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NOTE OF A WORKING DINNER BETWEEN THE PRIME MINISTER AND
CHANCELLOR KOHL AT THE CHANCELLERY ON WEDNESDAY, 21 SEPTEMBER, 1983

Present:

Prime Minister
H.M. Ambassador in Bonn
Mr. F. E. R. Butler
Mr. A. J. Coles
Mr. B. Ingham

Chancellor Kohl
H.E. the German Ambassador to
London
Herr Boenisch
Herr Lautenschlager
Herr Starbreit

European Airbus

Chancellor Kohl said that a decision would have to be taken next winter about Germany's participation in further development of the European airbus. He was not proposing a substantive decision on this occasion but would like to ask the Prime Minister to look at the matter and have a further discussion when they next meet, before a decision had to be made. His own provisional view, without having access to the detailed financial conclusions, was that if Britain and Germany decided not to participate in the airbus project, it would peter out and this would be the effective end of a European aircraft industry. This might be a decision which would be regretted in the long term, and his provisional view was that it would be worth going ahead on these grounds, even if the financial prospects looked unpromising.

The Prime Minister said that she would be prepared to have a further discussion about this with Chancellor Kohl. The view of the British Government had hitherto been that the project should only go ahead if the aircraft would have a commercial future. It would not be worth building an aircraft which required substantial public funds, could not be sold and had to be imposed on national airlines, which would then require a subsidy to run it. She agreed in principle that it was desirable to retain both an air frame and an aeroengine industry in Europe, but she reminded Chancellor Kohl that there was already European co-operation on the Tornado and consideration would have to be given to a new combat aircraft.

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Chancellor Kohl said that he was asking no more than that the Prime Minister should look at the matter with an open mind. He agreed that a careful market analysis should be undertaken, but was inclined to think that a military European aircraft industry would not be viable unless it was underpinned by a civil aircraft industry.

Economic Developments

In reply to a question from Chancellor Kohl about the development of the economy in Britain, the Prime Minister said that growth was probably running at a rate of about 2 per cent this year. There were continuing difficulties in certain industries, particularly shipbuilding, steel (especially special steels) and coal. In the medium term, exports were likely to be depressed by the debt problems of the developing countries, the disappearance of surpluses among the oil producers and increasing competition from the newly industrialised countries. The electronics industries were flourishing and creating new jobs, but these were still not quite keeping up with the decline in jobs in the older industries and the underlying rate of unemployment was continuing to rise slowly.

Chancellor Kohl said that the problems in Germany were very similar. Unemployment was declining slightly at present but was likely to increase again next year, which would be the first of a three year peak of school-leavers as a result of a bulge in the birth rate. He had had to appeal to the employers and trade unions to find an extra 30,000 training places next year. This appeal had been successful and 45,000 new places have been produced. Another problem for Germany was an excessive number of people coming out of universities. Unless there was a reduction, which the Government were now seeking, there would be 100,000 excess teachers by the end of the decade. Germany too was facing problems through the decline in shipbuilding, steel, coal and fishing. The prospect for exports was not bright, and the only industries which were doing well were those which catered mainly for export demand, notably building, chemicals and motor vehicles. He felt that the United States' economic policy, through its effect on interest rates, was doing

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more to create an anti-American feeling in Europe than the deployment of missiles; but he saw no prospect of achieving a change before the United States presidential elections.

The Prime Minister commented that President Reagan would agree on the desirability of reducing United States interest rates. But he had been faced with a problem because his predecessor had neglected defence expenditure and boosted social programmes. President Reagan had restored the defence programmes but had been unable to persuade Congress to make any further cuts in social expenditure. He had also relied on a belief, which she considered fallacious, that growth would generate revenue which would subsequently reduce the budget deficit. She thought that the United States' economy might run into problems even before the United States elections, through a resurgence of inflation. She drew Chancellor Kohl's attention to the measures taken by Mr. Lubbers to contain wage and pension costs in the Dutch budget, while increasing VAT and reducing the tax on companies.

Chancellor Kohl said that he had himself frozen civil service pay until mid-1985, and had spread the uprating of social security benefits so that one year's uprating had been removed. These measures were affecting more than half the population. The provision of jobs for school leavers in Germany was impeded by the high rates which the unions had negotiated for them: the Government did not make any contribution towards training places at present, but he was planning to introduce a contribution in the following year. A considerable problem for the German Government was the State Railway system, in which the deficit was expected to increase by some £600,000 in the current year: considerable reductions would have to be made in the network, and these would be very controversial.

/European Budget

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European Budget

The Prime Minister said that she had been worried by indications given by the Italian Foreign Minister during Signor Craxi's visit to London that the Italians were not expecting a solution to the European budget problem in December. She would deplore it if the impetus imparted by Chancellor Kohl at Stuttgart was lost. Much would no doubt depend on the date at which the European budget ran out of funds, but she was in no doubt that a fundamental reform had to be made, since the Common Agricultural Policy was now ridiculous and the system of financing was grossly unfair both to Germany and to Britain.

Chancellor Kohl said that he had not changed his position on the budget. The European Community was politically essential to Germany, but it was no good having the European Community as a roof to Germany if the roof was leaky. It was absurd that milk was now subsidised by 120 per cent. In his view, the sorting out of the CAP and the system of financing took priority over the development of new policies. He was not opposed to new policies provided that these problems were first solved.

At Chancellor Kohl's invitation, Herr Lautenschlager reported on the progress of discussions so far. He suggested that it would have been wrong to expect much progress to be made before now. In Brussels this week the positions of the various countries had been clearly stated, and negotiations would begin in earnest in October. The German Government regarded the expansion of the budget as linked to enlargement, since they did not believe that it would be possible to enlarge the Community without an increase in own resources. The Prime Minister questioned this view. Herr Lautenschlager continued that the Commission's proposals on agriculture created problems in relation to external trade, the proposed milk quotas and the tax on oils and fats. But, since eight countries out of ten were not even prepared to accept the Commission's proposals, Germany was inclined to think that proposals on the lines of those put forward by the Commission were the most that were likely

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to be achieved. They would have the advantage that a subsequent change in the agricultural regime could only be authorised by a special meeting in which Finance Ministers would take part. The Prime Minister commented that she regarded the Commission's proposals as unacceptable in certain respects. There would no doubt be pressure to exempt small farmers from quotas. It was unlikely that a fundamental solution would be found, unless funds to finance the policy were no longer available.

Chancellor Kohl said that he sympathised with the Prime Minister's view that the Common Agricultural Policy would only be reformed through pressure on its funds. He regarded the problem over milk in Germany as being one about dairy factories, rather than farmers. He wished to continue to support, for social, ecological and political reasons, those who relied on farming for their main income. They were essential to the stability of German society. He did not believe that small farmers were inefficient. Whereas 18% of the German population had been full-time farmers in 1950, the number had now diminished to about 5%. But a result of the CAP was that industrialists had set up milk factories containing cows which never saw the light of day, were fed on imported fodder and kept entirely to produce the milk which attracted subsidy: this was not farming, and he did not wish to support it.

The Prime Minister commented that she did not dissent from what Chancellor Kohl had said about the case for maintaining a healthy agricultural sector: she too saw a healthy farming sector as essential on economic and social grounds. But she did not believe that this justified the current CAP. Help for small farmers who faced special problems in particular areas should be provided through the national aids. But she saw no reason why small farmers should have a right to sell their produce at a guaranteed price, when no-one would think of giving such a guarantee to other small businesses. It would be essential to take this opportunity to devise a policy which was basically sound and was not merely a patched-up compromise. Chancellor Kohl commented that there did not appear to be much between the British and the German positions in principle; but there would clearly be problems in working out the details.

/ Concluding remarks

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Concluding remarks

Chancellor Kohl said that he warmly welcomed the Prime Minister's visit to the British Forces in Germany. This demonstrated confidence in Germany also, and solidarity at a time when fateful decisions would have to be taken. The British Government could rely on the pledged word of the German Government, and in their will and resolution to do what was right. The reform of the European Community was important but was secondary to the maintenance of peace and freedom. The Prime Minister said that she would only want to add one thing to what Chancellor Kohl had said. She regarded the European Community as a major factor in the maintenance of peace and freedom: that was why she was committed to membership of it and why she regarded it as essential to find a fair and lasting financial basis.

21 September 1983

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