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From the Private Secretary

18 July 1989

**PRIME MINISTER'S MEETING WITH THE CHAIRMAN OF
THE CHRISTIAN SOCIAL UNION**

The Prime Minister had a talk yesterday evening with Herr Waigel, Chairman of the Bavarian Christian Social Union (CSU) and Federal German Finance Minister. The German Ambassador and Sir James Spicer were also present.

German Political Situation

Herr Waigel said that the CSU had lost votes in the European elections, but kept the same number of seats. He did not read any great significance into the result, and expected the CSU to recapture the lost ground in the Federal elections of 1990.

EMU

Herr Waigel asked whether EMU and sterling's membership of the ERM would play a role in the next British elections. He believed that Britain, with its free market principles, would be a factor for stability within the EMS. He expressed interest in the content and timing of the alternative proposals for EMU which the United Kingdom had undertaken to produce.

The Prime Minister said that she had set out the United Kingdom's position on membership of the ERM at the Madrid European Council. She remained fundamentally opposed to stages 2 and 3 of the Delors report. When it came to the point, several other countries would be unable to accept them. We would produce alternative proposals, based on closer cooperation and on convergence of sound economic and monetary policies, in the autumn. Herr Waigel commented that you could only have EMU at the end of a very long preparatory phase.

Structured Reform in the German Economy

The Prime Minister went on to question how free the German economy really was. We noted continuing rigidities and restrictions, as well as high levels subsidies. Britain kept its markets much more open.

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Herr Waigel said that very considerable reforms had been made in the last year or two. Subsidies had been very greatly reduced, particularly to the coal industry. The posts and telecommunications sector had been opened up to outside competition. There had been major reforms to pensions and health care.

Social Legislation in the European Community

The Prime Minister said that she was particularly concerned at the apparent determination of the high cost economies to impose extra burdens on others and reduce their competitiveness. The most recent example was the Commission's draft European Company Statute which attempted to impose practice of worker consultation on industry by qualified majority vote. Such provisions were alien to our traditions and inhibited the right of management to manage. It had taken ten years to get Britain's economy competitive and efficient, and to attract foreign investment. We did not now want other people's problems foisted on us. Nor were we prepared to accept the extra costs which would be imposed by a Social Charter. Of course there had to be basic standards for training and for health and safety at work. But standards of social services did not depend on any particular rights, but on how much wealth an economy could create. We would resist very strongly any attempt to impose a Social Charter or a particular pattern of industrial relations.

Herr Waigel said that he did not think there was any intention to impose. Germany followed a middle of the road line on these matters. Workers needed some assurance that the Single Market would not lead to any erosion of their benefits. He saw the Social Charter as setting only minimum standards. The Prime Minister said that it was wrong to deny others the right to compete and benefit from their comparative advantage. A Social Charter would only lead to demands for massive financial transfers from the northern to the southern member states. She wanted to make quite clear to Herr Waigel that we would not be dictated to in our industrial relations, and would use all the means available to us to prevent this happening.

I am copying this letter to Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), Clive Norris (Department of Employment) and to Trevor Woolley (Cabinet Office).

(C. D. POWELL)

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Foreign and Commonwealth Office.