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PRIME MINISTER

MEETING WITH CHANCELLOR KOHL

You have a two-and-a-half hour talk with Chancellor Kohl tomorrow morning, followed by a brief press conference in No.12 Downing Street. You will find in the folder:

- a note from the FCO on EC matters
- the additional material which you requested from MAFF
- a note on self-sufficiency
- a note on non-EC issues.

This is bound to be a difficult meeting. It is not just because of the problems over the European Council. It has been preceded by a steady stream of press comment that relations between you and Kohl are poor and that you don't think much of him. He has said some sharp things publicly about your views on Franco-German defence co-operation. We have therefore a public expectation of a row.

But we want it to be a difficult meeting for Kohl, not for you. The easiest outcome for him is one where he goes away saying: that woman was totally unreasonable, wouldn't accept anything except one hundred per cent of her position and doesn't care whether the meeting in Brussels succeeds or not. That will enable him to turn the whole thing into an anti-Thatcher issue rather than have to face up to the substance on which we are quite evidently right. This is likely to happen anyway, but it is probably worth an effort to avoid it. I would therefore see advantage in an approach which would run roughly as follows:

- well, Helmut , I can see that you have a very difficult problem as Chairman of this meeting. The elections in France are a tremendous complication and I know that you have your political worries too with Lander elections in March and May.

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- but you are the only person in Europe who is big enough in these circumstances to pull off an agreement when no-one is expecting it. It was you who took the crucial steps towards resolving the earlier crisis in the Community's finances at the Stuttgart European Council. If you can pull off an agreement in Brussels, it will open the way to a very successful four months of German Presidency leading to an excellent Council in Hanover, which will set the Community's course on the Internal Market up to 1992. That is the real prize to keep your eye on.
- there are a few misconceptions that we need to get out of the way. The first is that Britain is isolated. Now we both know that is not the case. In a minority at the moment certainly, but with the support of the Dutch and the Commission on most important points. And most of the others could equally well live with the British/Dutch/Commission position as with the France/German position. After all, it was France and Germany who were generally perceived to be isolated at Copehagen;
- another misconception is that there is a great and unbridgeable gulf separating the two points of view. In fact an awful lot was clarified in Copenhagen and could now quite easily be agreed - for instance, stabilisers on everything ^{but this agreed - on} ~~except~~ cereals and oil seeds; and on oilseeds we are not really very far apart.
- of course there are other difficult areas outside of agriculture, such as the Structural Funds and the size of any increase in own resources. But here Britain's and Germany's real interests are actually pretty close.
- now we have to look at the remaining issues from the point of view of what people expect of the European Council. They expect us to live up to our earlier commitment to cut back excess production and expenditure.

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And on a global scale they expect Europe to do what we have undertaken at successive economic summits to do: that is to deal with the problem of agricultural surpluses. We have got to find solutions which achieve that.

- the proposals tabled by the Commission in Copenhagen were not perfect but they would have done that. They were not British proposals, they were the Commission's judgement of what was necessary to bring agricultural spending and available resources into balance.
- I know that you had some real difficulties with these proposals as they stood and you wanted them to be balanced by a set-aside scheme. We have gone out of our way to help you over this. You will be able to present it as a major success for Germany.
- but we also need to be able to show that serious measures to reduce agricultural spending and tackling surpluses are being taken. This means setting a Maximum Guaranteed Quantity for cereals at a level which is reasonable in the light of past harvests, consumption and export, but not one which gives scope to increase production and create further surpluses. It also means there must be provision for a mix of price-cuts and co-responsibility levies, but price cuts which are effective. And an exemption for 50% of all production, which would leave Britain and France to pay 70% of the levies, is absurd.
- so this is the area where you as Chairman have got to stand back and take a broad view, not just of the longer-term financial health of the Community but its wider international reputation as being seriously concerned to take effective action on world agricultural over-production.
- I have seen reports that some people are suggesting a linkage between the Fontainebleau abatement and the

settlement of the agricultural problems. I give you credit for being far too wise and experienced a politician to see that as a sensible suggestion. Its the sort of thing that Eurocrats say when they get irritated with each other, not Heads of Government. The Fontainebleau abatement was justified in 1984: it is even more justified now. Our net contribution has doubled since then. If that is to be re-opened, we can write off the Brussels meeting here and now.

The chances of this line moving Kohl sufficiently to produce a solution at the Brussels meeting are very slim. There is virtually no prospect of that anyway, ahead of the French elections. But if you use it, and Bernard subsequently draws on it, it will be much harder for the Germans and French to portray failure at Brussels as all the fault of embattled, isolated Mrs. Thatcher, rather than of their own failure to face up to the real problems.

The other issues which will certainly come up at the press conference are defence co-operation and terrorism. On defence I suggest you praise Kohl's record as a staunch support of NATO and of the European/American alliance, while saying that you have explained your concern to see defence co-operation in Europe conducted so as to strengthen NATO and bring France back into the closest possible de facto co-operation with it. On terrorism, you will be under pressure to criticise the Germans over the release of their hostages in Lebanon.

A reminder of the commitments which Britain and Germany have both undertaken is probably all that you need say.

C.D.P.
Charles Powell
1 February 1988

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Prime Minister (2)

This note is by the Cabinet Office.

COP 29/11

WHO GAINS AND LOSES FROM PROVISIONAL TWELFTHS?

In the first half of this year, the UK will probably be the main loser. Our gross contributions to the budget are about £80 million a month more under provisional twelfths than they would be under a budget adopted within the 1.4 per cent VAT ceiling. The main reason for this is that the abatement due to us this year is some £600 million greater than last years. This disadvantage will of course be unwound when a 1988 budget is adopted.

The counterpart of the UK's temporary disadvantage is that other member states benefit from paying less than otherwise towards our abatement for the time being. The only obvious disadvantage for other member states in the early months is that those who are net recipients from the structural funds will receive lower net benefits for as long as the Commission makes smaller allocations from these funds. The agriculture budget is likely to function normally until such time as the money runs out.

Looking further ahead, the money available under provisional twelfths would be likely to be exhausted in the early autumn. From that point onwards, the presumption is that member states would have to assume responsibility themselves for financing Community programmes. That would benefit the net contributor countries, and disadvantage the net recipient countries, for so long as that state of affairs continued. This effect too would be unwound when the budget was finally adopted.

To sum up, in cash flow terms the UK does worse than others until the money runs out. At that point, the net recipients would begin to suffer.

PRIME MINISTER

cc: Mr. Ingham

MEETING WITH CHANCELLOR KOHL: PRESS CONFERENCE

There will be a brief press conference after your meeting with Chancellor Kohl. I attach a draft statement for your to make - although much will depend on how the meeting goes.

C.D.P.

Charles Powell

1 February 1988



Foreign and Commonwealth Office

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London SW1A 2AH

1 February 1988

Dear Charles

Meeting with Chancellor Kohl: Terrorism

Lyn Parker's letter of 29 January promised further advice on terrorism.

Last week Schaeuble, a German official, admitted in court that the decision not to extradite Hamadei's brother (held in the FRG on terrorist charges) to the United States reflected threats by the kidnappers in Beirut against the safety of the German hostages. The FCO spokesman said that we would be taking up with the Germans these remarks, to see how they squared with undertakings made by the FRG at the London European Council not to make concessions to terrorists or their sponsors under duress. The Germans have argued that the government had two course of action of equal validity open to it, to extradite or to prosecute: only a failure to do either would have been a breach of their undertakings. They have also assured us that they fully stand by their commitments and will not commute any sentence imposed on the Hizbollah members undergoing trial.

Kohl may raise this, and seek a public statement by HMG 'clearing' the Germans. If so, the Prime Minister could say that we naturally accept his assurance that no substantive concession has been made to terrorists and are prepared to say so. But even the appearance of a concession undermines the European consensus and is bound to provoke a strong reaction here where terrorism remains a real threat. She might add that measures taken over the fate of one national held hostage must affect the fate of other nations' hostages. Finally the Prime Minister might express sympathy to Herr Kohl over the kidnapping of another German (Schray) in Beirut; this was the day after Schaeuble's remarks, but the two are not necessarily linked.

Yours ever
Robert (R N Culshaw)

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH

1 February 1988

Dear Charles,

Call by Chancellor Kohl: 2 February: European Community

Chancellor Kohl's visit takes the place of the postponed Anglo/German Summit. He met President Mitterrand on 22 January, but is not at present proposing to visit any other European capitals before the European Council.

With Länder elections in March and May, a major German concern clearly is to avoid problems with FRG agricultural interests. So far, the Agriculture Minister, Herr Kiechle (CSU) has made most of the running. The 1-2 February special Conclave of Foreign Ministers, which will still be taking place when Kohl arrives in London, will be discussing agriculture, but Genscher (FDP) is unlikely to take responsibility for fathering a compromise. If there is to be agreement at Brussels it is therefore Chancellor Kohl and the CDU who will have answer for it at home.

Chancellor Kohl's own views are not yet clear. He told Sir J Bullard on 14 January that he was "in the position of a ship at sea which had not yet charted her course" (Bonn telno 28). And he has not replied to the post-Copenhagen advice in the Prime Minister's message of 14 December (FCO telno 603 to Bonn).

Current indications are that he might prefer to have an agreement in February than to have to soldier on and deal with a real crisis in June: it certainly seems clear that he sees domestic attractions in focussing the Hanover European Council on the internal market, and the road to 1992. There may therefore be more give in his position but, given the CDU's poor showing in recent Länder elections, which the party attributes to the desertion of the farm vote, Kohl will no doubt argue that his political situation allows him very little room for manoeuvre. We need to try to get him to see that:

- he faces continued opposition to his present proposals on agriculture, not just from ourselves but from the Dutch and the Commission. That opposition is not going to crumble;
- raising the temperature on the abatement, in the hope of exerting leverage on us on agriculture, will not work, and agricultural reform is not a particular British hobby-horse but an essential Community requirement;

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- there is nonetheless an opportunity to reach agreement at Brussels, provided the stabiliser package is an effective one; and selling an effective package in the FRG should be easier now that it can be complemented by a set-aside scheme helpful to the German farmer.

Although the Foreign Secretary is, as the Prime Minister knows, doubtful about the prospects of an agreement at Brussels, he thinks it important that we should avoid giving Chancellor Kohl any grounds for alleging that we do not want one.

The Chancellor, as well as President Mitterrand - and even Prime Minister Chirac - all know in their hearts that agricultural spending has got to be controlled. They have all said as much - at Tokyo and Venice, as well as at successive European Summits. But each one of the three (for electoral reasons) would be glad of an alibi - for success (which will be uncomfortable) as well as for failure. So they look to "British intransigence" as their excuse, either way.

The Foreign Secretary thinks it is most important for us to deny them that bolt-hole. Our case is Europe's case - the case for common sense. We need to try to persuade Chancellor Kohl that we can all take credit together for combining courage and common sense under his leadership. The appropriate stance is one of resolute determination to work for agreement. While also stressing the need for German moves on agriculture if a deal is to be struck, it would be good tactics to point to the areas of the negotiation where agreement already is clearly within reach.

The Foreign Secretary suggests that the Prime Minister may wish to get across the following key points:

Stabilisers

- Heads of Government committed themselves to stabilisers as a means of constraining excess production and expenditure.
- Copenhagen package based not on British but Commission proposals, representing their objective assessment of what was necessary to fulfil last June's Brussels decision to "adopt the additional regulations which will enable the Commission, in the context of the management of the market, to keep the level of expenditure within the budget framework."
- The need to establish proper control of CAP spending is not just a British point: it is widely recognised in EC capitals and among EC public. Spending 50% of the total Community budget on storage and disposal of surpluses does grave damage to its image, as well as its finances.



- It should be possible to agree:

- (i) that we should adopt a set-aside scheme on the lines now proposed, subject to certain detailed points (in particular the proportion of Community financing).
- (ii) that the non-cereals/oilseeds part of the stabilisers package should go forward unchanged for adoption at Brussels;
- (iii) that we should maintain the Commission oilseeds proposal which is close to (though tougher than) that proposed by the German Presidency.

- These areas are all capable of resolution. Key area where production far out-stripping demand is cereals. Community consumption is 140m tonnes. Production was 153 m tonnes in 1987. This is area by which seriousness of Community in tackling surpluses will be judged, both by its own taxpayers and by trading partners.

- Here, Presidency have departed unacceptably far from Copenhagen package.

The flaws in their proposal are:

- (i) lack of any 1988 price cut, or of effective price cuts. Prepared, as at Copenhagen, to see a mix of price cuts and coresponsibility levy, but weighted to price cuts, as the only sure long-term way of reducing production and costs to taxpayer and consumer. If price cuts are to be linked to increases in yield, must truly reflect those increases. The low limits on price cuts now proposed would break the link, and emasculate the stabiliser.
- (ii) maximum guaranteed quantity of 160m tonnes is much higher than recent production levels. Commission proposal of 155m tonnes took full account of consumption and trade.
- (iii) general exemption from coresponsibility levy for the first 20 tonnes of marketed produce would mean 50% of production would carry no levy at all.

- If agreement to be reached must work for changes reflecting these UK and Dutch concerns, several of which are shared by the Commission.

Agricultural guideline

- Commission have confirmed that a 1988 stock-exclusive guideline of 27.0 becu, growing at 60% of GNP, should be adequate to finance CAP. Wide support for this solution, eg from Southern member states.



- We accept the arguments for allowing provision for actual - and measurable - effects of substantial changes in the \$/ecu rate on the costs of agricultural support. Consensus seems likely on a carefully-targeted monetary reserve, operating automatically and symmetrically, being drawn down when dollar falls substantially, and collecting savings when dollar rises.
- But cannot accept French concept of an "exceptional circumstances" clause, relating to world trade.

Structural Funds

- Prepared to see a significant increase in the Structural Funds, but we must not go above a level compatible with 1½ times the maximum rate. If the 1½ maximum rate threshold is exceeded, we will be forced to negotiate new rates each year with the Parliament, and there will be no effective control on non-obligatory expenditure.
- Southerners must realise that going above 1½ times maximum rate risks leaving the Community year after year without an agreed budget, ie no increase in Structural funds provision. That cannot be in their interest.
- 1½ times maximum rate can accommodate a fair offer;
- 50% overall increase;
- doubling of commitments from Regional Fund for least prosperous four;
- doubling of overall Funds' commitments for two new members.

Fourth Resource

- Our preference is for the levy based on the difference between GNP and VAT.
- But we are willing to help you find a consensus.

Abatement

- We all spent 5 years negotiating to get an equitable settlement on the budget. It was your Presidency that set us on the road to success at Stuttgart.
- It would not be helpful now to re-examine the problems of yesterday. I want to help you to tackle today's agenda.
- Case for continuing the Fontainebleau system unchanged is overwhelming. Commission figures show that our budget burden after abatement grew from average 600 mecu in 1983/84 to 1169 mecu in 1987.

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- Net burden will rise still further if there is an increase in own resources, and EC spending is concentrated more on the South. Cannot accept additional increase in the form of an arbitrary dilution of the Fontainebleau system.

- Ready to play fair by others. Made clear at Copenhagen that do not seek to gain from introduction of Fourth Resource. Ready to forgo any benefit by comparison with what we could have expected from continuation of existing structure of own resources and application of Fontainebleau abatement mechanism.

/ We shall ensure that you are informed of any significant developments today in the Conclave. You may, in the meantime, wish to have the enclosed copy of a message which the Foreign Secretary sent to Genscher last week. I also attach a note on / which the Prime Minister may wish to draw at the press conference with Chancellor Kohl.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robin Butler.

Yours ever,
A C Galsworthy

(A C Galsworthy)
Private Secretary

C D Powell Esq
10 Downing Street

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CHANCELLOR KOHL'S MEETING WITH THE PRIME MINISTER ON 2 FEBRUARY:
KOHL'S OPTIONS

SUMMARY

1. THERE IS NO EASY WAY OUT FOR KOHL. OF HIS OPTIONS AT THIS STAGE, WORKING GENUINELY FOR AN HONEST DEAL INCLUDING RATHER THAN ISOLATING THE UK, SEEMS BEST FOR HIM, AS WELL AS IN CHARACTER. THE CONCLAVE LOOKS UNLIKELY TO PROVIDE HIM WITH READY MADE ANSWERS. HIS VISIT TO LONDON WELL TIMED TO INFLUENCE THE DIRECTION HE TAKES.

DETAIL

2. IN THE RUN UP TO THE BRUSSELS SUMMIT, KOHL FACES A MESSY SITUATION WITH NO OBVIOUS COST-FREE WAY OUT. HE ALMOST CERTAINLY HAS AS YET NO GAME PLAN. HE WILL COME TO LONDON CONCIOUS OF THE HUGE ADVANTAGE TO HIM OF HAVING A SUCCESS AT BRUSSELS FOR WHICH HE CAN TAKE CREDIT. (HE COULD CERTAINLY DO WITH A SUCCESS OF SOME KIND BECAUSE HE IS BEING CRITICISED EVEN WITHIN HIS OWN PARTY FOR LACK OF LEADERSHIP, NO CLEAR LINE ETC.) HIS PROBLEM IS THAT AS THINGS STAND NOW - AND THIS IS BEGINNING TO BE UNDERSTOOD HERE - SUCCESS SEEMS UNOBTAINABLE EXCEPT ON CONDITIONS WHICH WOULD INVOLVE MODIFICATIONS OF THE PACKAGE KIECHLE CLAIMS TO HAVE PUT TOGETHER IN THE LAST MONTH. IT WOULD CALL FOR A MAJOR ACT OF DOMESTIC POLITICAL LEADERSHIP ON KOHL'S PART FOR HIM TO TAKE ON AND/OR WIN OVER COALITION PARTNERS AND THE RURAL LOBBY. IT IS A BAD SIGN THAT THE GROUND FOR THIS HAS SIMPLY NOT BEEN PREPARED. SO WHAT ARE THE ALTERNATIVES?

3. ISOLATING AN UNCO-OPERATIVE AND UNREASONABLE UK IS A TEMPTING OPTION. THERE ARE, HOWEVER, DIFFICULTIES. ISOLATING THE UK WOULD REQUIRE PICKING OFF THE DUTCH AND SHIFTING THE COMMISSION, WHICH IN TURN WOULD FMIOOHK

SSLADHJUMRTICAL SKILL AND CUNNING THAN I THINK IS IN KOHL'S NATURE. JUST AS BAD, FROM HIS POINT OF VIEW, IS THE FACT THAT SEGMENTS OF THE GERMAN PRESS, INCLUDING SUCH QUALITY PAPERS AS THE FRANKFURTER ALLGEMEINE AND HANDELSBLATT, HAVE BEGUN TO SEE THE MERITS OF THE UK POSITION ON AGRICULTURE AND THE DEMERITS OF

THE GERMAN. THE IDEA, PLAUSIBLY SAID TO HAVE ORIGINATED WITH GENSCHER, THAT THE UK CAN BE BROUGHT IN LINE BY A TRADE-OFF BETWEEN CAP COSTS AND CONCESSIONS ON THE UK REBATE, HAS BEEN ASSESSED BY SOME COMMENTATORS AS A BLUFF THAT WILL NOT SUCCEED.

4. DELAY - A FAVOURITE WITH KOHL, ADOPTED AT COPENHAGEN - IS THE OTHER POSSIBILITY. BUT EVEN IF ONE OR MORE PARTNER GOT THE BLAME FOR PUTTING OFF DECISIONS, THIS WOULD MEAN A MUCH MORE DIFFICULT AND UNPLEASANT GERMAN PRESIDENCY. KOHL MUST ALSO REALISE THAT ON THIS OCCASION THE PASSAGE OF TIME CANNOT BE GUARANTEED TO MAKE THINGS ANY EASIER DOMESTICALLY. ALL THE RELEVANT ELEMENTS TO A SOLUTION, INCLUDING SET-ASIDE, ARE NOW ON THE TABLE IN BRUSSELS. THERE CAN BE LITTLE, IF ANYTHING TO ADD. AND IN THE CAMPAIGNS PRECEDING THE TWO LAND ELECTIONS OF MARCH AND MAY, THE RURAL LOBBY WILL BE VERY ACTIVE BOXING THE GOVERNMENT IN.

5. AGAINST THIS BACKGROUND, SINCE NEITHER SHIFTING THE BLAME NOR POSTPONEMENT LOOKS ESPECIALLY PROMISING, KOHL WILL, AT LEAST AT THIS STAGE OF THE GAME, BE WORKING FOR SUCCESS DESPITE ALL THE DIFFICULTIES THIS WILL INVOLVE FOR HIM. THIS IS THE HONEST APPROACH WHICH HE WOULD NATURALLY PREFER, AND IT IS REFLECTED IN THE REASONABLY STRAIGHTFORWARD WAY IN WHICH GENSCHER HAS PREPARED FOR THE CONCLAVE. KOHL KNOWS, HOWEVER EVEN IF HE HAS NOT GRASPED ALL THE DETAIL, THAT PRESENT UK AND GERMAN POSITIONS ARE INCOMPATIBLE. I WOULD EXPECT HIM, BY ACTIVITY ESPECIALLY IN PARIS, LONDON AND BRUSSELS, TO BE TRYING TO FIND HIS WAY FORWARD SOMEWHERE BETWEEN THE COPENHAGEN PACKAGE, WHICH HE DECLARED AN UNACCEPTABLE BASIS FOR NEGOTIATION, AND THE KIECHLE PACKAGE, WHICH HAS NOT WON COMMISSION ENDORSEMENT. THOUGH LATE IN THE DAY, THE EVIDENCE IS THAT KOHL HAS AT LAST BEGUN TO FOCUS ON THE ISSUES. WITH THE PRIME MINISTER I WOULD EXPECT HIM THEREFORE TO TRY TO DO RATHER MORE THAN JUST TOUCH BASE FOR THE SAKE OF PUBLIC APPEARANCES. HE MAY ARGUE TO HER AS KITTEL (KIECHLE'S DEPUTY) DID TO ME OVER THE WEEKEND, WITH FIGURES, THAT THE GAP WHICH WE SEE BETWEEN EFFECTIVE STABILISERS AND COSMETIC PALLIATIVES IS NOT REALLY SO WIDE OR SO ABSOLUTE.

6. THE DANGER FROM OUR POINT OF VIEW IS THAT KOHL WILL GIVE UP ON THE UNITED KINGDOM FIRST. AN IMPORTANT TACTICAL OBJECTIVE FOR THE PRIME MINISTER'S MEETING WILL THEREFORE BE TO KEEP THE GAME GOING WITH KOHL UNTIL THE SUMMIT ITSELF.

7. THE TIMING OF THE MEETING, AFTER THE CONCLAVE HAS BEGUN AND BEFORE IT HAS ENDED, IS NOT IDEAL. BUT WHAT TRANSPIRES BETWEEN KOHL AND THE PRIME MINISTER WILL FORM THE IMMEDIATE BACKDROP AGAINST

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WHICH WE WILL HEAR GENSCHER'S REPORT OF THE CONCLAVE: WE STILL THEREFORE HAVE A GOOD OPPORTUNITY TO INFLUENCE THE WAY HE GOES ABOUT HIS TASK.

8. AT THE OPENING OF GREEN WEEK IN BERLIN ON 28-29 JANUARY I WAS STRUCK BY THE WAY IN WHICH ALL SPEAKERS, INCLUDING ANDRIESSEN BUT ESPECIALLY KIECHLE AND EVEN THE GERMAN FARMERS' LEADER HEEREMAN, HAD MODERATED THEIR TONE AND LANGUAGE COMPARED WITH PREVIOUS YEARS. IT WAS AS IF THE WORD HAD GONE OUT FROM BONN THAT NOTHING MUST BE SAID IN BERLIN TO DAMAGE THE PROSPECTS OF AGREEMENT AT BRUSSELS. THIS WOULD BE CONSISTENT WITH KOHL'S FRAME OF MIND PAINTED ABOVE.

BULLARD

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FOLLOWING FOR PRIME MINISTER FROM SECRETARY OF STATE

1. I PROMISED TO LET YOU HAVE, BEFORE YOU SEE KOHL, MY IMPRESSIONS OF THE FIRST DAY OF THE CONCLAVE. THE PICTURE IS CONFUSED, AND IT IS STILL TOO SOON TO JUDGE WHETHER THERE IS ANY REAL CHANCE OF THE GERMANS MAKING THE EFFORT TO GET AN AGREEMENT NEXT WEEK. BUT FOUR POINTS FROM TODAY'S DEVELOPMENTS HERE ARE PARTICULARLY RELEVANT TO YOUR MEETING TOMORROW.

2. FIRST, WHAT THE GERMANS TELL US OF THEIR INTENTIONS. GENSCHER ASKED TO SEE ME BEFORE THE START, AND CLAIMED THAT BOTH HE AND KOHL WANTED A POSITIVE RESULT, AND ACCEPTED THAT THIS WOULD HAVE TO INVOLVE SOME MOVE BY THE GERMANS BEYOND WHAT THEY COULD HAVE ACCEPTED AT COPENHAGEN. GENSCHER SAID THAT THE PRESIDENCY WAS NOT INTERESTED IN TRYING TO ISOLATE THE BRITISH, DUTCH OR ANYONE ELSE. WE SHALL SEE. HE HAS POSTPONED THE DISCUSSION OF STABILISERS UNTIL TOMORROW. HE CLAIMED THAT THIS WAS TO ENSURE THAT THE ATMOSPHERE FOR YOUR MEETING WAS NOT SOURED WITH PRESS TALK OF ANGLO-GERMAN BATTLES TODAY. I AM TO SEE HIM AGAIN LATER TONIGHT.

3. SECOND, THE DUTCH ASSESSMENT OF GERMAN INTENTIONS. VAN DEN BROEK HAS BEEN MILDLY ENCOURAGED TO HEAR PRIVATELY FROM ANDRIESSEN (WHO SAW KOHL THIS WEEKEND) THAT KOHL DOES NOT EXCLUDE ACCEPTING A CEREALS MGQ AT 158, RAISING THE LIMIT ON CEREALS PRICE CUTS ABOVE 2.5 PER CENT AND SUGGESTING A COMPROMISE CO-EFFICIENT ON OILSEEDS OF 0.45 PER CENT. KOHL APPARENTLY ALSO ACCEPTED THAT THE PACKAGE OF STABILISERS ON OTHER PRODUCTS SHOULD NOT BE RE-OPENED.

4. THIRD, FRG HANDLING OF THE ABATEMENT ISSUE. THE GERMANS SEEN ANXIOUS TO DEBUNK THE PRESS SPECULATION THAT THEIR STRATEGY IS TO SQUEEZE US ON AGRICULTURE BY BLACKMAIL ABOUT THE ABATEMENT. THEY DID NOTHING TO STOKES UP THE ABATEMENT ISSUE TODAY, AND INDEED WENT SO FAR AS TO ACKNOWLEDGE THAT IT WAS HELPFUL THAT WE WERE READY TO DEDUCT THE BENEFIT OF THE FOURTH RESOURCE.

5. FOURTH, THE OVERALL FRG PERFORMANCE TODAY. GENSCHER'S CHAIRMANSHIP HAS SO FAR BEEN REASONABLY IMPARTIAL AND CONSTRUCTIVE: NO ECHOES OF KIECHLE IN THE AGRICULTURE COUNCIL. THIS

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MAY OF COURSE CHANGE WHEN WE TACKLE STABILISERS TOMORROW.

6. ON THE SUBSTANCE, THE ONLY REALLY BAD NEWS IS THAT THE COMMISSION (CONCEIVABLY AT FRANCO-GERMAN SUGGESTION) HAVE AGAIN FLOATED THE IDEA OF GUIDELINE GROWTH AT 100 PER CENT OF GNP GROWTH, WITH NO SEPARATE PROVISION FOR STOCK DISPOSALS. THIS IS A SERIOUS STEP BACK FROM COPENHAGEN: AND THE IRISH, GREEKS AND DANES HAVE PREDICTABLY RALLIED TO IT, WITH THE FRENCH AND GERMANS. I AM WORKING TO KEEP SUPPORT FOR OUR (STOCK-EXCLUSIVE/60 PER CENT GROWTH) OPTION FIRM AND VOLUBLE: WE SHALL REVERT TO THE ISSUE TOMORROW IN THE CONTEXT OF STABILISERS.

7. GUIDELINE APART, THE DEBATE HAS CENTRED ON:

- A) THE MONETARY RESERVE:
- B) STRUCTURAL FUNDS:
- C) FOURTH RESOURCE:
- D) ABATEMENT.

ON (A) SOME PROGRESS HAS BEEN MADE, AND THE IDEA OF KILLING OFF NON-DOLLAR/ECU EXCEPTIONAL CIRCUMSTANCES WITH AN UNDAMAGING DECLARATORY STATEMENT ELSEWHERE IN THE TEXT IS UP AND RUNNING. OUR POSITION IS SUPPORTED BY THE ITALIANS, SPANISH AND PORTUGUESE, AS WELL AS THE DUTCH. ON (B), DELORS IS STILL ALL OVER THE SHOP, AND THE SOUTH HAVE NOT YET LOWERED THEIR SIGHTS BELOW DOUBLING, BUT SOME (EG THE SPANISH) ARE USEFULLY INCREASING PRESSURE ON THE GERMANS ON AGRICULTURE BY ASKING WHY THEY SHOULD DO SO, IF SOME NORTHERNERS ARE APPARENTLY READY TO LET CAP SPENDING RIP. ON (C), THE COMMISSION ARE TRYING COMPROMISES WHICH WOULD REDUCE ITALIAN PAIN. AND ON (D), THE ITALIANS ARE STILL BEING HELPFUL TO US, AND THE FRENCH - LIKE THE GERMANS - HAVE TODAY BEEN LESS UNHELPFUL THAN BEFORE.

8. FOR WHAT IT IS WORTH, FRENCH OFFICIALS MAINTAIN THAT CHIRAC'S LONDON PERFORMANCE LAST WEEK IS EASILY EXPLICABLE. AS A PRESIDENTIAL CANDIDATE, HE IS NOT WILLING TO BE SEEN TO SEEK STABILISERS TOUGHER THAN THE GERMANS WOULD ACCEPT. BUT EQUALLY HE WOULD NOT WANT TO BLOCK WHATEVER KOHL DECIDES HE CAN BUY. THE FRENCH CLAIM TO BELIEVE THAT HE HAS NOT TAKEN DECISIONS YET.

9. WE SHALL BE BETTER PLACED AFTER TOMORROW TO JUDGE WHETHER THE GERMANS REALLY WANT A DEAL NEXT WEEK. THERE IS A GOOD DEAL OF NATURAL SCEPTICISM HERE. BUT THE FACT THAT GENSCHER IS TRYING TO APPEAR CONSTRUCTIVE STRENGTHENS THE CASE FOR YOUR TOMORROW STRESSING TO KOHL THAT THE REMAINING GAPS ARE BRIDGEABLE, BUT THE ONUS IS ON HIM.

HANNAY

ADVANCE

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London SW1A 2AH

29 January 1988

Dear Charles,

The Prime Minister's Meeting with Chancellor Kohl,
2 February

Most of the time available for the Prime Minister's meeting with Chancellor Kohl on 2 February will need to be devoted to Community issues, on which we shall be writing separately. It will be important not to let Kohl deflect discussion too much to other areas. There are however some subjects which it would be useful to discuss briefly if time permits. This letter covers them and makes suggestions for handling the short press conference at the end of the meeting.

Internal Political Situation

Although not under serious threat for the foreseeable future either from the SPD or from an emerging alternative Chancellor candidate within his own party, Kohl's position is not strong. As brought out in Sir Julian Bullard's Annual Review of 1987 (copy attached), the last year has seen a number of disappointments for the CDU in Land elections. This seems likely to continue in the two elections due to take place this spring: the CDU may well lose sole control of Baden-Württemberg and need to go into coalition with the FDP. Worse still, the re-run of the elections in Schleswig-Holstein, following the damaging Barschel affair, may enable the SPD to take over control of the Land, possibly with FDP support. One of the most striking things in the past year has been the sustained success enjoyed by the FDP, who are now represented in every Land parliament except Bavaria and have a share of power in five.

Kohl's reputation for leadership, such as it was, has taken a further battering over recent months. He continues to suffer by comparison with Genscher, who regularly tops the opinion polls. Kohl has been unable to prevent the feuding within the Coalition, which is no longer confined to the long-standing differences between the FDP and the CSU,

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but is also apparent between the CDU itself and the CSU. His approach to the Presidency and the future financing negotiation give little grounds for optimism.

Terrorism

Briefing on this will follow separately on Monday 1 February.

Defence/Arms Control

The key point to impress on Chancellor Kohl continues to be the need for the Alliance not to commit itself to any more nuclear arms control negotiations without a thorough assessment of deterrence requirements. This should involve a firm commitment by European partners to reaffirm the European basing role and to effect and deploy suitably upgraded and modernised systems. The momentum behind Defence Ministers' endorsement of modernisation at Monterey in November 1987 should not be lost. The NATO summit in March would be a useful occasion to reaffirm Alliance resolve.

The Prime Minister might also emphasise the importance we attach to early agreement within the Alliance on the broad outline of a proposal to put forward at the forthcoming conventional stability negotiations, and that this should be based on sound military criteria.

On chemical weapons there was useful progress in the negotiations during 1987. But much detailed work remains, especially on verification, if we are to achieve a Convention which safeguards Western security. In recent statements Genscher (who plans to speak at the CW negotiations on 4 February) has argued that a Convention should be concluded this year but that some Western countries (by implication France and the US) are proving an obstacle. This has been a gift for current Soviet propaganda against the US CW modernisation programme. We recommend that the Prime Minister reassure Kohl that our objective remains a verifiable global ban on CW but argue that this objective will not be best served by setting artificial deadlines, or by criticising partners.

Not?
possible.

All these points are related to the need to resist Soviet wedge-driving. Two recent examples of this are Honecker's letter to Kohl on SNF and Shevardnadze's statements in Bonn on 18/19 January on nuclear modernisation, SNF, CW and Cocom. We recommend that the

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Prime Minister stress the importance of a cautious approach to developments in the Soviet Union and of a united Western response. (Kohl, incidentally, will be disappointed that Shevardnadze could offer no dates during the German Presidency for Gorbachev to visit Bonn.)

On CSCE, Kohl may argue for greater flexibility over the Soviet proposal for a Moscow Humanitarian Conference. The Prime Minister could respond that it is Eastern intransigence which is causing deadlock in Vienna. A Moscow Conference would be inappropriate, unless we see substantial progress in human rights in the USSR and in the Vienna negotiations. Soviet attempts to link human rights progress to Western agreement to go to Moscow should be denounced for the cynical tactics they are.

Franco-German Defence Relationship

If this is raised, we recommend that the Prime Minister thank Kohl for his message before the Franco-German Summit in Paris on 22 January and reiterate the points in her reply. She might emphasise that we share the same objective with the Germans (wanting to draw France into cooperation with NATO forces) and give an indication of the ideas she has put to President Mitterrand.

World Economic Issues

If time also permits discussion of the world economy, the Prime Minister might emphasise the need for coordination in tackling trade imbalances. Some progress has been made in Japan, and the US is taking some steps to put its house in order. In Germany, several years of substantial domestic demand expansion are needed to cut the trade surplus. Whereas growth in other countries has turned out better than expected, in Germany it has remained disappointingly slow and is likely to remain sluggish in 1988. Chancellor Kohl will probably argue that Germany is taking sufficient action to stimulate domestic demand and reduce its trade surplus, quoting the reduction in interest rates last autumn and the package of structural reforms and fiscal measures announced in December. The Prime Minister could reply that the measures are unlikely to achieve an adequate rate of adjustment in Germany's huge trade surplus, and will not be helped by the Government's intention of raising indirect taxes in 1989 in order to claw back the 1988 budget over-run (some DM10 billion).

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Press Conference

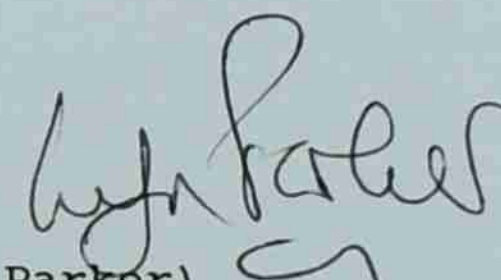
[They may be very warm by then!]

An objective we hope the press conference will achieve is to show that, contrary to recent press reports, personal relations between the Prime Minister and Chancellor Kohl are warm and that, far from being reluctant to meet, they welcome regular opportunities to exchange views. They met five times in 1987, including three full bilaterals, and had close contacts on all issues of major importance to our two countries. It may also be necessary to counter reports that Anglo-German Summits have slipped as a result of a lack of enthusiasm.

The substance will clearly depend on the content of the talks, but the Prime Minister might aim to make some of the following points:-

- agreement on the need to prepare the ground thoroughly for settlement of the future financing negotiation at the special European Council, so that we can concentrate on the single market - a major priority for both Britain and the FRG;
- support by both of us for the INF Treaty and a determination to resist crude Soviet attempts to divide the Western allies;
- agreement on the need for firm international action against terrorism;
- a reminder of Britain's contribution to forward defence of the FRG and welcome for efforts to improve practical French cooperation with our collective security arrangements.

Yours ever,


(L Parker)
Private Secretary

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PRIME MINISTER

MEETING WITH CHANCELLOR KOHL

You have some two-and-a-half hours with Chancellor Kohl on Tuesday. The main subject will of course be the European Council, with the discussion taking place simultaneously with the meeting of Foreign Ministers in Brussels.

The brief for that part of the meeting will need to be written on Monday, when we will also have the additional material you have requested from John MacGregor.

But there may be an opportunity to cover some other points particularly on arms control and the German economy. I attach notes on these for you to read over the week-end.

CDP

CHARLES POWELL

29 January 1988

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MR. POWELL

we spoke -

I have had a look through the diary re a possible date for the Anglo-German Summit. Given their limitations, I think the only possible date would be Monday 6 June. Do you want to try this out or would you like me to speak to anyone about it?

Lesson

TG

28 January 1988