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PRIME MINISTER

MEETING WITH DR. WAIGEL

You have a meeting with Dr. Waigel, the German Finance Minister and successor to Strauss as Chairman of the CSU, on Monday evening. The two main purposes of the meeting are to establish a firm contact with Waigel on the party net, now that he is the CSU's leader: and to try to cement an alliance on economic and monetary issues in the European Community, on which he plays a helpful role.

There is rather an elaborate brief from the FCO. I suggest that you actually focus on three main issues:

EC matters

It was Waigel's arrival at the Finance Ministry which led the Germans to change their position on a withholding tax and he is also cautious on EMU. It would be helpful if we could get him to join forces with us in working on alternatives to Stages 2 and 3 in the Delors report. You will want to take him through our objections to the later stages of Delors and explain your own view that we should focus on ever closer practical co-operation and convergence of policies. We hope to produce some worked up ideas in September/October and would be happy to discuss them with him. This is not an area where dreamy Euro-politics should be allowed to take over from practical commonsense.

East/West

The CSU have traditionally been firmer on East/West issues than the CDU, and you will want to put over to Waigel your views on the need to keep your defence strong and our weapons up-to-date, while still supporting the changes which Mr. Gorbachev

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is trying to bring about. You might also like to say a word about assistance to Poland and Hungary following the discussion at the Economic Summit.

South Africa

Strauss used to play a helpful role here although that may turn out to be unique to him. But Waigel is said to have an interest in Namibia at least. It would be helpful if you took him through your views on South Africa and Namibia and the need to prevent other members of the EEC trying to revive the sanctions debate.

While Waigel is certainly no Strauss, we have every interest in building him up as an independent party leader as well as a Finance Minister, in the hope that he will act as something of a counterweight to some of Kohl's more wishy-washy ideas on European union and on East/West relations.

C.D.P.  
C. D. POWELL  
15 July 1989



Foreign and Commonwealth Office

London SW1A 2AH

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14 July 1989

*Dean Danini*

Call on the Prime Minister by the FRG Finance Minister,  
Dr Theo Waigel: 17 July at 1800

Dr Waigel is Strauss's successor as Chairman of the CSU and in Bavaria. The Prime Minister will have met him at the G7 Summit in Paris. I attach a personality note and a scene-setting telegram from Sir C Mallaby. Waigel will be accompanied by the German Ambassador, and Herr Dieter Schmidt, the Head of the CSU office for foreign relations. Sir C Mallaby will also attend.

The visit was originally arranged on party channels (through Sir J Spicer) before Waigel's appointment as Finance Minister. He will also be seeing the Foreign Secretary and the Chancellor. Waigel understands English quite well but will probably prefer to speak in German. A COI interpreter will be with him.

As Finance Minister Waigel has been helpful, particularly on EC issues. His clout in the Coalition has been enhanced by the Coalition's need to avoid being outflanked by the Republikaner after their success in the European elections. He is thus a useful counter-weight to Genscher.

Waigel has just caused much controversy in the FRG by referring to the Oder/Neisse line as an unsolved problem. While formally true this is an old wound which had been treated by the FRG's renunciation of territorial claims against Poland in 1970.

Our chief aims are to build on the similarity of our thinking on EMU and other EC finance issues and to encourage Waigel more generally to consult and work with us. Waigel will want to discuss these issues as well as Eastern Europe.

Bilateral Relations/FRG internal

The Prime Minister may wish to:

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- note the economic success of Bavaria, and our collaboration with Bavarian industry, especially in aerospace and electronics. We want to see this prosper;
- compare notes on the Euro-elections, in which the Republikaner took 7.1% of the vote in the FRG as a whole and 15% in Bavaria - largely from the CSU. Are they now a permanent force in German politics? What are the prospects for the current coalition?

EC ISSUES

Economic and Monetary Cooperation

- Waigel advocates caution over Economic and Monetary Union. His intervention, with that of the Bundesbank, helped dissuade Kohl from backing Mitterrand's call to set at Madrid a firm date for an IGC. The German volte-face on withholding tax also dates from his arrival at the Finance Ministry. The next substantive discussion of monetary issues will be at the September informal ECOFIN in Antibes.

The following points might be made:

- the agreement at the Madrid Council to take work forward in quick time on Stage 1 and in slower time on further stages, meets key UK and FRG concerns.
- the UK accepts the Delors Report's Stage 1 prescription, including the need for all member states to join the Exchange Rate Mechanism. The exact timing of sterling's entry into the ERM will depend on progress against inflation in the UK, and progress in the Community on Single Market elements of Stage 1, including in particular the abolition of exchange controls;
- though we are content with the Madrid conclusions, which make clear that the Report is a basis for further work, we do not accept its prescription for Stages 2 and 3. In particular, we do not agree that binding controls on national fiscal policies are necessary to support a monetary union. Nor do we see a need for massive regional resource transfers to deal with differences in competitiveness. Both issues are best left to market - not dirigiste - solutions.

/GATT

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GATT/Agricultural Reform

The Germans are strong supporters of liberalisation through the current GATT Uruguay Round in all areas except agriculture. The coincidence of the planned end of the Round with the FRG elections late next year may prove awkward, for agriculture is likely to remain the key to GATT success. Waigel could have a crucial role in Bonn on decisions on the required further reform of the CAP (but the Bavarian agricultural lobby is particularly vocal). The Prime Minister might take the following line:

- glad that the UK and Germany stand so firmly together in favour of liberalisation within Europe, and more widely in the GATT;
- we both have much to gain from a successful outcome of the Uruguay Round - in particular extension of the liberal trading regime to new areas like services and intellectual property;
- it is vital therefore that we do not allow agricultural reform to become a stumbling block once again. There can be no doubting the importance of agriculture in the GATT Round; and the economic imperative of continuing CAP reform. Would like to think we could be allies on this issue also.

East/West

Waigel will be interested in the Paris Summit discussions on Eastern Europe and our assessment of Gorbachev's visits in Europe. Waigel's Ministry traditionally takes a cooler view of prospects for Eastern Europe than the Auswaertiges Amt under Genscher, and is more hard-nosed about economic assistance. Waigel seems even tougher than his predecessor, particularly towards Poland.

For our part:

- We are ready to reschedule 1989 debt maturities but we regard an IMF agreement as an essential pre-condition for any subsequent rescheduling.
- Similarly we are not prepared to look at the question of credit before an IMF agreement is in place.

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The EC is currently negotiating trade and cooperation agreements with most East European countries. On Poland, the EC would take special account of political and economic developments. If raised, the Prime Minister might say:

- The EC must show support for the reform effort eg by speedily removing remaining discriminatory QRs, and by providing direct, practical help, such as management training.
- But we are against providing assistance which will merely add to Poland's debt burden. For example EIB loans would not be appropriate. (Traditionally, the German Finance Ministry has shared this approach).

The Prime Minister might also:

- Note the successful handling of Gorbachev's visit to Bonn.
- Probe the CSU's approach to the Soviet Union and East/West relations.

### Security Issues

As leader of the CSU Waigel will have an interest (and a voice) in Security issues. If time allows, the Prime Minister might say that we recognise the special sensitivities in the FRG but hope he will work for defence and deterrence to be given due weight alongside arms control.

### South Africa

We understand Waigel takes an interest in Namibia. The Prime Minister might say:

- we will be doing our utmost to help the UN plan stay on course;
- we are urging all the main protagonists, especially South Africa, SWAPO and Angola, to stick to the UNSCR 435 rules;
- a newly-independent Namibia will need a lot of aid. We shall play our part and welcome Germany's impressive advance commitment of DM 130 million.



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I am copying this letter to Alex Allan at the  
HM Treasury.

*Yours ever*

*Richard Gozney*

(R H T Gozney)  
Private Secretary

Dominic Morris Esq  
10 Downing Street

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14 JUL 1989