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B.7

A N Ridley
Special Adviser

12 December 1983

Robin Butler Esq
10 Downing Street
London S W 1

Dear Robin,

Here are some minutes of the discussions to which the Special Advisers were invited with Herr Teltschik and his German colleagues last Friday. They are not yet complete, as John Houston has not yet had an opportunity to let me have his record of the "economic" part of the morning. But they do cover the key session on foreign policy, and records all the key points as accurately as possible, even at the cost of length and repetition; and the preliminaries, in which both sides spoke about their central administration framework and modus operandi - whose key aspects I touch on immediately below. It may be helpful if I attempt to summarise the most interesting points to emerge from the whole affair.

First, there were a number of significant hints and concerns which we were made aware of at the buffet dinner to which I invited all participants on Thursday night:

- concern that Prime Ministers/Heads of State were being forced to go into so much detail to make Summits work;
- a sense of relief that the ^{Germans} /now had a good line on the Elysée staff, even if they at times behaved like a bunch of socialist ideologues;
- a great desire to get closer to the UK.

Second, in the discussion of the organisation of both sides at the centre (referred to above), with which Friday's more formal exchanges began, the following became clear. On the one hand the Germans found it difficult to imagine a way of running things in which the PM/President and his/her staff were not both the solitary power-house and sole agents for coordination - as are the Elysée /and....

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and Bundeskanzleramt. We had to underline to them repeatedly the fact that in our system, with Chancellor, Foreign Secretary and PM sharing the same priorities and liaison well established between No 10, Cabinet Office, Treasury and Foreign Office, we did not have need for a comparable staff. On the other hand they were implying that given an inexorable pressure pushing more and more detailed issues onto Summit agendas and all this entailed, we should find some way of joining in the kind of contacts made possible by large central staffs such as the Elysée and Bundeskanzleramt. Our arrangements might be ideal from a normal point of view, but would they enable us to help our masters play the increasingly vital and complex game of summitry in the way our partners found necessary?

Third, in the foreign policy discussion on Friday afternoon, they (in practice mainly Teltschik himself) touched pretty deliberately on a number of important points (paragraph references are to my fuller minutes, which are attached):

- the need for an early Western initiative to resume dialogue with the USSR, to pre-empt an embarrassing Soviet effort with the same purpose (§3-6);
- Mitterrand's proposal for another Franco-German Summit, and the suggestion we should join the game (§8-10);
- concern that we should sustain, widen and deepen consultations with the Americans on key issues (§4);
- the need to respond to third-world expectations of the EC as in effect potential third power bloc (§12-14), and the suggestion we should in particular respond to Hussein's desire for an Anglo-German role in the Middle-East (§13);
- a warning that we should all consider now how to respond to a new Soviet disarmament initiative involving French and British nuclear weapons, and extending also to countries such as China;
- a general message that the German door was very emphatically open to deep and early discussions about the future of the Community; coupled with the hidden but clearly implicit thought that Franco-German contacts would pursue such goals even if we stayed out;
- a warning about US assumptions of allied support if the USA had to intervene to protect the Straits of Hormuz.
/Fourth....

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Fourth, there was a point or two worth recording in relation to the economic discussion, even if we do not yet have a proper record of it. Much of what both sides said dealt with the relatively satisfactory pattern of domestic economic development in both countries. But at the end of his presentation the main German speaker, Herr Ludewig, turned to the development of the EC's economic policies in the longer term. It was striking that within Germany success and restoration of confidence in recovery hinged on confidence that they had a stable Government committed clearly to cutting the structural public deficit (to zero in '85), lowering taxes, strengthening the market and curbing inflation. Looking at the EC there were in fact at least three major Governments on broadly the same, right lines - one had to grant that to the French now.

Looking ahead, did we not need to

- run our domestic policies with more awareness of their impact on each other, as we were urging the US to do?
- make it really clear to the business community that we were really committed to further effective progress towards united markets in the longer term?

What, therefore, were the elements in our vision of what the EC should be or become over the next ten years?

[In my reply I stressed needless to say that we had all sorts of ideas about the EC's long term future, but until the Athens agenda had been dealt with, there were limits to the objectives to which we could be expected to give high priority. That said, we would probably be absolutely committed, with Germany, to more united markets].

I had the impression the Germans are not yet quite clear what economic ^{aims} they are after, but convinced of the need for committed discussion with us and the French as to where the Community should go.

If there are any points on which you or others would like clarification, Peter Cropper, John Houston or I can probably dig up more detail from our notes. I am sending copies of this letter and attachments to both of them, as well as to the Chancellor and Economic Secretary's offices here, and to Geoff Littler; also to Stephen Sherbourne.

Yours ever
Adam

A N RIDLEY

INFORMAL ANGLO-GERMAN DISCUSSIONS

DECEMBER 9 1983

PRESENT:

From the German Side

Federal Chancellor's Office

Min Dir Horst Teltschik: (Foreign, Security and related matters)

Dr Walter Neuer: (Political matters Europe, Near East, EC)

Dr Anton Rossbach: (US, E. Europe, E-W Relations, Disarmament)

Capt. Ulrich Weisser: (Alliance and Military)

Dr Johannes Ludewig (EC Economic)

From the Foreign Office

Dr Michael Jansen (Personal Adviser to Herr Genscher)

From the CDU

Herr Peter Radunski, Secretary-General CDU Central Office.

From the British Side

Peter Cropper, CRD

John Houston, FCO

Robert Ramsey, EDG

Adam Ridley, Treasury

Stephen Sherbourne, No 10

Robin Butler, No 10 (for lunch only).

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FOREIGN POLICY, NATO AND SECURITY ISSUES

Teltschik opened the discussion with a relatively long and carefully prepared presentation, which gave every sign of containing many of the key points which the discussions were intended to convey to us.

2. He began with an aside, expressing surprise that consideration of Foreign policy in the UK seemed to attract relatively low priority and that it was to some extent a field for non-experts at that. He hoped that it would be getting more serious attention soon.

In so doing he was demonstrating misunderstanding of points made earlier, when John Houston had explained that till recently foreign policy issues here had, as a rule, had a relatively small party political content because of a broad consensus embracing the main issues and most public opinion; and misinterpreting (perhaps) the significance of the very light staffing of No 10 in Foreign Policy matters⁷. He then developed four major themes.

1. INTERMEDIATE MISSILES, AND THE FUTURE INTERESTS OF W. GERMANY AND THE UK

3. The key issue was and is not so much how many Cruise missiles would be deployed and how quickly, as the fact that we had held to our decisions to do so. Had we not, the repercussions would have been very serious in the wider international arena. Those many countries which were anxious about the USSR, and in many cases (over-) dependent on the USA had long been anxiously wondering whether Germany and the UK would resist Soviet pressure, stick to the two-track decision and deploy. In essence it constituted a test of whether we could be relied on at all.

4. That issue of principle and our countries' credibility both now having been restored, there was now an opportunity for a better dialogue with the USSR than in the immediate past. It would in any case be wrong to think the Russians would stay out of contact indefinitely and in a huff. They would take an initiative, perhaps quite soon.

5. There were plenty of examples of such moves by them. Only four months after their invasion of Czechoslovakia in 1968 they had made a major démarche at the European Security Conference - to which Willy Brandt had, significantly and importantly, been the first to react. Unless they have suddenly changed and if we

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do nothing, they will blame the West for the failures at Geneva, with some success, and then come up with a new initiative. If they do, the West could be put in disarray, with some Western countries seeking ways of reacting constructively while others denounced the whole exercise as Soviet propaganda.

6. Therefore we should both be considering taking some kind of pre-emptive initiative; keeping doors open; and continuing to talk. For that reason Germany was naturally pleased with the conclusions of the NATO Council, and was delighted Mrs Thatcher planned to visit Hungary. It transpired that Herr Kohl has the same idea in mind.

7. Teltschik added, almost en parenthèse, that he and others were hoping for a Reagan-Andropov Summit in due course. This could be a basis for a breakthrough, particularly on disarmament.

2. GERMANY AND EUROPE

8. The two-track decision had produced strains inside Germany which we might well be aware of - a peace movement and an SPD in turmoil were two major ones. It was absolutely vital that outsiders should appreciate their nature. It was important that we should note to what extent Adenauer's 1964 decision to "integrate with the West" was far from self-evident; and certainly a unique event in Germany's history. The peace movement was in a sense challenging that historic move. It was, of course, true that the "Hot Autumn" the Peace Movement had promised had not occurred. In truth the activists do not now know quite what to do. But it was quite possible that those seeking to "disintegrate" would in due course grow in number, and even prevail at some point.

9. This risk the French were very aware of. There had recently been a big change not only in the French Government but also on the part of the Gaullists. This was already leading to much more intensive relations, and greater interest in the "European idea", perhaps particularly in security matters.

10. Thus Mitterrand had just proposed a "working summit" with Kohl in January, and the preparation of a "common paper on European Perspectives". Neither Teltschik nor any others had yet much idea what agreements on policies or objectives were thus being pursued. But it was absolutely certain that the proposal was both an expression of France's security interests and a reflection of the importance of the double track decision. It was also, come to

that, another aspect of a growing Continental tendency [Teltschik very deliberately said "continental" in the English sense] towards greater cooperation, "particularly amongst the EC's founders". Such progress would, of course, demand a solution of the Athens problem. But

"the Conservative Party and British Government should pay very close attention to these developments. Should the UK not be part of the debate? Or should Britain keep its head pointed elsewhere? "

3. A MAJOR PREOCCUPATION OF GERMANY'S FOREIGN POLICY

11. A further issue, or rather conviction, arising from the double-track/^{decision}concerned relations with the US Government. There had been no other matter over which liaison and discussion with the USA had been so close and continuous. Our country's success in holding to our purpose was directly attributable to the effective maintenance of such excellent contacts, as well as to the fact that not only did the key NATO states have a common position from the outset, but so did France and, even, Spain. It therefore followed that we should seek equally effective and constant coordination and consultation in other areas. This effort should extend to consultation with the Alliance generally, and not just a few narrow security issues.

4. THIRD WORLD EXPECTATIONS OF THE COMMUNITY

12. When travelling abroad, Kohl and his staff were constantly being impressed by the fact that countries like Saudi-Arabia, Japan, China, Indonesia and many others were seeking a more influential EC and to escape from the "either/or" embrace of the USSR and USA. This was, most importantly, particularly true of the Arabs and the Middle East. The Arabs did not think we could solve all their problems, but they did think and hope we (the EC) could make a major impact on some areas.

13. Thus with the PLO now knocked out, Hussein was considering a new initiative. He knows its success would require the support not only of the US, but also of Kohl and the Prime Minister, given his particularly good relations with them. Hussein had recently written to Kohl about the idea. Kohl had discussed it with Mitterrand, who was dismissive because "Hussein is too weak".

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14. This was a matter on which the UK and Germany should work very closely, and concert vis-à-vis the USA.

15. Rossbach then enlarged on Teltshik's first theme of re-developing relations with the USSR. The Russians' main strategic purposes would remain to prevent the USA from continuing the modernisation of their weapons, and to encourage them to withdraw from Europe. But the Russians' immediate priority was saving face (Gesichtswahrung), and extracting themselves from a mess of their own making. The decision to station medium-range weapons was now being implemented, and they would wish to limit it as far as possible. They would have no interest in seeing the Iron Curtain become a curtain of rockets (Raketenvorhang). They were well aware that they had made advances with public opinion in the West by being willing to take positive and apparently constructive initiatives, and would not wish to jeopardise these gains.

16. It was striking that in those classes of Russo-German contacts where Germany was still maintaining "business as usual", the USSR remained very open and responsive. They were all set to do so at the forthcoming Stockholm Conference, too.

17. This suggested that the western nations should follow a two-fold strategy:

- (1) some kind of secret contacts, part of whose purpose would be to explore suitable face-saving devices;
- (2) some kind of positive public Western posture, which would prevent public suspicions that we were simply crude spectators, who were awaiting the USSR's return to its senses and dialogue.

18. Such a positive posture did not need to be founded on specific proposals. What mattered was a stress on willingness to resume talks, and procedural moves to restart them; and that the West should not insist on the Russians paying a substantial price for resuming the dialogue.

19. John Houston then underlined some aspects of British policies for arms control, etc. Amongst the points he made were the following.

20. The position was indeed depressing. It was important that the deployment of Cruise was now taking place. Four years of Soviet pressure had not prevented it. There must be doubts both

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about the Soviet leaders and what they would now wish to do. It was quite possible that they might choose to wait for a while to make our flesh creep in the West, and build up new pressures. If that was a defensible assessment, we would need to be careful about how we responded. As far as public attitudes went, it appeared that opposition was for the moment diminishing, perhaps because people have a tendency to fall in with the status quo, which is now deployment. This pattern could, however, change if tension were to increase. All this calls for unity in the Alliance; and being wary of possible initiatives which might curry public favour, but raise false hopes on the Soviet side. We shared the German judgement that the Russians needed a way of saving face, and we needed to get back in conversation with them.

21. Teltschik then offered further observations about disarmament problems. The INF talks had ended because of Soviet insistence on including French and British weapons. Germany had agreed with us and the French in our refusal to see them brought in. But we (all of us - i.e. UK, France and Germany) should now consider how we would react to a proposal which embraced third country systems. For example a Soviet proposal of altogether broader scope than hitherto, involving all major weapons systems, and bringing into the discussion the Chinese as well as Britain and France. Such an initiative could well constitute a very embarrassing offer we could not refuse.

22. In sum, the UK and France needed to consider very soon if, when, where and how we should involve our weapons in such negotiation

23. John Houston recalled that "we've never said 'never'". We had open minds, and were always prepared to consider new proposals seriously.

24. Rossbach observed that the long time required for full deployment gave the USSR big opportunities for changing public attitudes. The pre-emptive initiative commended earlier needed to involve the whole Alliance and the US, with whom contacts would have to be as close as over the INF.

25. Viewed from a German perspective, the faltering consensus over defence matters which the SPD's state was aggravating called for "a political impulse in Europe, and more action and effort in the framework of political cooperation".

26. Jansen (Auswärtiges Amt) intervened to make two points. He had been much struck on the margins of the Athens Summit by peoples' fear of being dragged into US concerns when Europe could not even deal with its own.

27. He also recalled his Department's statement after the INF collapse, stressing the case for a broader approach to East-West problems. There was something to be said for paying more attention to the 2-pillar approach of the original Harmel report.

28. After some minor interventions from Neuer and Weisser, Ridley asked Teltschik if he could shed any further light on Mitterrand's objectives in proposing the working summit and joint paper on Common European Perspectives. At least three different, non-exclusive, private goals were conceivable, however the proposal might be presented and worded:

- closer agreement and cooperation on fairly specific defence matters;
- a more effective independent European voice in foreign affairs matters generally; which could mean an attempt to mobilise the largest EC members as an inner group. echoing ideas current a while back;
- a more effective decision-making framework in the EC, in view of the difficulty of making any progress at all at them, the threat of even greater centrifugal tendencies after enlargement, and the implications of such insights for the French Presidency. All of which might lead one back by a rather different route to the idea of an "inner-group" of dominant large countries.

29. Teltschik repeated that the French had only made a very vague proposal. It was quite certain that closer cooperation in security matters was one goal; and almost certain that greater cooperation over high technology industries was another. But the political aims Mitterrand had in mind were still quite obscure. The Germans would be both studying the proposal carefully and seeking to find out the answers to these questions directly after the weekend.

30. He went on to underline that Kohl and the German Government were interested in using any opportunity to develop the Community. They would look at any sensible ideas, if humanly possible in partnership with the UK. There was a deep desire in his country

to do so, and the pressures to do so were growing.

31. He then turned briefly to non-EC problems. George Schulz had just visited Bonn and discussed the Middle East and the Iran/Iraq war. It seemed likely that, if there was the obvious crisis there, culminating in the closure of the straits of Hormuz, we would all be likely to wait for the USA to intervene militarily. Schulz had made it clear that, if they had to do so, they would "expect the Europeans to respect their interests too", i.e. act conjointly or support.

British-German Consultation for Special Advisers

London 8/9 December 1983

Notes on First Session concerning role of political advisers in Government.

1. Adam Ridley introduced the UK team and described the structure of government at the political centre.
2. Stephen Sherbourne described the organisation of government as seen from the Political Office at No 10.
3. Mr Horst Teltschik welcomed the opportunity to meet opposite numbers face to face. He also underlined the increasingly close links between European governmental machines.
4. Mr Teltschik described his own experience in local and central government as Head of Section 2 of Bundeskanzleramt, concerned with foreign affairs.
5. Mr Radunski - party manager of the CDU at headquarters. Was for some years deputy head of Konrad Adenauer Foundation. He stated that Dr Kohl was both head of government and leader of party - but the two posts do not have to be held by the same person.

6. Mr Ludewig - in department 4 of Bundeskanzleramt, dealing with questions of economic and financial policy. Formerly served in Department of Energy. Work includes relations with EEC on economic matters.
7. Mr Neuer - works in Teltschik's department, on relations with West European states - including political relations with EEC. Started in Foreign Service.
8. Mr Rossbach, also in section 2, working on North American Affairs, East West Relations, Disarmament. Also formerly in Foreign Service.

Mr Weisser - Naval Officer, reporting to Mr Teltschik on defence and security matters.

Mr Jansen - Personal Adviser to Mr Genscher, Foreign Minister. In the Ministerial office we have four secretaries, all career officials. In Mr Genscher's ten years in office there has only been one political adviser.

Mr Teltschik described Bundeskanzleramt. 400 people. Six sections. The political leadership consists of:

1. Secretary of State responsible for administration.

Three MPs concerned i) with relating with parliamentary party; ii) with the Upper House; iii) with Berlin matters.

- Dept 1. Administration/Legal
2. Foreign Policy
 3. Internal and Social Policies
 4. Economic and Financial Policies
 5. Public Relations and Communications
 6. Security Departments

The officers of these six Departments were all political appointments and can be replaced on a change of Government.

Within the Bundeskanzleramt the rest of the staff are on attachment from government departments.

Work of the Bundeskanzleramt: prepares all issues for decision by the Bundeskanzler.

Members of the BKA are primarily concerned with political success of the government - not only party political success.

Mr Radunski - how the Party works:

Secretary General of the Party is also a Minister in Cabinet.

In the last ten years the CDU has become a highly organised members party.

The Party also has many more multilateral and bilateral contacts.

The Party is responsible for the electoral campaign.

The most important link government/party is the executive committee of 11, under chairmanship of the Federal Chancellor.

Policy planning. Research System. Departments, Party, Konrad Adenauer Foundation have to be coordinated. Also Government.

Mr Houston - In our system, the idea that foreign affairs are political is a new one.

Important to realise that all officials are expected to be concerned with the success of the Government.

Mr Teltschik - the Bundeskanzler must have around him team committed to the political success of the Government.

Mr Sherbourne described how officials were expected to be impartial. Referred to Sir John Hoskyns' thesis, that the Civil Service had impeded the progress of the Government since the last war.

Mr Ridley introduced another debate, particularly on foreign affairs, describing how Community matters had gone back to departments. No central entity yet.

Mr Teltschik said he was the first head of Foreign Policy Department who was not a career official. It is vital that members of the Bundeskanzleramt must be both loyal and creative.

Mr Ludewig pointed out that foreign affairs had been the controversial side of German post war affairs - whereas on home affairs there was a broad concensus.

Mr Teltschik pointed out that the Federal Chancellor spends very much time on foreign affairs and is not pinned down in the same way as the British Prime Minister at Question Time.

Mr Jensen asked what could be done to save the matters of key detail having to be dealt with by Heads of Government.

Mr Ridley emphasised the fact that in the British system the Head of Government has to deal with detail.

Mr Neuer pointed out how the European Council had degenerated - it was now almost a council of experts.

Mr Teltschik asked how the different organisations at the centre are weighted when it comes to preparing policies for EEC negotiation.

Mr Sherbourne - First Mr Coles, the Foreign Office
man at No 10. Then key officials.

Mr Ridley - The private secretaries probably carry
30 per cent of weight.

The cabinet office will concentrate on matters
of procedure.

The Policy Unit is growing gradually in status
and power.

Otherwise power tends to be concentrated in
Ministers.

J. K. OPM.
10 Dec 83.

Steven Shearburn

Konrad
-Adenauer-
Stiftung

Keep

21 Suffolk Street, Pall Mall, London SW1Y 4HG Tel: 01-839 2843

 London Office

British-German Consultation for Special Advisers
London, 8/9 December, 1983

P R O G R A M M E

Thursday, 8th December 1983

Afternoon

Arrival of German participants

20.00 hours

Dinner hosted by Mr. Adam Ridley
at his private residence,
Special Adviser to the Chancellor
of the Exchequer

(departure Hotel 19.45 hours)

Friday, 9th December 1983

8.30 hours

Breakfast German participants

9.30 - 12.30 hours

National and international economic
policy

Medium term perspectives as seen
by the British and Germans

13.00 hours

Lunch

14.30 - 16.30 hours

Medium term perspectives for British
and German foreign policy

- European Community
- NATO / USA - Europe
- East - West

16.40 hours

Departure German participants

18.40

Flight from Heathrow to Cologne

Interpreters: Mrs Karin Band
Ezra Jurmann

P a r t i c i p a n t s

I. Great Britain

- Steven Shearbourm Special Adviser to Mrs. Thatcher
- Adam Ridley Special Adviser to the Chancellor of the Exchequer
- John Houston Special Adviser to the Foreign Secretary
- Dr. Robert ^{Ramsay} James Secretary-General of the European Democratic Group (EDG) in the European Parliament
- Tim Bainbridge Special Adviser to the Chairman of the EDG
- Peter Cropper Director Research Department, Conservative Central Office

II. Federal Republic of Germany

- MinDir. Horst Teltschik Bundeskanzleramt
- Dr. Walter Neuer ^{white} Bundeskanzleramt ~~Foreign~~ ^{Foreign} ~~affairs~~ ^{affairs} - EEC
- Dr. Anton Roßbach ^{Lambert} Bundeskanzleramt ^{W. Amann} - EEC/West - Dis.
- Ulrich Weißer ^{"CBS"} Bundeskanzleramt ^{Selwis + degen.} ^{Armed forces.}
- Dr. Johannes Ludewig ^{grey} Bundeskanzleramt ^{- economic + economic} ^{EEC.}
- Dr. Michael Jansen ^{snare} Foreign Office ^{Geneva} ^{Geneva} - price + Euro. (2y)
- Peter Radunski ^{dark} Secretary-General CDU Central Office Bonn

III. Konrad-Adenauer-Foundation

- Dr. Ludger Eling Director London Office



Foreign and Commonwealth Office

London SW1A 2AH

19 December 1983

8 20/12

A Ridley Esq
HM Treasury

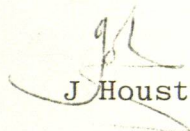
Dear Adam,

INFORMAL ANGLO-GERMAN DISCUSSIONS

/ 1. I attach for the record my notes on the economic
/ section, together with my amendments to your minutes.
As I said on the phone, I think your minutes, which
had already been put into the official machine before
it was suggested I should add to them, provide adequate
information for circulation on the economic discussions.

I agree
2. I am doubtful about the appropriateness of feeding
such voluminous minutes on the foreign policy
discussions into the official machine when we have
insisted on the informal nature of the discussions. I
would have preferred a list of points of interest on
one (or at most two) sides, (eg, your letter to Butler
alone). Far from impressing officials with the
usefulness of Special Adviser contacts, I see it as
likely to make them more possessive and concerned to
protect their patch. This is particularly relevant to
my position here and is another reason why we should
have considered together the appropriate follow-up steps
before any irreversible action was taken.

Yours,


J Houston

cc
S Sherbourne Esq
P Cropper Esq
Dr R Ramsay

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INFORMAL ANGLO-GERMAN DISCUSSIONS

ECONOMIC ISSUES

1. Herr Ludewig opened the session by describing economic developments in the Federal Republic, using graphs which were circulated (attached). All the main indicators were of an upward trend: GNP, Business Prospects Survey, new orders (especially those from abroad), and manufacturing output (though this was levelling off slightly in response to the earlier sharp rise, the upward trend should resume) Unemployment showed the first seasonally adjusted fall for some time. Inflation was down at 2.6%, compared to 5-6% in 1982. Trade was up, especially exports. Since early 1983 there had been a definite all round improvement.
2. The prospects for 1984 were hopeful. 2.5% growth was expected, investment was forecast to rise 5%, unemployment would remain around the same level or fall slightly by the end of the year. The balance of payments would be in surplus.
3. The Government's policy was to stimulate growth while restraining expenditure. The budget deficit had been reduced by 1% of GNP by cuts on the draft budget left by the previous administration. The "Five Wise Men" had forecast that the structural deficit in finances would be removed by 1985. At the same time performance incentives were being provided through fiscal reform. This dual strategy had worked and would continue.
4. On the international scene the US, Japan and Canada assumed continued growth in 1984 as in 1983. So did the UK and West Germany, but at a lower level, while France, Italy and the rest of Europe would grow even less. OECD unemployment would remain at 9-10%, possibly rising in France and Italy and possibly falling in the UK and FDR. The US deficit would continue to cause problems for interest rates. This meant either US performance would fade or it would crowd out credits internationally. In the Third World things were quieter on the surface but there were still real problems to be overcome and crises could resurface.
5. Herr Ludewig ended with two questions:
 - a. How did we see the long-term economic prospects for the UK, especially on unemployment?
 - b. Did we see a greater need for economic coordination at a European level? For the first time three big countries were following similar economic policies, even if the French were lagging a little. But present Brussels co-ordination was simply a matter of stating one's own policies and going home. Did we not need to go further?

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6. Mr Ridley then outlined UK policy, stressing the similarity of our experience and approach. We had faced even greater difficulties. The FDR had turned things round in one year. We had taken five. The first two years had been very difficult. We had reduced public expenditure, but not the tax burden. Economists had told us tough monetary policy was incompatible with growth. In fact we had increased our share of world trade, productivity and profitability were up, inflation was down. Our policy was vindicated. Since the election it had become clear that we were for the first time since the war the fastest growing economy in the EC. There was a broad-based recovery. Our major concerns now were mainly domestic. Politically, room for manoeuvre on public expenditure was reduced. We had taken emergency action before the election to deal with opposition attacks on the long-term public expenditure problems. We now had the problem of how to change public perceptions. We were continuing with union reform, planning reform, housing reform, support for innovation, and privatization.

7. Mr Ridley said that internationally we had anxieties about protectionism, and oil price movements. US interest rates were a problem. We tried to decouple from them, but the US set the range and framework. Unemployment was difficult to forecast. On European economic co-operation it had to be admitted we had been giving priority to short-term Community problems on agriculture and the budget. The internal market was for us the basis for European economic progress and there was much to be done.

8. In discussion the following points were made:

Mr Sherbourne: Having two terms of office was very important; it meant we could see our policies through.

Herr Teltschik: In the FDR, cuts had reached the limits of what was possible politically.

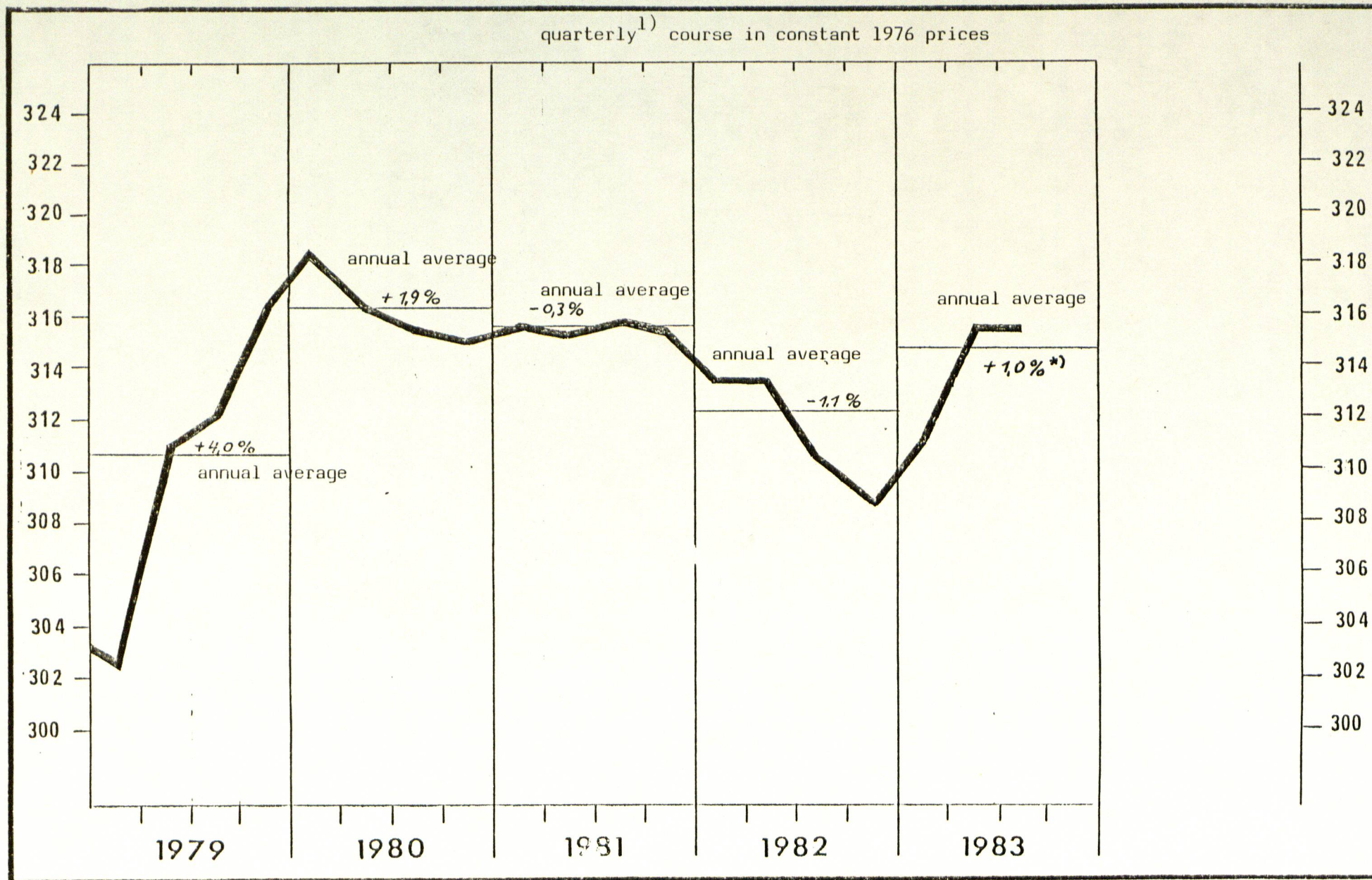
Mr Cropper: The UK debate was now mainly about public expenditure and taxation.

Herr Ludewig: If there is no harmonized economic policy business will not be able to exploit the common market adequately.

Herr Radunski: In the Finance Ministry there were those who thought more cuts were necessary.

J. H. Yants
16/12/83

9/12/83 8



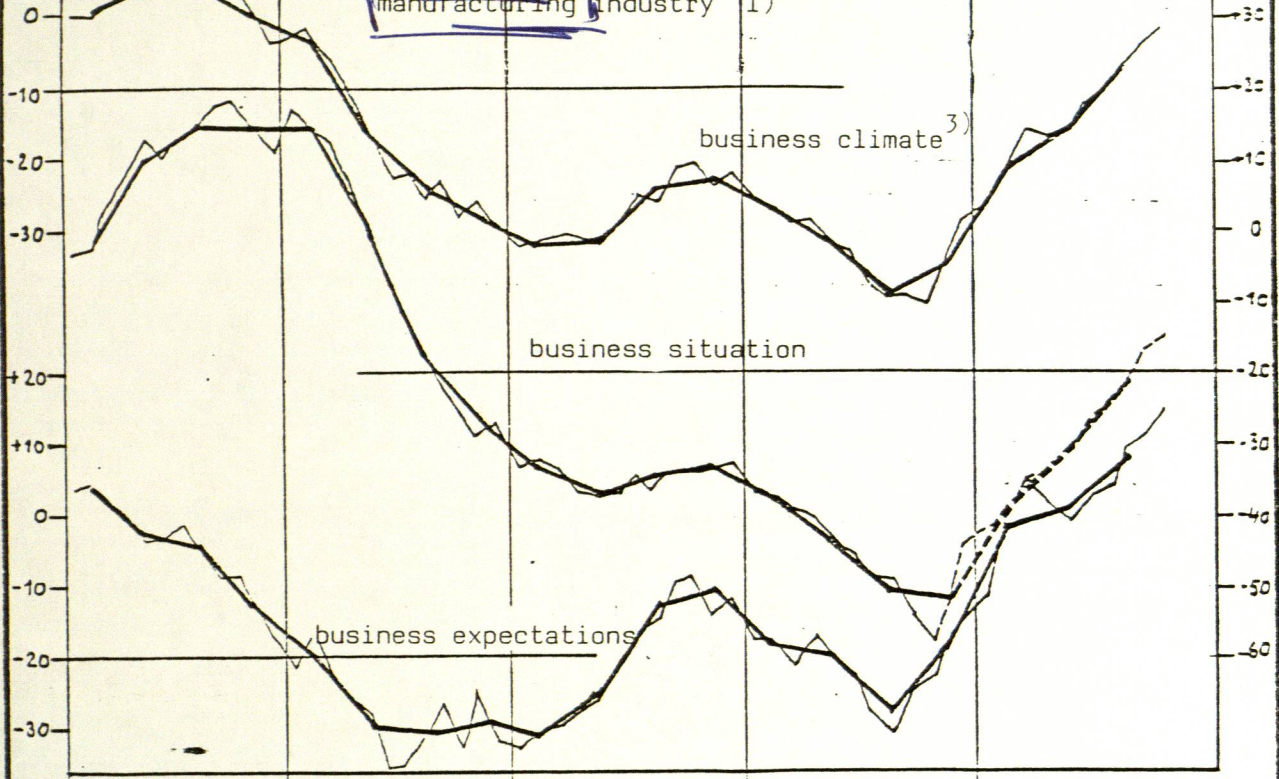
1) Seasonally adjusted; also adjusted for extraordinary calendar irregularities;

*) forecast

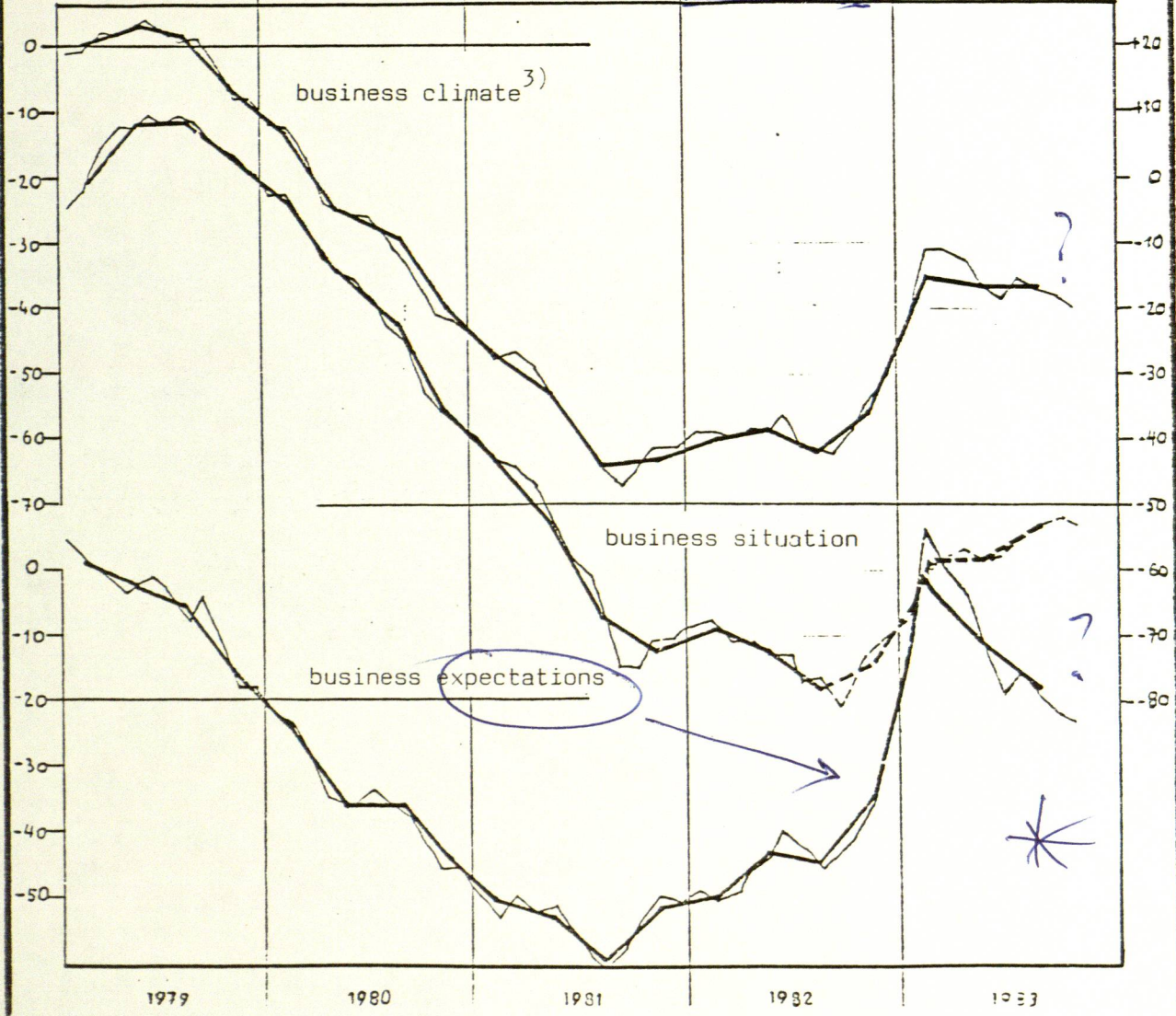
Ifo-Business Survey seasonally adjusted²⁾

Test points

Assessment of current business prospects in manufacturing industry 1)



Assessment of current business prospects in construction industry proper



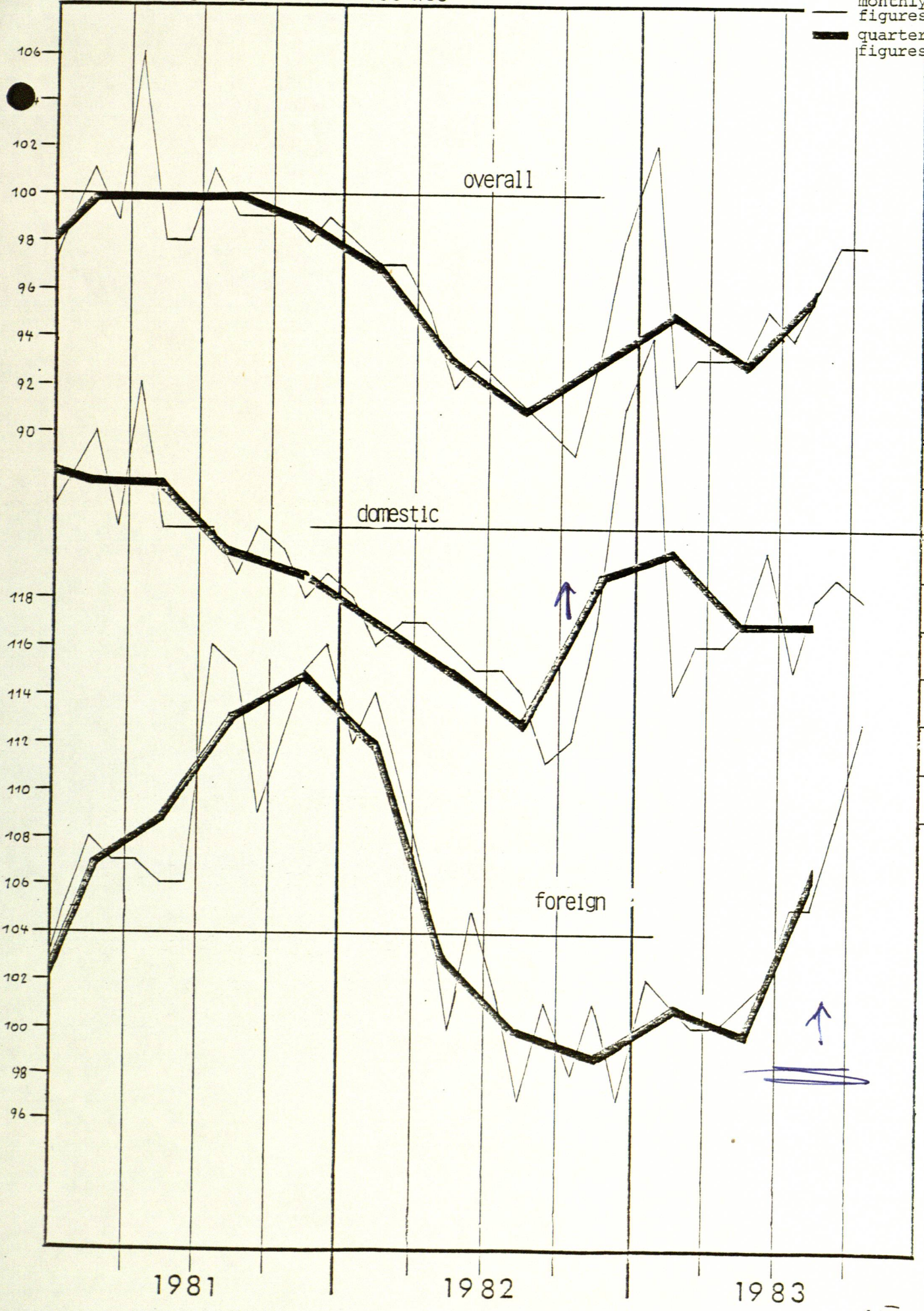
- 1) Excluding food, drink and tobacco industry
- 2) Seasonal adjustment by the Ifo-Institute
- 3) Geometric mean from business situation and business expectations

1979 1980 1981 1982 1993

New orders in manufacturing (volume)

Seasonally adjusted 1980=100

OK 7.88
monthly figures
quarterly figures



Output in manufacturing

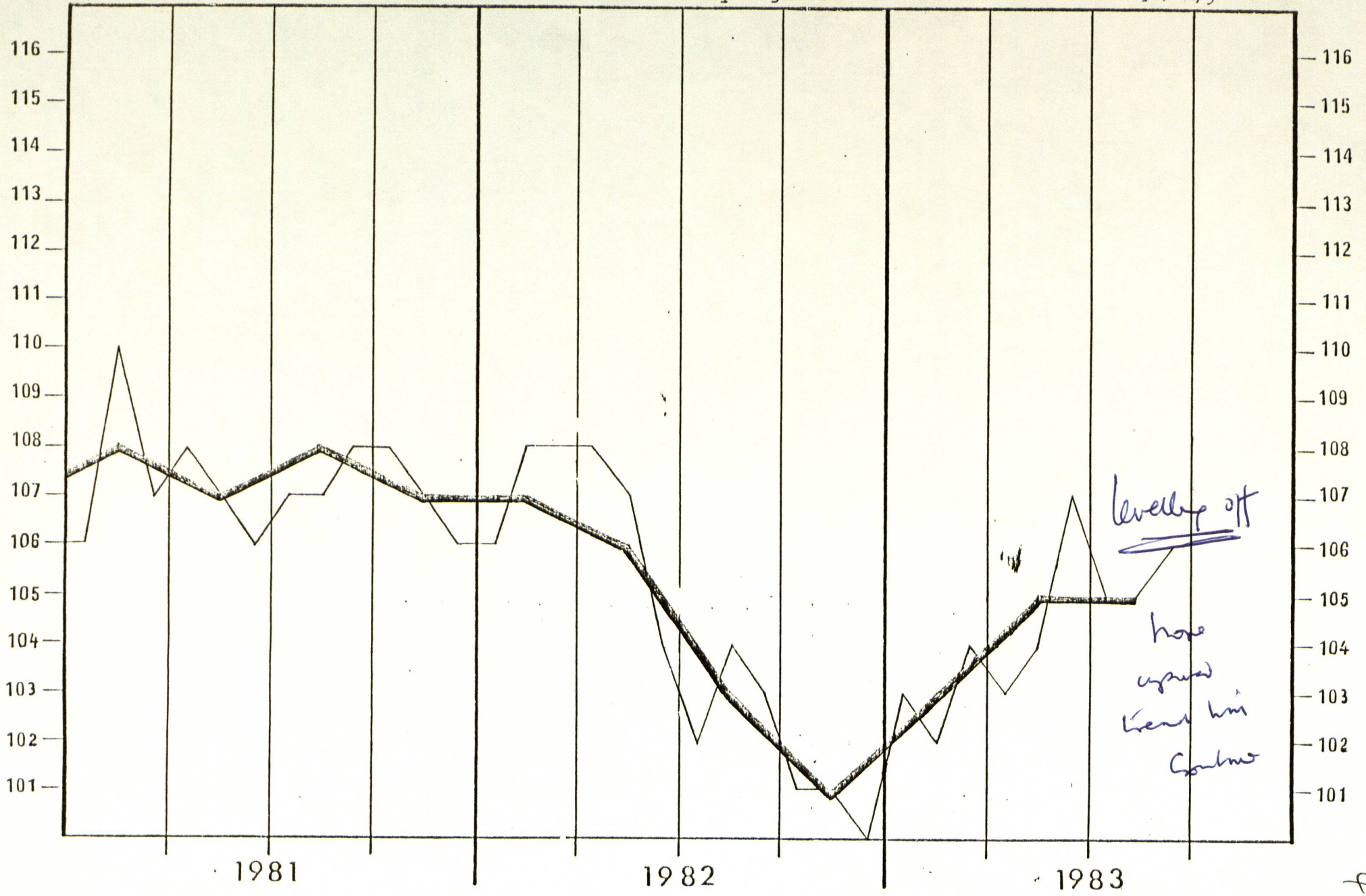
1976 = 100

seasonally adjusted

— monthly figures

— quarterly figures

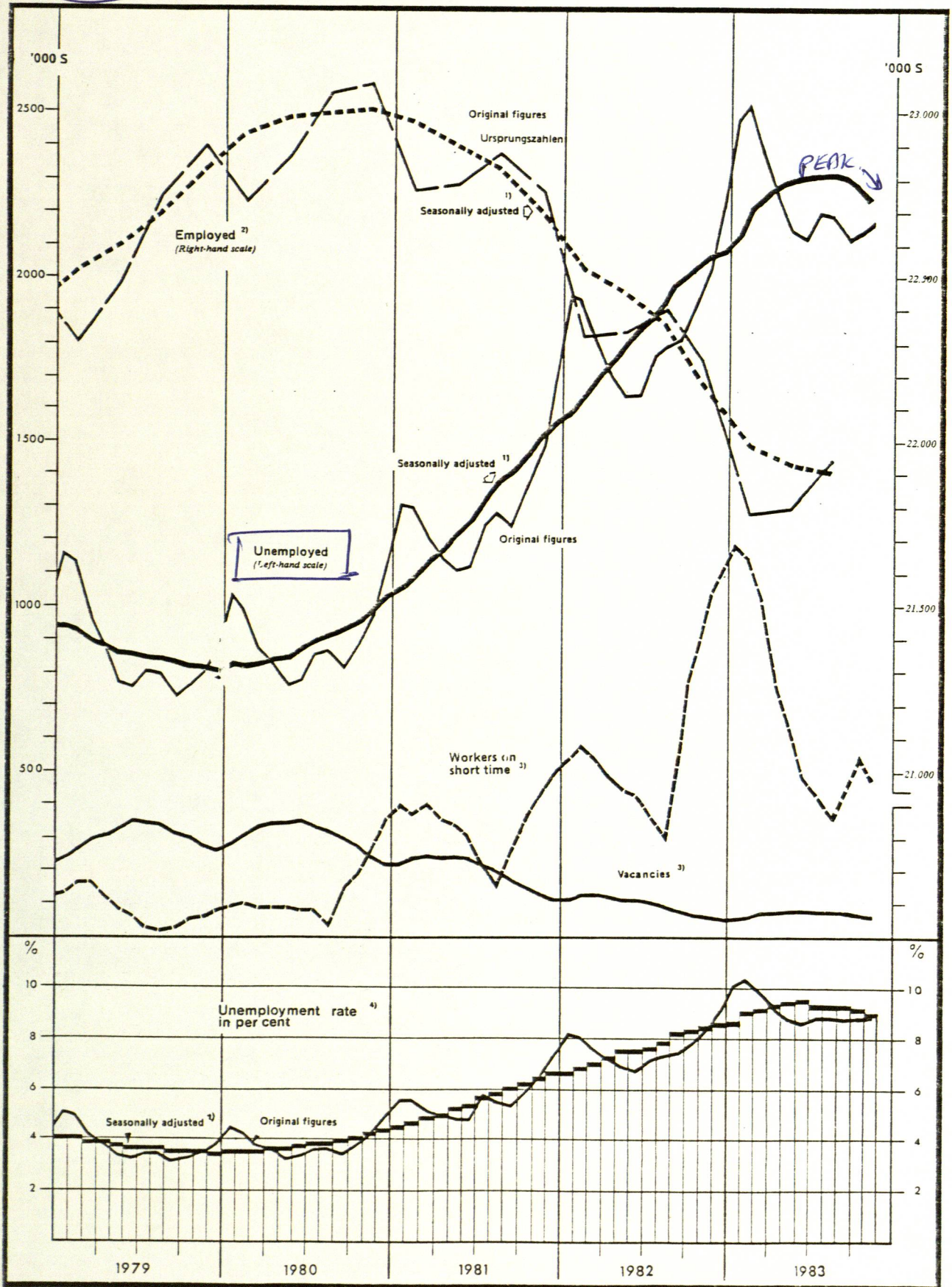
SEP 83



leveling off

have upward trend in output

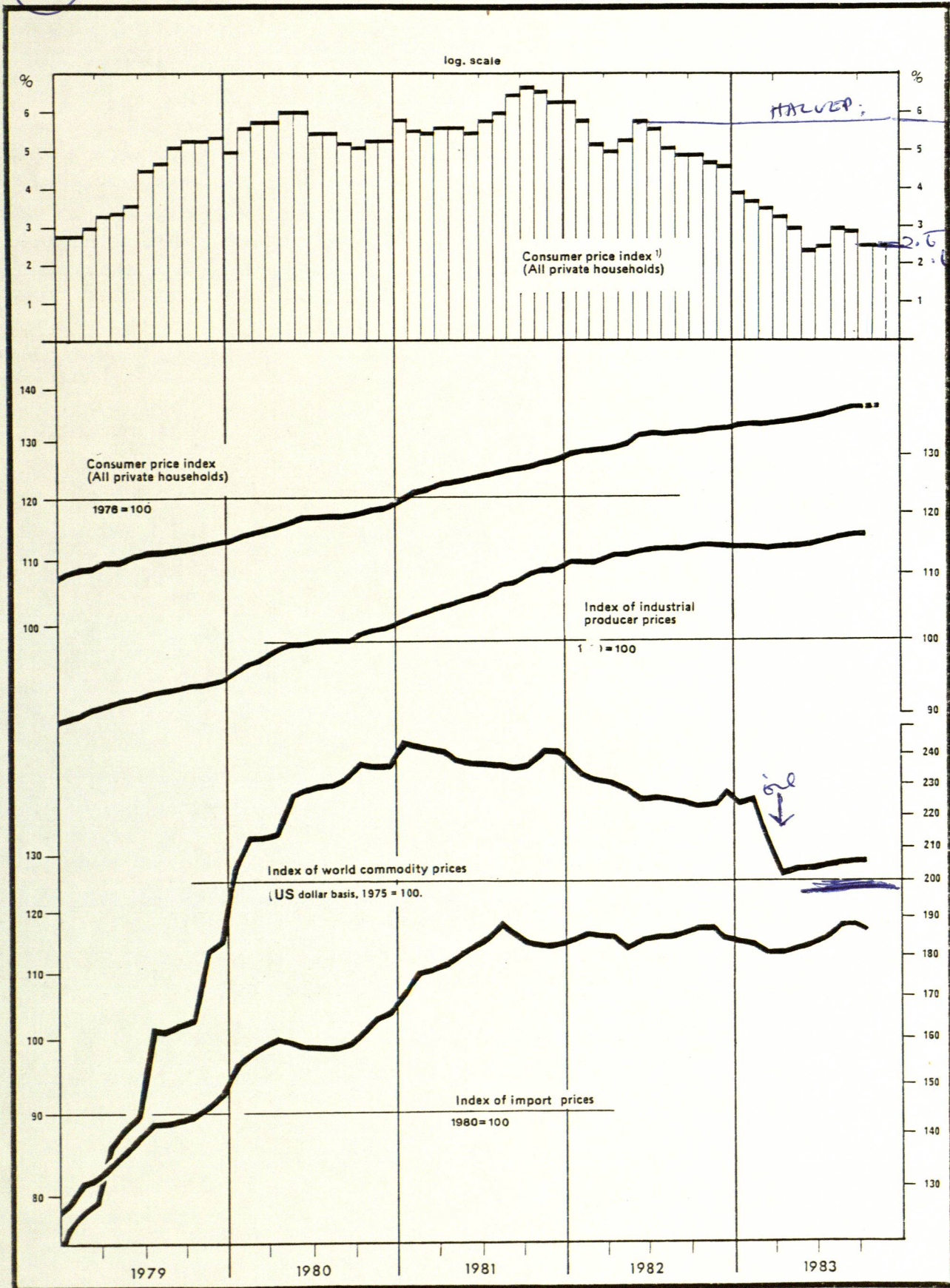
4



Source: Bundesanstalt für Arbeit, Statistisches Bundesamt and Deutsche Bundesbank

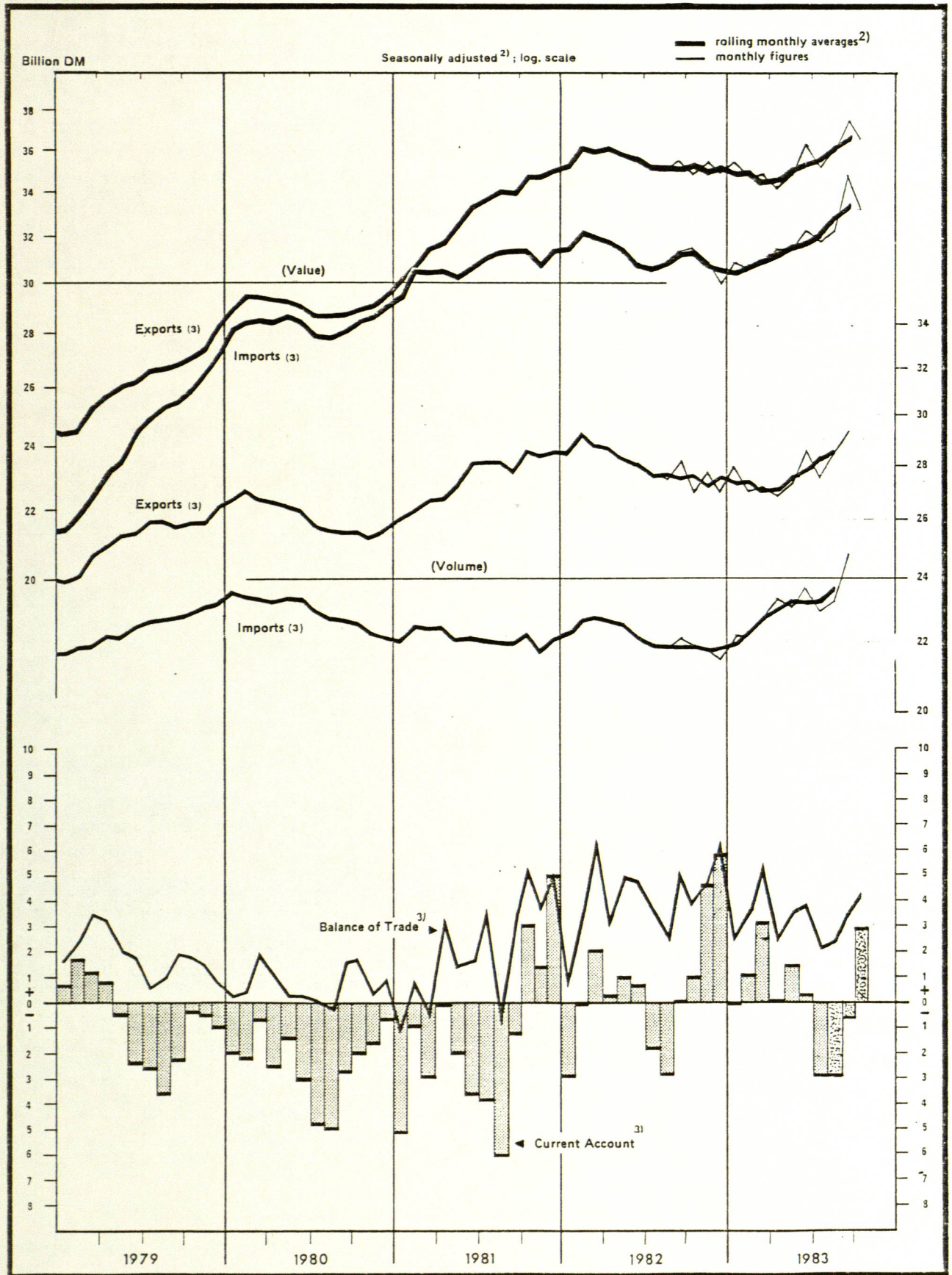
1) Seasonal adjustment by the Deutsche Bundesbank; 2) Dependently employed, quarterly figures; 3) Left-hand scale, not seasonally adjusted; 4) Unemployed as percentage of the dependent labour force.

Prices



Source: Statistisches Bundesamt and Deutsche Bundesbank
 1) % change against prec. year;

Trade and payments



Source: Statistisches Bundesamt and Deutsche Bundesbank

1) Seasonal adjustment by the Deutsche Bundesbank; 2) The length of the rolling average (in months) is stated in parentheses next to the relevant curve; 3) Not seasonally adjusted, linear scale.

For Friday 9 Dec
meeting.

21 Suffolk Street, Pall Mall, London SW1Y 4HG Tel: 01-839 2843

London Office

5th December 1983

Adam Ridley Esq.,
Special Adviser
HM Treasury
Parliament Street
LONDON
SW1

cc. Mums Houston R. Butler
Sherborne
Rowley
Bedward
Cropper.

Dear Adam,

I have now received the names of the German participants for the meeting of "Special advisers", which will take place at the Royal Horseguards Hotel on Friday 9th December, 1983.

They are as follows:

- | | | |
|-------------------------------------|---|---|
| 1. MinDir. Horst Teltschik | - | Bundeskanzleramt |
| 2. Dr. Walter Neuer | - | Bundeskanzleramt |
| 3. Dr. Anton Roßbach | - | Bundeskanzleramt |
| 4. Kapitän zur See
Ulrich Weißer | - | Bundeskanzleramt |
| 5. Dr. Johannes Ludewig | - | Bundeskanzleramt |
| 6. Dr. Michael Jansen | - | Auswärtiges Amt |
| 7. Peter Radunski | - | Secretary-General CDU
Central Office, Bonn |

The German participants will all stay at the Royal Horseguards Hotel.

As agreed we will start with our first session at 9.30 am and close at 4.30 pm. I have made arrangements for lunch at the same Hotel.

I am delighted that you have offered to give a dinner party for the whole group at your home. Perhaps we can arrange the details for this over the phone in the next few days.

With kind regards,

Yours sincerely,

Ludger Eling



8 5/12..

H M Treasury

Parliament Street London SW1P 3AG

B.7

Switchboard 01-233 3000
Direct Dialling 01-233 5618

CONFIDENTIAL

2 December 1983

A N Ridley
Special Adviser

P J Cropper Esq
CRD
32 Smith Square
London S W 1

Dear Peter,

DEC 9.

I have spoken today to Robin Butler about arrangements for our meeting with the German visitors next Friday. No 10 are concerned to differentiate somewhat the role of advisers and officials at the UK end. And in any case Robin and his colleagues will only be free for a limited part of the day for obvious reasons. We will therefore propose to the Germans that they should invite Robin himself, John Coles and perhaps Andrew Turnbull (all at No 10) and Roger Bone (one of Sir G Howe's private secretaries) to a special session on some foreign policy and security matters at about 12.15, and that they should stay on to lunch. For that session from 12.15 the advisers would withdraw, returning to rejoin the company at lunch time. I shall be putting this thought to Ludger Eling as soon as possible.

I shall also, as previously suggested, be inviting all involved (including the officials) to a Buffet supper at 52 Novello Street on Thursday evening at (provisionally) 8.15 p.m. Could you and all other recipients make a firm note of this, or let me know very soon if you cannot come.

I am copying this letter to Stephen Sherbourne, John Redwood, Robert Ramsey, John Houston and Robin Butler.

Yours ever

Alan

A N RIDLEY

Disturbed before we spoke at Stuart Sartor's.



10 DOWNING STREET

Amends

It looks as though
there will be a
one-day meeting
with Jensen on
Friday week Dec 9.

Of so, I will have
to cancel Bids
but I must do so
personally I think

Julian 25/11

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Parliament Street London SW1P 3AG

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*Talked with Adam
FCO - in addition
Return?
Rothschild Agenda.
JH - GH.*

JC - RB. 8/29/11

B.7

A N Ridley
Special Adviser

28 November 1983

Stephen Sherbourne Esq
10 Downing Street
S W 1

Dear Stephen,

Just before the weekend I spoke again to Ludger Eling about the proposed Anglo-German discussions on December 9. I attach a short note setting out the principal points of what he now proposes, and can underline the thought that this date must now be thought of as reasonably firm. Subject to further points made below, I am sure we should all mark this date (and the Thursday evening before, when I would like to invite everybody to a buffet dinner) in our diaries.

*If in time we
show a little
hospitality!*

Earlier in the week I had spoken to Robin Butler to suggest that he and John Coles should attend part of the proceedings, including lunch, so that they could both seize the opportunity to get to know better our visitors from Bonn, and contribute to the discussion of external and defence issues, where we do not cover the waterfront as comprehensively as the Germans. Robin agreed that this would be a good idea, immediately before leaving for India. Since then it appears that the date has become a firmer one for the Germans, though obviously there must be an inevitable degree of uncertainty about the venture even at this late stage. Assuming the occasion goes ahead, we may need to think further how we put together the best team to respond to our German hosts' invitation. I spoke this morning to John Houston at the FCO, who reported the thought that it might be appropriate for an FCO official to come if there was going to be a (possibly or probably non-CDU) German from their Ministry of Foreign Affairs. Equally Eling mentioned to me on the telephone a slight hint at the thought that the occasion should not be seen as exactly a "party to party" affair. John also mentioned to me that the proposal from Bonn might to some extent be reflecting or reinforcing suggestions made from this end at a more official level than we constitute it, something I had not heard previously, and which Robin Butler has not himself mentioned to me.

In deciding exactly how to put our team together, we therefore fall in an inevitably grey area. Our German opposite numbers are emphatically Party appointments, and most if not all will have a known party affiliation; but they are also more directly involved in line management than most of us. I shall try to speak again to Ludger Eling shortly, who is unfortunately travelling around Germany for the next few days, and not likely to be back until the beginning of next week.

/Copies...

Copies of this letter and attachment go to Peter Cropper,
John Houston, Robert Ramsay and John Redwood.

*John
Ridley*

A N RIDLEY

*We spoke; I will check budgets, &
you will talk to John H.*

PROPOSED ANGLO-GERMAN DISCUSSION

Ludger Eling, CDU liaison officer in London, has invited an English team to a day of informal discussions on Friday, December 9 (in the Horse Guards Hotel in Whitehall Place, with provision for simultaneous translation) to meet senior German policy advisers.

The German team would probably comprise:

Chancellor's Office

Dr Teltschik: who is responsible for international, foreign policy and security.

Dr Grimm: finance and economic matters.

Dr Jansen

and one individual yet to be named from each of the Ministries of Finance, Economics and Foreign Affairs.

Following their recent talks with staff members in the Elysee, the / Germans suggest arranging the discussions in a very informal way. There would be two sessions, one on economic matters, the other on external and defence issues. One participant from each side would speak to open each session.

The purpose would be an exchange of views, getting to know each other better, and not the conduct of business.

The Germans as hosts welcomed the idea that Robin Butler and John Coles should join the discussions at some stage, including lunch on Friday.

They also propose to invite:

Peter Cropper: Conservative Research Dept

John Houston : FCO

Adam Ridley : Treasury

Robert Ramsay: Secretary, European Democratic Group

Stephen Sherbourne: No 10

John Redwood : No 10 Policy Unit.

9/12/83

Britain - German meeting

- 470 staff
- 6 depts.
- 3 members of Parl.

Hint of new Franco -
German axis.

Mitterand - Kohl: paper on
European co-operation.

Dept 1. Admin / personnel incl. legal & cons.

2 - Home of Gov. P.S. ~~Todd~~ [Tellerschick]

3 Int. & Soc.

4. Economic + Fin. [Ludwig]

5 P.R. & Comm. - long

6 3 security series: ~~Leads appointed~~

Heads of depts appointed by Chancellor personally & political.
Staff of depts civil service Secretariat - ~~state~~.

Work - all political preparation of decisions.

Political function:

Radunski - party ~~now~~ moved from ^{votes} ~~members~~ to ~~members~~ party.

Inter-party: ECU + 100.

Executive Committee - all Pres (if any) of Länder
- Co-administration.

WDEWIG

	investment	= exports		GDP	Cons.
1984 →	+5%	+ 4%	=	+2 1/2 - 3%	low.

Unemployment - escape.
win for by end-84.

economic policy - reduce deficit.
- attempts to stimulate economy.

Draft 83. budget

inter national! economic grants US, Can, Jap. - also UK & FRP (but Pers). Unempl in OECD stable

\$m 80,000 - 90,000 US deficit.
interest rates 11 + 4% in = 7% real interest rates.

AFTERNOON

HORST TELTSCHIK

② New Europeanism in France.

Does UK want to be part of this.

Does "head of UK" face any for Europe.

③ Relations - close consultation with USA. (refugees, debt, eg Greece.)

Third World Countries: - esp. relations to USSR or USA.

④ Middle East of particular importance

Hussein letter to Reagan - copied to MT & HIK.

- important also connection to USA.

① East-West relations

ROSSBACH

USSR wants to save face.

" as little sibling of misdeeds & mistakes.

Sometimes " will come back

evolve dual strategy.

1. Return to some real diplomacy.
2. War not to play an obvious role in GFD relations, but

he must help USSR in Soviet terms in procedural terms to come back to table

John Howard

- no new ~~republican~~ initiatives
which are not ~~can~~ carrying through
out.

**JOHN
HOWE**

Take time - USSR must form a view

Impressat
to keep
has

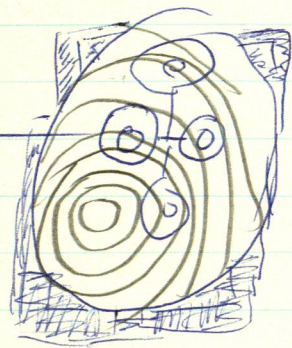
Antonia Rookman

reminded of WEU.

Ulrich Weiser.



Howard - objectives of British foreign policy



Muhammad Tansu

WALTER NEUER

Must not ~~act~~ ^{USSR} / ~~with~~ S of 1975