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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND CHANCELLOR KOHL
AT WILLIAMSBURG AT 1730 HOURS ON SATURDAY 28 MAY 1983

Present:

Prime Minister

Chancellor Kohl

Mr. Coles

Mr. Teltschick

Interpreter

Interpreter

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Chancellor Kohl enquired as to the progress of the election campaign in the United Kingdom. He said that he had believed for months that the result would be of great importance to the Western Alliance and that Andropov would not start to negotiate seriously about arms control until the outcome was known. The Soviet Union was currently going through a bad period both for economic reasons and because the collapse of Communist ideology was clear - events both in Poland and the German Democratic Republic demonstrated this. Ideology had been replaced by naked power politics. But the Russians remained extremely powerful. Following the UK election, the West would be set on a clear course for some years ahead. The Italian elections would not lead to substantial change in defence policy. German defence policy was soundly established as well. All this was important, particularly in view of the less satisfactory attitudes adopted by Denmark and Sweden. It was important for the United States to have loyal allies, but the Americans had to understand that we were not dependants.

The Prime Minister said that she believed that the Americans did understand that point. It was most important that the Williamsburg Summit should be successful, both in its economic message and in demonstrating the unity of the Alliance on defence issues.

In response to a question from the Prime Minister, Chancellor Kohl said that he would not describe the German economic recovery as rapid; but there was a steady upward movement. The climate of opinion had changed and people were more optimistic. However, the process of reducing unemployment would be a long haul. The trade unions were now in a reasonable frame of mind. He had the

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day before approved a wage settlement for public sector employees which would last for 18 rather than 12 months. They would get an average annual salary increase of only 2.5%. The Prime Minister commented that this was a remarkable achievement. Chancellor Kohl said that for 2 years the salaries of civil servants had risen by only 2%. Inflation was now a little less than 3.5%. If Germany was very lucky, it could be down to 2.9% by December. The Prime Minister observed that unemployment was now the overriding problem. This could be discussed at Stuttgart along with the EC budget problems.

Chancellor Kohl said that it would be very helpful if action could be taken to bring interest rates down, but that largely depended on the US budget deficit. The Prime Minister said that she understood that the US Congress was more interested in tax cuts than in bringing down the deficit, though the latter would be the biggest single measure of assistance to the world economy. Chancellor Kohl agreed, and said that this must be discussed frankly with President Reagan during the Summit. Turning to Japan, he said that he had told the Japanese Prime Minister that he was prepared to support Japan's position on SS20 deployment, but he would be looking for some reciprocal concession on trade. Our markets were open to Japan - Japan's markets should be open to us. The Prime Minister agreed, but observed that Japan had a different culture; Japanese people did not easily contemplate buying foreign goods. The Japanese economy was run in such a way as to promote exports. Japan's balance of payments would create acute problems for the rest of the world this year and next. These matters were brought up with Japan at every Economic Summit. But on each occasion the participants stopped short of applying real pressure. Chancellor Kohl observed that there was now a change in the situation. Japan needed the help of its Western partners on the question of INF missiles and wanted Japanese interests to be borne in mind in the Geneva negotiations. In that case Japan must take account of our trading concerns. The Prime Minister said that she agreed with the Japanese position that arms limitations should be of global application. But the problem remained that Japan exported a narrow range of products that did harm to our own industries while

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we could not effectively penetrate the Japanese market. We should need to continue to take action in the GATT. Chancellor Kohl commented that the West should not be lethargic in the face of Japanese trading behaviour. The Manager of Siemens had recently told him that his firm had no reason to fear the Japanese whose achievements were limited to a narrow sector. In the past 2 years Siemens had made good progress in Japanese markets. Europe still needed to know more about Japan. We should send many more students to study there.

The Prime Minister said that the agenda for the Stuttgart European Council was very full. We needed to make substantial progress on the question of long-term financing and also devise an interim solution for the British budget problem. If we could agree on a timetable and procedure for solution of the long-term problem, we should be more likely to obtain an interim solution. Chancellor Kohl said that he agreed with these views. He thought that final decisions on the entry into the European Community of Portugal and Spain should be taken at the latest in the first half of 1984 under the French Presidency. The Prime Minister commented that if Spain wanted to enter the Community it must completely remove its restrictions on the border with Gibraltar. The Spanish Government was now reluctant to carry out the Lisbon Agreement. Chancellor Kohl said that he had discussed this question with Senor Gonzales. He thought that if the Prime Minister talked directly to Gonzales about it, there was a chance of a solution, for he was extremely keen to see Spain enter the European Community.

President Mitterrand very much wanted the negotiations on enlargement to be concluded during the French Presidency, the actual date for Spanish and Portuguese entry being set for 1986. This was an important point for Germany. Germany would have to pay more towards the Community. But he would only agree to do so if he could present a convincing political case for this. Enlargement of the Community would be understood in Germany as a sufficient reason. But he was not prepared to agree to current ideas about increasing the proportion of VAT contributions to 1.4%.

/ The Prime Minister

The Prime Minister commented that we should be working for a completely different system of financing the Community. This would be even more important after enlargement. Chancellor Kohl agreed that the basic system would have to be changed. Indeed, his willingness to pay more was conditional both on enlargement and on a change in the current financing system.

He was not yet clear as to President Mitterrand's views on future financing. But we should take into account the French mentality. If Mitterrand could claim that the question of enlargement had been settled under his Presidency, he might be more reasonable on other matters. The interim solution depended on progress towards the long-term solution. The Prime Minister said that an interim solution remained of crucial importance to us. In the election campaign she had argued that Britain would obtain a solution, and quickly. In the week following polling day, there would have to be rapid action to prepare the final solution. It might be necessary for her to send an emissary to see Chancellor Kohl about this - or he could send someone to London. Chancellor Kohl said that this was worth considering.

The Prime Minister said that the Brussels conclusions must be honoured. Chancellor Kohl said that at Stuttgart the Prime Minister would have her election behind her. The Prime Minister replied that in that case she would be expected to deliver her promises. We had to obtain a clear solution under the German Presidency. Chancellor Kohl said that he understood that.

The Prime Minister said that she intended to raise with President Reagan the question of the Export Administration Act which could cause great trouble in Europe. Chancellor Kohl said that he was glad to hear this. This legislation was not acceptable to Germany in any way.

The discussion ended at 1805 hours.

A. J. C.

Subject

✓ Mr. Mather

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cc: Sir A. Parsons

10 DOWNING STREET

30 May 1983

From the Private Secretary

Dear Sir,

WILLIAMSBURG: BILATERAL MEETING BETWEEN THE
PRIME MINISTER AND CHANCELLOR KOHL

I enclose a copy of the record of the conversation between the Prime Minister and Chancellor Kohl which took place at Williamsburg at 1730 hours on Saturday 28 May.

I am copying this letter and its enclosure to John Kerr (HM Treasury), Richard Mottram (Ministry of Defence), John Rhodes (Department of Trade) and Richard Hatfield (Cabinet Office).

I should be grateful if you and they would circulate the record only to those who have an operational need to know of its contents.

Yours ever

John Colles.

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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