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PREM 19/2697

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PART 7

Confidential Filing

PRIME MINISTERS MEETINGS WITH
CHANCELLOR KOHL IN
GERMANY.

GERMANY

SS2

PM's visits to Germany

part 1: June 1980

part 7: July: ~~Sept~~ '87

Brief for Frankfurt 20-22 February in folder.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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● PART 7 ends:-

As-MS/MAFF to MAFF INT Circ etc
(meeting record) 24.2.89

PART 8 begins:-

CSP to PM 10-4-89

RESTRICTED

ANGLO-GERMAN SUMMIT - 20/21 FEBRUARY 1989

MINISTER OF AGRICULTURE'S MEETINGS WITH GERMAN AGRICULTURE MINISTER
MR KIECHLE

Present:

OH 27/2

Minister of Agriculture
Mr D A HadleyMr Kiechle
Mr Kittel
Mr Genske
Mr Heynen
Dr Buhner

1. Discussion between the Ministers was frank and although some similarities in approach were found (i.e. sugar and milk quotas) there was a stark contrast in approach on CAP reform, GATT and MCAs. However, none of this was surprising and the meeting was helpful in developing working relationships.

1989 Price Negotiations

2. A recurrent theme throughout the discussions was special pleading for the difficulties faced in Germany given declining farm incomes. Mr Kiechle said that last year had been a bad year on farm incomes. This year had compensated for what had been lost last year and incomes were now just above 1980 levels. Four years of "negative price policy" had left them in an intolerable position. Farmers still represented a considerable voting force in Germany and thus the problems on farm incomes represented a serious political situation. Thus they could not accept the Commission price proposals. Stabilisers had to be respected; but anything beyond was neither necessary nor acceptable. As far as cereals was concerned we had the stabiliser and set aside. Germany would be taking out 170,000 hectares this year - equivalent to 700,000 tonnes of cereals, however set aside had not yet been uniformly implemented throughout the Community. The overall effect of the Commission proposals would be a 7-8 per cent price cut in cereals. Some Member States would be able to reduce this cut through action on MCAs. This was not open to Germany. "Time was running out" for their small family farms and further cuts in incomes were not acceptable.

3. The Minister replied that this year's price negotiations had to be looked at in the GATT context. The UK faced far greater pressure on farm incomes than Germany: there had been a 28 per cent drop in real terms over the past year (largely due to cereals). According to Eurostat figures over the ten years to 1988 Germany showed a tiny decline in real terms, whereas the UK

had faced a substantial decline. This caused political difficulties for the UK too. However, it was not in the longer term interests of farmers to avoid facing up to difficult decisions and the need for continuing CAP reform now. Thus our objectives for this year's price fixing were to carry forward CAP reform, to continue with price restraint and discipline and to further reduce the role of intervention. Four years of price restraint and cuts had still left us with 30 million tonnes cereals surplus which was potentially exportable. Unless we carried forward CAP reform we could find that we were returning to serious world surpluses with export trade wars. This was why he supported price restraint while acknowledging that it would squeeze marginal cereals producers out. On cereals the UK was pressing for tougher measures with the full 3 month delay in intervention: this would encourage producers to seek market outlets while confining intervention to its proper role as a safety net. We had to continue with rigorous disciplines in the cereals sector if we were not to face even more difficult problems in 2 or 3 years time. The Minister mentioned that some of our farmers were farming both in the UK and in Germany: an analysis had been done of their returns on cereals taking account of all relevant factors. These figures demonstrated that there was a higher income per hectare in Germany than in the UK. These farmers therefore felt that a small MCA adjustment was very desirable to produce a fairer balance between our two countries. The Minister acknowledged that the UK and Germany were in the lead in implementing set aside. We saw this essentially as a complement to price restraint. One or two per cent of cereals land would be coming out of production this year under the scheme. However, there had been a very high response on registrations. Sixty per cent of the response had come from the main cereals growing area.

4. Mr Kiechle disagreed with the Minister's perception of the role of the price negotiations in the GATT context. Third countries were more interested in quantities that we were producing and exporting than in their domestic situation within the Community and this should be the basis for further discussions. He agreed with the Minister that quotas were not the way ahead. However, both were agreed that set aside needed to be implemented throughout the Community and he wondered whether set aside might not be more effective if it were made compulsory. The Minister made clear that he saw compulsory set aside as being at one end of the spectrum of possible quota systems. As such it would inhibit the competitive growth and development of the cereals sector and was undesirable. While accepting the need to watch how cereals policy developed given the risk of the world cereals surplus getting out of control, he would be very much opposed to any type of quota system in the near future. We had to gain greater experience of the set aside system. Nonetheless, he welcomed the idea of putting pressure on other colleagues to operate the set aside scheme more effectively in the coming year. Mr Kiechle

said that since we did not yet have a quantitative system which worked a compulsory set aside scheme might well be for discussion in 1 or 2 years time. Mr Kittel added that farming organisations throughout Europe seemed to favour a more rigid system of set aside and he thought this would inevitably come up for discussion in the next 8/10 months.

5. Mr Kittel raised the issue of the moisture content of cereals: a 1 per cent change in moisture content meant plus or minus 2-2½ per cent income. This was why they wanted 15.5 per cent moisture content as the upper limit. The Commission had not made any proposal on moisture content this year and they wondered what the UK approach would be on this issue. The Minister said that in principle he supported a 14.5 per cent moisture content level since this fitted with the general principle of reducing the role of intervention. However, in practice the UK had faced serious difficulties over the past 2 years and he had agreed to the raising of the level in these exceptional circumstances. We had not yet decided what our final position would be this year.

6. The Minister probed the German view on the proposed 5 per cent cut on sugar. We had not yet taken a final position on this. However, we were concerned by some aspects of the proposal: the relationship with the ACP countries had not yet been thought through and we had to look at its budgetary effect. Mr Kiechle said that they had not yet taken a final position but gave a very strong indication that they would not support the 5 per cent cut. The sugar regime was self-financing. Sugar farmers were often also involved in cereals where we had taken tough action. He therefore strongly disagreed with the need to reduce the sugar price. Mr Kittel added that it looked as if France would be the only country supporting a cut on the basis that the sugar price should be cut if cereals was being cut. However the French seemed to be reconciled to the fact that we would not have the full price cut but one somewhat lower than 5 per cent. The sugar regime would be reviewed in 1991 and that was another argument for leaving the regime alone. In any case the price reduction would not have a big effect on consumers. The Minister agreed with this.

7. The Minister said that he had some concerns about the proposals for oilseeds in the Commission document: the proposed cut in the monthly increments could encourage more producers into cereals production. Mr Kittel agreed with this: the oilseed stabiliser was very rigid and tough. They did not think a reduction as proposed by the Commission was appropriate.

8. There was some brief discussion of the milk regime with the Germans probing our approach on an increase in the protein component of the milk prices. Mr Kiechle thought that the action in the milk sector had been a big achievement. He did not favour cuts in aid for skimmed milk powder. They had asked the Commission to produce a report on the dismantling of the co-responsibility levy system. They thought that this could have a very positive psychological effect in this sector. They were completely opposed to the idea of Community quotas replacing national quotas. The

Minister pointed out that dairy sector was still the most expensive regime. We were still spending too much on disposal subsidies which was leading to distortions. The UK very much disliked the co-responsibility levy; however it was realistic to remove it only when we saw the costs of the regime coming down. It was more or less inevitable that quotas would continue and we ought to address ourselves quickly to this issue. Flexibility was important in the quota system and this issue became even more important if quotas were here to stay. Mr Kiechle agreed that we should take a long term decision on the continuation of the quota system as quickly as possible. He also agreed on the need for greater flexibility.

GATT

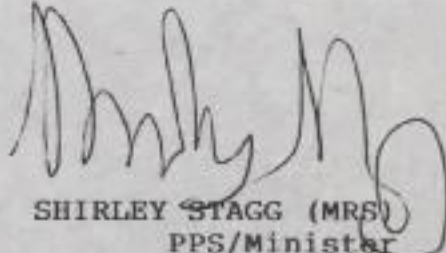
9. The Minister urged on Mr Kiechle the need for greater flexibility from the EC in working towards the April GATT meeting. However, the Germans were clearly entrenched in their resistance to this. The Minister pointed out that it was most important to have a successful outcome to the GATT Round. The April meeting had to come out with clear agreement on the future programme. Since Montreal the US had moved towards the Cairn's Group position. All had agreed on the need for the Community to resist the US position on the long term and their insistence on elimination. However, now that they had moved on the long-term the EC would come under pressure to move. The Commission would need to be given sufficient flexibility for the negotiations. We might have to be ready to make commitments in terms of specific policy changes (not just aggregate measure terms); to explore the possibilities for specific commitments on import access and export subsidies; and finally the EC should take credit for reforms made so far. Time was short; but we had to give flexibility to the Commission on the short-term if we were to avoid a breakdown in April - a breakdown would be in nobody's interest.

10. Mr Kiechle agrees that it was important to get agreement in April; however he would not be subjected to dictated conditions by another party. It was important for the US and the Cairn's Group to accept the EC's achievements in the past (eg in the dairy sector). As far as the scope of the EC's flexibility was concerned the system of levies and refunds should not be touched. While he agreed in principle that we should not add to external protection, we could certainly not weaken it. Exports onto the world market were too high and possibly the quantities should be reduced; but time was needed. If we altered external protection our farmers would face import pressures and would be obliged 'to give up all hope'. Efforts had been made in the past few years to reduce the problem of Community exports - export refunds was possibly an area where they might be ready to make concessions. But our partners must be ready to make efforts too and give credit for what we had done. We had to clarify what was meant by 'subsidies'. We needed to show flexibility; but others also needed to show this. Mr Kittel added that if additional flexibility was required then we could change our proposal for a reference year from 1984 to an average of 1984-1986. There were various other ideas which might be developed within the framework of the aggregate measure system. Using the system gave the EC a credit

of 15-20% without us needing to make further cuts. The US had to put its proposals on the table; we could not water down our position. Any necessary flexibility could be reflected in the reference year; but we had to make clear that there were limits to our flexibility. Mr Genske also emphasised their attachment to the aggregate measure system. The Minister responded that an over-riding concern for him was the US Farm Bill and what it might contain; Germany should think very hard on this when reflecting on their position. Mr Hadley added that we had to be careful that the Community in turn could not be criticised for having too rigid a position on GATT. The EC position was generally believed to be unclear and vague. Mr Andreissen himself had said that the Community had to be more specific.

MCA's

11. Mr Kiechle made clear that he could no longer accept the agri-monetary system as it now stood; each re-alignment of currencies gave them price reductions in national currency terms. He pleaded that we should take account of their difficulties; with elections in the European Parliament this year and a general election for the Federal Parliament next year they could not accept additional burdens in terms of price cuts. He understood that negative MCAs had to be dismantled; but they could not put up with further reductions in prices. The Minister responded that he too had difficulties with the system as it stood. He was criticised by his farmers because the system gave them an unfair competitive disadvantage. This would all be discussed in March. The Council and Commission had rightly recognised that monetary gaps should be eliminated by 1992 and they had agreed on a phased approach. The question now was what would happen beyond 1992. We had to have a common price level with no charges on trade between Member States. Insofar as these changes had effects for strong currencies it would clearly be possible to explore the possibility of national aids. These would have to have clear conditions attached. However he would not be adverse to engaging in discussion on this. Mr Kiechle thanked the Minister for his understanding and agreed that national aids was an approach that it would be helpful to discuss further.



SHIRLEY STAGG (MRS)

PPS/Minister

24 February 1989

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FILE SAM
cpc

PRIME MINISTER

FURTHER MEETING WITH CHANCELLOR KOHL

Chancellor Kohl's office have been in touch to discuss dates for your weekend stay at his home. They have suggested Saturday 29 April. Unfortunately this is the day you have already offered to Lubbers for a bilateral at Chequers and he has accepted.

The preceding weekend (22/23 April) would be much easier for you but is too far ahead of the NATO Summit to be ideal. The following weekend (6/7 May) runs into your 10th anniversary, although the Saturday is free at present. The weekend after that (13/14 May) would mean going to Germany direct from the Scottish Party Conference.

Before going further with the Germans, it would be helpful to have your view on which of these options you would prefer.

The choices are:

- to fly across to Germany on the late afternoon of Saturday 29 April, immediately after your meeting with Lubbers, and spend Sunday 30 April with Kohl. There is some advantage in this as Monday 1 May is a Bank Holiday;
- to go direct from the Scottish Party Conference on Saturday 13 May, spend that night in Germany, and come back on Sunday 14 May;
- to offer the earlier weekend of Saturday 22/Sunday 23 April.

I do not of course know which of these Chancellor Kohl could manage - except the first - but if you could indicate your preference we can try and press it on him.

I attach the relevant pages of your long-term diary.

CHARLES POWELL

24 February 1989

CONFIDENTIAL



FILE

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 February 1989

ANGLO-GERMAN SUMMIT: 20/21 FEBRUARY

I enclose the passage from the record of the Prime Minister's meeting with Chancellor Kohl in Frankfurt dealing with the extradition of Hanratty.

I am copying this letter and enclosure to Michael Saunders (Law Officers Department).

(C. D. POWELL)

Philip Mawer, Esq.,
Home Office.

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Extradition Request

The Prime Minister told Chancellor Kohl that we were submitting a request for the extradition of Gerard Hanratty, currently in custody in the FRG. Chancellor Kohl appeared unaware of the case but said that he would inform himself.

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File

JKU

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 February 1989

ANGLO-GERMAN SUMMIT: 20/21 FEBRUARY

I enclose the passage from the record of the Prime Minister's meeting with Chancellor Kohl in Frankfurt dealing with environmental issues.

(C. D. POWELL)

Roger Bright, Esq.,
Department of the Environment.

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CONFIDENTIAL

Environmental Issues

The Prime Minister explained the reasons why Britain would not be attending the Conference in the Hague on 11 March to discuss Monsieur Rocard's environmental initiative. It was ill-prepared, and the draft declaration provided for a supra-national authority, for sanctions and for compensation, none of which could we accept. Four of the Five Permanent Members of the United Nations Security Council would not be attending the Hague meeting. She was surprised that Germany felt able to subscribe to the declaration.

It was clear from the subsequent conversation between Chancellor Kohl and Herr Teltschik that neither of them had the faintest idea what was in the draft declaration. Chancellor Kohl said that he would now study it.

Chancellor Kohl expressed concern about projects to be financed by the World Bank to build dams in Brazil, which would have the effect of further depleting the tropical rain forests. He thought it was madness to give financial help for projects which would have such a devastating affect on the global environment. He would ensure that we were kept informed of the German's decision. The Prime Minister said that she was not aware of the projects in question.

CONFIDENTIAL

PRIME MINISTER

ANGLO-GERMAN SUMMIT

Chancellor Kohl's office told me this morning that he had reported to Cabinet this morning on the outcome of the Anglo-German Summit in very positive terms, being particularly complimentary about you. He felt the meeting had been a great success in underlining both the basic strength of Anglo-German relations and also the closeness of his personal relationship with you.

CJP

CHARLES POWELL
22 February 1989



SUBJECT CC MAITRE C

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 February 1989

Dear Alex,

PRIME MINISTER'S LUNCH AT THE BUNDESBANK
IN FRANKFURT ON 20 FEBRUARY

The Prime Minister lunched with Herr Poehl at the Bundesbank in Frankfurt on 20 February. Also present were Dr. Herrhausen of the Deutsche Bank, Dr. Seipp of the Commerz Bank, Herr Gleske of the Bundesbank and the two Ambassadors. It was a cheerful indeed boisterous occasion with - I am bound to record - a certain, jovial air of belle alliance against Finance Ministers and all their works. I do not think that the participants were left in any doubt of the Prime Minister's views on the main issues of the day. They seemed to share most of them.

It was not the sort of occasion to take a record. The following is based on my recollection.

Herr Poehl got off to an excellent start by reading the opening passage of a speech he had delivered that morning in Kiel praising the Prime Minister's views - in the Bruges speech - on the dangers of bureaucracy, regulation and centralisation in Europe. This led to a discussion of the motives of some of those who were arguing for full economic and monetary union in Europe. The Prime Minister took the view that EMU was simply the handmaiden of their determination to have a fully fledged federal Europe. The most ardent supporters of EMU were those who wanted to run Europe on socialist and dirigiste lines, which could not be reconciled with the free market approach in which both Britain and Germany believed.

There was then a brief discussion on international debt. The Prime Minister inveighed against attempts to transfer the burden from the commercial banks to the taxpayer. Herr Poehl was cautiously approving of proposals being developed by the US Administration. As I understood it, these were related to or modelled on the J.P. Morgan proposals for Mexico.

Discussion then moved on to the Delors Committee. The Prime Minister said that the tasks of the Committee were to describe what full EMU would involve in agnostic terms, and to spell out starkly the implications in terms of loss of national sovereignty over economic and monetary policies. An enormous transfer of power away from national governments and parliaments would be involved. If the scale of this were clearly explained in the report, most European Governments would think twice before setting out down this route.

Herr Poehl and his colleagues began by arguing that in reality the European Community was not so far from EMU now, with stable exchange rates achieved through the ERM over the past couple of years. The Prime Minister argued the folly of trying to fix exchange rates and the damage done by the Plaza and Louvre Accords and by other attempts to defend particular rates. Arguably this had set us back by two years in the fight against inflation in the United Kingdom. Moreover fixing exchange rates in Europe would remove an important means of adjustment and lead to demands from the poorer countries for further massive transfers of resources through the regional and structural funds. Convergence of economic policies should come first. Exchange rates were the result.

Herr Poehl and his colleagues then edged away from this line of argument, protesting that they did not believe in fixed exchange rates. But equally they wanted a process of closer economic and monetary cooperation in Europe, based upon convergence of policies. They did not think that a single European market could be achieved without progress on monetary cooperation. They regretted that Britain, with its liberal policies, was not exerting more influence in this field. The Prime Minister said that neither tax approximation nor EMU were essential to a single market. The obstacles were quite different: the refusal of some governments to play by the rules in Europe, for instance on public procurement; and the continuing heavy subsidies not least in Germany. The bankers offered no defence on this last point.

The Prime Minister went on to attack the Commission's proposals for an EC-wide withholding tax. It was not necessary to liberalisation of capital movements and would only drive capital out of Europe altogether. The United Kingdom would not accept it. Herr Poehl and his colleagues said that the introduction of such a tax in Germany had been little short of disastrous, leading to a major outflow of capital. They would not like to see it repeated at the European level.

Discussion then returned to the Delors Committee, and was characterised by some steady back-peddalling by Herr Poehl who was harried more than supported by his banking colleagues. Poehl said that he was confident that the Committee's report would be as stark and agnostic as the Prime Minister hoped. He did not think that there would be support for a European Central Bank or a euro-currency.

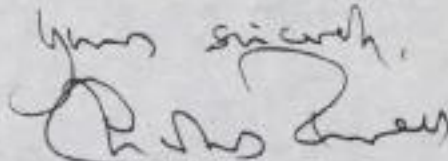
They were simply not realistic goals, although the report would not say that. He did not expect to have problems with the text, or to find it necessary to subscribe to a minority report. The Prime Minister said darkly that some reports of Herr Poehl's views suggested that he had shifted somewhat from the excellent exposition of the case against a European Central Bank in his article of 28 May 1988 in the FAZ. Herr Poehl conceded that his views might have changed in some respects but not in any major way. The Prime Minister said that it would be a great mistake to argue that EMU would never happen so there was no need to worry too much about it. There were many in the Community who were dedicated to EMU as an aspect of full political union and they had to be resisted. She did not see how Herr Poehl could possibly go along with any proposals which threatened the independence of the Bundesbank and its ability to protect the value of the Deutschmark. Surely such loss of independence and substitution of political control was the inevitable concomitant of proposals for a European Central Bank? Herr Poehl conceded the risk of this, but seemed to argue that no government, when faced with the real implications of EMU, would actually want to go to Treaty amendment.

Herr Poehl raised, rather tentatively, the issue of British membership of the ERM. The Prime Minister argued that sterling was in a different position to other European currencies except the DM, because of its international role and the volume of daily trade in it. She also argued that our political stability would give sterling an artificially high rate. Sterling's participation would certainly make the ERM far more difficult to manage. The bankers returned to the argument that they wanted Britain in the ERM, to make Europe's monetary co-operation more liberal and open.

The Prime Minister also spoke in forceful terms of the scale of Britain's net contribution to the EC budget and cost over the exchanges of keeping our forces in Germany. I have to say that this was received rather blandly.

I think this covers most of the main points. It was a very good humoured discussion throughout, with a lot of teasing about the likely reactions of the German Government to the views expressed.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), to John Footman (Bank of England) and to Roger Lavelle (Cabinet Office).

Yours sincerely,

CHARLES POWELL

Alex Allan Esq
Treasury

Sa-g

FILE REMAIN a

SUBJECT ce MATTER



cc col

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 February 1989

Dear Stephen,

ANGLO-GERMAN SUMMIT: THE PRIME MINISTER'S SECOND MEETING
WITH CHANCELLOR KOHL

The Prime Minister and Chancellor Kohl had a further talk on the morning of the second day of the Anglo-German Summit in Frankfurt on 21 February. Again Herr Teltschik was present. Foreign Ministers and Ambassadors joined the meeting for the final twenty minutes.

Modernisation of NATO's SNF

The Prime Minister and Chancellor Kohl reviewed their discussion of the evening before and agreed a line which both would use at the press conference (text enclosed). Chancellor Kohl said that he would also make the text the basis of his position in the further Bundestag debate on modernisation which he expected soon.

Chancellor Kohl proposed that there should be discussions between his office and No. 10 to prepare for the further meeting between the Prime Minister and himself in late April/early May. He was anxious that the two Governments should have an agreed position by the time of the NATO Summit. The Prime Minister said that intensive preparation for their further meeting would clearly be necessary.

Poland

The Prime Minister recalled her visit to Poland in November. There had been interesting political developments since then. She hoped the Chancellor would take the same position as she had done on the question of further credits: there must be political change to create the right conditions for successful economic reform: and there had to be agreement with the IMF. The Polish Government had

actually made considerable progress since her visit. Chancellor Kohl said that Prime Minister Rakowski had commented that the reform process in Poland was doomed to success. The fact was there could be no progress without Solidarity. The Prime Minister said that Solidarity spoke for the hopes of the people of Poland.

South Africa

The Prime Minister said that President Botha's stroke created a new situation in South Africa. She was determined that the West should not isolate the new generation of South African leaders. We were in the process of arranging for Pik Botha, du Plessis and De Klerk to visit Britain in the first half of this year to try to influence their thinking. It was important to take advantage of President Botha's probable withdrawal from active politics over the next few months to secure Mandela's release and the opening of negotiations between Government and black leaders. Chancellor Kohl expressed interest in the proposed visits by South African Ministers, and suggested that it might be useful for him to see some of them too. It was agreed that we would keep him informed on dates.

The Prime Minister said that she and Chancellor Kohl owed the South African Government some reply to the overtures made during Leutwiler's visit and subsequently about what action Britain and Germany might take following Mandela's release. We had prepared a form of words which might be the basis of such a reply. She handed this over. Chancellor Kohl had it interpreted and commented that it sounded very much on the right lines. He wondered how the Prime Minister envisaged its delivery. Should Leutwiler be asked to go back again? Or should he and the Prime Minister write separate but identical letters? This should be discussed further between his office and No. 10. It might be best to delay a response for a few weeks until President Botha's fate was clearer. He was open to suggestions on this. One point of which he was absolutely certain was that things would continue to get worse in South Africa while Mandela remained in prison.

The Prime Minister mentioned the work being done by the Urban Foundation, in particular on housing. This deserved Western support. She had asked the Urban Foundation to let her have some specific proposals, and we would be ready in principle to give some financial support. Chancellor Kohl endorsed the Prime Minister's high opinion of the Urban Foundation. He would be prepared to consider suggestions. His greatest concern was with South Africa's growing financial problems and what he called the de-motivation of the South African economy. He was also worried how far the new US Administration was willing to stand up to pressure for further measures against South Africa.

Middle East

Chancellor Kohl asked what view the Prime Minister took of developments in Israel. The Prime Minister gave an account of her recent meeting with Mr. Arens. It was something that the Israeli Government realised that the status quo was not sustainable and that there must be negotiations. Their present positions were unrealistic and we had to work on them to accept the concept of territory for peace. She was concerned by the spread of sophisticated weapons in the area and the risk that Israel might be tempted to undertake a pre-emptive attack on, for instance, chemical weapons facilities in certain Middle East countries. Chancellor Kohl commented that this was exactly his worry.

The Prime Minister continued that negotiations had to be carefully prepared. We should discourage the idea that they should be conducted under the auspices of the two super powers alone. That would only further polarise the situation in the Middle East. The broader framework provided by the Five Permanent Members of the United Nations Security Council was preferable. At the right point, the United States Administration would have to be ready to bring strong pressure to bear on Israel. She thought that President Bush would do so.

Chancellor Kohl agreed with much of the Prime Minister's analysis. The Middle East was the most dangerous and explosive problem in World affairs. But he thought the situation in the area was propitious for a settlement. He did not expect the Soviet Union to cause much trouble. It had other problems and other priorities. But he agreed that it would be a mistake to allow the Soviet Union to become the protector of Islam. He had told Shamir that time was not on Israel's side. He was less sanguine than the Prime Minister whether the US Administration would bring the necessary urgency to the search for a settlement. Perhaps he and the Prime Minister should make a joint approach to President Bush to urge the Americans to come forward rapidly with proposals. The Prime Minister said that it would be a mistake to push the Americans. Secretary Baker had made clear that the Americans would act but must be free to choose the right time. She was not entirely pessimistic about the prospects for a settlement. Often it was precisely the hard-liners like Shamir who were best able to reach agreements. That had been true of de Gaulle in Algeria, Begin at Camp David and of herself with Rhodesia.

Low Flying in the Federal Republic

The Prime Minister expressed concern about the degree of controversy in the Federal Republic about low flying. There was actually more low flying training done over the United Kingdom than over Germany, and RAF Germany did almost half of its low flying over the United Kingdom. But our pilots had to be able to practice where they might have to fight. Attempts by the German Government to impose

restrictions were already affecting morale in our Armed Forces. The German Government should do more to explain to its public opinion why such training was necessary.

Chancellor Kohl commented only that the matter was very contentious in Germany. But he was constantly telling people that such training had to go on.

Tornado

The Prime Minister said that the United Kingdom could not continue to be the only country providing credit for Tornado export sales. Some way to share the burden had to be found. The same problem would occur in due course with EPA. There should be talks between officials to find a solution. Chancellor Kohl did not demur.

Extradition Request

The Prime Minister told Chancellor Kohl that we were submitting a request for the extradition of Gerard Hanratty, currently in custody in the FRG. Chancellor Kohl appeared unaware of the case but said that he would inform himself.

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Delors Committee

The Prime Minister said that she was concerned by what she had heard of the trend of discussions in the Delors

Committee. They seemed unlikely to lead to the impartial and objective report which Heads of Government had commissioned. The report ought to describe what Economic and Monetary Union would involve and spell out starkly the consequences in terms of loss of national sovereignty over economic and monetary policy. Chancellor Kohl commented that, from all he had heard, the Central Bankers were rapidly coming down from the clouds. People in the Commission in Brussels might want something different but they would have to learn realism.

The Prime Minister referred to her concerns about the tendency of some European Governments to impose dirigiste policies in Europe. We would not accept the imposition of worker participation. The purpose of creating a single market was to give greater freedom not to introduce even more regulations. We had not fought off Socialism in Britain to see it re-enter through a back door in Europe. She hoped that Chancellor Kohl was alive to these dangers. Britain and Germany had a common interest in resisting this trend. Chancellor Kohl contented himself with saying that he certainly did not want a Socialist Europe. Each country should be free to pursue its own practice on worker participation.

At this point the Foreign Ministers joined the meeting.

Iran

Herr Genscher reported his discussions with the Foreign Secretary on Iran. Now that the Twelve had reached a common decision, they should seek wider support for it among other NATO and OECD countries, and perhaps also bodies like the Gulf Co-operation Council (GCC). He would be discussing this with other Foreign Ministers attending Emperor Hirohito's funeral in Tokyo. The Prime Minister said that we were extremely grateful for the support which we had received from Germany and other Members of the European Community. But she doubted the wisdom of trying to enlist the support of other Muslim countries against Iran.

Namibia


Herr Genscher said that he and the Foreign Secretary had also discussed Namibia. It was important to make a success of the Namibia Agreement. This would encourage supporters of reform in South Africa itself. The Prime Minister commented that the need to support the agreements reached on Angola and Namibia was a further argument against sanctions. We should ensure that the internal parties in Namibia received as much help as SWAPO would undoubtedly obtain. Herr Genscher said that Germany was already giving such assistance, although he would not like to be quoted to this effect.

Conventional Arms Reductions

Herr Genscher reported that he and the Foreign Secretary had discussed the continuing Turkish difficulties with NATO's opening position for the talks on Conventional Forces in Europe. He would be discussing this with Secretary Baker in Tokyo and hoped that Britain, Germany and the US could together persuade the Turks to drop their objections. NATO could not enter the talks divided. The Prime Minister said that Turkey had been given a raw deal. It was important not to make Turkey feel rejected or isolated. This applied just as much to her application to join the European Community. These matters had to be handled very sensitively. Herr Genscher said that President Evren was probably the only person with whom one could negotiate a solution. Chancellor Kohl said that the Turks must be treated as well as possible, both in NATO and in relation to their EC application.

At this point the discussions were adjourned to enable the plenary session to begin.

I am copying this letter to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

Yours sincerely,


CHARLES POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

SNF MODERNISATION: LINE AGREED FOR PRESS CONFERENCE
BETWEEN THE PRIME MINISTER AND CHANCELLOR KOHL

This year we celebrate the 40th Anniversary of NATO. It has assured peace with freedom for the last 40 years. A strong and united NATO will remain just as vital in future.

Political solidarity and military strength provide the basis for dialogue, for East/West cooperation and for arms control. Within these common goals, we reaffirm the Declaration of the NATO Summit of 3 March 1988 in Brussels. There we joined together in confirming that our strategy of deterrence depends upon an appropriate mix of effective nuclear and conventional forces which will be kept up to date where necessary.

We welcome the forthcoming NATO Summit at the end of May in Brussels. We will do everything we can to make this a success for the Alliance and for us all. We have therefore agreed to work closely together to prepare the Summit and to meet again at the end of April for a personal talk. I have invited Mrs. Thatcher to my home for this.

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FM BONN

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INFO ROUTINE NATO POSTS, CICC(G), DUBLIN, UKREP BRUSSELS, MOSCOW
INFO SAVING HMGCS IN THE FRG, BMG BERLIN, EAST BERLIN

ANGLO-GERMAN SUMMIT: FRANKFURT: 20-21 FEBRUARY.

SUMMARY

1. A SUCCESSFUL SUMMIT, WHICH DISPLAYED IN PUBLIC THE STRENGTH AND COHESIVENESS OF THE UK/FRG RELATIONSHIP. IN PRIVATE, BUSINESSLIKE TONE AND LARGE MEASURE OF AGREEMENT. IN PUBLIC, BOTH SIDES ACCENTUATED THE POSITIVE. REFUSAL TO GO BEYOND AGREED LINE ON SNF.

DETAIL

2. THIS FIRST FORMAL ANGLO-GERMAN SUMMIT SINCE SEPTEMBER 1986 WAS ATTENDED BY AN ARRAY OF MINISTERS ON BOTH SIDES: IN ADDITION TO HEADS OF GOVERNMENT, MINISTERS OF FOREIGN AFFAIRS, DEFENCE, HOME AFFAIRS, AGRICULTURE AND TRADE/INDUSTRY. MEDIA COVERAGE OF THE FIRST DAY, INCLUDING THE PRIME MINISTER'S VISIT TO THE BUNDESBANK AND HER TOUR OF THE SIGHTS OF CENTRAL FRANKFURT, WAS PROMINENT, EXTENSIVE AND FAVOURABLE. THERE WERE ONLY MINOR DEMONSTRATIONS (ABOUT NORTHERN IRELAND) WHICH CAUSED NO BOTHER.

3. IN THE PLENARY SESSION AND AGAIN IN THE PRESS CONFERENCE KOHL SPOKE WARMLY OF THE SOLID BASIS OF FRIENDSHIP, MUTUAL CONFIDENCE AND RELIABILITY UNDERPINNING THE BILATERAL RELATIONSHIP AND PRAISED THE ROLE PLAYED BY BRITISH SERVICEMEN AND THEIR FAMILIES IN THE FRG IN THE MAINTENANCE OF PEACE AND FREEDOM. THE PRIME MINISTER PAID TRIBUTE TO THE SIMILARITY OF THE PHILOSOPHICAL APPROACH OF THE TWO GOVERNMENTS, NOTING THAT DESPITE SOME DIFFERENCES THEY WERE BOTH ABSOLUTELY FIRM ON THE ESSENTIALS.

4. THE PRIME MINISTER MADE FULL USE OF THE OPPORTUNITY TO PUT BRITISH VIEWS ON SNF FIRMLY TO KOHL, WHO HAS BEEN WAVERING AT A CRUCIAL MOMENT IN THE GERMAN GOVERNMENT'S APPROACH TO A DECISION. THE EFFORT CAN BE RESUMED WHEN THE TWO HEADS OF GOVERNMENT MEET AT KOHL'S HOME IN LATE APRIL, NOT LONG BEFORE THE NATO SUMMIT. THE PRIME MINISTER AND KOHL AGREED TO USE IN PUBLIC THE LINE IN MIFT. DESPITE REPEATED NEEDLING AT THE PRESS CONFERENCE, THEY REFUSED TO GO BEYOND IT. THAT WILL HAVE SHOWN THAT, EVEN WHERE WE AND THE GERMANS ARE KNOWN TO HAVE DIFFERENCES, THE TWO SIDES ARE DETERMINED

TO AVOID RECRIMINATION AND TO REACH AGREEMENT THROUGH PRIVATE DISCUSSION.

5. THE TALKS, OF WHICH RECORDS WILL BE DISTRIBUTED IN LONDON, WERE BUSINESSLIKE AND COVERED A WIDE RANGE OF SUBJECTS. THERE WAS A GREAT DEAL OF AGREEMENT, BUT ALSO SOME PREDICTABLE DIFFERENCES, FOR INSTANCE ON AGRICULTURE AND ON HARMONISATION OF TAXATION IN THE EC.

6. THIS SUMMIT WILL HAVE REMINDED THE GERMAN PUBLIC OF THE IMPORTANCE OF BRITISH/GERMAN RELATIONS. THAT CAN HELP US TO EXERT INFLUENCE IN THE MANY MATTERS WHERE GERMANY PLAYS A KEY ROLE. THE NEXT SUMMIT WILL BE IN THE UK IN MARCH 1990, TO COINCIDE WITH THE 40TH KOENIGSWINTER CONFERENCE. IT IS GOOD THAT THE RHYTHM OF THESE SUMMITS HAS BEEN RE-ESTABLISHED AFTER A LONG GAP.

MALLABY

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PS/MRS CHALKER
PS/PUS
PS/SIR J FRETWELL
MR BAYNE
MR RATFORD
MR GOULDEN
MR SLATER
MR KERR
MR FAIRWEATHER
MR GORE-BOOTH

ADDITIONAL 4

PS NO 10.

SAVING 1

EAST BERLIN

PAGE 2
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NNNN

① 40th Anniversary of N.A.T.O.

defense & freedom

Strong & sure alliance

② Return conference

1988 - Heads of State

N.A.T.O. - ~~the~~

~~the~~ balance of

power and nuclear weapons

for our defense. Its defense

has to be kept up-to-date.

③ Welcome Heads of State

to the meeting again

before the 40th anniversary in 1988.

- Summit in March 1990 to coincide with Kunigswinter 40th Anniversary

Int. Plate

South America

- debt
- reply to South Africans on what would follow release of Mandela
- Urban Foundation: guarantee fund

7. Economic Summit

- structural surpluses
- environment

8. French Initiative on the Environment

9. Bilateral

- extradition of Hanratty

Pharis - Frankfurt

Interest for - 2
Citizens

Hospitality of the Mayor

For the wonderful
Great love and
reception.

Perfect with all
Military & Water

Good . . . friendly .

Solid - reliable

Excellent product

Low Flying -

Must continue

Assumed distance: capital
to Melbourne 1 1/2 hours
Jarey

- officials to discuss arrangements for future

5. EC

- Delors Committee
- tax harmonisation
- social dimension
- frontier controls
- GATT agriculture

6. South Africa

- Leutwiler

1962

- No remedy!
- Finance Policy -

Do not rent
by get of beamings
by common

Do not rent in the War

- we already do more than Germany
- pilots have to practice where they fight

3. East/West

- support for Gorbachev BUT need for strong defence
- should convince German opinion of this
- in Poland, link between economic and political reform. Need for IMF agreement

4. Tornado

- cannot continue to shoulder unfair share of burden

~~History~~

Philosophy 2!

Short & Sweet dilemmas

Economic - World -- culture
culture view

behavioral studies & groups

resources for higher

studied & found
more

2 worlds
one

social theory

Philosophy compiler

phenomenon

MEETING WITH CHANCELLOR KOHL

1. SNF Modernisation:

- decision to deploy a successor to LANCE necessary
- failure seen as weakness
- no SNF negotiations with Russians but unilateral reductions
- postponement will not make easier
- not a production decision, but a decision to deploy a successor to LANCE when the time comes

2. Military Training

- Germans must do more to convince their public of necessity of low-flying training



Foreign and Commonwealth Office

London SW1A 2AH

20 February 1989

Jean Charles,

En

Anglo-German Summit: Environment

We have some evidence that Chancellor Kohl may be briefed to raise with the Prime Minister in Frankfurt our performance on tackling pollution from large combustion plants and in the North Sea. In case this matter comes up, you may like to have some material additional to the brief.

Under the terms of last year's Large Combustion Plants Directive, we and the Germans are committed to the following percentage reductions in sulphur dioxide emissions:

	<u>1993</u>	<u>1998</u>	<u>2003</u>
UK	20	40	60
FRG	40	60	70

The lower targets for the UK took account of the substantial reductions we had achieved before 1980, and also our particular problems of high sulphur coal and ageing power stations. Meeting our post-1993 targets will cost around £900 million. This will be over and above the CEBG's current billion-pound programme of retrofitting. We are spending more than anyone in Europe other than the FRG on reducing acid emissions from power stations.

As for the North Sea, in 1985 the FRG incinerated at sea some 29 times as much industrial waste as we did: 58,000 tonnes against our 2,000. (The North Sea Conference has since agreed that incineration at sea should be phased out.) Rivers - especially the Rhine and Elbe - are the most important source of North Sea pollution. 1987 figures for some relevant pollutants are:

	<u>FRG</u>	<u>UK</u>
Phosphorus	16,490	3,439
Cadmium and Mercury	20.9	19.4
Liquid industrial	1,271,000	242,000
Nitrogen	259,000	110,740

/Some

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Some of these numbers might be quoted to the Chancellor if he speaks to his brief. (But the evidence we have seen does not indicate that he certainly will.)

I am copying this to Roger Bright (DOE) and to Trevor Woolley (Cabinet Office).

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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To:

MR POWELL

cc PS/Chancellor of the Duchy of Lancaster
Sir J Fretwell FCO
Mr Hadley MAFF

From:

CHRISTOPHER ROBERTS
Deputy Secretary
Room 706 1 V/S
215 5285
20 February 1989

ANGLO-GERMAN SUMMIT: GATT ROUND AGRICULTURE

Developments in Geneva last week require some updating of Section H of the Steering Brief.

2 Hitherto the US have insisted that there must first be agreement to the eventual removal of all forms of agricultural support: this was the issue on which talks broke down in Montreal in December. Now, without giving up this long term objective, they are ready to discuss short term measures to reduce support for farmers and to lower import protection and export subsidies.

3 The US position in this area is now close to that of the Cairns Group (Australia, New Zealand, Canada, Brazil etc). The pressure on the Community to respond has intensified.

4 Although the UK sees further reduction of agricultural support in the short term as desirable for its own sake, the Germans may find it easier to accept the argument that, without it, the whole GATT Round process may be stalled, and the Community blamed. The following points could be put to German Ministers:-

- (i) The recent US readiness to negotiate on short term agricultural reform requires a positive response from the Community before the major GATT meeting in early April;
- (ii) The Community should certainly take credit for reforms already introduced, but should also offer further reductions in support in the short term, and be prepared to negotiate as necessary on import access and export subsidies;
- (iii) We understand your domestic political difficulty, but without further moves the future of the GATT Round as a whole - a major interest for Germany and the UK - is at risk.

CWR

C W ROBERTS
DTI

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SUBJECT cc MASTER

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 February, 1989.

Dear Helmut,

ANGLO/GERMAN SUMMIT: PRIME MINISTER'S FIRST SESSION OF TALKS
WITH CHANCELLOR KOHL

The Prime Minister had a first session of talks with Chancellor Kohl at the beginning of the Anglo/German Summit this evening. Herr Teltschik was the only other person present. The talks were concerned entirely with NATO and East/West matters, including modernisation of SNF.

Chancellor Kohl began by renewing his invitation to the Prime Minister to visit him at his home in late April or early May. He also urged that he and the Prime Minister should do everything possible in the course of the present Summit to demonstrate that they enjoyed a good working relationship.

The Prime Minister then said that she understood that there was near agreement to have a NATO Summit at the end of May. She did not mind whether it was in London or Brussels. But it must be a success. The occasion of the 40th Anniversary should be used to demonstrate that NATO remained strong and ready to take all the steps necessary to defend itself, including regular updating of its weapons. We were all becoming more cautious about Gorbachev's chances of success, particularly with economic reform. Gorbachev might not last in which case there could be a reversion to Breshnev-ite policies. The future was therefore uncertain.

The Prime Minister recalled that she and the Chancellor had agreed at their meeting in Rhodes that there should be an early decision on modernisation of SNF, to get the issue out of the way before the European elections. The Americans had made clear that they needed a decision to deploy a successor to LANCE if they were to secure the necessary funds from Congress for its development. The decision would not get any easier if it was put off. Failure to agree on modernisation would be a sign of weakness. It would also undermine the strategy of flexible response. Moreover, weapons systems took many years to develop, and future security could be put in jeopardy if we delayed decisions on

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modernisation now. She believed that public opinion in Western Europe would readily accept the need for modernisation if people were given a strong lead. The fact that there was scope at the same time for major unilateral reductions in nuclear artillery should help with public opinion.

Chancellor Kohl said that he agreed there should be a Summit in late May. His private meeting with the Prime Minister at the end of April/early May would be a further opportunity to prepare for the Summit, particularly on the question of modernisation. His views on Gorbachev remained unaltered. He wanted to see deeds not just words. He believed Gorbachev faced greater difficulties than a year ago and would certainly have to slow down the tempo of reform. The truth was that he faced an insoluble task in trying to change the Soviet Union. He agreed with the Prime Minister that if Gorbachev failed there could be a reversion to Stalinist or Brezhnev-ite policies. But they could not last and sooner or later there would be another Gorbachev.

The Chancellor continued that the conclusion he drew was that NATO should stick to the Harmel doctrine combining defence and dialogue. That should be the key note of the NATO Summit. He agreed with the Prime Minister that NATO must be strong and that meant having up-to-date weapons. Equally NATO should commit itself to continue negotiations on arms reductions. For his part, he had demonstrated strength by lengthening the period of conscription in Germany. The problem was that Gorbachev had succeeded in causing confusion in public opinion in Germany. He had created a difficult psychological situation. For forty years, people had believed that their freedom was under threat. Now they saw Gorbachev fraternising with Western leaders and doubted whether strong defence was still necessary. He himself agreed that Soviet policy had not fundamentally changed. The difficulty was to bring this home to his public opinion.

The Prime Minister said that the fundamental question to put to people was: did they value their freedom? Freedom for the German people had started on the day the Second World War had ended and NATO had preserved it for forty years. There was no doubt that the Soviet Union continued to represent a military threat and would be determined to keep its status as a military super-power. If the West failed to stay strong that would be a victory for the Soviet Union. Britain, Germany and the United States represented the real strength of NATO. She sensed that Chancellor Kohl agreed with her on the substance of what had to be done on SNP. He clearly had difficulties in dealing with public opinion. The way to deal with that was to follow his own instincts and show solidarity with Britain and the United States.

Chancellor Kohl agreed that Soviet policy had not changed. The West needed a policy to counter Gorbachev's ability to influence their public opinion. He envied the Prime Minister her success in convincing opinion in the

United Kingdom of the need for strong defence. He had to cope with a different political system in Germany and live with a coalition government. Defence policy had become a central issue in Germany's domestic affairs. The left wing in Germany were actively attacking NATO. The SPD were no longer the party of Schmidt and Leber. The media were also against the government. He had to take a firm stand against this. Indeed, he had done so on the conscription issue. But he could only do so much at a time. He was certain that a solution on modernisation could be found at the NATO Summit. But it would need careful preparation in the domestic politics of Germany.

The Prime Minister said that she and the Chancellor were fundamentally in agreement. The way to beat the Socialists was not to adopt their arguments but to demonstrate strength and conviction. NATO could not be a shell. It had to modernise its weapons, otherwise the US would sooner or later start to withdraw its troops from Germany. Britain and Germany should give a lead. Chancellor Kohl said that the problem was not the next election in Germany. He would win that. But he had many important things to do in a very short time and had to choose his priorities carefully. He and the Prime Minister should continue their discussion when they met at his home in late April or early May. The Prime Minister said that she was ever more sure that she and the Chancellor did not really differ. If he showed himself strong and willing to give a lead as in the past, the modernisation issue would come out right.

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

your diary
C.D. Powell

C.D. Powell

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

C.P.E.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

con.

17 February 1989

Charles Powell Esq
No.10 Downing Street
LONDON SW1

Dear Charles

**ANGLO-AMERICAN SUMMIT 20-21 FEBRUARY: ECONOMIC AND MONETARY
CO-OPERATION**

We held back the drafting of a brief on economic and monetary co-operation for the Prime Minister's use at the Anglo-American Summit until after her meeting last Wednesday. I now attach the brief, which I am also copying to Stephen Wall (Foreign and Commonwealth Office) and Roger Lavelle (Cabinet Office).

Yours sincerely

J M G TAYLOR
PRIVATE SECRETARY



Foreign and Commonwealth Office

Prime Minister London SW1A 2AH

A final beverage¹⁷ February 1989
of papers for the

Dear Charles,

Anglo-German Summit.

Anglo-German Summit

I enclose a number of additional background papers for the Summit as follows:

- (a) The Ambassador's Annual Review;
- (b) Poehl Lunch
 - guest list and personality notes;
- (c) Frankfurt
 - a note on the places to be visited during the sightseeing on 20 February;
 - a copy of the speaking note for the Golden Book Ceremony which we sent earlier today;
 - personality notes;
- (d) The concert programme.

On Chemical Weapons the Prime Minister should be aware that the German Government has now published a full report on its involvement in the Libya affair, and also given details of the proposed tightening of its export control legislation. She might welcome these developments. The Twelve Foreign Ministers have agreed a German proposal that an initiative should be taken in the Australia Group (we await detailed German ideas on this) and that a possible Twelve demarche to the Arab League should be considered further by Political Directors. The EC Foreign Affairs Council on 20 February will probably adopt a German-inspired EC regulation on export controls on certain chemical precursors. If these are raised, the Prime Minister might say that we fully support the FRG wish for better coordination and enforcement of CW export controls.

The Prime Minister may also wish to know that the Department of Education and Science and the German cultural authorities agreed on 16 February the enclosed text on school exchanges with a view to presenting it to Heads of Government at the Summit for their endorsement. At the Anglo-German Summit in November 1985 the Prime Minister and Chancellor Kohl agreed that more should be done in this field. Work is proceeding well. At her press conference the Prime Minister might like to endorse, in the briefest terms, the value of this programme.

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The Foreign Secretary is out of London today and so has not seen this letter in draft.

Yours ever,
Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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ANGLO-GERMAN SUMMIT: 20-21 FEBRUARY 1989

Brief No 1

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1

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

This brief is designed to serve the Prime Minister's bilateral with Chancellor Kohl and the Plenary.

The following are attached to the Brief:

- | | |
|---------|-----------------------|
| Annex A | Programme |
| Annex B | Personality Notes |
| Annex C | Possible press points |

OUR OBJECTIVES

GENERAL

- To influence German views on a wide range of issues, point up areas of agreement and seek to resolve differences.

- To raise the public profile of the relationship.

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- To urge Chancellor Kohl to agree at the NATO Summit to modernise NATO's SNF.

- To explain why SNF arms control negotiations should be avoided.

- To underline UK commitment to global CW ban but warn against raising public expectations.

- To caution against accepting Soviet statements on CW.

- Following Libyan CW debacle, to express support for FRG remedial action.

B. COLLABORATIVE DEFENCE SALES

- To persuade the Germans to work out a long-term solution to the problem of official credit for defence sales outside NATO.

C. BILATERAL DEFENCE ISSUES

- To ensure that momentum behind Joint Defence Study Group on extending and publicising bilateral cooperation within the Alliance is maintained.

- To convince the Germans that NATO forward defence requires an essential minimum of training and that they must help persuade their public of this.

D. EAST-WEST/SOVIET INTERNAL/CSCE

- To compare notes on respective approaches to Gorbachev visits.

- To encourage a realistic approach.

- To convince the Germans that, much as we wish it, success for Gorbachev is not assured, but there is little the West

OUR OBJECTIVES

can do to 'help' him.

- On CSCE to persuade them:

- a) to consider with us how best to activate the Human Dimension (CDH) review mechanism.
- b) to focus on the London Information Forum.

E. EASTERN EUROPE

- On Poland to elicit German views and intentions on debt problems.

- To argue that reform should be preconditions for debt relief and new credits.

F. TERRORISM

- To ensure continuing German cooperation: eg on Palestinian and Irish terrorism.

- To ensure that Hanratty and McGeough are brought to justice.

- To stress the need for a continued firm line on state sponsored terrorism.

G. ECONOMIC ISSUES

- To encourage the Germans:

- a) to undertake faster structural reform of their economy.
- b) to acknowledge continuing responsibility to contribute to sustainable development of world economy, including reduction of excessive current account surpluses.

- To indicate our intention to pursue these points at the Economic Summit.

H. EC ISSUES

- To persuade the FRG that the Community will have to give more on agriculture if the GATT Round is to succeed and to emphasise the need for continuing CAP reform.

- To obtain agreement to a constructive but cautious approach to the EC's relations with Eastern Europe.

- To enlist German support for our Single Market priorities and our approach to tax approximation, frontier checks, social issues and monetary cooperation.

OUR OBJECTIVES

- To underline the need for determined efforts to curb EC fraud.

I. REGIONAL ISSUES

- On South Africa: to discourage the Germans from launching initiatives in the Twelve for new restrictive measures.
- On Angola/Namibia: to show that recent agreements vindicate policy of engagement with South Africa.
- To stress the importance of helping an independent Namibia.
- To argue for discreet encouragement for internal reconciliation in Angola.
- On Middle East Arab/Israel: To stress the central role of the US. To argue for a common approach by the Twelve in dealings with Lebanon's two rival administrations.
- On Libya: to secure German help in preserving a firm Western line as long as Libya supports terrorism.

J. ENVIRONMENT

- To promote better understanding of UK policies.

K. BILATERAL

- To convince Germans that our relations need public recognition commensurate with their substance.
- To suggest 1990 Summit in UK coincide with 40th anniversary of Königswinter.
- To register progress in bilateral sphere (eg Joint Defence Study Group, school exchanges, Anglo-German Foundation, British Council collaborative research project).

GERMAN OBJECTIVES

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- To argue that no decision on SNF modernisation is needed before 1991/92.
- To convince us that if there is to be SNF modernisation, German public opinion will require there to be negotiations aimed at common ceilings.
- (Possibly) On CW to press for earlier deadline for completion of CW negotiations.

B. COLLABORATIVE DEFENCE SALES

- To resist offering official credit for out-of-area sales, which are controversial domestically.

C. BILATERAL DEFENCE ISSUES

- To convince us that German public anxieties should be appeased by reductions in training (especially low-flying) and/or by measures to reduce its environmental impact.

D. EAST-WEST/SOVIET INTERNAL/CSCE

- To persuade us that a more forthcoming policy towards the Soviet Union is in Western interest; that the changes there provide a historic opportunity for a more peaceful world which should not be missed.

E. EASTERN EUROPE

- On Poland to compare notes on PM's visit and prospects for Kohl visit, and (possibly) to seek a more forthcoming Western response to Eastern European debt.
- On Yugoslavia to see if we would support a concerted programme of financial assistance.

F. TERRORISM

- (Possibly) To persuade us that EC needs to reconsider measures against Syria.

GERMAN OBJECTIVES

G. ECONOMIC ISSUES

- To rebut criticism of their current account surplus, possibly by criticising our own large deficit.

H. EC ISSUES

- To explore UK's longer term vision of Community development.

- To keep EC reductions in agricultural support to a minimum and argue against further moves on the CAP which could hit German farmers.

- (Probably) To reassure us that their attitude to EC relations with Eastern Europe is still prudent.

- To ensure that Inner-German Trade is not adversely affected by any EC/GDR agreement.

- To enlist UK support for their Single Market priorities and approach to other current EC issues.

I. REGIONAL ISSUES

- To compare assessments of the situation in South Africa, Angola/Namibia, Middle East Arab/Israel.

J. BILATERAL

- (Probably) To invite the Prime Minister to Chancellor Kohl's home town (Ludwigshafen) later this year.

ARGUMENTS FOR USE

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- At Rhodes we agreed that Comprehensive Concept should be completed and decisions on SNF updating taken by middle of this year.
- Important not to let LANCE become obsolete: will require development from 1990 and production from 1993.
- Delay would leave gap in NATO defence, send wrong signal to Soviet Union that NATO is weak and Gorbachev winning.
- My letter of 23 January explained why we oppose SNF negotiations: Soviet pressure for third zero very hard to resist.
- Also severe technical problems: how to verify equal ceilings? Some systems are dual/triple capable. They are small and mobile. LANCE operated by 8 Allies.
- Arms control negotiations would also undermine NATO's willingness to update systems; shift spotlight to nuclear from conventional and CW.
- Best scheme: combine decision in principle in favour of deploying LANCE successor with substantial cuts in NATO stockpile (especially nuclear artillery shells). Challenge Russians to reduce to our level.
- US attitude: Baker has told me Administration needs assurance on deployment or it will not get funding from Congress for developing LANCE successor. US think negotiations unacceptably risky. Danger of major dispute. Important burden-sharing angle.
- NATO 40th Anniversary: Suggest we make firm statement of UK/FRG commitment to NATO, Western values etc at Press Conference.
- NATO Summit: easy on location. May seem good time. Will need forward looking message on taking Alliance's winning agenda into 1990s in order to make most of East/West opportunities.
- START: must be right, not rushed. Fully understand new Administration's decision to review before re-starting negotiations.

ARGUMENTS FOR USE

- CFE: negotiations will test Alliance unity. United front vital. Press Western proposals long and hard.
- Must resist superficial Eastern gambits. Keep eyes firmly on long-term security interests.
- UK working to help Turks come on board proposal: can FRG help too?
- Any CW Convention must have effective verification provisions. Shouldn't be rushed into accepting unsatisfactory provisions.
- Shevardnadze claim that Russians will start destroying CW aimed at public opinion. Soviet CW stocks and programme many times larger than claimed. Still largely secret. Need to see what they do in practice.
- Appreciate FRG action on Libya CW (prosecutions, tightening of export control legislation). Need to maintain concerted multilateral pressure to stop Qadhafi.

B. COLLABORATIVE DEFENCE SALES

- Important to export jointly produced defence equipment. Keep down NATO defence costs by increasing production runs; support Western foreign policy objectives beyond NATO area.
- Good prospects for further sales of Tornado and other joint products, eg European Fighter Aircraft, TRIGAT, NATO frigate. Need long-term solution for cases where one side cannot or will not provide official credit. UK shouldering unfair share of credit burden in case of Jordan.
- My letter of 13 October 1988: officials should meet to find way of sharing risks more fairly.

C. BILATERAL DEFENCE ISSUES

- British Forces here to help defend FRG.
- Recognise environmental burden on you.
- But no adequate defence without adequate training: without it, why keep forces ready to mount forward defence?
- British forces in Germany already aim to minimise disturbance eg Soltau-Luneberg. We restrict training at weekends and public holidays. Have reduced noise by moving battle simulation training further from inhabited areas.

ARGUMENTS FOR USE

- But training cannot be reduced beyond minimum level without unacceptable detriment to operational effectiveness.
- Defence Ministers' joint initiative intended to strengthen and publicise defence relationship; but cannot substitute for operational readiness.
 - Hope you will explain these points to German public.
 - Refer to Joint Study Group in Press Conference: highlight 27 Luftlandebrigade training in UK, joint Skyguard/Oerlikon Point Air Defence Unit.

D. EAST-WEST/SOVIET INTERNAL/CSCE

- East-West Relations: Gorbachev's UN speech impressive exposition of "new thinking". 1917 and Lenin no longer sanctified.
- Bound to affect Western opinion. Need to explain reasons for our defence policies (Soviet military superiority, secrecy etc.). Solid Western voice essential.
- Gorbachev's foreign policy picks up our agenda. "New thinking" already old thinking in West.
- Our security policy must still take account of worst case.
- Your objectives for his visit to Bonn in June.
- Soviet Internal: Contrast between Gorbachev's public relations success internationally and growing internal Problems. What if perestroika fails to deliver?
- Overwhelming economic difficulties. Inflation 6-8%; government deficit of 100 billion roubles (10% of GNP); wages outstripping productivity; retail price reform delayed from fear of popular backlash; disappointing harvest (195 million tons against plan of 235 million); costs of Chernobyl and Armenia.
- Only way to revitalise economy: press ahead with fundamental reforms and convince population they will work. But little sign of enterprise and initiative among people (eg recent restrictions on cooperatives).
- Gorbachev's determination not in doubt. No coherent alternative or organised opposition. But plenty of resistance. Gorbachev has few natural supporters. Many in

ARGUMENTS FOR USE

positions of power fear/dislike what he is doing.

- Western reaction: should do what we sensibly can, eg management training could help shift attitudes. But West cannot rescue perestroika economically. Soviet economists estimate annual shortfall of consumer goods and services at 90 billion roubles (£90 billion at official rate).
- Cheap credits, loans etc, wrong answer (cf Poland in 1970s). Russians have resources: problem is appalling misuse of them. Attitudes/skills the key.
- CSCE: West must use Human Dimension mechanism agreed in Vienna to monitor Eastern implementation, come down hard on countries who break their undertakings.
- Arrangements for London Information Forum well advanced. Intend to include non-governmental representatives for frank debate - expect you will do likewise. Focus on breaking down barriers in field of information.

E. EASTERN EUROPE

- Much progress in Poland since my visit.
- Prospective talks with Solidarity encouraging but not enough to change Western approach.
- Told Poles during visit economic and political reforms essential before we consider further debt relief and new credits. Priority must be arrangement with the IMF. Important this message not diluted.

F. TERRORISM

- IRA terrorism a major threat not only to UK but, increasingly, to European countries. Middle-Eastern terrorism possibly responsible for Lockerbie disaster.
- Essential West sticks together: practical cooperation (Lockerbie), firm stand against state sponsors (Syria/Libya).
- Vital Hanratty and McGeough brought to justice.

G. ECONOMIC ISSUES

- Unsustainable imbalances among major economies are potential source of instability and strain on world

ARGUMENTS FOR USE

financial system.

- Further structural reform would improve longer term growth prospects for FRG and other countries. Could help reduce current account imbalances.

- Paris Summit will have to address these issues if G7 policies are to retain credibility.

H. EC ISSUES

- Share objective of successful GATT Round. Essential defence against protectionism. Much to gain from liberalisation - eg services, intellectual property.

- Agriculture remains the key. Without progress real risk Round as a whole will fail.

- US must move from utopian position on total elimination of trade-distorting agricultural support. Believe they will. EC will then need to move in its turn and accept much more precise commitments on reductions in support and lower protection against imports.

- CAP reforms, agreed at February 1988 European Council and subsequently, are working. Essential not to offset their effect. Farm price decisions must be at least as tough as Commission has proposed. And more will be needed to avoid isolation in GATT.

- EC relations with Eastern Europeans: constructive but cautious approach proving worth. Must differentiate carefully between them. Base all agreements on mutual advantage - reflect reforms already achieved, not just promised.

- Negotiations with Russians bound to be lengthy. Impatience will compromise our position. They are demandeur.

- Must not be distracted from Hanover/Rhodes single market priorities: banking and financial services; Public Purchasing; standards; also transport liberalisation.

- Major elements this year should include:

a) Second Banking Directive and Investment Services

Directive. Commission proposals on reciprocity clauses are unworkable and wrong in principle;

ARGUMENTS FOR USE

- b) Public Procurement in the Excluded Sectors: we support principle, but want to see satisfactory means for ensuring compliance. Upstream oil and gas should be excluded: adequate competition exists.
- c) Transport. Despite substantial progress on road haulage, little progress last year on shipping, coach traffic or air transport liberalisation. Lower fares and better services throughout Community would be major gain to consumer from 1992.
- d) Insurance. Must reach early agreement on liberal life insurances directive. Current draft disappointingly limited but still an important element in completing internal market for financial services.

- On social issues welcome Rhodes stress on single market as best way to combat unemployment. Doubling of structural funds will make significant contribution.

- Must avoid harmonisation for its own sake. Deregulation the key. No unnecessary burdens on business.

- Respect national traditions: no wish to change your current practices on worker participation, don't try to change ours. European Company Statute is not wanted by business. Not wanted by business.

- Welcome signs of new Commission flexibility on indirect tax approximation (Commission report to ECOFIN in December, Mme Scrivener's meeting with Chancellor, 19 January).

- Commission have admitted major problems with excise duty harmonisation and doubts of most member states on VAT clearing house proposal.

- Fully committed to keeping VAT zero-rating. Does not distort trade.

- Must resist proposals for EC-wide withholding tax: Commission proposals unworkable, risk driving investment out of Community.

- Must make frontiers easier for EC nationals to cross; abolish checks where possible, but cannot give up essential security checks at water's edge against terrorists, illegal immigrants etc. On goods, should prove possible to abolish

ARGUMENTS FOR USE

fiscal frontiers.

- Package of CAP reforms agreed at Agriculture Council (23-24 January) a step forward. Could have been tougher. Advance indications of Commission price-fixing proposals encouraging.
- Further CAP reform justified, to reduce spending and reform way money is spent.
- Recent useful work by Court of Auditors and European Parliament on fraud shows need for determined action by Commission and Member States.

I. REGIONAL ISSUES

- South Africa: implications of President Botha's illness and his replacement as National Party leader not yet clear. Prospects for reform poor.
- Fresh initiatives now would drive whites further into laager.
- Afghanistan: must support resistance until illegally installed PDPA regime removed, enabling genuine self-determination.
- But need not prevent us channelling aid to innocent war victims in regime-controlled areas.
- Angola/Namibia: Recent agreements a landmark. Diplomatic engagement with South Africa can achieve results.
- Must work to make independent Namibia a success. Failure would set back prospects for whole region.
- Need to encourage peace in Angola. African states best placed to mediate: we are encouraging them to do so.
- Middle East Arab/Israel: Must encourage Palestinians to stick to moderate line, address realities ahead: need to identify negotiating team, consider modalities of International Conference etc.
- Should now focus on securing constructive Israeli response. No question of crude pressure; but they must recognise that status quo untenable (CW/missile proliferation in region; demographic trends; damage to international reputation caused by intifada).
- US role central in coaxing Israel forward. US/PLO

ARGUMENTS FOR USE

dialogue brought home to Israelis that times are changing.

Twelve must avoid deepening partition in Lebanon: adhere to strict neutrality between administrations.

- Adverse implications for our Beirut Embassies' security if we favoured one side over other.

- Libya:

Libyans still prepared to help IRA with terrorism, despite Eksund. A major threat to UK; also serious threat caused by its extension to mainland Europe. UK targets in FRG.

- Libyan CW development shows Qadhafi in true colours. Must maintain pressure until he makes convincing amends on terrorism (details of pre-Eksund arms shipment, expulsion of Abu Nidhal from Tripoli) and abandons CW project at Rabta.

J. ENVIRONMENT

- Already spending £1 billion on SO2 and NOx emissions-control equipment and will spend comparable amount following agreement on Large Combustion Plants directive. Implementing tighter vehicle emissions standards as provided for in Luxembourg package. Taking lead in implementing measures agreed at last North Sea Conference.

K. BILATERAL

- Must keep machinery of relationship in good repair as we deal together with contentious issues.

- Accentuate in public our many common interests including defence.

- Next Summit in UK, 1990. Could coincide with 40th anniversary of Königswinter.

- Understand school exchanges going well; mention them and Anglo-German Foundation, British Council Collaborative Research Project in press conference? Also mention Joint Defence Study Group.

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OF THE PUBLIC RECORDS ACT

OUR RESPONSE TO THEIR ARGUMENTS

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- Understand domestic sensitivity of SNF in FRG. Want to reach private understanding with you and Bush. But nuclear deterrence has served West well. Need to preserve its credibility for next generation.
- We can show purpose of modernised SNF is to deter, not fight nuclear battles. But if we don't update LANCE wrong signal will be sent to Soviet Union, deterrent will be eroded and so will public support for it. Slippery slope to de-nuclearisation. Aircraft and artilleries cannot take all the strain.
- Soviet Union would call for third zero once negotiations began. Grinevsky (Ambassador to CFE) and Chervov (Head of General Staff Directorate) have both recently said Soviets want all TNF out of Europe.
- "FRG must do something to respond in particular to GDR cuts". Only response needed is to welcome belated recognition of massive WP superiority in conventional arms. Have been asking them to reduce for years. Vindication of tough line taken by Alliance.
- Need to keep in perspective: Soviet and NSWP cuts taken together leave WP with very substantial superiority. Withdrawal of 24 nuclear missile systems out of 1608 practically meaningless: pure propaganda. Their approach at CST will be litmus test of their seriousness.
- UK remains committed to CW ban. Playing an active part in negotiations. But arbitrary deadlines will only put pressure on West and lead to unsatisfactory agreement. [- Line on German initiative in EPC on CW exports, and approach to Arab league to be submitted separately.]

B. COLLABORATIVE DEFENCE SALES

- In both our interests that Jordan/Tornado experience not repeated.
- Appreciate your difficulties but need long-term solution. Problem will only grow. Vital to our defence industries.

OUR RESPONSE TO THEIR ARGUMENTS

C. BILATERAL DEFENCE ISSUES

- Understand low-flying problem. Allies working together on package to reduce impact. But German Government must make clear publicly that training is essential to forward defence and that FRG does not shoulder burden alone.
- Misconception that FRG endures more low-flying per head of population than anyone else in Alliance: UK has more (because UK low-flying system also used by USAF) including F-111 bombers not based elsewhere in Europe; also RAF Germany does 30% of training in UK.
- RAF(G) has cut back low flying 14% in recent years. Some modification of current levels may be possible but to retain operational capability and flight safety pilots must practice where they may have to fight. Very little scope for further significant reductions in FRG; no intention of facilitating further shift of RAF(G) training to UK.
- WEU can play a valuable role in support of NATO as forum for concerting views on European security and identifying improvements to common defence.
- Logical home for WEU is Brussels as headquarters of EC/NATO. Hope you will help us encourage France to agree.
- Do not believe WEU should contemplate further enlargement at this stage. Importing the Greece/Turkey dispute into WEU would inevitably damage its effectiveness.

D. EAST-WEST/SOVIET INTERNAL/CSCE

- Changes in Soviet Union not irreversible. Soviet Union still far from a "normal" member of international community, eg in human rights.
- Understand Germany's special interest in detente as divided nation: but must be prepared for possible reverse.
- Too much depends on Gorbachev personally.
- Naturally sympathetic to Gorbachev's aims. But sticking to our principles while encouraging his reform will help more than premature concessions.

OUR RESPONSE TO THEIR ARGUMENTS

E. EASTERN EUROPE

- On Poland: West has no interest in allowing Poles to repeat mistakes of 1970s. Over-generous credits would relieve pressure on regime.
- Not indifference. Want to encourage more humane and efficient society. Aim should be increases in personal contacts, exchange of knowledge in key fields. Help East Europeans to help themselves.
- Yugoslavia's difficulties unlikely to be eased by external finance. Yugoslavs have not asked for balance-of-payments assistance.
- We are not giving medium and long-term credit guarantees (because of high debts) but keep position under regular review.

F. TERRORISM

- Continuing evidence pointing to Syrian involvement with Palestinian terrorism - eg PFLP(GC) arrests in Frankfurt. Findings on Lockerbie certainly not inconsistent with this. Now is not the time to relax measures.

G. ECONOMIC ISSUES

- UK policy is concentrating on checking inflation in the domestic economy.
- Welcome growth achieved by FRG in past year; expect further sustained increases in domestic demand over next few years as part of adjustment process.

H. EC ISSUES

- Of course US intransigence the main problem at Montreal. But if they had been less utopian on agriculture, EC could have been isolated.
- Signs are Yeutter will negotiate constructively. Believe formula for long term can be agreed. Pressure will then be on Community. Must be ready to agree to cover both long and short term reductions in support, as well as improved access for imports.
- Fully appreciate domestic sensitivity of agriculture.

OUR RESPONSE TO THEIR ARGUMENTS

Reform surely easier if part of multilaterally agreed package.

- Economic concessions by the EC cannot substantially affect pace of Soviet reform process. Will be determined by internal factors. Should adopt patient, measured approach.
- Understand political importance you attach to principle of Inner-German Trade. Fully accept that any EC agreement with GDR should not affect this, but expect you to ensure no leakage of eg textiles into rest of Community.
- "Kohl's plan for Euro-FBI" Certainly agree on need for closer intergovernmental cooperation on drugs, international crime, etc. Take step by step. TREVI first.
- "Social charter of minimum rights": an unnecessary distraction.

I. REGIONAL ISSUES

- Arab/Israel: EC Troika efforts worthwhile. But must be properly targeted, complement US efforts. No substitute for US lead.
- Lebanon: "Mediation?". No chance of constructive mediation until Lebanese militias and regional powers ready for compromise. Arab League Mediation stands better chance than Twelve: deserves support.
- Libya: "Americans softening": Permission for US Oil companies to resume work in Libya unavoidable. No point in handing Qadhafi chance to take over their assets. Detect no weakening in new US administration on Libya.
- "Big British activity in Libya": British community there at their own risk; no political significance. Under 5,000 (7,000 before break in relations). German market share ahead of ours.
- "Should talk to Qadhafi": We talked to Libyans in March 1985. Their behaviour got worse. La Belle Discotheque bombing (April 1986). Eksund (1987). Rabta.

J. ENVIRONMENT

- Objectives of Saving Ozone Layer Conference? Political boost to existing international activity. Glad Töpfer

OUR RESPONSE TO THEIR ARGUMENTS

(Federal Environment Minister) will attend.

K. BILATERAL

- More money for School Exchanges? Funding matter for local authorities. Can make some assistance available in special cases.

BACKGROUND

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- The Prime Minister's letter to Chancellor Kohl is attached. So is the relevant extract of Chancellor Kohl's interview with the Financial Times and a report on it from Bonn. Ambassador Grinevsky, speaking at Chatham House on 26 January, said "Negotiations on the reduction and eventual elimination of tactical nuclear weapons are inevitable." In an interview to Tass, broadcast on 21 January, Col-Gen Chervov said "The elimination of tactical weapons in Europe is a pressing problem." The timing of the recent unilateral Warsaw Pact force cuts, particularly those in the GDR, were clearly designed to influence the domestic debate on SNF.
- The negotiations on conventional armed forces in Europe (CFE) will start in Vienna on 6 March, together with parallel negotiations on confidence-building. The Alliance are currently finalising proposals for both sets of talks.

B. COLLABORATIVE DEFENCE SALES

- A reply is long overdue to the Prime Minister's letter to Chancellor Kohl of 13 October 1988 (attached), which sought an early meeting of officials.
- (Not for use) We shall want to propose an early offsetting ledger account under which, for example, the ECGD credit for the German work-share of a Tornado deal outside NATO would be balanced against official German credit for the UK work-share of defence sales within NATO and/or civil sales (eg Airbus) both within and outside NATO in countries where ECGD's market limits were under pressure.

C. EAST-WEST/SOVIET INTERNAL/CSCE

- The Twelve are considering how best to activate the Human Dimension mechanism set up by Vienna CSCE Meeting in preparation for the first Human Dimension meeting in Paris in June. The Czechs and Romanians should be brought to book soon. The Germans are often reluctant because of problems with their ethnic minorities in Eastern Europe.

BACKGROUND

- The UK has prepared a draft Western proposal for the London Information Forum (18 April - 22 May 1989). The Twelve are considering it. We are encouraging independent media experts to join national delegations to ensure a spontaneous debate. Lord Rees-Mogg will lead the UK delegation.

D. EASTERN EUROPE

- The Germans are anxious to improve their bilateral relations with Poland. Officials have recently confirmed an agreement in principle to allow the Poles to repay a 1975 DM 1 billion loan in zlotys, to be used for involvement in Polish industry. Following private talks in Bonn between Rakowski and a number of German Ministers, it has been conditionally agreed that Chancellor Kohl will visit Warsaw later this year and President von Weizaecker will go to Poland for the 50th anniversary of the beginning of World War II in September.

- The 1975 loan is not caught up in the Paris Club debt rescheduling agreements (nor has it ever been serviced) and the Germans can argue that the agreement to repay it in zlotys will not prejudice commitments to her partners within the Paris Club. Nonetheless it is bound to increase Polish pressure on others for long-term debt rescheduling. The Germans are keen on further economic help to Yugoslavia. The UK agreed last July, along with other official creditors, to reschedule Yugoslavia's debts. Her balance of payment has benefitted and does not need further support. The internal economic situation remains dire and the IMF programme of economic reform and liberalisation must be maintained. Britain withholds official credit guarantees (although an exception has been made to allow the sale of three Airbuses) because of Yugoslavia's debts to ECGD (£300 million).

E. TERRORISM

- Cooperation with Germans on Lockerbie has been good: they were annoyed by press accounts alleging security

BACKGROUND

shortcomings at Frankfurt, but accept that we have put the record straight: we still do not know for certain where the bomb was loaded. Still no firm pointers as to perpetrators.

- On 26 October 1988 the Germans arrested fourteen PFLP-GC suspects; two of the leaders remain in custody. This was only one of several indications of a resurgence of PFLP-GC activity in Europe. This organisation is based in Syria and it is inconceivable that the Syrians do not have considerable knowledge of the activities of this group.

F. ECONOMIC ISSUES

- There is considerable scope, in the service and non-exporting sectors of the FRG economy, for greater flexibility, more competition and less regulation and subsidies. This could help reduce current account surpluses and make room for more growth in the FRG.
- German economic growth in 1988 was around 3.4%, mainly due to a marked increase in fixed capital investment and exports (5.5%). Inflation edged up to 1.2%, unemployment fell slightly. Although imports rose sharply, export growth was enough to give a record trade surplus of some DM 125 billion (1987: DM 118 billion). The current account surplus may thus have shown a small rise in 1988 as a percentage of GDP, thus arresting, in at least one of the G3 countries, the trend towards a reduction of current account imbalances.
- In 1989 slower growth (around 2.5%) is likely. This is a little above the estimated sustainable growth rate. It implies a further rise in the nominal trade surplus. Inflation also is forecast to rise further to 1.75% to 2%, mainly because of consumer tax increases. With the German economy close to full capacity working, and inflation tending to edge up, monetary policy has rightly become more restrictive.

G. EC ISSUES

GATT Uruguay Round

- The GATT MTM in December reached provisional agreement on 11 out of 15 areas. Agriculture, textiles, intellectual

BACKGROUND

property and safeguards remain to be resolved at or before a meeting of senior trade officials in April. Without progress on agriculture the LDCs, in particular, will not allow agreement in remaining areas to be reached/confirmed.

- On GDR, the FRG wants to ensure that nothing in any future Trade Agreement should affect the Protocol on Inner-German Trade (which allows free access for most GDR products to the FRG - but not for circulation in the rest of the EC). We recognise the political importance which the FRG attaches to this issue and accept that the principle of Inner German Trade should not be called into question in the forthcoming EC/GDR negotiations. Given this reassurance, we hope the Germans will be willing to discuss the practicalities of quarantining Inner German Trade.

Insurance

- The directive would liberalise cross-frontier trade in life insurance. German opposition is expected. There is evidence their industry uncompetitive by UK standards. They justify their restrictive position by reference to consumer-protection needs.

Social Issues

- Chancellor Kohl agreed with the Prime Minister in Rhodes that any European Company Statute should provide only a framework, enabling Member States to preserve existing practices. Chancellor Kohl's priority is to preserve the FRG's present system of labour market regulation. We agree on the need for action on Health and Safety in the workplace; but elsewhere FRG can support social measures which are unwelcome to UK.

Indirect Tax Approximation

- Mme Scrivener, the new French Commissioner for taxation, told the Chancellor on 19 January that she agreed the need for a new, pragmatic approach to indirect tax approximation, and recognised that the Commission's clearing house proposals would need to be reconsidered. She also agreed

BACKGROUND

that the Commission would have to start afresh on excise duties. She acknowledged the importance of zero-rates in the UK and Ireland and said the Commission were working hard on new ideas. These statements represent a new beginning for the Commission's approach on tax approximation, in the face of a series of objections from member states including the UK.

- The Germans are relaxed on the Commission's tax approximation proposals because their own VAT rates fall within the proposed bands.

Withholding tax

- As part of the deal in June to liberalise capital movements it was agreed that the Commission would make proposals on taxation of savings aimed at eliminating or reducing risks of distortion, evasion and avoidance. The French fear that their high tax regime will mean funds flow out of France after liberalisation. They want an EC-wide withholding tax on savings to stop this happening. But any such tax, if it bit, would drive investment out of the EC altogether, damaging London and other financial centres. The Commission proposed a 15% withholding tax, with some exemptions, to ECOFIN on 13 February. We opposed with Luxembourg and the Netherlands. The Germans supported the Commission.

H. ENVIRONMENT

- Public concern for protecting the environment is probably greater in the FRG than in any other EC Member State. The Greens are represented in Parliament and environmental issues have long been politically important. The FRG tends to adopt a more precautionary approach to environmental protection than most countries, including the UK, and is often prepared to spend more money on it.

- Until recently the FRG was inclined to regard the UK as "the dirty man of Europe", but recent events have led to a substantial reappraisal. Agreement in June 1988 on the important Large Combustion Plants directive was followed in

BACKGROUND

September by the Prime Minister's keynote speech to the Royal Society, which aroused keen interest in the FRG. In November the UK announced important initiatives on the ozone layer and movement of waste. On 5-7 March 1989 the Prime Minister will be hosting a major global conference on the ozone layer.

- Differences still exist in several areas, but we now share more common ground with the FRG in EC negotiations on the environment, and the Germans are studying closely what they perceive to be a marked change in UK attitudes.

I. REGIONAL ISSUES

- South Africa: The Auswärtiges Amt and the Chancellery do not see eye to eye on sanctions. Genscher favours non-economic measures, including restricting the size of South African diplomatic missions in Europe and re-introducing a visa regime (which they have anyway agreed to do by 1990 under the Schengen Agreement with France and the Benelux countries).

- In July 1988 Genscher launched a personal initiative aimed at incorporating a 14 point code of labour standards into the EC Code of Conduct for companies with interests in South Africa. Only the Dutch supported wholeheartedly. Others found the initiative too detailed; too narrowly based on German law; and too early (the existing Code of Conduct was only revised in 1985).

- Libya: The German handling of reports that German firms had been involved in the Rabta plant was very inept: but they are now trying to make amends (eg on initiative in EPC on CW exports). Chancellor Kohl is said to be angry with the US for leaking details to the press, and with his own security service for failing to keep him informed. The FRG raised their diplomatic representation in Tripoli last Summer by sending back an Ambassador to replace a Chargé d'Affaires. They have been rewarded with the Rabta affair.

- In 1986 under the US trade embargo, US oil companies operating in Libya were ordered by the US Government to end their operations there. It was later realised this would

BACKGROUND

put the companies in breach of their contract with the Libyan Government, who would be legally empowered to nationalise their assets. The companies were allowed to negotiate a "stand-still" agreement with the Libyans whereby the companies' operations were suspended "without prejudice", but the Libyan Government was allowed to sell the oil from the companies' blocks. This "stand-still" agreement runs out in June, hence the reluctant US decision to allow the Companies to resume operations in Libya.

J. BILATERAL

- The next Summit will be due in Britain in 1990. The 40th anniversary of Königswinter will be marked at Cambridge in March 1990. If the two events could be combined to allow Kohl to make a brief appearance at Königswinter there would be a very welcome publicity spin-off for the bilateral relationship.

- The Joint Defence Study Group is a group of senior officials established by Ministers in October 1988 to report to them on ways of improving bilateral defence cooperation and of getting better public understanding of the level of cooperation which already exists. A first round of measures including additional joint training and increased cooperation in logistics and exchange, was announced during Dr Scholz's visit to London in January. These included participation by a Company from 27 Luftlandebrigade in an exercise with British Forces in UK (probably in Oct 89). An attractive additional measure - to form a joint short range air defence unit using German Skyguard radars and UK Oerlikon anti-aircraft guns to enhance the air defence at an RAF station in Germany - is also under initial consideration.

- Soltau-Lüneberg is the main non-live-firing training area in BAOR (the only one big enough to accommodate mechanised exercises up to battlegroup level). Part of the training area is used seven days a week. It is also an area valued by local inhabitants for recreational purposes. Steps have been taken to reduce the impact on the local population, but

BACKGROUND

we continue to resist calls for a formal pause in training in the summer holiday period.

- A British-German Academic Research Collaboration scheme has been established by the British Council and the German Academic Exchange Scheme (DAAD), who will provide matching funds totalling £350,000 in the first year, for an exchange of researchers in approximately 80 projects in the areas of business-related studies, engineering and science. The results will provide better information to help industry exploit the commercial opportunities of the Single European Market.

- The Anglo-German Foundation was set up in 1973 with a lump sum grant from the FRG, following the State Visit of President Heinemann. Contributions from the FRG at present run at £250,000 annually, and from the UK £175,000 annually. German MPs are concerned that the AGF does not win enough publicity for its valuable work or its contribution to Anglo-German relations. The AGF is participating in the British Council/DAAD Exchange Scheme.

- The Prime Minister and Federal Chancellor agreed in 1985 that action should be taken to develop educational exchanges. Their number has grown and agreement has recently been reached on a further expansion programme. Endorse the agreement at Press Conference.

RESTRICTED
FM BONN
TO DESKBY 101700Z FCO
TELNO 167
OF 101630Z FEBRUARY 89
INFO PRIORITY MODUK, WASHINGTON, PARIS, UKDEL NATO

YOUR TELNO 133: SNF MODERNISATION: FT INTERVIEW WITH CHANCELLOR KOHL

1. THE FT CORRESPONDENT, DAVID MARSH, HAS GIVEN US IN CONFIDENCE (PLEASE PROTECT) THE TRANSLATED FULL TRANSCRIPT OF HIS INTERVIEW WITH KOHL. (BY FAX TO WED). THIS INDICATES MANUSCRIPT AMENDMENTS AND DELETIONS MADE BY THE FEDERAL CHANCELLERY ON TELTSCHIK'S INSTRUCTIONS.

2. THERE WAS ONE SIGNIFICANT CHANGE ON SNF. KOHL IN FACT SAID: "THE REAL QUESTION OVER THE DEPLOYMENT AND MODERNISATION WILL BE IN 1991/92, WHEN THE QUESTION OF THE AGEING OF THE LANCE WILL COME UP FOR DISCUSSION." THIS WAS AMENDED TO: "THE REAL DECISION OVER THE PRODUCTION WILL BE IN 1991/92. ONLY THEN WILL THE QUESTION OF THE AGEING OF THE LANCE REALLY COME UP FOR DISCUSSION." THE PURPOSE OF TELTSCHIK'S CHANGE WAS TO KEEP OPTIONS OPEN. KOHL'S LANGUAGE WAS IMPRECISE AND CONFUSED HERE AND ELSEWHERE IN THE INTERVIEW. BUT HIS INTENTION, AS REPORTED BY THE FT, IS CLEARLY TO DELAY THE MODERNISATION DECISION.

3. THE FT INTERVIEW IS TOP ITEM ON TODAY'S GERMAN RADIO NEWS. FDP DISARMAMENT SPOKESMAN FELDMANN HAS WELCOMED KOHL'S "CLEAR WORDS", IN WHICH HE SAW A CONFIRMATION OF THE FDP'S LONGSTANDING LINE.

COMMENT

4. IT WOULD APPEAR THAT KOHL HAS DECIDED, IN THE FACE OF A UNITED FDP STAND BY GENSCHER AND LAMBSDORFF (MY TELNO 153) NOT TO PUT THE COALITION AT RISK OVER THIS QUESTION. THE RESUMED COALITION DISCUSSION OF SNF, WHICH MAY NOW TAKE PLACE ON 14 FEBRUARY, SHOULD SHOW WHETHER THIS INFERENCE IS CORRECT.

MALLABY

YYYY

CONFIDENTIAL

KOHLE, DR HELMUT

Federal Chancellor and Chairman of the CDU.

Born 1930 in Ludwigshafen. Studied law and history at Frankfurt and Heidelberg. Joined the CDU at 17 and became a member of its Land Executive in Rhineland Palatinate at 25. Member of the Land Parliament 1959, and Chairman of the CDU Parliamentary Group there from 1963. Member of the CDU Federal Executive since 1966. Chairman of the CDU in Rhineland-Palatinate, 1966-73. Minister President of Rhineland Palatinate 1969-76. Chairman of the CDU since 1973. Was Chancellor candidate of the CDU/CSU in the 1976 Federal election. Thereafter, elected Chairman of the CDU/CSU Parliamentary Party in the Bundestag, a post which he held until October 1982 when he was elected Federal Chancellor.

Politics have been Kohl's whole life. He first achieved national prominence as Minister President of Rhineland Palatinate, where he was active in modernising the Land Administration, expanding higher education and promoting industrialisation. He played a large part in the early 1970s in planning a new policy for the Federal CDU, but failed to stand up for certain aspects of this at the 1971 Party Conference. This contributed to his defeat by Barzel in the elections that year for the party chairmanship. But after careful ground work in the party, cultivating the younger generation in the centre, Kohl was the only candidate for the chairmanship at the special Party Conference in June 1973, after Barzel's resignation. Since then, he has never been challenged for the job.

After a period of intense political manoeuvring, he was nominated as Chancellor candidate of the CDU/CSU for the 1976 Federal elections. But the grudging support from Strauss and the CSU undermined his authority. Nonetheless, he ran a skilful and energetic campaign, and came within 200,000 votes of unseating Schmidt and the SPD/FDP Coalition. Subsequently he moved to Bonn to lead the CDU/CSU Parliamentary Party in the Bundestag. But for the 1980 Federal elections he lost the CDU candidacy to Albrecht, and it was Strauss who eventually secured the CDU/CSU nomination. Kohl fell in loyally behind Strauss and ran an energetic and effective campaign.

With Strauss's defeat, Kohl re-emerged as the natural leader of the CDU/CSU Parliamentary Party. But there were many in the party with reservations about his leadership, and he might have been overtaken for renomination as Chancellor candidate had the SPD/FDP government lasted its full term. Its premature collapse in September 1982, however, found him still in charge of the Parliamentary Party; and he was duly elected Chancellor on 1 October after the CDU/CSU and FDP had successfully moved a constructive vote of no confidence against Schmidt in the Bundestag.

When it took office, Kohl's government had a clear majority in the Bundestag. But Kohl was conscious of having become Chancellor without a mandate from the electorate and announced his intention to arrange for early Federal elections in March 1983. Many thought his tactics would rebound against him: either because the method he used for dissolving the Bundestag - a deliberately lost vote of confidence - would not be approved by the Federal President or the Constitutional Court; or because, if the election did take place, the FDP might be excluded from the Bundestag and Kohl thus lose his majority. But Kohl's calculations were correct. The CDU/CSU polled their second best result ever, the FDP got back into the Bundestag, and Kohl's government

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was thus secure. He had little difficulty in dealing with extreme demands by Strauss in the p election Coalition negotiations. Despite pressure from the CSU, the Coalition which he formed corresponded in policies and Ministerial appointments with what Kohl, not Strauss, wanted.

In opposition, Kohl was always under-estimated as a politician. His speeches were tedious and he was criticised, even within his own party, for his narrow outlook and lack of understanding of economic issues. But he has a steady determination and an outstanding political sense, which he used to the full in getting himself re-elected as Chancellor and in resisting the subsequent efforts of the powerful Strauss to increase his influence in the Government. Kohl is not an intellectual Chancellor like Schmidt: he likes to deal in the broad outline of policy and leaves detail to his Ministers. Nor is he the enthusiastic decision maker that Schmidt was. His tendency to procrastination, together with the looseness with which he holds the reins of Government, led to confusion and contradiction in the early months of his administration. After a series of gaffes had seriously damaged the image of his Government, he moved belatedly to strengthen his grip through a major shake-up in the Federal Chancellery whose coordinating role was much improved.

Murmuring about Kohl's style of leadership continues, as do gibes about his lack of intellectual pretensions and organisational ability. In early 1986 it even looked briefly as if his party might ditch him, after Public Prosecutors moved to investigate allegations that he had given false testimony to Parliamentary Committees inquiring into the party donations affair. But charges were not pressed, and he shrugged off this adversity as he has so many others. In January 1987 he led the CDU/CSU back to power in the Federal elctions, though this was a victory soured by the CDU/CSU polling their worse result ever. The poor result was ascribed in part to the low turn-out (eg abstentions by disaffected farmers) and in part to the CSU's attack on the FDP during the campaign. But again a number of gaffes by Kohl himself, such as a comparison in a magazine interview between Gorbachev and Goebbels, did not help.

Kohl is proud of his simple origins. His father was a minor official. His mother held the family together. He himself worked as a stone mason to get through school. He sees himself as one of that first generation of Germans who came into politics young immediately after the war with the belief in democracy and the rule of law. He is a big, genial man, with a relaxed and reassuring manner, who showed in 1976, and again in 1983 and 1987, that he could attract voters by means of straightforward propositions stated clearly, firmly and often. He is a great optimist, a man who visibly enjoys himself, who exudes confidence. He stresses old-fashioned virtues - hard work, self-reliance, thrift, family values - in populist speeches.

Kohl initially took little interest in foreign affairs. He has a strong commitment to the Atlantic Alliance, to the Franco-German relationship, and to the European ideal. But his contacts with other countries have otherwise been limited. He speaks a little French but no other foreign language. He has become increasingly aware of the importance of the UK.

His wife (Hannelore) studied in Paris and is a qualified interpreter, speaking fluent French and English. She is a determined woman who has certainly been a spur to Kohl's ambition. They have two sons, both of whom have studied in Britain.

GENSCHER, HANS DIETRICH, HON GCMG GBE

Federal Foreign Minister and Vice-Chancellor since May 1974.

Born 1927 in Reideburg, Saxony (now GDR). Son of a farm cooperative official. War service with the Luftwaffe. POW. Later studied law in Halle and Leipzig. Left the GDR for the Federal Republic in 1952 and joined the FDP. Became Business Manager of the FDP Parliamentary Party in 1959 and then in addition, from 1962-64, Federal Business Manager of the FDP. Elected to the Bundestag in 1965. Became a Vice-Chairman of the Party in 1968, Minister of the Interior 1969-74. When Scheel became Federal President in 1974, Genscher succeeded him as Chairman of the FDP, Vice-Chancellor to Schmidt, and Foreign Minister.

The FDP's excellent showing in the 1980 Federal election increased Genscher's standing both as Foreign Minister and Party Chairman. But it became increasingly clear that Genscher no longer believed that the SPD/FDP Coalition had a future; and he began to look for the best way to end it. When the moment came in September 1982, however, Genscher was outmanoeuvred by Schmidt, and he and his party took the full force of public criticism for the break-up of the Government. Genscher was also attacked by the FDP left-wing for the way in which he had forced through the switch without consulting his party. At the FDP Party Conference in November 1982, a determined, but unsuccessful, effort was made to unseat him as Party Chairman, and a large proportion of the FDP left then quit the party. By realigning it well to the right, Genscher managed to ensure that the FDP secured re-election to the Bundestag in March 1983.

But discontent with him in the Party re-emerged when he tried to corral the FDP into accepting an amnesty for politicians and businessmen in the so-called Flick scandal. Faced with a further challenge to his leadership at the Party Conference in 1984 he only succeeded in defusing the situation by announcing that he would stand down as Party Chairman in 1985, which he subsequently did to make way for Bangemann (qv).

Genscher's problems with his own Party inevitably affected his authority as Foreign Minister for a while. He also lost ground after 1982 to the Chancellor's adviser on foreign affairs, Teltschik (qv). But more recently he has made a remarkable comeback. In party terms he has turned Bangemann's rather incoherent leadership to his advantage, to the point where he is widely regarded as being Chairman again in all but name. The FDP's good showing in the 1987 Federal elections was largely due to his shrewd exploitation of the attacks made on him in the campaign by his old adversary Strauss. The current brand of ostpolitik is mostly his doing.

An immensely hard worker, with the capacity to absorb detailed information quickly. Perpetually on the wing, but with a knack of being in the right place at the decisive moment. In private he is an easy-going man, informal yet with a certain reserve. He divorced his first wife and married his then secretary in 1969. It was her second marriage also. Since then, he draws a clear line between business and family life, partly in the interests of his daughter (by his first wife), to whom he is deeply attached. He reads voraciously anything that lies to hand. His tastes in music are equally wide-ranging from classical to pop. In the 50s he suffered from a nearly fatal bout of tuberculosis which kept him three years in a clinic. In November 1977 he was admitted to hospital with pneumonia, and secondary blood circulation instability. He did not return to work until mid-January 1978. Although he seemed to recover well at the time, the enormous strain of his working habits has taken its toll and he often looks less than healthy.

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SCHOLZ, PROFESSOR DR RUPERT

Federal Minister of Defence (CDU) since May 1988

Born 1937 in Berlin. 1957-61 studied law at Free University, Berlin and at Heidelberg. 1961-72 academic appointments in Berlin and Munich. 1972-78 Professor of State and Administrative Law at Free University, Berlin. From 1978-1981 he taught at the Law Faculty at Munich.

1981 elected as Berlin Senator for Justice in the CDU minority government under Richard von Weizsäcker. In 1983 became Senator for Federal Affairs in the CDU/FDP coalition, at which point he formally joined the CDU. Elected to the Berlin House of Representatives only in 1985. Appointed as Wörner's successor as Federal Minister of Defence in April 1988.

Scholz is generally considered to be intellectually able and ambitious. Won respect in the Berlin House of Representatives for his robust debating style though his manner can, at times, be high-handed and brusque. Tended to neglect his responsibilities as Justice Senator, obviously much preferring the Bonn scene.

Scholz's dealings with the Allies in Berlin were not always easy. His public statements on Berlin status questions were, however, generally helpful to the Allied position.

Scholz was not a leading candidate to succeed Wörner. He had no national reputation and his lack of defence experience made him an unexpected choice. But he seems to enjoy relatively strong support from the right wing of the CDU and from the CSU.

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Kohl has known and respected Scholz for some years but the two are not friends.

Takes little care with his appearance. Married. His wife is a judge in Karlsruhe. Both speak some English. Visited the UK as a guest of HMG in 1986. An enthusiastic football supporter.

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ZIMMERMANN, DR FRIEDRICH

Federal Minister of the Interior (CSU) since October 1982.

Born 1925 in Munich. War service 1943-45. Joined CSU 1948. Studied law and public administration at Munich; doctorate in 1950. Bavarian civil servant 1952-55, thereafter Secretary-General and Business Manager of the CSU until 1963. Treasurer of the CSU, 1963-67. Member of the Bundestag since 1957; Chairman of the Bundestag Defence Committee 1965-72. Elected Vice-Chairman of the CSU in 1979. Vice-Chairman of the CDU/CSU Parliamentary Party and Chairman of the CSU Land group 1976-82. Appointed to his present post when the CDU/CSU took office in October 1982.

Zimmermann's skill as a politician has been overshadowed by his involvement in a number of well-publicised scandals. The most noteworthy concerned the granting of licences to casinos in Bavaria in 1960, and resulted in Zimmermann being sentenced to four months imprisonment on two charges of perjury. This judgement was later overturned on appeal by the Federal High Court on the grounds that Zimmermann had not been in full possession of his faculties when taking the oaths in question, but the explanation stated that "... there could be no question of the innocence of the defendant having been proven", and ascribed his action to a desire to protect the interests of his party. A later connection with a building firm involved in some dubious practice cost him the post of CSU party treasurer.

That he could recover from such apparently terminal set-backs lies in his closeness to Strauss who has always found him useful. He joined in with a will to help Strauss make life as difficult as possible for Kohl when the latter took over the Chairmanship of the CDU/CSU Parliamentary Party in 1976. He seems to have been the manager of events that year which threatened to divide the CSU from their joint Parliamentary Party with the CDU. He and Stoiber were mainly responsible for leading Strauss into his abortive Chancellor candidacy in 1980. After Strauss's defeat, however, Zimmermann moved to rebuild his bridges with the CDU. His relations with Strauss suffered as a result. The CSU leadership in Munich were deeply suspicious of Zimmermann's role in the negotiations with the CDU and FDP in September 1982 on the formation of the new Coalition and he was thought to be trying to keep Strauss out in the cold. After the Federal election in March 1983 Strauss made no secret of his readiness to sacrifice Zimmermann as Interior Minister to provide a slot for Genscher to move into and himself become Foreign Minister. In the event, Genscher was not to be shifted from the Foreign Ministry.

His appointment as Interior Minister provoked a storm of protest, given his chequered past. He continues to be one of the most controversial and frequently criticised members of the Cabinet. In 1985 he came under attack on a variety of issues, including vehicle emissions (where he adopted a position too radical to be acceptable to the other EC states and had to back down in confusion) and a series of scandals involving the FRG security and intelligence services, for which his vast and unwieldy ministry is also responsible. He lost responsibility for the environment when a separate Ministry was created in 1986, since when he has looked less uncomfortable. He has few political friends in Bonn, but Kohl does not remove him for fear of the row with Strauss which would follow. Constantly at odds with the FDP because of his hard-line views on law and order issues.

Zimmermann is married and has two daughters from an earlier dissolved marriage. He speaks competent English and deploys it in jocular and colourful style.

HAUSSMANN, DR HELMUT

Secretary General of the FDP and Federal Economics Minister since December 1988.

Born 1943. Studied economics and social sciences at the universities of Tübingen, Hamburg and Erlangen. 1968-71 business-manager for a private company. 1971-75 research assistant at the University of Erlangen. 1975 Doctorate on a subject related to the management of medium sized firm. Several publications on social science and economics.

Joined the FDP in 1969 and worked his way quickly up through the Baden-Württemberg party hierarchy. Joined the Bundestag in 1976. Appointed FDP Economics spokesman in 1980. Nominated by Genscher as Secretary General in 1984 after the party had made clear that it would not support Genscher's original nomination (Brodesser). Haussmann brought vigour and enthusiasm to the job and was responsible for rewriting the FDP's manifesto in 1985, committing the party to a strongly market orientated, right of centre approach. Renominated by the new FDP Chairman (Bangemann), who like him is from Baden-Württemberg, he was re-elected by the Party Conference in February 1985 with a large majority, a clear sign of the support he has won for himself in the party in a short time. Now a major authority in the party.

Visited the UK in 1977 as a member of the Budget Economics Committee; and as a guest of HMG in 1978 and 1987.

Married. Protestant. Fair English. Fond of fishing and fast cars.

DR LUDOLF-GEORG VON WARTENBERG

Parliamentary State Secretary (CDU), Federal Economics Ministry since 1987.

Born 1941. Educated in Hannover. Studied economics and history at the Universities of Hannover, Göttingen and Belfast.

From 1967 to 1976 small firms adviser in the Hannover Chamber of Crafts. Director of the Hannover Reinsurance Company and adviser to the Hanse-Merkur Insurance Group. A member of the supervisory board of Hannover Airport Company.

Chairman of the local CDU association in Hannover. From 1970 to 1976 a member of the Landtag in Lower Saxony. Elected to the Bundestag in 1976. Member of the Bundestag's Finance Committee. Appointed Parliamentary State Secretary in the Federal Economics Ministry in March 1987.

Chairman of the Society for the Study of Structural Policy Questions. Member of the German Foreign Policy Association and of the German Atlantic Society.

Protestant. Married with two children.

ECHLE, IGNAZ

Federal Minister of Food, Agriculture and Forestry (CSU) since March 1983.

Born 1930 in southern Bavaria. Educated as agricultural apprentice. Self-employed farmer, qualified agricultural instructor. The first German agricultural trainee in the USA after the war, in 1949. Board member of Dairying Association of Allgäu/Schwaben and Chairman of Bavarian Dairying Association. Managing Director of a firm of agricultural publishers until his present appointment.

Elected to Bundestag in 1969 for a rural constituency where the CSU enjoys solid support from the farming community. Opposition spokesman for agriculture until change of government in 1982, when he was elected a deputy Chairman of the CDU/CSU Parliamentary Party. His surprise appointment to his present post after the Federal election in March 1983 was made largely to meet the CSU's demand for a fifth Cabinet seat as reward for their strong electoral showing.

Short, tubby and bald. As befits his strong Bavarian farming background, Kiechle has been a consistent defender of farming interests. His twin objectives are the raising of German farm incomes to a satisfactory level and the maintenance of the traditional small family farm structure of German agriculture. His single-minded pursuit of these goals makes few, if any, concessions to other considerations. The slide in farmer's incomes has left him facing a fair bit of resentment from his native territory, but he bears this bravely when speaking in Bavaria. Looks a simple backwoodsman, but is no fool.

Roman Catholic, married, four children. Speaks English well enough for most purposes.

PROPOSED THEMES FOR PRESS CONFERENCE

- (a) Welcome the results of the Bilateral Defence Study (some of which were made public following Professor Scholz's visit to the UK, 30 January - 1 February) and possibly mention:
- training in UK by elements of 27 Luftlandebrigade;
 - proposal to form a joint auxiliary Skyguard/Oerlikon Point Air Defence Unit (subject to confirmation by MOD by 17 February);
- (b) Current international questions on which we act together:
- Security issues: 40th Anniversary of NATO. Firm joint commitment to winning formula. Prospects for NATO Summit (including SNF etc).
 - East/West: Agreement on need for active policy of negotiation backed by sure defence;
 - draw attention to London Information Forum;
 - joint determination to achieve Single Market and agreement to prevent "Fortress Europe";
 - terrorism;
 - drugs.
- (c) Research collaboration:
- mention joint British Council/German Academic Exchange Service (DAAD) collaborative research project;
 - mention work of Anglo-German Foundation for the Study of Industrial Society (also contributing to British Council/DAAD Project above).
- (d) Fortieth Anniversary in 1989 of Deutsch-Englische Gesellschaft.
- (e) Environment: draw attention to UK initiative in organising a conference on the ozone layer, mentioning attendance of Töpfer (Federal German Environment Minister).

(f) School Exchanges: Welcome progress.

(g) Next Summit: intend to hold next Summit in 1990.

File M32

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.158/88



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Subject re MASTER
OPS

10 DOWNING STREET
LONDON SW1A 2AA

13 October 1988

THE PRIME MINISTER

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Dear Helmut

I was glad that your Government approved the sale of the Tornado IDS aircraft to Jordan. But I am disappointed that you felt unable to provide official credit support for this sale which we both agree - as do the Americans - is strategically important.

I understand the political sensitivity for the Federal Republic of arms sales outside the NATO area. But I believe that we are entitled - indeed have a duty - also to take account of other needs such as maintaining the viability of our defence industries; keeping down NATO defence costs by increasing production runs; and supporting Western foreign policy objectives beyond as well as within the NATO area. All these considerations mean that it is important for both our countries to be able to export the defence equipment we manufacture collaboratively, with a fair division of the burdens.

There is every reason to suppose that further export sales will be forthcoming, not only of Tornado, but also of other collaboratively produced defence equipment, such as the European Fighter Aircraft, TRIGAT and the NATO frigate. It is all too likely, therefore, that exactly the same problem will arise again in future, as we have experienced over

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Tornado for Jordan. To preserve this valuable order, the United Kingdom is being obliged to shoulder a considerably larger than expected share of the credit burden. I must tell you that for the future I would find it difficult to accept such credit arrangements. Risks associated with export sales should be shared according to the work ratio.

I propose that we instruct our respective officials to find a way of conforming more closely to that principle. I am sure that they can work out a practical solution to the problem, which would otherwise cause continuing differences between us. I would welcome your early agreement, so that they might meet and report fairly quickly. Important decisions need to be made soon on existing and future collaboration.

Lawson

1971

His Excellency Dr. Helmut Kohl.

PRIME MINISTER'S
PERSONAL MESSAGE



SERIAL No. 10/89 10-DOWNING STREET

LONDON SW1A 2AA

SUBJECT a MASTER
OPS.

THE PRIME MINISTER

23 January 1989

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Handwritten: MJ
cpc
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Dear Helmut,

When we met in Rhodes, you told me how your thinking was developing over NATO's Comprehensive Concept of security and arms control including the modernisation of the Alliance's theatre nuclear forces. Charles Powell has subsequently given me an account of his discussion in Bonn on 20 January with Mr. Teltschik. I look forward to discussing the subject again with you myself in Frankfurt on 20/21 February. I thought it might be helpful to send you this personal message on how I see the problem.

My starting point is very much in line with what you said in Rhodes. I believe that NATO must in the course of 1989 - and preferably the first half - take clear decisions about modernising and restructuring its stockpile of nuclear weapons in Europe; that these decisions need to be taken in the framework of a proper concept of security and arms control; that some new systems, notably a tactical air to surface missile for aircraft (TASM) and a longer range ground based missile as a successor to LANCE, will be needed; but that the effect of their introduction will be to permit a major reduction in the overall size of NATO's nuclear stockpile and a shift of emphasis away from short range battlefield systems.

SECRET

Handwritten signature: Pm

A restructuring/modernisation package of this kind should achieve wide support throughout NATO. It would mean better deterrence with fewer weapons. I agree with you that we should work for the adoption of such a package at a Summit meeting in late April/early May.

I recognise the danger for Europe from the enormous superiority which the Warsaw Pact enjoys in short-range missiles. It was with this in mind that we agreed at the NATO Summit last year that the Comprehensive Concept should foresee, in conjunction with the establishment of a conventional balance and the global elimination of chemical weapons, tangible and verifiable reductions in US and Soviet land-based missiles in Europe leading to equal ceilings. I remain committed to that goal when the conditions are met.

But I believe that we should be very cautious about how we approach it. It is one thing to make our own autonomous cuts in theatre nuclear systems and to challenge the Soviet Union to reduce to NATO levels. But an arms control negotiation in this category would be a very different matter and I foresee major difficulties. We would surely come under extreme pressure to accept a third zero. It is far from clear how we could distinguish the nuclear from the conventional aspects of this dual capable system which are involved. There is an obvious risk that the possibility of an arms control agreement might sap NATO's willingness to agree the necessary updating and restructuring of existing systems. The attention which we have with difficulty focussed on the huge Soviet conventional and CW superiority could easily be diverted back to nuclear matters. For all of these reasons, and others, I do not see how we could include in the Comprehensive Concept an arms control proposal on SNF without storing up serious risks for our security. Let us proceed instead by taking decisions which meet our own security needs and give us the up-to-date systems which we need, while reducing the overall number of nuclear warheads in our stockpile.

I look forward to hearing your views on all of these points when we meet next month.

Warm regards

Y
Lorenson

Raymond

His Excellency Dr. Helmut Kohl

ANNUAL REVIEW: THE FEDERAL REPUBLIC OF GERMANY IN 1988

Summary

1. Federal Government's solid achievements but poor image (para 2).
2. Gorbophobia rampant but Kohl steady so far on relations with Soviet Union. Questions on horizon concerning inner-German relations (paras 3-4).
3. Genscher, East-West activist (para 5).
4. Gorbophobia and environmental effects of military activity have caused deterioration in climate for defence (para 6).
5. Popularity of EC. Successful German Presidency. Attitude to 1992 not consistent (paras 7-8).
6. 3.5% economic growth in 1988, led by record trade surplus and domestic investment. DM lost value against Sterling and German surplus in trade with UK soared (paras 9-10).
7. Busy period ahead in British-German relations. Need to extract maximum publicity in FRG (para 11).
8. Big question in 1989 is whether Kohl will go for modernisation of short-range nuclear forces. Important visit by Gorbachev expected. General Election looms in December 1990: on present betting, existing coalition likely to continue afterwards (para 12).

British Embassy
BONN

6 January 1989

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
London SW1A 2AH

Sir,

ANNUAL REVIEW: THE FEDERAL REPUBLIC OF GERMANY IN 1988

1. For the Federal Republic 1988 was the year of great hope in East-West relations and at home a more difficult climate for defence.

Domestic Politics

2. The Federal coalition has some solid achievements but an ineffectual image. Foreign policy has gone well, with new activity in relations with the Soviet Union and a successful German Presidency of the Community. The economy is strong. The Government has put through a health care reform, to trim costs and increase contributions; and has pension reform in hand. Yet opinion polls at mid-point between federal elections are discouraging. The CDU won the regional election in Baden-Württemberg but lost in Schleswig-Holstein, in the wake of the Barschel affair, after 38 years in power. It has been dogged by mishap in other Länder. If Reagan's has been a Teflon administration, Kohl's seems like a fly paper, with every criticism sticking. The public bickering that has harmed the coalition's image may be less after the death of Strauss, a disappointed titan who sniped from the Bavarian wings. But coalitions are not wont to look united and the new FDP leader, the tough and experienced Count Lambsdorff, will not be shy of criticising Kohl.

Gorbophoria

3. There is no significant constituency in the Federal Republic for going neutral or making a bid for early reunification. When people stop to think, they realise that membership of the Alliance and the Community has brought the prizes of freedom, security, prosperity and international standing. But there are worrying

/trends

trends. Situated along the division of Europe and conscious of the 17 million Germans in the GDR, the Federal Republic is prone to excitement whenever there are signs of East-West thaw. Gorbachev has brought much more than that, and hope in the Federal Republic is intense. Kohl is steady: his visit to Moscow in October was a responsible operation. He got German-Soviet relations going again after a poor period. On multilateral matters he stuck to Western positions. He spoke up firmly on the aspiration for eventual reunification and got the reply, in effect, that on this subject Old Thinking prevailed in Moscow. This, and a realisation that Gorbachev faces tremendous odds, may have injected a little realism into the views of informed people in the Federal Republic. But Gorbophobia remains rampant and there will be impatience among politicians and public if the West is not seen to be making the running with imaginative proposals in arms control.

Eastern Europe and the GDR

4. Informed Germans realise that Marxism-Leninism has failed, and that the metamorphosis that has started in Eastern Europe is an opportunity but also could produce explosions. Most expect change to begin in due course in the GDR and to be very difficult for the authorities to control. That some 10% of the GDR's population visited the FRG in 1988 is one indication of the success of the Federal Republic's inner-German policy of building up links without causing destabilisation. People here worry whether it can be sustained if change sets in across the Elbe. There is a new factor in the Federal Republic's relations with Eastern Europe and the Soviet Union: the number of immigrants of German origin doubled in 1988 to reach 242,000. That represents success in a long-standing aim of Ostpolitik. One would expect it to be welcomed. But there is controversy about arrangements, such as housing, for new arrivals and concern about competition for jobs.

Genscher

5. The Foreign Minister has espoused demonstratively the cause of a new detente. His speeches deal briefly with the need for continued defences. He stays within the letter of agreed Western positions. But he puts all the emphasis on hope, and tries to present himself as battling against Western opponents of new progress. He has said of the West, for instance, that "the forces who are pushing forward must prevail against those who hesitate and defend existing positions". In 1988 he made two visits to the Soviet Union and five to Eastern Europe. All this helps to make Genscher top of the pops with public opinion. So does his energy in building relations with Third World countries. He will become even more hyperactive as Federal elections in 1990 approach.

/Defence and Public Opinion

Defence and Public Opinion

6. Gorbachev has made many Germans doubt that there is a significant Soviet threat. At the same time the burden of defence activity for the population has become a theme of intense public interest. Partly this is one side of Germany's obsession with the environment. Partly it is the genuine nuisance of noise from low flying in certain areas. A bad series of military flying accidents in 1988, the two biggest involving the Americans, intensified the concern. There is much sentiment and little logic in this. The effect has been to make the public climate for defence more unfavourable than before. That is of direct concern to us, with our 72,000 forces in Germany. The Federal Government has reacted weakly. Scholz, Defence Minister since May, is clever but inexperienced and without a political base. He has sought to appease the pressures by moves such as restricting exercises by the Bundeswehr outside training areas and a cut in Bundeswehr low-flying. The debate shows signs of sprouting a new dimension - a call to review Allied rights in Germany especially with regard to exercises and low flying. We should continue to encourage Federal Ministers to declare why a minimum of military training is needed for deterrence, and should ensure that they consult us and do not make concessions which our forces here would be expected to match.

The Community

7. European Union remains a popular cause. Germany's Presidency in the first half of 1988 was a success. In February the European Council finally accepted the British view that expenditure on agriculture simply must be curbed. The decision to increase the Community's own resources meant higher German net contributions, which in turn led to tax increases - with next to no political controversy about the EC angle. Fifty-six measures on the way to the Single Market were decided during the Presidency, including the crucial one of freedom of capital movements where the Germans stood up to the French. The Germans had to face on some matters the contrast between their free market principles and their narrow interests. On some - for instance liberalisation of road haulage - principle won out. Liberalisation of regulations on the composition of beer is likely to bring imports half the price of beer produced by small, inefficient breweries here. That Germany made national concessions for the sake of a successful Presidency is another example of the importance of the EC to the Federal Republic.

8. But the German attitude to the Single Market is not unambiguous. Big companies, exemplified by Siemens in its bid with GEC for Plessey, are beginning to look for European arrangements that can compete world-wide. The Germans join the UK in working to prevent protectionism - agriculture notably excepted - in the external trade policies of the Community. Germans readily agree when I say that, if there was a Fortress Europe, the prisoners

/would

would be the people inside. We should make the most of this ~~British/German common cause~~. On some other matters, our paths diverge, and internal inconsistency is a feature of Federal Government attitudes. On the one hand it still protects comparative disadvantage in the form of industry that is outdated or in border regions. Many German subsidies are questionable under Community law but are not about to be reduced. On the other hand, the Government makes leaps in the dark, for instance on tax harmonisation or moves towards a European Central Bank, despite the reservations of its own Central Bank and the business community. And it goes along with ideas for a "social dimension" despite the addition to the already high costs of German industry that this could bring. The Germans will be especially susceptible to French blandishments on many issues during the French Presidency in 1989.

The Economy

9. The Federal economy probably achieved 3.5% growth in 1988 and may achieve 2.5% in 1989. The 1988 figure is much better than expected. The low forecasts a year ago were caused inter alia by pessimism following Black Monday in October 1987, which in fact left little mark on the economy. World trade growth also helped improve performance. Unemployment remained high at 8.9%, though slightly lower than in 1987; in 1989 it is expected to be a little lower again. Inflation in 1988 was 1.2% and may reach 2.5% in 1989 because of tax increases. The positive trade balance in 1988 was a record at around DM 125 billion and may exceed that in 1989. This and domestic investment appear to have been the major components of growth in 1988. Private consumption was much less important and in 1989, with consumer taxes going up, it may contribute even less.

Trade

10. The Federal Republic's trade surplus with the USA fell by over a third in 1988 while with the EC it rose by almost the same proportion. The Mark's average rate against the pound in 1988 was DM 3.12, compared to DM 2.94 in 1987. With this exchange rate and the British boom, German exports to the UK in 1988 rose by 12.6%, double the increase in exports overall; and the bilateral surplus soared from DM 16 billion to DM 21 billion. German imports from the UK rose by 3%; non-oil imports by 6.6%. Our share of German imports dipped slightly to 7% but our share of non-oil imports held its own. (All 1988 figures are estimates based on German statistics.) Our export drive "Focus Germany" has three months to run. There are many signs of greater interest among British firms. But the trade figures do not yet show real impact. Meanwhile reorganisation of HMG's export promotion services in Germany is proceeding well. We are alert for deregulation related to 1992 which may open opportunities for British firms.

/British/German relations

British/German Relations

11. The British view that the "Quiet Alliance" between the United Kingdom and the Federal Republic should receive more publicity has been accepted by the Federal Government. Britain's importance to Germany in defence, trade and as a protecting power in Berlin is recognised by Ministers and officials. So are our economic renaissance and our weight in Washington and Moscow. You will be here in late January. So will the Defence Secretary. Straight after that the German Defence Minister will be in Britain. In February comes the first Anglo-German Summit since 1986. These are opportunities for publicity to remind the German public that Anglo-German relations matter to them. We need to accentuate the positive in our discussions with the Germans and in publicity about relations, so as to enhance our influence over an important partner.

Forward Look

12. 1989 will be another year of anniversaries in Germany. The 40th of the FRG in May will cause justified satisfaction. The 50th of the start of the war will cause few events but many uncomfortable feelings. The 100th of Hitler's birth may bring a number of articles but only one or two loony far right manifestations. The 200th of the French Revolution will cause a further burst of rhetoric in celebration of Franco-German reconciliation, a popular thing in here. Two important events are likely towards mid-year: a NATO summit and Gorbachev's visit to the FRG. There are plans for a Joint Declaration by Gorbachev and Kohl: we should urge that agreed Western positions be upheld. A key question will be whether the Federal Government will go for a decision by NATO to modernise short-range nuclear forces. Kohl wants to. Genscher favours delay. It would be very controversial. As of now the signs are unclear but not unhelpful. Domestic politics will heat up as the year goes on, and Federal elections in December 1990 come into sight. The need for visibly strong leadership will become greater but I am not optimistic that Kohl, despite many strong qualities, can produce this particular one. The present coalition parties are expected to go together into the 1990 elections, and the best bet at this range is that they should win. So the prospect is of the pro-NATO, pro-American government continuing - with the likelihood of the same Foreign Minister, and thus of strains and surprises as he tries to accelerate East-West progress.

13. I enclose this post's objectives for 1989 and a review of performance on the 1988 objectives. I am sending copies of this despatch without enclosures to HM Representatives in NATO and EC countries; Moscow and East Berlin; the Commandant in Berlin and Consulates-General in Germany; and the Commanders-in-Chief's Committee (Germany).

I am, Sir,
Yours faithfully

C. L. G. Mallaby

LUNCH HOSTED BY THE PRESIDENT OF THE BUNDESBANK, KARL OTTO
PÖHL

1. Guests will be:

The Prime Minister
Sir C L G Mallaby KCMG
Mr Charles Powell
Dr Alfred Herrhausen (Deutsche Bank)
Dr Wolfgang Röllner (Dresdner Bank)
Dr Walter Seipp (Commerz Bank)
Dr Leonard Gleske (Bundesbank)

Personality Notes are attached.

2. Herr Pöhl does not intend to make any formal remarks and the Prime Minister need not do so herself. In addition to anything the Treasury may suggest on the subject of monetary cooperation (on which they are writing separately) the Prime Minister could usefully engage the other guests in conversation on:

Withholding tax
Indirect tax approximation
Liberalisation of financial services

These are covered in the steering brief.

DR ALFRED HERRHAUSEN

Chief Executive of the Deutsche Bank AG since May 1985, at first jointly with Dr Wilhelm Christians until the latter's retirement in April 1988.

Born 1930 in Essen. Studied economics in Cologne. Joined the VEW electricity supply utility where he rose rapidly becoming a member of the Board in 1967. Joined the Deutsche Bank in 1970 with responsibilities for export finance, the domestic economy and regional responsibility for North America and South Africa. Throughout a reputation as a whizz kid. In 1974 he participated in a Committee established by the Federal Finance Ministry to report on the structure of German banking, which resulted in new banking laws. He was one of the three "moderators" who in 1983 proposed a comprehensive plan for restructuring the German steel industry. He still regrets that these plans were not seen through. Represented German financiers at a EUREKA conference in London in October 1985. Has built up a close personal relationship with Chancellor Kohl and acts as one of his advisers on industrial affairs.

Dr Herrhausen has proved an energetic Chief Executive for the bank since the retirement of the more conservative Dr Christians. Always at the forefront of planning the bank's international strategy, particularly its approach to the Single Market, Dr Herrhausen has been involved in a number of international acquisitions for the bank over the last few months.

In addition, he has begun to widen the range of the bank's domestic financial operations by starting an insurance company and developing its property investment and mortgage services. Dr Herrhausen recently refused an offer to join the board of the Krupp industrial conglomerate saying that his responsibilities at Deutsche Bank were too onerous.

DR WOLFGANG RÖLLER

Chairman of the Board, Dresdner Bank. President of the Federation of German Banks since March 1987.

Born 1929. Graduated in economics in Berlin and Frankfurt in 1951 after which he joined Dresdner Bank (second largest in Germany). Left bank to do doctorate (economics) but returned in 1955. Career centred on international investment and portfolio management. In 1973 appointed to the Board. Appointed Chairman in 1985. On the Supervisory Boards of other banks and numerous German firms. On Board of Governors of Frankfurt Stock Exchange.

Although one of the top three largest German banks, under Dr Röller's chairmanship the Dresdner has been slow to adapt its strategies to the changing domestic financial market and to the approach of the Single Market. Last year, however, Dr Röller announced the bank's intention to expand its international activities. The bank has also moved to develop its property investment and mortgage banking operations.

Dr Röller is married with three sons.

DR WALTER SEIPP

Chairman of the Managing Board of the Commerz Bank since May 1981.

Born 1925 in Hessen. Studied law at Frankfurt before joining the Deutsche Bank in 1951. After a spell in New York, he moved to the Westdeutsche Landesbank in 1974 where he became Vice Chairman in 1978 and was closely associated with its rapid expansion overseas. He was recruited by the Commerzbank in 1981 to take over the top job after the bank had experienced two poor years, partly as a result of the economic downturn and partly through management difficulties. Seipp reorganised the Bank's management structure and it is now one of the top five German banks, though the bank announced lower profits last year.

Dr Seipp is openly committed to developing the bank's European and international strategy in preparation for the Single Market. Commerzbank has expressed an interest in cooperating with banks in France and Italy and it already has a cross-holding with the Banco Hispano Americano in Spain. In addition, the bank has acquired holdings in banks in Brazil and Korea.

Dr Seipp's hobbies are golf and fishing. Married with two sons. A distinguished man, almost a father-figure in the banking community. Fluent English.

GLEESKE, DR LEONARD

Member of the Board of the Bundesbank.

Born 1921 Bromberg. Studied economics at Hanover and Heidelberg and has been in banking since 1951. Director for Currency and Financial Questions at the EEC Commission, Brussels from 1958-64 when he was appointed President of the Landeszentralbank at Bremen. In 1969 became the second German representative on the Board of the BIS. Took up his current appointment in 1976. Made an Honorary Professor of Mannheim University in 1986. Has published a book and a number of articles on economic themes.

Speaks English, but more hesitantly than most West German bankers.

SIR CHRISTOPHER (LESLIE GEORGE) MALLABY KCMG

HM Ambassador at Bonn.

Sir Christopher Mallaby was born at Camberley in Surrey on 7 July 1936 and educated at Eton and King's College, Cambridge. He did National Service in the Army in 1955 and 1956, and spent some of that time in Germany (BAOR).

He entered the Foreign Service in 1959 and was assigned to full-time Russian language study for eight months. He then spent three months at the UK Mission to United Nations, New York, as a Reporter for the 1960 General Assembly. In 1961 he served a year in Moscow as Private Secretary to HM Ambassador before moving to general Chancery duties. In 1963 he worked in Central Department of the Foreign Office as Second Secretary and two years later was assigned to an economics course at the Treasury Centre for Administrative Studies. From 1966 to 1969 he was First Secretary (Senat Liaison Officer) at BMG Berlin, then Desk Officer for the Soviet Union in East European and Soviet Department in the FCO. In mid 1971, after a six weeks course at the Harvard Business School, he was appointed Deputy Director of the British Trade Development Office, New York. In 1975, he served as Counsellor and Head of Chancery in Moscow. From 1977 to 1982 he served in the FCO, successively as Head of Arms Control and Disarmament Department, East European and Soviet Department, and finally Planning Staff. He was then appointed Minister at Bonn and from April 1985 until February 1988 was on loan to the Cabinet Office, on promotion to Deputy Secretary. He took up his current appointment in Bonn on 20 March 1988.

Sir Christopher Mallaby was made a CMG in 1982 and a KCMG in the 1988 New Year Honours.

In 1961 he married Pascale (Francoise) Thierry-Mieg (born Le Havre 1939). She became a UK Citizen the following year. They have a son, born in 1964, who is a journalist, and three daughters, born in 1967, 1971 and 1972. Their personal interests include collecting pictures, reading and travel; Sir Christopher is a trout fisherman.

NOTES FOR THE FRANKFURT WALKABOUT

THE CATHEDRAL

The early parts of the building date from the 13th century. Its main claim to fame goes back to the custom instituted in the 14th century of holding the election there of the Holy Roman Emperor (which had taken place elsewhere in the City since 1152). In 1867 the cathedral burned down and was then rebuilt in 1880. In 1943 it was once more partly destroyed by fire. Restoration was completed in 1953.

The 95 metre high west tower with a helmet-shaped dome is the most impressive part of the building. In the interior two triptychs, one of St Mary and the other a Descent from the Cross by the school of Anthony van Dyck are particularly worth seeing.

THE GOETHEHAUS

Johann Wolfgang von Goethe was born in the Goethehaus (which consists of two neighbouring houses) on 28 August 1749. The two houses were acquired by his grandmother Cornelia Goethe; in 1754 they were joined together and remodelled. Goethe lived almost without a break in the house until 1775 (when he left to take up a position in the Court at Weimar).

The Goethehaus was almost completely destroyed in 1944. It was rebuilt in the 1950s exactly as the original. The old furniture and fittings, which had escaped damage, were reinstated. Apart from the elegant living rooms and Goethe's original collection of pictures, there is an attractive 18th century kitchen with a brick cooking-stove, large copper pans and valuable table-ware. In an annex is the Goethe Museum, with interesting documents from the poet's life, a library and an extensive collection of manuscripts.

THE PAULSKIRCHE

Construction of the church began at the end of the 18th century, but, owing to a dispute about the plans, it was only completed in 1833. The classical oval hall with galleries supported by Ionic columns makes it an unusual example of church architecture.

The Paulskirche has a particular significance in German political history as the site of the first meeting of the German Parliament in 1848. The German National Assembly also met there in 1849. In 1948 the church, which was badly damaged in the war, was rebuilt. Today the building is used exclusively for civic ceremonies such as the awarding of the Goethe Prize and the Peace Prize of the German Book Traders' Association.

BRÜCK, WOLFRAM

Lord Mayor of Frankfurt since August 1986.

Born 1939 in Cologne. Studied law at Cologne and Freiburg universities. In 1967 he joined the town administration of Koblenz. In 1970 he joined the Bundestag Sekretariat in Bonn and became Secretary of the Budget Committee. In 1974 he was appointed by the Bundestag to serve on the special Committee of Enquiry into the Guillaume Affair. In 1977 he was elected to the Frankfurt City Council and was made responsible for personnel and legal questions, a position which he held until his election as Lord Mayor.

He joined the CDU in 1957. From 1970-74 he was Leader of the CDU party organisation in Andernach and a member of the Koblenz Regional Council. In 1978 he became Chairman of the Frankfurt CDU, a position which he also retained until 1986.

He is very much the political protégé of Dr Wallmann (qv) with whom he worked in Bonn before accompanying him to Frankfurt in 1977. His succession, when Dr Wallmann was promoted back to Bonn, was predictable although he has remained relatively little known outside Frankfurt and has none of his predecessor's magnetism or stature. It was generally expected that he would have a difficult time establishing his authority and he could face problems at the communal election this year.

Married with one son. He and his wife both speak quite good English.

WALLMANN, DR WALTER

Minister-President of Hesse since April 1987. A Deputy Chairman of the Federal CDU.

Born 1932 in Uelzen, son of a schoolmaster. Studied law at Marburg University. Practised law in Kassel, Rotenburg and Giessen. Joined CDU in 1960. 1966-72 Member of the Hessen Landtag becoming deputy party leader. Represented Marburg in the Bundestag from 1972-77 and first came to public notice as Chairman of the "Guillaume Committee" investigating the activities of the notorious spy Günther Guillaume who had been employed in the Federal Chancellery. By the end of 1976 he was the Parliamentary Manager of the CDU/CSU group in the Bundestag.

Dr Wallmann was persuaded (initially against his wishes) to campaign in the 1977 municipal elections in Hessen and an unexpected majority in Frankfurt itself left him as Lord Mayor. He displayed toughness in dealing with politically motivated demonstrations in Frankfurt but otherwise his style of charm and civility was credited with much of the recent improvement in urban aspects of Frankfurt. His reputation within the CDU suffered from setback in 1983 Land elections, but he retained the CDU majority in Frankfurt in the 1985 communal elections against the trend in the rest of Hesse. Elected a Deputy Chairman of the Federal CDU in 1985 not least because of this success. Brought to Bonn by Kohl in June 1986 to head a new Environment Ministry after the Chernobyl disaster. Led the CDU to victory in the Hesse Landtag elections in April 1987.

Married, with one son. Protestant. Close to Chancellor Kohl and identified with right-wing of CDU. Affable and approachable. Friendly towards the UK and paid a very successful visit here on Category I terms in July 1985. Widely read and fond of classical music (plays the piano). Both he and his wife speak English.

HAUFF, DR VOLKER

A Deputy Chairman of the SPD Parliamentary Party responsible for Environmental policy.

Born 1940. Studied economics and sociology at the Free University of Berlin from 1959-66 and in the United States. Trained in data processing in Stuttgart, subsequently becoming manager of an institute for data processing and town planning in Bad Godesberg (Datum EV). Worked for IBM Deutschland (Stuttgart) 1971-72. A member of I G Metall (the metalworkers' trade union).

A member of the SPD since 1959, he was elected to the Bundestag in 1969 and was one of three younger left wing SPD Deputies who were given office after the 1972 elections. Parliamentary State Secretary for Research and Technology 1972-77 (and simultaneously for Posts and Telecommunications 1972-73). Promoted to Minister for Research and Technology and member of the Cabinet in February 1978. Moved to Transport after the 1980 Federal Elections. Elected to his present position after the SPD's defeat in the 1983 Federal Election.

In opposition, Hauff's fortunes have been mixed. He stood against Wallmann as Mayor of Frankfurt in 1985 and increased the SPD's vote, but failed to oust the incumbent. In 1986, in a volte-face from the policy he had pursued as a Minister, he chaired the party commission which drafted the policy paper calling for the closure of the FRG's nuclear power stations within 10 years, and adopted by that year's party conference. After showing signs of frustration with life on the Bundestag opposition benches, he has now transferred his residence to Frankfurt preparatory to standing again as the SPD Oberbürgermeister candidate in the March 1989 communal election where he stands a good chance of success.

Married with two children. Speaks good English. Sense of humour. Visited the UK in 1978 and 1980.

FRANKFURT OPERA HOUSE AND MUSEUM ORCHESTRA

Conductor: Gary Bertini

PROGRAMME

Benjamin Britten
(1913-1976)

Four Sea Interludes from "Peter
Grimes" op. 33a

Dawn - Lento e tranquillo

Sunday Morning - Allegro

spirituoso e

rubato

Moonlight - Andante comodo e

rubato

Storm - Presto con fuoco

Wolfgang Amadeus Mozart
(1756-1791)

Concerto for violin and orchestra
No.5, A major, Köchel No.219

Allegro aperto

Adagio

Rondo: Tempo di menuetto - Allegro

Soloist: Christian Tetzlaff

Richard Strauss
(1864-1949)

Also sprach Zarathustra

Symphonic poem for large orchestra
op.30,

based on Friedrich Nietzsche

EDUCATIONAL EXCHANGES BETWEEN THE FEDERAL REPUBLIC OF
GERMANY AND THE UNITED KINGDOM

We agreed in November 1985 that positive action should be taken to build up existing programmes of educational exchange, which have a vital role to play in developing international understanding between young people. Our authorities concerned with exchange have together identified a number of new ways in which a greater volume of more fruitful pupil contacts might be developed. We consider that it is fundamental to this purpose that steps should be taken to secure the interest and commitment of a greater number of senior education staff, both administrators and teachers. And the foreign language assistant programme is capable of development to make an important contribution to the creation of links between schools. We have agreed upon a programme of practical action aimed at the development of exchanges along these lines. We welcome the progress so far made and shall be charging the relevant bodies to proceed with the proposed programme, which we shall ensure receives appropriate financial support.

GOLDEN BOOK CEREMONY: FRANKFURT, 20 FEBRUARY

PRIME MINISTER'S SPEAKING NOTE

- It is an honour to be invited to Frankfurt, and to sign your Golden Book.

- My sightseeing tour impressed on me once again the extent of our shared European values. The Paulskirche is the home of the first German Parliament: a symbol of our shared democratic values.

- Frankfurt like London is a major European financial centre. It is fitting that from here the Rothschild family became a major force in London banking.

- The Frankfurt/UK free trade agreement of 1832 (preserved in your City's archives) today has a special symbolism. We are working together for a Single European Market which is open, liberal and deregulated.

- I echo the words of the Englishman John Moore visiting Frankfurt in 1806: "the kind looks of the Frankfurt citizens" were much in evidence this afternoon.

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|| Mordeus =
low flying ||

Charles

The points on low flying are

- ① more low flying over UK than over FRG, in total
- ② more American low flying over UK than over FRG
- ③ nearly $\frac{1}{2}$ low flying of RAF (Germany) is not over Germany.

H

This year we celebrate the 40th Anniversary of NATO.

It has assured peace with freedom for the last 40 years.

1

A strong and united NATO will remain just as vital in future.

4 Political solidarity and military strength provide the basis for dialogue, for East/West cooperation and for arms control.

2

Within these common goals, we reaffirm the Declaration of the NATO Summit of 3 March 1988 in Brussels. There we joined together in confirming that our strategy of deterrence depends upon an appropriate mix of effective nuclear and conventional forces which will be kept up to date ^{where} as necessary.

We welcome the forthcoming NATO Summit at the end of May in Brussels. We will do everything we can to make this a success for the Alliance and for us all. We have therefore agreed to work closely together to prepare the Summit and to meet again at the end of April for a personal talk. I have invited Mrs. Thatcher to my home ^{with} for this. J. Adair.

3

Both regard a third zero

CONFIDENTIAL

PRIME MINISTER

cc Mr. Ingham

LUNCH WITH HERR POEHL

You are to lunch with Herr Poehl in Frankfurt on Monday. The others present will be:

Dr. Herrhausen (Deutsch Bank)
Dr. Röllner (Dresdner Bank)
Dr. Seipp (Commerz Bank)
Herr Gleske (Bundesbank Directorate)

The main subject to raise is the work of the Delors Committee. You will also want to discuss broader economic and monetary issues. He will raise British membership of the ERM and our economic prospects (in particular the outlook for inflation).

Delors Committee

First a health warning: the Governor is extremely exercised that you should not admit that you have seen the Delors Committee's papers (please see his letter in the folder). He believes his personal position would be undermined were you to do so. He would not want you to say more to Poehl than that he had discussed the general issues with you.

Poehl's attitude to the work of the Delors Committee is cynical: he thinks none of it is actually going to happen anyway, so why fuss so much about what the report says? This is a dangerous attitude. Once these things are set down on paper in the European Community, they assume a life of their own. If the Central Bankers, who ought to know better, fail to point out in the report of the Delors Committee the very considerable difficulties and objections to EMU they will find it much harder to restore the position once it falls into the hands of the politicians (when you will be the only one they can rely on).

CONFIDENTIAL

There is also evidence of some quite dangerous slippage in Poehl's views on the substance reflected in the Embassy's telegram in the folder. He now seems ready to envisage sharing of power over monetary policy in a monetary union, which contradicts the view in his earlier article.

You might ask Poehl why the cogent objections which he set out in his original article (in folder) no longer seem to carry so much weight. In particular does he really envisage the massive shifts of economic and political sovereignty involved in EMU taking place? Is he really prepared to put the stability of the Deutschmark at risk? If not, why not say so plainly now.

You might also make the point that the motives of many of those who support full EMU are basically dirigiste and socialist, and surely hard to reconcile with the free market approach in which Britain and Germany believe.

The right outcome from the Delors Committee in your view would be a report which:

- describes in agnostic language the implications of moving to full EMU. If the true implications are described, the Governments will not be able to evade them;
- sets out the practical steps which can be taken now, stopping short of Treaty amendment.

You will want to get a sense of whether he would be likely to rally to a minority report of the sort suggested above, without actually asking him outright.

General Economic and Monetary Matters

You will want to raise your general concern about Germany's structural surplus and what can be done to reduce it. (There is a note by the Chancellor in the folder.) You could press him in particular on the scope for more deregulation and

liberalisation in the German economy, which would help domestic demand. You will not of course want to propose fiscal or monetary stimulation which would be counter-productive (and alienate Poehl).

C.D.P.

C.D. POWELL

17 February 1989

PM2ALS

UNCLASSIFIED covering CONFIDENTIAL

cc FC



Foreign and Commonwealth Office

London SW1A 2AH

17 February 1989

CB 18/7

Dear Brian,

Paper on Anglo-German Relations

At the request of MISC 76 I enclose a background paper on Anglo-German relations. It may be of interest to Departments involved in the Anglo-German Summit. The distribution of the paper elsewhere will be coordinated by the Cabinet Office.

I am copying this letter with enclosure to Charles Powell (No 10), Philip Mawer (Home Office), Shirley Staff (MAFF) and Philip Smith (DTI).

Yours ever,

Richard Gozney
(R H T Gozney)
Private Secretary

Brian Hawtin Esq
Ministry of Defence

UNCLASSIFIED covering CONFIDENTIAL

RELATIONS BETWEEN THE UNITED KINGDOM AND THE FEDERAL
REPUBLIC OF GERMANY

Introduction

1. The next Anglo-German Summit, the first since September 1986, will take place on 20-21 February 1989. Both sides are looking to it to provide a significant boost to their relationship. This paper takes stock of the relationship in the run-up to the Summit: it attempts to provide a brief overview of the issues which form the substance of the relationship and to suggest possibilities for improving its machinery.

UK interests in the FRG

2. The FRG (with France) is one of the UK's two most important European allies. In military terms it is clearly the closest one. It occupies a vital strategic position; its contribution to the Allied defence effort on the central front makes it a key-stone in the European pillar. It is the world's third largest economy and our second trading partner. As such, and as a key partner in the EC, the FRG has a major influence over the political, economic and strategic environment in which the UK has to operate.

The Internal Political Context

3. The ruling CDU/FDP coalition suffered a major setback when in January the Berlin elections deprived the CDU of a majority in the City's House of Representatives, while the FDP lost all their seats and the far-right Republikaner party gained representation for the first time. This has raised major concern among the coalition parties in Bonn about their prospects for the federal elections expected in late 1990. As the elections approach policy issues are likely to be seen in Bonn increasingly against this background.

The Issues

4. The importance of the FRG to UK interests is illustrated by the range and importance of the issues on which we seek

to coordinate our views with, and influence, the Federal Government. They include:

a) Strategic Issues

The Alliance's new Comprehensive Concept. Short range nuclear forces (SNF). Chemical Weapons (CW), conventional stability talks and confidence-building measures.

b) Defence Cooperation

Dealing with public resistance in the FRG to low-flying, military exercises, Sennelager training area, etc. Ensuring that European defence collaboration develops in ways which do not undermine established NATO structures. Improving and publicly highlighting the existing defence relationship through the Joint Study Group established by Defence Ministers in October 1988.

c) Defence procurement and Sales

Tornado sales to Jordan. Out-of-area sales of collaborative products, particularly the credit arrangements. Purchase of UK equipment. Current major collaborative programmes involving both parties include:

- (a) European Fighter Aircraft (EFA) and its engine.
- (b) Multiple Launch Rocket System (MLRS) I and II.
- (c) Advanced Short Range Air-to-Air Missile (ASRAAM).
- (d) Third Generation Anti-Tank Weapon (TRIGAT).
- (e) Counter Battery Radar (COBRA).
- (f) NATO Frigate (NFR) 90 and its associated weapon systems.

d) East/West

Attitudes to the Soviet Union and to Gorbachev's reforms: their scope, chances of success and irreversibility. Western unity and firmness of purpose in responding to changing Soviet foreign and defence policies keeping Western public opinion on the right

lines. (The Germans see their position in East/West relations as special, conditioned by division, and their approach to the Gorbachev challenge has an important bearing on the overall Alliance response.) Use and importance of the CSCE process: Western attitude to Eastern human rights abuses. Economic/commercial relations with the Soviet Union and Eastern Europe (COCOM, debt, credit, membership of GATT/IMF). Encouraging individual East European countries toward reform.

e) Other regional issues

Leanings within the FDP towards further measures against South Africa. Relations with Syria, Libya, Iran, Argentina. Policy on Arab/Israel.

f) Economic/Trade

Reduction of FRG's worldwide trade surplus and imbalance in bilateral trade. Managing move from export-led to domestic-led growth. The key role of the DM in world financial/monetary management. Promoting an open multilateral trading system and progress in the GATT Uruguay Round, including agriculture. Encouraging FRG to press on with measures to deregulate, eg telecommunications.

g) EC

Working together; to complete the Single Market without stifling enterprise; and to avoid "Fortress Europe". Pressing the FRG for liberalisation eg of transport, in services etc and for further reform of the CAP. Urging realism and a pragmatic approach on the "social dimension", monetary cooperation, tax harmonisation, Kohl's ideas for a "Euro-FBI" etc.

h) Terrorism

Trying to ensure firm stand on policy of "no deals", and firm line on state supported terrorism (Syria/Libya) on

which the Germans are distinctly wobbly. Practical counter-terrorist cooperation to protect UK targets in FRG, especially BFG, is however good (and very important).

i) Environment

A better understanding of UK policies, particularly on European issues such as power station/vehicle emissions, North Sea pollution, Ozone Layer, etc.

5. It would be wrong to imply that we are in disagreement with the FRG over wide areas of Government business. Our analysis of most problems is very similar, and our relationship is founded on a multiplicity of common interests and common policies. For example, the Germans are much closer to us in their views on free trade than, for example, the Southern members of the EC. (It has to be said, though, that there are German lapses on free trade: eg on agriculture, air-services, shipping and land transport.) Likewise, the FRG's record on East/West and defence issues is fundamentally one of firm support for allied positions (eg INF deployment) while her defence establishment have long experience of operating successfully alongside their UK counterparts.

The Machinery

6. There is no substitute for having convincing policies and arguing them with conviction. But they will not necessarily be enough to ensure German support. German interests may differ from ours eg over agriculture, and in such cases we need to ensure that UK interests are properly appreciated in Germany. The Germans will also be subject to competing pressures from other countries, most notably France. The extent of French influence was brought home at the Milan European Council in May 1985: although the British position was later vindicated in substance, we were unable to prevail at the meeting itself over a rival position which had been extensively pre-cooked between France and Germany.

7. Following Milan, officials were tasked with producing and following up recommendations on relations between the UK, France and Germany. It concluded that the "Franco-German axis" served needs peculiar to those two countries and that there was no point - nor any real need - for the UK to try to join it, or ape it. Instead we should pay more attention across the range of Government activity to strengthening our relationship with both countries (and its machinery) so as to ensure that British arguments and interests were fully weighed in the balance in Bonn and Paris.

8. The machinery of our relationship can be divided into the parts over which Government has control - high level and official contacts - and those where its control is marginal - the broad mass of contacts between the two countries.

A. GOVERNMENT CONTACTS

High-level contacts

9. The first Anglo-German Summit for 2½ years (one was postponed in the interim) will be held in Frankfurt on 20-21 February 1989. Regular Summits bring benefits to a bilateral relationship through the enhancement of its public profile. They also help Ministers establish closer personal relations with their opposite numbers. We aim to hold the next Summit in 1990. The Prime Minister had productive talks with Chancellor Kohl at Chequers in July and at the Rhodes European Council in December 1988. He has invited her to pay an informal visit to his home in the spring of 1989. He has suggested the institution of regular telephone conversations between himself and the Prime Minister to discuss both specific and general topics. 1989 should therefore be a good opportunity both to do business at the highest political level and to put across publicly the warmth and depth behind the "Stille Allianz".

10. The coalition structure of Government in the FRG requires a more complex approach to Ministerial contacts. Decision-making can be slow and argumentative. It is harder to get an authoritative answer from a single interlocutor than in London. Pressure usually needs to be put on several Ministers. Genscher can be particularly wayward, and has a unique political position in the FRG. His influence in establishing the tone of bilateral relations cannot be over-estimated. We should make every attempt to bind him more formally into our bilateral relationship. Ultimately even Genscher will not get too far out on a limb: conversely he cannot be entirely by-passed. For similar reasons, contacts with Ministers from the FDP and CSU can be of particular importance given their ability to assert themselves on their own portfolio. Examples are Haussmann (FDP, Economy), Zimmermann (CSU, Interior) and Klein (CSU, Aid). Some aiming-off may also be necessary in contacts with junior Ministers where the Cabinet Minister comes from a party different from their own.

11. There is an intensive programme of Ministerial contacts for 1989 (see Annex A).

12. Speeches and seminars can also provide Ministers with a useful platform, and facilities for holding and publicising such events are unusually good in the FRG. The Foreign and Defence Secretaries attended the Wehrkunde Conference in Munich on 28 January - a good opportunity to put across our message on strategic issues to a wider German audience. The Trade and Industry Secretary will be addressing an influential audience of businessmen at a meeting in Düsseldorf. Celebrations marking the 40th Anniversary of the Deutsch-Englische Gesellschaft will also provide an excellent platform for the Home Secretary to make a major speech in the FRG. Schäuble (Federal Chancellery) will open a major Anglo-German seminar in London - and make a round of calls.

13. 1989 sees the 40th Anniversary of the founding of the Federal Republic. Chatham House have invited Herr Genscher to address a seminar on this theme in June. This visit, if it comes off, would be a very welcome sign of the German Government's commitment to enhancing the public image of Anglo-German relations.

Action

We should:

- a) Make maximum public use of the Summit in February. Departments should consider what "good news" items can be flagged up for press presentation. (Home Office, MAFF)
- b) Encourage Bonn to go ahead with the high-level visits to the UK and vice versa planned for 1989. (FCO)
- c) Develop to the extent possible direct Ministerial contact, in all fields, with visits by British Ministers (preferably overnight) to the FRG and return visits to the UK. (All departments)

Official contacts

14. The Permanent Under Secretary at the FCO recently met his German opposite number for talks in Bonn. Other FCO contacts at senior official level take place on a regular basis, covering in particular Politico-Military issues (next round: April or May 1989), EC issues, Regional issues, Planning talks and the work of the Anglo-German Economic Committee, which will meet on 12-13 April 1989.

15. The 40th Round of Anglo-German Information Talks will take place in Celle on 11-12 May. Dr John Fairclough, Chief Scientific Adviser, Cabinet Office, has paid two recent official visits to the FRG in September and November 1988. Annual talks take place on environmental questions; the latest round was held in London on 8 February. In the defence field there are regular meetings between Defence and Single Service Staff and at Vice-Chief levels. The Anglo-German Coordinating Group (AGCG) led on the UK side by the Minister in the Embassy in Bonn, meets annually to

discuss military training and environmental issues.

Action

- a) Intensify contacts and discussions at senior official level. (All Departments)
- b) Encourage British officials, where interests are close, to get to know their German counterparts personally. (All Departments)

Contacts on EC Matters

16. Strengthening bilateral cooperation will have major benefits for our interests in the Community, where alliances are crucial in pushing through or preventing proposals. Our common interests with the FRG in many areas of EC business are becoming more pronounced as the integration of Spain and Portugal increases the Southern orientation of the Community.

Action

- a) Seek to make common cause with the FRG at the earliest stage at official level both in Brussels and in wider bilateral contacts. (All Departments)
- b) In our Ministerial contacts, develop as a constant theme the degree of common interests between the UK and FRG on wide areas of EC business, and the mutual benefits of close cooperation. (All Departments)

Official Exchanges

17. Schemes for the exchange of officials are administered by the Cabinet Office and the FCO. The Cabinet Office scheme, based on a Memorandum of Understanding of 1979, provides for the exchange of officials from Whitehall Departments with German officials. An exchange between the FCO and the Auswaertiges Amt has been in operation for two years.

Action

- a) Continue to give wide publicity to the Cabinet Office exchange scheme and encourage departments to release good people to take up the places. (All Departments)
- b) Keep up the FCO/Auswaertiges Amt exchanges. (FCO)

- c) Consider scope for increasing contacts and exchanges with Länder officials - Baden-Wurttemberg have expressed interest in this. (All Departments)

Royal Visits

18. The Prince and Princess of Wales paid a very successful visit to Berlin and the FRG in November 1987. The Royal Visits Committee is considering a bid for a 2-3 day visit to Munich and other centres in the FRG by Princess Margaret in 1989.

Action

Derive maximum advantage (and publicity) from Royal Visits for the bilateral relationship. (FCO, MOD, DTI)

British Forces Germany (BFG)

19. 180,000 UK servicemen, dependents and civilians are deployed with BFG in the FRG. There is close cooperation with the FRG authorities at both Federal and Land level. BFG seek close involvement in the local communities around their bases, but there is scope for improving the German public's perception of BFG and their role. In common with the Bundeswehr and the other armed forces stationed or exercising in the FRG, BFG are facing increasing public opposition to military exercises and training (especially low flying). The Federal MOD has not always dealt with the pressure helpfully or robustly. Apart from low flying the most difficult single bilateral issue is likely to remain the building of an urban combat training installation at Sennelager.

20. The Joint Study Group set up in October 1988 between the MOD and the Federal Ministry of Defence may provide a good vehicle for addressing some of these problems. A first batch of recommendations were announced at the end of January.

Action

- a) Continue to seek greater public recognition of the role of BFG, in particular by agreeing and implementing the

- recommendation of the Joint Study Group. (FCO, MOD)
- b) While showing understanding for legitimate German concerns about public opinion over training, press for the Federal Government's public support for that amount of training and low flying which is essential to operational effectiveness. (FCO, MOD)

B. NON-GOVERNMENTAL CONTACTS

Media

21. The public image of the Anglo-German Relationship has improved in recent months, but the media remain ever willing to believe the worst and there remains a risk of setbacks. There is agreement between the two Governments that the relationship needs to be given greater prominence. Good press coverage of the Summit would help to set the course for the following months. The German Correspondents Group has been a valuable means of briefing selected members of the German Press in London. The annual prizes for journalism awarded by the Anglo-German Foundation have also encouraged serious reporting on bilateral relations.

Action

- a) Continue to incorporate good media opportunities into the planning of Ministerial visits. (FCO)
- b) Continue to cultivate the Correspondents Group in London and encourage Ministers to address it. Increase public awareness of the annual prizes for journalism awarded by the Anglo-German Foundation. (FCO with other Whitehall Departments)

Bilateral Trade Relations

22. UK non-oil exports to the FRG remain at about 7% market share, but FRG exports to the UK continue to increase rapidly and the imbalance in favour of the FRG is now about £6 billion. The high standards required by German purchasers of both capital and consumer goods, and continuing restrictive practices in the FRG, discourage many UK firms from tackling the German market. In the context of

1992 we need to publicise the high quality of many UK goods, help British companies overcome their nervousness of the FRG market, and press the Germans to encourage enterprise and competition rather than regulation.

Action

- a) Encourage the Federal Government to press on with measures to deregulate eg in the telecommunications sector. (FCO, DTI)
- b) Continue to encourage British companies to take a less short-term approach to the German Market. (FCO, DTI)

Koenigswinter

23. The Koenigswinter Conferences are the pre-eminent non-governmental Anglo-German discussion forum, and consistently attract participants of the highest calibre. The 1989 Conference will focus principally on EC issues, and in particular the Single Market. Mrs Chalker will attend. The success of Koenigswinter led to the creation of an annual Young Koenigswinter Conference in Berlin (now four years old) and the Young Wilton Conference, held annually in Wiston House (now three years old). Concentrating on the 25-32 age-group, these are providing valuable seed-corn for the future.

Action

Give as much encouragement as possible to these conferences through:

- (a) A message of support to the Koenigswinter conference from the Prime Minister. (FCO)
- (b) Ensuring that the FCO budget for Koenigswinter is at least maintained at its present level. (FCO)
- (c) Giving the highest profile possible to the 40th anniversary conference in the UK in 1990. (FCO)

Anglo-German Foundation

24. The Anglo-German Foundation helps to promote Anglo-German contacts and joint studies. We have recently increased UK funding for the Foundation from £125,000 per

year to £175,000. German government funding (hitherto £250,000 per year) is, however, at risk. The Bundestag budget committee have recently declined to guarantee funding to the Foundation for more than one year (contrary to their normal practice of 5 year votes) and have made clear that they expect to see adjustments to the AGF's priorities on spending. They seek in particular an enhanced AGF profile in Germany, more funding for Anglo-German contacts, and less for pure research. These are aims which the FCO broadly supports.

Action

- a) Encourage AGF to make the necessary changes (primarily in presentation). (FCO)
- b) Seek recognition of the AGF at the Summit in February. (FCO)

Parliamentary and Party Links

25. Relations between the two Parliaments are close. Links between the British Conservative Party and the German CDU have been fostered by the effective and active office of the Konrad Adenauer Foundation in London. The SPD related Friedrich Ebert Foundation has also recently opened an office in London which may do something to raise the low level of contacts between the SPD and the Labour Party. Contacts between the Liberal Parties are limited by their size. The CSU-related Hanns Seidel Foundation sees links with the Conservative Party as a priority and organised a successful seminar in summer 1988 in London. Links between Parliamentarians are also fostered by the Koenigswinter Conference, the COI Sponsored Visit Programme and annual meetings between the Bundestag German-British parliamentary Group and the Westminster Anglo-German Parliamentary Group.

Action

Assist, as appropriate, the maintenance of links. (FCO to extent possible)

Regional Affairs/Civic Links

26. We should not overlook the Federal/Länder dimension.

The Länder have the power to block Federal initiatives: they can affect UK interests (eg on trans-frontier broadcasting or BFG training facilities). Town twinnings, of which there are now 404 pairs, are one way to improve Anglo/German understanding at the local level. The new FRG Ambassador has expressed interest in trying to make twinnings more active. There are moves in prospect to arrange a regional twinning between Wales and Baden-Württemberg.

Action

Cultivate prominent figures from the Länder Governments (eg Lothar Späth). They can be politicians of some standing in their own right, and potential Federal leaders - worth receiving at Ministerial level, and very occasionally by the Prime Minister. (The proposed regional link with Wales will, for example, provide a useful peg for a visit to Britain by Späth in the second half of 1989). (FCO, NIO, Scottish Office, Welsh Office)

Work of British Council/Cultural diplomacy

27. The British Council's budget for the FRG is £4.6m (1987/88), and it will receive a share of the extra £1.5m pa allocated to Western Europe in the 1988 Survey. This makes it the largest British Council operation (excluding ELT) in Europe. The bulk of the funds are used to promote interchanges between scientists, academics, doctors and technical experts across a wide range. The Council has offices and libraries in Cologne, Berlin, Hamburg and Munich and runs an extensive information effort. The extra funds are expected to permit greater emphasis on high-profile artistic events and more technical/scientific exchanges.

Action

- a) To deploy the extra resources to maximum advantage.
(FCO/British Council, DES, DTI)
- b) To continue to foster high-quality exchanges with influential scientific and technical figures in the FRG.
(FCO/British Council, DES, DTI)

Youth Exchanges/Scholarships

28. The UK has more Youth Exchanges with the FRG than with any other country and devotes more resources to them (over £230,000). There are already many educational exchanges and an agreed plan to expand them. In addition to officially sponsored exchanges the flow of informal and spontaneous exchanges continues at a high level.

Action

Maintain the momentum (and funding) of this programme.

(FCO, DES)

STRICTLY PERSONAL & CONFIDENTIAL

Bank of England
London EC2R 8AH

The Governor

17 February 1989

do

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London
SW1A 2AL

Dear Prime Minister,

I was very grateful for the opportunity of such a long and helpful discussion with you, Nigel Lawson and Geoffrey Howe on Wednesday. Difficult as it may appear, I shall do my utmost to achieve the outcome that we all want.

I hope you will not mind my making one further point to you ahead of your meeting with Karl Otto Pöhl. From my own personal viewpoint it is extremely important that the members of the Committee should not know that you have seen drafts of our report, or that you have heard detailed accounts of the Committee's proceedings. If Pöhl were to hear that, it would be bound to get around the Committee very quickly and that would seriously undermine my position there. It has been agreed within the Committee that Committee papers and proceedings are to be treated as private. While I am sure that I am not the only Central Bank Governor to have breached this convention, my personal position could be especially vulnerable to the knowledge that I have done so.

Consequently, it would be immensely helpful to me if Pöhl were to understand that I have done nothing more than discuss with you in principle the general questions.

Yours ever,
Robin

CONFIDENTIAL
FM BONN
TO DESKBY 171100Z FCO
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OF 170945Z FEBRUARY 89

FOLLOWING PERSONAL FOR KERR
FROM MISS NEVILLE-JONES

BUNDESBANK THINKING ON EUROPEAN ECONOMIC AND MONETARY COOPERATION.

1. I PAID ONE OF MY PERIODIC CALLS ON THE BUNDESBANK. RIEKE HAD HAD TO CANCEL OUR APPOINTMENT SO I SAW SCHLUETER WHO WORKS FOR HIM ON EUROPEAN ECONOMIC AND MONETARY AFFAIRS. HE IS ONE THE BANK'S THINKERS AND SEES POEHL.

2. I ASKED ABOUT LATEST THINKING ON EUROPEAN ECONOMIC AND MONETARY CO-OPERATION. SCHLUETER EXPLAINED THAT POEHL WANTED THE FULL IMPLICATIONS OF EMU TO BE KNOWN FROM THE OUTSET OF DISCUSSION BY GOVERNMENTS. THIS MEANT KNOWING WHERE ONE WAS GOING AND BY WHAT MEANS (TIMESCALE WAS LEAST CALCULABLE AND QUALITATIVE CRITERIA WERE IN ANY CASE NEEDED TO MOVE FROM ONE STAGE TO ANOTHER, NOT A RIGID TIMETABLE). THIS MEANT HAVING A BLUE PRINT. POEHL WAS EMPHATICALLY NOT IN FAVOUR OF THE SO-CALLED PRAGMATIC APPROACH CONSISTING OF STEP BY STEP DEVELOPMENT OF EXISTING TOOLS AND POLICIES ALONG A COMPARATIVELY NARROW FRONT FOCUSSED ON THE INTERVENTION MECHANISMS, AND WITH THE ULTIMATE GOAL UNKNOWN. THIS WOULD LEAD TO AN UNBEARABLE AND UNFAIR LOAD ON THE DM. THE WAY TO AVOID THAT WAS TO HAVE EVERYTHING OUT ON THE TABLE FROM THE BEGINNING SO THAT THE OBLIGATIONS OF ALL AS WELL AS THE BENEFITS WOULD BE UNDERSTOOD FROM THE BEGINNING. THERE COULD BE NO SALAMI TACTICS AND NO CREEPING COMPETENCE OF THE COMMISSION.

3. THE REALISATION OF THE GOALS OF 1992 - FREE MOVEMENT OF GOODS, SERVICES, PERSONS AND CAPITAL, WOULD REPRESENT A HUGE STEP FORWARD IN FUNCTIONAL INTEGRATION. POEHL DID NOT BELIEVE, HOWEVER, THAT IT COULD ALL BE LEFT TO THE MARKET. THIS DEGREE OF INTEGRATION WOULD BRING WITH IT BOTH THE NEED AND THE POSSIBILITY OF FURTHER INSTITUTIONAL INTEGRATION OF WHICH THE EMS WAS A BRIDGEHEAD. MONETARY POLICY, HOWEVER, COULD NOT BECOME AN ISOLATED SALIENT. OTHER ELEMENTS HAD TO KEEP UP, NOTABLY ECONOMIC POLICY COORDINATION. IN THE DIFFICULT AREA OF FISCAL POLICY, WHICH ADMITTEDLY TOUCHED PARLIAMENTARY RIGHTS VERY CLOSELY - AND THUS SOVEREIGNTY - THERE STILL NEEDED TO BE MUCH MORE EX ANTE COORDINATION INSTEAD OF, AS

NOW, MERELY EX POST FACTO EXCHANGE OF INFORMATION. GOVERNMENTS HAD TO BEGIN TO ALLOW THEIR FISCAL DECISIONS TO BE INFLUENCED BEFORE THEY WERE FINALLY MADE.

4. SCHLUETER SAID THAT POEHL HAD NOT YET FINALLY DECIDED WHETHER POWER OVER MONETARY POLICY COULD BE SHARED IN A MONETARY UNION. POSSIBLY THE TRANSITION HAD TO COME IN A SINGLE MOVE. BUT HE WAS INCLINED TO THINK THAT SOME SHARING WAS POSSIBLE ACCORDING TO THE PRINCIPLE OF SUBSIDIARITY. (NO TIME TO GET AN EXAMPLE, THOUGH PRESUMABLY INTEREST RATES WOULD VARY.) POEHL DID NOT THINK A POLITICAL UNION WAS A NECESSARY ACCOMPANIMENT OF A MONETARY UNION (NOR EVEN DESIRABLE) BUT, DEPENDING ON WHAT THE DELORS GROUP REPORTED, THERE WOULD ALMOST CERTAINLY NEED TO BE AN INTER-GOVERNMENTAL CONFERENCE AT AN EARLY STAGE - IN ORDER TO ESTABLISH BOTH THE POWERS FOR AS WELL AS THE POLITICAL RESPONSIBILITY FOR, THE DEVELOPMENT OF THE BROAD APPROACH. (SCHLUETER IMPLIED THAT POLITICIANS COULD NOT BE ALLOWED TO ESCAPE RESPONSIBILITY FOR THE ROAD BEING EMBARKED ON. HE ALSO SAID THAT THE AUTONOMY OF THE BUNDESBANK WAS VERY IMPORTANT BUT NOT SO FUNDAMENTAL CONSTITUTIONALLY THAT IT COULD NOT BE MODIFIED IN A WIDER EUROPEAN SCHEME OF THINGS.

5. I ASKED ABOUT THE POLICY OBJECTIVE THAT LAY BEHIND THIS CONSTRUCTION. SCHLUETER SAID IT WAS 'ORDNUNGSPOLITIK' (STABILITY ORIENTATED MACRO-ECONOMIC POLICIES AND MARKET DETERMIND MICRO-ECONOMIC POLICIES 'WITH SOME SOCIAL SECURITY EDGING'). THE POLICIES AND MECHANISMS HUNG TOGETHER AND COULD NOT BE HAD A LA CARTE.

6. SCHLUETER SAID THAT EMS WAS ONLY A PART, BUT A KEY PART, OF EXISTING INSTRUMENTS. MEMBERSHIP OF IT WAS INDISPENSABLE TO PARTICIPATION IN FURTHER DEVELOPMENT OF POLICY AND INSTITUTIONS. HE WAS SURE HERR POEHL WOULD RAISE UK MEMBERSHIP OF THE ERM WITH THE PRIME MINISTER OVER LUNCH. HE WAS PREOCCUPIED BY BRITAIN'S ABSENCE. I ASKED WHAT ARGUMENTS HE WOULD USE. SCHLUETER SAID THAT BRITAIN RISKED NOT BEING ABLE TO INFLUENCE THE COURSE OF EVENTS IF SHE STOOD ASIDE. WHY SHOULD OTHERS STOP OR EVEN PAY ATTENTION TO UK VIEWS? I SAID THAT POLITICAL ARGUMENTS COULD NOT PREVAIL IF THE ECONOMIC JUSTIFICATION DID NOT EXIST. THE PRIORITY OF UK ECONOMIC POLICY WAS TO HOLD DOWN INFLATION. SCHLUETER SAID THAT PROVIDED THE UK WAS NOT LOSING ITS UNDERLYING COMPETITIVITY, MEMBERSHIP OF EMS WOULD HELP IN REINFORCING A POLICY OF STABILISATION. BUT 'ORDNUNGSPOLITIK' THAT WOULD EMERGE FROM INCLUDING OTHER ELEMENTS OF POLICY WOULD NATURALLY BE MUCH MORE EFFECTIVE.

POSSIBLE UK PROPOSALS FOR EARLY PRACTICAL STEPS TOWARDS ECONOMIC AND MONETARY UNION

Key

- A = Poehl likely to support
- B = Poehl neutral, or attitude uncertain
- C = Poehl likely to oppose

Economic Policy

(1) Closer co-ordination of economic policies in ECOFIN, based on regular (six-monthly?) surveillance discussion of economic developments in Community countries. Discussions to cover prospects for the fiscal stance in member countries as well as monetary policy. Central bank governors to participate, where appropriate. Discussions to be based on preparatory work carried out by Monetary Committee, Economic Policy Committee, Central Bank Governors' Committee.

Comments

A. Participation of central bank Governors is optional. But if it were recommended, that might help secure support of other Governors. Discussions could then be at informal ECOFINs, which Governors attend.

(2) Develop understandings in ECOFIN about level of national budget deficits in a medium-term context, aiming eventually to bring deficits in all countries down to level achieved in best.

A.

(3) Develop guidelines for the financing of national budget deficits, so as to stop monetary financing.

A. A complex subject because of institutional differences in different countries. EC Monetary Committee is already studying the subject the subject, and is making some progress.

[Capital Liberalisation]

(4) Implement capital liberalisation directive in all member states as quickly as possible.

B. But all except Ireland, Spain, Portugal and Greece are committed to implementation before July 1990. It may not be realistic to urge them to move faster.

(5) Member states to [agree to amend/ consider amending] directive to repeal safeguard clause, which permits countries to reintroduce controls as a temporary measure, to make capital liberalisation permanent and irreversible.

B. This would provoke strong opposition from Italy and some other Southern European states, and could cause others to try to link it to an agreement to harmonise the taxation of savings. On the other hand, if others do not agree, we could make something of the argument that if they are not ready to take this minor

step, then it is idle to talk about faster progress to EMU. However, a proposal to repeal could stir up the issue of Treaty amendment too since it carries with it the implication that Articles 73, 108 and 109 (which contain similiar provisions) should also be revised.]

Increased co-operation on exchange rates

(6) A general move towards increased holdings of EC currencies in member states' reserves and their use, where appropriate, in intervention.

C. This would apply to all EC currencies, whether or not in the ERM. It is useful for central banks to have a range of currencies at their disposal so they can intervene in different currencies depending on where the market pressures are. At present holdings of other EC currencies, and their use for intervention, are inhibited by the EMS inter-central bank agreement. The measure would be permissive

only : it would not require such holdings. The Bundesbank oppose : they only hold \$s in their reserves, and wish to limit other countries' holdings of DM.

(7) Countries that do not participate in the ERM to be permitted to participate, if they wish, in the very short-term financing facility (VSTF).

B. This would enable the Bank of England to arrange short-term drawings from other EC central banks where necessary and agreed : and in return the Bank would agree to lend to other EC central banks on the same terms.

(8) Use market rate on Government short-term ecu paper as the rate of remuneration on official ecu liabilities arising in the EMS.

A. This is of no significance to the UK while we are outside the ERM, unless (7) were agreed. This would replace the present cumbersome calculation based on a basket of interest rates. It is made possible by the existence of the UK Treasury bill programme.

Promoting use of the private ecu

- (9) Increased holdings of private ecu in national reserves, and their use, where appropriate, in intervention.
- A. The private ecu can be a useful intervention currency. In the past the Bundesbank have not favoured this proposal because of the weight of the DM, in the ecu basket (see 6), but Poehl's attitude is now more receptive.
- (10) Acceptance of private ecu in settlement of VSTF obligations in EMS, rather than official ecu.
- B. Like (8) this would only be significant for the UK, as a non-member of the ERM, if (7) were agreed.
- (11) Removal of national regulatory impediments that prevent market participants using the ecu in setting prices, for corporate accounts, for contracts and as a means of settlement.
- A (B on some aspects).
- (12) Other countries to follow UK lead in issuing government debt denominated and payable in ecu.
- B.

Further enhancement of Monetary
Co-operation

(13) Deepen and strengthen monitoring and co-ordination of national monetary policies in Central Bank Governors' Committee and Monetary Committee including :

- consideration of guidelines for national monetary policies, regular discussion of monetary targets, etc.
- discussion of the overall monetary stance of the Community, and exchange rate relationships with third countries (\$, Yen).
- discussion of monetary/fiscal policy mix in the Community.

(14) Provide Central Bank Governors' Committee with a permanent secretariat including a research capacity.

A. (Though Bundesbank likely to object to detailed discussion of monetary/exchange rate issues in the Monetary Committee, or ECOFIN.)

A. Bundesbank strongly favour building up Central Bank Governors' Committee.

Banking Supervision

(15) Central Bank Governors' Committee to start regular consultations concerning matters of common interest in banking supervision.

A. It might be feasible in due course for the Central Bank Governors' Committee to take over much of the work of the Commission's Banking Advisory Committee, with the Central Bank Governors' Secretariat taking over the Commission's functions. But this would raise difficult issues, not least for countries like Germany whose banks are not supervised by the central bank.

ANGLO-GERMAN SUMMIT: 20-21 FEBRUARY

ECONOMIC AND MONETARY COOPERATION

Our Objectives

General:

- To gain as much German support as possible for pragmatic approach to economic and monetary cooperation and the handling of the Delors Committee report.

Kohl:

- To sound out the personal position of Chancellor Kohl, and to impress on him the political difficulties inherent in proposals emerging from the Delors Committee.

Poehl:

- To encourage early practical steps not requiring Treaty amendment.

German Objectives

- To sound out UK position and, perhaps, to urge early UK membership of the ERM.

Our Arguments

- Important that Delors Committee's Report makes clear that full EMU would require massive shifts of economic and political sovereignty from member states.
- Such a shift would require fundamental amendment to the Treaty, going beyond the competence of members of the Committee who are monetary experts. Heads of State and

Government should draw the constitutional conclusions from the Report - Central Bank Governors should not make such recommendations.

- Report should focus on practical steps within existing Treaty to be taken in immediate future, rather than long-term objective of EMU which is premature and not necessary for the Single Market.

- UK could support practical early measures which do not require Treaty amendment including:-

i. abolition of exchange controls. An important step that all member states are now committed to. Implementation of this commitment is necessary for the Single Market and must be a priority. (Germany, like us, has removed all exchange controls);

ii. fiscal policy. A further precondition for the successful economic development of the Community is the gradual elimination of budget deficits, and meanwhile their financing in a non-monetary way;

iii. monetary cooperation

- we support continued and strengthened monitoring and coordination of monetary policy (if necessary this might entail a permanent secretarial and research capacity for Central Bank Governors' Committee, which the Germans support);

- private ecu: removal of national impediments to use of private ecu; government borrowing denominated and payable in ecu (our ecu Treasury Bill programme points the way); and increased

use of ecu in reserve holdings and intervention. (The Bundesbank has been unenthusiastic about the ecu, but Poehl has indicated recently that he may be less opposed to its use in intervention);

- reserve diversification and use of Community currencies in intervention. (The Germans will oppose this because they fear the implications of other countries' holdings of DM for domestic monetary control, and hold no currencies other than dollars in their reserves. But the UK proposal is only permissive);
- Procedure When Committee has reported, its work will be complete. It would be a mistake for Madrid Council to refer work back to it. Should remit further work to ECOFIN, with Central Bank Governors present as appropriate.

Our Response To Their Arguments

- [If German support for Treaty change] No. Implies readiness to accept massive shifts of economic and political sovereignty from member states. Major and wasteful diversion of effort from important task of completing Single Market. Treaty change is not required for the jobs that need doing now. UK Parliament will not give a blank cheque - ie enabling powers to be exercised at some undetermined future date.
- [If they raise spectre of "two tier Europe"] Negative development for all concerned - we would deplore it. Great pity that other member states have not yet brought themselves into upper tier by removing exchange controls and modernising archaic financial structures.

- [If European Central Bank raised] No secret that we believe study of this issue is premature to say the least.

German Views

Kohl - cautious pragmatist; has so far kept a low profile on monetary cooperation, but has been influenced by Genscher in the past.

Finance Minister Stoltenberg - pragmatist; concerned that Delors may try to push through radical proposals.

Foreign Minister Genscher - circulated ambitious proposals last March.

Poehl/Bundesbank - Poehl has argued in Delors Committee that EMU presupposes loss of sovereignty over economic and monetary policy that is only likely in context of close and irrevocable political integration. His overriding concern seems to be that if a European Central Bank were established, it should be entirely autonomous and on Bundesbank lines. Bundesbank remains opposed to reserve diversification, although some internal debate on the subject, and unenthusiastic above ecu, although signs of opposition waning.

Background

The Governor's tactics in the Delors Committee were discussed at your meeting of 15 February. You will clearly not wish to foreshadow exactly how the Governor will play this in the Delors Committee.

C.P.C. (2)



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

17 February 1989

Charles Powell Esq
No.10 Downing Street
London SW1

mp

Prime Minister

A useful background paper for your discussions at the Anglo-German Summit.
COP/17/L

Dear Charles

In your letter of 23 January to Nigel Wicks about the Paris Economic Summit, you asked if we could let you have a note on our economic and trade relations with the Federal Republic of Germany and on what we might do to reduce the trade imbalance between the UK and Germany.

I enclose a paper covering the overall German current account surplus and their bilateral surplus with the UK. Our conclusion is that it would be a mistake to press the Germans to expand their domestic demand any further since first, the world at the present time positively needs the high savings which Germany is generating; and second the German economy is already operating close to full capacity so that additional demand could well carry inflationary risks. We also do not think it would be sensible to press for appreciation of the deutschemark at the present time. However, we strongly believe that Germany needs to adopt structural reforms in a number of areas which would improve the growth potential of the German economy, and which at the same time would increase the market for imports into Germany and might over time reduce the current account surplus. We have picked out four areas of reform which we believe particularly need pushing: agriculture, industrial subsidies, transport and financial services.

The Chancellor has endorsed the paper and intends to press the Germans in his contacts with them over the coming months on the four reform areas as suggested in the paper. He hopes that the Prime Minister will draw on it likewise in her meeting with Chancellor Kohl next week.

but if would substitute home for export demand

RESTRICTED



I am sending copies of this letter to Stephen Wall (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry), Roger Bright (Department of Environment), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Carys Evans (Chief Secretary's Office) and Roger Lavelle (Cabinet Office).

Yours sincerely

J M G Taylor

J M G TAYLOR
Private Secretary

ANGLO GERMAN SUMMIT: NOTE ON GERMAN CURRENT ACCOUNT SURPLUS AND STRUCTURAL REFORM

Introduction

1. Germany has been in surplus on its current account in all but five of the last thirty five years. Japan has also run surpluses, but not so persistently. Since 1986 German surpluses have averaged about 4 per cent of GDP compared with under 1 per cent over the previous 25 years. No significant early reduction is likely.

2. The Germans are high savers, partly because Germany's population will be aging rapidly over the next two decades. Furthermore, Germany's capital stock is high by international standards, and therefore the opportunities for new investment are not as great as in other countries. The net result of high savings in relation to investment is the large current account surplus. But the surplus may also be sustained by certain structural rigidities in the economy which affect savings, investment and imports.

3. The UK's interests would be served by reforms which reduce these structural rigidities. Such reforms would improve Germany's long term economic performance and provide a larger and more dynamic market for its trading partners. They may also bring about in time a lower surplus, although there can be no certainty about this.

4. It would not be sensible to press the Germans to expand domestic demand more rapidly through monetary or fiscal action for two reasons. Firstly there is, if anything, a shortage of savings in the world, and the freer capital markets of the 1980s have shown themselves well able to transfer funds from surplus to deficit countries - though this depends on the continuation of sound policies. Secondly the German economy is already running at or near full capacity and inflation has been rising (albeit from a very low base). More expansionary demand policies would increase the risks of inflation and - rightly - would be strongly resisted.

5. Appreciation of the DM at some stage seems quite likely. If this happens, it could help to moderate Germany's current account surplus. But at the present time this might imply an unwelcome depreciation of sterling. Accordingly it would be unwise to press the Germans on this point.

6. The UK had a trade deficit with Germany of £3 billion in 1983, and about £7 billion in 1988. Part of the increase was accounted for by the fall in oil prices in 1986. With domestic demand in the UK now beginning to grow more slowly, there is a reasonable prospect that our bilateral deficit will gradually decline.

7. The remainder of this paper describes four areas of structural reform - agriculture, industrial subsidies, transport and financial services and inward investment - on which we should be pressing the Germans particularly. Separate annexes A-D give further details; Annex E describes the main economic and trade relations between the UK and Germany; and Annex F sets out in more detail the arguments in this introduction. There are other areas such as labour markets where structural reform is necessary, and to which the Germans, rightly, attach importance. But it is difficult for the UK to argue that it has a direct interest in these.

Agriculture

8. German agriculture is very highly subsidized: the overall transfer from tax payers and consumers to farmers, including CAP support, is DM30bn, representing 90% of value added in agriculture and 1½ per cent of GNP. Germany is the single most important stumbling block to substantial agricultural reform in the EC, despite the high cost to its consumers and taxpayers. Agricultural reform would:-

- Increase imports;
- Lower taxes as EC and national subsidies fall;
- Lower food prices and raise real consumer incomes;

- Transfer resources from agriculture to more efficient uses elsewhere in the economy.

9. We have been trying hard for some time to persuade Germany to go further in supporting CAP reform by cutting agricultural prices. The Uruguay round is the opportunity to put this into practice.

Line to take: We should press Germany to give the Commission maximum flexibility in the GATT talks in April. If Germany wants to support its farmers for social and environmental reasons it should do so by carefully targetted subsidies - at a lower level than current national subsidies.

Industrial Subsidies

10. Coal, aerospace, steel, and shipbuilding all enjoy large subsidies. We focus on coal and aerospace since these are two industries where our record is good. ?!

(i) Coal

11. The subsidy takes the form of compensation to the principal coal users (steel and electricity) for the difference between domestic coal prices and world prices of coal and oil. This means that support is effectively open-ended. In 1987 the subsidy was about DM3.0bn. In the UK subsidies to coal have been falling quickly: in 1986/7 they were £1.5bn (DM4.5bn) and in 1988/9 they are expected to be about £0.5bn, (DM1.5bn). The German arrangements are guaranteed until 1995 at least.

plus various social comments

12. The German government intends to limit support by reducing the compensation to the electricity industry, effectively shifting the cost of subsidy to electricity consumers. There is also agreement to gradually reduce production, but the impact of this is to be softened by greater financial support.

Line to take: UK experience shows benefits of reducing subsidies to coal. Open ended support to coal should not continue. Nor

should cost of support simply be shifted onto the industrial coal users who are under contract to buy German coal. Important to secure reduced levels of subsidy and of production. German industry would benefit from cheaper imported coal.

(ii) Aerospace

13. Federal support to aircraft, mostly to Airbus, was about DM4½bn (£1½bn) in 1986. Although a significant proportion of the Airbus support was in the form of loans, some of these have since been written off. The government has recently agreed to underwrite Deutsche Airbus' losses as part of the agreement to return Daimler Benz to the private sector. The UK provides support to British Aerospace, on Airbus, in the form of repayable launch aid.

14. The German government has argued that (a) support is justified by benefits to research and development (b) American competitors benefit from defence contracts and their monopoly position on world markets. These arguments reflect protectionist sentiments. The US authorities have argued that the German support for aircraft violates GATT articles.

Line to take: Important to reduce subsidies to aircraft industry. Danger that support becomes institutionalised. Increasing German support may be used to bid up subsidies all round. Must resist protectionist arguments and press for progress in reducing subsidies.

Transport

15. The German road haulage industry has been highly regulated. There was agreement last year to liberalize international road haulage - a major step to opening up this market. But the domestic market remains regulated. There are quotas on the number of national hauliers allowed to operate, and foreign hauliers on international routes are not allowed to take trade within Germany (cabotage).

16. On civil aviation Germany requires that international air fares have the approval of both national authorities concerned. Other EC countries only intervene when both authorities disapprove. A new round of EC negotiations on further liberalisation is due for November, but proposals are not yet available.

Lines to take: Continue to press for transport to be a priority area for the Single Market Programme. In particular, to urge early action on road haulage (cabotage) and the next stage of air transport liberalisation.

Financial Services and Inward Investment

17. There has been considerable freeing up of the financial markets and financial services industry over the past few years. More is to come with the likely passage of a Bill permitting a wide range of financial innovations which has recently been agreed by the German Cabinet. But over-regulation and lack of competition still hamper the development of financial services, which in turn is detrimental to the German consumer and industry. Of particular concern to the UK are the following:

(i) Insurance

18. The total insurance market in Germany is large (premiums equal 6% of GDP), but not as big as the British market where premiums amount to 8.3% of GDP. The market is, by UK standards, highly regulated: policy terms and conditions for most business are subject to approval by the Federal Supervisory Authority. This restricts the development of new products. A recent report from the German Monopolies Commission criticised these arrangements and argued that deregulation would encourage innovation and lower rates. Although there is a notional freedom for German residents to insure themselves abroad, there are a number of practical obstacles and disincentives to doing so: intermediaries are banned from placing non-transport insurance with insurers not authorised in Germany, for example, and tax relief on premiums is not available on policies abroad. The EC

Directives on non life insurance services agreed in June 1988 will free cross border insurance in large commercial risks by 1990. The life services directives due shortly will free certain life risks.

Line to take: The German authorities should be pressed to consider:

- relaxing restrictions to allow a greater diversity of life insurance products; and

- eliminating fiscal and regulatory obstacles to German residents insuring themselves abroad, certainly in other EC states.

(ii) Disincentives to direct and portfolio investment

19. Explicit restrictions on inward investment into Germany are minor and few. But equity markets are small and fragmented and few public companies are quoted. There are close links between banks and industrial and commercial companies (direct shareholding and proxy voting) and cross-holdings between allied companies. It is also difficult to establish the identity of ultimate shareholders because of cross-holding.

20. The close relationship between the banks and industrial and commercial companies, and the underdevelopment of equity markets is defended by many Germans on the grounds that it encourages the long term view and contributes to high investment in Germany. Our view is that it unfairly restricts foreigners' access to capital markets and reduces efficiency.

Line to Take: Measures are needed to increase (a) the transparency of shareholding and (b) the importance and size of the stock market. These would increase access to German capital markets, and the opportunities for British firms to acquire German companies.

H M Treasury

15th February 1989

THE UK'S ECONOMIC AND TRADE RELATIONS WITH GERMANYIntroduction

1. This Annex compares the economies of Germany and the UK and sets out the UK's bilateral relations with Germany. The main data source is the OECD.

Size and composition

2. German GDP is greater than that of the UK, and has been since the early 1960s, but the UK has been narrowing the gap in the 1980's.

Table 1: UK and German Economies in 1987

	Germany	UK
GDP (\$ billion converted at OECD Purchasing Power Parities)	815	703
Population (million)	61.1	56.9
GDP per capita (\$ thousand)	13.3	12.4

Table 2: German GDP as percentage of UK GDP

	1953*	1960*	1973	1980	1986	1987	1988	1989**
Germany	73	100	114	123	119	116	115	115

Converted at PPPs, except* converted at market exchange rates.

** Forecast

3. Manufacturing produces a higher proportion of GDP in Germany than in the UK, and employs a high proportion of those in work.

Table 3: Output structure in 1985

Percentage of GDP	Germany	UK
Agriculture	2	2
Industry*	39	33
of which Manufacturing	(33)	(22)
Services (including Government sector)	<u>59</u>	<u>65</u>
	100	100

Table 4: Employment Structure

Percentage of all active persons	Germany (1985)	UK (1986)
Agriculture	5	3
Industry*	42	40
of which Manufacturing	(32)	(22)
Services (including Government Sector)	<u>54</u>	<u>57</u>
	100	100

4. In 1987, exports and investment constituted higher proportions of German GDP than of UK GDP, and consumption a lower proportion.

Table 5: Composition of Expenditure in 1987

Per cent of GDP	Germany	UK
Private Consumption	55.4	62.6
Government Consumption	19.8	20.9
Gross Investment	19.9	17.4
Exports	28.7	26.4
Less Imports	23.7	27.4

5. Throughout the 1980s, net savings have been a higher proportion of GDP in Germany than in the UK, as is shown in Table 6.

Table 6: Net Savings in the UK and Germany

Percentages of GDP	1987		1980-87 Averages	
	UK	Germany	UK	Germany
Net Capital Formation	5.7	7.5	4.9	8.3
Current Account Surplus	-1.6	4.0	0.6	1.4
<u>Less</u> Statistical Discrepancy	-1.4	-	-0.3	-
<u>equals</u> Net Saving	5.4	11.4	5.8	9.7

Between 1980 and 1986, the capital stock (excluding dwellings) per person employed rose by 37% in Germany and 16% in the UK. In 1985 gross capital stock per person employed was approximately 20% higher in Germany than in the UK (converted at OECD PPPs for fixed investment), but this position is changing as business investment grows more rapidly in the UK than in Germany.

Table 7: Growth of Business Investment

Per cent per year (Average)	1980-87	1983-87
Germany	1.5	3.5
UK	5.3	9.1

Composition of Trade

6. Compared to the UK, a higher proportion of German total exports are goods, and within that manufactures.

Table 8: Composition of Trade, Germany and UK 1986

US \$ billion	Exports		Imports		Balance	
	Germany	UK	Germany	UK	Germany	UK
Total Goods	242	106	189	125	+53	-19
<u>of which</u>						
Manufacturing	(186)	(66)	(110)	(81)	(+76)	(-15)
Services	36	37	47	24	-11	+13
Total	278	143	236	149	+42	-6

Table 9: Product composition of Trade in goods, 1986

Percentage of Exports or Imports	Per Cent			
	Germany	UK	Germany	UK
Food and Drink Products (SITC 0, 1, 4)	5.1	7.6	11.9	12.2
Manufactures (6-8)	76.8	61.7	58.1	64.8
Raw Materials and Fuels (2, 3)	3.4	14.6	18.0	12.8
Chemicals (5)	12.9	13.3	9.3	8.6
Other (9)	<u>1.9</u>	<u>2.7</u>	<u>2.6</u>	<u>1.6</u>
	100.0	100.0	100.0	100.0

Shares in World Markets

7. Table 10 shows the German share of world exports of goods to be about 12% and that of the UK 5-6%.

Table 10: Shares of World Exports of Goods

percentage	1970	1979	1987
Germany	11.6	10.9	12.1
UK	6.6	5.5	5.4

Current Account Positions

8. Germany has had a current account deficit in only five years since 1960. Table 11 shows German and UK current accounts as percentages of GDP.

Table 11: Current Account Positions

Percentage of GNP/GDP	1960	1970	1980	1984	1985	1986	1987	1988
Germany	1.6	0.5	-1.7	1.6	2.6	4.4	4.0	4.2
UK	-1.0	1.5	1.3	0.6	0.9	0	-0.6	-2

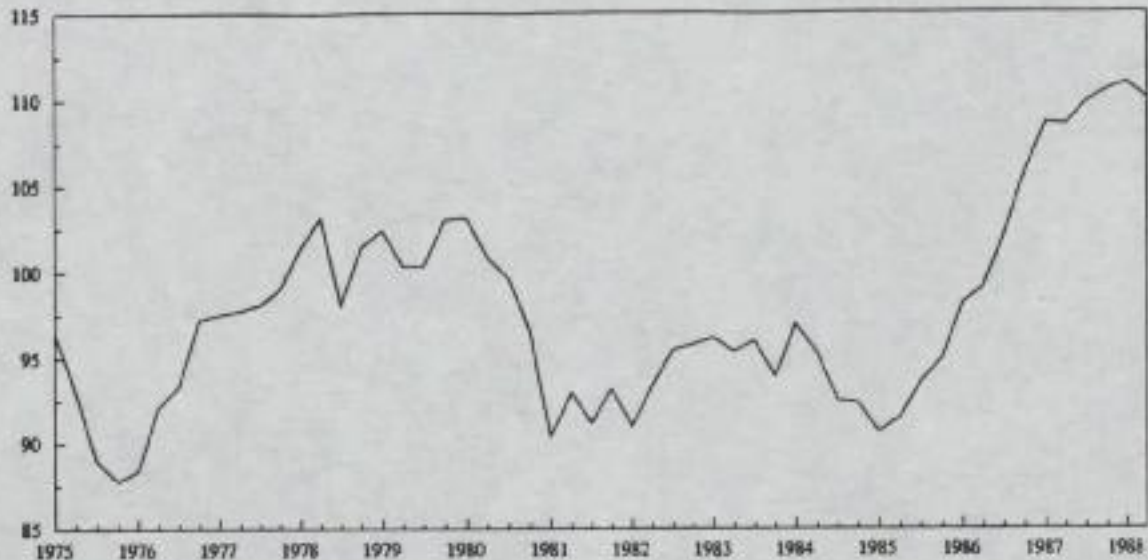
Net Overseas Assets

9. Net German overseas assets rose from \$33bn in 1980 to \$94bn by mid-1986. The UK's net external assets rose from \$39bn in 1980 to \$162bn by end 1986.

Competitiveness

10. The chart below shows some increase in German relative unit labour costs - measured in a common currency - since 1984. By most standards the German economy remains highly competitive.

GERMAN REAL EFFECTIVE EXCHANGE RATE
(DEFLATED BY RELATIVE UNIT LABOUR COST)
INDEX 1980=100



Source : IMF

Bilateral Trade

11. Table 12 shows that Germany has become an increasingly important trading partner for the UK, and that the UK's bilateral trade account has generally been in deficit. This was true even in 1983 when the UK had an overall trade surplus. The UK's bilateral trade deficit with Germany widened from 0.8 per cent of UK GDP in 1979 to 1.6 per cent of UK GDP in 1987. Possible explanations are discussed in the section C.

Table 12a: German Shares of UK Merchandise Exports and Imports

	UK Exports to Germany as % of UK Exports	UK Imports from Germany as % of UK Imports
1970	6.2	6.0
1979	10.4	12.4
1983	10.0	14.7
1987	11.8	16.8

Table 12b: UK Trade in Goods with Germany

	UK Exports to Germany (£b)	German Exports to UK (£b)	Balance (£b) % of UK GDP in brackets
1970	0.5	0.5	-0.05 (-0.1)
1979	4.2	5.8	-1.6 (-0.8)
1983	6.1	9.7	-3.0 (-1.0)
1987	9.4	15.8	-6.4 (-1.6)

Figures on UK invisible trade, with individual EC countries are not available. The UK's receipts on invisible transactions with EC countries were £22 billion in 1987, and debits were £26 billion

including £1bn of payments to overseas residents in maintaining the B.A.O.R.

International Direct Investment

12. The strong industrial links between the two countries are shown by the high stock of UK direct investment in Germany and the somewhat lower level of German direct investment in the UK. UK companies held about £3 billion of assets in the form of direct investment in Germany in 1984, three times larger than the stock of German corporations' direct investment in the UK, which stood at just under £1bn. Flows of direct investment in 1985 and 1986 maintained this relative position.

German Productivity and Comparative Advantage

13. Germany has a large and efficient manufacturing sector which is a major net exporter, particularly of capital goods. The large German and Japanese surpluses on manufacturing trade are shown in Table 10.

Table 13: Manufacturing Trade Balances 1987

	Billions of Dollars	Ratio of manufacturing exports to manufacturing imports
United States	-130	0.6
Japan	164	3.4
Germany	107	1.6
France	-3	1.0
United Kingdom	-14	0.9
Italy	30	1.3
Canada	-13	0.8
Total of Above	140	

14. It is difficult to obtain reliable estimates of levels of productivity, but output per employee is probably about 20-30% higher in German manufacturing than in the UK. This picture is gradually changing as manufacturing output per employee in

manufacturing grows more rapidly in the UK than in Germany. During the 1980s this has been growing more slowly in Germany than in any other major economy.

Table 14: Output per Employee in Manufacturing

	<u>Annual average percentage change</u>		
	1960-70	1970-80	1980-1988Q3
UK	3.0	1.6	5.5
Germany	4.1	3.2	2.5
Major 7 Average	5.2	3.3	3.6

15. The German services sector is highly regulated. Transport and other services, and agriculture and mining are heavily subsidised. German current transfers, mainly to services and agriculture, were 4.3% of GDP in 1985, and have stayed roughly constant since. This is higher than the figure for the UK, which is declining from a 1985 value of under 4%.

IF2 Division
H M Treasury

THE GERMAN CURRENT ACCOUNT SURPLUS

1. This annex sets out the arguments in the Introduction in more depth.

(a) The Reasons for the German Current Account Surplus

2. Historical experience shows that individual countries have run current account surpluses and deficits for prolonged periods - decades rather than years. Britain in the year to 1914 is a good example. The fundamental reason for this is that the country has a high rate of savings in relation to its domestic investment opportunities. This is generally a question of private sector behaviour, although governments may also influence the outcome. The US budget deficit is a case in point, lowering national savings in an economy which has low private sector saving compared with other major countries.

3. In Germany we can identify reasons why, we believe, savings have been high in relation to domestic investment:

(i) Recently, Germany has been a comparatively low growth economy: in the 1980's growth was significantly below the OECD average. At the same time its capital stock is high by international standards. Together this suggests that new investment opportunities may be more plentiful overseas: hence the high level of capital outflows.

(ii) Germany's stock of net overseas assets, built up partly from its surpluses, is not unduly high as the following table shows.

Net overseas assets as a percentage of GNP

	1975	1980	1986
US	5	4	-6
Japan	1	1	9
Germany	9	4	11
France	8	14	6
UK	2	7	31
Italy	-1	9	-2
Canada	-30	-35	-36

Source: National Data and International Financial Statistics.

(iii) There are demographic reasons for expecting Germany to wish to save a high level at present. Its dependency ratio - population of over 65 year olds to 15 to 64 year olds - is expected to rise from the current level of about 22½ per cent to 30 per cent by 2010. Only Japan of the major seven industrialized countries is likely to experience a rise of this magnitude.

(iv) There are some structural rigidities, the removal of which would lead to a more dynamic economy, and, possibly, lower current account surplus.

(b) Capital Markets and Investment Flows

4. In the last decade, following the lead taken by Britain in 1979, many OECD countries have removed exchange controls. As financial markets have been de-regulated and financial innovation has taken place on an unprecedented scale, the nationality of individual savers and investors becomes of less significance. This greater flexibility has enabled the sustained use of Japanese and German savings to make good the shortfall of savings in the US and now in the UK. Capital markets have shown themselves able and willing to finance the current account surpluses and deficits without disruptive changes to exchange rates and interest rates. When these capital flows are used to finance productive investment

they are sustainable and may persist for considerable periods of time, provided that the appropriate policy framework is in place. Elements in this include:

- appropriate monetary policies to keep inflation under control;
- fiscal policies set within a medium term framework within which governments do not displace private sector savings;
- policy co-ordination contributes to stability in financial markets.

(c) Bilateral Trade Flows

5. Germany has a comparative advantage in manufacturing and especially of capital goods, and so runs a trade surplus in manufactures and a deficit in raw materials and services. In recent years, the UK has become a net importer of manufactures on an increasing scale. It is not surprising therefore that it has had a rising trade deficit with Germany.

6. But the increase in the deficit in the last two years has been due partly to some special factors including the fall in oil prices which halved the surplus on Anglo-German trade in fuel between 1985 and 1987.

(d) Structural Reform and the Current Account

7. Better performance through structural reform may result in either an increase or decrease in the current account. The net effect is likely to depend on the responses of national saving and the exchange rate. Thus, if a general programme of structural reform were to raise the rate of return on capital employed, one might expect to see higher investment, higher capital inflows and a smaller current account surplus. However if the effects on aggregate demand are weak, for example because policy does not

fully accommodate the increase in supply, then it is quite possible that the current account surplus might rise.

8. As the main paper has shown, in Germany outside the highly competitive manufacturing sector there are important areas which are highly regulated. These rigidities protect German producers and damage the interests of overseas producers.

9. Structural reform would therefore tend to increase the share of imports in German markets, as well as raising growth potential. Of course there would also be benefits to manufacturing industry, both by providing access to more efficient services and by allowing resources to switch from services to manufacturing. Nevertheless the net effect would probably be to reduce the current account surplus.

IF2 Division
H M Treasury

Even Pd - Summits P28





Foreign and Commonwealth Office

London SW1A 2AH

17 February 1989

020
 Dear Charles,

Anglo-German Summit: SNF Updating

It might be helpful, following Mr Baker's visit to Bonn, to give some background to the briefing line on SNF updating. As you will be aware, we have suggested that the Prime Minister argue for a decision in principle in favour of deploying a LANCE successor.

In his interview with the Financial Times (as edited by Teltschik) Chancellor Kohl spoke of no decision on "production" being needed before 1991/2. Technically that is correct. Full-scale production will not start until 1993. What is, of course, needed this year is a decision which will allow development to proceed from 1990.

A simple decision in favour of "development" would not necessarily be sufficient for the US Congress. They might well refuse to commit funds for this phase if there were no commitment to eventual deployment. During Mr Baker's visit to London, Mr Ron Lehman of the US Department of Defense told us that a "decision in principle to deploy" would cover US funding needs up to 1992. Congress could well ask for details of deployment sites and numbers before it votes money in 1992 for the production programme, but it will not need them now.

If Chancellor Kohl opposes the notion of "a decision in principle to deploy", it could be important to clarify that we are not talking about a decision on specific deployment sites or numbers this year. Some of the very confused remarks which he has been making during Mr Baker's visit to Bonn suggests that he may think that this is what he is being asked to agree.

There are frankly no fall-back options from a decision in principle to deploy which are in any way attractive. As mentioned above, we could not be certain that "development" would be enough. Chancellor Kohl would probably agree to "re-confirm the need for a LANCE successor": but precisely because it has already been confirmed and has not firmly committed the Germans, this would take us no further forward.

We have asked the Americans for a read-out of Mr Baker's impressions of his tour in time for the Frankfurt Summit.

I am copying this letter to Brian Hawtin (MOD) and John Weston (Cabinet Office).

Yours,
 Stephen Wall

(J S Wall)
 Private Secretary

C D Powell Esq
 10 Downing Street

CONFIDENTIAL

PRIME MINISTER

ANGLO GERMAN SUMMIT

You are to attend an Anglo-German Summit in Frankfurt on 20 and 21 February. It is a rather more extended and festive occasion than usual, intended to demonstrate publicly the warmth and closeness of Anglo-German relations. Unhappily, there are more contentious issues to discuss than at any Summit in recent years. The tension between private disagreement and public harmony will be most difficult to reconcile at the joint press conference.

There is copious - unrealistically copious - briefing in the attached folder, and a more summary presentation of the issues in two telegrams from our Embassy in Bonn. You have an hour with Kohl the first evening and an hour and a half the next morning. There is also a further half hour with Foreign Ministers present. You will want to select the most important issues and work through them in order.

SNF Modernisation

The problem here is that Kohl is backing away from his earlier commitments and arguing that a decision is not really necessary until 1991/92. He is leaving the door ajar to some much more general decisions of principle, probably no more than a repeat of last year's Summit statement about updating. At the same time there is a growing tendency in Germany and elsewhere in NATO to argue that NATO unity is more important than a decision now on modernisation of SNF. This is the coward's way out: it is not worth being united on the wrong policy or on weakness.

The main points you will want to get across are:

- a decision to deploy a successor to LANCE is necessary. Development has to start next year and Congress will not authorise it without a clear decision to deploy;
-

- failure to take the decision will be seen as weakness at a time when NATO needs to appear strong. It will give the wrong signal to Gorbachev;
- we cannot agree to negotiations with the Russians to reduce SNF. There is no outcome to negotiations which would not leave NATO worse off. Negotiations would lead inexorably to third zero. They would also undermine willingness to modernise;
- but there is scope for substantial unilateral reductions in NATO's nuclear artillery. We can challenge the Russians to match these;
- nothing has changed since Chancellor Kohl agreed with you at Rhodes that a decision should be taken this year. The decision will not get any easier if it is postponed;
- it is not for Heads of Government to take a production decision. What we must have is a clear decision in principle to keep NATO's nuclear weapons up to date by deploying a successor to LANCE when the time comes;
- we need a Summit in late May to take this decision;

Frankly, I don't think you are going to move him, at this stage anyway, although you may secure an ambivalent commitment to deal with the matter at the Summit. You will need to decide to what extent to emphasise our differences publicly at the subsequent press conference. I see no point in papering over the cracks. But the best way to keep Kohl aboard is to set out positively the case for modernisation rather than excoriate the Germans for their weakness.

Military Training

Military training, and particularly low flying, have become a controversial issue in Germany following the Ramstein disaster and a number of other accidents, and the Germans have been trying to persuade us to reduce our low flying still further.

There is obviously a limit beyond which we cannot go while keeping our forces effective. We look to the German Government to make clear publicly that training and low flying are essential to forward defence. Moreover, it is not the case that Germany endures more low flying per head of population than anyone else in the Alliance. The United Kingdom has more. The fact is that pilots have to practice where they may have to fight and there is very little more we can do to reduce our activity in Germany. The German Government has simply got to do a better job in putting the case to its public opinion.

East/West Relations

There are two aspects you will want to discuss. The first is the need for Kohl himself to give more leadership in countering exaggerated enthusiasm about Gorbachev in Germany. He ought to stress the need for realism about his prospects and the continued need for up-to-date defences. We have constantly to keep in mind what the position would be were Gorbachev to fail and be replaced. You have succeeded in the United Kingdom in getting people to understand that you can both support what Gorbachev is doing and yet remain utterly committed to a strong defence. Kohl needs to do the same.

The second aspect is Eastern Europe, especially Poland. Kohl will be going to Poland in May. You will want to urge him to take the same line as you did about the link between political reform and economic and financial help. There has been significant internal progress since your visit. But the essential point remains for Poland to get an agreement with the IMF. You hope Kohl will not dilute the message.

Tornado

You will want to put Kohl on notice that we cannot continue the situation where the United Kingdom has to shoulder an unfair share of the credit burden for sales of Tornado - and no doubt in future other collaborative projects - abroad. We need to have discussions between our officials to find a way of sharing the risks more fairly.

European Community

① The main EC issues on which to focus are economic and monetary union - on which you will have talked to Poehl - and taxation issues. You will want to convey to him the extent to which national Governments would have to surrender power over their own economies if the sort of ideas being discussed in the Delors Committee were put into practice. You could point out the risks for the stability of the Deutschmark of subjecting the value of Germany's currency to politically-diluted management involving Governments with socialist objectives. You will also want to make quite clear that you are not prepared to contemplate Treaty amendment and anyway could not get it through the House of Commons on this subject. It would be far better to scale-down ambitions and expectations on EMU and concentrate on practical steps. Cumulatively these would add up to significant progress.

You will also need to make clear that you cannot envisage the Community setting tax rates in member states and this means that you will resist an EC-wide withholding tax. This again is a matter which you could never get through our Parliament since it attacks the very basis of Parliament's powers. Anyway, the practical arguments for it are extremely thin. The main effect of an EC-wide tax would be to drive capital out of the Community, which is the last thing any of us want.

Other EC issues which deserve a brief mention are:

- the social dimension, where you will want to underline that measures must be optional for member states since there is no prospect of our introducing worker participation. We prefer employee share ownership, which has burgeoned in the United Kingdom (over 1500 schemes now);
- frontier controls, where we are all for making it easier for EC nationals to cross frontiers but cannot give up our essential security checks. If he reverts to his plan for a Euro-FBI, you could agree that this should be examined in the Trevi Group;

- GATT. You will need to continue your efforts to get him to understand that the EC must be willing to reduce protection and subsidies for agriculture further if the GATT round is to be successful. We cannot just camp where we are. Anyway, it is illogical for Germany, which depends for its livelihood on industrial exports, to put these at risk by insisting on protection for its small, heavily subsidised agricultural sector.

South Africa

On this, you will want to talk to Kohl about the outcome of Leutweiler's mission. Since then we have had an enquiry from President Botha about a possible quid pro quo for Mandela's release. You could point out the particular problem which South Africa is likely to face later this year in redeeming its bearer bonds, which are held mostly by German and Swiss banks. The South Africans are going to need help with this and with rolling over their debt. You could propose that we make a joint reply to the South Africans about what would happen if they released Mandela, using the attached text (which you have already agreed). You could hand it to him.

You may find that you have to stiffen Kohl against further sanctions or non-economic restrictive measures. These would give quite the wrong signal and might jeopardise the prospect of a peaceful settlement in Namibia and Angola. It would be far better for Britain and Germany to collaborate on some positive measures. For instance, the Urban Foundation in South Africa will shortly suggest that Britain, Germany and Switzerland should contribute to a £5 million guarantee fund, to which private sector companies could also contribute. This would then allow the Urban Foundation to raise some £50 million to provide mortgages for cheap housing for Africans. This would be a very imaginative gesture, at low cost. You might also tell him about our plans to invite South African Ministers to London.

Economic Summit

You may want to put Kohl on notice that you intend to return at the Economic Summit to the problems of structural surpluses in Germany and Japan and the difficulties which they cause for Germany's partners. There really need to be sustained increases in domestic demand in Germany over the next few years if adjustment is to take place. One way to achieve this would be for Germany to give higher priority to deregulating its economy, getting rid of restrictive practices and reducing subsidies.

Environment

You will want to explain the reasons why you will not be attending the meeting in The Hague on 11 March.

Bilateral Issues

You will want to mention to Kohl that we will be making an application for extradition of Hanratty, one of the two Irish terrorists caught crossing the Dutch/German border.

You will also want to suggest that the next Anglo/German Summit should be held in March 1990 to coincide with the 40th Koenigswinter Conference. This will be in Cambridge.

Kohl may revert to his invitation to spend a private weekend at his home and also to visit Heidelberg.

I am doing separate notes about your programme, your meeting with Herr Poehl and about the press conference.

C.S.P.

CHARLES POWELL
17 February 1989

SOUTH AFRICA

- We believe that Mandela's release is in South Africa's own interests;
- in our assessment it would create a new and improved climate of benefit to South Africa internally and in her relations with the outside world;
- it would also reinforce our joint stand against sanctions and other restrictive measures;
- and it would make it easier for us to play a helpful role over the problems facing South Africa in its dealings with the banks over bearer bonds;
- looked at realistically, it would not on its own lead to the dismantling of any sanctions;
- but if the South African Government were to build on Mandela's release to launch a dialogue between all political groups in South Africa, we would then see what could be done to meet South Africa's concerns on sanctions (although we could not give advance assurances affecting others).

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

16 February 1989

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no

really wonder whether this is worth mentioning.

Dear Charles,

ANGLO-GERMAN SUMMIT: DEFENCE CO-OPERATION

The UK-FRG Joint Study Group on defence co-operation has produced a number of proposals to extend the close links between our Armed Forces and to give them greater visibility. Several were announced during the joint Press Conference given by Mr Younger and Dr Scholz on 30th January, principally in the fields of training, logistics and personnel exchanges. There would be merit in the Prime Minister and Chancellor Kohl capitalising further on these achievements by referring to them at the Summit press conference; this is reflected in the proposed themes at Annex C of the Steering Brief.

There is an attractive and additional measure which the Prime Minister could refer to at the Press Conference as being under initial consideration, namely a proposal to form a joint unit linking 4 UK Oerlikon 35mm anti-aircraft guns (3 refurbished ex-Argentine and 1 purchased) with 2 German Skyguard radars. Manning would probably be provided by about 50 Royal Auxiliary Air Force personnel and a cadre of some 15 RAF regulars and Germans. The unit would provide additional and cost-effective short-range air defence at an RAF station in Germany; it would also be a natural development of the essential co-operation that exists between British and German forces engaged in air defence in Germany. Details are being worked out and a trial will be held later this year.

Quite apart from the military advantages, the proposal offers scope for positive publicity about Anglo-German defence co-operation; it affords evidence of our determination to strengthen such bilateral co-operation within the Alliance and could prove of some use in managing the political difficulties in Germany related to training. It would also be well received in NATO as a means of strengthening European defence capability through co-operative action.

We understand that German officials are keen to make a public announcement and we expect Dr Scholz to confirm this during his

Charles Powell Esq
10 Downing Street

Sounds a bit like a pale shadow of the German Scholz.

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bilateral meeting with the Defence Secretary. I attach material which the Prime Minister could use at the press conference.

I am sending a copy of this letter to Richard Gozney (FCO) and to Trevor Woolley (Cabinet Office).

Your sincerely
Brian

(B R HAWTIN)
Private Secretary

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[until used]

LINE TO TAKE

Initial consideration is being given to the possibility of forming a joint unit to augment short-range air defence of an RAF operating base in Germany.

SUPPLEMENTARIES (if needed)

Further details?

Option under consideration would involve linking RAF Oerlikon Guns and German Skyguard radars: largely manned by UK auxiliaries but with cadre provided by RAF and German Air Force.

Decisions?

Subject to further consideration and to technical trials. Decisions possible before end of year.

Numbers? Costs? Timescales?

Too early to give details. But size likely to be of the order of 50 auxiliaries and 15 UK/German regulars.

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Prime Minister ⁽²⁾ cc BT

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MO 14/3

Belmont to the
Anglo-German Summit.
This is a very neuralgic
issue in Germany, and the
German Government is being
weak about it.

PRIME MINISTER

LOW FLYING IN THE FEDERAL REPUBLIC OF GERMANY

CDP 17/2

In advance of next week's Anglo-German Summit, I thought it would be useful to let you have my thoughts on one of the Federal Republic's major current concerns, namely low flying by military aircraft over Germany for training purposes.

2. Allied military exercises in the Federal Republic have become increasingly unpopular in recent years, particularly on environmental grounds. Even before the Ramstein airshow disaster last August, Manfred Woerner (as German Defence Minister) had pressed for some action to assuage German public opinion on the low flying issue. I warned Woerner that the RAF had already reduced low flying training over the FRG and that I saw very little scope for any further significant reductions. However, I did agree to participate in an Allied study into ways of reducing the impact of such training on the population. This remains our position, and work is under way under the auspices of a group led by State Secretary Wimmer (Michael Neubert is our representative).

3. Meanwhile, however, the accidents at Ramstein and Remscheid (where a USAF aircraft crashed into the town centre) have heightened public concern about the safety of low flying training. Ironically, neither accident was a direct result of such activity but the issue was sensationalised by the media and exploited fully by critics of current Allied training policy. The issue of

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national sovereignty was raised, but to some extent, defused by the German Government; unfortunately, their handling of the low flying issue itself had been much less adept. There is a regrettable degree of pressure from parliamentarians (including CDU/CSU members) for legislation which would effectively ban low flying (as we understand it) over German soil. Although Rupert Scholz has continued to stress the need for such training, he has allowed public expectations to be raised that a significant cut is possible and that he will secure Allied agreement to this. Scholz has, of course, arrived at a difficult time, and he has not been well supported by his colleagues. In particular, Genscher has been positively unhelpful on the low flying issue, while Chancellor Kohl has either stood aside or encouraged the view that the Germans are somehow unique in facing this problems and that reductions must be made.

4. The minimum low flying training requirement is now being studied urgently both by SACEUR and by the "Sending States" (UK, US, Canada, Belgium, the Netherlands and France). Some concessions may be possible; if properly presented, they might go some way towards mollifying German public opinion. But if our aircrew are to remain operationally capable, then there is little scope for further substantial reductions in low flying training over the FRG. If NATO is to maintain the current commitment to forward defence, then this must be under-pinned by a credible front line, including our strike/attack aircraft.

5. It is vital to leave the Chancellor in no doubt about the seriousness of our concerns in this area, particularly as he may suggest that the FRG's problems in this area are different from those of the UK. In fact, the UK bears at least as much fast jet low flying training as the FRG and, in general, such training is lower, faster and for longer hours. RAF Germany already



carries out some 30% of its low flying over the UK; the USAF also carries out more such training in the UK than over the FRG. Public and Parliamentary concern in this country, though growing, remains manageable. To some extent, this reflects the way in which such training is spread relatively evenly throughout the country, unlike in the FRG, where it is more concentrated. But, more significantly, we adopt a robust political posture in this area, supported by a strong public relations effort. One key element in our approach has been that low flying in the UK has reached a "plateau" and that we currently expect no significant increase in the foreseeable future. Were we to modify this position, particularly to accommodate more flying by RAF Germany squadrons, we would undoubtedly face political difficulties. Accordingly, the Chancellor should, I suggest, be told firmly that the FRG will not be able to offload any further low flying onto the UK.

Clearly there is no easy answer to the German problem, which is, in part, one of their own making. The only way forward which is fully compatible with current Alliance strategy is for the FRG government to adopt a more robust public posture on the essential requirement for low flying training. It should be possible to devise a package of measures which can be presented as evidence of the Allies' goodwill and determination to minimise the environmental impact of this activity, though this may not in itself suffice to win over public opinion. In addition it will be necessary for the Chancellor and his government to present a united front and to resist pressure for further concessions.

Turning to your joint press conference, it is likely that you will be faced with a number of questions on the low flying issue. Given current German public expectations, it would be inadvisable to be as robust in public as will be possible with Chancellor Kohl



in private. You will, of course, be able to point to the fact that the UK bears at least as much of the low flying burden as the FRG. It will be helpful to point to the work being carried out by State Secretary Wimmer and his Alliance counterparts with a view to reducing the impact of low flying on the civilian population. But you will, I think, wish to avoid suggesting that a significant reduction in the amount of low flying is in prospect. Ultimately, a substantial level of training remains necessary to maintain the capability to fly low - and safely - and thus help maintain the Alliance policy of deterrence.

I am sending a copy of this minute to the Foreign Secretary, the Home Secretary, the Minister of Agriculture, Fisheries and Food, the Chancellor of the Duchy of Lancaster, and to Sir Robin Butler.

G.Y.

Ministry of Defence

16 February 1989



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SECRET & PERSONAL

Foreign and Commonwealth Office

London SW1A 2AH

16 February 1989

Jean Charles,

Anglo/German Summit: Prime Minister's bilateral with
Chancellor Kohl: South Africa

Thank you for your letter of 13 February about the possible formula for an Anglo/ German response to the South Africans, which the Prime Minister might put to Chancellor Kohl during their meetings on 20/21 February. Since discussion of this aspect will be confined to the Prime Minister's meeting with Chancellor Kohl (and the Auswärtiges Amt do not, so far as we are aware, know of the existence of the initiative), we are providing briefing in the form of a Private Secretary letter.

I attach the proposed line to take with the South Africans on what we might do in response to Mandela's unconditional release and if the South African Government established a genuine dialogue with credible black leaders.

The Prime Minister will wish to say to Chancellor Kohl that you and Sir Robin Renwick have been approached recently by Rusty Evans of the Foreign Minister's office, on behalf of Pik Botha. He was following up P W Botha's enquiry to Dr Leutwiler about a possible quid pro quo for Mandela's unconditional release. The Prime Minister might say that in the light of this we have been considering a possible formula for a joint response to the South African request. The unconditional release of Mandela should be seen not as an end in itself but to trigger a negotiation, without preconditions, to establish a new constitution for South Africa in which all political parties would be able to participate, against the background of a suspension of violence on all sides.

The Prime Minister may wish to give the Chancellor a copy of the proposed joint response. She may wish to point out to Chancellor Kohl that the exposure by British banks on bearer bonds is slight, so that in practice the problem is one on which the Germans and Swiss will have to lead if a solution to it is to be found.

It is possible that the Prime Minister may find Chancellor Kohl slightly less confident than usual about rejecting ideas for further sanctions. Pressure is already building up in the new US Congress, and the wish of the Bush Administration for as much cooperation as possible with Congress on foreign policy issues is widely known. In the

SECRET & PERSONAL



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European Community, the French have recently taken a number of unhelpful initiatives for new restrictive measures. Within his own government Genscher and the Foreign Ministry remain wobbly, especially over non-economic restrictive measures; they are currently reviewing the options. The Auswärtiges Amt claim that Chancellor Kohl shares Genscher's discomfort at the fact that Germany has taken over from Japan as South Africa's leading trading partner.

The Prime Minister may therefore wish to stress to Chancellor Kohl how important it is to avoid actions which risk triggering a new round of international sanctions. It would be especially counter-productive to impose sanctions during the implementation period for Namibian independence. The new realism among the Front Line States about the practical consequences of sanctions is a further reason not to do so. The US Administration hold the key. From our talks with Mr Baker it is clear that they share our judgement. We and the Germans should continue to urge on them the importance of holding to that view if the prospect of peaceful settlements in Namibia and Angola are not to be jeopardised. Gestures such as new non-economic restrictive measures should be rigorously eschewed.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

SECRET & PERSONAL



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

15 February 1989

An interesting despatch,
 worth a look before
 the Anglo-German summit.

Dear Charles,

CDP 17/2

The Future of German Agriculture

The paper being prepared by the Treasury, in response to your letter of 23 January to Nigel Wicks, on German and Japanese structural surpluses refers to a recent despatch from Bonn on the future of German agriculture. I enclose the text, which the Prime Minister may be interested to see before her meeting with Chancellor Kohl. It highlights the structural inefficiencies of German agriculture, and the extent to which Government policy slows structural change.

We would not entirely agree with the despatch's rejection of nationally-financed income subsidies as a possible partial solution to the German problem, and particularly as a means of securing continued CAP reform with reduced costs to the EC budget and the British taxpayer. Nationally financed income support measures need not be excluded, so long as they were within a Community framework to ensure that they did not distort competition, stimulate production or impose costs on other member states. We must certainly maintain pressure on the Germans on CAP reform, even though they appear willing to shoulder the lion's share of the costs of the current regime: on Commission figures, their 1988 net contribution to the Community was five times ours.

I am copying this letter to Shirley Stagg (MAFF), Jonathan Taylor (HMT) and Trevor Woolley (Cabinet Office).

Yours,
 Stephen Wall
 (J S Wall)
 Private Secretary

C D Powell Esq
 10 Downing Street

FOREIGN AND COMMONWEALTH OFFICE
WESTERN EUROPEAN DEPARTMENT
WRG 141/1

DD 1989/9
DESPATCH
SELECTIVE DISTRIBUTION
FEDERAL REPUBLIC OF GERMANY
2 JANUARY 1989

THE FUTURE OF GERMAN AGRICULTURE

HER MAJESTY'S AMBASSADOR AT BONN TO THE SECRETARY
OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

THE FUTURE OF GERMAN AGRICULTURE

SUMMARY

1. This despatch reviews the prospects for German agriculture against the background of CAP reforms agreed by the Community. Will structural evolution open the way to German acceptance of a market-oriented agriculture policy? (paragraphs 1-2).
2. German agriculture is small-scale and far from cost-efficient; the German farmer is a traditionalist not an entrepreneur (paragraphs 3-6).
3. Economic pressures and other factors are likely to lead over the next 10 years to a rapid fall in the number of farms and a corresponding increase in average size (paragraphs 7-11).
4. Agriculture in Germany is about more than food production. It serves social objectives and is identified with values rooted deep in the German psyche. Preservation of numerous family farms has a high political priority (paragraphs 12-14).
5. The Kohl Government has increased spending dramatically to stave off a fall in farm incomes. Present level of spending will continue but no increase is in prospect. Kiechle is unable to stem the tide of structural change but is introducing set-aside, extensification and early retirement schemes. We should be alert for attempts to turn extensification premia into a long-term system of income support (paragraphs 15-19).

British Embassy
BONN

2 January 1989

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
London SW1A 2AH

Sir,

THE FUTURE OF GERMAN AGRICULTURE

Introduction

1. In his despatch (DD 1985/302) of 15 July 1985 my predecessor analysed the reasons for the disproportionate political weight accorded by the Federal Government to farmers. To protect their interests the Kohl Government had even invoked the Luxembourg compromise in Brussels, the first occasion Germany had done so. It seemed likely that Germany would continue to oppose the price reductions and other measures which we considered necessary to bring the CAP under control. It was also predicted that German agriculture, handicapped by its small farm structure, would continue to find life hard in the competitive Community market.

2. The decision of the European Council in February 1988 to subject CAP expenditure to binding budget discipline, backed by automatic stabilisers in each sector, was a watershed in our reform efforts. Stabilisers are likely to lead to unprecedentedly large cuts in EC support prices and farm incomes. Other novel measures, notably set-aside, extensification and early retirement, have been introduced at the same time. It is therefore timely to review the situation of agriculture in this country and to look some way into the future. The question to be answered is whether German agriculture is likely to become structurally more like our own, more efficient, less dependent on high EC support prices and consequently better able to cope with the rigours of a more market-oriented Common Agricultural Policy. If so, can we look forward to any lessening of the German

/Government's

Government's resistance to further reductions in support to farmers under the CAP? In what follows I am indebted to the knowledge of Mr Paul Elliott, who will shortly leave the post of First Secretary (Agriculture) in this Embassy.

"The most inefficient agricultural system in Northern Europe"

3. This judgement was made in *Farmers Weekly* in a series covering the Netherlands, France, Denmark, Italy and Belgium as well as the Federal Republic. There are plenty of signs of structural weakness in Germany to support it.

4. There are still 681,010 farms on a smaller agricultural area than is occupied by the United Kingdom's 254,300, giving an average size of 17.4 hectares as against over 70 hectares. The average dairy herd is 15 cows, compared with 20 in France, 39 in the Netherlands and 61 in the UK. Similar differences apply in other sectors. Nearly half of German farms occupy under 10 hectares. Many, 41% of the total, are part-time farms, and the figures for full-time farms alone are more respectable. But a further weakness is the small number of really large farms. Under 1% have 100 hectares or more and only 6% have over 50 hectares.

5. Economies of scale are there for the taking. It is only necessary to compare North Germany, with its more favourable structure, with the South. In Schleswig-Holstein the average size of a full-time farm is almost double that in Bavaria. Labour intensity measured in labour units per hectare is lower by almost two to one and farm income is correspondingly higher at DM 50,145 per farm compared with DM 38,940. It is instructive also to compare German and Dutch agriculture, since average farm size is similar, and both countries have a strong currency and a high standard of living. There the similarity ceases. The average Dutch farm of 16.2 hectares, more specialised and with more intensive livestock production, made a profit of DM 53,404 per worker in 1983/84 compared with DM 20,330 in Germany. These figures and other analyses suggest that an increase in the scale of German farming is the key to an improvement in incomes and long-term viability. But it is also a fact of political life that widespread adoption of Dutch-style farming methods, with very high livestock numbers on small farms, is unacceptable here, primarily for environmental reasons. It is hard, therefore, to avoid the conclusion that the average German farm must acquire more land.

6. Yet size does not tell the whole story. German farmers argue that they are handicapped by higher costs than their neighbours, partly through what they see as excessive government regulation of building standards, safety, waste disposal, crop spraying and so on. There is truth in this, although it overlooks the fact that producer prices are also higher in Germany and that in some cases profits per hectare exceed those in the UK. A major problem is the high level of (often self-inflicted) fixed costs. Per 1,000 hectares of arable land there are 205 tractors and 28 combines; corresponding figures for the UK are 74 and 14. Farm dwellings and livestock accommodation, even on farms with moderate incomes, are also

/imposing

imposing. One sees almost no farms which look run-down. This reflects a difference of mentality compared with the UK. German farmers visiting British counterparts return struck by the extent to which the latter subject decisions to the test of profit. They comment on the British tendency to put up cheap, practical buildings to house livestock rather than something more attractive and technically perfect, and they are surprised how quickly crop rotations are varied in response to shifts in market conditions. They shake their heads at the way in which traditional methods and long-standing practices are jettisoned; and they themselves are slow to switch to new crops such as sunflowers. The German farmer is a traditionalist and a perfectionist not an entrepreneur. "Agri-business" is still a dirty word.

Prospects for Structural Change

7. Structural change is nothing new to German agriculture. There are now a third fewer farms than in 1970 while the agricultural area has declined by only 6%. The result has been a 50% increase in average farm size. Farm numbers contracted by over 4% a year in the mid-1970s and 2% in the early 1980s, picking up again to 3.8% in 1986-87. The speed of change is determined not only by economic pressure within agriculture, which has pushed up the minimum size for viable operation, but also by external factors such as the availability of jobs outside. The typical pattern is for a full-time farmer whose farm has become unviable to go over to part-time farming, or for his son to find a job nearby because there is insufficient work for them both. The farm then continues on a part-time basis until the next generation leaves agriculture altogether. Thus from 1986 to 1987 12,000 full-time farms went part-time, a greater number than went directly out of production, and 18,000 part-time farms gave up.

8. Several things follow from this process. Firstly it means that the part-time sector is significant, accounting for 24% of the workforce, 13% of total farm area and 9.4% of produce sold. Most part-timers are not mere hobby farmers as in the UK. Secondly while the proportion of part-time farms has grown - from 35% in 1970 to 41% now - their absolute number is falling so resources are being freed for structural improvement. Thirdly falling prices mainly threaten the weaker full-time farms, since the majority of part-time farms have satisfactory total incomes of which only a small part (average DM 5,648 pa) comes from farming.

9. The situation of the 350,000 full-time farms is far less encouraging and points to rapid contraction ahead, especially since market prices are more likely to fall than to rise. Annual farm income (DM 33,771) and annual income per labour unit (DM 25,503) are both stagnating not far above the level of the mid-1970s. In the same period the comparable wage in outside occupations - a figure the government is legally bound to publish in its annual Agriculture Report - has risen by 53%. This parting of the ways is the main cause of the farmers' bitterness.

/10.

10. The bottom quartile of full-time farms managed a paltry average income of only DM 6,761 in 1986/87. About a third are judged to be living off capital: even in the structurally stronger areas of Schleswig-Holstein and Westphalia one is told that around a quarter of the farms are unviable in the longer term. A more reliable indicator of long-term viability is considered to be a current standard income of over DM 60,000 a year: only one fifth of German full-time farms currently reach this level. Others will survive through amalgamation or acquisition - and one should not underestimate the tenacity of farmers struggling to hang on to their land - but it seems reasonable to expect the number of full-time farmers to drop by between a half and a third over 10 years. This assumes some further reduction in the level of support provided by CAP market mechanisms such as intervention, and the continuation of broadly the present level of direct subsidisation and tax reliefs. Agriculture Minister Kiechle told me himself that he expected there to be only 200,000 full-time farms by the end of the century, a figure in line with the above prediction.

11. Other important indicators also suggest rapid structural change. Numbers of persons studying agriculture or pursuing similar courses have fallen dramatically. Moreover the average age of farmers (including part-timers) is relatively high: one-third are aged 55 or over. According to a questionnaire in 1985 only 45% had a named successor who was definitely going to take over, suggesting a high rate of dropout among part-time farms to complement the fall in full-time farms. One estimate for Bavaria is that the present 234,000 farms (53% part-time) might shrink to 150,000 within 10 years. The feeling across the country is that, barring dramatic changes in policy, the number of farms is going to fall rapidly. Surviving full-time farms will be larger and better equipped to compete. Quite how competitive they will actually be will partly depend on their readiness to adopt more entrepreneurial attitudes. Economic pressures and the advent of a younger generation should bring improvement here.

The Political Response

12. Forecasts of a large fall in farm numbers are not music to the ears of CDU/CSU politicians, who instinctively want to preserve existing numbers of small family farms. For them farmers represent an important repository of conservative values. In the words of the late Franz-Josef Strauss: "Independent self-supporting farmers rank among the most loyal and reliable partners of our State and its people". The determination with which the Kohl Government set out to defend Germany's small farm structure - and in particular championed the family farm against so-called industrial farming - owed a certain amount to this philosophy, a great deal to electoral considerations and much to an only half-rational identification of the interests of farmers with the wider objectives of rural policy.

13. Maintenance of a patchwork of small and medium-sized family farms is seen as the only way to safeguard the "natural bases of life", to prevent depopulation of the eastern borders and the uplands, to maintain the vitality of rural communities and to preserve a neat,

/Cultivated

cultivated landscape from the ravages of man and nature. Politicians and officials are almost obsessive about this. "Your German likes the country, but he prefers it as the lady thought she would the noble savage - more dressed", wrote Jerome K Jerome, whose amusing account of the German predilection for nature tidied up rather than in the raw in *Three Men on the Barrel* (1900) I recommend.

14. Agriculture in Germany, then, is about more than food production. It is seen as the guardian of the countryside and is bound up with a way of life and a set of values to which the urban population too feels deep attachment, albeit without wishing to adopt them. This is one of the main reasons - the other being the electoral system - why the influence of the farmers on the Government's EC and trade policy is more pronounced in this country than in some other Member States where they are proportionately more numerous. Policies designed to change the methods and scale of agricultural production are seen as a threat to rural life *per se* and to an important element of German culture.

15. Kiechle responded initially to farmers' income problems by pumping in more money while fighting a damage limitation action in Brussels. For several years it seemed as if no month - and certainly no Land election - went by without the announcement of a new federal subsidy. From 1983 to 1987 the federal agriculture budget rose by a third to DM 7.1 billion, compared with a rise of 6% for the federal budget as a whole. The figures take no account of tax reliefs such as the VAT-based subsidy introduced in 1984, worth DM 2.7 billion a year in tax revenue foregone since then. The 1988 budget figure went up again to DM 8.6 billion. Most of the extra since 1983 has gone to increased spending on the farm social security system (up by DM 1.3 billion to DM 4.8 billion), income subsidies in Less Favoured Areas (up by DM 380 million) and milk outgoers' schemes (DM 356 million). The Länder are also spending more. The result of this massive effort is that one third of the income of all full-time farms now comes directly from the State; and while incomes have stabilised instead of falling as in the UK, they are still way below the level of the comparable industrial wage. The Government considers this politically and socially unacceptable in the long run. Meanwhile the Finance Minister has made clear that the bottom of the barrel has been reached and that there is no new money available to try to turn back the tide of structural change. Ideas such as Franz-Josef Strauss' proposal for a basic State wage for all farmers in recognition of their non-agricultural services to society, are now seen as non-starters.

16. Some national money is available to fund three new EC schemes for which Kiechle can claim part of the credit: set-aside, extensification and early retirement. Kiechle insists that the prime objective of all three is the same - to reduce production. This squares with his long-term aim of dealing with surpluses by dirigiste

/Measures

measures such as quotas on the one hand, and voluntary incentives for non-production on the other. But the structural effects are likely to be more interesting, since no one except the Agriculture Ministry really believes that the effect on production is likely to be enough even to offset the effects of year-on-year increases in productivity.

17. Under the early retirement scheme a farmer who has reached the age of 58 and undertakes to give up production altogether can apply for payment of the pension due normally at 65, together with a payment of between DM 150 and DM 600 per hectare of land taken out of production. Alternatively land can be let or sold. The Finance Minister has cut the scheme back, another indication of declining Government readiness to spend ever-increasing sums on the farmers. The talk is now of 27,000 farmers and 165,000 hectares taken out of production, compared with much larger figures earlier. The scheme could nevertheless give a useful push to structural change if much of the land is immediately sold or let to other farmers. If the farmer disposes of the land only when he is 65, the potential benefits to other farmers seeking to expand will be delayed. It is too early to see what pattern will develop.

18. We too have supported and adopted set-aside. We see it partly as a cushion for farmers who would find it hard to cope with falling support prices. One effect may be to retard structural improvement. Landowners who would otherwise have let or sold land may be tempted to opt instead for the premia offered under the scheme. These are attractive in Germany, ranging from DM 800 to DM 1,440 per hectare. The size of the premia may cause land rental prices, currently averaging DM 471/hectare for arable land, to rise and this too will make it harder for profitable farms to expand. Again it is too early to say what will happen, but it seems that set-aside is proving more attractive in the already better structured northern parts of the country, while in the south and the less favoured areas there is more interest in extensification. It is not coincidental that this is in line with the wishes of the southern Lander governments, which are concerned that set-aside may be bad for the appearance of the countryside and thus for tourism.

19. Whatever the reasons for this differential uptake of the two schemes, the structural effects are unlikely to reverse the contrast between those areas, mainly in the north, where farming is by German standards large-scale, and most of the south and less favoured areas where part-time farming and/or dependence on direct subsidies are increasingly the rule. Areas such as Schleswig-Holstein where farming most resembles the UK pattern will continue to draw ahead in farm size and ability to stand on their own feet. Extensification in the south and less favoured areas, on the other hand, could render some farms viable without stepping up production, perhaps by switching to organic farming. Developments of this kind are welcome but we need to watch for any tendency to convert the present extensification scheme, which is designed to assist the process of conversion, into a long-term vehicle for paying unviable farms income subsidies from EC funds.

20. Kiechle's attitude to structural change has altered in the last

/two years

two years, in the face of the losing battle in Brussels and the unavailability of additional national finance at home. Where once he talked of preserving as many small and medium-sized family farms as possible, he now preaches increased efficiency. In May 1987 he admitted: "In the long run there is no agricultural policy which can turn inefficiency into prosperity". He has evidently decided that major structural change is inevitable but wishes to slow it down to make it, as he would say, socially and politically bearable. His strategy now is to concentrate resources more on family farms, and to prevent their displacement by burgeoning agri-business. If the bulk of the 200,000 full-time farms which he expects to exist at the end of the century were family farms he would probably consider he had achieved as much as anyone could.

21. His latest measure aims towards that result. Described as a socio-structural income compensation scheme, it redistributes DM 1.1 billion a year saved by the 2% reduction, required under the Community's decisions, in the VAT-based subsidy introduced in 1984. It consists of a basic payment of DM 1,000 per farm per year plus DM 90 for each hectare over 10 up to a maximum of DM 8,000. Any farm with over 120 cows, 200 breeding sows or equivalent numbers of other livestock will receive no subsidy at all. Such farms are now also to have restrictions on new buildings. Comparatively few farms will be affected by the ceiling, and the majority will have considerable scope for growth without losing subsidy; but the Government is giving notice that growth beyond certain limits is socially undesirable.

22. Other measures too have discriminated against the larger farmer. When milk quotas were introduced the cutback imposed on the smallest producers was 2% but 12% on many large producers. Rebates payable from 1986 on farm social security contributions were weighted in favour of the smaller farmers, and the Government has pressed in Brussels - with some success - for measures such as the exemption of small cereals farmers from coresponsibility levy.

Länder Programmes

23. Most Länder governments are at least as keen as the Federal Agriculture Minister to preserve family farms and, since they do not have direct experience of negotiations in the EC, their perception of the need for change is limited. It is as well, therefore, that most of their expenditure on agriculture is only semi-autonomous under the nationwide Programme for the Improvement of Agricultural Structure and Coastal Protection, of which the federal authorities fund 60% (out of a total of DM 2.4 billion in 1988). The main object is the improvement of rural infrastructure but payments to less favoured areas, income subsidies under another name, take up 30% of the total. A number of Länder have introduced other measures to bolster the incomes of farmers in difficulty. These tend to conserve existing structures rather than to promote efficiency. For example Lower Saxony has spent DM 100 million on a once-off scheme to purchase land from highly indebted farmers, which was mostly let back to them. Aids for diversification and help with the introduction of new crops - such as Schleswig-Holstein's 20% grant towards the purchase of flax harvesting machines - are more far-sighted.

24. Encouragement for farmers to switch to part-time activity is mainly non-financial. The advisory services play an important role. Advice is provided free in the southern Länder. Bavaria alone has an extension force of 2,120, costing over DM 400 million a year. It is also an important aim of federal and Länder regional policy to provide employment in rural areas, both to maintain the viability of rural communities and to make it easier for farmers to carry on part-time. In Hesse, for example, the great majority of farms within easy reach of Frankfurt are part-time. But the problem is greater away from the major towns. Germans are beginning to recognise, later than we did, that rural areas must become more diversified. Your call for ploughshares to become golf clubs ought to arouse an echo in a country where the market for golf courses is not yet saturated.

Agriculture and the Environment

25. Proliferating environmental measures reflect a genuine public concern for nature conservation and environmental protection and also the desire of the Länder to be seen to support their farmers. Several Länder have combined their agriculture and environment Ministries. Most schemes are similar to those in the Environmentally Sensitive Areas of the UK. Farmers are paid not to drain wetlands, plough grasslands, use fertiliser or machinery on the land at certain times of the year, spray round the margins of fields (to encourage wild flowers), destroy traditional orchards and so on. Rules on the storage and disposal of manure and effluents have been tightened up, and three Länder have set tight limits on the spreading of animal waste on the land.

26. Environmentalist pressure on agriculture is bound to go on increasing. There is scant public tolerance for practices which pollute water supplies and destroy natural flora and fauna to produce more surplus food. The animal welfare lobby is not as militant as in the UK but I would expect increasing protest against the widespread practice of keeping cattle chained up indoors all year, often without straw to lie on. The effect of this pressure, however desirable the results in their own right, may be to hamper farmers' efforts to reduce costs and improve efficiency. If the federal or Länder governments insist on going further than the rest of the Community, German farmers will be even less competitive and even more dependent on Government compensation and subsidies.

Conclusions and Policy Implications

27. Until recently the stock response of German politicians and officials to our arguments for a more market-oriented CAP was that such a policy might be reasonable under UK conditions but was not tolerable for Germany's small farmers. They urged patience: growth in job opportunities outside farming, together with the ageing of the farm population, would solve the structural problem in 10 years or so. Meanwhile it would be wrong to try to speed things up by putting a squeeze on farm incomes.

28. The fact that the squeeze is now occurring - increasingly as stabilisers bite - represents a substantial victory for our policy of

/meeting

meeting German opposition to price cuts head-on and urging the EC Commission to do likewise. As I have described, German agriculture can expect rapid structural change, with full-time farms perhaps halving in number over 5 to 10 years and becoming larger on average, as only the more cost-efficient survive. Concentration will speed up if there is agreement in the Uruguay Round on faster reductions in Community price support, or if the green money system were abolished in the run up to 1992, allowing Mark revaluations to trigger automatic price cuts. But the latter looks most unlikely. I cannot see any Federal Government accepting an outcome which seemed to impose greater sacrifices on German than other EC farmers.

29. When I talk to Kiechle he acknowledges some economic virtue in structural change. But he has not suddenly been converted to liberal agricultural policies. He remains as determined as ever to conserve what he can of the pattern of family farms throughout Germany. This desire is shared to some extent by the entire political establishment including the Länder and the Federal Chancellor. With the combination of measures which I have described they will almost certainly succeed in preserving in the medium-term a very large number of family farms. Many will be small and part-time and their continued existence long-term will largely depend on social attitudes in the younger generation. But there will still be a substantial number of full-time farms dependent largely on subsidies. The more the numbers contract, the more concerned the authorities will be to preserve those which remain.

30. At the other end of the scale the Government seem determined to prevent the growth of very large farms or what it regards as undue concentrations of livestock. But the limits it envisages will leave plenty of room for the majority of remaining full-time farms to grow substantially. There is thus likely to be more polarisation between the large full-time farms, which will simply have to try to become as cost-efficient as their Dutch and British counterparts, and a large number of small, largely part-time farms dependent on outside income and State assistance. While in German industry the growing North-South divide involves a shift of prosperity southwards, in agriculture it will be mainly farms in the Northern Länder that are internationally competitive compared with greater Southern reliance on subsidies. A similar accentuation of contrasts may also come about within each region. This will give rise to pressures for action to ensure that at least some farming is carried on everywhere and that remoter areas are not depopulated.

31. In sum, therefore, even if one section of German agriculture becomes better able to stand on its own feet, there is still likely to be a substantial element which is uneconomic and which Government supports for social reasons. The level and extent of dependence on subsidy may rise if strict environmental controls on agricultural practices are introduced. For us it may be tempting to conclude that all this is acceptable provided the Germans carry the financial burden. This might be the best outcome provided that major distortions of competition could be avoided. The drawback is that the burden would be a heavy one and successive German governments could be tempted to press for higher

/CAP

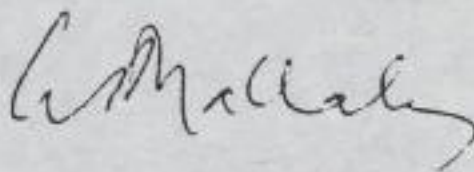
CAP prices as an alternative means of raising farm income. I do not therefore think that it would be profitable to encourage the Germans to seek a special national solution to their agricultural problems in return for their support for more market-oriented policies on the Community level.

32. Even if that support were forthcoming, it would be half-hearted. Kiechle's view of the long-term direction of the CAP differs fundamentally from the United Kingdom's. The British aim is to exploit free market forces to maximise the efficient use of economic resources in agriculture. German agricultural policy objectives, as I have described, are conceived primarily in terms of social policy. Even so, the two governments can agree on the need to bring supply and demand back towards a better balance. We can agree on some of the measures, including set-aside and milk quotas, needed to achieve this. But, if production was one day brought down to the level of domestic demand, Kiechle or his successors would almost certainly want to raise CAP support prices again, keeping the lid on production by quotas, set-aside and other interventionist measures. The UK would regard it as an ideal opportunity to let market forces determine prices and production patterns.

33. To answer the question which I posed at the start of this despatch, I would expect in ten years' time to hear less special pleading from the Germans about the problems caused by their poor farm structure. Agriculture will be in better shape even though they will still have several times the number of farms in the UK. But I would not expect them to become much easier negotiating partners in the meantime and perhaps not even then. German agricultural policy has been protectionist for nearly all this century. This instinct is unlikely to change as long as there is a significant part which continues to depend on public support. As a result, progress in the Community and the GATT towards a more liberal agricultural system is likely to mean overriding German arguments that we want to go too far, too fast, or both. I see no realistic alternative to our present course of keeping the Germans under pressure on the broad direction of policy while co-operating as far as possible over the details.


34. I am sending copies of this despatch to HM Representatives at EC posts, Canberra, Ottawa, Washington and Wellington; the Consuls-General in the Federal Republic; the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Secretaries of State for Northern Ireland, Scotland and Wales; and the Cabinet Office.

I am, Sir,
Yours faithfully



C L G Mallaby

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MIPT: ANGLO-GERMAN SUMMIT: HANDLING OF ISSUES

SUMMARY

1. GOOD OPPORTUNITY TO PRESS KOHL PRIVATELY ON SNF MODERNISATION, TO URGE HIM TO STRESS THE NEED FOR REALISM ABOUT GORBACHEV'S CHANCES, AND TO UNDERLINE THE IMPORTANCE OF MILITARY TRAINING IN THE FRG IF OUR COMMITMENT TO FORWARD DEFENCE IS TO REMAIN CREDIBLE.

2. EASTERN EUROPE AND SOUTH AFRICA WORTH MENTION.

3. KOHL MIGHT BE ENCOURAGED TO PRESS FORWARD WITH DEREGULATION OF THE GERMAN ECONOMY. THERE ARE DIFFERENCES OF APPROACH ON A NUMBER OF EC ISSUES, BUT COMMON GROUND IN OPPOSITION TO FORTRESS EUROPE.

4. A CHANCE TO POINT IN PUBLIC TO THE STRENGTHS OF THE BILATERAL RELATIONSHIP.

DETAIL

is this attainable? 5. OUR INTEREST IN PUBLIC HARMONY AT THIS SUMMIT NEED NOT STAND IN THE WAY OF FRANKNESS IN PRIVATE. WITH IMPORTANT DECISIONS TO BE TAKEN IN DEFENCE AND COMMUNITY MATTERS LATER THIS YEAR, THE SUMMIT IS WELL TIMED. GIVEN HIS DIFFICULTIES, KOHL'S MANNER MAY BE TRUCULENT.

SNF MODERNISATION

6. MY TELNO 188 REPORTS SECRETARY BAKER'S TALKS WITH KOHL YESTERDAY. THE COALITION HAS REACHED NO DECISION YET. KOHL HAS RECENTLY WOBbled AND GIVEN THE IMPRESSION OF WANTING TO DELAY DECISIONS UNTIL 1991-92. BUT TELTSCHIK, SPEAKING AFTER BAKER SAW KOHL, CLAIMED TO ME THAT KOHL STILL HOPED FOR A NATO DECISION IN PRINCIPLE ON MODERNISATION IN THE COMPREHENSIVE CONCEPT IN MAY. GENSCHER AND LAMBSDORFF WANT NO MODERNISATION DECISION UNTIL 1991-92. ALL THE MINISTERS CONCERNED WITH THE SUBJECT WANT A MOVE ON SNF NEGOTIATION TO BE INCORPORATED INTO THE COMPREHENSIVE CONCEPT. OPINION POLLS SHOW A LARGE MAJORITY AGAINST MODERNISATION. TELTSCHIK IS NOW

PESSIMISTIC ABOUT KOHL GETTING HIS WAY. UNLESS THE US ADMINISTRATION EXERT STRONG AND CONTINUOUS PRESSURE, AND GOOD ARGUMENTS, FOR A MODERNISATION DECISION IN 1989, GENSCHER LOOKS INCREASINGLY LIKELY TO WIN THE ARGUMENT HERE.

7. BUT SINCE THE OUTCOME IS NOT YET DECIDED, I RECOMMEND THAT THE PRIME MINISTER SHOULD EXPLAIN ONCE AGAIN WHY IT IS IMPORTANT FOR NATO TO TAKE A DECISION OF PRINCIPLE THIS YEAR AND WHY ARMS CONTROL NEGOTIATIONS ARE NOT IN NATO'S INTERESTS. MRS THATCHER COULD SAY THAT NOTHING HAS MADE A MODERNISATION DECISION LESS DESIRABLE SINCE KOHL TOLD HER IN RHODES THAT HE FAVOURED ONE THIS YEAR: AND THAT FAILURE TO TAKE THE DECISION WOULD BE A SIGN OF WESTERN WEAKNESS. IT IS TIME TO PIN KOHL DOWN ON HIS REAL AIM AND WHAT HE THINKS HE CAN DELIVER WHEN AND ON WHAT TERMS. I WOULD NOT EXCLUDE HIS WANTING TO LEAVE THE FINAL DECISION ON MODERNISATION TO THE SUMMIT ITSELF, WITH ALL THE RISKS THAT IT WOULD ENTAIL FOR THE SUCCESS OF THAT MEETING.

8. AT THE PRESS CONFERENCE, I THINK KOHL WOULD BE GLAD TO GIVE A CLEAR DECLARATION OF THE FEDERAL REPUBLIC'S SOLIDARITY WITH THE WEST. JOURNALISTS WILL PROBE HARD FOR DIFFERENCES ON SNF. AGREEMENT ON A COMMON LINE BEFOREHAND WILL BE IMPORTANT. I SUGGEST THAT IT SHOULD CENTRE ON THE AGREED NATO POSITION THAT COMPREHENSIVE CONCEPT SHOULD BE APPROVED THIS SUMMER AND THAT NATO'S NUCLEAR AND CONVENTIONAL FORCES WILL BE KEPT UP-TO-DATE WHERE NECESSARY.

GORBACHEV AND THE CLIMATE IN THE FRG FOR DEFENCE ACTIVITY

9. KOHL WILL NOT YET HAVE TURNED HIS MIND TO DETAILED ARRANGEMENTS FOR GORBACHEV'S STATE VISIT HERE IN JUNE. OFFICIALS ARE BEING CAGEY ABOUT THE LIKELY CONTENTS OF THE DECLARATION TO BE ISSUED BY THE TWO GOVERNMENTS. MEANWHILE PUBLIC ENTHUSIASM FOR GORBACHEV REMAINS INTENSE. MINISTERS ARE SENSITIVE TO THE CHARGE THAT POPULAR ENTHUSIASM FOR GORBACHEV AND OPPOSITION TO THE INCONVENIENCE OF MILITARY TRAINING ARE SYMPTOMS OF UNRELIABILITY. THEY POINT, AS EVIDENCE OF FIRMNESS, TO THE RECENT CONFIRMATION OF THE DECISION TO EXTEND NATIONAL SERVICE FROM 15 TO 18 MONTHS STARTING THIS SUMMER. GIVEN KOHL'S WORRIES ABOUT THE FRG'S STANDING IN THE WEST, THIS SHOULD BE A GOOD MOMENT TO URGE HIM TO EXERT LEADERSHIP IN THE PUBLIC DEBATE BY STRESSING REALISM ABOUT GORBACHEV'S CHANCES AND THE CONTINUED NEED FOR UP-TO-DATE DEFENCES. ONE SIGN THAT THIS MESSAGE MAY BE SINKING IN WAS A SPEECH BY GENSCHER ON 10 FEBRUARY, WHICH INCLUDED A PASSAGE ASSURING THE BUNDESWEHR OF ITS CONTINUED IMPORTANCE AND THE POLITICIANS' SUPPORT. KOHL IS NEVERTHELESS BEHIND SCHOLZ IN PUSHING FOR A REDUCTION IN LOW FLYING OVER THE FRG. I SUGGEST THAT THE PRIME MINISTER SHOULD MAKE A GENERAL POINT: THE

UK'S COMMITMENT TO FORWARD DEFENCE AND THE NEED FOR TRAINING IN THE FRG IF THAT COMMITMENT IS TO REMAIN CREDIBLE.

10. KOHL WILL BE INTERESTED IN BRITISH VIEWS ON EASTERN EUROPE, ESPECIALLY POLAND WHICH HE VISITS IN MAY. HE WILL BE CONCERNED THAT THE PACE OF THE CHANGE IN THE AREA, THOUGH VERY WELCOME, COULD ACCELERATE TO THE POINT OF SERIOUS INSTABILITY.

SOUTH AFRICA

11. THERE HAVE BEEN SIGNS OF AUSWAERTIGES AMT OFFICIALS WOBBLING AGAIN ON SANCTIONS. KOHL IS FIRM. THE PRIME MINISTER COULD EXCHANGE VIEWS WITH HIM PRIVATELY, AND URGE THAT THE FRG SHOULD REMAIN STEADY IN OPPOSING SANCTIONS.

ECONOMIC ISSUES

12. THE GERMAN ECONOMY GREW BY 3.4 PER CENT LAST YEAR. KOHL IS PROUD OF THIS. HE SEES THE FEDERAL REPUBLIC'S TRADE SURPLUS (DM 128 BILLION IN 1988) AS A SUCCESS RATHER THAN A THREAT TO THE STABILITY OF THE WORLD ECONOMY. GERMAN DOMESTIC ECONOMIC MANAGEMENT PUTS EMPHASIS ON KEEPING INFLATION VERY LOW. DEREGULATION, LIBERALISATION AND REDUCTION OF SUBSIDIES ALL FAR FROM BEING PRIORITIES. I DO NOT SUGGEST THE PRIME MINISTER SPENDS LONG ON THIS COMPLEX OF ISSUES BUT IT WOULD BE USEFUL TO URGE KOHL NOT TO ALLOW VESTED INTERESTS IN THE FEDERAL REPUBLIC TO BLOCK THE LIBERALISING IMPETUS OF 1992, ESPECIALLY IN THE SERVICE SECTOR, AND TO ENCOURAGE HIM TO ACT MORE VIGOROUSLY TO DEREGULATE THE GERMAN ECONOMY.

13. ON EC ISSUES, I SUGGEST THE PRIME MINISTER FOCUS ON TAX HARMONISATION, THE SOCIAL DIMENSION, MONETARY CO-OPERATION, FRONTIER CONTROLS AND EXTERNAL TRADE, ON ALL OF WHICH THERE ARE SIGNIFICANT DIFFERENCES OF APPROACH:

(A) THE GERMANS HAVE GOT IN A MUDDLE OVER THE WITHHOLDING TAX. FOR STOLTENBERG, WHO LAST YEAR INTRODUCED A (WIDELY CONDEMNED) 10 PER CENT TAX ON SAVINGS, JUSTIFYING IT HAS BECOME A MATTER OF FACE. MONEY HAS LEFT THE FEDERAL REPUBLIC FOR LUXEMBOURG. RATHER THAN ADMIT ERROR, THE FEDERAL GOVERNMENT HAS BACKED THE COMMISSION'S PROPOSAL, ARGUING ONLY ABOUT THE LEVEL OF THE TAX.

(B) ON VAT HARMONISATION, THE GERMANS HAVE FOUND IT EASY TO BACK THE COMMISSION'S PROPOSAL. THEY ARE NOT FUNDAMENTALLY OPPOSED TO THE UK MARKET APPROACH, BUT ARE INDIFFERENT AND SCEPTICAL.

(C) GERMAN ATTITUDES TO THE SOCIAL DIMENSION, WHICH REMAIN LARGELY

UNFORMED BEYOND THE LEVEL OF RHETORIC, ARE HARDER TO PIN DOWN. THE CDU HAVE A STRONG PATERNALIST TRADITION AND KOHL INSTINCTIVELY WANTS TO BE SEEN TO BE LOOKING AFTER THE WORKER, AS WELL AS PROTECTING GERMAN METHODS OF WORKER CONSULTATION WHICH HAVE MULTI-PARTY SUPPORT. AFTER THE BERLIN ELECTION, KOHL WILL BE ALL THE KEENER NOT TO EXPOSE A FLANK TO THE SPD. GERMANS LOOK SURPRISED BUT TAKE THE POINT WHEN ONE SAYS THAT MANY COMMUNITY COUNTRIES COULD NOT COMPETE IN THE SINGLE MARKET IF OBLIGED TO ACCEPT GERMANY'S HIGH SOCIAL SECURITY AND OTHER BENEFITS. IT WILL NOT BE EASY TO PERSUADE KOHL THAT IT FOLLOWS THAT THE COMMUNITY SHOULD KEEP OUT OF THIS AREA, BUT HE SHOULD BE SYMPATHETIC TO AN APPROACH WHICH CONTAINED GENUINE OPTIONS FOR MEMBER STATES.

(D) ON MONETARY COOPERATION, IT IS UNLIKELY THAT KOHL HAS YET FORMED VIEWS. HIS INSTINCT WILL BE TO WANT TO SEE 'PROGRESS' TOWARDS EMU AND FOR FRANKFURT TO BE THE CENTRE OF IT. HE WILL BE AWARE OF THE MISGIVINGS OF THE GERMAN FINANCIAL COMMUNITY. HE WILL NOT BE INFLUENCED BY ARGUMENTS RELATING TO SOVEREIGNTY, THOUGH HE WILL BE ONLY TOO AWARE OF THE DOMESTIC SENSITIVITY OF BUNDESBANK INDEPENDENCE. HE IS ALSO LIKELY TO BE IMPRESSED BY THE RISKS THAT COULD ARISE FOR THE DM OF TAKING ON RESPONSIBILITY WITHOUT POWER IN EMU AND TRANSITION TO IT.

(E) ON FRONTIER CONTROLS, THE GERMANS ARE SATISFIED WITH THE PROGRESS BEING MADE WITHIN THE SCHENGEN GROUP OF COUNTRIES. ALTHOUGH THE MINISTRY OF THE INTERIOR INCREASINGLY RECOGNISES THE DIFFICULTIES WHICH COMPLETE FRONTIER ABOLITION WOULD ENTAIL, KOHL IS DETERMINED TO REACH AGREEMENT ON A COMMITMENT TO ABOLISH IN THE COURSE OF 1990 INTERNAL FRONTIERS BETWEEN THE SCHENGEN SIGNATORIES. KOHL CONTINUES TO SEE HIS PROPOSAL (NOT FULLY THOUGHT THROUGH) FOR A EURO-FBI AS THE ANSWER TO SECURITY OBJECTIONS TO LIFTING THE BORDER CONTROLS IN THE EC AS A WHOLE. THIS IS AN OPPORTUNITY TO PROBE HIS THINKING IN AN AREA WHERE THE UNDERLYING OBJECTIVES OF THE TWO GOVERNMENTS, AS REGARDS THE IMPORTANCE BOTH ATTACH TO THE PRESERVATION OF LAW AND ORDER, ARE IN FACT VERY SIMILAR.

(F) ON EXTERNAL TRADE ISSUES, KOHL, BY GENUINE CONVICTION, IS ON THE RIGHT SIDE. HE MAY NEED DISABUSING OF THE NOTION THAT THE EC DID ENOUGH FOR THE TIME BEING ON AGRICULTURE AT THE BRUSSELS EUROPEAN COUNCIL, AND CONVINCING OF THE LIKELIHOOD OF SEVERE AND SELECTIVE AMERICAN RETALIATION AGAINST INDIVIDUAL COUNTRIES IF THE COMMUNITY CONTINUES TO DRAG ITS FEET OVER THE PUNTA DEL ESTE UNDERTAKINGS. THE PRIME MINISTER COULD POINT OUT THE ILLOGICALITY OF ALLOWING INDUSTRIAL EXPORTS, ON WHICH THE FRG DEPENDS FOR ITS LIVELIHOOD, TO

BE THREATENED BY DETERMINATION TO PROTECT THE SMALL, HEAVILY SUBSIDISED AGRICULTURAL SECTOR.

14. A GOOD POINT OF AGREEMENT TO PLAY UP AT THE PRESS CONFERENCE WOULD BE JOINT ANGLO GERMAN OPPOSITION TO FORTRESS EUROPE.

BILATERAL RELATIONS.

15. EXCEPT FOR THE POINTS MENTIONED ABOVE, THESE DO NOT NEED DISCUSSION, THOUGH THE PRIME MINISTER WILL PRESUMABLY WANT TO FIND A DATE FOR HER SPRING VISIT TO KOHL'S HOME. SOME POINTS COULD BE MENTIONED AT THE PRESS CONFERENCE AS EVIDENCE OF THE IMPORTNCE OF THE RELATIONSHIP. THESE INCLUDE THE IMPORTANCE OF BILATERAL DEFENCE COOPERATION AS DEMONSTRATED BY THE RECENT JOINT STUDY: THE 40TH KOENIGSWINTER CONFERENCE IN THE UK IN MARCH 1990 (WELL TIMED TO BE MADE TO COINCIDE WITH NEXT YEAR'S SUMMIT): THE 40TH BIRTHDAY THIS YEAR OF THE ANGLO-GERMAN ASSOCIATION (DEUTSCH-ENGLISCHE GESELLSCHAFT): AND THE ADDITIONAL MONEY FOR BRITISH COUNCIL SPONSORED SCIENCE AND TECHNOLOGY EXCHANGES. THE BRIEFING CONTAINS OTHER EXAMPLES.

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TO DESKBY 150900Z FCO

TELNO 185

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INFO ROUTINE EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO

INFO SAVING OTTAWA, TOKYO

ANGLO-GERMAN SUMMIT: THE GERMAN BACKGROUND

SUMMARY

1. KOHL FACES A TEST OF LEADERSHIP. HE KNOWS HE HAS TO REASSURE HIS ALLIES ABOUT HIS, AND HIS COUNTRY'S, RELIABILITY. BUT THE BERLIN ELECTIONS HAVE MADE THE DOMESTIC CONTEXT FOR THIS MORE DIFFICULT. HE NEEDS TO LOOK GOOD PUBLICLY AT THE SUMMIT AND IT IS IN OUR INTEREST TO HELP HIM DO SO.

DETAIL

2. KOHL, DESPITE HIS STEADY PERSONALITY AND THICK SKIN, MUST BE WORRIED ABOUT HIS PREDICAMENT ON THE INTERNATIONAL AND DOMESTIC FRONTS. IN FOREIGN POLICY, HIS STOCK-IN-TRADE FEATURES FIRM SOLIDARITY WITH NATO AND THE COMMUNITY. SO HE WILL BE CONCERNED AT THE WIDESPREAD DOUBTS THAT HAVE GROWN AGAIN IN THE WEST ABOUT THE FEDERAL REPUBLIC'S RELIABILITY, AND HE WILL BE VERY CONSCIOUS OF THE DISTRUST OF GENSCHER. HE KNOWS THAT A DECISIVE STAND BY HIM ON SNF MODERNISATION WOULD DO MUCH TO RESTORE ALLIED CONFIDENCE. BUT THAT WOULD INVOLVE A DOMESTIC PRICE IN THE FORM OF A COALITION SHOW-DOWN AT A DIFFICULT TIME, AND KOHL PRIZES COALITION CONSENSUS ABOVE RISK-TAKING.

3. THE BERLIN ELECTION ON 29 JANUARY WAS A DISASTER FOR THE CDU, FOR WHICH IT WAS WHOLLY UNPREPARED AND WHICH HAS UNDERMINED ITS - AND THE WHOLE COALITION'S - SELF-CONFIDENCE. IT HAS ALSO CAUSED SOME DOUBTS ABOUT THE PREVAILING ASSUMPTION THAT THE PRESENT COALITION WOULD CONTINUE AFTER THE GENERAL ELECTION IN DECEMBER 1990. IN THE LATEST NATIONAL OPINION POLL, THE COALITION PARTIES FELL SHORT OF AN OVERALL MAJORITY AND THE SPD PLUS GREENS JUST ATTAINED ONE. KOHL HAS SAID, NOT UNNATURALLY, THAT THIS IS THE KIND OF DIP THAT GOVERNMENTS OFTEN FACE MID-WAY BETWEEN ELECTIONS. OBJECTIVELY, HE HAS A GOOD CASE. THE ECONOMY CONTINUES TO DO WELL. CURRENT PUBLIC DISSATISFACTION IS CAUSED MAINLY BY PROBLEMS THAT CAN BE OVERCOME OR THAT VOTERS WILL FORGET OR GET USED TO: THE HIGHER CONSUMER TAXES AND HEALTH CARE CHARGES THAT HAVE JUST COME IN, CONCERN ABOUT THE

HOUSING PROBLEMS AND COMPETITION FOR JOBS CAUSED BY THE OVER 200,000 IMMIGRANTS OF GERMAN STOCK FROM EASTERN EUROPE IN 1988, AND THE GOVERNMENT'S EVASIVENESS ABOUT THE INVOLVEMENT OF GERMAN FIRMS IN THE CHEMICAL WEAPONS PLANT IN LIBYA.

4. BUT KOHL ALSO HAS A MAJOR DIFFICULTY THAT HAS HANDICAPPED HIS COALITION SINCE THE START: CHRONIC LACK OF COORDINATION AND REPEATED INEFFECTIVENESS IN SELLING TO THE PUBLIC THE GENUINE BENEFITS OF THE GOVERNMENT'S POLICIES. AND THE OUTCOME OF THE BERLIN ELECTION IS CAUSING ADDITIONAL STRAINS IN THE COALITION. THE CDU/CSU IS DEBATING WHETHER TO MOVE TO THE RIGHT TO HEAD OFF THE CHALLENGE FROM THE FAR RIGHT REPUBLICAN PARTY. THE FDP, WHICH WAS EJECTED FROM THE BERLIN HOUSE OF REPRESENTATIVES, MAY BE TEMPTED TO SEEK PUBLICITY AND PROFILE BY PLAYING UP MATTERS ON WHICH IT DIFFERS FROM THE CDU/CSU COALITION PARTNER.

5. THINGS MAY GET BETTER FOR KOHL AFTER A TIME, PARTICULARLY WITH INCOME TAX REDUCTIONS COMING INTO EFFECT IN JANUARY 1990. BUT RIGHT NOW HE FACES THE STIFFEST TEST OF HIS LEADERSHIP SINCE HE BECAME CHANCELLOR.

6. ONE REASON WHY FRANKFURT WAS CHOSEN FOR THE SUMMIT IS THAT THE CDU MAYOR COULD BENEFIT IN THE COMMUNAL ELECTIONS ON 12 MARCH. BECAUSE OF BERLIN, MORE NOW RIDES ON THE OUTCOME THAN FORMERLY. THE MAYOR - WHO WILL ACCOMPANY THE PRIME MINISTER ON HER WALKABOUT ON 20 FEBRUARY - MAY WELL LOSE.

7. AGAINST THE BACKGROUND OF HIS DOMESTIC DIFFICULTIES, KOHL WILL WANT TO LOOK GOOD IN PUBLIC AT THE SUMMIT. HE WILL SET STORE BY THE BENEFIT TO BE HAD FROM ASSOCIATION WITH A WESTERN LEADER WHO IS MUCH ADMIRED IN THE FEDERAL REPUBLIC. TELTSCHIK TOLD ME ON 8 FEBRUARY THAT IT WOULD BE HARMFUL TO THE CDU IN THE MUNICIPAL ELECTIONS IN FRANKFURT IF THE CHANCELLOR AND THE PRIME MINISTER DISPLAYED POLICY DIFFERENCES. KOHL IS STAUNCHLY PRO-WESTERN AND IT IS IN OUR INTEREST THAT HE SHOULD APPEAR TO ENJOY BRITISH CONFIDENCE.

B. SEE MIFT.

MALLABY

YYYY

Copy (Personal and not to be referred to in correspondence)
M Nicholls
Sir M Alexander
M Weston

PS/Am.
M Boyd.

Copy
M Lane
M Case

John Childers 20/2
x R.

Ambassador

CONVERSATION WITH TELTSCHIK

1. On the way back from Frankfurt today, 13 February, I had an interesting conversation with Herr Teltschik in his car. Two topics are worth recording.

EMU, Central Bank etc

SNF

3. The conversation here was much more discursive, with Teltschik obviously feeling his way with me. The concrete points which emerged were:-

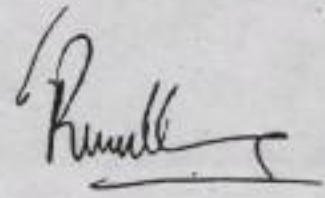
- a) the Financial Times interview "the headline is wrong. The important message is that Kohl does not feel that SNF modernisation should be made a test of German reliability";
- b) next discussion? Teltschik said that tomorrow's Coalition discussion is not about SNF but domestic issues. There will be further discussion on SNF but he could not say when. He said that this could happen before the Anglo-German Summit, but his further remarks make me think that the timetable is more extended than that (see (d) below);

/c)

- The FMOD message!
- c) he said that Genscher had telephoned the Chancellor this morning after this meeting with Baker and had said "the meeting went very well". Burt had also telephoned to say "Genscher told us something different from what we expected". Teltschik said he had not got to the bottom of this, but he feared that Genscher interpreted Baker's attitude as being one of American agreement with - or at least acceptance of - Genscher's position. Teltschik complained that the Americans were tough with the wrong people. It was Genscher who needed to be taken to task with, not Kohl. Genscher should be asked to explain how Western coupling could be maintained without ground based systems. He should be told that there was no hope of getting language on arms control in the Comprehensive Concept in the absence of willingness to accept a decision of principle about modernisation. Teltschik said he was beginning to suspect that the new US Administration's review of arms control policy might come up with unexpected answers (implying that Genscher's opposition might not be so inconvenient to them. He did not enlarge);
- d) Teltschik said the Chancellor would still try for a decision by the German Government. "We may get it but I am pessimistic". He went on "in the context of the Comprehensive Concept, the Chancellor would certainly be able and willing to accept statements about the continuing need for ground based systems and for their modernisation when necessary." One of the many present difficulties was the way in which everything had now narrowed down to decisions on the most difficult single element - SNF modernisation - without the rest of the wider context that the Comprehensive Concept had been meant to bring. I asked if this in effect meant that a decision on modernisation might only be possible at the NATO Summit itself. Teltschik nodded. I said that that would require extraordinary stage management and, at a minimum, the situation in Bonn being kept as open as possible so that inactivity was not interpreted as a victory for Genscher. Teltschik agreed, adding however that this was "not an official message from his Government". He was anxious that I should not think that the towel had been thrown in.

we should
at least be
able to trade
on our TASH
and US DCA
roles: how,
if we do,
Genscher will
switch arguments!

4. There was more colour and detail. One point that sticks in my mind was the observation that Genscher used the singularisation argument about the deployment of ground-based systems to great effect. "It would be harder for him to do this if the UK were to take some". Teltschik also repeated to me what I think he has said to you about his surprise at the public line taken by Lambsdorff in Washington. He was evidently upset by the soft line he suspects the Administration as having taken with FDP leaders, who had taken full advantage. "That is the FDP.... they let down Schmidt....".



Pauline Neville-Jones

13 February 1989

CONFIDENTIAL AND PERSONAL

Top copy on
Euro POL: EMS



cc L. Lay/EMS
cc CDP

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

DELORS COMMITTEE

WITH PG?

I have been thinking further over the weekend about the Governor's note attached to the Bank's letter of 18 February, which he had discussed with me last week.

... I fully understand the difficult situation which the Governor faces in the Committee, not least in the light of the terms of reference given to the Committee by the European Council (text attached). But after further reflection I have come to doubt whether the tactics which he suggests in his letter, and which I had discussed with him, are likely to lead to the outcome which he is seeking. My reading of Parts II and III of the draft Report suggests that they are so far from being satisfactory that he would face an impossible task in the Group to secure agreement to an acceptable redraft.

There are also, in my view, risks in submitting a redraft of the whole Part III of the Report (which would set out the steps towards EMU) as the Governor suggests. Unless the redraft were to be dismissive of the so-called stages II and III of the transition to EMU - and this would be unacceptable to some members of the Group - the redraft might give the impression that he favoured the steps which were envisaged for those stages.

I therefore feel that the Governor might well do better to submit to the Group a free-standing statement of his views and conclusions, which might be included in the Report. It is of course possible that one or two other members of the Group might support this statement: if so, so much the better.



I suggest that this statement might include the following elements:

- A short review of the history of economic and monetary co-operation in the Community, leading to the present position. Tactically, it would be right to present the value of co-operation in as positive terms as possible.
- A passage to the effect that it was clear from Group's discussion that "full" EMU, as conceived by the Group, would require massive shifts of economic and political sovereignty from member states, together with some paragraphs to provide the evidence for this in suitably stark terms.
- A comment that such a shift would require fundamental amendment to the Treaty, noting that this issue goes beyond the competence of the members of the Group - who are monetary, not constitutional and political experts, and saying that it is for Heads of State and Government to draw the constitutional consequences, and not something to which Central Bank Governors should make recommendations.
- A passage setting out the positive steps which could be taken in the period immediately ahead to enhance economic and monetary co-operation within the Community.
- A conclusion that this would be a more fruitful approach to progress on carrying forward economic and monetary co-operation than that described in the main Report, which has fundamental flaws, which should be spelt out.



I hope that we can have an opportunity to discuss this approach at our meeting on Wednesday.

I am sending a copy of this minute to the Foreign and Commonwealth Secretary and to the Governor of the Bank of England.

A handwritten signature in dark ink, appearing to be 'N.L.' with a small flourish at the end.

[N.L.]

13 February 1989

invited the Commission to prepare proposals for concrete measures to implement the Community's contribution to the international cooperation referred to in Toronto.

5) MONETARY UNION

The European Council recalls that, in adopting the Single Act, the Member States confirmed the objective of progressive realization of Economic and Monetary Union.

They therefore decided to examine at the European Council meeting in Madrid in June 1989 the means of achieving this Union.

To that end they decided to entrust to a Committee the task of studying and proposing concrete stages leading towards this Union.

The Committee will be chaired by Mr Jacques DELORS, President of the European Commission.

The Head of State and Government agreed to invite the President or Governor of their Central Banks to take part in a personal capacity in the proceedings of the Committee, which will also include one other member of the Commission and three personalities designated by common agreement by the Heads of State or Government. They have agreed to invite :

- Mr Niels THYGESEN, Professor of Economics, Copenhagen,
- Mr LAMPALUSSY, Director-General of the Bank for International Settlements in Basle, Professor of Monetary Economics at the Catholic University of Louvain-la-Neuve
- Mr Miguel BOYER, President of "Banco Exterior de España".

The Committee should have completed its proceedings in good time to enable the Ministers for Economic Affairs and for Finance to examine its results before the European Council meeting in Madrid.

David Marsh talks to West Germany's Helmut Kohl A Chancellor for all seasons

Helmut Kohl, the West German Chancellor, intends to steam like a heavy-hulled Rhine barge through Bonn's political shoals.

After his latest election upset in West Berlin, squabbling in the government coalition and an international row over involvement of German companies in Libya's suspected chemical weapons factory, less self-confident men than Mr Kohl might be looking beleaguered. In fact, after being at the helm in Bonn for more than six years, he is responding to his difficulties by stoking up the governmental engines and ploughing on.

During a combative two-hour interview in the Chancellery this week, Mr Kohl went on the attack by calling for full exposure of other countries' involvement in construction of the Libyan plant. "If there are German firms involved, we will prosecute them with the full force of the law. And should there be American firms involved, or others, then the consequences should also be clear."

He brushed aside his Christian Democrats' setback in the Berlin poll at the end of last month - the latest in a string of regional election reverses over the past two years - as partly a reaction to "necessary cuts" sacrifices the Government is trying to push through in vital areas like health spending. "What I have to do is to continue this policy with great decisiveness and staying power."

He made clear that Bonn will not be pushed into any early decision on new short-range nuclear missiles which the US and Britain want stationed in West Germany from the mid-1990s. Over the hotly debated "modernisation" of the Lance nuclear missiles, Mr Kohl says: "The real decision over the production (of any Lance successor) will be in 1991-92. Only then will the question of the ageing of Lance really come up for discussion."

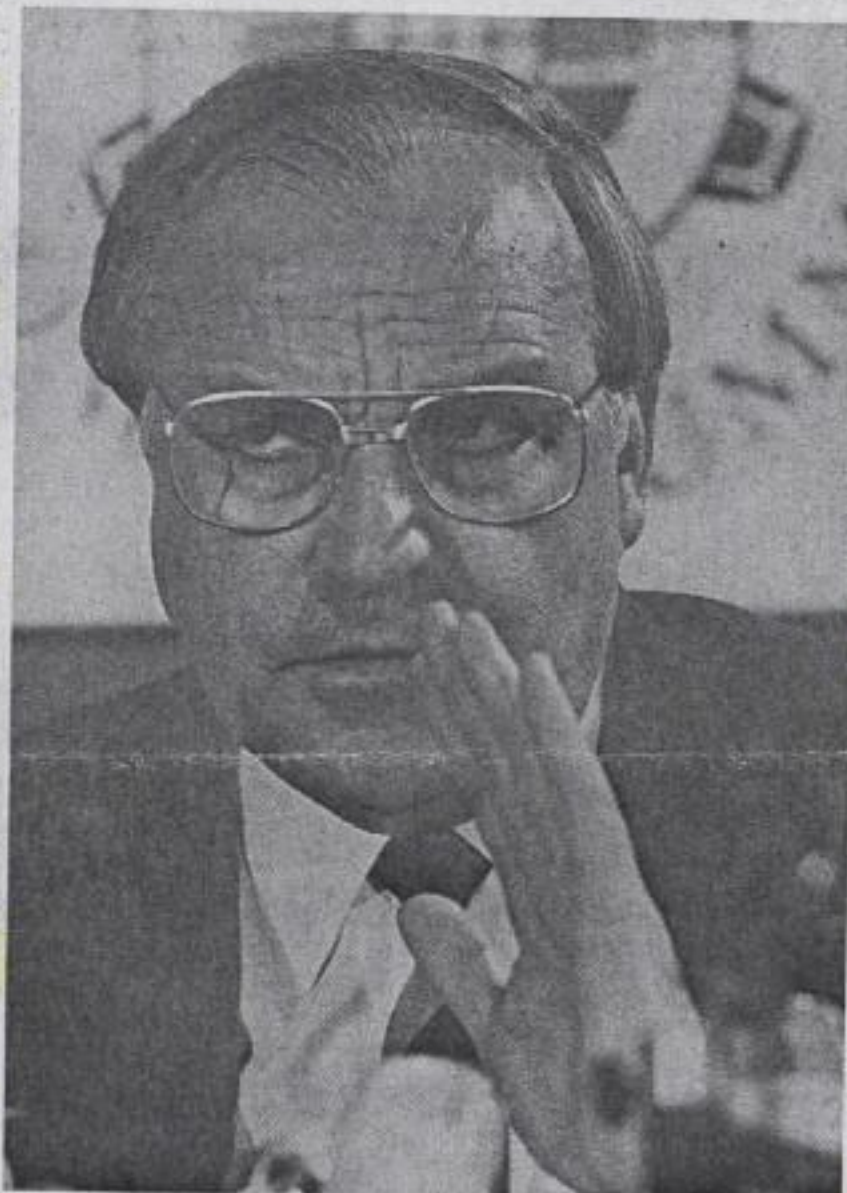
This will be discussed at the Nato summit in London in the early summer. "I expect from our Nato partners that in a sensible conversation - and I have no doubt we will reach that - we will come to a common solution. The most stupid thing we could do would be to play ourselves off against each other. Then the Soviet Union would be winners. I want a common position. I will not allow anyone to doubt our will. Absolutely nobody."

The Chancellor deeply resents assertions elsewhere - particularly in the US after the Libyan affair - that the Federal Republic is becoming an unreliable partner in Nato, increas-

The Chancellor resents assertions that West Germany is becoming an unreliable Nato partner

ingly tempted by its ties to the East. "I stick to my position over the unity of the (German) nation. But the Federal Republic is part of the Western world. I said this to Gorbachev: there is no price at which we could be, so to speak, bought out."

His underlying message for the West is that the rest of Nato and the European Community will have to accept a stronger and more assertive Federal Republic that will no longer allow itself to suffer a subtle form of international discrimination because of the Nazi past. And, by emphasising the growing polarisation of German politics between left and right, he delivers an unspoken warning. If Hel-



Helmut Kohl: confident of election victory next year

Terry Kirk

mut Kohl and the CDU should fail, the West could find the alternative of a left-wing government very much more difficult to deal with.

Mr Kohl says he has "not the slightest doubt" that his centre-right coalition will win the next general election at the end of 1990. He says left-wing elements taking a neutralist anti-Nato stance among the Social Democratic Party and the Greens "are not capable of achieving a majority." But, in areas like defence, he warns the West: "They want a different republic."

Burly and fearlessly anti-intellectual, he likes to point out that he was good at football, but he says he is also one of the chief users of the Bundestag's library. He is a man of massive certainty. Faustian wavering appears unknown. One of his favourite expressions is "entirely unequivocal."

On the other hand, he tends to be very defensive and thin-skinned. Many years of being the butt of the left-leaning parts of the German media have taught him to sense a barb in a question when none may be there. More than half a dozen times during our conversation, he retorted in one form or another that he did not need lessons in how to govern.

His mind wanders ceaselessly in search of a favourite anecdote or well-honed political slogan. Mr Kohl appears to relish a verbal tussle, and politely prefaces a diatribe with the word "Excuse me." An interviewer needs strong lungs - and also needs to enjoy being told by Mr Kohl in homely Palatine German that his views are "absurd," "rubbish" or

"nonsense."

In the Berlin election, the CDU lost control of the city government and saw the ultra-right Republican Party gather 7.5 per cent of the votes. Mr Kohl says that "through demagoguery," the Republicans, a nationalist grouping which has gained ground from disappointment on the right with Mr Kohl's policies, succeeded in highlighting the issue of the large presence of foreigners in the city.

Mr Kohl declares that Article 16 of the constitution, laying down the right to asylum in West Germany of those who are politically, racially or religiously persecuted, will not be changed. "This is the result of the experience of the Nazi barbarities." But he adds that, over the long run, "it is not tolerable politically" that the asylum laws should be misused by many thousands of "economic refugees" from the Third World.

He sees his domestic political problems squarely in terms of the challenges of the proposed post-1992 integrated European market. This, he says, provides the necessity for making often unpopular changes in the tax, pensions, telecommunications and health systems. "Like all other members of the European Community, the Federal Republic after 1992 will no longer be the same. Our problem is that we have prosperity today as never before. This prosperity has led to people becoming satiated in certain respects. Too many people think this will automatically continue into the future. My duty is sometimes to tell people unpleasant things and to

say that we cannot go on like this... We are the No 1 exporting country in the world and we will only be able to export if we continue to provide first class goods at sensible prices."

One of Mr Kohl's most pugnaciously expressed points is that the rest of the world does not understand the problems of trying to run a divided country with a proportional voting system, a liking for complex coalitions, with conscription and 900,000 troops (West German and Nato) stationed on a territory only 220 kilometres wide.

"You (in England) do not have the problem of low (military) flying *vis-à-vis* the population which we have. We have people who say we don't need any low flying at all. A lot of people would like that. My policies are to tell people that what is necessary must be done. We can reduce, certainly, the number of low flights. But we cannot do away with them altogether."

In spite of opinion polls showing a sizeable proportion of the population in favour of some sort of neutrality, Mr Kohl says "the great majority" stands fully behind Nato and the allied military presence. More strongly than elsewhere in the West, people in the Federal Republic believe the threat from the Soviet Union has declined. The Chancellor says this is because "we are the most frontally exposed country in the Western alliance... When Mr Gorbachev is in the White House, and when they sing (with President Reagan) songs in the evening there together like 'Moscow Nights,' people ask themselves whether the threat is the same."

Although declaring his wholehearted support for, in the standard phrase, the "unity of the nation," Mr Kohl refuses to spell out precisely how German reunification could come about. "The idea - the vision - is that we want the political unity of Europe; and that freedom is more important than boundaries." On cutting down barriers with East Germany, he says: "Time is working for us. Mr (Erich) Honecker (the East German leader) can dig himself in, he can refuse to allow in magazines from the West, and now magazines from Moscow, but time will march on over his head." Mr Honecker's recent remark that the Berlin Wall could exist for another 50 or 100 years was "obviously... a sign of weakness."

Mr Kohl justifies the policy of buying prisoners' freedom from East Germany. "How is that immoral?" he asks. "That is a theoretical consider-

Mr Kohl rejects the idea that Germans are either extraordinarily good or extraordinarily bad.

ation which you can have in your editorial offices, because you do not have responsibility. We also pay money so that Germans in Romania can leave. Should I sit here in my office in the comfort of the Federal Republic and shut myself off from the personal fate and persecution and terrible sacrifices of these people?"

He says that EC integration is acting as a magnet for East Germany. "Why should I change my policies? I do everything to maintain peace and freedom. Everything to stay in the Western community of values. Everything to build Europe. Everything to make the Federal Republic look to the future." With patience, this will all

lead, one day and in some form, to unity with the East, he says.

Over Libya, Mr Kohl says the Federal Republic "will have to change our laws very quickly. We will need to sharpen our laws... so that no German citizens in any part of the world can be involved in the production of chemical weapons."

Were not Bonn's public relations over the affair badly managed? Instead of answering the question directly, Mr Kohl retorts that other Western countries export weapons to the Middle East and that the West German state cannot stop companies exporting unless there is proof they are breaking the law. "The whole time you say that the Germans have a special past. Why are you not fair and say that we need to pay special attention to the legal foundations of the state?" The Government was told in May 1988 of the American suspicions of German involvement in the Libyan plant. Mr Kohl says: "In October I heard for the first time of such a thing - the suspicion, from the BND (the German secret service), only the suspicion. We are a state based on law. If we do something different, many in the world write that they are after all Nazis, they do not have a state based on law."

He adds: "The Germans have nothing to hide. What angered us was the incredible assertions against Genscher (the Foreign Minister) and me in American newspapers."

Mr Kohl obviously likes power and "I says he enjoys the sense of duty - 'I mean that you try to do the right thing.' He claims he would not have difficulty filling his time if he were out of office. And he is honest enough to admit to some errors. Over the past six years he says he would have tackled "totally differently" the question of winning acceptance for his policies. "That is the real problem of a modern democracy - not just a German problem - that too few people can look beyond their own special situations."

He also admits that his indirect comparison in autumn 1986 between Mikhail Gorbachev and Joseph Goebbels was a mistake. Mr Gorbachev is coming to Bonn in June and Mr Kohl says: "It is in the interest of the West that Gorbachev pushes on with his 'opening' policy. When they open up to outside influences, we will come into quite a different competition of ideas and ideology."

The Chancellor rejects the oft-held idea that his countrymen are either extraordinarily good or extraordinarily bad. "The Germans are entirely normal people, just as in Britain. What do they want? They want to live in peace. They want to live in freedom. They want social justice. They want a good livelihood. They want happiness in life. They want to be glad, they don't want to walk around stressed, confronted from morning to evening with the burden of history. There are however people who want to persuade us that we should not be allowed to do this."

As for his own personality, he rejects all the clichés. "I do not sit out problems. There are those who say I do not read government documents. That is rubbish..." He dislikes suggestions that he succeeds only when the political sun shines. "If it is snowing outside, I have to put a thick coat on... The German republic is not a sunshine republic, and I am not a sunshine Chancellor. There are many people who say of me, the greater the pressure, the stronger I will be. And that's why you will see that I shall win the general election next year."

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*file 1/10
cc: Sir K*

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 February 1989

ANGLO/GERMAN SUMMIT:

MINISTERIAL AND OFFICIAL ATTENDANCE

Thank you for your letter setting out the proposed attendance at the Anglo/German Summit. I think that the Prime Minister would be content with what you propose.

I am copying this letter to Brian Hawtin (Ministry of Defence), Philip Mawer (Home Office), Peter Smith (Department of Trade and Industry), Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and to Trevor Woolley (Cabinet Office).

CHARLES POWELL

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

ea



Foreign and Commonwealth Office

London SW1A 2AH

8 February 1989

Dear Charles,

Anglo-German Summit, 20-21 February:
Ministerial and Official Attendance

The Prime Minister has agreed that the Foreign, Defence and Home Secretaries, the Minister of Agriculture, Fisheries and Food, and the Chancellor of the Duchy of Lancaster should attend the Anglo-German Summit. The Germans have agreed on corresponding attendance. We propose that the Ministers accompanying the Prime Minister should bring officials as follows:

Foreign and Commonwealth Office

Mr J S Wall	Private Secretary
Sir John Fretwell	Political Director
Mr R A Burns	Head of News Department

Home Office

Mr P J C Mawer	Private Secretary
Mr G Angel	Under Secretary

Ministry of Defence

Mr B R Hawtin	Private Secretary
Mr D A Nicholls	Deputy Under Secretary

Department of Trade and Industry

Mr P Smith	Private Secretary
Mr C W Roberts	Deputy Secretary

MAFF

Mrs S Stagg	Private Secretary
Mr D A Hadley	Deputy Secretary

In addition, Philip Mawer has asked that Mr W Hyde, Deputy Secretary, who is National Coordinator for 1992 frontier questions, should exceptionally be included, because of the importance of this aspect of the Home Secretary's discussions.

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I should be grateful for confirmation that the above participants are acceptable.

I am copying this letter to Brian Hawtin (MOD), Philip Mawer (Home Office), Peter Smith (DTI), Shirley Stagg (MAFF) and Trevor Woolley (Cabinet Office).

Jans,
Stephen Wall
(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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NOTE FOR THE RECORD

cc Prime Minister
Dominic Morris
Tessa Gaisman

ANGLO GERMAN SUMMIT, 1990

Our Ambassador in Bonn has suggested to me that we should try to arrange the next Anglo German Summit, which is due in the spring of 1990, to coincide with the 40th anniversary of the Königswinter Conference in Cambridge. Indeed we might hold the Summit itself in Cambridge. The dates are 29/30 March 1990. I should be grateful if these could be noted in the Prime Minister's forward diary.

C.D.P.

ms

C. D. POWELL

1 February 1989

KAYAPW



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 January 1989

ANGLO-GERMAN SUMMIT

Thank you for your letter of 30 January about the programme for the Anglo-German Summit.

I am sure the Prime Minister would prefer the small lunch with Herr Poehl. If possible, it would be very helpful to have places for me and my German opposite number at the lunch so that we have some record of what happened. I do not think the Prime Minister would mind driving to the Bundesbank for the lunch even though this may delay the sightseeing a bit.

You asked for confirmation on a couple of points raised by the reconnaissance party. I confirm that their views stand on both points.

(C.D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

File
DCASV
LPE

dk

CCPC
✓ P.C.P.

Foreign and Commonwealth Office

London SW1A 2AH

30 January 1989

Dear Charles,

Anglo-German Summit: 20-21 February

The draft programme for the Summit incorporates a lunch for the Prime Minister hosted by Poehl, President of the Bundesbank.

We need to give the Germans our views on the scale of the lunch and its venue. Poehl has suggested a small lunch which would offer the opportunity for an open and frank discussion about international monetary matters. He would propose to invite:

Prime Minister,
Federal Chancellor,
Herrhausen, Head of Deutsche Bank,
Two other top German bankers,
Reuter, Head of Daimler-Benz,
Spethmann, Head of Thyssen,
One other top industrialist.

Poehl's idea of small very high powered group looks good. I would be grateful to know if we can ask him to go ahead with arrangements on this basis.

The question of venue for the lunch also has to be addressed. Poehl's original idea was for a lunch at the Bundesbank. This would involve a 20 minute drive from the centre of Frankfurt before and after lunch. The alternative would be for the lunch to be held in the City Hall where the talks will be conducted. The draft programme in Bonn telno 78 (copy enclosed for ease of reference) shows timings based on holding the lunch at the City Hall. If the Prime Minister preferred to go to the Bundesbank, the sightseeing would be approximately 45 minutes later. Departure would be delayed by the same length of time, unless the sightseeing were shortened. The Embassy in Bonn advise that there would be some political advantage in the Prime Minister travelling to the Bundesbank Headquarters for lunch, rather than staying at City Hall. It would be a gesture to Poehl and would be popular with the German banking community in general. We agree.

/The Germans



The Germans have also asked for formal confirmation of two points put to them by the Reconnaissance Party:

- (a) that the proposed guard-of-honour for the Prime Minister should be moved from its present proposed location in front of Frankfurt City Hall to a more secure place, possibly the airport. (This has already been reflected in Bonn telno 78);
- (b) that Ministers would return to the UK with the Prime Minister in the VC10, and that a separate programme for them would therefore be needed covering the period of the Prime Minister's lunch and sightseeing.

These points both seem sensible. On the security point, we have consulted informally on the MISC 1136 net and understand that they endorse the views of the Reconnaissance Party. I would be grateful to know if we can confirm this with the Germans.

Johns ever

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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TO PRIORITY FCO
TELNO 078
OF 201904Z JANUARY 89
INFO SAVING HMC G FRANKFURT

MIPT : ANGLO-GERMAN SUMMIT : DRAFT PROGRAMME

MONDAY 20 FEBRUARY

1645 ARRIVAL AT FRANKFURT AIRPORT OF SECRETARY OF STATE FROM
BRUSSELS

1700 ARRIVAL BRITISH DELEGATION AT FRANKFURT AIRPORT ON VC10
AIRCRAFT.

GREETED BY CHANCELLOR.

PRESENTATION OF GERMAN AND BRITISH DELEGATIONS.

PM AND CHANCELLOR STAND ON PODIUM FOR NATIONAL ANTHEMS.

PM AND CHANCELLOR INSPECT GUARD OF HONOUR.

DEPART IN CAVALCADE FOR FRANKFURT.

1750 ARRIVAL CITY HALL, FRANKFURT.

PM, CHANCELLOR AND LORD MAYOR OF FRANKFURT TO RETIRE TO LORD
MAYOR'S OFFICES.

1755 KAISERSAAL: SHORT SPEECH BY LORD MAYOR BRUECK. GIFT TO PM AND
CHANCELLOR.

SHORT REPLY BY PM

GIFT TO LORD MAYOR.

SIGNING OF GOLDEN BOOK.

1805 PM/CHANCELLOR TALKS

MINISTERS TALKS.

1905 DRIVE TO FRANKFURTER HOF HOTEL
(PM, FOREIGN AND DEFENCE SECRETARIES).

INTERCONTINENTAL HOTEL
(HOME SECRETARY, DTI AND AGRICULTURE MINISTERS).

HESSISCHER HOF HOTEL
(OTHER MEMBERS OF DELEGATION).

1910 ARRIVAL FRANKFURTER HOF.

1945 DEPARTURE OF CHANCELLOR FOR ALTE OPER.

1950 DEPARTURE OF PM FOR ALTE OPER.

2000 CONCERT IN ALTE OPER
(DRESS: BLACK TIE/LONG DRESSES)
(C.2000 GUESTS)

2120 CONCERT ENDS.
(APPROX)

PM AND CHANCELLOR EXIT AND MEET CONDUCTOR AND SOLDIST IN
PRIVATE ROOM

2130 RECEPTION HOSTED BY CHANCELLOR IN ALTE OPER
(500 GUESTS).

2300 END RECEPTION.
(APPROX)
RETURN TO HOTELS.

TUESDAY 21 FEBRUARY

0820 DEPART HOTELS FOR CITY HALL.

0830 CONTINUATION OF PM/CHANCELLOR'S TALKS.
CONTINUATION OF MINISTERS' TALKS.

1000 FOREIGN MINISTERS JOIN PM AND CHANCELLOR.

1045- PLENARY SESSION

1145

1145- PM RETIRES TO PRIVATE ROOMS.

1200
 1200- PRESS CONFERENCE
 1245
 1245- POSSIBILITY FOR PRIME MINISTER TO GIVE INTERVIEW(S)
 1300

1300 LUNCH (IN KAISERSAAL) HOSTED BY HERR POEHL, PRESIDENT OF
 FEDERAL BANK.

1430 BEGIN SIGHTSEEING. WALK TO CATHEDRAL (10 MINS)

1440- VISIT CATHEDRAL. (10 MINS)
 1450 (INCLUDES ORGAN RECITAL AND EXPLANATION OF
 HISTORY)

1450 DRIVE TO GOETHE'S HOUSE (10 MINS)

1500- VISIT GOETHE'S HOUSE (20 MINS)
 1520 (INCLUDES SIGNING OF VISITORS' BOOK AT GOETHE'S
 DESK)

1520 DRIVE TO PAULSKIRCHE (10 MINS)

1530- VISIT PAULSKIRCHE (10 MINS)
 1540 (INCLUDES EXPLANATION OF HISTORY)

1545 DRIVE TO AIRPORT

1615 ARRIVE AIRPORT
 FAREWELLS FROM CHANCELLOR

1630 DEPARTURE DELEGATION ON VC10

(THE SIGHTSEEING AND DEPARTURE WILL BE APPROX 45 MINS LATER IF
 POEHL'S LUNCH TAKES PLACE IN THE BUNDESBANK HEADQUARTERS)

MALLABY

YYYY

CONFIDENTIAL
SAVING TELEGRAM

Fm Frankfurt

TO BONN TEL NO 1 SAVING OF 25 JANUARY 1989

INFO SAVING FCO, DÜSSELDORF, MUNICH, HAMBURG, BMG BERLIN

ANGLO-GERMAN SUMMIT : 20/21 FEBRUARY 1989 : THE FRANKFURT BACKGROUND

Summary

1. The local scene is dominated by the communal elections due on 12 March. There is a good chance that the CDU City Administration may be defeated. This would be a reverse for the Federal Government. But otherwise widespread local satisfaction at the decision to hold the Summit in Frankfurt. Belief that the centre of gravity in the FRG is shifting southward with Frankfurt as the logical focus point, particularly in the financial and economic context. Important also for UK interests since London draws large proportion of German financial services business from here. Local view that this is a challenge. But also criticism in some sectors that the UK opposes creation of more integrated European financial institutions.

Detail

Political Scene

2. The Prime Minister will be arriving three weeks before the Frankfurt communal election. Though only a local contest, the outcome is likely to have wider implications, particularly if the ruling CDU Administration, headed by Oberbürgermeister Wolfram Brück, is defeated. This outcome looks quite possible. Herr Brück is facing a serious challenge from the personable SPD candidate, Volker Hauff, a former Federal Minister. He himself is experiencing difficulties in carving out a convincing identity against the overwhelming personality of his predecessor, Walter Wallmann, who over a nine-year period totally transformed the character of the city and is now installed as the dominant CDU regional power as Minister-President in Wiesbaden, a mere 20 miles distant. Brück has also been maladroit in handling a major local scandal involving a number of city officials on serious charges of corruption.

3. The election campaign is still not fully under way. But the initial opinion polls suggest a drop in the CDU vote to under 40 per cent and a strong potential showing by the Greens. There is a good deal of local dissatisfaction over shortages of housing, particularly among the students who mounted a series of demonstrations before Christmas to protest at this situation and other conditions in the university. These were the most serious disturbances in the city since the late 1960s. Given the row of poor election results which the CDU has been experiencing over the country during the last year, a defeat in what is now regarded as one of the main CDU city bastions would be particularly unwelcome to the Federal Government. This may well be one of the reasons which prompted the Chancellor to propose

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Frankfurt as the site for his meeting with Mrs Thatcher. Brück himself told me that he certainly regarded this decision as most opportune and one which would not only enhance the city's standing but could also do much for the government's image with the local electorate (a not unwelcome tribute to Mrs Thatcher's popular image here).

Economic

4. There is widespread satisfaction, as the news has begun to leak out, over the decision to stage the Summit here. It coincides with the growing feeling of self-confidence that the FRG's economic centre of gravity over the last years has been shifting towards the two southern Bundesländer, Hessen and Baden-Württemberg. It was significant that at the recent New Year's reception given by the Chamber of Commerce, the President claimed, with the evident approval of the assembled throng of local businessmen, that these were the only two successful Länder in Germany witnessed by the fact that they were the only two net contributors to the Financial Adjustment Mechanism. This feeling is perhaps enhanced by the distrust of many here of the politicians in Bonn and the belief that the policies pursued by the Federal Government are inimical to the city's aspiring role as a European international financial centre. The city is particularly irritated by the continuing failure of the Federal Government to remove the Stock Exchange Turnover Tax and the imposition at the beginning of this year of a withholding tax on dividends. This feeling is given added depth by the presence in Frankfurt of the Bundesbank and Herr Pöhl's frequent public reiteration of the bank's independence from the Finance Ministry in monetary policy-making. The bank's decision last week to raise interest rates without consulting Herr Stoltenberg was a further example of this. It is unlikely that this underlying distrust between Ministry and Bundesbank will surface during the Summit discussions. But it will need to be borne in mind, particularly during the lunch being given at the Bundesbank by Karl Otto Pöhl.

The regional dimension

5. As already suggested above, the Prime Minister's hosts will be likely to take the opportunity to underline not only the particular qualities of Frankfurt but of Hesse, the Land in which Frankfurt is situated though not its capital. Walter Wallmann can be expected to play a major role at least in the ceremonies and the social part of the programme by virtue of his position as Minister-President of Hesse and also as one of the national Vice-Chairmen of the CDU. As one of Frankfurt's most successful post-war Oberbürgermeisters from 1977-1986, he has a particularly strong local power base which he further enhanced by returning after a brief spell as Federal Minister for the Environment to win a major electoral victory in early 1987 in the Hesse Landtag elections overturning a 40-year SPD dominated administration. There is traditionally a slightly uneasy relationship between Frankfurt and Wiesbaden, the Land capital, since the latter has the feeling of being overshadowed by Frankfurt. But with Wallmann's arrival this has virtually disappeared. He has given considerable support to Herr Brück, who largely owed his nomination to

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his post to Wallmann. This has now, however, turned to a potential embarrassment since in electoral terms Wallmann is undeniably the more attractive figure and this could well work to Brück's disadvantage in the March election. Wallmann's own sights in the long-term are probably now set on the Bonn stage where he is widely regarded as one of the most likely successors to Herr Kohl.

Local British interests

Commercial

6. On the commercial side there are two major UK German subsidiaries in the Frankfurt area, ICI and Davy McKee. The former is long-established, doing well and co-operates closely with the German chemical giant, Hoechst, which is the city's largest private sector employer. Davy McKee experienced some unfavourable publicity last year as a result of the unsatisfactory performance of some equipment it had supplied to a large power station for reducing sulphur emissions. These difficulties have now been resolved. The Summit coincides with the Frankfurt International Spring Fair, the largest consumer goods fair in the world and a major event in the city's annual calendar. There are some 200 British firms exhibiting - the third most important non-German group of exhibitors. Senior representatives from the UK trade associations have been recommended for inclusion in the guest lists submitted to the Federal Chancellery.

Financial

7. Most of the major British clearing banks are represented in Frankfurt, either by branches or fully owned German subsidiaries. The main British insurance company with a German subsidiary in the Frankfurt/Main area is Equity & Law, with its headquarters in Wiesbaden. Our major financial interests, however, derive from Frankfurt's position as Germany's principal banking centre and stock market and from the relationship between Frankfurt and the three major international financial centres of New York, Tokyo and London. At the moment London continues to attract large amounts of investment from Frankfurt both in equities and Eurobonds and particularly in the futures and options markets. Frankfurt aspires not only to maintain its position as the leading European financial centre on the Continent but also ultimately to capturing much of the financial services business at present conducted in London. A step in this direction will be legislation currently going through the Bundestag to allow the setting up next year of a futures and options market here.

8. In all of this the role of the Bundesbank is crucial. In most cases the relationship between the Bundesbank and the Bank of England is extremely close, enhanced by frequent contacts in Basle at the Bank for International Settlements and other international monetary fora such as G5 and G7. There is also some identity of view over future European monetary thinking as reflected in the Delors Committee where the Bundesbank have made little secret of their distaste for the concepts of a common European currency and a European central bank on any but their own terms. But the Frankfurt financial community generally is less convinced and many are disposed to see both concepts

as providing a welcome opportunity to enhance Frankfurt's key role, buttressed by the overwhelming strength of the DM which in their view would make Frankfurt the obvious location for such a European central bank. Dr Messer, the President of the Frankfurt Chamber of Commerce, has publicly endorsed such an objective. There is thus a tendency to see London and the UK generally as both a rival and an obstacle to progress towards this objective. This somewhat negative view is deepened by the widespread perception that our failure to join the exchange rate mechanism of the EMS is indicative of an underlying anti-European attitude and a wish to block the long-term development of a European co-ordinated financial structure.

HARTLAND-SWANN

MAIN. 75.

LIMITED

WED

PROTOCOL DEPT.

NEWS DEPT

INFO DEPT.

PLANNERS

ERD

ECONOMIC ADVISERS.

COMED

RESEARCH DEPT.

PS

PS / MRS CHALKER

PS / PUS

SIR. J. FRETWELL

MR BAYNE

MR RATFORD.

ADDITIONAL

PS / NO. 10.

CHANCELLOR OF THE DUCHY OF
LANCASTER.

S/S MAFF

PS / MR RENTON (HOME OFFICE)

S/S FOR DEFENCE.

cc- M. Powell (No 10)
M. Weston
M. Lavelle



With the compliments of

**The Private Secretary to the
Permanent Under-Secretary of State**

*Re letter of 23 January ^{attached} to Sir R. Butler about
the Anglo-German Summit.*

*With apologies - the attached is the last page
of Annex B. Could you please add it to the
above-mentioned letter.*

FOREIGN AND COMMONWEALTH OFFICE
LONDON, SW1A 2AH

(h) Next Summit: plan to hold the next one in 1990. Heads of Government and Ministers also expect to meet informally on several occasions before then. (Chancellor Kohl has already invited the Prime Minister to visit him at his home near Ludwigshafen in the spring.)

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Foreign and Commonwealth Office

London SW1A 2AH

Sir Patrick Wright KCMG
Permanent Under-Secretary of State

23 January 1989

Sir Robin Butler KCB CVO
Cabinet Office

cc. Mr Powell (Nato)
✓ Mr. Weston
m. Lavelle

+ attachments

CABINET OFFICE
741
23 JAN 1989
FILING INSTRUCTIONS
FILE No.

My dear Robin.

ANGLO-GERMAN SUMMIT: 20-21 FEBRUARY

1. This letter sets the scene for the next Anglo-German Summit, which is due to be held in Frankfurt on 20-21 February. Because of the postponement of last February's plans and recurring difficulties in agreeing dates, this will be the first Summit since September 1986, although the Prime Minister and Chancellor Kohl have had a number of bilateral meetings since then. Their most recent meeting took place in the margins of the European Council at Rhodes on 2 December 1988. A Summit on similar lines with the French will take place a week later in Paris (on 27 February).

2. Participation at the Anglo-German Summit is likely to include Foreign, Defence and Home Secretaries and Ministers from the Department of Trade and Industry and the Ministry of Agriculture, Fisheries and Food. The format is more elaborate than usual, including an overnight stay and a concert and reception on the first evening. The main talks will take place on the morning of 21 February and will conclude with a press conference, lunch and a brief sight-seeing tour.

3. I enclose with this letter a draft paper on Anglo-German relations commissioned by the Cabinet Office, which takes a snap-shot of the present state of the relationship, but is designed primarily to examine the means at our disposal for sustaining it and for bringing our influence to bear most effectively. It may be of help to those engaged in briefing Ministers for the Summit, and the intention is that it be considered at a Cabinet Office meeting (MISC 76) on 9 February alongside the main draft briefs.

Objectives

4. Not least as this will be the first Summit for over two years, one of our major aims will be presentational. We

/need

CCIAYV

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need to show off the warmth and breadth of Anglo-German relations, to counteract a misleadingly grudging press in both countries. The Germans share this aim. The public events surrounding the Summit, and the Press Conference by the two Heads of Government will, we hope, help convey the right picture.

5. On matters of policy and substance our objectives will include:

- encouraging German Ministers to give public support to the continued need for Western defence readiness and training;
- steering the Germans towards our views on SNF: we hope too that the Summit will include a joint meeting of Foreign and Defence Ministers;
- achieving a meeting of minds on East/West issues, and putting it to a wider German audience - which is prone to "Gorbophoria";
- influencing German views on current Community business, in particular on Single Market-related issues and monetary co-operation, the GATT round and the need to avoid unnecessary trade friction with the US;
- encouraging the Germans to do more by way of structural reform of their economy;
- registering the continuing need for export-led growth in countries with a current account deficit and for domestic demand-led growth in countries with a trading surplus;
- comparing and co-ordinating views on a number of main international issues (Middle East, Gulf, South Africa) and encouraging a firm German position over terrorism and the countries that support it.

Internal

6. The position of the CDU/CSU/FDP coalition remains strong. The FDP anyway cannot switch coalition partners before the federal election in December 1990, since an SPD/FDP coalition would not have a majority in the present Bundestag. On present prospects, the Coalition is likely to continue in existence after the 1990 election, though it cannot be ruled out that the FDP might consider switching partners some time between that election and the next one.

/7. Both the



7. Both the FDP and the CSU gained new leaders in 1988. The death of Strauss and his replacement by Theo Waigel have strengthened Kohl's position, freeing his right flank, which used to come under regular fire from Strauss. Kohl will also have welcomed the election of Graf Lambsdorff as leader of the FDP, since he stands to the right of the Party and is known for strongly free-market views.

8. After the elections in Berlin on 29 January, where the present CDU/FDP coalition is expected to be returned comfortably, there will be no Land elections in the FRG until 1990, though there are elections to the European Parliament in 1989.

9. The prospect is therefore for a pretty secure Government under Kohl, albeit an unimaginative one with a somewhat ineffectual image. The Government should be able to keep German politics generally on a sound course, though it will be under pressure from a public opinion prone to bouts of "Angst" and optimism, whether over defence policy, the environment or relations with the East.

Economy

10. Growth was unexpectedly robust in 1988 - provisionally estimated at 3.4%, the highest since 1979. It was driven mainly by a marked increase in fixed capital investment and led by the strength of exports in the second half of the year. Inflation edged up to 1.2%, and unemployment fell slightly. Although imports rose sharply, export growth was sufficiently fast to give a record trade surplus in the region of DM 125 billion, an increase of about DM 7 billion over 1987. This would imply that the current account surplus may show a small rise in 1988 as a percentage of GDP.

11. Most forecasts for 1989 suggest slower growth, around 2.5%, partly induced by fiscal tightening. The accompanying slow-down in domestic demand implies a further rise in the nominal trade surplus. Inflation also is forecast to rise further to 1.75%-2%, mainly because of consumer tax increases.

Arms Control/Defence

12. The most contentious issue in the Alliance in the coming months will be the handling of SNF. Kohl wants a decision to modernise SNF to be included in a Comprehensive Concept for security and arms control, to be adopted by a NATO Summit in April or May. Genscher wants to delay the modernisation decision until after the 1990 election. The

/signs



signs are that Kohl may prevail but the latest Soviet announcement on SNF will probably require a further effort to steady the Germans. Kohl is meanwhile concerned to avoid fuelling public preoccupation with this issue in Germany. Both Kohl and Genscher want to incorporate a move on SNF arms control into NATO's Comprehensive Concept.

13. There is intense public concern in Germany about low-flying by the Bundeswehr and Allied air forces, following a series of accidents, some involving civilian deaths. We have made clear to the Germans that we are prepared to look at ways of reducing the impact on the public of low-flying training, but that the training carried out now in Germany is the minimum to maintain the credibility of deterrence. We have insisted that the Germans consult us before forming definite views. The German government have recently shown reluctance to defend the need for military training, and we have been trying to persuade them to play a more active and committed part in justifying the presence and activities of Allied forces in their country. (Paragraphs 3b-c and 19 of the enclosed paper refer to some additional defence related issues which might be touched on.)

Tornado

14. The German failure to provide official credit for the sale of Tornado to Jordan has implications both for the sale of this aircraft and for other sales collaboratively-produced defence equipment to countries outside NATO. It needs a long-term solution.

European Community

15. The Summit will be an opportunity to discuss future work on the Single European Market and to explain again our concerns about the Social Dimension. The Germans remain unconvinced of our position on Tax Approximation and it would be useful if the Prime Minister explained it again to Chancellor Kohl. We shall also want to emphasise the need for a step-by-step, practical, approach to Monetary Co-operation on the lines advocated by the President of the Bundesbank. We shall urge the Germans to take a restrictive line on this year's CAP price-fixing. On external EC issues, with the notable exception of agriculture, the Germans are in general strongly supportive of our view on the need for the Community to remain open and non-protectionist.

Regional Issues

16. Recent developments in the Middle East and Libya in particular will make this Summit a timely opportunity to

/take



take stock over a range of regional problems; also to stiffen Chancellor Kohl's resistance to further measures against South Africa. We should take the opportunity to thank the Germans for their contribution to the international aid package for Nigeria, and point out that external finance is likely to be required in support of Nigeria's adjustment efforts for several years.

Terrorism

17. Practical co-operation with the Germans on counter-terrorism is good. The Summit will be a chance to re-affirm our tough stance and impress on them the need to take a firm line over state-supported terrorism, on which they sometimes seem less resolute.

Public Handling

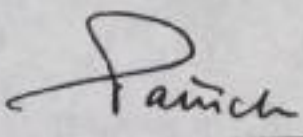
18. We propose to agree with the Germans on announcing the Summit about 10 days in advance. We shall arrange a pre-Summit briefing at the FCO of London correspondents. The meetings in Frankfurt will conclude with a press conference which we can expect to attract major coverage. Some proposed themes are set out at Annex A to this letter.

19. I should welcome any comments from other Departments on these themes and suggestions of any other "good news" items to which the Prime Minister might refer.

Briefing

20. Briefing for the Prime Minister will consist of a Steering Brief, which the Cabinet Office intend should be discussed in draft at a meeting of the MISC 76 Committee on 9 February. I should be grateful to know of any subjects Departments think the Steering Brief should cover in addition to those listed in this letter and Annex B, or on which separate briefs may be required.

21. I am sending copies of this letter to colleagues on the attached list.



 Patrick Wright



DISTRIBUTION:

Sir Peter Middleton GCB, HM Treasury
Sir Clive Whitmore GCB CVO, Home Office
Sir Michael Quinlan KCB, Ministry of Defence
Geoffrey Holland Esq CB, Dept of Employment
Sir Terence Heiser KCB, Dept of Environment
Sir Brian Hayes GCB, DTI
Sir Christopher France KCB, Dept of Health
Derek Andrews Esq CB CBE, MAFF
Sir David Hancock KCB, Dept of Education and Science
Sir Alan Bailey KCB, Dept of Transport
Richard Francis Esq, British Council

LIST OF TOPICS FOR STEERING BRIEF

1. East/West Relations including developments in Soviet Union and Eastern Europe.
2. Arms Control/Defence.
3. EC Issues.
4. Regional Issues
 - (a) Arab/Israel
 - (b) Gulf
 - (c) Libya
 - (d) South Africa.
5. Terrorism.
6. Bilateral.
7. Tornado.
8. Economic Issues.

RELATIONS BETWEEN THE UNITED KINGDOM AND THE FEDERAL
REPUBLIC OF GERMANY

Introduction

1. The next Anglo-German Summit, the first since September 1986, will take place on 20-21 February 1989. Both sides are looking to it to provide a significant boost to their relationship. This paper takes stock of the relationship in the run-up to the Summit: it attempts to provide a brief overview of the issues which form the substance of the relationship and to suggest possibilities for improving its machinery.

UK interests in the FRG

2. The FRG (with France) is one of the UK's two most important European allies. In military terms it is clearly the closest one. It occupies a vital strategic position; its contribution to the Allied defence effort on the central front makes it a key stone in the European pillar. It is the world's third largest economy and our second trading partner. As such, and as a key partner in the EC, the FRG has a major influence over the political, economic and strategic environment in which the UK has to operate.

3. The importance of the FRG to UK interests is illustrated by the range and importance of the issues on which we seek to coordinate our views with, and influence, the Federal Government. They include:

a) Strategic Issues

The Alliance's new Comprehensive Concept. Short range nuclear forces (SNF). Chemical Weapons (CW), conventional stability talks and confidence-building measures.

b) Defence Cooperation

Dealing with public resistance in the FRG to low-flying, military exercises, Sennelager, etc. Ensuring that European defence collaboration develops in ways which do

not undermine established NATO structures. Improving and publicly highlighting the existing defence relationship through the Joint Study Group established by Defence Ministers in October 1988.

c) Defence procurement & Sales

Tornado sales to Jordan. Out-of-area sales of collaborative products, particularly the credit arrangements. Purchase of UK equipment. Current major collaborative programmes involving both parties include:

- (a) European Fighter Aircraft (EFA) and its engine.
- (b) Multiple Launch Rocket System (MLRS) I and II.
- (c) Advanced Short Range Air-to-Air Missile (ASRAAM).
- (d) Third Generation Anti-Tank Weapon (TRIGAT).
- (e) Counter Battery Radar (COBRA).
- (f) NATO Frigate (NFR) 90 and its associated weapon systems.

d) East/West

CSCE. Policy towards Eastern Europe (including economic cooperation). German pressure to liberalise Cocom.

e) Other regional issues

Leanings within the FDP towards further measures against South Africa. Relations with Syria, Libya, Iran, Argentina. Policy on Arab/Israel.

f) Economic/Trade

Reduction of FRG's worldwide trade surplus and imbalance in bilateral trade. Managing move from export-led to domestic-led growth. The key role of the DM in world financial/monetary management. Promoting an open multilateral trading system and progress in the GATT Uruguay round, including agriculture. Encouraging FRG to press on with measures to deregulate, eg telecommunications.

g) EC

Completing the Single European Market without stifling enterprise - avoiding "Fortress Europe". Further reform of the CAP. Scepticism on "social dimension" and other social engineering concepts. Practical steps towards monetary cooperation, avoiding unrealistic commitments to central bank/currency. Undesirability of tax harmonisation and of helping criminals by abolishing all frontier controls.

h) Terrorism

Trying to ensure firm stand on policy of "no deals", and firm line on state supported terrorism (Syria/Libya) on which the Germans are distinctly wobbly. Practical counter-terrorist cooperation to protect UK targets in FRG, especially BFG, is however good (and very important).

i) Environment

A better understanding of UK policies, particularly on European issues such as power station/vehicle commissions, North Sea pollution etc.

4. It would be wrong to imply that we are in disagreement with the FRG over wide areas of Government business. Our analysis of most problems is very similar, and our relationship is founded on a multiplicity of common interests and common policies. For example, the Germans are much closer to us in their views on free trade than, for example, the Southern members of the EC. (It has to be said, though, that there are German lapses on free trade: eg on agriculture, air-services, shipping and land transport.) Likewise, the FRG's record on East/West and defence issues is fundamentally one of firm support for allied positions (eg INF deployment) while her defence establishment have long experience of operating successfully alongside their UK counterparts.

The Machinery

5. There is no substitute for having convincing policies and arguing them with conviction. But they will not necessarily be enough to ensure German support. German interests may differ from ours eg over agriculture, and in such cases we need to ensure that UK interests are properly appreciated in Germany. The Germans will also be subject to competing pressures from other countries, most notably France. The extent of French influence was brought forcibly home at the Milan European Council in May 1985: although the British position was later vindicated in substance, we were unable to prevail at the meeting itself over a rival position which had been extensively pre-cooked between France and Germany.

6. Following Milan, MISC 76 was tasked with producing and following up recommendations on relations between the UK, France and Germany. It concluded that the "Franco-German axis" served needs peculiar to those two countries and that there was no point - nor any real need - for the UK to try to join it, or ape it. Instead we should pay more attention across the range of Government activity to strengthening our relationship with both countries (and its machinery) so as to ensure that British arguments and interests were fully weighed in the balance in Bonn and Paris. Since 1986, MISC 76 has made progress to this end.

7. The machinery of our relationship can be divided into the parts over which Government has control - high level and official contacts - and those where its control is marginal - the broad mass of contacts between the two countries.

A. GOVERNMENT CONTACTS

High-level contacts

8. The first Anglo-German Summit for 2½ years will be held

in Frankfurt on 20-21 February 1989. The Prime Minister had productive talks with Chancellor Kohl at Chequers in July and at the Rhodes European Council in December 1988. He has invited her to pay an informal visit to his home in the spring of 1989. He has suggested the institution of regular telephone conversations between himself and the Prime Minister to discuss both specific and general topics. 1989 should therefore be a good opportunity both to do business at the highest political level and to put across publicly the warmth and depth behind the "Stille Allianz".

9. The Foreign Secretary's bilateral with Herr Genscher on 27 January in Bonn will help prepare for the Summit and provide an opportunity to engage Genscher in a discussion of SNF modernisation and the possibilities for (and limitations of) SNF arms control. The US has shown a singular reluctance to engage with the Germans on this subject during the transition between administrations, and the UK can help to fill this lacuna.

10. The coalition structure of Government in the FRG requires a more complex approach to Ministerial contacts. Decision-making can be slow and argumentative. It is harder to get an authoritative answer from a single interlocutor than in London. Pressure usually needs to be put on several Ministers. Genscher can be particularly wayward, and has a unique political position in the FRG. His influence in establishing the tone of bilateral relations cannot be over-estimated. We should make every attempt to bind him more formally into our bilateral relationship. Ultimately even Genscher will not get too far out on a limb: conversely he cannot be entirely by-passed. For similar reasons, contacts with Ministers from the FDP and CSU can be of particular importance given their ability to assert themselves on their own portfolio. Examples are Haussmann (FDP, Economy), Zimmermann (CSU, Interior) and Klein (CSU, Aid). Some aiming-off may also be necessary in contacts with junior Ministers in Ministries where the Cabinet

Minister comes from a party different from their own.

11. Other Ministerial contacts scheduled for 1989 include:

- a) The visit of Professor Scholz (Defence) to the UK, 30 January to 1 February, and plans for visits early in the year by Haussmann, Töpfer (Environment) and Riesenhuber (Research). Other probable visitors in 1989 are Professor Lehr (Youth, Family, Women and Health) and Möllemann (Education).
- b) The visit by the Secretary of State for Northern Ireland to Bonn and BAOR, 13-14 March, and the possibility of a visit to Baden-Württemberg and Bonn by the Secretary of State for Wales.
- c) Lord Caithness is to visit the FRG at the end of January to discuss housing. He also intends paying a major visit to discuss environmental protection questions (probably in May or June).

12. Speeches and seminars can also provide Ministers with a useful platform, and facilities for holding and publicising such events are unusually good in the FRG. The Foreign and Defence Secretaries will attend the Wehrkunde Conference in Munich on 28 January - a good opportunity to put across our message on strategic issues to a wider German audience. The Trade and Industry Secretary will be addressing an influential audience of businessmen at a meeting in Düsseldorf. Celebrations marking the 40th anniversary of the Deutsch-Englische Gesellschaft will also provide an excellent platform for a Cabinet Minister to make a major speech in the FRG. Schäuble (Federal Chancellery) will open a major Anglo-German seminar in London - and make a round of calls.

13. May 1989 sees the 40th anniversary of the founding of the Federal Republic. Chatham House have invited Herr Genscher to address a seminar on this occasion (and there are plans for him to host an anniversary reception in

London). The German Ambassador has also indicated that Chancellor Kohl might try to come to the UK at around the same time. These visits, if they come off, would be a very welcome public sign of the German Government's commitment to improved relations with the UK.

Action

We should:

- a) Make maximum public use of the Summit in February. Departments should consider what "good news" items can be flagged up for press presentation;
- b) Encourage Bonn to go ahead with the high-level visits to the UK planned for May 1989;
- c) Develop to the extent possible direct Ministerial contact, in all fields, with visits by British Ministers (preferably overnight) to the FRG and return visits to the UK.

Official contacts

14. The Permanent Under Secretary at the FCO recently met his German opposite number for talks in Bonn. Other FCO contacts at senior official level take place on a regular basis, covering in particular Politico-Military issues (next round: April or May 1989), EC issues, Regional Issues, Planning talks and the work of the Anglo-German Economic Committee, which will meet on 12-13 April 1989.

15. The 40th Round of Anglo-German Information Talks will take place in Celle on 11-12 May. Dr John Fairclough, Chief Scientific Adviser, Cabinet Office, has paid two recent official visits to the FRG in September and November 1988. In the defence field there are regular meetings between Defence and Single Service Staff and at Vice-Chief levels. The Anglo-German Coordinating Group (AGCG) led on the UK side by the Minister in the Embassy in Bonn, meets annually to discuss military training and environmental issues.

Action

- a) Intensify contacts and discussions at senior official level.

- b) Encourage British officials, where interests are close, to get to know their German counterparts personally.

Contacts on EC Matters

16. Strengthening bilateral cooperation will have major benefits for our interests in the Community, where alliances are crucial in pushing through or preventing proposals. Our common interests with the FRG in many areas of EC business are becoming more pronounced as the integration of Spain and Portugal increases the Southern orientation of the Community.

Action

- a) Seek to make common cause with the FRG at the earliest stage at official level both in Brussels and in wider bilateral contacts.
- b) In our Ministerial contacts, develop as a constant theme the degree of common interests between the UK and FRG on wide areas of EC business, and the mutual benefits of close cooperation.

Official Exchanges

17. Schemes for the exchange of officials are administered by the Cabinet Office and the FCO. The Cabinet Office scheme, based on a Memorandum of Understanding of 1979, provides for the exchange of officials from Whitehall Departments with German officials. It has tended to be under-publicised. An exchange between the FCO and the Auswaertiges Amt has been in operation for two years.

Action

- a) Give more publicity to the Cabinet Office exchange scheme and ensure that departments release good people to take up the places;
- b) Keep up the FCO/Auswaertiges Amt exchanges;
- c) Consider scope for increasing contacts and exchanges with Länder officials - Baden-Wurtemberg have expressed interest in this.

Royal Visits

18. The Prince and Princess of Wales paid a very successful visit to Berlin and the FRG in November 1987. The Royal Visits Committee is considering a bid for a 2-3 day visit to Munich and other centres in the FRG by Princess Margaret in 1989.

Action

Derive maximum advantage (and publicity) from Royal Visits for the bilateral relationship.

British Forces Germany (BFG)

19. 180,000 UK servicemen, dependents and civilians are deployed with BFG in the FRG. There is close cooperation with the FRG authorities at both Federal and Land level. BFG seek close involvement in the local communities around their bases, but there is scope for improving the German public's perception of BFG and their role. In common with the Bundeswehr and the other armed forces stationed or exercising in the FRG, BFG are facing increasing public opposition to military exercises and training (especially low flying). The Federal MOD has not always dealt with the pressure helpfully or robustly. Apart from low flying the most difficult single bilateral issue is likely to remain the building of an urban combat training installation at Sennelager. The Joint Study Group set up in October 1988 between the MOD and the Federal Ministry of Defence provides a good vehicle for addressing these problems. Its recommendations should be ready in time for the Summit in February.

Action

- a) Continue to seek greater public recognition of the role of BFG, in particular by agreeing and implementing the recommendation of the Joint Study Group.
- b) While showing understanding for legitimate German concerns about public opinion over training, press for the Federal Government's public support for that amount of training and low flying which is essential to operational effectiveness.

B. NON-GOVERNMENTAL CONTACTS

Media

20. The public image of the Anglo-German relationship has improved in recent months, but the media remain ever willing to believe the worst and there remains a risk of setbacks. There is agreement between the two Governments that the relationship needs to be given greater prominence. Good press coverage of the Summit would help to set the course for the following months. The German Correspondents Group has been a valuable means of briefing selected members of the German Press in London. The annual prizes for journalism awarded by the Anglo-German Foundation have also encouraged serious reporting on bilateral relations.

Action

- a) Continue to incorporate good media opportunities into the planning of Ministerial visits;
- b) Continue to cultivate the Correspondents Group in London and increase public awareness of the annual prizes for journalism awarded by the Anglo-German Foundation.

Bilateral Trade Relations

21. UK non-oil exports to the FRG remain at about 7½ market share, but FRG exports to UK continue to increase rapidly and the imbalance in favour of the FRG is now about £6 billion. The high standards required by German purchasers of both capital and consumer goods, and continuing restrictive practices in the FRG, discourage many UK firms from tackling the German market. In the context of 1992 we need to publicise the high quality of many UK goods, help British companies overcome their nervousness of the FRG market, and press the Germans to encourage enterprise and competition rather than regulation.

Action

- a) Encourage the Federal Government to press on with measures to deregulate eg in the telecommunications

sector.

- b) Continue to encourage British companies to take a less short-term approach to the German market.

Koenigswinter

22. The Koenigswinter Conferences are the pre-eminent non-governmental Anglo-German discussion forum, and consistently attract participants of the highest calibre. The 1989 Conference will focus principally on EC issues, and in particular the Single Market. Mrs Chalker will attend. The success of Koenigswinter led to the creation of an annual Young Koenigswinter Conference in Berlin (now four years old) and the Young Wilton Conference, held annually in Wiston House (now three years old). Concentrating on the 25-32 age-group, these are providing valuable seed-corn for the future.

Action

Give as much encouragement as possible to these conferences through:

- (a) A message of support to the Koenigswinter Conference from the Prime Minister
 (b) Ensuring that the FCO budget for Koenigswinter is at least maintained at its present level.

Anglo-German Foundation

23. The Anglo-German Foundation helps to promote Anglo-German contacts and joint studies. We have recently increased UK funding for the Foundation from £125,000 per year to £175,000. German government funding (hitherto £250,000 per year) is, however, at risk. The Bundestag budget committee have recently declined to guarantee funding to the Foundation for more than one year (contrary to their normal practice of 5 year votes) and have made clear that they expect to see adjustments to the AGF's priorities on spending. They seek in particular an enhanced AGF profile in Germany, more funding for Anglo-German contacts, and less for pure research. These are aims which the FCO broadly supports.

Action

- a) Encourage AGF to make the necessary changes (primarily in presentation);
- b) seek recognition of the AGF at the Summit in February.

Parliamentary and Party links

24. Relations between the two Parliaments are close. Links between the British Conservative Party and the German CDU have been fostered by the effective and active office of the Konrad Adenauer Foundation in London. The SPD related Friedrich Ebert Foundation has also recently opened an office in London which may do something to raise the low level of contacts between the SPD and the Labour Party. Contacts between the Liberal Parties are limited by their size. The CSU-related Hanns Seidel Foundation sees links with the Conservative Party as a priority and organised a successful seminar in summer 1988 in London. Links between Parliamentarians are also fostered by the Koenigswinter Conference, the COI Sponsored Visit Programme and annual meetings between the Bundestag German-British Parliamentary Group and the Westminster Anglo-German Parliamentary Group.

Action

Assist, as appropriate, the maintenance of links.

Regional Affairs/Civic Links

25. We should not overlook the Federal/Länder dimension. The Länder have the power to block Federal initiatives: they can affect UK interests (eg on trans-frontier broadcasting or BFG training facilities). Town twinnings, of which there are now 404 pairs, are one way to improve Anglo/German understanding at the local level. The new FRG Ambassador has expressed interest in trying to make twinnings more active. There are moves in prospect to arrange a regional twinning between Wales and Baden-Württemberg.

Action

Cultivate prominent figures from the Laender Governments (eg Lothar Späth). They can be politicians of some standing in their own right, and potential Federal leaders - worth

receiving at Ministerial level, and very occasionally by the Prime Minister. (The proposed regional link with Wales will, for example, provide a useful peg for a visit to Britain by Späth in the second half of 1989.)

Work of British Council/Cultural diplomacy

26. The British Council's budget for the FRG is £4.6m (1987/88), and it will receive a share of the extra £1.5m pa allocated to Western Europe in the 1988 Survey. This makes it the largest British Council operation in Europe. The bulk of the funds are used to promote interchanges between scientists, academics, doctors and technical experts across a wide range. The Council has offices and libraries in Cologne, Berlin, Hamburg and Munich and runs an extensive information effort. The extra funds are expected to permit greater emphasis on high-profile artistic events and more technical/scientific exchanges.

Action

- a) To deploy the extra resources to maximum advantage;
- b) To continue to foster high-quality exchanges with influential scientific and technical figures in the FRG.

Youth Exchanges/Scholarships

27. The UK has more Youth Exchanges with the FRG than with any other country and devotes more resources to them (over £230,000). There are also countless schools' exchanges. In addition to officially sponsored exchanges (over 7,000 in 1986/87) the flow of informal and spontaneous exchanges continues at a high level.

Action

Maintain the momentum (and funding) of this programme.

PROPOSED THEMES FOR SUMMIT PRESS CONFERENCE, 21 FEBRUARY

(a) Welcome the results of the Bilateral Defence Study (some of which will have been made public following Professor Scholz's visit to the UK, 30 January - 1 February) and possibly mention:

- training in UK by elements of 27 Luftlandebrigade;
- proposal to form a joint auxiliary Skyguard/Oerlikon Point Air Defence Unit.

(b) Current international questions on which we act together:

- East/West: Agreement on need for active policy of negotiation backed by sure defence;
- draw attention to London Information forum;
- joint determination to achieve Single Market and agreement to prevent "Fortress Europe";
- terrorism;
- drugs.

(c) Research Collaboration: mention of work of the Anglo-German Foundation for the Study of Industrial Society and of provision of new money (£200,000 - £25,000 of which from the Anglo-German Foundation) to stimulate science and technology exchanges.

(d) Fortieth Anniversary in 1989 of Deutsch-Englische Gesellschaft.

(e) Environment: draw attention to UK initiative in organising a conference on the ozone layer, mentioning German Ministerial attendance.

(f) School Exchanges: draw attention to progress.

(g) Town-Twinning: The flourishing Frankfurt-Birmingham link could be held up as an example of less active links.

/(h) Next Summit



*file SH
advice*

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 December 1988

See dugh.

ANGLO-GERMAN SUMMIT

Dr. Neuer of the Federal German Chancellery has been in touch with me to discuss the arrangements for the Anglo-German Summit in Frankfurt next February. The programme he proposes is roughly as follows:

Monday 20 February

1700	Arrive Frankfurt from London
1730-1830	First round of talks
2000	Attend concert plus Mrs. Kohl and Mr. Thatcher if available

Tuesday 21 February

0900-1030	Heads of Government meeting
1030-1115	Joined by Foreign Ministers
1130-1230	Plenary
1230-1315	Press Conference
1330	Lunch with Chancellor Kohl, Herr Poehl and leading bankers
	Other Ministers to lunch separately
1500	Return to London

In fact, Mr. Thatcher will not be able to attend and I am informing Dr. Neuer of this.

The Germans propose that Ministers to be invited in addition to Heads of Government should be Foreign Ministers, Defence Ministers, Trade and Industry Ministers and Internal Ministers.

The proposed arrangements and participation are acceptable to the Prime Minister. You may wish to instruct our Embassy in Bonn to begin detailed discussions with the Germans.

you discuss.
[Signature]
C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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[Handwritten initials]



10 DOWNING STREET

Rice Minister

But you accepted
earlier that it would
mean missing questions.

Chancellor Kohl has
now gone ahead with
his arrangements on
that basis. I hope
we can let it stand.

Yes. no

CAF

20/xii

cc Mrs. Gaisman

PRIME MINISTER

ANGLO-GERMAN SUMMIT

When you met Chancellor Kohl in Rhodes, you agreed to hold the next Anglo-German Summit on Monday 20 February/Tuesday 21 February in Frankfurt. Chancellor Kohl has now proposed the following programme:

Monday 20 February

1700 Arrive Frankfurt from London
 1730-1830 First round of talks
 2000 Attend concert plus Mrs. Kohl and Mr. Thatcher if available

Tuesday 21 February

0900-1030 Heads of Government meeting
 1030-1115 Joined by Foreign Ministers
 1130-1230 Plenary
 1230-1315 Press Conference
 1330 You and Chancellor Kohl to lunch with Herr Poehl and leading bankers
 Other Ministers to lunch separately
 1500 Return to London

Chancellor Kohl proposes that Ministers invited in addition to Heads of Government should be Foreign Ministers, Defence Ministers, Trade and Industry Ministers and Interior Ministers.

Content with this programme?

*Yes Mr It means missing
 Freshers*

I will consult Mr. Thatcher to see whether he is available.

C.D.P.

(C. D. POWELL)

19 December 1988

RESTRICTED



FILE KK
cc DC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 November 1988

ANGLO/GERMAN SUMMIT

Herr Neuer in the Federal Chancery told me today that the Germans planned to hold the Anglo/German Summit next February in Frankfurt. He would discuss details with me when we met in Rhodes.

(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

RESTRICTED



10 DOWNING STREET

~~Tessa~~.

I have spoken to
Cancellor Kohl's
office. They will let
us know later this
week which option
is the Chancellor
best. I think actually
the morning of 2
September in Rhodes would
be the easiest. CB
31/x.

Copy to Tracy: (1)
Anglo Italian Summits
A 4

PRIME MINISTER

SUMMIT MEETINGS WITH EUROPEAN GOVERNMENTS

The next bilateral Summits with France and Germany have been fixed for the second half of February next year. Both are 'away' fixtures.

The Italians have asked whether the next Summit with them can be brought forward to the first half of 1989. This is too soon for another full-scale Summit. But we might suggest that if De Mita wished to pay an ordinary visit, say in late April, then you would be ready to see him and offer lunch. We would then argue that the next full-scale Summit need not be until April 1990.

Agree that we should offer the Italians a date in late April next year for a meeting and lunch?

Yes not

There is another point about private meetings. You are to see President Mitterrand at Mont St. Michel on 30 November for a working lunch. When you spoke to Chancellor Kohl on the telephone, you suggested that you might slip over to Germany one Saturday and Sunday to see him. Do you want to pursue this? If so, Saturday, 26 or Sunday, 27 November are really the only possible dates. I attach the relevant section of the long-term diary. The alternative would be to propose a bilateral at the European Council in Rhodes, perhaps over dinner (because of the distance and time difference you will have to travel down there the evening before the Council).

Agree to propose one of these days to Chancellor Kohl?

Yes not

or

Prefer to suggest a meeting in Rhodes?

C.D.R.
CDP

28 October, 1988.

1300 Lunch & Questions Briefing
 1515 QUESTIONS
 1545 KEEP FREE FOR MPs
 1730 Moderator of the Church of Scotland +RC
 1830-1900 LOOK IN AT LADY PORTER'S RECEPTION + JW
 RETURN TO NO.10
 2000 for Dinner for Chief of Defence Staff No.10
 2015

Friday 25 November

0930 Professor Griffiths +PG
 1000 Sir Robin Butler +NLW
 1045 German Ambassador to say farewell + CDP
 1115 Srdja Dukanovic + TP
 ?1300 LUNCH WITH BRITISH SPORTS ASSOCIATION FOR THE
 DISABLED +DT: GROSVENOR HOUSE

Saturday 26 NovemberSunday 27 November

? KEEP FREE + DT

Monday 28 November

0830 Hair
 1000 Week Ahead Meeting
 1030 Diary Meeting
 1100 PLANT A TREE TO MARK NATIONAL TREE WEEK
 1145 RETURN TO NO.10
 1200 Mr. Papandreou +CDP
 1300 Working lunch for Mr. Papandreou + CDP No.10
 1500 PREVIEW OF DESIGNS FOR NEW EMBASSY IN MOSCOW
 + HRH DUKE OF GLOUCESTER + CDP DUNBAR COURT
 1600 Sir Angus Fraser +NLW
 1630-1730 Value for Money Seminar

Tuesday 29 November

0900 Questions Briefing
 0930 Lord Young +PG
 1000 Keep free for speech
 1300 Lunch and Questions Briefing
 1515 QUESTIONS
 1545 CRANLEY ONSLOW +MLB
 1600 KEEP FREE FOR MPs
 1700-1800 Interview with "Beeld" + CDP
 1830 AUDIENCE

Wednesday 30 November

c0930 DEPART LONDON FOR PARIS
 MEETING WITH M. MITTERRAND + CDP
 c1630 RETURN TO LONDON
 1700 Chancellor of the Exchequer +PG
 1730 Foreign Secretary +CDP
 1800-1900 Drinks with MPs +MLB

CONFIDENTIAL



File sh
cc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 October 1988

Dear Lyn,

ANGLO-GERMAN SUMMIT

Dr. Neuer telephoned today to say that Chancellor Kohl's preferred dates for the Anglo-German Summit were 20/21 February. I confirmed that these were still acceptable but suggested that he might like to consider the possibility of 19/20 February (ie. starting on the Sunday afternoon and evening) so that the Prime Minister would be in the country for PM's Questions on 21 February. He will come back to me on this.

I am copying this letter to Alex Allan (H M Treasury), Brian Hawtin (Ministry of Defence), Philip Mawer (Home Office), Neil Thornton (Department of Trade and Industry), Shirley Stagg (Ministry of Agriculture, Fisheries and Foods) and Trevor Woolley (Cabinet Office).

Yours sincerely,
C. D. Powell

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

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Article from "Frankfurter Allgemeine Zeitung" of 28 May 1988

THE VISION OF A EUROPEAN CURRENCY AREA

What would have to be done

by Karl Otto Pohl

We are currently undergoing a phase of new initiatives in the European Community spearheaded by the intention to create a European internal market by 1992, for which the generally favourable economic and monetary situation offers good pre-conditions. Monetary stability is not only widely recognised as the primary goal of monetary policy but also achievable in Europe more than ever before; notwithstanding existing differences such as those on financial policy, there is widespread convergence between economic policy and economic developments. By 1992 we will therefore hopefully have made considerable advances along the road towards economic union in Europe. It is worth supporting this goal if only for purely economic reasons. A single internal market is likely to be a source of considerable economic growth in Europe. Beyond this, however, the realisation of a European currency union is doubtless a political goal of great significance.

There are good reasons for the fact that plans for the European internal market go far beyond trading considerations. The establishment of an integrated financial market appears imperative. Free transfer of capital and unrestricted convertibility of all European currencies are essential components of a single internal market and would also provide a foundation for future monetary union. A further decisive criterion for monetary union is the final and irrevocable fixing of exchange rates. The 1970 Werner Report contained the following definition of monetary union, which is still valid today: "Monetary Union requires the complete and irreversible convertibility of currencies, the elimination of exchange rate bands, irrevocably fixed parities and the complete liberalisation of capital movements."

A monetary union based on this definition would have far-reaching consequences for economic development in Europe. It would be the monetary superstructure of an economic union in which the movement of goods, services, labour and capital took place more or less unrestricted. This does not necessarily presuppose the harmonisation of all policies; continuing differences in tax systems, collectively agreed arrangements and other areas would lead to advantages or disadvantages for particular locations. Although the market would enforce a certain degree of harmonisation, basic political consensus, a functioning system of financial compensation and a high degree of cooperation on economic, financial and monetary policies would be necessary to avoid an increasing imbalance in the economic development of the Member States resulting, finally, in the complete breakdown of the system.

It would then only be a small step from monetary union to a single currency. Although national currencies could, in principle, be kept, the introduction of a single currency unit in place of the national currencies would probably imbue the monetary union with a "monetary identity" which would eliminate the residual risk of parity changes between national currencies and thus create a symbol for the perpetuation of a single currency area. Replacing national currencies with a Community currency would put the final touch to the process of monetary integration.

But this final situation is still a long way off. That is why the concept of a parallel currency has been discussed since the 1970s as an alternative to the step-by-step achievement of a European monetary union as defined in the Werner Report. This concept implies the idea of bringing an EC currency into circulation in addition to the national currency, as a vehicle for monetary agreement. Those who support this idea assume that this European currency will gradually displace the franc, guilder, and deutschmark and evolve into the sole and general means of payment and store of value in Europe.

In comparison to the task of transferring national responsibilities to the Community which has proved difficult in past experience, the concept of parallel currencies may indeed appear to be an "elegant" solution at first sight. Upon closer inspection, however, it becomes clear that this concept also requires far-reaching institutional adjustment measures if the "currency race" it sets in motion is to take its course in a manner acceptable to all Member States.

Currencies must prove their worth on the market

Parallel currencies will not abolish the necessity of taking those political decisions necessary for the creation of a monetary union. The idea that official preference shown for a parallel currency will give it the edge over national currencies is not very realistic. The market decides upon the acceptability of a currency according to interest and exchange rate considerations; attempts to disturb the functioning of the market with official measures hold few chances of success as the development of the private and official Ecu has shown which becomes less attractive when capital transfer restrictions, foreign exchange controls and convertibility restrictions are eliminated and exchange rates become more stable.

Using the ecu as a parallel currency - or simply as a currency - will meet with difficulties, not least because of its particular construction. A basket-ecu constructed on the basis of a weighted average of national currencies cannot exercise an insistent and especially not an evenly distributed displacement pressure on national currencies and cannot therefore be regarded as an additional means of integration. The basket-ecu cannot develop an independent quality of its own. If one disregards some slight indifference margins, it is bound to mirror the weighted average of the interest and exchange rates of those currencies contained in the basket.

An independent European currency must be able to maintain the same high standards as the best of the national currencies. If this were not the case, the EC central banks would have to be

obliged to safeguard the parallel currency's exchange rate through unrestricted buying. Such intervention obligations would have considerable monetary consequences amounting, in the last analysis, to a constant creation of the relatively strong currencies to finance purchases of the European currency.

A parallel currency strategy demands a functioning market displacement procedure. The well-balanced substitution of all EC currencies (that means the deutschmark as well) with the parallel currency which necessity demands would only be possible, if the parallel currency

- were accorded the same status on the internal market as every other EC currency;
- were able to compete with the strongest EC currency as an investment currency subject to interest rate and exchange rate developments; and
- were burdened with the lowest possible costs in its role as transaction currency which would virtually only be possible if it were guaranteed by sufficiently firm exchange rates with the other national currencies.

All this, however, more or less defines the final situation to which the parallel currency itself should lead. Why take the costly detour via the parallel currency? Europe would gain little whilst having to put stability at considerable risk if it were to realise the concept of a parallel currency.

The creation of a monetary union does not necessarily demand a European system of central banks. It is also possible to imagine successful cooperation on monetary policy between the national central banks if a high degree of convergence is simultaneously achieved in other policy areas. A minimal institutional framework would, however, afford greater reliability for a monetary union and, above all, for a single currency.

Taking this step towards the institutional phase of cooperation on monetary policy with the aim of creating a European central bank system presupposes that answers - the clearer, the better - have been given to a series of questions, so as to avoid going in the wrong direction from the very beginning.

Such a system requires a clearly defined mandate. It should be in line with the aim of the Deutsche Bundesbank Act, namely, "to secure the currency", ie to see to it that prices remain stable. This might appear self-evident for a central bank, but in practice, there is always a tendency to burden monetary policy with additional tasks such as stabilising exchange rates or assisting with regional structural policies, employment or other tasks, which could conflict with the real aim of a central bank of securing the currency.

Priority for keeping prices stable does not mean that a European central bank would have a deflationary "bias" from the word go. Experience gained in the 1970s - not only in the Federal Republic - has rather more shown that one cannot, as it were, buy a little more inflation for a little less unemployment. On the contrary, countries with a low inflation rate generally had a lower unemployment rate and vice versa. The large majority of those Germans haunted by the memory of two traumatic inflations who know what price stability means for prosperity and social justice would hardly be willing to accept a central bank system which accords this aim less importance than the Deutsche Bundesbank Act does.

The task of looking after price stability would at least be facilitated, if not made possible, if a European Central Bank were independent in its decision-making and opinion-forming processes; independent not only of national governments but also of the EC institutions, ie the Commission and the Council of Ministers. This would demand considerable amendments to the existing constitution of central banks in several Member States - probably also that in the Federal Republic of Germany; in its current, more or less two-tier system with eleven Land central

banks and the directorate in Frankfurt, it is doubtful whether this system could be maintained.

According to our concept, the monetary instruments at the disposal of a European central bank would be set up so as to enable it to manage money supply effectively without having to resort to quantitative controls (or other direct interventions in the finance markets). The machinery must therefore provide interest policy instruments as well as liquidity policy instruments with which it will be possible to exercise general as well as detailed control of the European money market.

A European central bank system can really only be organised as a decentralised, federal system, ie on a subsidiary basis according to which only the necessary minimum is centralised and as much as possible left to national competence. A European central bank system should therefore be more akin to the Bundesbank system or the Federal Reserve system in the United States than the centralist system in most European countries.

Finally, we believe that such a European central bank system must not be entitled to finance national deficits by creating money. This is by no means self-evident in all countries. In the Federal Republic of Germany the Bundesbank is forbidden to do this by the Deutsche Bundesbank Act.

All foreign currency reserves in one large pot?

We must also find an answer to the question of the extent to which a European central bank should be responsible for exchange rate policy vis a vis third currencies, ie in the first place dollar and yen. Monetary stability requires safeguards against external influences, as we saw with the Bretton Woods system. The stabilisation of exchange rates cannot and should not be the main aim of monetary policy, especially in an inflationary environment. Within this framework, however, there is by all means room for cooperation on monetary policy with countries outside the Community. This may also include intervention on the foreign exchange markets. A European central bank would be

responsible for such activities and would therefore have to purchase and administer at least part of what are now still national currency reserves. This was foreseen when the European Monetary System was set up, but foundered due to the unwillingness of practically all the countries concerned (not the Bundesbank, which only insisted on a statutory regulation) to transfer part of their foreign currency reserves irrevocably to the supranational institution.

There are also a number of apparently less fundamental problems, whose relevance one should not, however, underestimate. Where for example should a European central bank be located - in Frankfurt, in Paris, in Brussels or in London?

An infinite number of difficult questions still have to be answered in connection with the creation of a European currency and a European central bank system. One problem arises from the fact that four members of the European Community - Great Britain, Spain, Portugal and Greece - are not even members of the current exchange rate system, the EMS and that there are exceptional rules for Italy in the form of an extended band for the lira. Under these circumstances, one does not have to be a defeatist to have certain doubts as to whether the political environment is really ripe for such far-reaching decisions and for the relinquishment of sovereign rights as the creation of a European central bank and a European currency would demand.

In the meantime, however, developments have not stood still. We have made considerable progress towards monetary integration in the course of the last few years. Monetary cooperation in Europe has become more intensive since the foundation of the European Monetary System. The Bundesbank has made a considerable contribution to this process ie with its approval on two occasions to the extension of the EMS rules, most recently with the Agreements reached in Basle and Nyborg in September 1987. Economic development in the member states has reached a high level of convergency. Exchange rates in the European Monetary System are relatively stable. The coordination of intervention

vis a vis the dollar is already well developed, at least among the countries which are members of the EMS exchange rate system.

The Committee of EC Central Bank Governors plays an important role in this process of monetary cooperation. It has proved itself a useful institution for coordinating monetary and currency policy in the European Monetary System. I believe that it could be given more extensive powers in managing the monetary system, especially as the system is founded on an agreement between the central banks. For example, the EC Central Bank Governors could make the necessary exchange rate corrections professionally, at the proper time and without creating a stir. The Finance Ministers, however, have rejected such proposals.

The European Monetary Cooperation Fund (EMCF), on the other hand, is not suitable as the nucleus of a European central bank system. The EMCF lacks one important feature, namely independence of the institutions of the European Community. It is a creation of the EC Council of Ministers and would therefore, at least in principle, be dependent on the decisions of this body.

The commitment to keep the European Monetary System operational has increased the need for closer cooperation. In the nine years since the EMS was founded, the Bundesbank has made considerable contributions to the smooth and successful operation of this regional monetary system. The deutschmark has thereby - unintentionally - slipped into the role of the most important intervention and key currency. It has become the stability factor within the European Monetary System and thus forms the decisive basis for the successful functioning of the system. The weight of the economy of the Federal Republic within the European Monetary System has also contributed to the success of German economic and monetary policy in securing the stability of the deutschmark and maintaining it as the most stable currency within the European Monetary System. It would be disastrous not only for the Federal Republic but equally for the other European partners if one were to loosen the moorings of the European Monetary System without knowing what should take its place.

Dangers to the European exchange rate mechanism

Some of our partners refer to the loss of economic and monetary freedom which they have to face as a result of the dominating role of the deutschmark within the European Monetary System. They see themselves restricted in pursuing independent growth, employment and stability objectives to the extent to which they have accepted exchange rate links with the deutschmark. They demand a "symmetrical" division of burdens in protecting exchange rates within the European Monetary System. This discussion has been going on since the creation of the European Monetary System. Lengthy negotiations were necessary before the Central Banks were able to reach an agreement on intervention obligations. Both those countries whose currencies reach the lower intervention point as well as those whose currencies reach the upper intervention point are obliged to sell or purchase foreign currency as the case may be. The system is in this respect by all means "symmetrical". There are not contractual obligations as far as so-called intra-marginal interventions are concerned. These are intended to keep exchange rates within the limits. Intra-marginal interventions do, however, require the approval of the central bank whose currency is used for intervention. The Bundesbank has usually approved the use of the deutschmark when this has not clashed with its own monetary objectives.

The Basle/Nyborg Agreements extended the already generous credit facilities partially - and under certain conditions - to include intra-marginal interventions. One must realistically expect that the Bundesbank will have to provide the major part of this financial commitment whenever substantial intra-marginal interventions are necessary. This can mean a considerable burden on monetary policy, particularly as the Bundesbank is also expected to intervene within the framework of cooperation with the United States. It is not because we are unwilling to cooperate that we refuse to accept intervention commitments in excess of our contractual obligations.

There are other more serious reasons. Should the bundesbank begin to include EMS currencies in its reserves, as it has been urged to do, this would not strengthen the European Monetary System but would in fact weaken it, since countries with a weak currency would no longer be obliged to make appropriate adjustments. The Federal Republic is of course committed to contributing towards equilibrium within the monetary system, ie in the present situation to reducing its current account surpluses. However this should not take place by means of weakening monetary discipline but by pursuing a policy aimed at increasing domestic demand, as the recent tax reductions set out to do. Finally, interventions cannot be a permanent substitute for timely adjustments to exchange rates as long as economic developments in the member states continue at different rates. Happily this is not the case at the moment but cannot be ruled out entirely in the future.

The study presented by Gros and Thygesen at the beginning of the year on the functioning of the European Monetary System in the past years emphasises the positive key role of German monetary policy and demonstrates that the claimed "asymmetry" has not hindered the cohesion of the system but has in fact secured it: "The advantages of the Bundesbank's leading role could be lost if the European Monetary System becomes symmetrical and the Bundesbank's ability to control the monetary aggregates in the Federal Republic is reduced without establishing credible rules for joint money creation."

A European monetary union is a desirable political and economic objective. Some considerable progress has already been made in this direction. The directive to liberalise capital transactions within the Community proposed by the European Commission, which I hope will be approved in the near future, possibly at the next meeting of the Council of Ministers of Finance on 13 June, would be a milestone in this development. Participation by all member states in the exchange rate mechanism of the European Monetary System would be a further important step. The question of whether further institutional changes aimed at a monetary union can be

introduced depends on the governments and parliaments concerned.
Realism and moderation are more useful than wishful thinking.

CONFIDENTIAL

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MDHIAN 1547

CONFIDENTIAL

FM BONN

TO IMMEDIATE FCO

TELNO 521

OF 011555Z MAY 88

INFO IMMEDIATE PARIS, UKREP BRUSSELS

INFO PRIORITY OTHER EC POSTS, WASHINGTON, TOKYO, UKDEL OECD

INFO SAVING CGS IN FRG AND WEST BERLIN

Rune Amundsen

*This was the telegram
which you wanted to
see*

MIPT AND MY TELS NOS 426 AND 427 : EUROPEAN MONETARY COOPERATION

SUMMARY

1. BUNDESBANK PRESIDENT POHL ELABORATED HIS VIEWS ON EUROPEAN MONETARY COOPERATION IN A MAJOR NEWSPAPER ARTICLE PUBLISHED ON 28 MAY. ARTICLE HIGHLIGHTS THE MANY DIFFICULTIES INVOLVED IN CREATING A EUROPEAN CENTRAL BANK.

DETAIL

2. IN A LONG ARTICLE IN FRANKFURTER ALLGEMEINE ZEITUNG, PUBLISHED ON 28 MAY, THE BUNDESBANK PRESIDENT AMPLIFIED HIS VIEWS ON MONETARY COOPERATION OUTLINED AT HIS PRESS CONFERENCE ON 5 MAY (MY TELS NOS 426 AND 427).

3. POHL OBSERVED THAT THE EC WAS ENTERING A NEW PHASE WITH THE APPROACH OF 1992. LIBERALISATION OF CAPITAL MOVEMENTS AND FULL CONVERTIBILITY OF CURRENCIES WERE ESSENTIAL COMPONENTS OF THE SINGLE MARKET AND ALSO THE BASIS OF EUROPEAN MONETARY UNION. AS THE 1970 WERNER REPORT HAD MADE CLEAR, FIXED EXCHANGE RATES WERE ANOTHER PRECONDITION OF MONETARY UNION. IT WOULD BE A SMALL STEP FROM MONETARY UNION TO THE CREATION OF A COMMON CURRENCY. BUT ALL THIS WAS STILL A LONG WAY OFF. THE DIFFICULT POLITICAL DECISIONS INVOLVED IN MOVING TOWARDS FULL EMU COULD NOT BE SIDESTEPED BY CREATING A PARALLEL CURRENCY, AS THE HISTORY OF THE ECU HAD SHOWN. A PARALLEL CURRENCY COULD ONLY REPLACE NATIONAL CURRENCIES WHEN IT COULD COMPETE WITH THE STRONGEST EC CURRENCY.

4. A EUROPEAN CENTRAL BANK WAS NOT ESSENTIAL TO MONETARY UNION. EUROPEAN CENTRAL BANKS COULD COOPERATE SUCCESSFULLY IF A SUBSTANTIAL DEGREE OF ECONOMIC CONVERGENCE COULD BE ACHIEVED. BUT A MINIMAL INSTITUTIONAL FRAMEWORK WOULD BE A USEFUL UNDERPINNING. ANY STEP TOWARDS INSTITUTIONALISING MONETARY COOPERATION WITH THE AIM OF CREATING A EUROPEAN CENTRAL BANK POSED A NUMBER OF FUNDAMENTAL

QUESTIONS WHICH HAD TO BE ADDRESSED RIGHT AT THE BEGINNING. FOR EXAMPLE:

A) WHAT SHOULD BE THE OBJECTIVES OF A EUROPEAN CENTRAL BANK? IN POHL'S VIEW ITS PRIMARY OBJECTIVE, AS IN THE CASE OF THE BUNDESBANK, SHOULD BE TO PROTECT THE CURRENCY BY ENSURING PRICE STABILITY. WITH THEIR MEMORIES OF TWO DISASTROUS INFLATIONS, MOST GERMANS COULD ACCEPT THE CONCEPT OF A EUROPEAN CENTRAL BANK ONLY IF THE PRE-EMINENCE OF THIS OBJECTIVE WAS GUARANTEED. THE BANK COULD NOT BE DIVERTED FROM ITS PRIMARY TASK BY OTHER OBJECTIVES RELATED TO EXCHANGE RATE STABILITY, REGIONAL POLICY, EMPLOYMENT CREATION ETC. WHICH MIGHT CONFLICT WITH THIS FUNDAMENTAL OBJECTIVE.

B) HOW COULD ITS INDEPENDENCE BE GUARANTEED? THE TASK OF PROTECTING THE CURRENCY WOULD ONLY BE POSSIBLE IF A EUROPEAN CENTRAL BANK ENJOYED COMPLETE INDEPENDENCE IN DECISION-TAKING NOT ONLY FROM NATIONAL GOVERNMENTS BUT ALSO FROM EC INSTITUTIONS. IN SOME MEMBER STATES THIS WOULD REQUIRE FAR-REACHING CHANGES IN THE CONSTITUTION OF THEIR CENTRAL BANKS. CHANGES WOULD ALSO BE REQUIRED IN THE FRG WITH ITS QUASI TWO-TIER SYSTEM OF REGIONAL CENTRAL BANKS IN EACH OF THE TEN LAENDER AND WEST BERLIN AND A CENTRAL DIRECTORATE IN FRANKFURT.

C) HOW SHOULD IT BE ORGANISED? IN POHL'S VIEW, A EUROPEAN CENTRAL BANK SHOULD BE ORGANISED ON FEDERAL LINES, WITH CENTRALISATION ONLY WHERE ABSOLUTELY NECESSARY, LEAVING AS MANY FUNCTIONS AS POSSIBLE TO NATIONAL COMPETENCE.

D) HOW SHOULD ITS ROLE IN FINANCING PUBLIC BE CIRCUMSCRIBED? A EUROPEAN CENTRAL BANK SHOULD NOT GET INVOLVED IN FINANCING PUBLIC DEFICITS BY INCREASING THE MONEY SUPPLY. WHILE SUCH A ROLE WAS EXPRESSLY FORBIDDEN BY LAW IN THE FRG, THIS PRINCIPLE WAS NOT NECESSARILY TAKEN FOR GRANTED IN OTHER COUNTRIES.

E) TO WHAT EXTENT SHOULD A EUROPEAN CENTRAL BANK BE RESPONSIBLE FOR EXTERNAL EXCHANGE RATE POLICY? EXCHANGE RATE STABILITY COULD NOT BE THE PRIMARY OBJECTIVE OF MONETARY POLICY IF THIS WAS LIKELY TO LEAD TO INFLATION. BUT THERE WOULD BE SOME SCOPE FOR MONETARY COOPERATION WITH COUNTRIES OUTSIDE THE EC. A EUROPEAN CENTRAL BANK WOULD THEREFORE HAVE TO CONTROL AND ADMINISTER PART OF THE NATIONAL CURRENCY RESERVES. THIS REQUIREMENT HAD BEEN FORESEEN WHEN THE EMS WAS CREATED BUT AT THAT TIME MOST MEMBER STATES WERE RELUCTANT TO TRANSFER PART OF THEIR CURRENCY RESERVES TO A SUPRA-NATIONAL INSTITUTION.

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F) WHERE SHOULD A EUROPEAN CENTRAL BANK BE SITED? FRANKFURT, PARIS, BRUSSELS AND LONDON WERE ALL POSSIBLE CONSIDERATIONS.

5. IT SEEMED DOUBTFUL WHETHER MEMBER STATES WERE READY TO TAKE SUCH FAR-REACHING DECISIONS AFFECTING NATIONAL SOVEREIGNTY WHEN FOUR MEMBERS OF THE EC, THE UK, SPAIN, PORTUGAL AND GREECE, WERE NOT YET MEMBERS OF THE ERM AND ONE, ITALY, HAD SPECIAL ARRANGEMENTS.

6. NEVERTHELESS, CONSIDERABLE PROGRESS TOWARDS MONETARY INTEGRATION HAD BEEN MADE SINCE THE FOUNDATION OF THE EMS. THE COMMITTEE OF CENTRAL BANK GOVERNORS HAD PLAYED AN IMPORTANT ROLE IN THIS PROCESS AND MIGHT BE GIVEN ENHANCED POWERS, FOR EXAMPLE, THE RIGHT TO TAKE DECISIONS REGARDING CHANGES IN EMS ALIGNMENTS WHICH COULD BE DONE IN A TIMELY AND DISCREET MANNER. BUT SO FAR THIS IDEA HAD BEEN REJECTED BY FINANCE MINISTERS. THE EUROPEAN FUND FOR MONETARY COOPERATION, ON THE OTHER HAND, WAS NOT A SUITABLE BODY TO FORM THE NUCLEUS OF A EUROPEAN CENTRAL BANK SINCE IT WAS DEPENDENT ON THE EC COUNCIL OF MINISTERS.

7. THE STRENGTH OF THE GERMAN ECONOMY HAD ENABLED THE D-MARK TO PLAY A STABILISING ROLE IN THE EMS. THE BUNDESBANK WOULD HAVE TO BEAR THE MAIN BURDEN OF INCREASED INTRA-MARGINAL INTERVENTION AS A RESULT OF RECENT AGREEMENTS (NYBORG ETC). DESPITE DEMANDS BY SOME MEMBER STATES FOR GREATER 'SYMMETRY', THE EMS WOULD ONLY BE WEAKENED RATHER THAN STRENGTHENED IF THE BUNDESBANK WAS OBLIGED TO TAKE ON EVEN GREATER COMMITMENTS TO INTERVENE IN SUPPORT OF OTHER EMS CURRENCIES, FOR EXAMPLE, BY HOLDING THEIR CURRENCIES IN ITS RESERVES. THE FRG WOULD TAKE STEPS TO REDUCE ITS BALANCE OF PAYMENTS SURPLUS AS A CONTRIBUTION TO EQUILIBRIUM IN THE EMS BUT THIS WOULD BE DONE BY STRENGTHENING DOMESTIC DEMAND NOT BY MONETARY MEANS.

8. EUROPEAN MONETARY UNION WAS A DESIRABLE POLITICAL AND ECONOMIC OBJECTIVE. FULL LIBERALISATION OF CAPITAL MOVEMENTS, WHICH SHOULD BE ACHIEVED BEFORE THE END OF THE GERMAN PRESIDENCY, WOULD BE A MILESTONE IN THAT DIRECTION. SO WOULD PARTICIPATION BY ALL EC MEMBER STATES IN THE ERM WHETHER FURTHER INSTITUTIONAL STEPS TOWARDS MONETARY UNION WOULD BE POSSIBLE WAS IN THE HANDS OF NATIONAL GOVERNMENTS AND PARLIAMENTS. REALISM WAS MORE IMPORTANT IN THIS PROCESS THAN WISFUL THINKING.

MALLABY

PERSONAL AND CONFIDENTIAL



*File Vho
cc to PC
LOFA QA*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 December 1987

PRIME MINISTER: VISIT TO GERMANY

Thank you for your letter of 22 December, covering one from Julian Bullard, about the possibility of the Prime Minister addressing 15-20 leading German businessmen and bankers at a lunch in the Embassy in Bonn.

I am afraid that I cannot give Julian Bullard encouragement on this, desirable as the proposal is. The Prime Minister has already taken on an unusually heavy programme of foreign visits next year. She is very anxious to avoid going to Bonn for the bilateral with Chancellor Kohl before the additional European Council: we must continue to work on the assumption that he will come here.

If in the event it became absolutely unavoidable for her to visit Bonn to see Chancellor Kohl before the European Council, we might reconsider the idea of the lunch. But nothing should be said to the Germans to encourage the expectation that the Prime Minister will come.

I am returning Julian Bullard's letter.

CHARLES POWELL

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

PERSONAL AND CONFIDENTIAL

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PERSONAL AND CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

22 December 1987

abr

Dear Charles,

Prime Minister: Visit to Germany?

I have just received the attached letter from Julian Bullard. I have no doubt that what he proposes would be thought to be generally "a good thing". Clearly it could not be said to be a necessary thing. If you think that the Prime Minister might be interested in doing it (enjoying doing it might probably be asking too much!), I could pursue it. Otherwise it might be better to stifle it at birth. What do you think?

Yours ever,
A C Galsworthy

(A C Galsworthy)
Private Secretary

C D Powell Esq
10 Downing Street

PERSONAL AND CONFIDENTIAL

If the Summit is in Bonn - I will add ①

10 DOWNING STREET
LONDON SW1A 2AA

Prime Minister

If not - requires time ^{not}

In the attached letter, Julian

Bullard suggests that you should

address a lunch of 15-20 leading

German industrialists in Bonn. If

possible he would like you to do

so before he leaves on 7 Nov.

He sees it as informal with no

prepared text.

Desirable as this might be, I

simply do not think you can

take on more. The only possibility

might be if your bilateral with

Kohl were to be in Bonn
rather than here. But we are
still hoping he will come
to London: and I really
don't think you should voluntarily
take on more foreign travel
unless absolutely necessary.

Agree a generally discouraging
response for now, with just a
glimmer of a hope in the event
you have to go to Bonn
anyway?

CDP
27/11/81



CONFIDENTIAL

BRITISH EMBASSY,
BONN.

18 December 1987

A C Galsworthy Esq CMG
Private Secretary to
Secretary of State
FCO

Dear Anthony,

A VISIT TO GERMANY BY THE PRIME MINISTER?

1. I think you know of the enormous admiration felt for the Prime Minister among the business and financial community in the FRG. I notice this everywhere I go. The feeling has if anything gained in strength during the last 12 months as the improvements in British industry have started to come through and as the German achievement has appeared to tail off.
2. Some of the German businessmen and bankers tell me how vividly they remember the lunch for the Prime Minister organised by Oliver Wright at the Residence here in (I think) 1979 or 1980, when the Prime Minister described the transformation she was resolved to achieve in the British economy. I remember the occasion too, having had the good luck to be present as a member of the Prime Minister's delegation from London.
3. I have been wondering whether this might not be a good moment to repeat this formula, ie to organise a lunch or dinner party here for top German businessmen, with the Prime Minister as speaker and guest of honour. If I say that I should very much like to fit this in before my time here runs out on 7 March, it is not for the sake of the honour and glory attached,

/although

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although it would be very nice for me to be there as host, but because I do now know personally most of the people whom one would want to invite from the German side, a situation which it will take my successor a little time to establish.

4. I would envisage a lunch or dinner for 15-20 representatives of major banks and firms, plus the heads of the BDI (CBI equivalent) and the Employers' Federation. I am sure that we could expect a very good turnout, even at short notice, though it would obviously be better to issue the invitations a month or more ahead, since those concerned have very full diaries and travel a lot. The format would be the same as last time, one long table with the Prime Minister sitting in the middle and speaking from her place, either standing up or seated, as she preferred. The great difference would be that last time she could do no more than outline her plans, whereas now she can demonstrate with facts and figures how they have succeeded. This would also be a chance to get across to an influential audience such points as the requirement for higher growth rates in Europe; the importance of developing enterprise economies; the need to open up the single market; and the FRG's leading role in all of this.

5. The question is how to fit such an event into the Prime Minister's programme. The most convenient thing would obviously be to choose a day when she is going to be in Bonn anyway. The next Anglo-German Summit consultations in Bonn are not likely to be held until 1989, too late to cash in on the mood I described at the start of this letter. I could certainly stimulate an invitation to the Prime Minister from eg the BDI, but they would then want to take over the arrangements, and they might ask for an on-the-record speech to a

/large



CONFIDENTIAL

- 3 -

large audience, which would make it harder for the Prime Minister to speak frankly and say all that needs to be said. A possible plan, if the Prime Minister were willing to consider it, would be to tack my proposed lunch/dinner party on to the private meeting which the Prime Minister hopes to have with Kohl in late January or early February, before the Brussels Summit (FCO telno 603 to Bonn). This would require the Prime Minister's office, either when Kohl replies to her message or even without waiting for this, to indicate to him that she would be ready to hold that meeting in Germany, perhaps giving the reason that this would make things easier for him in his first weeks as holder of the Presidency and with so many contacts to manage.

6. I should be grateful to know what you think of this idea, and if you like it, how you think it might be put into practice. I shall of course quite understand if it turns out to be impossible to get something on these lines organised before my own time is up: Christopher Mallaby can simply take the suggestion over if he likes it or discard it if he does not. But if you agree with me that we could grasp the opportunity of the meeting with Kohl which the Prime Minister has already asked for, there is obviously no time to be lost.

*Yours ever
Julian*

J L Bullard

cc D J M Dain Esq, WED, FCO

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ECL
bc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 November 1987

ANGLO-GERMAN SUMMIT

I have been in touch again with Dr. Neuer in the Federal Chancellor's office. He tells me that the Germans can accept 5 February. I have agreed to this. The Diary Secretary subsequently tells me that this was not one of the dates we offered but has magnanimously agreed that we can now stick to it. You may wish to confirm it through our Embassy in Bonn.

(Charles Powell)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

ls

PRIME MINISTER

POSSIBLE MEETING WITH CHANCELLOR KOHL

I have enquired whether Chancellor Kohl is likely to be available on 22 November, the day on which you have already agreed to travel to Paris to see M. Chirac. The answer is that he gets back from a long overseas visit in the early hours of that morning. The feeling of his staff is that he is unlikely to welcome the idea of a meeting that morning and in any case would not be very well briefed for it.

The alternatives, if you do want to see him before the European Council, are:

- to make a special visit to Bonn e.g. on Saturday 28 November; or *Np*
- to try to fix a bilateral in Copenhagen on the evening before the European Council starts. You have already agreed to travel up to Copenhagen that evening.

Would you like me to pursue one of these options?

C.D.I.

The letter mb

Charles Powell
3 November 1987

CONFIDENTIAL

Original on
FRANCE
PM's visit. PLS

PRIME MINISTER

BILATERAL MEETING WITH EUROPEAN LEADERS

Could I possibly ask you to look again at the question of meetings with Chirac and Kohl before the European Council.

I think there is a good case for a meeting with Chirac. We only got a solution on our budget contribution at Fontainebleau because you got the French working with us. The same will apply this time round: we shall only sort out future financing by arrangement with the French - although this time it is Chirac rather than Mitterrand who will have the greater say. Chirac for his part is very keen to see you and it would be a pity to turn him down. Certainly we cannot say that a meeting will ensure a satisfactory outcome at Copenhagen, which on balance remains unlikely. But I think we can say that there is no chance of a satisfactory solution unless you meet beforehand.

Against this, I absolutely understand your reluctance to give up yet more time when you already have a grindingly hard programme this autumn. When all is said and done, the most important thing is not to overburden you.

If you decide that you will see Chirac in Paris the two possible dates are:

- the early evening of Sunday 22 November. This would mean in practice giving up the whole of your Sunday afternoon and evening. The 'advantages' are that it is after the Lord Mayor's Banquet, is still far enough ahead of the European Council to let the results filter through, and is immediately before Chirac's own session with Schluter. Chirac cannot manage Saturday 21 November to which you earlier agreed, since he is in Reunion in the Indian Ocean campaigning.

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- Saturday 28 November. This seems to me less good. A Saturday meeting breaks up your weekend more, you are away immediately beforehand and it is a bit close up against the European Council itself. But it is certainly manageable if you prefer it.

The question of a meeting with Kohl is subsidiary. There is not usually a great deal to be gained by discussing EC matters with him bilaterally. The idea of a meeting really only arises if you decide that, having crossed the Channel, you may as well kill two birds with the one stone.

I attach a copy of the diary for the relevant period, to help you decide.

Agree to see Chirac on 22 November or 28 November.

Agree to pursue idea of a meeting with Kohl the same day?

OR

Prefer to drop meeting with Kohl?

C. D. POWELL

30 October 1987

PMMAJO



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Charles Powell Esq
Private Secretary
10 Downing Street
LONDON SW1

29 October '87

Prime Minister

CDP
30/x

Dear Charles,

PRIME MINISTER'S MEETING WITH THE FRENCH PRIME MINISTER IN
BERLIN ON 25 SEPTEMBER 1987

We were surprised to see from your letter of 25 September to Lyn Parker that M. Chirac raised the question of high speed rail services and the Channel Tunnel with the Prime Minister, and were on the point of suggesting that the Prime Minister should write to M. Chirac in somewhat robust terms when the French Government announced its decision to go ahead with the new high speed rail link between Paris and the Tunnel. On reflection, and having talked to our Embassy in Paris and to the FCO we concluded that there was no useful purpose in further debating the issue, and M. Chirac's office confirmed that they were not expecting the Prime Minister to follow up the discussion with a letter. Nevertheless it might be helpful if I briefly set out our reaction to the points made by M. Chirac.

It is perfectly true that from the opening of the Tunnel, or soon afterwards, the French will, on current plans, have in operation a new and very expensive high speed line between Paris and the Tunnel. Trains are expected to cover the 330 km from Paris to the coast in 80 minutes. It is also true that on the UK side the high speed trains coming through the Tunnel will almost certainly have to operate on BR's existing overcrowded and slow network. It will take 70 minutes - and at certain times of the day longer - to cover the 120 km between London and the coast. Even so BR's planned investment between London and the Tunnel to accommodate Channel Tunnel passenger trains is in excess of £200m. (The figures given to M. Chirac by his officials not only understate UK investment but also overstate French investment since the figure quoted by M. Chirac relates to French investment for traffic between Paris and Brussels and internal French traffic as well as Channel Tunnel traffic.)

The desirability of improving the capacity of the existing lines and shortening journey times on the UK side is well understood. Sooner or later something will have to be done as the recent Kent Impact Study made clear. BR have a remit to report back to my Secretary of State by next June on the options for improving the position. All options are likely to be expensive, but the receipt sharing agreement between BR and SNCF is constructed so that BR should get extra revenue for making improvements to the railway infrastructure which bring about quicker journey times and greater reliability. The major difficulties are likely to be environmental and Parliamentary. BR would need a Private Bill for land acquisition either to build new stretches of track or widen existing stretches to put in more lines.

The French know all this perfectly well - indeed SNCF are to be associated with BR's study of the possible options (which include a new line) for improving journey times and reliability. And in the meantime the receipts sharing formula rewards SNCF for any deficiencies in journey time and capacity caused by use of BR's existing network.

Ministers and officials here were therefore surprised that M. Chirac raised this issue. Both my Secretary of State and Mr Mitchell have been at great pains to explain on several occasions to the French Transport Minister, M. Douffiagues, that one of the reasons why the previous Channel Tunnel project failed in 1975 was the strong environmental objections to a new line in the UK and the excessive cost of meeting those objections. That is why we and Eurotunnel sought Parliamentary approval to the Tunnel project without raising the spectre of extensive new rail infrastructure in the UK. Unfortunately certain elements in the French Government seem to have got it into their heads that in some way we owe it to the French to drive a new high speed line through the London suburbs and Kent without regard to cost or environmental opposition. We are doing our best to get this bee out of the French bonnet.

My Secretary of State again explained our position to M. Douffiagues when he met him last Monday, and we hope that the steam has gone out of the issue for the present. The main thing is that we have done enough to convince the French that they can safely go ahead with their own high speed link without any comparable commitments on our side.

I am copying this letter to Lyn Parker.

Yours,
Jan.

J CUNLIFFE
Private Secretary

Germany PM 11/11/87 Ch Kall PV 7.



concordia



Foreign and Commonwealth Office

London SW1A 2AH

28 October 1987

Copied to France PM's visits
PT 5.

Dear Charles,

Anglo-French and Anglo-German Summits

The French Embassy have now confirmed to us that Friday 29 January is acceptable as the date for the Anglo-French Summit.

Our Embassy in Bonn spoke again late last week to the Federal Chancellery about dates for the Anglo-German Summit. The Chancellery said that they would get in direct contact with you. I hope they have now done so.

Yours ever,

(L Parker)
Private Secretary

CONFIDENTIAL

PRIME MINISTER

MEETING WITH M. CHIRAC

File
Organization
FRANCE - PM
visits pt 5

You agreed in principle that you would be ready to go over to Paris one Saturday in the second half of November for a meeting with M. Chirac ahead of the European Council.

It now turns out that he cannot manage either of the Saturdays. He has counter-proposed an early working supper on Sunday 22 November. He envisages you getting to Paris at about 1600-1630 and leaving at 1930-2000. It would be quite timely since he goes to Copenhagen to see the Danish Presidency the following day.

Agree to this?

There is then the separate question of whether you would want me to see if Chancellor Kohl could manage a meeting on the morning of 22 November.

May I pursue this?

C.D.P.

28 October 1987

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FRANCE

PM's visits

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PRIME MINISTER

MEETING WITH M. CHIRAC

M. Chirac is pressing you to have a half-day meeting with him, possibly at a weekend, in Paris before the European Council. The technical possibilities, if you are prepared to consider it, are:

Saturday 21 November

Sunday 22 November

Saturday 28 November

Sunday 29 November

You have to be in London for President Cossiga's dinner on Friday, 20 November. That could point to going to Paris for a morning meeting on Saturday 21 November, returning to go direct to Chequers that afternoon.

You might I suppose want to go on to Germany to see Chancellor Kohl for the other half of the day. The need to discuss EC matters ahead of the European Council would be quite a good cover for tackling him on the world economy and perhaps also on European defence.

Would you be prepared to consider something on these lines?

C.P.R.

Y
L
m

CHARLES POWELL
26 October 1987



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Prime Minister

Under Foreign Affairs you
may want to say
something about the IDU
Conference in Berlin, giving
the great flavour of your
speech here.

CS?

File DSG/SLH

CC PC



10 DOWNING STREET
LONDON SW1A 2AA

SUBJECT
CC MASTER

From the Private Secretary

26 September 1987

Dear Lynn,

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL
IN BERLIN ON 25 SEPTEMBER

The Prime Minister met Chancellor Kohl in Berlin on the afternoon of 25 September, at the Federal Government Guest House. The Chancellor was accompanied by Herr Hartmann.

NATO Secretary-General

Chancellor Kohl thanked the Prime Minister for her letter confirming the United Kingdom's support for Dr. Woerner to succeed Lord Carrington as Secretary-General of NATO. He had now heard in similar terms from President Reagan and President Mitterrand, and was confident of the support of Italy and Spain. He hoped that a vote could be avoided and the matter could be settled quickly.

Presidential Elections in France

Chancellor Kohl was confident that President Mitterrand would stand again. The Prime Minister thought that he would probably leave it to the last minute before making up his mind.

Herr Honecker's Visit to the FRG

The Prime Minister asked how Chancellor Kohl assessed the results of Herr Honecker's visit. It had received wide publicity in Europe. She understood the emotional aspect for the FRG.

Chancellor Kohl said that his feelings about the visit were ambivalent. Honecker's position was interesting. The Russians did not like him. He had not been one of the club of German Communist exiles in Moscow. He knew far fewer Russians than most other leading Communist officials in Eastern Europe. He was a tough Communist but not a Soviet Communist. Honecker was coming to the end of his career, and was something of a grand old man. This gave him a degree of freedom of manoeuvre which his successors were unlikely to enjoy. This freedom of manoeuvre was helped by

Gorbachev's preoccupation with internal developments in the Soviet Union. He wanted to build his own monument before he retired and not become a non-person like Ulbricht. On fundamentals and on issues of principle, there was no possibility of reaching agreement with him. But progress was possible on some pragmatic questions. The Wall would remain, but Honecker would open more doors in it. This was already evident. In 1983 some 300/400,000 pensioners and 35,000 younger people had been allowed to visit the FRG from East Germany. The corresponding figures for 1987 would be 1.5/1.8 million pensioners and 1.1/1.2 million younger people. He had reason to think that the overall total next year could be as high as 4 million. Such visits were far more effective than any propaganda in demonstrating the differences between the two systems. It was nonetheless remarkable how few of these visitors sought to stay in the FRG. The figure was 0.02 per cent. His own interpretation of this phenomenon was that the knowledge that they could visit the West led people to resign themselves to living under Communism.

The Prime Minister said that the critical test would come when Honecker left the scene. His successor might be more pro-Soviet. Chancellor Kohl agreed. He had unabashedly told Honecker to stay in office as long as possible. Whoever succeeded him was likely to be worse. It all depended on what happened in Moscow. Personally he was much more sceptical than a year ago about Gorbachev's prospects. He very much agreed with the Prime Minister's analysis in her remarks to the IDU Conference. It was not that Gorbachev lacked the will, but the obstacles to change might prove too big for him. Indeed his difficulties seemed to be increasing rather than diminishing. The human material in the Soviet Union was not promising. A Russian had to be at least 94 years old to have experienced a free election in the Soviet Union. The Prime Minister said that, although there seemed to be no current rival to Gorbachev, opposition would emerge quickly enough if things started to go wrong. But we should use the opportunity to improve relations created by Gorbachev: there was no way of knowing if a similar chance would come again.

Arms Control

The Prime Minister said that she was grateful to the Chancellor for insisting that the Pershing 1As should not be part of the INF agreement itself. This was an important point of principle. More generally, she hoped that Europe would not face any more surprises of the sort that had emerged from the Reykjavik Summit. Some worry remained in her mind. Although the US Administration seemed to have latched on firmly to the priorities established at her meeting with President Reagan at Camp David, there were still occasional references to the goal of a non-nuclear world. She was also uneasy about the way in which the Administration had locked themselves into a process designed to lead to a Comprehensive Test Ban Treaty. She thought that the Americans should be encouraged in their intention to hold a NATO Summit before a further US/Soviet Summit.

This would be a chance for the Europeans to get their views over.

Chancellor Kohl agreed that a surprise was not out of the question. It was important to ensure that Gorbachev was interpreted in Washington in the same way as the Prime Minister had interpreted him to the IDU. All his information was that the Soviet Union was continuing to develop its offensive capability in both the nuclear and conventional field. He had always thought it a mistake to begin arms reductions with nuclear rather than conventional weapons, but one could not put the clock back. People should be reminded that disarmament was not an end in itself. He also thought that a ban on chemical weapons should be made a test case for Gorbachev to prove his sincerity.

The Prime Minister said that she was gratified to find that she and the Chancellor thought on very similar lines on these issues. Her views on the conditions which would need to be met before there could be negotiations on short-range missiles in Europe had been set out in her remarks to the IDU. It was vital to maintain a US nuclear presence in Europe.

European Community

The Prime Minister said that a lot of work would be needed to settle the future financing of the Community. Quite apart from the main issues, the financial procedures were in urgent need of overhaul. And the recent report by the Court of Auditors had shown scandalous mismanagement of the Community's food aid. The Commission had made some very detailed proposals on future financing, which would require careful examination. She was not certain that this work could be completed by December. Her impression was that M. Chirac shared her doubts. She would be discussing the prospects for the European Council with Mr. Schluter the following week. One point which she would stress was that there could be no partial settlement for 1988 alone. There was an opportunity to put the Community's finances on a sound basis, and she intended to see it taken. If the Danish Presidency were unable to reach a conclusion in December, the problem would fall to the German Presidency to solve. Chancellor Kohl said that he was sceptical whether the French government would really be ready to settle agricultural issues before the Presidential elections. His prediction was that these problems would confront the German Presidency and would have to be settled at the European Council in June.

The Prime Minister said that controlling the cost of the CAP was the central problem. The Commission's proposals for stabilizers were on the right lines. She understood that Germany had some ideas set-aside. But that alone would not solve the problem of land remaining in production was simply cultivated more intensively. She understood the need to look after the interests of small farmers. But this could not be done through the price mechanism. Farmers

themselves knew that matters could not go on as they were. They were looking to governments for action.

Chancellor Kohl said that farmers were indeed the main problem in Germany. They had hurt him badly in two successive Land elections by staying away from the polls (although at least they had not voted for other parties). Germany had very few big farms, only about 10 over 1000 hectares in size and 50 over 500 hectares (Herr Hartmann looked rather dubious about these statistics). The small or part-time farmer was an essential part of village life in Germany and a great element of stability. They were not the types to start a revolution. But any German government had to look after their interests. His government were preparing an overall plan for agriculture. When it was ready, he would send Herr Kiechele over to explain it. He agreed on the need to get away from 'mad' surplus production. That was one reason why the German government favoured set-aside, although he took the Prime Minister's point that it made sense only if production on remaining land did not rise. Part of the problem lay in the march of agricultural technology. A normal cow today would have been undisputed show champion twenty-five years ago. In sum, he thought that the Community was on the right road, but it would need four or five years to get over the hill. The Prime Minister said that we did not have four or five years in hand. The Community had to take difficult decisions now.

Chancellor Kohl said that he very much agreed with the Prime Minister's concern about the management of the Community's food aid. The Council should look into the problem.

South Africa

The Prime Minister said that there was talk of a Declaration of Principles by the Twelve on South Africa. This would serve no useful purpose and only make her position at the Commonwealth Heads of Government Meeting more difficult. Chancellor Kohl - who did not seem aware of any such plan - said that he was firmly opposed to a declaration. There was a great deal of hypocrisy talked about South Africa. He had set out his own position squarely at the European Council in the Hague and would not budge from it even if it got him into hot water politically in Germany. He had told Herr Genscher that they would have to part company on this issue if necessary.

Chancellor Kohl said that he was making some private efforts to secure the release of Mandela, but without much success. He found President Botha very frustrating to deal with. But there were some doubts whether Mandela himself wanted to leave prison, or at least whether Mrs. Mandela and the ANC wanted him out. If this were so, it should be exposed publicly. The Prime Minister commented that she was sure the Chancellor was right that the only prospect of progress lay in quiet work behind the scenes, while avoiding gratuitous declarations.

Falklands

The Prime Minister said that she hoped that Germany would continue to abstain on the Falklands resolution at the United Nations. Chancellor Kohl said that the Prime Minister knew his position. Germany would be helpful.

Hostages

Chancellor Kohl said that he was disturbed by allegations that Germany had done a deal to secure release of its hostages in Lebanon. There was no truth in this. Hamadi would stand trial for murder. If the evidence was strong enough - and it was for the Americans to produce it - and he were found guilty, he would serve his due sentence. It was said that the companies employing those taken hostage might have paid a ransom. He knew nothing of that. He could only say that the German government was not party to any deal.

I should be grateful if this record could be given only a very limited distribution within departments.

I am copying this letter to John Howe (Ministry of Defence), Alex Allan (H. M. Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and Trevor Woolley (Cabinet Office).

Yours sincerely,
Charles Powell

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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10 DOWNING STREET
LONDON SW1A 2AA

File VC
CCPC
SUBJECT
CC MASTER.

From the Private Secretary

25 September 1987

Dear Lynn,

Prime Minister's Meeting with the French Prime Minister
in Berlin on 25 September 1987

The Prime Minister had a meeting this morning in Berlin with M. Chirac. M. Bujon was also present.

The Gulf

M. Chirac welcomed the United Kingdom's decision to close the Iranian Arms Procurement Offices in London. Their activities had caused the French Government some difficulties. He noted a growing rapprochement between the Soviet Union and Iran which would complicate the situation in the Gulf. He remained vexed about Germany's tilt towards Iran, which he put down to a mixture of Genscher's deviousness and Germany's commercial interests. France had quite a good insight into developments in Iran through the Algerians; and M. Bujon had just returned from Baghdad. In neither capital was there much evidence of a war in progress. He had himself discussed the situation in the Gulf with Mr. Ozal who had emphasised the dangers of driving Iran into a corner. He did not accept this analysis: we must keep up the pressure. Finally, he would like to propose improved cooperation between the French and United Kingdom naval forces in the Gulf, including exchange of information and logistic cooperation.

The Prime Minister said that she thought that cooperation on the spot worked well. But she would ask the Defence Secretary to let her know if there were areas where it could be improved. Certainly there was no objection in principle. She thought too that when sufficient minesweeping forces arrived in the Gulf, it might make sense to allocate particular stretches of the sea-lanes to each country to sweep. On the wider issues, she thought that President Khamenei's speech to the United Nations had been a disgrace. It was evident that the Iranians were playing for time. The Security Council should move on to an arms embargo. If the Russians obstructed this, they should be pilloried. Like M. Chirac, she did not accept Mr. Ozal's analysis. Iran could not be allowed to continue minelaying and attacks on shipping with impunity. SCR 597 was a balanced resolution and provided for Iran's wish to set up a committee established to examine responsibility for starting the war.

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We should think through how this committee could be established rapidly, but without making any further concessions to Iran.

Hostages

The Prime Minister said that she had been very disturbed to learn that a ransom appeared to have been paid for the release of German hostages. It was quite wrong to negotiate with kidnapers and only increased the danger to the hostages of other countries. She was sure that M. Chirac would agree with her that deals to secure the release of hostages were quite unacceptable.

M. Chirac, shifting a little uneasily, said that France had rejected Iran's attempts to set conditions for the release of French hostages. There had been negotiations to end France's financial dispute with Iran, in which the French position was very weak. Some \$330m had already been repaid, and France had admitted that another \$1.5bn was due. But there was no connection between this and the hostages. The Prime Minister said that she was sure that public opinion in France would reject any deal. M. Chirac moved on

Arms Control

to raise the INF agreement. France was not fond of it and thought that it would weaken the United States' commitment to Europe. The Prime Minister interjected that there was no point in criticising the agreement. It was in the logic of the West's original negotiating position and should be welcomed as a success for Western solidarity. However, she would resist very strongly any further negotiations on short-range nuclear missiles in Europe, until the chemical and conventional imbalance in the Soviet Union's favour had been eliminated. M. Chirac said that he was fatalistic. Public opinion in Germany, the Netherlands and Belgium would demand a third zero option and Chancellor Kohl would have no alternative but to go along. The Prime Minister said that she would fight on this and hoped that M. Chirac would too, not least because there would no doubt be pressure to bring in French short-range nuclear weapons. Both of them should try to stiffen Chancellor Kohl. M. Chirac agreed: France had not wanted the first and second zero options and certainly did not want a third. But he was not optimistic.

Defence Cooperation

M. Chirac said that, partly in response to the INF agreement, France was trying to improve its defence cooperation with Germany. He would like to see this cooperation extend also to the United Kingdom. There should be discussions to see how our defence links could be improved. The Prime Minister nodded but did not comment directly.

NATO Security General

M. Chirac asked whether the Prime Minister had reached a conclusion on the successor to Lord Carrington as NATO Secretary General. The Prime Minister said that she had told Chancellor

Kohl that we would support Dr. Woerner. Her only reservation was that his departure from the German government might weaken its stand on defence issues. M. Chirac said that France too would support Dr. Woerner.

Channel Tunnel

M. Chirac said that he wanted to raise a problem about high-speed trains and the Channel Tunnel. Under existing plans, French railways would be making an investment of 12 billion francs to upgrade the line from Paris to the coast. British Rail would be spending only 200 million francs on the line from Folkestone to London. The result would be that trains would cover the 330km from Paris to the coast in 80 minutes and still take 70 minutes to cover the 120km on the British side of the Channel. This diminished the attractions of the whole project and threatened its profitability. He understood the environmental problems in Kent. But there was a real problem for France.

The Prime Minister said that she was not briefed but would look into the matter.

Falklands

The Prime Minister recalled that when she had tried to persuade France to change its vote on the Falklands last year, M. Chirac had said that it was too late and that President Mitterrand had already announced how France would vote. She wished to give him plenty of notice this year. We had consistently supported the French on similar issues involving dependent territories and would do our best to moderate the language of the CHOGM communique on New Caledonia.

M. Chirac said that he wanted to support the United Kingdom, but there was a real problem of cohabitation for the French government. If he announced a change in the French vote, President Mitterrand would immediately contradict him. He would try to reason with the President but he was not very hopeful.

European Community

The Prime Minister said that she would like to see a satisfactory agreement reached at the Copenhagen European Council, but she was not convinced it was feasible. How did M. Chirac see the situation?

M. Chirac said that he was not sure, but was inclined to share the Prime Minister's doubts whether it would be possible to get everything through by December. He thought that the budgetary issues could be resolved but the CAP problems would be more difficult. He would like to propose further informal contacts between French and British experts. The last round had shown that we were not as far apart as he had thought. The Prime Minister agreed that further contacts would be useful.

I am copying this letter to John Howe (Ministry of Defence), Alex Allan (HM Treasury), Shirley Stagg (MAFF), Roy Griffins (Department of Transport), Tim Walker (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,
Charles Powell

CHARLES POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET
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THIS IS A COPY. THE ORIGINAL IS
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From the Private Secretary

file
cc PC
SUBJECT
CC MASTER

25 September 1987

Dear Lynn,

PRIME MINISTER'S MEETING WITH THE TURKISH PRIME MINISTER
AT THE HOTEL INTERCONTINENTAL IN BERLIN
ON THURSDAY 24 SEPTEMBER 1987

The Prime Minister had a talk with Mr. Ozal in Berlin last night, after dinner for Party Leaders attending the Conference of the International Democratic Union (IDU).

Turkish Elections

The Prime Minister enquired about the prospects for the Turkish elections. Mr. Ozal said that the polls looked good for his Party suggesting that they could win over 40 per cent of the vote with their nearest rivals, the Social Democrats, on about 20 per cent. He was not worried about the traditional parties. Still, no election was won until the votes were counted.

Turkish Economy

Mr. Ozal said the Turkish economy was doing well, apart from inflation which was running at 30 per cent. Exports had increased 20 per cent in dollar terms this year. Growth last year had been 8 per cent and would probably be 7 per cent in the current year. The balance of payments deficit would come down to \$1 billion this year.

The Gulf

The Prime Minister said that she was not optimistic about any solution in the Gulf while the Ayatollah Khomeini remained alive.

The Prime Minister continued that she thought President Khameni's speech to the United Nations General Assembly had been a disgrace. Mr. Ozal said that he knew the Iranians well and had many contacts with them. One had to accept that there was no viable alternative to the present regime in Iran. Although there was dissatisfaction with the war, evidenced by the fact that large numbers of Iranian families sent their

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rail link from Berlin to Hanover and a direct electricity link from the Federal Republic. The prospects for agreeing a number of minor territorial adjustments in Berlin also appeared to have improved. But the results in terms of human rights had been disappointing.

The Prime Minister asked whether in retrospect it had been wise to agree to a visit by Herr Honecker in return for such limited improvements. Her impression was that Honecker had gained a great deal from the visit, while the advantages for Berlin and for the West generally had been small by comparison. The visit fitted neatly into the pattern of more skilful presentation without any change of substance in the policies of the Soviet Union and its allies. They would exploit Honecker's visit to Bonn to their advantage, but had not had to concede a change in, for instance, East Germany's shoot-to-kill policy. It underlined how important it was not to allow people in the West to be carried away by slick presentation, but constantly to remind them of the reality of Communism.

Herr Diepgen said that people in Berlin wanted to see more East/West cooperation and Herr Honecker's visit had played an important part in securing this. Honecker himself was probably better from the West's point of view than any likely successor, and the visit would help him carve out a little more freedom of manoeuvre. The particular emotion surrounding relations between the two German states had to be taken into account. But he admitted the danger that people would under-estimate the threat from the East. There was a risk of euphoria about arms control. They simply did not want to recognise that reducing weapons could sometimes increase the risks and dangers. The Prime Minister agreed that people in the free world were not always vigilant enough. It was up to Herr Diepgen and her, and other leaders of the West, constantly to remind them of the dangers and urge the need for strong defence.

I am copying this letter to John Howe (Ministry of Defence) and Trevor Woolley (Cabinet Office).

*Yours sincerely,
Chris Powell*

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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SUGGESTED QUESTIONS FOR THE PRIME MINISTER FROM B.F.B.S. RADIO

1. There was much euphoria in Washington and Moscow following the tentative agreement last week on Intermediate Nuclear Missiles. What was your initial reaction ?
- X 2. Although an INF Agreement has been a NATO priority for some time, doesn't such an agreement make the British and Allied Conventional Forces in West Germany vulnerable because of the imbalance between east and west ?
- X 3. The German Defence Minister, Manfred Wörner, and NATO's Supreme Commander General John Galvin have suggested that some of the short-range Tactical Nuclear Systems, such as "Lance", should be upgraded and modernized in the wake of the INF agreement. Would you agree with this ?
4. The Russians have expressed hope that the agreement would be an incentive towards a withdrawal by both sides leaving a 90 mile bufferzone in Central Europe. Is this a realistic objective ?
5. Under what circumstances would you put Britain's Independent Nuclear Deterrent on the negotiating table ?
6. What are you hoping will result from your bilateral talks with Chancellor Kohl ?
- X 7. What is your reaction to recent developments in the Gulf ?
(I cannot give exact wording at the moment as events are changing all the time. But it will be an open general question).

Naturally if the Prime Minister has any specific thoughts she would like to communicate to the forces audience she can do this at any time during the interview.

If all goes according to plan, a clip of the interview will be used on a daily programme called 'Satellite Supplement', and the interview in full will be broadcast on 'Sitrep', our weekly defence programme with Peter Hobday. Both programmes go out on all British Forces Radio Stations around the world.

X ~~LOAs~~ LOAs

THE BERLIN STATEMENT

The Leaders of 27 Member-Parties of the International Democrat Union (IDU) from 25 countries, including 8 heads of government, together representing more than 165 million voters, have participated in the 3rd IDU Party Leaders Conference at the Reichstag, Berlin, on 24th-26th September 1987. The meeting has been hosted by the CDU/CSU, Germany, founding Member-Parties of the IDU. They have been joined by observers and guests from like-minded parties. A list of the principal participants is attached.

The following parties have been admitted to full membership of the IDU: Freedom Party, Dominica; New National Party, Grenada; National Party, Honduras; and the Motherland Party, Turkey. The Conservative Party, Nicaragua, has been granted associate status. The Caribbean Democrat Union has also been recognised as a third regional organisation of the IDU.

Elections for the officers for the period 1987-1989 have taken place, and the following have been elected:

- Chairman:
- Deputy Chairman:
- Vice-Chairmen:
- Treasurers:
- Executive Secretary:

Send this ASAP with
my compliments to Charles
Powell, No 10 -
Half city

2ND DRAFT
ANNOTATED

cc pc ✓

THE BERLIN STATEMENT

3RD PARTY LEADERS CONFERENCE

THE REICHSTAG, BERLIN

24th-26th September 1987

Key to unnoted amendments in *italics*:

- Australia* - LP
- Colombia* - CP
- Finland* - KK
- Germany* - CDU
- Greece* - ND
- Jamaica* - JLP
- Norway* - HO
- Sweden* - MS
- UK* - UK

The Party Leaders have considered a broad range of issues touching on the promotion of democracy, foreign affairs and economic questions. Current developments in East-West relations have been paid special attention.

Meeting in the city of Berlin, the international symbol of the divide imposed by the East [KK: *East/West division*], the Party Leaders express their complete abhorrence [HO: *rejection*] of totalitarian ideologies. They are united in their common conviction that in the conflict of ideas with communism and socialism, the ideals of freedom and free enterprise will prevail.

They reiterate their fundamental belief that the social market economy, which underpins economic freedom, is directly linked with political freedom and democracy; and that those individuals and societies that seek to diminish or deny economic freedom ultimately threaten the human rights of every individual under the rule of law. [LP: *add: The relief of poverty and deprivation, and the capacity of countries to provide a fair standard of living for their peoples and to meet such international humanitarian duties as aiding and resettling refugees is inextricably linked to economic freedom.*]

The Party Leaders thus remain determined to fully support the work of the IDU both as a means of increasing the unity and understanding between existing Member-Parties, and as an instrument to assist all like-minded political forces in the rest of the world.

Reviewing political developments since their last meeting in 1985, the Leaders enthusiastically observe the continuing support of national electorates for their policies, and the further successes of their parties at a national level. [IND: *at national levels*].

EAST-WEST RELATIONS

Truste capital

The Party Leaders welcome the new climate in East-West relations that has brought substantial proposals for arms control and reduction under discussion. They look forward to real progress being made [HO: *insert through East-West contacts and especially*] at the next Reagan-Gorbachev summit meeting, opening up the possibility of a more constructive East-West relationship in the future.

They note with satisfaction that this fresh [MS: *changed*] approach by the Soviet Union has been brought about by the determination of Western nations to pursue peace through [HO: *insert adequate*] strength; and that their full support for the earlier decision to deploy cruise and Pershing II missiles in Western Europe has been fully justified. Only from this position of common resolve has the West succeeded in persuading the Soviet Union to accept its original proposals. Only through a continued commitment to peace through strength do the Party Leaders believe that further progress can be made. [KK *reservation on this paragraph*].

Nevertheless, taking into account the Soviet emphasis on nuclear disarmament, the Party Leaders consider that it would be a tragic mistake to promote the image of a less horrifying war in the belief that it would not be nuclear [LP: insert rather than conventional]. Any war that was conceived to be easier to start because it was perceived as limited to conventional arms would imply an intolerable risk of escalation into nuclear war. The Leaders are firmly of the view that the very essence of deterrence in the policy of flexible response is to avoid both conventional and nuclear warfare. [HO: replace by Any East-West war that was initiated in the expectation that it could be limited to conventional arms and thus were being conceived as less dangerous, would imply an intolerable risk of escalation into nuclear war.] [KK reservation on this sentence].

A detailed report on the guiding principles to be pursued by the IDU towards East-West relations has formed an important part of the discussion between the Party Leaders, and is endorsed by them. Presented by Mr. Carl Bildt, MP (Chairman, Moderata Samlingspartiet, Sweden), on behalf of the IDU Standing Committee on Foreign Affairs, the report outlines the need for the West to be guided by an historical perspective and to pursue its objectives over a lengthy span of time. It calls for such a strategy to be tested against events, but not altered by every circumstance. [The Report is circulated separately].

On the specific proposals currently under discussion between East and West, the Party Leaders expressed their full support for:

*Under
way
has
presented
an
outline*

THE RECOMMENDATIONS IN THE EAST/WEST RELATIONS REPORT
(SECTION 9), TO BE FINALISED IN BERLIN, WILL BE LISTED HERE

Noting the contribution of neutral states to security and peace in Europe and the rest of the world, particularly through their own defence efforts. [MS/KK: delete] the Party Leaders recognise that such states are affected by current arms control negotiations, and endorse their interest in arms reduction to the lowest possible level, and the establishment of a stable balance of power.

The Party Leaders give a cautious welcome to the current direction of internal developments within the Soviet Union, especially in the field of economic reforms [MS: delete] and the slight relaxation of absolute control over information. The release of some of the many political prisoners in the Soviet Union is hopeful [LP: a hopeful sign]; but until all prisoners of conscience are released, and steps are taken to guarantee that basic human rights are observed within [LP: insert the Soviet Union and especially in] Soviet prisons and mental hospitals, the situation will remain wholly [UK: deeply] unsatisfactory. The Leaders express their hope, however, [ND: delete] that recent developments [ND: insert may] indicate a Soviet move towards a full acceptance of [MS: respect for] the Final Act of Helsinki. Such acceptance [MS: implementation] in full will provide the [UK: a] real test of Soviet intentions and provide a basis for negotiations based on reality and trust. [KK: paragraph should be more constructive].

The Party Leaders also continue to look for a real desire on the part of the Soviet Union to withdraw from direct or indirect military involvement in South-West Asia, Africa, Central America and the Caribbean, as well as other [MS/UK: ~~delete~~] previously neutral or non-militarised parts of the world. In particular, the Leaders condemn the continued Soviet occupation of Afghanistan, and call for the speedy withdrawal of Soviet forces. The establishment of a genuinely non-aligned independent Afghanistan would be regarded by the Leaders as a major Soviet contribution to the peaceful resolution of international disputes. [KK reservation on this paragraph].

Meeting in the divided city of Berlin, the Party Leaders recognise that the present division of Europe and - at its core - the division of Germany remains a crucial question. In the long-term, peace and freedom can only be guaranteed in a European order which is not [MS: ~~delete~~] based on the spirit of confrontation but of the spirit of unity, and [MS: ~~delete~~] the right of self-determination. The policy of the Federal Republic of Germany to regain German unity under these principles is thus supported by the Party Leaders. [CDU: add *As long as this division of Berlin, Germany and Europe persists, the respect for human rights, the renunciation of the use of force at the existing border lines and the evolution of contacts between the people as agreed in the CSCF Final Act are of essential importance. In particular, in light of the 750th Anniversary of the foundation of Berlin, this city is a challenge to overcome the existing dividing lines. The wall erected in 1961 can and will not remain in existence. The Party Leaders agree that Berlin must be taken account of in all efforts to promote detente and cooperation between East and West.*]

INTERNATIONAL TERRORISM

The Leaders remain deeply concerned at the threat to the democracies from international terrorism. Endorsing a report proposed by the CSU, Germany on this question [ND: insert *with the contribution of Nea Demokratia, Greece*], the Report is circulated separately, they specifically adopt the following proposals:

- the problem of international terrorism should be considered at the next Reagan-Gorbachev summit, together with (but not linked to) arms control, since this would be the most effective deterrent against so-called "state terrorism";
- no arms should be exported to states which promote or support terrorism;
- measures against states which support terrorism should be coordinated, at both a bilateral and multilateral level;
- entry should be refused for all persons, including diplomatic staff, who have been expelled and/or barred from a Western nation on suspicion of having participated in international terrorism, or who have been convicted of a terrorist act;
- the improvement of the relevant legislation controlling terrorism, as a decisive precondition for an improvement in extradition procedures; and

- the intensification of international collaboration between the security authorities and intelligence services [MS: delete].

[UK: add:

- *no government should make concessions to terrorists under duress.*]

[CP: add:

Illegal drug trafficking and terrorism are often closely linked, a situation which demands more effective international cooperation to combat the former.]

THE ECONOMY

Reviewing the economic recovery now firmly established amongst the industrialised nations, the principals of which are governed by IDU Member-Parties, the Party Leaders remain firmly of the view that the process of reducing inflation and cutting budget deficits, through prudent monetary and fiscal policies, must be sustained and strengthened.

The Party Leaders emphasise that the social market economy is the best way to secure liberty and promote the general welfare of individuals, and is thus fully supported by the International Democrat Union. Characterised by free enterprise, free trade, free pricing, widespread private ownership and a limited public sector, the social market economy's strength is its ability to adjust and accommodate the differing desires and needs of individuals. Its lifeblood is competition.

.../9.

[JLP: add:

At the same time, the Party Leaders take account of the fact that many developing countries (some of whom are represented in the IDU) are striving to develop their economies, and are currently going through a difficult process of structural adjustment aimed at adopting the principles of the social market economy. The Party Leaders recognise that these adjustments are made much more difficult because of the external debt crisis, which is imposing a severe strain on developing democracies and, in particular, a strain that has grave economic, social and political consequences.

The Party Leaders consider this to be an urgent and immediate problem, and welcome the paper entitled "A Proposal for Coordinating and Improving Approaches to the International Debt Crisis", presented by Prime Minister Edward Seaga (Leader, Jamaica Labour Party) and endorsed by other Party Leaders of the CARICOM countries.

The Leaders accept that it is in the interest of both lenders and debtors to reach an agreement that will serve each others economic concerns, since the long-term repayment of debts is not only dependent upon the development of social economies but also on the political stability of the nations involved.]

[Accordingly,] the Party Leaders [also] endorse a report presented by the LDP, Japan, on "The Case for Privatisation" [The Report is circulated separately]. The Leaders believe that nowhere is the state's presence

.../10.

within the market place more disruptive than when it supplies goods and services which could be offered more efficiently and effectively by the private sector. The intervention of the state into the private sector ought to be limited to cases where a pioneering or leading role of the state is necessary. The Party Leaders regard the ultimate goal of privatisation and deregulation to be nothing less than a world-wide market of open competition in which ability, quality, and cost are the only [ND: *main*] factors. [ND: *add In the process towards achieving this ultimate goal, economic peculiarities prevailing in different countries will be taken into consideration*].

The Party Leaders further stress that fair and open trade is vital for global prosperity. Recognizing that the growth of world trade has not reduced the practice or the threat of discriminatory trade measures, they call for an early and substantial dismantling of trade barriers and an end to all forms of protectionism. [LP: *add In a world in which hunger and starvation are ever present threats for hundreds of millions of people, the encouragement of efficient food production without subsidies or artificial trade barriers should be a significant element in the policies of the free world.*].

The Leaders also support a report written by Mr Kaare Willoch (.....) on "Full Employment". [The Report is circulated separately]. While stressing that the ability of governments to contribute effectively to assuring full employment is dependent upon a soundly-based social market economy, and that prevailing national conditions will require different responses in different countries, the Leaders endorse the objective that every employable person should have the possibility to make a living through his own efforts.

.../11.

EUROPE

The Party Leaders note with satisfaction the return to government of the Nationalist Party in Malta. In expressing the hope that the return of a Nationalist [ND: *Party*] government will restore peace within the island's communities, they look forward to close cooperation with the new Maltese government.

EDU TO PROVIDE FURTHER PARAGRAPHS ON EUROPE ARISING FROM THE EDU LEADERS MEETING ON THURSDAY 24TH SEPTEMBER

PACIFIC

[LP: ASIA AND THE PACIFIC]

The Party Leaders welcome the victory of democracy in the Philippines last year. Recalling that an IDU fact-finding mission visited the Philippines in July 1986, in the course of which the delegation expressed the IDU's solidarity with President Corazon Aquino, the Leaders believe that the free democracies should extend full political and economic support to the Philippines in order to ensure that it remains a stable and free democratic force in the region.

The Party Leaders express deep concern at the continuing military build-up of both conventional and nuclear capabilities in the Pacific [LP: *add by the Soviet Union*]. The growing influence of Libya in the region should not be underestimated and must be dealt with firmly. [KK: delete].

.../12.

[LP: add *In this context, the Party Leaders note the great importance of ANZUS to the security of the Pacific region and deplore the lack of total commitment to it shown by Socialist Governments in the region.*

The Party Leaders deplore the continued Vietnam occupation of Kampuchea. They welcome the emergence of democratic trends in South Korea. They express concern at the events in Fiji, and hope that there will be a speedy return to democratic constitutional procedures which will guarantee the rights of all Fijians.

[IDU: add *In the light of recent developments in Sri Lanka, the Leaders declare their full support for the initiatives taken by President Jawardene to reunite the island, and express the hope that a peaceful and democratic solution to the island's problems can be found.*

The Party Leaders note the region's remarkable economic dynamism and that the development of its vast potential depends upon continued political stability. Taking note of an interim [LP: ~~delete~~] report produced by Hon Andrew Peacock MP, [Deputy Leader, Australian Liberal Party], the Party Leaders welcome the encouraging signs that Pacific economic cooperation is being promoted at both governmental and private levels. An important element in this will be the development of multilateral cooperation within the Pacific Basin. The Party Leaders believe that the creation of a framework for Pacific cooperation should be given a greater political impetus. [LP: ~~delete~~].

.../13.

LATIN AMERICA & THE CARIBBEAN

The Party Leaders note with satisfaction the further extension of IDU membership in these regions. They warmly welcome the Freedom Party of Dominica, the New National Party of Grenada and the National Party of Honduras as full members, and the Nicaraguan Conservative Party as a new associate. The creation of the Caribbean Democrat Union is a very [MS: ~~delete~~] positive sign of renewed and intense cooperation between free and democratic countries in this area.

The Party Leaders are united in their condemnation of the continuing abuse of human rights and the worsening oppression of the democratic opposition in Nicaragua. They deplore the recent detention of the head of the country's Permanent Human Rights Commission, and the harassment of supporters of the Coordinadora Democratica in demonstrations last month [HO: ~~delete~~]. In expressing grave concern over the relentless [HO: ~~delete~~] trend towards marxist totalitarianism by the Sandinista government, they call for the genuine democratisation of the country.

Thus, notwithstanding their strong reservations about the intentions of the Nicaraguan government, the Party Leaders broadly support the Central American peace plan signed in Guatemala City in early August [CP: add, *as well as the verification and control commission established in the same month in Caracas, with the backing of the Central American countries, the Contadora group and the so-called Contadora support group*]. If the Nicaraguan government were to act in good faith, and provided that the plan can be developed to include

.../14.

specific TLP: add and effective | ceasefire guarantees and verification procedures then [CP: delete and replace by and the verification and control commitments are respected] they believe that this provides a good basis for securing a peaceful solution to the region's problems.

The Leaders also took note of a provisional report by Dr Misael Pastrana, [former President of Colombia; Leader, Social Conservative Party], on a medium-term strategy for Latin-America as a whole. While applauding the steady move towards democratic societies in the region, they recognise the enormous debt problem facing Latin-American nations, and the consequences for their economic, social and political stability. The leaders accept that it is in the interests of both lenders and debtors to reach an agreement that will serve each other's economic concerns, since the long-term repayment of debts is not only dependent upon the development of sound economies, but also on the political stability of the nations involved.

The Party Leaders also received a report from an IDU fact-finding mission to Chile, which held meetings with a large number of representatives from the political parties, economic and social organisations, the church and the government in late July.

They note the mission's concerns that social market economic policies are too closely identified with the dictatorship to be considered permanent; that the political parties are currently unstable [CP: trying] to put up a clear alternative candidate to President Pinochet; that government restrictions on party development raise serious doubts about its promise to

move towards democracy, and that if the present incumbent runs again for election, and succeeds, the country is very likely to polarise and become less governable. They agree that the IDU should continue to seek ways of supporting the democratic process in Chile. [HO: paragraph should reflect report conclusions as finalised in Berlin]. [CDU: delete and replace by *On the basis of the mission's conclusions and recommendations, the Party Leaders condemn the continuing oppression of the population by the dictatorship of General Pinochet and, in particular, the constant abuse of human rights against the democratic opposition. They call for continued pressure on the government of Chile to accelerate the transition to democracy. This transition has to be implemented in a genuine dialogue with the democratic opposition. Any unilateral actions of the Pinochet government to manipulate this process will meet the unequivocal resistance of the IDU.*

The Party Leaders sharply criticise the actions taken by the government of Panama against the movement of the democratic opposition and of the Panamanian people 'Cruzada'. The demands of the 'Cruzada' for the implementation of institutional and procedural reforms to guarantee free and unmanipulated elections, and a legal examination of the accusations against General Noriega, are indispensable prerequisites for the necessary democratic reform of the governmental system of Panama.

.../16.

MIDDLE EAST

The Party Leaders express deep concern about the situation in the Gulf, and deplore any attempts to impede the free flow of oil through the Gulf to the free world [UK: delete]. Acknowledging the right of nations to protect their own shipping in the area and to keep the sea lanes open, as a purely defensive measure, [UK: delete] they fully support calls for a ceasefire between Iran and Iraq, and call upon [UK: replace by UN Security Council Resolution 598, which calls for a ceasefire between Iran and Iraq, and urge] both sides to reach a negotiated settlement to their dispute.

They further deplore the continued detention of "hostages", and urge those nations that might have some influence over their captors to use their best endeavours to secure their early release. [CDU: add In this context, the Party Leaders note that the Lebanon is still threatened in its sovereignty, integrity and existence by conflicting groups and interests. They consider a peaceful settlement of these conflicts, respected by the country's neighbours, to be a precondition for stability in the area].

[UK: add They further recognise the importance of a peace settlement between Arabs and Israelis which guarantees security to Israel and legitimate rights to the Palestinians].

.../17.

AFRICA

The Party Leaders are united in their total condemnation of the policy of apartheid, firmly regarding it as one of the [HO: a] most deplorable form[s] of racial discrimination and violation of human rights. While noting the limited measures designed to eliminate certain aspects of apartheid announced by the South African government in the last few years, the Leaders believe that more far-reaching steps leading to the elimination of apartheid must be taken, resulting in the evolution of a political system in which all races and communities [UK: South Africans] will be fully represented. They agree that the IDU should become more engaged in this question, in particular, [UK: follow up this issue, initially] by the dispatch of a fact-finding mission to South Africa in early 1986.

[JLP: add:

The Party Leaders also agree that the continued flouting of UN decisions on independence for Namibia by South Africa is intolerable, and that ways must be found to settle this matter speedily.

They further note with concern the fragile nature of the economic and social situation in sub-Saharan Africa, largely due to that region's special vulnerability to drought, and agree that it deserves special attention].

LAST PAGE

SECRET Covering TOP SECRET
UK EYES A

B.0268

MR POWELL

c Mr Woolley

CDP 23/9

IDU Conference in Berlin

In your letter of 7 September to Mr Parker, you asked for briefing for M. Chirac's meeting with the Prime Minister at the IDU Conference on 24/25 September. I enclose a brief on the bilateral dialogue on nuclear weapons matters, in case M. Chirac should raise the subject. There is no need for the Prime Minister to do so.

CLM

C L G Mallaby

23 September 1987

SECRET Covering TOP SECRET
UK EYES A

ANGLO-FRENCH DIALOGUE ON NUCLEAR WEAPONS MATTERSOur objective

1. To reiterate support for the continuing Anglo-French dialogue on certain nuclear weapons matters.

Arguments to use

2.
 - a. Common interests of United Kingdom and France as European nuclear powers.
 - b. Right that our dialogue should continue to develop.
 - c. Glad that, following agreement between Defence Ministers on agenda, contacts between officials have begun.
 - d. (If question of collaboration on sub-strategic weapons is suggested.) No immediate requirement to replace United Kingdom sub-strategic nuclear weapons. But preliminary thought being given to number of possible successor systems and wish to explore every option. As you know, current French system (ASMP) does not meet our requirement (range too short). But understand that French officials have offered a presentation on technical aspects of plans for second generation version. British officials would be interested to hear this and look forward to receiving invitation.
 - e. (If needed). Good progress being made on Trident programme. Firmly on target to become operational in the mid-1990s.

BACKGROUND

1. The Defence Secretary agreed in March 1987 with the French Defence Minister, M. Giraud, an agenda for bilateral exchanges by officials on certain nuclear weapons matters. Officials have held preliminary talks and plan a series of meetings to follow up the agreed agenda.
2. When M. Chirac saw the Prime Minister at Chequers on 26 April, he raised the question of Anglo-French defence co-operation. In particular, he suggested that the United Kingdom might buy the French short-range air-to-ground nuclear missile (ASMP) for its Tornado aircraft. The Prime Minister replied that the range of the ASMP missile was too short for our purposes but that we would like to be kept in touch with any plans to develop a longer range version.
3. In subsequent contacts between British and French officials, the French have appeared to recognise the limitations of ASMP. They have suggested that the United Kingdom and France should jointly consider future development of an air-to-ground nuclear missile, and have offered a technical presentation on their plans for a successor to their present system. British doubts about the specification of the French system remain, but officials would be interested to hear what the French have to say and they await an invitation to the promised presentation.

GERMANY

PM'S VISIT

PT 7





Foreign and Commonwealth Office

London SW1A 2AH

CD

23 September 1987

Dear Charles,

Meeting with the Turkish Prime Minister
in Berlin: 24 September

In meeting
Folder on
with CD?

You will have seen the reference in Ankara's scene-setting telegram to US and FRG pressure on the Turks over armoured personnel carriers, and in particular the open or implied threats over military aid.

Should Mr Ozal raise this subject, the Prime Minister might point out that, against an aid budget of some DM 90 million a year, the Germans have already received substantial contracts in recent years (about £1,000 million for submarines, frigates etc). It is not HMG's policy to run military aid budgets. But MOD are currently reviewing their position to see what specific support they might provide in connection with this tender (for your information only - this would probably be in the form of a spare parts package worth up to £5 million).

You should also be aware that Mr Patten has today approved an increase in the soft loan to support the AMEC bid for the Ankara natural gas project. The last sentence of sub-paragraph (ii) of the Bilateral Relations section of my letter of 21 September should be amended as follows:

The Prime Minister might tell Mr Ozal that HMG have demonstrated their continuing interest in the project by decisions in August and this month to increase our offer of a soft loan for this project from £46.75 million to £65.62 million.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street



Foreign and Commonwealth Office

London SW1A 2AH

22 September 1987

Prime Minister

CDP
23/9

Dear Charles,

IDU Conference in Berlin

In your letter of 21 September you asked for some additional information for the Prime Minister's visit to Berlin.

Bilateral with Chancellor Kohl

I attach a scene-setting telegram from Sir J Bullard together with his letter of 18 September assessing recent tensions between the CDU and the CSU.

We have confirmed that Herr Weber will be interpreting for Chancellor Kohl and that there will, accordingly, be no need to ask Mr Lederer to attend.

You will have seen Bonn telno 729 reporting that Kohl wishes to raise the so-called Marshall Plan for the Middle East, without putting it on the formal agenda. The Germans bore the brunt of Mr Peres' lobbying on this issue during his European tour in June; Mr Peres has now apparently produced concrete proposals, which Chancellor Kohl is intending to discuss with his Spanish, French and possibly Japanese and US counterparts.

During his June tour Mr Peres explained to the Foreign Secretary that he hopes that the proposal would attract support from the Israeli public and provide a less contentious, non-political role for the plenary of an international conference on the Arab/Israel dispute. We are sceptical, and take the view that such an economic plan should more naturally follow than precede a political settlement.

We recommend that the Prime Minister take the line (which accords with Kohl's own view) that the proposal has value only as one part of an active peace process.

/Berlin



Berlin

I attach a scene-setting telegram from BMG Berlin.

During her interviews the Prime Minister might draw on the following points:

- Berlin Wall most graphic symbol of cruel division which Communism has imposed on Europe.
- Berlin also a symbol of hope and of freedom - freedom enjoyed by two million West Berliners but denied to their neighbours.
- Presence of Protecting Powers (UK, US, France) ultimate guarantee of that freedom.
- Over 3,000 British soldiers and airmen: living proof of our unswerving determination to defend it.
- Our troops will remain as long as is necessary.
- Presence during 750th Anniversary year of all the leaders of the Western Protecting Powers a further reminder of their commitment to Berlin.
- Working with our Western partners, through the CSCE process and elsewhere, to break down barriers and promote freer flow of people and ideas between East and West.
- Must ensure that Berlin and Berliners also benefit. Protecting Powers active in seeking ideas for practical improvements for Berliners.
- Heartily support President Reagan's initiative [to improve air services and bring conferences and meetings to Berlin].

conclude,

L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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FM BONN

TO IMMEDIATE FCO

TELNO 734

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INFO IMMEDIATE BMG BERLIN

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PRIME MINISTER'S MEETING WITH KOHL: BERLIN, 25 SEPTEMBER: THE SCENE
IN THE FRG

SUMMARY

1. KOHL WORRIED BY CDU'S ELECTORAL SETBACKS BEFORE AND SINCE HONECKER'S VISIT. ON THE ECONOMIC SIDE, A SENSE OF DRIFT. KOHL'S DECISION ON THE PERSHING 1-AS A NEAT TRICK, BUT AT THE PRICE OF FURTHER STRIFE IN THE COALITION. IRAN/IRAQ THE CHIEF FOREIGN POLICY PREOCCUPATION.

DETAIL

DOMESTIC POLITICS

2. APART FROM MANAGING THE HONECKER VISIT (BONN TELNOS 684, 693 AND 694, BMG TELNO 068, EAST BERLIN TELNOS 148, 152 AND 156), KOHL HAS LITTLE CAUSE FOR SATISFACTION AT PRESENT. LAND ELECTIONS IN SCHLESWIG-HOLSTEIN AND BREMEN ON 13 SEPTEMBER BROUGHT FURTHER HEAVY LOSSES TO THE CDU, WHICH HAS NOW SUFFERED SETBACKS IN FIVE OF THE SIX ELECTIONS THIS YEAR, INCLUDING THE FEDERAL ELECTIONS IN JANUARY. IN SCHLESWIG-HOLSTEIN, WHERE THE CDU HAS PREVIOUSLY RULED WITH AN ABSOLUTE MAJORITY, THEY AND THE FDP TOGETHER NOW ONLY HAVE HALF THE SEATS. WORSE STILL, ALLEGATIONS OF DIRTY TRICKS DURING THE CAMPAIGN BY THE CDU PRIME MINISTER BARSCHEL MAY COST HIM HIS JOB AND HAND POWER TO THE SPD.

3. THESE REVERSES HAVE GIVEN FRESH IMPETUS TO THE ARGUMENT WITHIN THE CDU/CSU ABOUT FUTURE STRATEGY (MY LETTER OF 18 SEPTEMBER TO RATFORD). THE PARLIAMENTARY PARTY IS NERVOUS. STRAUSS IS STILL BITTER THAT KOHL DID NOT CONSULT HIM ON HIS SUDDEN COMMITMENT ON 26 AUGUST TO SCRAP THE FRG'S PERSHING 1-AS IF AN INF AGREEMENT IS IMPLEMENTED. THE CSU WILL BE UNCOMFORTABLE PARTNERS FOR KOHL IN COMING MONTHS.

ECONOMIC ISSUES

4. THE ECONOMY MAY ALSO BE ON KOHL'S MIND. THERE IS A CONTINUING SENSE OF DRIFT. EVEN THE BUNDESBANK HAS BEEN CHIDING THE GOVERNMENT ABOUT ITS SPENDING POLICIES: IMPORTANT DECISIONS CONNECTED WITH THE

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TAX REDUCTION PROGRAMME ARE STILL AWAITED: THERE IS A RELUCTANCE TO GET TO GRIPS WITH THE PROBLEMS OF SUBSIDIES, OR THE OVERDUE STRUCTURAL CHANGES IN SMOKE-STACK INDUSTRIES. AFTER MONTHS OF IMPROVEMENT, THE LABOUR MARKET IS SHOWING SIGNS THAT IT HAS REACHED A PLATEAU: THE PSBR IS WELL ABOVE THE PLANNED FIGURE, AND GROWTH THIS YEAR NOT LIKELY TO EXCEED 2 PERCENT. ALL THIS IS LIKELY TO INFLUENCE GERMAN ATTITUDES IN THE EC. THE GOVERNMENT MAY BE INCLINED TO BLUR THE STATED COMMITMENT TO BUDGETARY DISCIPLINE ON ACCOUNT OF THE POLITICAL NEED TO BUY OFF THE FARMERS. THERE IS AS YET ONLY LIMITED RECOGNITION BY GERMAN INDUSTRY THAT FAILURE TO REFORM THE CAP MAY LEAD TO UNCONTAINABLE PRESSURE IN THE US FOR RETALIATORY PROTECTIONISM IN INDUSTRIAL SECTORS. ON SUBJECTS SUCH AS TAX HARMONISATION, DOMESTIC CONSIDERATIONS COULD PUSH GERMANY TO PURSUE POLICIES WHICH WOULD PUT THEM ON THE OPPOSITE SIDE OF THE FENCE TO THE UK.

DEFENCE ISSUES

5. THE DUST IS SLOWLY SETTLING AFTER KOHL'S PIA ANNOUNCEMENT (BONN TELNOS 656-8). HE CAN FEEL SATISFIED THAT HE REMOVED A POTENTIAL OBSTACLE TO AN INF TREATY AT A KEY JUNCTURE, AND WILL WELCOME THE PROGRESS MADE BY SHULTZ AND SHEVARDNADZE IN WASHINGTON. THE CSU ARE STILL GROWLING AND LICKING THEIR WOUNDS, WHILE THE FDP ARE DELIGHTED, AND TURNING THEIR THOUGHTS TO THE NEXT STEP. CAREFUL HANDLING OF THE SNF ISSUE WILL BE NEEDED OVER THE COMING WEEKS, TO AVOID CEMENTING THE UNHOLY ALLIANCE NOW EMERGING BETWEEN THE FDP AND THE CSU/CDU RIGHT-WING ON THE ISSUE OF NUCLEAR MISSILES WITH A RANGE LESS THAN 500 KM (SEE MY LETTER OF 18 SEPTEMBER TO FALL).

6. THE ANNUAL BUDGET SEASON IS NOW UNDER WAY IN PARLIAMENT, WITH DEFENCE STARTING UNDER A HANDICAP. FOLLOWING CABINET DISCUSSION IN JUNE, THE DRAFT DEFENCE BUDGET WAS SET TO GROW AT LESS THAN THE RATE FOR THE FEDERAL BUDGET OVERALL: THIS WAS IN CONTRAST TO THE PAST FEW YEARS, AND AT A TIME WHEN WOERNER ARGUED THAT AN EXTRA INCREASE WAS NECESSARY. THE PROSPECT IS FOR SLIGHTLY NEGATIVE OR AT BEST ZERO REAL GROWTH IN DEFENCE SPENDING IN 1987.

FOREIGN AFFAIRS

IRAN/IRAQ

7. INITIAL GERMAN REACTIONS TO THE SECRETARY-GENERAL'S REPORT ON HIS MISSION TO TEHRAN AND BAGDAD HAVE BEEN POSITIVE. THEY ARGUE THAT THE IRANIAN POSITION HAS MOVED SUFFICIENTLY OVER THE LAST TWO MONTHS TO JUSTIFY FURTHER DIPLOMATIC EFFORTS BY THE SECRETARY-GENERAL BEFORE ANY MOVE TO A UNSC SANCTIONS RESOLUTION. KOHL AND ESPECIALLY GENSCHER WILL SEE THIS AS VINDICATING THEIR POLICY TOWARDS THE

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BELLIGERENTS. THE HOSTAGE AFFAIR IS PART OF THE REASON FOR THEIR ATTITUDE TOWARDS IRAN, BUT THEY DO ALSO BELIEVE THAT THE FRG HAS A POLITICAL ROLE TO PLAY, AS THE ONLY MAJOR WESTERN COUNTRY WHOSE RELATIONS WITH IRAN STILL CONTAIN A MEASURE OF CORDIALITY. THEY WILL BE LOOKING FOR EXCUSES NOT TO JOIN IN ANY ATTEMPTS TO ISOLATE IRAN INTERNATIONALLY, UNLESS THESE HAVE THE CLEAR SUPPORT OF ALL FIVE PERMANENT MEMBERS OF THE SECURITY COUNCIL.

SOUTH AFRICA

8. THE ANTI-APARTHEID LOBBY IN THE FRG HAS BEEN MORE ACTIVE THIS YEAR, WITH THE CHURCHES AND TRADES UNIONS IN THE FOREFRONT, BUT THE FEDERAL GOVERNMENT DOES NOT FACE THE DEGREE OF DOMESTIC PRESSURE GENERATED IN THE UK. THE GOVERNMENT ARE CONCERNED BY THE SPIN-OFF OF THEIR ANTI-SANCTIONS POLICY ON RELATIONS WITH THE THIRD WORLD. BUT THERE IS LITTLE PROSPECT OF THEM CHANGING THEIR POSITION ON SANCTIONS UNLESS THE UK AND US WERE TO DO SO. KOHL WILL BE PARTICULARLY INTERESTED IN THE PRIME MINISTER'S VIEWS ON THE LIKELY OUTCOME OF CHOGM, AND WOULD WELCOME ASSURANCES THAT HE WILL NOT BE LEFT IN THE LURCH.

BULLARD

YYYY

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MR POWELL (10 Downing Street)



CCPC ✓
CDP
22/9

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL ON 25 SEPTEMBER

with CDP?
Lyn Parker's letter of 18 September included as you know a recommended line to take on EC issues. In briefing the Prime Minister you may find it helpful to take into account in addition the following points.

a. Given that this is at present the Prime Minister's last scheduled meeting with Chancellor Kohl before the Copenhagen European Council at the beginning of December, it is clearly important that he be left in no doubt of the strength of her views: we shall not secure a package of the kind we need at Copenhagen without first getting the Germans (as well as the French) to accept and support our aims on budget discipline and the control of agricultural spending.

b. Lyn Parker's letter referred to the essentials of the "common approach" which the Germans share with us on many of the key future financing issues. This is true in principle, but less so in practice. As you will have seen from the Paymaster General's minute of 18 September, during the recent Budget Council the Germans showed themselves ready to accept budget proposals which would have prejudiced the future financing negotiations; Mrs Chalker's talks in Bonn on 16 September (Bonn Telno 719) showed that on present form they "are not prepared to accept really strict budgetary discipline"; and their concern about their farmers and maintaining rural life always inhibits their approach to getting economic sense into the CAP.

c. Against that background it seems important to get over to the Germans that

- while our approach to the Copenhagen Council will be thoroughly positive and, if possible, we would prefer to get an agreement then, the Prime Minister really does mean what she says in stressing that we are not prepared to address the issue of an increase in the Community's resources unless agreement is first reached on effective and enforceable control over Community spending, particularly agricultural spending;



- like the Germans we believe that there must be effective stabilisers for each agricultural commodity: but we think that wherever possible these should operate in-year if they are to restrain expenditure in time;

- while we recognise the political sensitivity of agricultural issues in Germany price reductions work against British farmers too. All Community farmers need to be more responsive to the market.

2. You may also like to note that on set aside, we are not only "prepared to consider such ideas": we took the initiative last autumn in putting forward a paper on the subject for discussion by Agriculture Ministers. We await with interest Commission proposals on this due this autumn.

J H HOLROYD

22 September 1987

Cremant



MIS VISIT

(17)



CONFIDENTIAL

101

MEETING WITH MR. OZAL

1. Enquire after health.
2. Prospects for Turkish economy.
3. Election outlook.
4. The Gulf.
5. Cyprus
6. Sale of Warrior.
7. EC application.
8. Your visit.

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PRIME MINISTER'S VISIT TO BERLIN: MEETING WITH TURKISH PRIME MINISTER

SUMMARY

1. OZAL CONCENTRATING ON 1 NOVEMBER ELECTION, FOR WHICH HE IS WELL PLACED: AND MEANWHILE NEGLECTING SOUND ECONOMIC MANAGEMENT. HE CONTINUES TO TAKE ALL SIGNIFICANT DECISIONS, AND WILL DECIDE ON THE HUGE PERSONNEL CARRIER PROJECT FOR WHICH THE GKN WARRIOR IS A FRONT RUNNER. A MAIN FOREIGN POLICY CONCERN REMAINS TURKEY'S APPLICATION TO JOIN THE EC.

DETAIL

2. THE 6 SEPTEMBER REFERENDUM COULD SCARCELY HAVE GONE BETTER FOR OZAL. AS IT ENDED, HE CALLED A SNAP ELECTION, LEAVING DEMIREL AND OTHER RIVALS WRONGFOOTED AND SHORT OF TIME. HE CHANGED AND MANIPULATED ELECTION LAWS IN THE PROCESS. BUT THE ELECTION ON 1 NOVEMBER WILL BE FAIRLY FAIR AND COMPLETE TURKEY'S RETURN TO PARLIAMENTARY DEMOCRACY. IT IS EARLY DAYS, BUT OZAL IS CLEAR FAVOURITE TO WIN. MEANWHILE HE HAS LET THE ECONOMY RIP (INFLATION NOW RISING TOWARDS 40 PER CENT) WITH THE EXPECTATION OF RETRENCHMENT AFTER 1 NOVEMBER.

3. OZAL IS A WORKAHOLIC WHO HAD A TRIPLE BY-PASS IN MARCH. BUT HE SEEMS FIT, IS RUNNING ALL ASPECTS OF THE ELECTION CAMPAIGN AND STILL TAKING ALL IMPORTANT DECISIONS.

4. THAT THE TURKISH ARMY'S NEW ARMoured PERSONNEL CARRIER IS NOW EFFECTIVELY IN HIS HANDS. HE MAY POSSIBLY DECIDE BEFORE 1 NOVEMBER. THE US AND FRG ARE EXERTING GREAT PRESURE IN FAVOUR OF THEIR RIVALS TO GKN'S WARRIOR. OPEN, OR IMPLIED, THREATS OVER MILITARY AID (BOTH GIVE IT - WE DO NOT) ARE BEING MADE. OZAL MAY BE TEMPTED TO THINK THAT THE EXCELLENT POLITICAL RELATIONSHIP WILL KEEP US ACTING AS TURKEY'S 'BEST FRIEND' WHATEVER HIS DECISION. THERE ARE OTHER PROSPECTS, SUCH AS THE PROBLEMATIC THIRD BOSPHORUS BRIDGE, WHICH COULD BE DANGLED TO KEEP US IN PLAY.

5. OZAL, ALTHOUGH PREOCCUPIED WITH ELECTIONS, WILL PROBABLY LOOK FOR ASSURANCES OF SUPPORT OVER TURKEY/EC. BUT, THE THE COMMISSION AVIS PENDING, HE WILL NOT REALLY EXPECT MORE THAN GOOD WILL. HE MIGHT BE EXPECTED TO BE CONCERNED ABOUT LRINF (BORDERS WITH BULGARIA AND USSR) BUT DOES NOT APPEAR TO BE. HE IS IN CORRESPONDENCE WITH PAPANDREOU, SO FOR THE TIME BEING NOT BOTHERED WITH A THREAT OF EARLY CRISES WITH GREECE. AND HIS PERSONAL INSTINCTS ARE EVIDENTLY TO KEEP THE CYPRUS PROBLEM ON THE BACK BURNER WHILST STRENGTHENING THE TURKISH CYPRIOT ECONOMY THROUGH OZALITE POLICIES. HE HIMSELF IS NOT YET AS WORKED-UP ABOUT GREEK CYPRIOT TACTICS IN GOING TO THE UN GENERAL ASSEMBLY AS SOME OF HIS ADVISERS.

DAUNT

YYYY

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PRIME MINISTER

no

MEETING WITH THE TURKISH PRIME MINISTER

You are to see Mr. Ozal in Berlin. A meeting has been arranged at his hotel, following the first night dinner at the IDU Conference.

HEALTH

You will want to enquire after his health. He had a triple heart by-pass operation in the US in March. You will also want to give him a chance to tell you about the Turkish economy. ~~He~~ faces elections in November. You could ask about the prospects.

The main subject is the Gulf. The Turks have close contacts with both Iran and Iraq. Mr. Ozal should have some insights to offer on the views of both of them, and the likelihood that the Iranians may eventually accept a cease-fire. He would also be a good channel for conveying our outrage at the attack on a British-flagged ship. The Turks are well-placed to do rather more to encourage both sides to stop attacks on shipping.

Nothing much is happening on Cyprus and is unlikely to do so until after the Greek-Cypriot elections next February. The Greek-Cypriots are foolishly going to press for a UN debate on Cyprus this year. You might say that the Turkish Cypriots would be well-advised not to over-react. (Last time there was a UN debate, they declared UDI).

The meeting is an opportunity for you to say something about contracts for British firms, even though I know that you do not relish using this sort of meeting to do so. But the fact is that we are far and away the Turks' best friends in Europe but they persist in awarding contracts to others. You have already sent Mr. Ozal a letter about Warrior and are fully entitled to follow it up. A decision is imminent. Warrior is more expensive to buy than its American and German rivals.

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- 2 -

But it is also the most modern; and its maintenance costs are much lower.

He may mention Turkey's EC application. You will want to be non-committal. It is being processed by the Commission. Meanwhile the Turks should make the fullest possible use of the Association Agreement.

Finally he may renew his invitation to you to visit Turkey. I suggest that you say that you very much hope to go in 1988, and will propose dates for a visit then before the end of this year.

CDP

22 September 1987

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TO IMMEDIATE FCO

TELNO 905

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UKMIS NEW YORK (FOR SECRETARY OF STATE'S PARTY)

INF AGREEMENT : FRENCH VIEWS

SUMMARY

1. FRENCH REACTION IS MAINLY SCEPTICAL AND UNENTHUSIASTIC. CHIRAC HAS CALLED ON EUROPE TO MAKE ITS VOICE HEARD, AND TO DRAW UP A EUROPEAN DEFENCE CHARTER IN WEU. FEARS THAT THE AGREEMENT WILL WEAKEN EUROPEAN SECURITY HAVE LED TO CALLS FOR GREATER FRANCO-GERMAN DEFENCE CO-OPERATION. MRS THATCHER'S WORDS OF CAUTION REPORTED PROMINENTLY.

DETAIL

2. THE FRENCH MEDIA HAVE REACTED WITH SCEPTICISM TO THE ANNOUNCEMENT OF THE INF AGREEMENT, CAUTIONING ABOUT THE POSSIBLE CONSEQUENCES FOR WESTERN EUROPE. CHIRAC'S REMARKS TO LE FIGARO (RIGHT WING) THAT EUROPE MUST NOW ENSURE THAT ITS VOICE IS HEARD, AND MUST MOVE QUICKLY WITHIN WEU TO DRAW UP A CHARTER OF EUROPEAN DEFENCE, ARE WIDELY AND SYMPATHETICALLY COVERED. CHIRAC HAS ALSO FLAGGED THE NEED TO CONCENTRATE ON THE STRATEGIC NUCLEAR ARMOURIES OF THE SUPER-POWERS AND CONVENTIONAL WEAPONS AS THE NEXT STEPS IN DISARMAMENT. THERE IS GENERAL AGREEMENT (EXCEPT FROM THE COMMUNIST L'HUMANITE) THAT THE INF AGREEMENT UNDERLINES THE NEED FOR CLOSER DEFENCE LINKS BETWEEN FRANCE AND THE FRG: THESE SHOULD BE AT THE HEART OF THE EUROPEAN PILLAR OF THE ALLIANCE. EXERCISE CHEEKY SPARROW, AND CHIRAC'S WEEKEND VISIT TO LUDWIGSBURG, ARE CITED AS EXAMPLES OF THE SORT OF BILATERAL CO-OPERATION THAT IS NOW VITAL.

3. MUCH OF THE ANALYSIS OF THE AGREEMENT INSISTS ON ITS DOMESTIC POLITICAL IMPORTANCE FOR BOTH REAGAN AND GORBACHEV, THE ONE IN NEED OF A FOREIGN POLICY SUCCESS AFTER RECENT POLITICAL SETBACKS, THE OTHER ANXIOUS TO PUT A BRAKE ON MILITARY SPENDING WHILE HE WRESTLES WITH PERESTROIKA AND THE SOVIET UNION'S INTRACTABLE ECONOMIC

PAGE 1
RESTRICTED

PROBLEMS. LIBERATION (LEFT OF CENTRE) HAS REACTED MORE CALMLY THAN SOME OTHER PAPERS, ARGUING THAT ALTHOUGH THE INF AGREEMENT IS POLITICALLY SYMBOLIC, IT IS MILITARILY OF LITTLE SIGNIFICANCE. HOWEVER, LIBERATION SAYS THAT GORBACHEV WILL CERTAINLY HOPE TO DERIVE ADVANTAGE FROM THE TENSIONS THE AGREEMENT WILL CREATE BETWEEN WESTERN EUROPE AND THE UNITED STATES.

4. THE RIGHT OF CENTRE WEEKLY LE POINT QUOTES FILLON (RPR CHAIRMAN OF THE NATIONAL ASSEMBLY'S DEFENCE COMMISSION) AS SAYING THE AGREEMENT IS DANGEROUS FOR EUROPE. IN HIS VIEW IT POINTS INEXORABLY TOWARDS DENUCLEARISATION, WHEREAS WESTERN EUROPE'S SECURITY DEPENDS ON A NUCLEAR CAPABILITY WITHOUT WHICH IT WILL BECOME VULNERABLE TO SOVIET CONVENTIONAL PREPONDERANCE. GISCARD (CHAIRMAN OF NATIONAL ASSEMBLY FOREIGN AFFAIRS COMMISSION) PROVIDES THE MAIN EXCEPTION TO THE GENERAL CHORUS OF DOUBT: IN AN ARTICLE IN TODAY'S LE MONDE HE WARMLY WELCOMES THE INF AGREEMENT AND RECALLS HIS OWN PART IN HELPING TO FORMULATE THE ALLIANCE'S 1979 DOUBLE DECISION. THE SOCIALIST PARTY SECRETARY GENERAL JOSPIN HAS ALSO SAID THAT HE WOULD HAVE PREFERRED A MORE POSITIVE REACTION FROM THE FRENCH GOVERNMENT.

5. SEVERAL ARTICLES CONTRAST THE UNENTHUSIASTIC FRENCH REACTION WITH THE OPTIMISM OF OTHER WEST EUROPEAN GOVERNMENTS. YOUR STATEMENT WELCOMING THE AGREEMENT IS DESCRIBED BY THE RIGHT WING DAILY LE QUOTIDIEN AS DESIGNED TO PLEASE WASHINGTON, ALTHOUGH THE REAL BRITISH REACTION IS ONE OF CONCERN. THE FRENCH PRESS GENERALLY IS MORE COMFORTABLE WITH, AND GIVES PROMINENT COVERAGE TO, THE PRIME MINISTER'S WARNING NOT TO LET ENTHUSIASM DEGENERATE INTO EUPHORIA, NOR TO DROP OUR GUARD IN FACE OF THE SOVIET UNION.

FERGUSSON

YYYY

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PRIME MINISTER

MEETING WITH M. CHIRAC

You are to have a working breakfast with M. Chirac in Berlin on 25 September. He will be accompanied as usual by M. Bujon.

At your last meeting you talked almost entirely - and not very fruitfully - about EC affairs and the oils and fats tax. The only other subject was the Gulf. You may want to give the EC a rest this time, saving further discussion while we see how far we get in Brussels during the autumn. But I think that it will be necessary for you to meet Chirac again before the Copenhagen European Council.

You might start with a quick review of developments in the Gulf. We are thinking and acting on very similar lines. A tricky point which you ought to tackle is French efforts to secure the release of their hostages. You might put Chirac on guard by saying that you were disturbed by reports that a ransom was paid for the release of a German hostage. This only increases the risk to others. You intend to raise the matter with Chancellor Kohl.

You might also have a quick go over the ground on arms control. Again French thinking is supposedly fairly close to ours. Where we most need their support is in resisting the German ambition to launch negotiations on short-range nuclear missiles under 500 km in range.

You ought to raise the Falklands vote. Last year you seemed to have convinced Chirac to bring France back to an abstention, but he then discovered Mitterrand had publicly committed France to a vote for the resolution and backed down. He asked to be given more notice next time. You will want to tax him with this. President Mitterrand is about to visit

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Argentina so it is probably unrealistic to expect Chirac to win. Also on this subject, you ought to repeat our strong hope that France will stop supporting the Argentine Condor missile programme (their Foreign Minister has already given some assurances on this).

At the time of the last CHOGM, the French got very wound up because of communique language on New Caledonia and on French nuclear tests in the Pacific. We will do our best again this time to moderate any language - more especially if the French are ready to take account of our concerns on the Falklands - but we have no veto.

~~You will want to say that every effort is being made to discourage Mr Le Pen from coming to Blackpool, but our legal powers are very limited.~~

Finally on the European Community, you might:

- recall your discussion in July;
- say that there is no point in talking again about the oils and fats tax on which your position has not changed (nor, no doubt, his);
- welcome the fact that respective officials seem to be making good progress in bringing together our views on budget discipline and on agricultural stabilisers;
- but remind him that you have still not had a clear answer to your question whether he would prefer to postpone an attempt to reach a conclusion until after the French Presidential election;
- disabuse him of any notion that you are ready to let him have a settlement for 1988 alone, with some additional resources but without full satisfaction on your other points;

- propose that you meet to discuss these matters again later in the autumn but ahead of the Copenhagen European Council (emphasising that it is his views not yours which need to change in the meantime).

CD?

Charles Powell

21 September 1987

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PRIME MINISTER

MEETING WITH CHANCELLOR KOHL

You have a bilateral with Chancellor Kohl in Berlin on Friday afternoon. He will be accompanied by Herr Teltschik.

Kohl has had some setbacks recently - poor election results in Bremen and Schleswig-Holstein, outmanoeuvred by Genscher on the INF issue, under attack from Strauss - which will make him prickly. He may show signs of irritation at our suspicions that he did a deal to secure the release of a German hostage.

At the same time we disagree with the Germans on several important current issues:

- the Gulf, where we think they are too pro-Iranian;
- INF, where they gave way too easily on Pershing 1As;
- Falklands, where they seem to be moving towards support for the Argentine resolution;
- arms control, where they show signs of pressing for early negotiations on short-range missiles;
- EC issues where their position on CAP reform and on additional resources is very soft;
- hostages, where they seem to have engaged in a deal; and
- South Africa where they (or Genscher at least) support a declaration of principles and an EC sponsored meeting of South African opposition groups.

It is likely to be a difficult meeting.

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You will want to start by saying how sorry you are that you cannot stay for his speech in the evening.

To make his life easy, you might then ask for his assessment of Honecker's Visit and what practical results we can expect from it. Kohl has agreed to pay a return visit. It will be awkward, from the point of view of Berlin's status, if he were to meet Honecker in East Berlin.

Other aspects of East/West relations will presumably have been dealt with in the IDU discussion. You might move on to arms control. You can congratulate him on successfully keeping the PIAs out of the INF agreement itself (I doubt its worth raking over whether they could have been salvaged altogether). You will want to stress your conviction that now is not the time to show signs of readiness to negotiate on short-range missiles. Rather we need to stress the vital continuing role of US nuclear weapons in Europe to our security.

He will expect you to say something about Woerner's candidacy to be Secretary-General of NATO. ~~The advice is that you should not commit yourself.~~ I rather wonder whether it is realistic to stall much longer. Others are declaring themselves. We do not seem to have an alternative candidate. At the least, you should look him in the eye and say that Woerner is a very strong candidate.

You might ask Kohl to give you a personal account of the circumstances surrounding the release of the German hostage and refer in a general way to the great dangers of striking deals.

On South Africa, you will want to urge the Germans not to make or support proposals for EC statements or initiatives, particularly in the run-up to CHOGM.

You will want to urge Kohl to stick to a German abstention on Falklands at the UN. Surely the principle of

self-determination must be crucial for the Germans. Slippage in the EC vote only encourages unrealistic expectations from the Argentines.

I would be inclined to clear all this out of the way before getting down to EC issues. On this the FCO brief is far too mushy. The fact is that the Germans are out to block CAP reform, and in particular stabilisers, and are showing signs of being soft on additional resources. You will want to bring home to Kohl that he cannot shield his farmers indefinitely from CAP reform. Stabilisers can and do work, for example on milk and on beef. It is only by extending them and having a really firm guideline for agricultural spending that we will ever get the Community's finances on a proper footing. It may be that the Germans will have to give nationally-financed income aids to their farmers; but the Community as a whole cannot go on as at present. You are determined to seize this opportunity to introduce effective and legally binding financial restraint and will not agree to extra resources without it. This must be in the long-term interests of Germany as well. You are ready to sit it out until after the French elections if necessary. But Britain cannot be expected to go on meeting an open-ended financial commitment to the CAP while also financing across the exchanges the 66,000 British soldiers and airmen in Germany. You have tried for a long time to keep these two issues separate, but cannot do so indefinitely if there is no attempt to put the Community's finances right.

C.D.P.

Charles Powell

21 September 1987

MEETING WITH GOVERNING MAYOR OF BERLIN

1. Congratulate on success of 750th Anniversary celebrations.
2. Welcome holding of IDU Conference in Berlin.
3. Any Berlin points which he would like you to make at press conference or in TV interviews.
4. Prospects for Berlin economy.
5. Assessment of Honecker's visit and impact on Berliners.
6. Support for Allied initiative on Berlin.
7. Draft-dodgers and asylum-seekers.

PRIME MINISTER

MEETING WITH THE GOVERNING MAYOR OF BERLIN

You are to pay a courtesy call on the Governing Mayor of Berlin immediately after your arrival. Herr Diepgen has called on you twice in London. You will be accompanied by Mr. Burton, Minister in the British Military Government.

You could begin by congratulating him on the successful celebrations of the 750th Anniversary of Berlin. There have been a large number of high-level visitors, including from Britain, with the Prince and Princess of Wales still to come. The effect should have been to give the Berliners considerable reassurance.

You could say how much you welcome the holding of the IDU Conference in Berlin. You might ask if there are any particular Berlin points which the Governing Mayor would like you to make at the Party Leaders' press conference and in your TV interviews.

You might enquire about the Berlin economy and its prospects. He gave you an upbeat account last time.

The main subject might be Honecker's visit to the Federal Republic. You might ask Herr Diepgen what expectations he has from the visit, both for Berliners and more widely, whether he foresees an end to the shoot to kill policy, and if we can expect any relaxation on the travel restrictions imposed on West Berliners wishing to visit the East. You might also ask his view on how extensive disaffection among the young in East Germany is: and what is the effect on East Germany of Gorbachev's reforms.

You will want to reassure the Governing Mayor of your full support for the Allied initiative on Berlin proposed by

President Reagan (text in folder). An approach to the Russians is being worked up.

In earlier meetings, you have discussed the problems of draft dodgers and asylum seekers. There is nothing very new to say on either, but you may like to show your continuing concern.

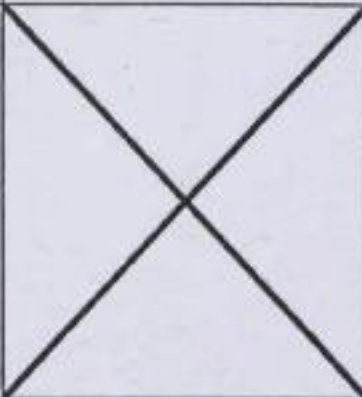
The note of your last meeting is in the folder. You will recall that you found Herr Diepgen rather over-addicted to the jargon of detente.

(C.D. POWELL)

21 September 1987

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GERMANY: Visits by Governing
Mayors of West Berlin:

10 DOWNING STREET

March 1979

LONDON SW1A 2AA

From the Private Secretary

16 December 1986

Dear Coltr,

PRIME MINISTER'S MEETING WITH THE GOVERNING MAYOR OF BERLIN

The Prime Minister saw the Governing Mayor of Berlin for a talk this morning. Herr Diepgen was accompanied by the Federal German Ambassador and by Herr Stronk. Mr. Michael Burton was also present. Herr Diepgen spoke partly in German and partly in English. The meeting was perfectly amiable - unlike the occasion two years ago - although the Prime Minister commented afterwards that she found Herr Diepgen rather over-addicted to the jargon of détente.

Situation in Berlin

In response to the Prime Minister's invitation, Herr Diepgen gave an account of the situation in Berlin. A strong defence was vital to provide the external security within which Berlin could flourish. The city had experienced a marked economic upswing since his last visit to London. The main factors in this were the establishment of new industries and demographic trends. Berlin had created more new jobs than any other part of the Federal Republic. Krushev had once boasted that Berlin would drop into his lap like a rotten fruit. In fact the city was more secure and more prosperous than ever. This was evident in the fact that more people were now moving from elsewhere in the Federal Republic to West Berlin than in the opposite direction. Berlin was increasingly attractive as a source of jobs and for its cultural life and vitality, especially with young people. His intention was to use the 750th Anniversary of Berlin next year to underline the city's success, with the two watchwords of quality and performance. The Prime Minister complimented Herr Diepgen on Berlin's economic success.

Asylum Seekers

The Prime Minister enquired about the problem of asylum seekers crossing from East Berlin. Herr Diepgen said that the problem had now diminished in local terms. But the basic problem was one of relations between industrialised and developing countries, and would remain a source of difficulty. He himself would like to see a harmonisation of law dealing with aliens throughout the European Community. The Prime

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Minister said that there had been some discussion of this at the European Council. It had been agreed that freer movement within Europe depended on more effective controls at the Community's external frontiers. It was necessary to take a firm line on immigration into the Community.

Draft Dodgers

The Prime Minister recalled that Herr Diepgen had been much exercised at their last meeting by the problem of draft dodgers from the Federal Republic. Herr Diepgen said that unfortunately it was proving difficult to solve. But he hoped it could be settled after the Federal elections.

750th Anniversary Celebrations

Herr Diepgen said that he hoped the Prime Minister would come to Berlin for the 750th Anniversary celebrations. The Prime Minister said that there had been a suggestion that those attending the Economic Summit in June might go on to Berlin. But she had not yet been able to discuss this idea with the other participants. However, The Queen would certainly visit Berlin. Herr Diepgen said that President Reagan had also agreed in principle to pay a visit although there were no dates yet. He hoped that both President Mitterrand and M. Chirac would also come. He believed that the celebrations would have an important function in strengthening Berlin for the future. But there was also a risk that, because the celebrations would be divided between East and West, they would highlight the continuing division of the city. He wanted to use the occasion as an opportunity to overcome these divisions and show the people of the GDR the attractions of freedom.

East/West Relations

The Prime Minister said that negotiations on arms control were not in themselves an adequate framework for conducting relations with the Soviet Union. We must look at other sources of tension between East and West. The Berlin Wall was one of the most obvious symbols of this tension. The Soviet Union should never be allowed to forget this. Herr Diepgen agreed. The aim should be to seek dialogue at all levels designed to show the superiority of the Western system. The Prime Minister replied that she was always hearing about "détente" and "dialogue". But they were words. You could see the Wall. Herr Diepgen said that one had to start from the reality that the Wall divided Europe into two power blocs. We could not expect to dissolve the Eastern bloc. But in the long run we could loosen it up by demonstrating the superiority of the democratic system. He believed that Berlin could become a symbol of, and a focus for, East/West dialogue. The Prime Minister said that she was anxious that the West should not always be on the giving side. We must get something from the Soviet Union as well. Above all the West must remain staunch in defence. Herr Diepgen agreed that we should not seek dialogue for its own sake but in order to reach concrete agreements. He underlined the importance of

the 750th Anniversary celebrations as a focus for further progress in East/West relations.

I am copying this letter to John Howe (Ministry of Defence).

Yours sincerely
Charles Powell

(C.D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

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cc PC
Duty Clerk
X2



Foreign and Commonwealth Office
London SW1A 2AH

21 September 1987

Dear Charles,

Meeting with the Turkish Prime Minister in Berlin: 24 September

At our suggestion, the Prime Minister is to call on Mr Turgut Ozal, the Turkish Prime Minister, at the Schweizerhof Hotel in Berlin, after the IDU dinner on the evening of Thursday 24 September.

I attach a personality note on Mr Ozal, whom the Prime Minister will remember meeting during his official visit to Britain in February 1986. Mr Ozal asked to call on her last March on his way back to Turkey from his triple heart by-pass operation in Houston. The Prime Minister's diary would not allow this, so the Foreign Secretary called on Mr Ozal instead.

OUR AIMS FOR THE CALL

Relations with Turkey are currently very good. We have no serious bilateral problems or, Cyprus apart, any significant differences over foreign policy. The Foreign Secretary would see the call on Mr Ozal as an opportunity to:

- a) lobby on behalf of British companies bidding for projects in Turkey;
- b) press for further progress on human rights, acknowledging recent improvements and looking forward to a freely-contested election campaign in Turkey on 1 November;
- c) urge the need for progress on the Cyprus dispute and for continued dialogue with Greece on the Aegean.
- d) exchange views on the situation in the Gulf (Turkey has close contacts with both sides).

/e)

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e) continue to avoid commitment of support for Turkish membership of the EC, while encouraging the Turks to work for progress under the Association Agreement while they await the Commission's opinion;

BILATERAL RELATIONS

The Prime Minister might like to refer to the warmth of our bilateral relations, stressing that this has not been adequately reflected in the economic/commercial field. The Turkish Government make no secret of the fact that political considerations weigh heavily in the award of major contracts to foreign firms. Ozal is inclined to take HMG's political support for granted. It might therefore be helpful if the Prime Minister suggested that it was not always easy to give political support to Turkey in the face of British press and parliamentary criticism.

The Prime Minister might raise in particular:

i) the Turkish tender for armoured personnel carrier: she sent a personal message (copy enclosed) to Mr Ozal on 23 July urging the selection of the GKN Warrior and reminding him that she had arranged for the level of official credit support for GKN's offer to be increased substantially. The timing of the Turkish decision is uncertain, following a recent modification to the tender. But the moment may now be crucial. We understand the Germans are applying political pressure on behalf of their bidder (the third in the field is an American consortium). Mr Ozal may comment on Warrior's higher costs, which in the latest (confidential) Turkish assessment are 25% and 40% higher than the German and US bids. Against this, the Prime Minister might mention that Warrior alone meets present and future NATO standards, has alone been selected by its own armed forces, and would provide Turkey with valuable technological and industrial benefits and the only real prospect of export sales. Warrior also has proven low maintenance costs (which the Turks failed to credit in their assessment). The saving would amount to some 20% on top of the GKN cost.

ii) AMEC International Construction Ltd's bid for the Ankara gas conversion project: AMEC had originally hoped for a negotiated contract, but the Turks decided in June to put the

/project



project out to international tender. The Prime Minister might tell Mr Ozal that HMG have demonstrated their continuing interest in the project by the decision last month to increase our offer of a soft loan for this project from £46.75 million to £59.5 million.

TURKEY INTERNAL

The Prime Minister might welcome the result of the Constitutional Referendum of 6 September - a very narrow majority (0.38) for lifting the political bans on ex-Prime Ministers Demirel and Ecevit. Although Mr Ozal campaigned against removal of the bans, the fact that he obtained the support for his views of nearly half the electorate leaves him in a strong position for the general election he has called for 1 November, when a 35% vote would almost certainly guarantee his re-election. Removing the restrictions should help to improve Turkey's image in the West. While expressing sympathy over recent terrorist incidents in eastern Turkey, in which more than 35 civilians have been killed, the Prime Minister might add that continuing publicity about allegations of torture harms Turkey's efforts to convince her critics that progress is being made towards European standards of democracy and human rights; and that it makes the position of Turkey's friends more difficult.

VISITS

Mr Ozal will probably reiterate his invitation in February 1986 for the Prime Minister to visit Turkey. She could say that she hopes to make the visit in 1988 and to put dates to Mr Ozal by the end of this year (i.e. after the Turkish General Election).

Mr Ozal may also broach the possibility of a State Visit by President Evren before the latter's 7-year term expires in November 1989. If so, the Prime Minister might say that such an event would indeed crown a good period in our bilateral relations; but that, in view of the pressure on HM the Queen's time, it is impossible for any commitment to be made now. (In fact, an invitation to Evren for 1988 is almost certain to be issued, either for June/July or November).



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TURKEY/GREECE

The continuing dialogue between Mr Ozal and Mr Papandreu over the Aegean has served to dampen down the tension which led to the crisis of last March. The Prime Minister may wish to welcome this. If Mr Ozal is re-elected on 1 November, he could be better placed to inject more substance into the exchange. The Prime Minister might suggest that Mr Ozal should take seriously the possibility of recourse to the ICJ or some other form of international arbitration to settle the legal aspects of the dispute. The Turks dislike this Greek proposal and have pressed for bilateral negotiation of all matters in dispute. Mr Ozal might be reminded that some sort of third-party arbitration is probably the best way to enable any Greek Prime Minister to "sell" an Aegean settlement to Greek public opinion.

CYPRUS

We remain concerned at the lack of progress over Cyprus. We understand that the Greek Cypriots intend to press for a debate on Cyprus at the UN General Assembly this year. On the last occasion when they did this, in 1983, the Turkish Cypriots responded by declaring UDI. The Prime Minister might express the hope that the Turkish Cypriots will not over-react to any provocation at UNGA; and our belief that this would be against Turkey's interests as well as making a solution in Cyprus harder to achieve. We hope that, following the Greek Cypriot elections next February, the UN Secretary-General will be able to make progress on his initiative; and we trust Mr Ozal will encourage the Turkish Cypriots to cooperate with the Secretary-General and show flexibility.

TURKEY/EC

Turkey's application for EC membership has been remitted to the Commission, where it will be processed slowly. This suits the Turks, for their own domestic reasons. The application raises serious problems: Turkey would be the largest and much the poorest EC member state (GNP per head 14% of the EC average); would not be able to meet all the obligations of membership; would require massive subventions from the richer member states; and is 98% Muslim. But the issue needs to be carefully managed, to avoid risks to Turkey's Western orientation, and to NATO.

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If Mr Ozal raises the matter, the Prime Minister might say that while the application is being processed it would make sense to make more effective use of the existing Association Agreement. The UK would be happy to participate in an early meeting of the Association Council, though adequate preparation (to ensure a substantial agenda and the prospect of positive results) would be important.

The Prime Minister will be aware of the raw Turkish nerve touched by a resolution in the European Parliament in June on the Armenian question. The Turkish Foreign Minister raised the issue in London in July, but accepted the Foreign Secretary's explanation that EP resolutions did not necessarily reflect the views of member states. The Turks saw this as UK dissociation from the resolution, and welcomed it.

IRAN/IRAQ

As it is such a live issue, the Iran/Iraq conflict will probably be raised. The Prime Minister may wish to reiterate our desire to see immediate implementation of SCR 598, and our disappointment that the visits by the UNSG to Tehran and Baghdad have not led to early agreement on this. There is now a need for the Security Council to keep up the pressure on Iran, ideally by starting work on enforcement measures, while not ruling out the possibility of further diplomatic efforts. The Prime Minister will wish once again to ask the Turks, who could exert considerable influence especially in Tehran, to put pressure on the parties to implement SCR 598 immediately, and to desist in particular from attacks on shipping in the Gulf. The Prime Minister may also like to encourage the Turks to join our efforts to forge an international consensus in support of freedom of navigation in the Gulf. Iran and Iraq must understand that this is a principle of interest to the whole international community, not just to the West, or to those with naval ships in the area.

Tom's evs,
L. Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

OZAL, TURGUT

Prime Minister of Turkey

Born 1927. Graduated from Istanbul Technical University in 1950, as an electrical engineer. 1950-60 worked in the electrical works study administration, latterly as assistant director-general responsible for electrification planning and for several large hydro-electric projects. Studied in America in 1952. Became Assistant Professor at the Middle East Technical University and a special technical adviser to the Prime Minister. 1967-71 Under-Secretary at the State Planning Organisation and 1971-73 adviser on Special Projects at the World Bank. 1973-1979 served on the boards of various industrial corporations and became Chairman of the Metal Industry's Employers' Association. Architect of the economic stabilisation measures introduced by Mr Demirel's government in 1980 and was also one of the leading figures behind the successful 1970 economic package.

Kept on by Evren after the coup in September 1980 and made Deputy Prime Minister and Minister of State for Economic Affairs in the Uluşu Cabinet. Gained an international reputation as the successful architect of Turkey's economic recovery and the widespread respect of international banking and financial circles. Domestic dissatisfaction with his economic policies came to a head in 1982 leading to his resignation from the Government. Nevertheless, the government's economic strategy remained broadly that of Ozal. Established, and became Chairman of, the right-of-centre Motherland Party, which won the November 1983 election with an absolute majority of seats. Immediately began ambitious and radical programme of reforms, basically a continuation, plus imaginative expansion, of his January 1980 austerity measures, in an attempt to revitalise the Turkish economy and re-organise the bureaucracy. Has achieved a good working relationship with President Evren. Lost some credibility by his campaign for a "no" vote in the 6 September 1987 Constitutional Referendum, but latest opinion polls show he is likely to gain majority of seats in general election he has called for 1 November.

Married with three children. Short, rotund and friendly, he is a good listener and talker who can hold his audience. Impressive TV performer. Devout Muslim and a man of great ability. Speaks good English. Paid official visit to UK in February 1986 and a private visit in March 1987 (when he met the Foreign Secretary) following a successful heart by-pass operation in the USA, from which he seems to have fully recovered.

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FM BMG BERLIN
TO IMMEDIATE FCO
TELNO 071
OF 211000Z SEPTEMBER 87
INFO IMMEDIATE BONN

PRIME MINISTER'S VISIT TO BERLIN 24/25 SEPTEMBER: CALL ON THE GOVERNING MAYOR

1. THE PRIME MINISTER WILL FIND THE GOVERNING MAYOR CONFIDENT ABOUT HIS PERSONAL PROSPECTS AND THOSE OF HIS PARTY IN BERLIN. THE FIRE HAS GONE OUT OF OPPOSITION ATTACKS AGAINST HIM IN CONNECTION WITH CORRUPTION SCANDALS. ALTHOUGH THERE MAY BE SOME CHOPPY WATER AHEAD, PARTICULARLY OVER THE CITY'S LAND USE PLAN, HIS LEADERSHIP IS UNCHALLENGED AND HE DOMINATES THE BERLIN POLITICAL SCENE. THE REVERSES IN SCHLESWIG-HOLSTEIN AND BREMEN WERE A SHOCK FOR THE CDU EVERYWHERE, BUT ARE NOT SEEN AT PRESENT AS A PORTENT FOR BERLIN. THE NEXT ELECTIONS HERE ARE NOT DUE UNTIL MARCH 1989 AND IT IS WIDELY PREDICTED (EVEN BY THE SPD) THAT THEY WILL BE WON BY THE EXISTING CDU/FDP COALITION.
2. THERE ARE NO BURNING BILATERAL ISSUES, AND DIEPGEN IS UNLIKELY TO RAISE OLDER QUESTIONS SUCH AS GATOW RANGE. THE OBVIOUS TOPIC OF CONVERSATION IS THE SUCCESS OF THE CITY'S 750TH ANNIVERSARY CELEBRATIONS AND THE BRITISH CONTRIBUTION. THE VISIT OF HM THE QUEEN HAS BEEN THE POPULAR HIGHLIGHT SO FAR. THE VISITS OF HM THE QUEEN MOTHER AND HRH THE PRINCESS ANNE WERE ALSO VERY MUCH APPRECIATED AND THAT OF TRH THE PRINCE AND PRINCESS OF WALES IS EAGERLY AWAITED. A NUMBER OF CIVIC LEADERS FROM BRITAIN HAVE ALSO BEEN TO BERLIN MOST NOTABLY THE LORD MAYOR OF LONDON WHO WILL PRESENT A BUST OF SHAKESPEARE FROM THE CITY OF LONDON WHILE THE PRIME MINISTER IS HERE. THE PRIME MINISTER MAY CARE TO REMIND DIEPGEN OF THE FEAR HE EXPRESSED TO HER IN LONDON LAST DECEMBER THAT THE CELEBRATIONS IN THE WEST MIGHT BE OUTSHONE BY THOSE IN THE EAST AND TO SUGGEST THAT THIS FEAR HAS NOT BEEN JUSTIFIED BY EVENTS.
3. HOWEVER, DIEPGEN'S LONGER TERM CONCERN ABOUT WEST BERLIN'S FUTURE ROLE REMAINS - INDEED, THE EVENTS OF 1987 HAVE INCREASED IT IN SPITE OF THE SUCCESS OF THE CELEBRATIONS. THE EXCHANGE OF VISITS BETWEEN HIMSELF AND HONECKER IN CONNECTION WITH THE ANNIVERSARY DID NOT COME OFF. FOR BERLIN, HONECKER'S VISIT TO THE FRG PRODUCED A DISAPPOINTING (IF NOT SURPRISING) LACK OF PROGRESS ON PRACTICAL QUESTIONS OF IMPORTANCE TO THE BERLINERS SUCH AS VISITORS

PAGE 1
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FROM WEST BERLIN BEING ABLE TO SPEND THE NIGHT IN EAST BERLIN. THIS
COULD LEAD DIEPGEN TO SPEAK OF THE SENAT'S NEED TO EXPAND ITS
CONTACTS WITH THE GDR. THE PRIME MINISTER MAY WISH TO REAFFIRM
OUR COMMITMENT TO BERLIN, WHICH WE SEE AS A SUCCESSFUL AND
THRIVING CITY AND FIRMLY BELIEVE WILL REMAIN SO. SHE MIGHT ALSO
SAY THAT THE ALLIES SHARE THE SENAT VIEW ABOUT THE IMPORTANCE OF
LOOKING TO THE FUTURE AND THE ACHIEVEMENT OF FURTHER PRACTICAL
IMPROVEMENTS FOR THE CITY. THIS WAS THE MOTIVATION BEHIND
PRESIDENT REAGAN'S INITIATIVE WHICH WE SUPPORT. WHAT IS CRUCIAL IS
THAT THE SENAT AND THE ALLIES SHOULD WORK CLOSELY TOGETHER,
AND ALWAYS CONSULT BEFORE ACTING.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 September 1987

IDU CONFERENCE IN BERLIN

There are additional points about the Prime Minister's visit to Berlin which I mentioned to you this morning.

- ~~JK~~
- it would be helpful to have some positive points to make about the British presence in Berlin and the Allied initiative on Berlin which the Prime Minister could draw on in her television and radio interviews;
 - we need to arrange interpretation for the Prime Minister's bilateral with Chancellor Kohl. If Herr Weber is to translate for Chancellor Kohl and is prepared to do it both ways, that would be excellent. Otherwise I think that we shall need Herr Lederer.

Charles Powell

DA

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

Charles

with thanks for your help.

Christine

PRIME MINISTER

PRESS ARRANGEMENTS FOR IDU CONFERENCE

You have agreed to do 4 interviews after the press conference on Friday. These are:

- ITN - Jon Snow
- BBC TV - John Simpson or David Shukman
- SSB TV - German station to be arranged
- BFBS - Jeff Roberts

Each will last approximately 5-7 minutes and will take place in a room we have set aside in the Reichstag.

Christine
 July 1985 was the last
 meeting he PM attended.
 But I think there
 was another meeting
 in 1986 re which
 GH met. CD

MEDIA INTEREST

This will be the media's first substantial opportunity to probe your reaction to the arms agreement. You will know that press reports so far say you are cautiously optimistic and want to guard against premature euphoria. You have also made it clear that Britain's plans for updating Polaris and Trident remain unchanged. The press will also ask about anti terrorism progress and what you have to say to Chancellor Kohl.

MESSAGE

There will be a substantial gathering of the world's media present (about 100 representatives). If you are content, the key points I would like to get over in advance of your arrival are:

- * - this is the first opportunity for 'right-thinking' Leaders to get together since Washington in 1985.
- the Conference provides a platform for a substantial movement of more than 30 Party Leaders (amongst them 10 heads of Government) to review developments in East-West relations, terrorism and the economy.
- In Washington, you were seen to have played a key role and at this critical, historic moment in arms control negotiation, other Leaders will look to you as the foremost thinker in the development of a common approach to East-West relations.
- Your ideas have been welcomed and pursued by other Leaders - not just on arms control, but also on the economy and anti-terrorist initiatives.

NOTE ON INTERVIEWERS

I have spoken to Jon Snow at some length. He seems sympathetic to your achievement in world affairs and despite difficulties with him in the past, I do not believe he will go out of his way to be difficult. John Simpson you will know well. Again he is not an ideal choice but I expect him to do a fair piece of reporting. There is a possibility that his deputy David Shukman will do the interview. He is a relative unknown and has not interviewed you before. The BFBS chap has served in the Falklands and is shortly to be posted to Gibraltar. The German station ARD/SSB can be picked up on the other side of the Wall.

WARDROBE

The backdrop for the TV interviews will be *CREAM*. I will have some make-up to hand in case it is needed. Please let me know if you would like any help with your wardrobe.

You were last in Berlin in October 1982.

Content with all this?

Christine

Christine Wall

21 September 1987

Copies to: Mr Tebbit
Mr Hamilton
Mr Powell ✓
Mr Desborough
Mr Ingham

PRIME MINISTER

IDU CONFERENCE IN BERLIN

I attach the programme for your visit to Berlin for the IDU Conference.

You have formal bilaterals with Chancellor Kohl, Prime Minister Chirac and Prime Minister Ozal. You also pay a courtesy call on the Governing Mayor. Briefs for these meetings are in the attached folders.

Other IDU leaders you are likely to come across include:

- Dr. Mock of Austria. He may try to raise problems connected with President Waldheim;
- Herr Strauss. He is in the process of a major public wrangle with Kohl. You will not want to appear too friendly. He may raise BA's decision to purchase Boeing rather than Airbus;
- Mr. Willoch. You will want to bear in mind that he is a candidate for the NATO job;
- Mr. Holkeri, Prime Minister of Finland. He has brought the Finnish conservatives into government for the first time for more than 20 years. He may invite you to visit Finland;
- Mr. Seaga. He may raise continuing problems over our £7.5m loan which he wants to see transformed into a grant (although he will be seeing the Chancellor at the Commonwealth Finance Minister's meeting first, and it may be solved there);

- Mr. Fenech-Adami of Malta. You could invite him to visit the United Kingdom as an official guest.

(C.D. POWELL)

21 September 1987

DCAAAK

PROGRAMME FOR THE PRIME MINISTER'S VISIT TO BERLIN,
24-25 SEPTEMBER 1987

24 September

- 1330 Depart RAF Northolt by HS 125
- 1630 Arrive at RAF Gatow. Met by Major-General Patrick Brooking (British Commandant) and Mrs Brooking, Mr Michael Burton (Minister, British Military Government) and Mrs Burton, Group Captain Eustace (Station Commander Gatow) and Herr von Bredow (Chief of Senat Protocol). Inspect Guard of Honour.
- 1710 approx Call on Governing Mayor at Rathaus Schöneberg, accompanied by Mr Powell and Mr Burton. Opportunity for press photographs. Return to Ambassador's Residence thereafter.
- 1845 approx Depart from Residence for IDU Reception and Party Leaders' Dinner, accompanied by Mr Hamilton (Conservative Central Office) and Mr Powell.
- Late Evening Meeting with Mr Ozal at Schweizerhof Hotel. Notetakers will be present.

25 September

- 0745 Working breakfast with M Chirac at the Residence. Notetakers will be present.
- 0840 Depart from Residence for the Reichstag, accompanied by Mr Hamilton and Mr Powell.
- 0900 Opening of IDU Conference in the Reichstag.
- 1200 IDU lunch hosted by Dr Jenninger (President of the Bundestag).
- 1400 Press Conference given by Party Leaders, followed by wreath-laying ceremony at the Berlin Wall.
- 1500 Television interviews in the Reichstag.
- 1600 Meeting with Chancellor Kohl in Federal Government's Guest House. Notetakers will be present. Opportunity for press photographs.
- 1800 approx Depart from Guest house for RAF Gatow, accompanied by Major-General Brooking.

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OF 190920Z SEPTEMBER 87

MY TELNO 702: PRIME MINISTER'S VISIT TO BERLIN:
BILATERAL WITH KOHL: MIDDLE EAST.

1. TELTSCHIK TOLD ME ON 18 SEPTEMBER THAT THERE WAS ONE OTHER POINT WHICH KOHL WOULD LIKE TO RAISE WITH THE PRIME MINISTER ON 25 SEPTEMBER, WITHOUT ACTUALLY PUTTING IT ON THE AGENDA. PEREZ HAD MORE THAN ONCE SPOKEN TO KOHL ABOUT WHAT HAD AT ONE TIME BEEN CALLED A MARSHALL PLAN FOR THE MIDDLE EAST. NOW HE HAD PRODUCED CONCRETE PROPOSALS AND ASKED THAT THE FRG TAKE THE LEAD IN HANDLING THEM. KOHL FELT GENERALLY SYMPATHETIC TO THESE IDEAS, BUT ON 3 CONDITIONS:-

- (A) THE PEACE PROCESS WOULD HAVE TO BE MOVING IN A POSITIVE DIRECTION,
- (B) THE PLAN MUST COMPRISE SPECIFIC PROJECTS, NOT A FUND,
- (C) BESIDES ISRAEL ITSELF, AT LEAST EGYPT AND JORDAN MUST ALSO TAKE PART.

2. TELTSCHIK SAID THAT THE ISRAELIS HAD SCALED DOWN THEIR ORIGINAL IDEAS AND WERE TALKING ABOUT US DOLLARS 20 MILLION TO START OFF WITH.

3. AS TO MECHANICS, TELTSCHIK SAID THAT KOHL HAD MENTIONED THE MATTER TO GONZALES AND WOULD DO LIKewise WITH CHIRAC THIS WEEKEND AND MITTERRAND NEXT WEEK. TELTSCHIK SUGGESTED THAT ONE OR TWO OTHER KEY EUROPEAN COUNTRIES, JAPAN AND THE U.S. SHOULD BE BROUGHT IN, EACH DESIGNATING A SINGLE OFFICIAL TO HANDLE THE MATTER EITHER THROUGH BILATERAL CHANNELS OR MEETINGS, AS APPROPRIATE. WHAT KOHL WANTED WAS A PRELIMINARY AND INFORMAL EXCHANGE OF VIEWS WHICH WOULD COMMIT NOBODY. ISRAEL WOULD BE BROUGHT IN LATER.

4. FCO PLEASE PASS TO NO.10.

BULLARD

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September 18, 1987

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DELEGATION LEADER'S

- > Australia, Liberal Party of Australia
SPENDER
Mr. John Spender QC, MP, Shadow Minister for Foreign Affairs
Delegation Leader
Delegate
- > Austria, Osterreichische Volkspartei
KONIG
DDr. Fritz Konig, MP, Parliamentary Group Leader
Delegation Leader
Delegate
- > Canada, Progressive Conservative Party
DICK
Hon. Paul Dick
Delegation Leader
Delegate
- > Colombia, Social Conservative Party
PASTRANA-BORRERO
H.E. Misael Pastrana-Borrero, Party Leader
Delegation Leader
Delegate
- > Costa Rica, United Social Christian Party
CALDERON
Lic. Rafael Angel Calderon, Party Leader
Delegation Leader
Observer
- > Cyprus, Democratic Rally
CLERIDES
Mr. Glafcos Clerides, MP, Party Leader
Delegation Leader
Delegate
- > Denmark, Det Konservative Folkeparti
ENGELL
Mr. Hans Engell, Former Minister of Defense
Delegation Leader
Delegate
- > Dominica, Freedom Party
KNIGHT
Alvin Knight, General Secretary of Dominica Freedom Party
Delegation Leader
Delegate
- > Finland, Kansallinen Kokoomus
SUOMINEN
Mr. Ilkka Suominen, MP, Party Leader
Delegation Leader
Delegate
- > France, Rassemblement Pour la Republique
CHIRAC
Jacques Chirac, Prime Minister
Delegation Leader
Delegate
- > Germany (CDU), Christlich Demokratische Union (CDU)
KOHL
Dr. Helmut Kohl, Chancellor, Party Leader
Delegation Leader
Delegate
- > Germany, CSU, Christlich Soziale Union (CSU)
STRAUSS
Dr. h.c. Franz Josef Strauss, Mdl, PM of Bavaria
Delegation Leader
Delegate
- > Greece, Nea Demokratia
MITSOTAKIS
Constantin Mitsotakis, MP, Party Leader
Delegation Leader
Delegate

September 18, 1987

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DELEGATION LEADER'S

- > Guatemala, Movimiento de Accion Solidaria (MAS)
SERRANO
Jorge Serrano, Party President
'Delegation Leader
Observer
- > Honduras, Partido Nacional de Honduras
CALLEJAS
Rafael Leonardo Callejas, Party Chairman
'Delegation Leader
Delegate
- > Iceland, Independence Party
PALSSON
Thorsteinn Palsson, Prime Minister
'Delegation Leader
Observer
- > IDU,
MOCK
Dr. Alois Mock, Chairman IDU
'Delegation Leader
Delegate
- > IDU,
WILLOCH
MP. Kaare Willoch, Former Prime Minister, IDU Deputy Chairman
'IDU Deputy Chairman
Delegate
- > Italy, Southtyroz
HOSP
Dr Bruno Hosp MdL
'Delegation Leader
Observer
- > Jamaica, Labour Party
SEAGA
Edward Seaga, MP, Prime Minister, Chairman CDU
'Delegation Leader
Delegate
- > Japan, Liberal Democratic Party (LDP)
HAYASHI
Mr Yoshino Hayashi
'Delegation Leader
Delegate
- > Malta, Nationalist Party
FENECH-ADAMI
Dr. Edward Fenech-Adami, MP, Prime Minister
'Delegation Leader
Associate
- > Mexico, Partido Accion Nacional
ALVAREZ
Mr. Luis Alvarez, President of PAN
'Delegation Leader
Observer
- > Montserrat, Peoples Liberation Movement
VERNON
Vernon Jeffers, Min for Educ, Sports and Comm Affs, Gen Sec
'Delegation Leader
Observer
- > Nicaragua, Partido Conservador de Nicaragua
RAPPACCIOLI
Lic. Mario Rappaccioli, President
'Delegation Leader
Associate
- > Norway, Hoyres Hovedorganisasjon
PRESTHUS
Rolf Presthus, Party Chairman
'Delegation Leader
Delegate

DELEGATION LEADER'S

- > Portugal, Partido do Centro Democratico Social
 MOREIRA
 Dr Adriano Moreira, MP

'Delegation Leader
 Delegate
- > Spain, Alianza Popular
 MANCHA
 Antonio Hernandez Mancha, President

'Delegation Leader
 Delegate
- > St. Kitts and Nevis, Peoples Action Movement Party
 SIMMONDS
 Kennedy Simmonds, Prime Minister

'Prime Minister
 Delegate
- > St. Lucia,
 BRATHWAIT
 Desmond Brathwait, Junior Minister to the Prime Minister

'Delegation Leader
 Observer
- > St. Vincent and The Grenadines, New Democratic Party
 NANTON
 Mr Stewart Nanton, Paritry Sec in PM Office and Min For Aff

'Delegation Leader
 Delegate
- > Sweden, Moderata Samlingspartiet
 BILDT
 Mr. Carl Bildt, Party Leader

'Delegation Leader
 Delegate
- > Turkey, Motherland Party
 OZAL
 Mr Turgut Ozal, Chairman-Prime Minister

'Delegation Leader
 Delegate
- > United Kingdom, Conservative Party
 THATCHER
 Rt. Hon. Margaret Thatcher MP, Prime Minister

'Delegation Leader
 Delegate
- > United States of America, Democratic Party
 MANNATT
 Mr Chuck Mannatt

'Delegation Leader
 Observer
- > United States of America, Republican Party
 FAHRENKOPF
 Frank J. Fahrenkopf, Jr., RNC Chairman

'Delegation Leader
 Delegate

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Foreign and Commonwealth Office

London SW1A 2AH

18 September 1987

Dear Charles,

Prime Minister's Visit to Berlin, 24/25 September:
Programme and Call on the Governing Mayor of Berlin

I enclose the programme for the Prime Minister's visit, much of which will of course be taken up with the IDU Conference. I am writing separately with briefing for the Prime Minister's bilateral meetings with Chancellor Kohl, M Chirac and Mr Ozal. We do not yet know the exact timing of the meeting with Ozal on the evening of 24 September.

Call on the Governing Mayor

The Prime Minister will go straight from RAF Gatow to the Rathaus Schöneberg (Town Hall) for a short courtesy call on the Governing Mayor of Berlin, Herr Eberhard Diepgen (personality note attached). Diepgen is likely to be accompanied by Dr Stronk, the official Head of the Senat Chancellery, who was present when Diepgen called on the Prime Minister in London on 16 December 1986. The Senat may provide an interpreter, but Diepgen will not require interpretation from English. Mr Michael Burton, Minister in the British Military Government (who will ride in the car with the Prime Minister), will be present on the British side in addition to yourself.

Berliners have been preoccupied this year with the celebrations of the 750th Anniversary of Berlin, which are now drawing to a close. High-level visitors to the city have included Her Majesty The Queen (May), President Mitterrand (also May), President Reagan (June) and Prime Minister Chirac (July). The Prime Minister's own visit (her first since October 1982), though primarily to attend the IDU Conference, will be welcomed in Berlin and the Federal Republic as further confirmation of British support for Berlin in its anniversary year. The visit coincides with one by the Lord Mayor of London, Sir David Rowe-Ham. The visit of the Prince and Princess of Wales on 1 November to attend the premiere of a major British Council-sponsored Royal Ballet tour will be a further British highlight.

/Honecker's

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Honecker's visit to the Federal Republic from 7-11 September, the first ever by a GDR leader, has attracted keen interest in Berlin. The Prime Minister might ask how Diepgen assesses the visit, and particularly its impact on Berlin. The Federal Government have expressed confidence that the visit will have helped to consolidate and increase human contacts (nearly 1 million East Germans under pensionable age are expected to visit the West in 1987, a further sharp increase). But West Berliners will be disappointed at Honecker's continuing refusal to extend to them the improved arrangements for travel to East Berlin and the GDR (in particular allowing short-stay visitors to stay overnight) which have since last year been applied to residents of the Federal Republic.

Diepgen himself was involved only peripherally in Honecker's visit. His own ambitions to play a bigger role in inner-German and East/West relations by accepting an invitation from Honecker to attend an 'Act of State' in East Berlin in October (part of East Berlin's rival 750th Anniversary celebrations) were frustrated when Honecker withdrew the invitation in May. Honecker had earlier declined Diepgen's counter-invitation to visit West Berlin. The three Western Protecting Powers had expressed misgivings that Diepgen's attendance might undermine the Western position on Berlin's status. There should be no need to go over this again now.

Diepgen has expressed his support for the Allied initiative on Berlin. The Prime Minister will recall that President Reagan consulted her (as well as President Mitterrand and Chancellor Kohl) before his speech in Berlin in June, in which he called for improvements in air services and for efforts to bring conferences and meetings to the city. Officials are now working to follow up the President's speech and to prepare an Allied approach to the Russians. If Diepgen raises the subject, we recommend that the Prime Minister express continuing support for the initiative, which demonstrates that the three Protecting Powers are on the look out for new ideas of practical benefit to Berliners.

Diepgen is unlikely to raise the death on 17 August of Rudolf Hess. The Four Powers issued a final statement on 17 September confirming that Hess had committed suicide. Spandau Prison is now being demolished, as previously agreed by the Four Powers. Diepgen has given helpful public support for the prison's early demolition.

/Other Meetings

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Other Meetings

The Prime Minister may meet a number of colleagues in the margins of the IDU Meeting. I attach a list of points for the Prime Minister to draw on, should the opportunity arise.

Yours ever,

A handwritten signature in blue ink, appearing to read 'L. Parker', with a small flourish underneath.

(L Parker)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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DIEPGEN, EBERHARD

Governing Mayor of Berlin since February 1984. Chairman of the Berlin CDU and member of the Federal Executive of the CDU.

Born 13 November 1941 in Berlin. Studied law at the Free University Berlin. 1968-72 junior barrister at the Berlin Supreme Court. In legal practice from 1972. Member of the CDU since 1962. Member of the House of Representatives and of the Berlin Party Executive since 1971. Succeeded Richard von Weizsäcker as Governing Mayor in February 1984 on the latter's nomination as CDU/CSU candidate for Federal Presidency. His CDU/FDP coalition was returned to power convincingly in the 1985 Berlin elections.

Thought by many to be one of the most able second generation post-war CDU politicians in Berlin. Worked closely with von Weizsäcker who saw him as his natural successor. Highly successful as a fixer and organiser in party, parliamentary and local affairs. He has had some difficulty in making the transition to the more elevated role of Governing Mayor, and has occasionally shown indecisiveness, notably over a series of (mostly minor) corruption scandals in Berlin in 1986ⁱⁿ which some party associates were involved. Despite these and the setback to his policy of contacts with the GDR over the 750th Anniversary of Berlin, Diepgen remains firmly in control of the coalition and seems set to stay as Governing Mayor until the next Berlin elections in 1989 at least.

Married. Two children. Speaks reasonable English. Visited UK as Governing Mayor in 1984, 1985 and, most recently, in December 1986, when he called on the Prime Minister.

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direct
✓
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Foreign and Commonwealth Office

London SW1A 2AH

18 September 1987

Dear Charles,

Prime Minister's Meeting with Chirac:
Berlin: 25 September

Since the Prime Minister's meeting with him in Paris on 29 July, Chirac's domestic position has not changed fundamentally. French politics are still dominated by the prospect of the Presidential elections next spring, in which Mitterrand, Barre and Le Pen are all expected in one way or another to threaten Chirac's chances. He himself is responding with unabated energy, including visits this week to French territories in the Caribbean and South Pacific. The high turn-out and majority against independence in the New Caledonian referendum on 13 September were good news for Chirac, but have not solved the underlying problems there. His government, which is sticking to a policy of public expenditure control, privatisation and deregulation, continues to come under fire from Right and Left for disappointing economic results this year.

2. Chirac's office have told our Embassy that he will probably wish to concentrate on the Gulf, East/West issues and arms control. The Prime Minister and Chirac had a full exchange of views on Community financing at their meeting on 29 July, and we understand that Chirac is unlikely to raise EC issues again this time. Anglo-French contacts at lower levels are in train, and the Prime Minister may simply wish to reiterate our willingness to work closely with the French, and to look forward to the further bilateral proposed for November when she and Chirac would be able to discuss the key issues before the Copenhagen European Council.

Iran/Iraq and the Gulf

The Prime Minister will wish to refer with regret, but little surprise, to the disappointing outcome of the UN Secretary General's visits to Tehran and Baghdad, and say that it is now clear that the Security Council must urgently discuss enforcement measures. Obtaining an arms embargo against Iran may be difficult, and will put the unity

/of



of the Five under strain, but we must put pressure on the Russians and Chinese to agree. An arms embargo may not be very effective, but the Council cannot abandon the path it has set out on, and discussion of such a Resolution will keep up the pressure on the Iranians. The Prime Minister could also stress the need to keep up the pressure on the Iraqis to refrain from attacking Iranian land and sea targets; they too are running the risk of non-compliance: the French are in a good position to make the point.

East/West Issues

The Prime Minister could welcome progress towards an INF Agreement and the apparent prospect of an early Washington summit. This should be used to bring about not only arms reductions but also:

- progress towards resolution of regional conflicts;
- greater Soviet respect for human rights;

The Soviet Union must not be allowed to confine the East/West agenda to arms control.

At the CSCE Vienna follow-up meeting the West must concentrate on securing an outcome which allows a continuing process of scrutiny of human rights performance, balancing agreement on CSBMs negotiations. The French have recently suggested allowing the Russians a meeting in Moscow on some aspects of human contacts provided we get our main requirements in the human dimension, including a follow-up meeting on human rights in Moscow. On the other hand, some form of Moscow meeting could prove a necessary condition of a satisfactory overall package allowing for continued scrutiny of Moscow's human rights record. If the French Prime Minister raises this, we recommend that the Prime Minister should argue that the pros and cons of going to any meeting in Moscow will have to be very carefully weighed; the conditions of any Moscow meeting (openness; access of dissidents etc) would be a crucial factor; and that we should certainly not as yet give the Russians any hint that we might be prepared to agree to a Moscow meeting. For the time being the Western countries should continue neither to accept nor to reject such a meeting, in order to maintain leverage over Moscow's human rights performance.

Following a study mission on Afghanistan by a former Minister (Jean-Francois Deniau), the French have discussed with us bilaterally a possible initiative by the Twelve. We have raised a number of concerns about timing and tactical handling, and look forward to further detailed bilateral talks.



If Chirac refers to his WEU "Charter" proposal, the Prime Minister could recall the need for any such document to be clear about nuclear deterrence and the need for US forces in Europe.

Arms Control

Our main mutual interest in INF is to ensure that any solution to the FRG PIAs and their US-owned warheads is found outside the Geneva negotiations. We must beware of any undesirable precedent for the UK and French nuclear deterrents.

It might also be useful to reconfirm French support for discouraging FRG pressure in NATO to define an Alliance negotiating stance on nuclear missiles below 500 kms. We must not encourage those who seek the total denuclearisation of Europe, nor should we divert attention from the Reykjavik NAC priorities for arms control.

With the prospect of new conventional arms control negotiations starting next year (assuming the current informal discussions in Vienna produce agreed terms of reference) it would be worth the Prime Minister reminding Chirac of the need for a 'collective' Alliance approach to negotiating with the Warsaw Pact: it will severely complicate matters if the French persist with their long-standing aversion to discussing arms control matters on a bloc-to-bloc basis.

Recent moves by the USSR towards the West in the Chemical Weapons negotiations underline the importance of getting all the detail right. We need to be assured that the Russians are sincere.

Falklands

France voted for the UNGA resolution on the Falklands both in 1985 and, despite worries about how we might vote on New Caledonia, last year as well. Since then French links with Argentina have been strengthened, and President Mitterrand will visit Argentina early next month. The French are likely to continue to be unresponsive to suggestions that they revert to an abstention at this year's UNGA, but must be discouraged from identifying more closely with Argentina. They should also be urged to fulfil their obligation under the Non-Proliferation Treaty on missile technology and refrain from supporting the Argentine Condor missile programme. Raimond has assured the Foreign Secretary that supplies have been halted. They should not be resumed.

/South



South Pacific/CHOGM

Finally, there are two subjects on which there is some risk of Anglo-French misunderstanding during the autumn and the Prime Minister may wish to take preventive action. The first of these is the South Pacific. Two years ago the French complained to us when the CHOGM communique included condemnatory language on New Caledonia, although we had in fact made efforts to tone it down. This year the South Pacific Forum has used even stronger language and in May for example called the proposed referendum "divisive, futile and a recipe for disaster". The South Pacific states can be expected to press for a passage on New Caledonia in the Vancouver communique. The Prime Minister can assure Chirac that we will again seek to moderate any extreme language on New Caledonia (or on the South Pacific Nuclear Free Zone), but could add that we cannot promise miracles: we have no power to veto items in the communique or the language used. She could also say that we would encourage the Forum countries to discuss the issue calmly and rationally with the French.

Le Pen

The other subject of possible difficulty is the plan for Le Pen to address a fringe meeting at the Conservative Party Conference. This has already attracted comment in the French press after Le Pen's recent anti-Semitic gaffe, and he is adept at making publicity out of such occasions. Chirac's RPR is particularly vulnerable to losing right-wing voters to the Front National. The Prime Minister may therefore wish to assure Chirac that the invitation to Le Pen is not from the Party as such and not to the Conference. It would be legally very difficult to keep Le Pen out of the country, and in any case to do so would merely give him an extra opportunity for self-publicity.

however,
L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

PC
duty desk



Foreign and Commonwealth Office

London SW1A 2AH

18 September 1987

Dear Charles,

Prime Minister's Meeting with Chancellor Kohl:
Berlin: 25 September

This letter concerns the Prime Minister's bilateral with Chancellor Kohl, scheduled for 1600-1800 on 25 September.

The Internal Political Situation following the Land elections in Bremen and Schleswig-Holstein on 13 September gives Kohl little to be happy about. The CDU's run of poor results in every Land election this year except Hesse has continued. The Party polled only 23% in Bremen. In Schleswig-Holstein they only just clung on to power in coalition with the FDP - and their leader Barschel faces allegations of unfair tactics. The FDP, on the other hand, go from strength to strength and are now represented in every Land Parliament except Bavaria and in six coalitions at Land level (five with the CDU, one with the SPD). It is, however, far from clear that the CDU's poor showing in recent elections signals the beginning of a resurgence in the SPD's fortunes: they still have a long way to go before they can claim to be a credible alternative government.

The results of recent Land elections will add fuel to the public disagreement between Kohl and Strauss over the future direction of the CDU/CSU Parliamentary Grouping. Strauss will no doubt claim that the capture of one seat in the Bremen Parliament by an extreme right-wing party, the Deutsche Volksunion, lends credence to his claim that the CDU's desire to increase its appeal to voters at present supporting the FDP, leaves the CDU/CSU exposed to its right.

The main topics for discussion with Kohl will be the Gulf, EC Issues, East/West and Arms Control, Southern Africa and Terrorism. Kohl will undoubtedly also wish to seek a clear indication of support for Woerner's candidature as next Secretary General of NATO.

/Iran/Iraq and the Gulf

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Iran/Iraq and the Gulf

The Prime Minister will wish to emphasise our desire for early follow-up action on SCR 598. As the Foreign Secretary made clear to the FRG Ambassador on 16 September, we believe that the Security Council must begin work on enforcement measures if the UNSG's visits to Tehran and Baghdad have not produced agreement to implement SCR 598. The Germans' desire to procrastinate and to cast doubt on the usefulness of an arms embargo against Iran is mis-guided and seems to be motivated by a wish to avoid jeopardizing their own political and commercial relationship with Iran. The Prime Minister will wish to persuade Kohl that the pressure must be kept up on Iran and that the international community cannot abandon the path it has set out on.

EC Issues

As the largest net contributor to the EC budget (3500 mecu in 1986) Germans share a common approach with us on many of the key issues in the future financing debate. In particular, they oppose a large increase in the Community's own resources and support more effective control of non-obligatory expenditure.

The main problem remains German reluctance to bite the bullet on CAP reform. Whilst accepting the principle of agricultural stabilisers, Genscher told the Foreign Secretary in July that a price-dominated policy would reduce the living standards of German farmers and could undermine German political stability. The Agriculture Minister, Kiechle, described the latest Commission proposals as "a catalogue of horrors" which the German Government would not be able to accept. And the Schleswig-Holstein election result will have done nothing to strengthen Kohl's willingness to annoy the farming vote.

The Foreign Secretary recommends that the Prime Minister makes the following points to Kohl:

- Hope we can cooperate closely during autumn negotiations. We have similar approach on many of the key issues.
- In particular, assume you agree with me that Commission's proposals on budget discipline are a step forward. Aim must be to tighten up procedures and make budget discipline binding, as agreed at European Council. We cannot afford to repeat failure of 1984 arrangements, which resulted in the build-up of massive agricultural deficits.
- But Commission have also produced useful paper on agricultural stabilisers in response to European Council mandate. We now need detailed proposals for each agricultural regime. Aim should be to strengthen common management of regimes by building on stabilisers that are already in place.

/- Recognise



- Recognise political sensitivity of price reductions to German farmers. But stabilisers have proven effectiveness (eg milk and beef) and will help put CAP support decisions on equitable and predictable basis. Without them, spiralling costs of CAP will eventually cause collapse of the whole system.

[If Chancellor Kohl raises German ideas on set-aside, more extensive farming etc

- Prepared to consider such ideas. Direct income aids, provided they are nationally financed, temporary and degressive, might have a role to play to ease problems over price cuts.]
- Imagine you also agree that Commission ideas on future "own resources" levels, and doubling of structural funds, still rather too ambitious. Must try to develop common Anglo-German understanding on these issues.
- If these points can be met, good chance of agreement on overall financing package, including the level of own resources. We shall work to achieve this, if possible, at Copenhagen in December.

Following recent measures to strengthen the intervention mechanisms of the EMS, Chancellor Kohl may raise the issue of UK membership of the exchange rate mechanism. The Treasury suggest that the Prime Minister take the following line:

- Reforms agreed by Central Bank Governors and Finance Ministers in December constitute a welcome strengthening of EMS. But not a critical factor in UK decision on whether to join ERM. This is being kept under regular review.

Intensive negotiations with the Spanish have taken place at official level over the summer to try to resolve our differences over Gibraltar airport, in order to break the deadlock over the EC air transport liberalisation package. A further session will take place in early October, before the issue returns to the Transport Council (26 October). In discussion with Chancellor Kohl, the Prime Minister might wish to make the following points:

- Remain determined to secure earliest possible agreement on EC liberalisation package.
- Believe we have now succeeded in engaging Spaniards in detailed talks on Gibraltar airport. Further session early next month.
- But quite wrong that Spain should block application of package to Gibraltar, and hence package as a whole. Gibraltar is part of the Community, and the Spaniards accepted that on Accession.

/On



On EC external relations the Prime Minister might wish to touch on 3 issues:

- The need for the Community to continue making clear its determination to defend its interests against US protectionist legislation. The aim now should be to assist the Administration in deterring bad decisions in forthcoming House/Senate Conference. (The UK and FRG have cooperated closely on lobbying in Washington).
- The need for sustained EC pressure on Japan to open up its markets. Japan must be left in no doubt that the EC is ready to take action if they fail to open their markets. (The Germans are usually the back-markers in EC discussion of possible action: the argument that cuts most ice with them is the deterrent one - if the Japanese believe the EC means what it says, threats may not need to be put into effect).
- The importance of the Community putting forward in GATT, before the New Year, credible and constructive proposals for reduction in agricultural support.

East/West

The Prime Minister will wish to welcome progress in the INF negotiations and the apparent prospect of an early Washington summit. This should be used to bring about not only arms reductions but also progress towards resolution of regional conflicts and greater Soviet respect for human rights. The Soviet Union must not be allowed to confine the East/West agenda to arms control.

The FRG attaches special importance to the CSCE process. One of the West's three "flagship" proposals is an FRG proposal for an economic forum, and the Germans are particularly keen to have a text from Vienna which improves existing commitments, eg on human rights, human contacts and information. The FRG have shown willingness to attend a humanitarian conference in Moscow, provided it took place on the right conditions. If Kohl raises this, the Prime Minister could say that we are studying the latest French proposals; the conditions of any Moscow meeting would be a crucial factor; but we should not give the Russians any hint now that we might agree to one, in order to maintain leverage on human rights.

The Prime Minister might invite Kohl to give his views on Inner-German relations and Berlin in the light of Honecker's recent visit to the FRG. The Federal Government believe that the visit will have helped achieve practical progress, particularly on human contacts. They have shown some nervousness that the visit might cause some misgivings among their allies. If Kohl asks about the British attitude, the Foreign Secretary recommends that the Prime Minister reassure him that we naturally welcome the visit and any

/practical



practical progress it can help achieve in breaking down East/West barriers. Kohl has accepted that Honecker's invitation to pay a return visit in due course. A visit by the Federal Chancellor which took place in East Berlin would be unprecedented and would greatly strengthen the GDR's claim that East Berlin is its capital. (To avoid this problem Schmidt met Honecker in a provincial town in the GDR.)

There are no Berlin issues requiring detailed discussion. The Prime Minister may wish to mention the strong British contribution to the 750th Anniversary celebrations and express support for the Allied initiative, launched by President Reagan in his speech in June, to improve air services and bring conferences and meetings to the city. There should be no need to discuss the recent death of Rudolf Hess.

Arms Control

Kohl attributed the CDU reverse in the Land elections in part to the row within the coalition over the Pershing IAs. The Prime Minister might congratulate the Chancellor on his initiative on the PIAs and seek to reinforce his commitment to keep them out of the Geneva negotiations. Beyond that it would be useful to express appreciation to Kohl for the UK/FRG cooperation over Basing Country interests in INF verification. FRG support for our Exchange of Notes framework was a major factor which made the US accept it. We should not underestimate the difficulties the US will have in negotiating a satisfactory verification regime with the Russians.

On START the Prime Minister might encourage Kohl to continue to press the Russians to negotiate seriously on 50% reductions and not allow them to claim the high propaganda ground through linking such an agreement to constraints on SDI.

The FRG are showing increasing signs of wanting to press ahead in defining an Alliance negotiating strategy on nuclear missiles below 500 kms. We must resist any suggestions that we are ready to move into such negotiations. Much analysis of NATO requirements in this area needs to be done and the Reykjavik NAC priorities of strategic cuts, a global ban on chemical weapons and the redressing of the conventional imbalance need first to be pursued. NATO's High Level Group is currently considering adjustments to NATO's nuclear capability in the light of an INF agreement. While emphasising the problems of public presentation of any new nuclear weapons it would be useful to seek Kohl's endorsement of our preference for more dual capable aircraft and the assignment of SLCMs to SACEUR.

/Kohl



Kohl sent a message to the Prime Minister on 27 August proposing Woerner as the next Secretary-General of NATO. The Prime Minister replied that this would receive very careful consideration but did not commit herself. So far the Italians and Turks have indicated support for Woerner and the Danes for Willoch. There have been conflicting US signals: the State Department was initially unenthusiastic about Woerner's candidature, considering him unimaginative and inflexible. But on 11 September the US Permanent Representative to NATO told Michael Alexander that Washington was now coming round to supporting him. The Americans however wish to see how the Dutch and Belgians jump before firmly committing themselves. The Foreign Secretary will seek Shultz's view at the UN General Assembly next week. At the end of the day, it would clearly be very damaging if it appeared that a German candidate had been rejected simply because he was a German. But the race is still at an early stage. For the time being the Foreign Secretary considers that, while making clear that we recognise Woerner's excellent qualifications for the job, we should continue to avoid committing ourselves to support any particular candidate.

Southern Africa

Kohl remains a firm opponent of economic sanctions. But:

- the Germans have supported the idea of a report (now in preparation by the Commission) on the implementation of the measures commonly adopted by the Twelve;
- the Auswärtiges Amt support the issuing of a declaration of principles on South Africa by the Twelve;
- Genscher was also the original conduit to the Twelve of Boesak's proposal for an EC sponsored meeting of South African opposition groups, of which he remains a keen supporter. The Twelve are awaiting a response from Boesak to a number of the serious reservations put to him by Ellemann-Jensen on 28 August. We have made clear that while the UK is committed to the promotion of genuine dialogue between the parties in South Africa it would be quite wrong for the Twelve to take any action which would constitute interference in South Africa's internal affairs and compromise the credibility of our policy.

Terrorism/Hostages

The Prime Minister, while welcoming the release of Schmidt and noting the assurances which the German Government have given in public that they made no deal with the kidnappers, will want to question Kohl closely about the circumstances of Schmidt's release.

/Is



Is the Chancellor able to confirm, as his officials have suggested, that Siemens paid a substantial ransom? This view appears to be gaining wide acceptance in West Beirut and unless convincingly refuted could have direct consequences for other Westerners. An Amal leader has spoken of "open season" on Westerners in West Beirut by both terrorist and criminal elements. That is why the payments of ransom must always be wrong as it puts a price on others. If Kohl attempts to justify hostage dealing in any way the Prime Minister will wish to remind him of the commitments he freely entered into, most recently at the London European Council in December and again in Venice last June. She might in any case ask how Kohl thinks Western credibility in maintaining a united front in the face of terrorism can be maintained or rebuilt post/Irangate.

Falklands

The FRG abstained last year on the UNGA resolution only after the Prime Minister sent a personal message to Chancellor Kohl. There are indications this year Genscher will once again be urging very strongly that the FRG transfer its vote to Argentina; and that we shall therefore again need to go over his head. The arguments most likely to sway Kohl are the need to avoid a further embarrassing split in EC ranks, and the principle of self-determination.

Kohl might also be reminded of the exchanges via the Americans on fisheries. This is a positive development that has occurred over the last year, one which should be given every chance of success. By contrast, changes in the voting pattern at the UN are counter-productive in that they only serve to encourage Argentina to nurse false expectations and to adopt an inflexible approach on issues such as trade and fisheries.

~
 however,

L Parker

(L Parker)
Private Secretary

C D Powell Esq
 PS/10 Downing Street

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FM ANKARA
TO PRIORITY FCO
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*Please put
with papers for
the Berlin visit.
CA*

FOR SED

MY TELNO 289: PRIME MINISTER'S VISIT TO BERLIN:
MEETING WITH OZAL

1. APART FROM TURKEY/EC (DEFENSIVE - NO HOSTAGES TO FORTUNE)
I SUGGEST THAT BRIEFING FOR THE PRIME MINISTER MIGHT
CONCENTRATE ON THE FOLLOWING. (I SHALL SEND A SHORT
SCENE-SETTING TELEGRAM ON 21-22 SEPTEMBER).

POLITICAL

(A) TURKEY INTERNAL. UPDATE ON REFERENDUM AND PROSPECTS

IN 1 NOVEMBER ELECTION.

(B) GREECE/TURKEY. IT WOULD PROBABLY BE A MISTAKE NOT TO
REMINO OZAL OF THE VALUE OF HIS DEFUSING OF THE MARCH
CRISIS, AND ENCOURAGE HIM TO CONTINUE EXCHANGES WITH
PAPANDREOU (ANOTHER PAPANDREOU MESSAGE LIKELY IN
THE NEXT FEW DAYS).

(C) CYPRUS. LITTLE POINT IN PRESSING ON TROOP NUMBERS BUT,
WITH THE RISKS ATTENDING A UNGA DEBATE/TURKISH RETALIATION,
NO HARM IN A HIGH LEVEL REMINDER THAT TURKEY'S OWN
INTERESTS ARE BEST SERVED BY NOT OVER-REACTING
(OR ALLOWING DENKTASH TO).

BILATERAL

(D) WARRIOR. THE TIMING OF A TURKISH DECISION IS STILL
UNCERTAIN, BUT THE BERLIN MEETING MAY BE AT A CRITICAL
MOMENT. RATHER THAN GO INTO DETAIL, THE PRIME MINISTER

PAGE 1
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MIGHT STRESS THE POLITICAL POINT THAT THE CLOSENESS OF OUR RELATIONS IS NOT ADEQUATELY REFLECTED ON THE ECONOMIC/COMMERCIAL SIDE: THE GKN BID IS THE IDEAL OPPORTUNITY TO CORRECT THE SITUATION. THERE IS SOME EVIDENCE THAT OZAL TAKES THE UK'S POLITICAL SUPPORT FOR GRANTED. THE PRIME MINISTER MIGHT HINT THAT IT WILL

BE INCREASINGLY DIFFICULT TO PROVIDE CONTINUING POLITICAL SUPPORT FOR TURKEY UNLESS.....

(E) ON THE CIVIL SIDE, THE ANKARA GAS CONVERSION PROJECT REMAINS OUR FIRST TARGET. BIDS HAVE TO BE SUBMITTED BY 25 SEPTEMBER. THE UK'S OFFER OF A SOFT LOAN IS EVIDENCE OF HMG'S INTEREST.

(F) WE MUST EXPECT OZAL TO REFER TO HIS INVITATION FOR THE PRIME MINISTER TO VISIT TURKEY

DAUNT

YYYY

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ADDITIONAL 1

MR POWELL *no 10*

NNNN

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FM BONN

TO IMMEDIATE FCO

TELNO 702

OF 111030Z SEPTEMBER 87

INFO ROUTINE BMG BERLIN

YOUR TELNO 432: PRIME MINISTER'S VISIT TO BERLIN:
BILATERAL WITH KOHL

1. WE HAVE CONSULTED THE FEDERAL CHANCELLERY, WHO HAD DRAWN UP THE FOLLOWING AGENDA:

A) INNER-GERMAN RELATIONS AFTER HONECKER'S VISIT AND BERLIN POLICY QUESTIONS

B) EC ISSUES: PREPARATION FOR THE EUROPEAN COUNCIL:
EUROPEAN MONETARY SYSTEM

C) ARMS CONTROL: GENEVA TALKS: PROSPECTS FOR US/SOVIET SUMMIT

D) WOERNER'S CANDIDATURE FOR SECRETARY GENERAL OF NATO

E) IRAN/IRAQ

THEY ADDED THAT THEY WERE PREPARING DEFENSIVE BRIEFING ON LIBERALISATION OF AIR TRAFFIC IN EUROPE, THE FALKLANDS AND GIBRALTAR. THEY ALSO ASSUMED THAT THE PRIME MINISTER MIGHT WISH TO DISCUSS THE HOSTAGES ISSUE, DEPENDING ON DEVELOPMENTS OVER THE NEXT TEN DAYS.

2. THEY WERE GENERALLY CONTENT WITH THE LIST IN YOUR TUR THOUGH THEY SAW NO PARTICULAR NEED TO DISCUSS SOUTHERN AFRICA. WE POINTED OUT THAT FOR A NUMBER OF REASONS, INCLUDING CHOGM, THIS MIGHT WE HAVE A HIGHER PRIORITY FOR US THAN FOR THEM.

3. THE AUSWAERTIGES AMT, WHO ARE PREPARING BRIEFING FOR THE MEETING, CONFIRMED THE ABOVE. THEIR UNDERSTANDING IS THAT PREPARATIONS FOR THE EUROPEAN COUNCIL IS THE MOST IMPORTANT ITEM ON THE AGENDA, SINCE THERE ARE UK-FRG DIFFERENCES OF VIEW WHICH NEED TO BE RESOLVED BEFOREHAND IF POSSIBLE.

4. GRATEFUL FOR ANY FURTHER COMMENTS YOU MAY HAVE, IN THE LIGHT OF WHICH WE SHALL ASK THE GERMANS TO COMBINE ALL THESE SUGGESTIONS IN A

FORMAL AGENDA.

BULLARD

YYYY

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ADDITIONAL 4

~~MR POWELL, 10 DOWNING STREET~~
MR MALLABY, CABINET OFFICE

MR WILLIAMSON, CABINET OFFICE
SEC NATO UK(P), MOD

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File Paper

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 September 1987

**PRIME MINISTER'S VISIT TO BERLIN:
BILATERAL WITH CHANCELLOR KOHL**

Thank you for your letter of 9 September enclosing a draft telegram of instructions about the agenda for the Prime Minister's bilateral with Chancellor Kohl. I am content for this to issue.

C. D. Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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07



Foreign and Commonwealth Office

London SW1A 2AH

9 September 1987

Dear Charles,

Prime Minister's Visit to Berlin, 24-25 September:
Bilateral with Kohl

I attach a draft telegram to Bonn instructing them to consult the Germans about the agenda for the Prime Minister's talks with Chancellor Kohl on 25 September. Please let me know if you are content for this to be despatched.

We propose to produce briefing in the form of a Private Secretary letter, which I shall aim to send you at the end of next week.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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2 ~~formal~~ formal agenda. We shall ensure that the Prime Minister

3 also has briefing on Woerner's candidature for Secretary-General

4 of NATO.

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10 DOWNING STREET
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From the Private Secretary

8 September 1987

IDU CONFERENCE IN BERLIN

B/P

The main subject for discussion during the time of the Prime Minister's participation in the IDU Conference in Berlin will be East/West relations. She will be expected to make a contribution to the debate, although not a formal speech. I enclose some draft speaking notes which I have prepared. I would be grateful for any comments or improvements which you would like to suggest, the draft has not yet been seen by the Prime Minister.

(Charles Powell)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

GA

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file DASAJO

CC PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 July 1987

PRIME MINISTER'S VISIT TO BERLIN

I wrote to you this morning about the Prime Minister's future travel plans. I should let you know that Chancellor Kohl has reacted enthusiastically to the idea of a meeting with the Prime Minister in Berlin, postponing the regular Anglo-German Bilateral Summit until the early New Year. The Prime Minister is equally content with this. The Germans have proposed that the meeting should be held from 1500-1800 on Friday, 25 September in the Federal Government's Guest House in Berlin. It will be conducted on the usual basis, that is, the Chancellor and the Prime Minister accompanied by Herr Teltschik and me.

C D POWELL

A. C. Galsworthy, Esq., C.M.G.
Foreign and Commonwealth Office

DTS

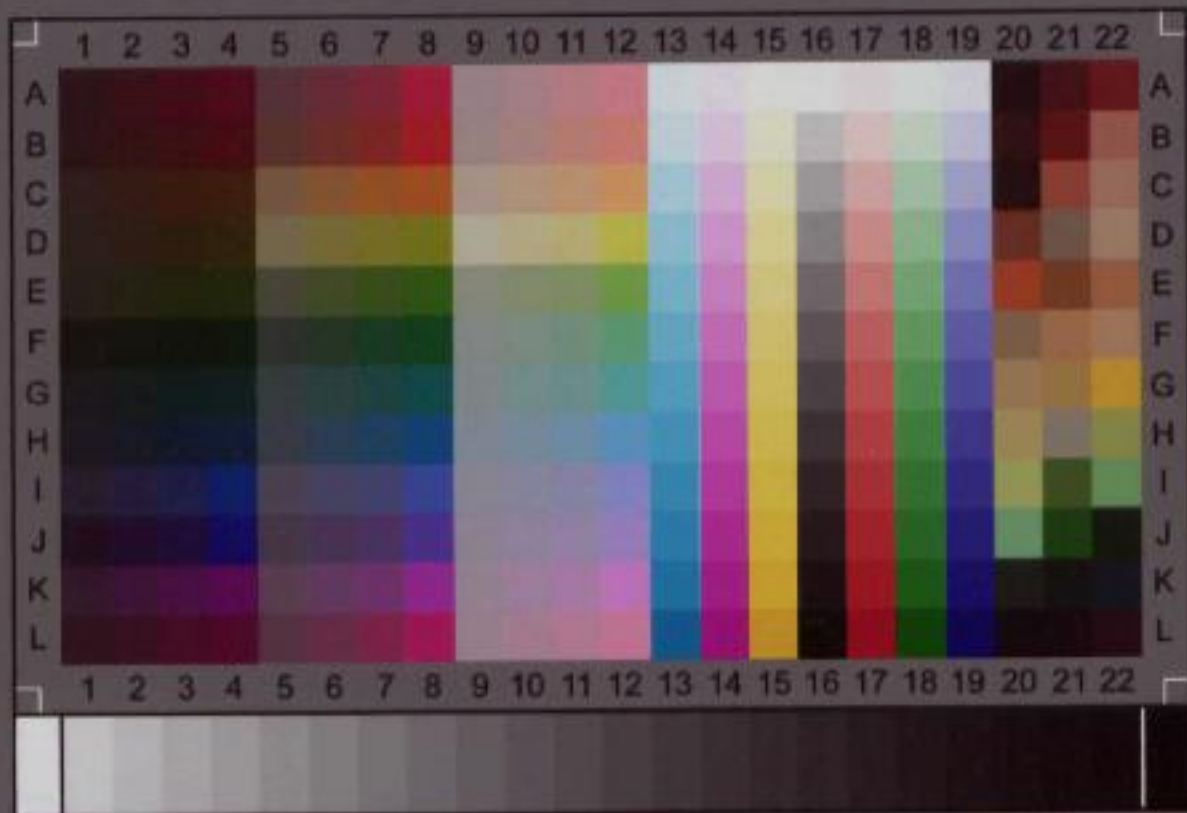
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PART 6 ends:-

Pm to kohl TSIA/87 24.3.87

PART 7 begins:-

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