

SUBJECT C. MASTER



10 DOWNING STREET
LONDON SW1A 2AA

file
~~copy to cabinet file~~
MATS Rand

From the Private Secretary

19 June 1988

Dear Tony,

PRIME MINISTER'S MEETING WITH THE FEDERAL GERMAN
CHANCELLOR

The Prime Minister had an hour's talk with the Federal German Chancellor before the start of the Economic Summit in Toronto today. Herr Teltschik was also present. The Chancellor was in genial mood and recounted his assorted triumphs with even more relish than usual.

Before the meeting started the Prime Minister had intercepted Herr Stoltenberg in the corridor, on his way to meet the Chancellor of the Exchequer, and given him her views on the proposal for a group of wise men to study European financial and monetary co-operation. Herr Stoltenberg said that he agreed with the Prime Minister and wished her success in convincing Chancellor Kohl.

Football Hooliganism

The Prime Minister said that she was angry and upset about the behaviour of British football supporters in Germany. The firm treatment meted out by the German police had been deserved. If any British fans were convicted and imprisoned, we would be ready to make arrangements for them to serve their sentences in the United Kingdom. Chancellor Kohl said that he understood the Prime Minister's concern. But it was not a problem of nationality: it was original sin, which might equally appear in any country. He then told a long anecdote about what his old mum would have thought of it all.

Anglo/German Relations

The Prime Minister said that she was looking forward to seeing the Chancellor at Chequers. He should not believe what he read in the newspapers about relations between the two of them and between our countries. Some of the things said made her very cross. Chancellor Kohl said that much of the German press was left wing and would write anything which was damaging to him. Their objective was to get rid of him because the left believed that it would be easier to get its way in Germany if he were no longer on the scene.

Domestic Politics in Germany

Chancellor Kohl said that he had a full agenda between now and 1990. 1990 itself would be a lost year, with no less than eight elections. He therefore had to push his major reforms through the Government this year and through Parliament next year. He had four main priorities: tax reform, to be completed very shortly; reform of the health service which was far too costly; partial privatisation of the postal services; and pension reform. There would be a major row on all four issues but he relished that. His Party Conference the previous week had been very successful. The left wing press had predicted his defeat: instead it had been an absolute triumph (modest as always). The Prime Minister commented that reform of the health service would probably be the most difficult. Chancellor Kohl agreed but added that people realised that the costs had gone absolutely mad and that something had to be done. He was optimistic that he would get his way on all four points and would win the next elections. The left would make the same mistake as in the past, campaigning for the denuclearisation of Europe. The Prime Minister said that she hoped that Chancellor Kohl would get back with a good majority, preferably more than 50 per cent.

Acid Rain

The Prime Minister congratulated Chancellor Kohl on the outcome of the recent Council meeting which had agreed the Large Combustion Plants Directive.

Tornado for Jordan

The Prime Minister rehearsed the background to the proposed sale of Tornado to Jordan. It was very important to demonstrate support for King Hussein and prevent him from turning to the Soviet Union for his defence needs. We had therefore negotiated the sale of Tornado and secured American permission for the inclusion of components of US origin. We were also providing substantial credit. She had spoken that morning to Signor de Mita and Italy was ready to contribute its share of credit. It was vital that Germany should do so too.

Chancellor Kohl said the issue would be discussed within the German Government next week. The problem lay with Hermes: credit had never so far been extended for military sales outside the NATO area. The Prime Minister said that the German Government must relax its rules. We could not possibly provide all the credit and it was vital that the sale should go through. Germany did not deploy itself forces outside the NATO area. There was no reason why it should not help western interests in other ways. Chancellor Kohl said he would look further into the matter immediately on his return and be in touch with the Prime Minister.

Financial and Monetary Co-operation

Chancellor Kohl said that one of the issues to be discussed at the European Council in Hanover will be the setting up of a group to report on possible developments in the monetary area. Several proposals had been made: he was not committed to any of them. One idea was that Central Bank governors should be appointed to carry out any study. In his view that was a good idea. Others wanted an additional group of experts to give advice.

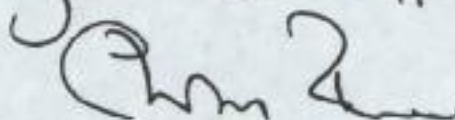
The Prime Minister said that it was first necessary to be clear about the remit of a study. It was no good building castles in the air about a European Central Bank. There would not be such a Central Bank until there was a single government, a single economic policy and a single currency in Europe and that would never happen. There were a number of more technical issues which could be investigated, for instance greater use of the ecu and cross-holdings of Community currencies in national reserves. As to who should conduct the study, she was absolutely against a group of wise men. We were dealing here with money which was a serious matter. The study should be conducted by Central Bank governors reporting to Finance Ministers. She regretted that the proposal for a group of wise men had ever been made. She understood that it emanated from Herr Genscher. Chancellor Kohl said that this was not quite fair: the originators had been Helmut Schmidt and M. Giscard. The Prime Minister continued that she very much agreed with the recent article on the subject by Herr Poehl, who knew what he was talking about. Chancellor Kohl concluded that he understood the Prime Minister was agreeable to a study of practical co-operation in the monetary area conducted by Central Bank governors. This caused him no difficulty but we would have to see what others wanted.

Presidency of the EC Commission

Chancellor Kohl asked whether the Prime Minister had yet reached a conclusion about the re-appointment of M. Delors. The Prime Minister said that the United Kingdom did not have a candidate: she had wanted first to establish whether Germany had someone in mind and whether Mr. Lubbers would be available. Chancellor Kohl said that Mr. Lubbers was definitely not a candidate and he had no German candidate to propose. He understood that the Netherlands, Belgium, Luxembourg and Italy were all ready to support the re-appointment of M. Delors. The Prime Minister said that was all right by her. She presumed the appointment would be for two years although in practice it would be difficult not to allow him to continue for four years if he wished. Chancellor Kohl said that no-one could predict the course of French politics. But he was certain that M. Delors would return to them one day, where he would be a useful bulwark against the left. He had been worried about the likely leftward bias of the new Commission, given that the Belgians would be replacing de Clercq with a socialist. But President Mitterrand

had assured him that he would appoint only one socialist and that the second French Commissioner would be from the centre. He enquired whether the United Kingdom had yet decided whom to nominate to the Commission. The Prime Minister said that no decision had yet been reached but there were likely to be changes.

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

Yours sincerely,


Charles Powell

A.C. Galsworthy, Esq., CMG.,
Foreign and Commonwealth Office.