



10 DOWNING STREET

File 75
a/c PC Radok

SUBJECT
a/c Master

From the Private Secretary

5 May 1986

Dear Tony,

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL:
5 MAY

The Prime Minister had a brief meeting with Chancellor Kohl in the margins of the Economic Summit in Tokyo today. Chancellor Kohl was accompanied by Herr Teltshick.

Chancellor Kohl opened by saying how much he was looking forward to his visit to BAOR with the Prime Minister in September.

GATT Round

The Prime Minister said that she assumed that she and Chancellor Kohl were as firm as ever in support of a new GATT round which should begin as soon as possible. The prospects now looked much brighter following President Mitterrand's comments earlier in the day. Chancellor Kohl agreed.

European Community Budget

The Prime Minister stressed the need for the Community to preserve financial discipline and keep within the 1.4 per cent VAT ceiling. The agreed position was that there could be no increase in the ceiling before 1 January 1988 at the earliest. Even then it was likely to cause great political difficulty. Chancellor Kohl said that his position on the ceiling remained very firm. He would like to keep in direct touch with the Prime Minister on this subject, given that there were differing views within the German Government.

CAP

The Prime Minister said that it was absurd that half the Community budget went on storage and disposal of agricultural surpluses. Chancellor Kohl said that not only was it absurd in itself, but it also gave rise to consequential political difficulties.

both because of the Commission's practice of selling the surpluses cheaply to the Soviet Union and Libya and because it led to growing clamour to send surplus food to Africa as food aid. The Prime Minister said that the latter would actually increase the costs of the CAP. The Community must direct its policies towards not producing surpluses. Chancellor Kohl said that his Government would be making drastic cuts in agricultural production, even though this would cause him political problems and would be expensive since it would have to be nationally financed. The key was to take land out of production. The Prime Minister commented that the United Kingdom was also considering the introduction of a set-aside policy.

EC/US

The Prime Minister said that she had not raised EC/US trade problems in the Summit discussions although she had spoken firmly to President Reagan in private saying that the Community would take badly unilateral retaliation by the United States. The right way to proceed was through the GATT. President Reagan had appeared to recognise this.

East/West relations

The Prime Minister said that the new Soviet Ambassador to London had recently called on her with a message from Mr Gorbachev. It was clear that Gorbachev was anxious for a further Summit meeting with the United States this year. She had stressed the need for serious and detailed negotiations on arms control. Hitherto the Soviet Union had concentrated on propaganda proposals in an attempt to influence western public opinion to demand concessions from western governments.

Chancellor Kohl said that he wanted to see an early summit. But it must be more productive than the Geneva Summit. His assessment was that Gorbachev's position was weak. His legacy from Brezhnev had been disastrous. The Libyan affair had underlined Soviet weakness: they had played no role at all, which was a blow to their prestige. Sacking some thousands of senior party officials had made him many enemies. On top of all this had come the nuclear accident at Chernobyl. The result was that Gorbachev was in deep trouble. The speech by Honecker to the recent East German party congress had been revealing. He had demonstrated much greater self-confidence towards the Soviet Union, particularly on matters of economic performance.

The Prime Minister suggested ^{that} this weakness strengthened the case for an early Summit and for putting pressure on the Soviet Union to negotiate seriously in Geneva. Chancellor Kohl agreed. The West should hold to its firm positions on basic

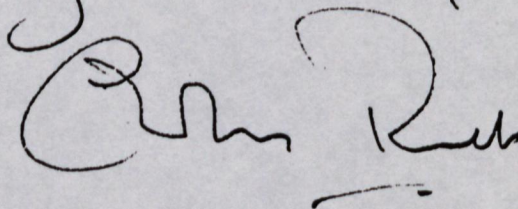
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issues - he mentioned the SDI and the extension of the period of military service in the FRG - while showing some tactical flexibility. The aim should be to put the Soviet Union on the spot by insisting that they settle down to negotiate seriously on their own proposals.

Discussion had to break off at this point.

I am sending copies of this letter to John Howe (Ministry of Defence), Ivor Llewelyn (MAFF), Rachel Lomax (HM Treasury), Mike Gilbertson (Department of Trade and Industry) and Michael Stark (Cabinet Office).

yes surely.


(CHARLES POWELL)

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