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10 DOWNING STREET

From the Private Secretary

2 May, 1984.

Dear Len,

Anglo/German Summit

I enclose a record of the *tete-a-tete* conversation between the Prime Minister and Chancellor Kohl which took place at Chequers today. Other records will follow shortly.

I should be grateful if you and the other recipients of this letter would protect the record carefully. It should be shown only to those who have a strict operational need to know of its contents.

I am copying this letter and its enclosure to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office). I am writing separately to convey to the Chairman of the Conservative Party the exchange recorded on pages 6 and 7 of the record about cooperation between like-minded groups in the European Parliament.

Yours ever

John Major

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

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RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE
CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY AT 1140 HOURS
ON WEDNESDAY 2 MAY 1984 AT CHEQUERS

Present: Prime Minister Chancellor Kohl
 Mr. Coles Dr. Stabreit
 Interpreter Interpreter

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After a brief exchange of a general nature the Prime Minister suggested that the discussion should concentrate on the European Community. She was very concerned about the present situation, especially the perception that the Community could not solve its problems. This was a particularly unfortunate impression just before the opening of the European election campaign and given the difficult international background. In a year of American elections the Community should present a better image to the world. She did not disguise the fact that she would like the outstanding problems relating to the Stuttgart package to be settled before the election campaign began.

Chancellor Kohl said that that remark was very interesting. He had not been sure whether the Prime Minister had wanted a settlement before the elections. The Prime Minister replied that she had wished to see a settlement at Brussels.

Chancellor Kohl said that German journalists working in London and Paris had reported that the Prime Minister's tactic was to enter the elections with these questions still open - and then settle them at the next European Council. The German interest was to conclude as soon as possible. This was not for electoral reasons. The European election campaign presented him with no significant problems. In Germany the issues would be domestic. Economic prospects were better than he had hoped. It looked as though Germany would attain 3% growth this year.

/ Unemployment

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Unemployment was likely to fall below 2 million for the first time by June. There was a monthly drop of 150,000 in the unemployed figures. In the next four weeks he would seek to obtain decisions on tax reductions to operate from 1 January 1986, with the necessary legislation being passed in May 1985. He wished to conduct a positive and optimistic campaign in the European elections. The SPD's campaign was a miserable affair. The disarmament issue had collapsed and the Easter demonstrations had been laughable.

The unions were divided on the issue of the 35 hour week. But he intended to sit it out and not give in. If there was a strike, it would not be a success for the unions.

It would be bad if people concluded that Great Britain was responsible for a Community failure. Germany needed Great Britain within the Community and he had said this clearly. We must not manoeuvre ourselves into a psychological cul-de-sac. The Brussels European Council had achieved a number of positive results. As regards the control of expenditure, Ministers of Finance ought to be able to settle the remaining problems by June.

The Prime Minister said that she did not know where the idea had arisen that she wished to enter the European election campaign without a solution. This was totally contrary to her position. On the second day of the Brussels European Council she had had a private meeting with President Mitterrand and had said that she wanted a settlement. British and French officials had met and had agreed on a system which protected not only the position of Britain but also that of Germany. Furthermore, it protected the position of Portugal which under the present ridiculous system would be a net contributor - that would be enough to turn Portugal Communist again.

The United Kingdom had moved a long way at Brussels. Starting from a figure of 1500 million ecus for the first year, we had moved to 1322 - and then to 1250 because she had understood that that figure could be accepted by the Federal Republic. She would never have moved from 1322 unless she had thought that this would clinch the issue. That figure still left us a significant

contributor in relation to our GDP.

There was no question of Britain being anything other than loyal to Europe. She could challenge every other Member State, Germany apart, to show how it did more for Europe than Britain. We kept 65,000 troops on the front line. We brought to the Community 60% of its waters and about the same proportion of fish. We had an adverse balance of £8 billion in manufactured goods with the rest of the Community. We provided a market for agricultural produce but we were denied markets in the areas where we were particularly strong such as services.

Even on the basis of the system which was on the table at Brussels Britain, like Germany, would still be a net contributor. We should thus be subsidising countries like Denmark more heavily than countries like Bangladesh, Zimbabwe and Mozambique.

We were not prepared to go on contributing an unfair amount. We would pay our contribution to the club. We had moved a great deal at Brussels, for example by accepting the VAT share/expenditure share gap as the basis of measurement. President Mitterrand had tried hard to get a solution. We ought to make another attempt to obtain one at the meeting of the Foreign Affairs Council on 14 May. This was not a matter of domestic politics. But the British people felt with some justice that they were getting a raw deal from the Community.

We were passionate Europeans. We joined the Community so that the conflicts that had occurred in the past could not recur in the future. No-one contributed more than we did to the defence of Europe. It was a great weakness that France was not integrated into NATO. Europe could have much more influence in the world - with the United States, across the East/West divide and in the Third World. But our people questioned how we could achieve these things when the basic arrangements were unfair. The Labour Party might well argue that they could achieve a better deal in the Community by threatening to withhold. But she had made it clear that she would not go against the Community until the Community was in default with us. As a matter of honour rather than legality the Community was already in default in the

matter of refunds. The Stuttgart Communique was relevant here. Chancellor Kohl said that he agreed.

The Prime Minister said that the Community might dishonour its word but we could not. We upheld international law and kept our word. The Chancellor, President Mitterrand and she were electorally safe for a long period. If we could agree on a solution to the outstanding problems, the other Member States would follow.

Some of the other Member States did not share the British and German vision of the world. If we reverted to discussions among the Berlin Four, we could be a very powerful voice in the world, despite the problems which this arrangement would create with some other Member States.

With regard to the budget problem, she had little room for manoeuvre and she could not move another inch unless this would clinch a deal. But she did not wish to go into the European elections with the Community presenting a bad spectacle. She would be meeting President Mitterrand on Friday.

The question arose of whether we could not now agree on the figure to be injected into the system. Then the final details could be settled, perhaps at a special European Council before the elections. Her worry was that President Mitterrand might not want a settlement before the next European Council.

Chancellor Kohl said that he did not think that that was the President's view. The tactic of delay was wrong. The image of Europe was miserable. He believed that Mitterrand, for domestic reasons, would welcome the success of having obtained agreement. The Prime Minister commented that we could give him that success and openly praise his efforts. Chancellor Kohl said that if these matters could be sorted out he would be quite ready to meet one evening in Brussels and endorse a settlement.

The Prime Minister pointed out that the system on the table at Brussels contained advantages for Germany. On the figures

we were of course prepared to move a little from 1250. But we could not move much. Some people thought she had already gone too far. She could not accept an unfair deal but very much wanted a fair one. It was worth making a major effort to achieve this in order that a larger vision of the Community could be developed. It was a matter of Britain, France and Germany agreeing on a figure and selling it to the others. She too was ready to meet in Brussels at any time but on condition that agreement had been reached informally in advance.

She was under criticism for having accepted the agricultural price settlement. It was essential to stick to the view that a strict financial guideline should be embodied in the Community's financial procedures. Chancellor Kohl said that he entirely agreed. The Prime Minister said that she had detected little resolve at the last European Council among the smaller states to tackle the fundamental problems.

Chancellor Kohl observed that our requirements on financial discipline could be achieved. Enormous progress had been made on the milk surplus. He believed that we should aim to settle the outstanding matters before the elections. He proposed to telephone the President of France tomorrow and tell him that we should work for a settlement in the near future. He would add that there would be no point in a meeting of the European Council unless everything had been sorted out in advance. And he would insist that by the time of the European Council Finance Ministers should have completed their work on financial discipline.

The Prime Minister said that she was anxious about enlargement. The most important point was to bring Spain and Portugal within the democratic grouping of the Community. She understood that the negotiations with Spain about tariffs had made no progress. It was necessary to give a boost to the Community but this could not be done until the budget problem had been settled. We had been working through Commissioner Davignon and had made some progress but then matters had come to a halt. We should try to get M. Dumas and Commissioner Davignon working again. We would give this top priority because the prize was so great.

Chancellor Kohl said that he concluded that there was a chance of a settlement. The Prime Minister repeated that she had some room for manoeuvre but not much. Chancellor Kohl commented that we should aim at a fixed system. The main point for decision was the basis in the initial year. The Prime Minister said that we had to talk in terms of 1983 figures since that was the only year for which the figures were known. Once we had fixed the 1983 figure we could then decide how much of it to allocate to the threshold and how much to the ticket moderateur. Chancellor Kohl said that there must be "auto-participation" in the Community's increased expenditure.

The Prime Minister said that perhaps M. Dumas and Commissioner Davignon could bring about an agreement between Britain, France and Germany. Chancellor Kohl said that he agreed that we should make another attempt. He would tell President Mitterrand that we should aim to get an agreement within the next fortnight. Technically, there was no problem.

The Prime Minister said that we were working on a paper on the role of the European Community in the wider world, as she had promised Chancellor Kohl on a previous occasion.

On another matter, she was concerned that there was insufficient co-operation between like-minded groups in the European Parliament. We would continue to use the label "conservative". This did not mean a concern simply to preserve old practices but rather to keep the best of the past and adapt to the future. There had been limited co-operation between her Party and that of Chancellor Kohl although both subscribed to the international grouping of the centre right. If we failed to co-operate and put up a good candidate for the President of the new Parliament, we should let the Socialists in. Chancellor Kohl recalled that he had discussed this problem with the Prime Minister two years ago. We could not achieve anything in the European Parliament in the long run if we did not establish a common party in that body. This could not be done overnight but it could be achieved in the foreseeable future. The Prime Minister suggested

that personal representatives should meet as soon as the election results were known. Chancellor Kohl agreed but said that there might be a problem with Chirac. He himself was open to any sensible discussion and quite agreed that personal representatives should get together at the right time.

Chancellor Kohl then raised the question of the Presidency of the European Commission. He had heard the suggestion that the tenure of the present Commission should be extended. The Prime Minister said that that was a bad idea. The present President and the present British and German Commissioners were not good enough. Chancellor Kohl said that this was true; he agreed with the Prime Minister. But nor was he enamoured of the idea that each country should have only one Commissioner. The Prime Minister said that the alternative of adding two extra Commissioners to the present Commission when Spain and Portugal entered was ridiculous. The bureaucracy in Brussels was already too big. Chancellor Kohl agreed - but it was not acceptable that Luxembourg and the United Kingdom should have the same number of Commissioners.

The Prime Minister said that Commissioner Davignon was a strong and skilled candidate for the next Presidency of the Commission. Unless another good candidate came forward, he would be a front-runner. Chancellor Kohl said that he was still considering this matter. Germany would present a first class candidate. He would never agree to Davignon. He did not see why the Benelux countries should provide the next President.

There was another problem which was causing him concern, namely Ministerial participation in the Economic Summit. He could not change the arrangements of the German Cabinet. The economy and finance came under two separate departments. It was quite clear that both the Finance Minister and the Minister of the Economy must attend the Summit. When the economy was under discussion, the Minister for the Economy would attend. When finance was being discussed, the Finance Minister would do so.

/ The Prime Minister

The Prime Minister commented that the problem was that other countries were now trying to adopt a similar pattern. Japan was a case in point. In plenary we would follow the same rule as had always been observed. There would be three seats for the German delegation and the Chancellor could decide who occupied them. The problem arose at the separate discussions held by Foreign Ministers and Finance Ministers. Some countries were now asking for two seats at the meetings of Finance Ministers. Chancellor Kohl said that the arrangement whereby each delegation had three seats in plenary presented no problem. But he did not understand the problem relating to the separate meeting of Finance Ministers. Only Japan and Germany were in difficulty.

Returning to the question of the European Community, Chancellor Kohl reiterated that he would telephone President Mitterrand the next day, ask him to get things moving, suggest that he work on the basis of the 1983 figures and press him to ensure that Ministers of Finance completed their work on the financial discipline quickly. The Prime Minister said that she hoped we could aim to get all questions, including that of financial discipline, settled before the elections. Chancellor Kohl agreed that that should be the aim. But he was still worried about the CAP. Progress had been made on milk but so far there had been nothing but rhetoric in relation to Mediterranean products. The Prime Minister agreed, adding that cereal prices should have been set at a lower level.

In conclusion, it was agreed that nothing should be said either to the plenary session or to the press about the understanding reached between the Prime Minister and Chancellor Kohl on European Community issues. The Prime Minister promised to telephone Chancellor Kohl next weekend to give him an account of her meeting with President Mitterrand.

The discussion ended at 1205.

A.S.C.

2 May 1984