

SUBJECT  
de Hartis

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RECORD OF A PLENARY DISCUSSION BETWEEN BRITISH AND WEST GERMAN  
MINISTERS HELD IN THE FEDERAL CHANCELLERY, BONN, AT 1530 HOURS  
ON WEDNESDAY 18 NOVEMBER 1981

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Present:

The Prime Minister	Chancellor Schmidt
Foreign and Commonwealth Secretary	Herr Genscher
Chancellor of the Exchequer	Count Lambsdorff
Secretary of State for Defence	Herr Matthoefer
Minister of Agriculture, Fisheries and Food	Dr. Apel
Secretary of State for Industry	Herr Ertl
Secretary of State for Trade	Herr Hauff
	Herr Gscheidle

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East/West Relations

The Foreign and Commonwealth Secretary said that he and Herr Genscher had discussed the forthcoming visit to Bonn of President Brezhnev. They expected that the subject most in the forefront of his mind would be the negotiations between the Soviet Union and the United States on Theatre Nuclear Forces which were due to start on 30 November. He would no doubt try to use his visit to drive a wedge between the allies. All members of NATO wanted the negotiations on TNF and, later, on strategic arms limitation to be successful. Public opinion in the West required successful talks.

He and Herr Genscher were also agreed upon the need for a satisfactory outcome to the talks now going on in Madrid. They wanted to see the French proposals for a Conference on Disarmament in Europe accepted. This would allow the West to show to its own public that it was actively seeking arms limitation agreements.

Herr Genscher added that he and Lord Carrington had specifically discussed the zero option in relation to the

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forthcoming TNF negotiations. Federal Ministers would tell their Soviet visitors that cruise missiles and Pershing IIs would be deployed by the end of 1983 if no agreement on these missiles had been reached by then. An approach of this kind was the only way to get the Soviet Union to negotiate seriously.

The Prime Minister added that East/West relations had dominated her tete-a-tete conversation with Chancellor Schmidt that morning. They had discussed the essential need for balance in the military capabilities of East and West and had agreed that, if possible, this balance should be maintained at a lower level than now. They had also given a good deal of attention to ways and means of having even closer links between the United States and the European allies than existed at the present time.

Herr Genscher then summarised the speech on arms limitation which President Reagan had given earlier in the day. His four main proposals were very much on the lines which the Federal Republic had been advocating for a long time. The Federal German Government would therefore welcome warmly the President's speech and they would urge President Brezhnev during their talks with him to take the American proposals seriously and to respond positively to them.

Chancellor Schmidt said that he and the Prime Minister would endorse President Reagan's proposals at their Press Conference immediately after the plenary session. He was well satisfied with what the President had said. The tone of his speech had been firm, polite and forthcoming. There was, however, one point about it which was not altogether clear. He was not sure whether the President's proposals embraced short-range nuclear weapons, including, for example, the Soviet SS22 and SS23. We must avoid a recurrence of the situation we had got into with SALT II which dealt with intercontinental weapons and omitted Euro-strategic systems. We must make sure that in the forthcoming negotiations we did not include the SS20 only to leave out the SS22 and 23.

/The Foreign Secretary



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The Foreign Secretary said that putting forward the zero level option had placed the West in a good position politically, but we should recognise that the prospect of achieving such an outcome or indeed any concrete result from the negotiations in the foreseeable future was very remote. The course which the West was now embarked upon would undoubtedly help with public opinion in the Federal Republic and the UK, but it would be a serious mistake to raise expectations too high, for they would most certainly be disappointed later. We should therefore make clear the difficulties that lay ahead.

Chancellor Schmidt said that he agreed with the cautious note struck by the Foreign Secretary but we should take care not to weaken our position before the negotiations with the Soviet Union had started. Public attitudes in the Federal Republic were very different from those in the United Kingdom. The UK had its own deterrent. The Federal Republic did not and saw itself threatened by other people's decisions. He would say to his public that we had to make responsible use of the time available for negotiations on Theatre Nuclear Forces. He would make it clear that we had only until mid-1983 to conclude an agreement. If by then the negotiations had not reached a successful outcome, the deployment of cruise missiles and Pershing IIs would have to start later in that year. And once deployment began, many things in East/West relations would change but in the meantime he had to show the German public that serious efforts were being made to limit the numbers of land-based weapons systems on both sides. In the judgement of ordinary German people there was more at stake for them in these negotiations than for other Europeans.

#### Middle East

The Foreign Secretary said that he and Herr Genscher had discussed the difficulties which the Community was experiencing over the participation of forces from Britain, France, Italy and Holland in the Sinai Multinational Force. They hoped that it might be possible to overcome the present problems in the next day or so.

/Herr Genscher



Herr Genscher added that it was very much in our interest to see a stable Egypt. He expected President Mubarak to try to reduce the misgivings of other Arab countries about Egyptian policies while maintaining his country's existing commitments.

#### Defence

Dr. Apel said that as well as talking about the NATO double track decision on TNF, he and Mr. Nott had discussed the problem of preserving an adequate defence capability in the face of mounting financial pressures. They had agreed to keep in the closest touch so that we shared our experience in tackling this problem. They had in particular discussed the Tornado programme, which was taking up as much as 30 per cent of the German equipment budget. They were looking for an adjustment which would stretch the programme without unacceptable consequences.

#### Economic Affairs

The Prime Minister said that she and Chancellor Schmidt had discussed the prospects for the world economy. Many nations were facing a situation, particularly as regards the level of unemployment, which they fervently hoped would never be repeated. The immediate question was how to give people hope that the problems could be tackled successfully. Neither she nor the Federal Chancellor was certain that they had the answer. They were both clear that we could not hope to return to the high growth of the 1960s. Both Governments would like to spend more on capital projects but this meant reducing current expenditure, and the public did not like this. There was a very real difficulty for Governments in selling the economic answers to these problems to their peoples, and in particular to the young.

Count Lambsdorff said that he and the Chancellor of the Exchequer had discussed the danger that members of the Community might drift apart in their economic policy goals, and that a similar divergence might occur between the Community and the United States. They were agreed that such a development was to be avoided. This could be done if all the countries applied budgetary

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discipline, gave priority to investment and restrained public expenditure. The IMF, the World Bank and the OECD all shared this view. There was a real need for the Community to discuss medium term economic policy at the political level. We should also intensify our efforts with the Americans to promote co-ordination at the international level. It was, however, important to do this in a way that was not critical of the United States.

Count Lambsdorff went on to say that he had given his British colleagues a brief account of Federal economic policy. 1981 had been a difficult year. The Consumer Price Index at 5.5-6 per cent was higher than had been expected, and GNP had dropped. The current account deficit, though declining, was very large. He expected to see an improvement in 1982 when there would be real growth in the economy, however moderate. The rise in the Consumer Price Index was expected to be lower, possibly an average of 4.5 per cent for the year. The current account deficit would probably be, at Dm 15 billion, half of the 1981 figure. He hoped that interest rates would be lower. It was, however, difficult to make forecasts with any confidence when the world economic situation was changing so rapidly. Unemployment would remain a major concern. It would go on rising, partly because of demographic factors and partly because improvements in productivity would outstrip the rate of real growth.

The Chancellor of the Exchequer said that he agreed that the social and economic burdens of unemployment were not likely to diminish in the near future. The UK economy was moving, nonetheless, in the right direction. We expected to see some growth in 1982, and although progress in reducing inflation had been checked for the time being, he believed the downward trend would be resumed next year.

/He had discussed



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He had discussed with Herr Matthoefer and Count Lambsdorff the impact of the American economy on the economy of the rest of the world. The recession in the United States would continue and this was bound to have an effect on interest rates not only in the United States but elsewhere. This prospect underlined the need for all countries to undertake fiscal as well as monetary restraint in order to avoid the consequences of high borrowing. The Community must be ready to emphasise to the Americans the importance of controlling their deficit, if necessary by means of higher taxation. If they did not bring their deficit under control, we would all continue to be faced by high interest rates. We must put our views to the Americans not stridently and publicly, but positively and firmly and in private. Above all, we had to get over to them the effect that their actions had on the rest of us.

Chancellor Schmidt said that he agreed totally with what the Chancellor of the Exchequer had said. We had to make our position known to the American Government, but it was essential to do it in a way which meant that nobody lost face.

#### Community Affairs

##### 30 May Mandate

The Foreign and Commonwealth Secretary said that the Communiqué following the forthcoming meeting of the European Council would have to report on more than just the 30 May Mandate. It would need to cover, among other things, arms control, the world economy and the German proposals for a "European Act". But the discussion on the Mandate would be the centrepiece of the meeting and all the indications were, following the meeting of the Foreign Affairs Council in Brussels earlier in the week, that it would not be an easy discussion.

/ The Prime Minister

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The Prime Minister said that she and Chancellor Schmidt had also discussed the Mandate earlier in the day. She wanted to see progress being made in parallel on all three Chapters. Nonetheless, there was some reluctance in some Member Countries. This was disappointing, but we could only go as fast as the Community as a whole. Both the UK and the FRG made net contributions, and it was important to devise lasting arrangements which would prevent the present situation continuing indefinitely. It was important that any budgetary settlement took account of the size of the present German contribution as well as dealing with the British problem. If this was not done, it might give rise to growing public resentment in both countries.

Herr Matthoefer said that he and the Chancellor of the Exchequer had also discussed the Mandate earlier in the day. He had pointed out that according to the latest estimates from the Commission the British contribution in 1981 would now be 900 million ecus lower than had been assumed in the 30 May settlement.

If there was no correction to the contribution the Federal Republic was making to that settlement, this could give rise to a chain reaction of unforeseen consequences. The Chancellor of the Exchequer had explained to him his view that in future Member Countries' contributions to the Community budget should be determined in accordance with national prosperity. He was ready to consider this approach but, in turn, he had explained his misgivings about a nil net contribution to the UK. Nonetheless, they had agreed that the main objective must be the removal of the present disequilibrium in the budget. This meant above all that agricultural expenditure had to be contained.

The Chancellor of the Exchequer added that there was a lot of common ground between him and Herr Matthoefer on the Community budget. The UK's starting point had been that net contributions should be limited by reference to relative prosperity. The Federal Republic believed their contribution should be limited: it was unacceptable to them to see other Members no less prosperous than themselves, and in some cases more prosperous, receiving net benefits at the

/expense of



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expense of the German contribution. Both of them had agreed that the solution to the budget problem had to be found within the one per cent VAT ceiling. More generally, they wanted arrangements which did not damage the Community and which would last. The time had passed when we could make do with interim, ad hoc answers. The Community needed to agree on a solution within a framework of some kind. The UK had certain ideas and he had mentioned these to Herr Matthoefer. We would like to produce guidelines based on these suggestions.

Chancellor Schmidt said that we needed to play down the expectations in the Press of what next week's meeting of the European Council would achieve on the budget. It would be premature for the European Council to try to deal in specifics: instead, it should concentrate on agreeing on guidelines. He wished to emphasise that the Federal Republic could not agree to being the one net contributor. He was prepared to be the biggest net contributor, but the size of the contribution could not be unlimited. It was not only for economic and financial reasons that he adopted this position but it was also necessary because of psychological considerations. If all the other members of the Community, regardless of their standard of living, benefited from a German net contribution, this would lead to an adverse public and Parliamentary reaction in the Republic. He did not want to make a great fuss about this in London. He was grateful for the understanding of the German position which the UK had shown, and he hoped his other friends would be equally sympathetic.

Herr Ertl said that he and Mr. Walker had discussed reform of the Common Agricultural Policy, which was a key element in restructuring the budget. This was going to be a very difficult matter to resolve, since the principles of the CAP meant different things to different Member Countries. They had agreed that the Community should pursue a prudent price policy on all major commodities. The Federal Republic wanted to keep the co-responsibility levy on milk, though some countries were now seeking exemptions

/ for small farms.

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for small farms. On cereal substitutes, he and Mr. Walker had agreed on the need to continue talks with third countries. They had also agreed to make a joint effort to have more discipline introduced in the use of national aids in order to avoid distortion of production and competition. He hoped that the European Council would not make any concrete statements on increased support for Mediterranean products. Generally he and Mr. Walker had agreed that expenditure on agriculture should in future increase more slowly than Community expenditure as a whole.

The Minister of Agriculture said that he wanted to emphasise the relationship between export restitutions and the budget. If a Member country was not a net contributor to the budget and then used national aids to increase its agricultural production, that additional output was then subsidised by the budgetary contributions of other countries. French national aids, for example, were seven times those of the UK, and their agricultural production had gone up significantly in the last two years, whereas that of the UK and the FRG had remained more or less static. This use of national aids had an effect on the whole of Europe's agricultural financing. He agreed with Herr Ertl on Mediterranean products. If we tried to solve the problem of farm incomes in the Mediterranean area by means of the CAP, it would involve us in unlimited expense.

## Fisheries

Herr Ertl said that he and the Minister of Agriculture had touched on the fisheries problem in their earlier discussions, and Mr. Walker had made it clear that the United Kingdom would like the earliest possible settlement of the dispute. But they had acknowledged that, in view of the forthcoming elections in Denmark, it was unlikely that the matter could be brought to a conclusion before the end of the year.

/ Oil Subsidies



Oil Subsidies

Herr Matthoefer said that he and the Chancellor of the Exchequer had discussed the question of subsidies on oil consumption. The FRG wanted to abolish tax relief on oil consumption in a number of fields such as domestic/<sup>air</sup>transport, internal waterways traffic, agriculture, and refineries and petro-chemical plants. It had been agreed at the recent Finance Council that the Community should study the effects of the subsidies, and he was grateful to the United Kingdom for the support they had given the FRG on this.

The Chancellor of the Exchequer agreed that he was content for the Commission to study this issue. We now awaited the outcome of their work.

Insurance

Herr Matthoefer said that he, the Chancellor of the Exchequer and the Secretary of State for Trade had agreed that it should be possible to make progress towards agreeing a worth-while directive on insurance, though to protect the consumer, the FRG would have to insist on certain conditions.

The Chancellor of the Exchequer agreed that the British and German positions on this matter were beginning to come together. We had to establish liberal trading conditions for insurance within the Community. Free trade in services like insurance was as important as free trade in goods.

Duty Free Shops

Herr Matthoefer said that he had explained to the Chancellor of the Exchequer and the Secretary of State for Trade that the Federal Government was not taking a unilateral decision to abolish duty free concessions on travel within the Community, and he had agreed that the Commission should be asked to look at this issue, with a view to producing an agreed and common position.

/ The Chancellor of the Exchequer



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The Chancellor of the Exchequer said that the British concern of this subject was a simple political one. Duty free shops had existed for many years and if the Community now took a strictly logical view and abolished them, people in Britain would simply not understand why they could continue to enjoy duty free concessions when travelling between London and New York but not between London and Frankfurt. The removal of this concession - which also had the advantage of subsidising the operation of airports and sea ferries - would not be regarded as one of the Community's achievements in the UK.

## Steel

Count Lambsdorff said that he and the Secretary of State for Industry had agreed that steel should be one of the main subjects to be discussed at the forthcoming meeting of Industry Ministers in London. They had agreed in their talks that morning that the Commission should be urged to see that all Member countries followed the new rules for state aids which Ministers had agreed in June. Because of the political difficulties in some Member countries, like France and Belgium, there were signs that the Commission might be reluctant to enforce the aids decision as thoroughly as they should. The FRG had told the Commission that if it became necessary, they were ready to go to the European Court of Justice on this matter.

He and Mr. Jenkin had also agreed on the need to take action to deal with steel imports from third countries such as Brazil and South Africa. It was essential that the Community should give priority to its own steel industries.

The Secretary of State for Industry said that his discussions with Count Lambsdorff had been a very useful preliminary to the forthcoming meeting of Industry Ministers in London. There were uncertainties surrounding the pricing mechanism for steel which had been adopted in June and the UK and the FRG were agreed that we must stand by the existing rules. They wanted the London

/ meeting



meeting of Industry Ministers to reaffirm this. It was important that Member countries had a European standpoint on steel rather than a series of national positions. This was the only way the European steel industry would prosper in the modern world.

Tin

Count Lambsdorff said that he and the Secretary of State for Industry had discussed the question of the accession of the Community to the World Tin Agreement, in the light of the American decision not to participate. It also appeared that Bolivia, which was one of the main producers of tin, might not accede. It was important that any new arrangements took into account the interests of both the producers and the consumers.

Trade with Japan

Count Lambsdorff said that he had discussed the question of trade with Japan with the Chancellor of the Exchequer and the Secretaries of State for Industry and Trade. He believed that a common Community policy on trade with Japan was desirable. We did not want a Community policy which consisted of individual Member countries taking steps of the kind which had been taken on imports of Japanese cars last year. He thought that the aggressive policies of Japanese car exporters had already reached their peak and were now lessening. The FRG did not have any reservations about Japanese car imports at present. They wanted to encourage Japanese investment in the Federal Republic. He and his British colleagues had also agreed on the need to step up their efforts to convince the Japanese that they must open up their domestic markets, and the proposals which the UK had put forward in the Community were a good starting point for discussion of this subject.

The Secretary of State for Trade said that he welcomed Count Lambsdorff's support for the encouragement of Japanese

/ investment



investment in the Community. He had been interested to learn that the understanding on Japanese car exports to Germany had been concluded on an informal, government-to-government basis.

Multi-Fibre Agreement

Count Lambsdorff said that it was essential to give the Commission a mandate for the final round of negotiations between the developed and developing countries on the renewal of the MFA which was due to start that day in Geneva. The UK had entered a reservation in the discussion on the Commission's mandate which had taken place in the Foreign Affairs Council the previous day, and he had asked Mr. Biffen to reconsider the British position urgently.

The Secretary of State for Trade said that the UK wanted to see a tough successor agreement to the MFA. The reservation which we had entered at the Foreign Affairs Council had not been made likely, though we would reconsider our position very rapidly, as Count Lambsdorff had requested.

Air Transport

Herr Hauff said that he and the Secretary of State for Trade had discussed, on the basis of proposals by the Commission, measures to allow airlines access to services between regional areas in Community states, and they had agreed that steps should be taken in this direction where there was demand. They had also agreed, however, that this development should not give rise to the introduction of new subsidies.

Telecommunications and Postal Matters

Herr Gscheidle said that he and the Secretary of State for Industry had discussed a number of matters of mutual interest in the telecommunications and postal field. They had exchanged

/ views,



views, in the light of the recent abolition of the monopoly in telecommunications in the UK, on the promotion of competitiveness in this area. They had agreed on the importance of cooperating on technical standardisation in the field of optical telecommunications, where the Federal Republic would be investing some DM 80m. They had also decided that there should be more sharing of experience derived from the studies on digital telecommunications networks which were going on in both countries. Finally, they had agreed on the need to strengthen European cooperation on the development of viewdata systems. The Federal Government was about to invite tenders for a public service viewdata system, and the UK was amongst those competing.

The Secretary of State for Industry added that he hoped that the Federal Government would accept the joint bid for the Bundespost's viewdata system which had been submitted by British Telecommunications, GEC and Aregon in association with AEG/Telefunken, in preference to the bids of ITT and IBM. There was a good opportunity here to encourage European industry in this field, rather than to allow the American companies to take the lead.

Next Meeting

The Prime Minister and Chancellor Schmidt agreed to hold the next Anglo/German bilateral meeting at Chequers towards the end of March 1982.

The meeting ended at 1700 hours.

JW.

20 November 1981





JS

10 DOWNING STREET

From the Private Secretary

20 November, 1981

Dear Borani,

ANGLO/GERMAN BILATERAL MEETING

I attach a copy of the record of the plenary session of the Anglo/German Ministerial discussions held in Bonn on Wednesday, 18 November.

I am sending copies of this letter, and of the record to John Kerr (HM Treasury), David Omand (Ministry of Defence), Kate Timms (MAFF), Ian Ellison (Department of Industry), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

Yours ever,

Alwi Shinnar.

Brian Fall Esq  
Foreign and Commonwealth Office

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