

SECRET

SUBJECT

cc Master



10 DOWNING STREET

From the Private Secretary

28 February 1984

Dear Brian,

Visit of Chancellor Kohl

I enclose a record of the conversation between the Prime Minister and Chancellor Kohl at 10 Downing Street this afternoon.

I am copying this letter and enclosure to John Kerr (HM Treasury), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office). The contents of the record should be closely protected.

Yours ever

John Kerr

Brian Fall Esq
Foreign and Commonwealth Office.

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY AT 1550 HOURS
ON TUESDAY, 28 FEBRUARY 1984, AT 10 DOWNING STREET

Present:

Prime Minister	Chancellor Kohl
Mr. Coles	Herr Stabreit
Interpreter	Interpreter

Chancellor Kohl said that he would like to discuss the immediate European Community issues, the future political development of Europe and East/West relations. The Prime Minister asked whether the Chancellor had obtained from his recent meeting with President Mitterrand a clear picture of how the current negotiations were progressing. Chancellor Kohl said that President Mitterrand was investing much personal effort in this matter. He had told Mitterrand that it was of the greatest importance that France, Germany and the United Kingdom should stick together - though they must do so in a psychologically discreet way. The other Members of the Community would have to be handled carefully. For example, it was impossible to do anything about Mr. Papandreou. The Prime Minister said that Signor Craxi's attitudes also presented difficulty. She agreed that Germany, France and the United Kingdom should stick together - that meant that the three countries must reach conclusions about the financing of the Community and measures to deal with the Common Agricultural Policy.

/Chancellor Kohl

Chancellor Kohl said that he would give an account of his interim position - it was not final. He remained attached to the Stuttgart concept that it was the package as a whole which counted. He was prepared to make concessions. He could see that Mitterrand, who was in domestic difficulties, needed a success.

There was a Franco-German problem relating to MCAs. The Prime Minister commented that the United Kingdom was also affected by this issue. Chancellor Kohl explained that Germany wanted a solution. Basically, they envisaged a 5 per cent reduction in German MCAs by 1 January 1985. But this could only be achieved if action was taken on the national level to cushion the reduction in agricultural prices. This would cost Germany DM 2,000m. This national aid would have to be approved by the European Community.

The Chancellor then said that in the first phase German MCAs would move from +3 to -3. Then there would be a real reduction of 5 per cent. The Prime Minister asked what effect this move would have on inflation in the rest of the European Community. We should have to consider the effect of this. Chancellor Kohl stated that this solution would have^{no} inflationary effects. He suggested that experts from the United Kingdom and Germany should get together to discuss this matter. The Prime Minister agreed.

Chancellor Kohl said that Germany's position on the increase in own resources was to accept a figure of 1.4 per cent - not 1.8 per cent. The Prime Minister agreed that 1.4 per cent was the maximum. Chancellor Kohl said that he was delighted to hear this. He had heard elsewhere that we were moving away from our insistence on 1.4 per cent. President Mitterrand had said that he would also support this figure.

/France

France appeared to have moved since Athens on the question of milk. President Mitterrand was now prepared to accept a reduction in production to 97 million tonnes over two years. This was a great step forward. It was illusory to imagine that this figure could be reached in one year. The problem was Italy - Signor Craxi was strongly opposed to this solution. The Prime Minister commented that Ireland was too. Chancellor Kohl observed that the Irish problem was containable because the amount involved was small.

Germany was strictly opposed to an oil and fats tax. The Prime Minister confirmed that we were too. Chancellor Kohl said that President Mitterrand did not seem so convinced but he believed that he would go along with this position. A solution also seemed possible on the question of cereal substitutes. The Prime Minister asked whether the Chancellor envisaged talks with the United States to agree upon voluntary arrangements. Chancellor Kohl confirmed that he did.

A much more difficult point was that of Mediterranean products. President Mitterrand argued that this problem could be dealt with through the mechanism of overall financial control. But we were moving towards enormous surpluses in these products and the situation would be made worse by Spanish and Portuguese accession. This was a very sensitive matter in Germany. The Community would effectly be financing and then destroying food - an extraordinary procedure given the needs of the Third World. He was open-minded as to how these products should be controlled, whether through a system of guaranteed thresholds or some other device, but the moment of truth had come and it could not be evaded. Agreeing, the Prime Minister pointed out that at Athens Italy had virtually refused to consider guaranteed thresholds. She was strongly opposed to the present surpluses.

/She understood

She understood that we now had one million tonnes of butter in cold storage representing nine months' consumption. Chancellor Kohl commented that this was madness.

With regard to the sharing of the financial burden, his impression was that President Mitterrand had moved somewhat since Stuttgart. The Prime Minister said that she had discussed this matter at length with President Mitterrand. She had made it clear that she would not accept a temporary solution, even one lasting for five years. It was clear that most Members of the Community were demanding a change in the own resources system which had been established in 1970. She was not prepared to agree to an increase in VAT unless the burden of contributions was fairly shared and the new system was based on the ability to pay. That was the key to a new system of financing the Community. France would become a net contributor - a new experience for her. There could be no increase in own resources without a change in the system of financing. She believes that the coming generation in the Federal Republic would want a fair deal from the Community. To repeat, her condition for increasing own resources was that there should be a fundamental change in the method of financing and limits on net contributions. President Mitterrand had told her that he was prepared to consider a system based on ability to pay.

There were rumours that France was suggesting that the United Kingdom should pay a contribution in excess of 1,000m. ecus. That was absurd. Parliament would never agree to it. We were much more likely to think in terms of a contribution of the order of 500m. ecus. If our GDP increased proportionately to Community GDP then of course we would pay more, But the system she had described was a sticking point for Britain. We had earlier suggested that in the first year of operation of the new system the United Kingdom and France should pay about the

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same. But there should be a limit for each Member State. It was fundamentally wrong that Germany should contribute so much.

Chancellor Kohl asked what response the Prime Minister had given to the French suggestion that Britain would receive compensation of 750m. ecus over five years. The Prime Minister replied that she was not thinking in terms of a fixed period. The Community was seeking a permanent change in the system of own resources. There could be no question of accepting a permanent change in return for temporary relief. Any increase in own resources had to be linked to a fundamental change in the financing system, based on ability to pay. The Community could not have one without the other. Chancellor Kohl commented that this problem was embedded in the overall financial problem. The French idea was that the smaller budgetary increases were, the smaller would be the increases in individual contributions. For the moment the United Kingdom and Germany were net contributors. In a Community of 12 they would be joined by France, Spain and Portugal.

The Prime Minister said that it was necessary to have strict control both of total expenditure and also of individual categories of expenditure. Policies had to be designed to achieve that result. But that in itself would not solve the problem of imbalance. The present system was fundamentally inequitable. It was no good regarding it as a British problem. It was a fundamental problem affecting the financing of the Community.

She repeated that these were absolute sticking points. She had earlier experience of temporary solutions and would not accept one again. We could not afford to go on financing

/benefits

benefits for other Members of the Community. We accepted that we should pay a modest net contribution since there were countries poorer than the United Kingdom and since it was right to pay a fair share of administrative costs. Unless this fundamental problem was tackled, progress would not be made. In her view Europe should be playing a much fuller role than it was at present. But it could not run away from the fundamental problems.

Chancellor Kohl said that after the Prime Minister had met President Mitterrand on 5 March contact between Britain and Germany should be maintained. In the second half of next week a British and a German expert should get together to compare notes. If France, Britain and Germany could agree to a reasonable compromise there was a good chance of success at Brussels. He had already shown his goodwill by clearing away the problems between France and Germany. This was not easy in a year when German farmers were being asked to accept zero price increases.

In response to a question from the Prime Minister Chancellor Kohl said that Germany's current inflation rate was 2.8 per cent. The question was whether the up-swing in the economy could be sustained. 1984 would see 2.5 per cent growth in GDP. This should continue into 1985 but that would depend on the US economy. The Prime Minister commented that she hoped that any change in the world economic situation would not be sudden. We still had a considerable problem with unemployment but she did not see the figures falling over the next year. The new technology allowed us to produce the same amount of goods with fewer people.

/Chancellor Kohl

Chancellor Kohl said that Germany faced the same problem. He believed that unemployment could be brought down through the creation of new businesses. He would count on small rather than large industries to achieve this. Daimler Benz would produce more cars if it had one-third fewer workers. In German research laboratories there were seven assistants for each chemist - whereas in the United States the proportion was 3:1.

The Prime Minister said that comparisons with Japan and the United States suggested that the unemployment problem was a Western European disease. Unlike America and Japan we did not have an enterprise culture. There were inbuilt structural rigidities which stopped the movement of labour to where the jobs could be found. Nor had we kept up with the latest technology.

She was pleased to see that Esprit had been approved in Brussels this morning (Chancellor Kohl nodded).

Chancellor Kohl said that the problem in Germany was moral and intellectual rather than economic. People spoke of rights but not duties.

/Reverting to

Reverting to the Brussels Summit, the Prime Minister asked whether Germany still wanted to have a fixed limit to its budgetary contribution. Chancellor Kohl confirmed that this was the case. He repeated that British and German collaborators should meet in the middle of next week. The Prime Minister said that Mr. Williamson of the Cabinet Office would represent her. She began to wonder whether agreement would be possible on 19 March even if France, Britain and Germany had reached agreement before then. She would do her best but Chancellor Kohl had his requirements for a settlement and so did she. If we judged that solutions were not possible, it would still be important that President Mitterrand had a successful Summit. This might mean devoting some time to communiques on international issues. It would be unhelpful if the Council ended with nothing to show for it. Chancellor Kohl agreed.

He wished to raise the question of the future of the Community beyond the March European Council. He would like to visit Chequers in the autumn and spend a day in discussing the question: "where do we go from here?" This for him was the decisive issue.

German policy had two bases which were unchangeable - its links with the Alliance and its links with the European Community. Germany had special need of both. In no circumstances could it afford to find itself in a no-man's land. Much of the misery of this century had been caused by a lack of clarity in Germany's position. It would be fatal to pose a choice between the United States and Europe. Neutralism was spreading through Europe. Soviet expansionism was described as harmless. There was confusion in people's minds. What was portrayed as peace was no more than neutralism - and for Germany that meant leaving the Western camp.

The European Community was politically stagnant. The concept of a bridge across the Atlantic was flawed. For a bridge needed a pylon at both ends and the European pylon was

/ not strong

not strong enough. The Rome Treaty was not just about a common market but also about political integration. The most important aspect of the latter was security policy: Europe should speak with one voice on this.

There had been an important change in the United States. The centre of intellectual and economic power had moved from the Atlantic to the Pacific. Then the United States was investing huge sums in weapons systems for space. If by the 1990s America felt secure against missile attacks, there was a danger of the mentality of "fortress America" regaining ground. So it was vital that America and Europe should be close. All these things were more important to him than the current issues under discussion in the Community. Mitterrand was also beginning to realise that the United States was turning towards the Pacific. Britain, France and Germany should work together to make progress on the future of the Community. In the Soviet Bloc there was movement due to the "Polish virus". This could not be reined back. Ideology had lost its force.

During February the German Democratic Republic had allowed 1600 people to leave permanently (following on a January figure of 1200). This was an enormous increase over previous years but the reason was not clear. He believed that 150,000 people had applied to emigrate to the Federal Republic from the German Democratic Republic. There were opportunities here but we should not deceive ourselves into thinking that the authorities were not firmly in the saddle.

Europe must be resolute. We should choose our policy and hold fast to it. He believed that the Soviet Union wished to negotiate and to agree to arms reductions. But they would not do so if Europe was not firm. Difficulties in Denmark, the Netherlands and Greece betrayed a lack of firmness at present.

The Prime Minister commented that in strengthening the European pillar we must be very careful not to undermine the

/ arch over

arch over the Atlantic. She and the Chancellor shared the same objectives. Because of the trends in the United States to which reference had been made, she believed that Europe needed to move closer to America and to be seen to do so. She preferred to work through NATO. The best step would be for France to accept full military integration into NATO. Her worry was that in trying to intensify the unity of Europe we might be seen by the United States as attempting to act independently of them. This was not Chancellor Kohl's intention, as was apparent from his Lubeck speech, with every word of which she agreed. She and he had resisted anti-Americanism in Europe and should now turn this into pro-Americanism. If European countries were now to discuss defence together we should keep the United States in touch at every stage.

But before taking these ideas further, one of us should produce a paper on what we would be likely to achieve. We clearly needed to keep certain strategic capabilities in Europe. Chancellor Kohl observed that we must oppose United States protectionism. The Prime Minister agreed but pointed out that the United States would say, with truth, that the European Community was the worst case of protectionism, viz the CAP. She believed that Europe should be outward-looking. President Mitterrand tended to see it as an inward-looking protectionist club. Chancellor Kohl agreed. That was his permanent argument with Mitterrand. The British tradition of Empire and Commonwealth was different from that of Germany - the present generation in Germany was the first to be outward-looking. The Prime Minister said that our tradition had been to send people out of Britain to serve. Frenchmen had been sent out to rule. She did not wish to see the Community developing into a protectionist club. She wanted it to have links across the world with all free democracies.

Turning to East/West relations, the Prime Minister said that she believed that both Germany and the United Kingdom could have a useful influence.

/Chancellor Kohl

Chancellor Kohl having stated that he expected to visit Hungary in May, the Prime Minister said that her own visit had been very interesting. The Hungarians had made it clear at the outset that they regarded the visit as part of a new phase in East/West relations and welcomed it as such. But they wished it to be understood that Hungary was a Socialist country and would stay that way. She had concluded that the present system in Hungary was 90 per cent Socialist. She had accepted the basis posited by the Hungarians for dialogue. Both sides had to have self-respect and security but they could seek a lower level of weaponry provided balance was maintained. She believed that she had made more progress by this approach than if at the outset she had emphasised human rights questions. She had taken a similar line with Chernenko.

It was not easy to adopt this approach because we all wished to see fuller human rights in the Eastern Bloc. But she was convinced that we could not bring about such changes from outside.

Chancellor Kohl said that he shared the Prime Minister's assessment of Hungary. Kadar had had a close relationship with Andropov. But Honecker's relationship with Andropov had been bad. His only quarrel with the Prime Minister's account was that he believed that Hungary was less Socialist. The Hungarians were more European than any other East European people. The regime was oppressive but human beings did not change. History moved along. Hungarians understood that if they tried to escape from the system, disaster would ensue. He was very much in favour of establishing relationships between the European Community and Eastern Bloc countries. This task should not be left to accountants in Brussels. The Prime Minister agreed. We should indeed use the Community to forge new links with the countries of Eastern Europe.

The Prime Minister said that she had been encouraged to hear Chancellor Kohl say that President Mitterrand realised the necessity of staying close to the United States. For years

/ France

France had pursued the mistaken policy of playing Europe off against America. We would produce a paper on how to take Europe forward and use its influence to greater advantage in the wider world. It might be that these matters should be discussed not in the European Community but in the Berlin four. She would be glad to discuss these questions with Chancellor Kohl at Chequers after the summer holidays.

Chancellor Kohl then said that an event had occurred yesterday which the Germans did not understand. It concerned the appointment of an Executive Director for the IAEA in Paris. It had been earlier agreed that the EC countries would put forward an agreed candidate. Yesterday other EC countries had voted for three candidates (a German, a Dutchman and a Dane) but the United Kingdom had voted for an American. The Prime Minister said that she would enquire into this immediately and let Chancellor Kohl have an explanation.

The Prime Minister then asked Chancellor Kohl whether he was considering putting forward a candidate for the presidency of the European Commission. Chancellor Kohl replied that he would do so and that he would be in touch with the Prime Minister in good time.

The discussion ended at 1755.

A. J. C.

28 February 1984