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10 DOWNING STREET

LONDON SW1A 2AA

19 November 1990

From the Private Secretary

Dear Stephen,

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL

The Prime Minister entertained Chancellor Kohl to dinner in the British Embassy in Paris this evening. The Chancellor was accompanied by Herr Teltschik and Herr Neuer. This letter records the main part of their discussion. I am writing separately and on a more restricted basis about some aspects of the meeting.

EMU

The Prime Minister and Chancellor Kohl had some discussion of EMU. The Prime Minister gave an account of her various encounters with Herr Poehl. When talking to him, she generally found their views rather close, although he then tended to go off and say something entirely different elsewhere. She had the impression that he thought that a single currency was not particularly desirable and in any event a long way off. On that, he must surely be right. The disparities between the European economies were so enormous that convergence would take years to achieve. In the meantime there seemed little practical reason to move beyond the present situation, where other countries were aligned on the DM through the ERM. She would much prefer to have the DM as a sort of gold standard than a single currency based on the average inflation of the Twelve - or maybe more - member states. Chancellor Kohl said blithely that he had never thought of deadlines for EMU as the slightest bit realistic.

German Elections

Chancellor Kohl gave an account of the German election campaign. The CDU were doing well and currently had 45 per cent in the opinion polls to the SPD's 35 per cent. But he doubted they would achieve an absolute majority.

The Gulf

Chancellor Kohl put a series of questions to the Prime Minister about the Gulf conflict and the policies of Egypt, Syria, Iran and Jordan. He had very little to offer on the

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subject himself. He thought Syria's aim was to annihilate Saddam Hussain. He was rather defensive about the presence of a number of German technicians in Iraq whom he claimed had no business to be there. He also said that it was very difficult for an open trading country like Germany, which was also a world leader in chemicals, to stop all trading in chemicals to countries like Iraq. He was doing his best.

The Prime Minister took the opportunity to thank Chancellor Kohl for his letter offering help with equipment for British forces in the Gulf and the cost of transporting them. She indicated that the United Kingdom was likely to send additional forces soon. Chancellor Kohl said expansively that the Prime Minister should telephone him if we had any problems or needed any further help.

Regional Issues

Chancellor Kohl continued his Any Questions technique over China, India, Pakistan and Hong Kong, interlaced with fond memories of General Zia with whom he had watched the sun rise over the Himalayas, and who had admitted to him privately that executing Mr. Bhutto had been the greatest mistake of his life.

South Africa

The Prime Minister said the Twelve really must now move to lift sanctions against South Africa. Chancellor Kohl agreed: President De Klerk was an excellent man and the Community should tackle the issue in Rome. It was absolutely nonsensical of the Community not to help De Klerk. Teltschik and I should talk and concert a line. He had a low opinion of Mandela and thought sanctions against South Africa the biggest bit of hypocrisy ever. 'We have to do something in Rome'.

GATT

The Prime Minister said we were approaching a very difficult situation over the GATT negotiations with major risks for the world economy. Chancellor Kohl said, with great emphasis, that progress would be made. The Prime Minister commented that Mr. Andriessen had told her that morning that he had no negotiating latitude. Chancellor Kohl repeated with even greater emphasis that progress must be made. He would talk to M. Delors. We simply had to help President Bush. The Prime Minister said that the President had told her earlier in the day that he was very pessimistic about the prospects for the GATT talks. Unless they succeeded, Congress would go protectionist next year. Chancellor Kohl said that Congress would probably go protectionist anyway: they were just looking for an excuse.

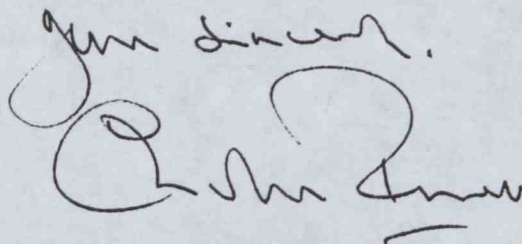
German Unification

The Prime Minister asked how great a burden the financing of the former GDR was proving. Would Chancellor Kohl have to raise taxes? Or would he be able to manage through borrowing? Chancellor Kohl said he would certainly not raise taxes in order to finance unification. That would give entirely the wrong

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signal. But it might be necessary to impose levies to finance environmental improvements. He intended to put severe constraints on public spending from 1991, and had no intention of increasing net borrowing over the longer term. He was totally at one with Herr Poehl on this: there would be no experiments with the German economy. The main task was to create a sound investment climate for the former GDR. That said, there was no doubt the next year or so would be extremely difficult for the Eastern part of Germany. But he refused to be despondent.

I am copying this letter to John Gieve (HM Treasury), Martin Stanley (Department of Trade and Industry), Andy Lebrecht (MAFF), Simon Webb (Ministry of Defence) and Sonia Phippard (Cabinet Office).



CHARLES POWELL

Stephen Wall, Esq., L.V.O.,
Foreign and Commonwealth Office.

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From the Private Secretary

Dear Stephen,

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL

I have recorded separately most of the substance of the Prime Minister's meeting with Chancellor Kohl in Paris this evening. But you may find it helpful to have an impression of the atmosphere. There was also a significant exchange on Europe which is best kept to very few people. I would be grateful, therefore, if this letter could be seen only by the Foreign Secretary and the Chancellor, to whom I am also copying it.

Chancellor Kohl was in determinedly good humour and the Prime Minister also set out to be on her best behaviour. The Chancellor said he had been determined to devote the evening to the Prime Minister as a way of demonstrating his total support for her. He simply could not understand a system which subjected a sitting and successful Prime Minister to an election procedure of the sort she was enduring. It was essential that she should come through it and unimaginable she should be deprived of office. He himself had suffered a certain amount of trouble with his party a few years back and it was very difficult. But he was sure that every Head of Government in Europe and beyond was willing her to succeed. The Prime Minister who was, I think, a little overcome by this fulsome declaration, tried to laugh it off and suggested they should turn to more serious matters. But Chancellor Kohl persisted. It did one good to talk about these difficult issues rather than to bottle them up. If he felt so strongly about it, the Prime Minister must feel more strongly still. The Prime Minister explained the electoral system and the reasons for it. The Chancellor shook his head bemusedly and said the explanation only confirmed his suspicion that the system was totally barmy.

Following this well meant if slightly heavy handed display of solidarity, the conversation moved on to European Community issues. I have recorded most of the discussion in my further letter. But the Prime Minister did say to the Chancellor very directly that the issues which are to be discussed at the two IGCs next year were extremely sensitive in political terms in the United Kingdom. The Community had agreed to defer a start to discussion until after the German elections. It was quite possible that there would be elections in the United Kingdom in 1991 or, at latest, by the summer of 1992. It would be very inconvenient for her if the IGCs were brought to a conclusion rapidly. There were plenty of difficult issues to be discussed

and they should be thrashed out thoroughly. Chancellor Kohl said that he absolutely got the point and would of course want to be helpful. He asked how long the Prime Minister envisaged spinning out the discussions. Would it be enough to say that the IGCs should not be brought to a conclusion in 1991? He thought it might be difficult to hold up a conclusion longer than the early part of 1992. The Prime Minister said this would indeed be very helpful. She realised that the IGCs could not go on for ever. But if that on EMU at least could be extended until early 1992, it would make an enormous difference in political terms in the United Kingdom. Chancellor Kohl said that he fully appreciated what the Prime Minister was saying and wanted to be helpful. Nothing should be written down (but if it is not, no-one will know what he said) but he had received the message loud and clear.

The Chancellor went on to suggest that it might be very helpful if a small group of British and German experts on EMU sat down together very confidentially in the New Year and drew up a list of questions which he and the Prime Minister ought to consider together. The Prime Minister said this would be very helpful. The Chancellor suggested that arrangements should be made between me and Mr. Teltschik.

I am copying this letter to John Gieve (HM Treasury).

*Yours sincerely,
C. D. Powell*

(C. D. POWELL)

J. S. Wall, Esq., L.V.O.,
Foreign and Commonwealth Office.