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*From the Private Secretary*

*SUBJECT CCMASBOL*

30 January 1990

PRIME MINISTER'S MEETING WITH GRAF LAMSDORFF

The Prime Minister had a friendly, private talk with Graf Lamsdorff this morning, lasting some three quarters of a hour.

The Prime Minister said that what worried her most about the present situation was that no-one was sitting down and looking systematically at the consequences for NATO of the rapid developments in the Soviet Union and Eastern Europe and of the prospect of German unification. She was seriously worried that, without this, there was a risk that NATO would break up. Her aim was to secure a transition period before German unification was realised, which would last long enough to enable the very difficult issues concerning NATO, the European Community and Four-Power rights to be sorted out.

Graf Lamsdorff said that there would be a gradual coming together of the two Germanies. The FRG wanted this to take place in co-operation with its European partners. He also very much agreed with the Prime Minister's comment, in her Wall Street Journal interview, that matters must be handled in a way which did not undermine Mr. Gorbachev. He also agreed with the Prime Minister's thought that we needed to discuss the implications and consequences of German unification. He would like to see the United Kingdom playing a very full part in this. The Federal Republic wanted to stay in NATO and keep US troops. It was true that it was difficult to see at present what the relationship between a unified Germany and NATO would be. But it would undoubtedly be easier if NATO's military importance were to decrease and its political importance to increase. The Prime Minister asked whether Graf Lamsdorff's willingness to see US forces remain in Germany extended also to nuclear weapons. This met with a certain amount of obfuscation: but in essence the answer was that he was opposed to LANCE modernisation but did not rule out the presence of nuclear-armed aircraft.

Graf Lamsdorff said he was worried about the volatile state of German public opinion and had shared the Prime Minister's distaste for the way in which the German public had fawned over Mr. Gorbachev during his visit to the FRG. He agreed there was a risk that a united Germany would be a socialist Germany and described Herr Lafontaine as dangerous.

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The Prime Minister and Graf Lambsdorff had a lively discussion about their respective views on the European Parliament and a European Central Bank. Graf Lambsdorff said that it was ironic that the Prime Minister's view on the need for democratic control of a European central bank was shared by the German socialists, whereas the FDP and CDU wanted to see it free from any political influence. He confirmed his view that the Deutschmark was currently overvalued and that an EMS realignment was necessary.

I am copying this letter to John Gieve (H.M. Treasury), Simon Webb (Ministry of Defence) and Sonia Phippard (Cabinet Office).

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