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File Lb  
L03AQN  
cc Sir P Cradock.

10 DOWNING STREET

From the Private Secretary

27 November 1985

SUBJECT cc Master

Dear Colin,

PRIME MINISTER'S MEETING WITH THE FEDERAL GERMAN  
CHANCELLOR

I enclose a record of the Prime Minister's tete-a-tete meeting with Chancellor Kohl at the Anglo/German bilateral consultations earlier today. The general tone of the meeting was very friendly. The Chancellor seemed anxious to establish that German and British views were close on most points.

I am copying this letter and relevant parts of the enclosure to Rachel Lomax (H. M. Treasury), John Mogg (Department of Trade and Industry), Richard Mottram (Ministry of Defence) and Michael Stark (Cabinet Office).

Yours sincerely,

CHARLES POWELL

Colin Budd, Esq.,  
Foreign and Commonwealth Office.

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE FEDERAL  
GERMAN CHANCELLOR AT 10 DOWNING STREET ON WEDNESDAY 27  
NOVEMBER 1985 AT 0930 HOURS

PRESENT

The Prime Minister  
Mr. C. D. Powell

Chancellor Kohl  
Herr Teltschik

Welcoming Chancellor Kohl, the Prime Minister displayed her copy of the recent biography of him by Messrs. Filmer and Schwan. Unfortunately, she could not read it as it had not yet been translated into English. Chancellor Kohl said that it would shortly be translated into several languages. The authors were left wing journalists who had started out with quite a false impression of him but had been converted along the way. The book was a best seller and making a lot of money; indeed, a film was being made of it.

German Internal Situation

The Prime Minister invited the Chancellor to describe the current situation in the Federal Republic. Chancellor Kohl said that the German Government had a difficult year behind it but had come through well. 1986 would be a good year. Indeed, things were already going very well. His Party was in good shape. He was in good shape. He could not complain about anything, except that he rather wished there was an election next year. The Prime Minister said that she had seen the recent report of the Five Economic Institutes on the impressive performance of the German economy. She noted one point on which the Federal Republic and the United Kingdom had a similar problem: both were succeeding in creating new jobs but the population of working age was also rising rapidly with the consequence that unemployment remained high. Chancellor Kohl said that the employment situation in the Federal Republic was improving. He believed that by the time of the 1991 elections unemployment would no longer be significant as a political issue. He estimated that between 500 and 700  
/thousand

thousand of the two million registered unemployed were not actively seeking work because the social security system was too generous. If he and the Prime Minister were to go off on holiday to Majorca (the Prime Minister paled) they would find the restaurants and hotels full of large numbers of German unemployed.

Falklands

Chancellor Kohl said that the Prime Minister would have no problems with the Federal Republic over the Falklands vote at the United Nations. They would abstain as in the past. We could rely on them. The Prime Minister thanked the Chancellor warmly.

Participation in SDI Research

Chancellor Kohl said that the question whether the Federal Republic should participate in the US research programme into strategic defence was a delicate political issue in the Federal Republic. The Social Democrats and the Greens were firmly opposed and the FDP rather frightened. They were never a very heroic Party. But for him participation was a cardinal issue and the Federal Republic would certainly take part though he hoped to minimise the political consequences. His aim was to reach a decision to open formal negotiations with the United States by 15 December. It was important to show that Germany was not alone in Europe in following this course. He understood that the United Kingdom had already taken a decision to participate which was helpful. He expected Italy to follow suit. He had heard the day before that the Netherlands would probably also do so. French firms were already concluding contracts even though President Mitterrand had said that France would not participate. He thought it would be helpful if the United Kingdom and the Federal Republic could proceed in a co-ordinated fashion.

The Prime Minister said that the United Kingdom had already virtually completed negotiations with the United States though a number of details remained to be settled. She  
/hoped

hoped that we would sign an agreement within two weeks. She would ensure that the Chancellor was informed before we signed. She had no hesitation about agreeing to participate in this work. Indeed, she thought it essential to do so if European countries were to remain in the forefront of technological advance.

East/West Relations

The Prime Minister said that the issue of the Strategic Defence Initiative had clearly been left completely unresolved at the US/Soviet Summit. The decision to allow the INF negotiations to go ahead nonetheless was a positive feature, and offered a prospect of demonstrable progress before the next Summit meeting. It was essential that there should be some such progress if expectations created by the recent Summit were not to be disappointed. It was clear that President Reagan and Mr. Gorbachev had got on well together, and that Gorbachev had been able to witness for himself the President's determination to press ahead with the Strategic Defence Initiative. He would have understood the strength of the President's political position. There also appeared to have been some slight progress over Afghanistan, with the Russians showing signs of wanting to withdraw.

Chancellor Kohl said that he was very satisfied with the outcome of the Summit. It was clear that the President (and just as important, Mrs. Reagan) wanted to move ahead on arms control. The President felt that the time had come for him to stamp his image on history as a peace-maker. He himself had constantly advised the Russians that if they wished to improve relations with the United States they should take the opportunity of doing so while there was a strong President since he had much greater room for manoeuvre. Gorbachev, on the other hand, was in a more difficult position. Although he had settled quickly into the saddle, his position was not yet fully secure. Expectations of improved economic performance had been created which Gorbachev would find it difficult to deliver. The economic situation of the Soviet Union was miserable and the change in the demographic balance between  
/the European

the European and Asian population created new problems. He did not think that Gorbachev could go back to Stalin's methods. He also faced difficulties in Eastern Europe where the Soviet Union could no longer exert the total control which it once had. The economic performance of several of the East European countries was better than that of the Soviet Union and showed up the inadequacies of the latter.

The Prime Minister thought that Gorbachev would proceed through discipline. She thought he realised intellectually that the Soviet economy would not improve unless there was more freedom. But he could not take the political risk of introducing such freedom. Public opinion exerted some influence in the Soviet Union and East Europe. She recalled Kadar's recent remark to her: "Our peoples demand peace and security and we have to give it to them." Chancellor Kohl agreed. There was also an impressive resurgence of religion in East Europe.

The Prime Minister asked whether Chancellor Kohl thought that Mr. Gorbachev would take a more reasonable attitude to human rights questions and allow emigration of more Soviet Jews. Chancellor Kohl thought that President Reagan had handled the issue skilfully at the Summit. He expected Gorbachev to let out some of the more famous names.

#### European Community

The Prime Minister said that she understood that the views of Britain and German officials on a number of issues being considered by the Inter-Governmental Conference were quite close. In particular, we agreed that there was no reason to amend the Treaty on monetary matters. To do so would cause immense problems, particularly for the Bundesbank, which carried heavy responsibility for Europe's financial reputation. This was not an issue for the Community to play with. She knew that M. Delors took a different view but we should not be swayed by that.

/ Chancellor Kohl

Chancellor Kohl said that on this point the Federal Republic and the United Kingdom were more or less in agreement. At his recent meeting with M. Delors, he had put forward two points which Delors could not dispute. First, the Community had not yet fulfilled the requirements of the existing Treaty on monetary matters. For instance there was no free movement of capital. Secondly, there was no convergence of economic policies. Italy's economic policy was far removed from that of the Federal Republic. It was essential to have greater convergence place before attempts were made to deal with monetary matters in the Treaty.

Chancellor Kohl continued that he was very much in favour of completing the internal market. German insurance companies were screaming their heads off but he was nonetheless determined to press ahead. There were difficulties for the Federal Republic over standards. They did not want to adopt the lowest common denominator of South European standards. Others should be encouraged to raise their standards to North European levels. The Prime Minister agreed. She was concerned that the whole nature of the Community would change with Spanish and Portuguese accession. The qualified majority system would give less protection than before to the North European countries. Chancellor Kohl said that he was not afraid. Britain and Germany could achieve a lot together by discreet co-operation.

The Prime Minister said that she was very much opposed to the Commission's proposals for harmonising taxation. Chancellor Kohl agreed that this was the most difficult issue of all and had to be left until the end. It was vital to preserve unanimity in this field.

At this point Foreign Ministers joined the meeting.

Chancellor Kohl asked the Prime Minister's views on the various proposals before the Inter-Governmental Conference on the European Assembly. The Prime Minister said that she stood by the proposals she had made at the Milan European Council.

/It was

It was essential to keep decisions in the hands of the Council though there could be improved arrangements for consulting the Assembly before the Council reached decisions. This was a very sensitive issue for the Westminster Parliament and she would not be able to agree to more powers for the Assembly. Indeed, she would much prefer to avoid Treaty amendment so that she would not have to go to Parliament on the issue. The Foreign Secretary said that the latest Presidency text appeared to have majority support. Herr Genscher said that the Italians were arguing that they could not settle for so little. The Prime Minister commented that in that case there would be no agreement.

Chancellor Kohl said that he could understand the Prime Minister's position as it applied to the present. But matters could not rest there indefinitely. The fact was that continental European countries had a less developed parliamentary tradition than the United Kingdom and attached greater importance to the European Assembly. However, he was prepared to accept the Presidency compromise for now as being the most that could be agreed. He was confident that the Italians would not in the end hold out against it. The Prime Minister gave an account of her views on the European Assembly in familiar and robust terms. Herr Genscher said that there was a structural problem in the European Assembly. There was no Government party and therefore no compulsion to form a coalition in support of particular policies. This led the Assembly to adopt some idiotic positions. But its power should not be under-estimated, particularly its right to dismiss the Commission. Chancellor Kohl repeated that he thought the Presidency's minimal proposal would be acceptable.

#### UNESCO

Chancellor Kohl asked what conclusions the United Kingdom had drawn from the recent UNESCO General Conference. The Prime Minister said that her views of UNESCO had not changed. She believed that the money which the United Kingdom paid to UNESCO could be used much more effectively through the British Council and the BBC Overseas Services. Herr Genscher thought /that there

CONFIDENTIAL

- 7 -

that there was now a real prospect of change in UNESCO. Chancellor Kohl said that he was more sceptical. His only question was whether it was wise to take the radical step of withdrawal at this moment. His instinct was against it. He noted that the Swiss attitude had evolved and they were intending to give UNESCO another chance. The Prime Minister repeated that she saw no measurable improvement and no prospect of one. She was not surprised at the Swiss attitude. International organisations were a capital asset for Switzerland. Although the Government had not yet taken a formal decision, her own firm view was that the United Kingdom should go ahead with its decision to withdraw. The burden of proof was on those who wished to reverse that decision.

The meeting ended at 1100 hours.

C.D.T.

27 November 1985