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From the Private Secretary

19 May 1985

Dear Sir,

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL : OTHER SUBJECTS

I enclose a record of the Prime Minister's discussion with Chancellor Kohl covering the Economic Summit, Economic and Social issues, the European Fighter Aircraft, the Polish Church Agricultural Scheme, the EC/Turkey Association Agreement and India/Pakistan.

I am copying this letter and enclosure to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), John Mogg (Department of Trade and Industry) and to Richard Hatfield and David Williamson (Cabinet Office).

Yours sincerely,

(Charles Powell)

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL: OTHER ISSUES

Present:

Prime Minister	Chancellor Kohl
Mr. D.F. Williamson	Herr Ruhfus
Mr. C.D. Powell	Herr Teltschik

Economic Summit

Chancellor Kohl said that his main conclusion from the Bonn Economic Summit was that it was a mistake for Heads of Government to try to tackle too many disparate subjects. He had found the informal discussions over meals of the greatest use and also the session on economic policies between Heads of Government alone on the first morning. Much of the remainder had been frustrating and unproductive. His advice to Mr. Nakasone would be to try to take fewer subjects but go into them in greater depth at the Tokyo Economic Summit. The Prime Minister agreed generally while commenting that it had been very important to have a thorough discussion of protectionism and a new GATT multilateral trade round at the Summit. She agreed that the Summit should not turn into a review of current foreign policy issues, although it was bound to focus on any current crisis.

Economic and Social Issues

Chancellor Kohl commented that of the 2.3 million unemployed in the Federal Republic at least 500,000 were not genuine unemployed. There was much abuse of the social security system. The Prime Minister suggested that there should be a full discussion of unemployment and the future of social security systems at the next European Council. Most European governments faced the same problems. But efforts to speak frankly about them were often misrepresented. There were some things which it was easier for governments to say together than individually. Government policies were often judged by unemployment figures which were not a true measure of the state of their economies. For instance one factor in causing unemployment was that those in work demanded too much in pay and other benefits. The United States seemed better able to discriminate between the genuinely unemployed and those who were taking advantage of the social security system. Chancellor Kohl said that the basic problem for the Federal Republic was that it had lived above its means for the past twenty years. It was partly a moral problem: people no longer observed standards. He agreed with the Prime Minister that it would be useful to discuss these issues at a future European Council.

European Fighter Aircraft

The Prime Minister said that there were attractions in a European fighter aircraft because of the potential savings of collaboration. But it was more important to ensure that the aircraft met the strategic requirements than that it should sell in world markets. There must also be fair arrangements for production. The United Kingdom was very strong in engine technology. It was also a fact that, while both France and the Federal Republic already had the headquarters of collaborative aircraft projects, the United Kingdom did not. She hoped that this would be taken into account in deciding the location of the headquarters of the European Fighter Aircraft project. She was not very happy with the way

discussions seemed to be going but understood that co-operation between the British and German Defence Ministers and their officials was very close. She hoped that this would continue.

Chancellor Kohl said that the Federal Republic also wanted the European fighter aircraft and hoped that none of the countries involved would fall back on national arrangements. He would speak again to President Mitterrand to urge that France should be more co-operative. He agreed that Britain and Germany should work closely together. It was just as important to maintain collaboration on civil aircraft production.

Polish Church Agricultural Scheme

Chancellor Kohl said that he attached very great political importance to a Community contribution to this Scheme. He understood that the Parliament had provided 5m ecu in the revised Community Budget for 1985. He hoped that the United Kingdom would be able to accept this when it came back to the Budget Council. The Prime Minister pointed out that the Council's Budget Committee had voted not to put money in the Budget because there was no legal basis for the expenditure. Moreover, although the United Kingdom was contributing to rescheduling of Poland's debts, she did not think it appropriate for the Community as such to be involved with the Church Scheme. It was of course open to individual member states to make contributions if they so wished. Chancellor Kohl pressed the Prime Minister very strongly to reconsider her position before the Budget Council.

EC/Turkey Association Agreement

Chancellor Kohl said that the European Community's Association Agreement with Turkey provided for free access for Turkish workers from 1986. It was vital to the Federal Republic to see this access restricted. He would welcome the United Kingdom's help when it came to discussing a mandate for

negotiation. The Prime Minister said that we would be prepared to look sympathetically at this.

India/Pakistan

Chancellor Kohl said that the Federal Republic had had worrying indications that Pakistan might be developing a nuclear weapon and that India might be tempted to take pre-emptive action to prevent this. The Prime Minister said that there had indeed been speculation about this, though President Zia always denied it when challenged. Prime Minister Gandhi had mentioned to her his worries on this score. She agreed that it was potentially a dangerous situation.

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19 May 1985