is intending to reduce its own farm subsidies and encourage US farmers to export more aggressively.

10. Finally there is the question of the 1985 budget over-run and the new own resources decision. With the possible exception of the Netherlands all other Member States except the FRG believe that the best course is to finance the 1.3 billion ecu over-run and our abatement by bringing forward the new own resources. None of them believe, however, that the Germans will move until the enlargement negotiations are completed. It may be very difficult to get them to move even then. But our 1,000 mecu abatement next year must be financed as all heads of government agreed at Fontainebleau by the reduction of our VAT contribution in 1985. To give effect to the Fontainebleau agreement, this must be incorporated in the new own resources decision. We shall not, of course, put the new own resources decision to Parliament without our 1,000 mecu abatement. We do not need to instigate a major argument with the Germans on this matter now. No one in the Community is questioning that we shall receive our 1,000 mecu. But we must put Kohl quietly but firmly on notice that we look to the German Government to honour that commitment; and that we do not see how this can be done except through the new own resources decision.

11. Kohl is likely to raise environmental issues and briefing is being provided on these.

12. The differences between our approach and that of the Germans over the next few months ought to be manageable. But they will be the easier to manage if there is a firm understanding between us that we will use our combined weight to ensure that enlargement does take place on schedule and to contain Greek demands on the IMPs; and that there is sufficient common ground between us on the development of the Community to offer Kohl the prospect of this work leading to something in which

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could participate. Time, further discussion and the increasing involvement of governments should reinforce our efforts to inject greater realism into what is proposed.

13. I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Minister for Agriculture and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G. Howe', is written below the text.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
15 January 1985

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