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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

6 July 1988

Dear Mr.

PRIME MINISTER'S MEETING WITH HERR STRAUSS

The Prime Minister had a talk this morning with Herr Strauss, Minister-President of Bavaria. Herr Strauss was accompanied by Herr Peter Schmitt. Mr. Jim Spicer MP was also present. I have recorded separately the discussion of European Airbus and of Tornado for Jordan.

East/West Relations

Herr Strauss talked at some length about his meeting with Mr. Gorbachev last December. He had been surprised to be invited but had found Gorbachev very welcoming and outspoken. He was clearly determined to bring about major changes in Soviet society but had unrealistically high expectations of what he could do. He thought Gorbachev was running a high risk by pushing ahead so fast with reform: he might well be removed from power or even killed. He recalled that Gorbachev had told him that he did not need a war since he had enemies enough at home and was engaged in a constant struggle with conservatives, diehards and others who accused him of trying to abolish Marxism-Leninism when in reality he was trying to implement it more successfully. But although the prospects of Gorbachev succeeding were not that good, he was unleashing a process of emancipation which could probably not be stopped.

Arms Control

The Prime Minister recalled the battle she had fought at the NATO Summit to gain acceptance of the need for NATO to modernize its nuclear weapons and stressed the importance of avoiding a third zero option for short-range nuclear weapons in Europe. Herr Strauss commented that his friendship with Chancellor Kohl had been seriously affected by the decision to abandon the Pershing Is. It had been absolutely unnecessary to make that concession, as Shevardnadze had subsequently told him. The Russians understood firmness and resolve. For instance, he had asked Shevardnadze why the Soviet Union had not insisted on the inclusion of British and French nuclear weapons in the INF negotiations. Shevardnadze had replied that there would never have been an agreement had they tried

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to do this. Strauss continued that he believed that Gorbachev's frenetic pace on the international stage was caused by his need to compensate for the failure of his policies to produce results at home.

Angola

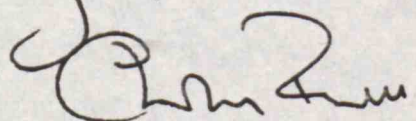
The Prime Minister thanked Herr Strauss for his message about Angola. She very much shared his concern about the Cuban role and in particular their recent advance towards the Namibian border. Increasingly the Cubans seemed to be acting independently of the Angolan Government. However, we understood that it was agreed that the talks in Washington next week between the Americans, Angolans, Cubans and South Africans would go ahead.

Herr Strauss said that one had to recognise that neither side could win in Angola. There would have to be negotiations leading to a settlement based either on the division of the country or a sharing of power. The Cuban role was indeed a matter of very great concern. It was monstrous that a poor, exhausted and starving country should have to use a large part of its foreign exchange to pay Cuban troops who lived the life of a master-race. He thought that Castro probably preferred to keep the troops in Angola, not least because, according to his information, as many as 50% of them were suffering from AIDS. Herr Strauss added that he understood Mr. Savimbi was in London: he firmly believed that the West should support Savimbi as a means of forcing a settlement. The bright spot on the horizon was the Soviet attitude, which seemed to be changing and coming round to support for a settlement.

South Africa

The Prime Minister said she was worried about attitudes in the United States towards South Africa which could cause major problems, particularly if Mr. Dukakis were to be elected President. Herr Strauss said that South Africa was virtually the only major subject on which the foreign policy of a Dukakis Administration was likely to differ from current American policy. He added that he very much hoped the Prime Minister would continue to stand firm.

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

Yours sincerely,


(C.D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



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LONDON SW1A 2AA

From the Private Secretary

6 July 1988

Dear Brian,

PRIME MINISTER'S MEETING WITH HERR STRAUSS: TORNADO

The Prime Minister raised with Herr Strauss this morning the question of credit for the sale of Tornado to Jordan. It was very important that this sale should go through, so that the King did not feel it necessary to turn to the Soviet Union for aircraft. We had gone to great lengths to secure the sale and obtain permission from the United States for release of American equipment. We were providing credit for our share, as were the Italians. But despite her efforts with Chancellor Kohl, the Federal German Government had decided not to extend official credit support. This was most unfortunate. She could see no reason why Germany should not bear its share of the burden. She wondered whether Herr Strauss could induce them to change their minds, or help find some alternative source of support.

Herr Strauss said that he had weighed in heavily to persuade the German Government to lift its objection to the sale of Tornado to Jordan. It had been difficult because of Herr Genscher's very negative role. The problem over credit lay principally with Herr Stoltenberg who looked at it entirely from a book-keeper's point of view. But he, Strauss, was now working hard to get financial guarantees from Hermes and he thought there was a good chance he would succeed.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry), Jill Rutter (Chief Secretary's Office) and to Trevor Woolley (Cabinet Office).

Yours sincerely,

(C.D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.



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LONDON SW1A 2AA

From the Private Secretary

6 July 1988

Dear Peter,

PRIME MINISTER'S MEETING WITH HERR STRAUSS: EUROPEAN AIRBUS

The subject of Airbus came up in the Prime Minister's talk with Herr Strauss this morning.

The Prime Minister said that she knew Herr Strauss had already discussed Airbus with Mr. Clarke earlier in the day. The programme was a remarkable technical achievement but had to be turned into a commercial success as well. It was particularly important to establish proper financial control. A report had been produced on the structure of Airbus Industrie which had contained important proposals for improved management and better financial control. These had her full support.

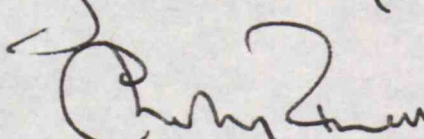
Herr Strauss said that the group of Wise Men had indeed elaborated various concepts. Some of them were realistic, others were wishful thinking. The realistic ones would certainly be put into effect. But it would be wrong to see them as a remedy for the real problems of Airbus. These stemmed above all from the falling dollar. It was very important to maintain an independent European capability to build civil aircraft. At the moment, Boeing had everyone over a barrel particularly when it came to long-range aircraft where they were making a profit of \$35 million on every B747. Herr Strauss continued that it would help to get the management structure right if there were a European Company Statute. He had talked about this to M. Delors who had promised that one would be in place by 1991/2. The Prime Minister said that the trouble was that the Commission wanted to make the Statute too complex. The aim should be a minimum of regulations. But she must repeat that it was vital to get the management structure and financial control right. She was happy to leave Herr Strauss to cope with the problem, but it must be dealt with.

Herr Strauss said that, although it was not really his business, he thought the Prime Minister ought to investigate BAe's financial situation. His impression was that they could not take on the burden of the A330/A340 with the present level

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of launch aid. He saw a real risk that they might pull out of the project. The Federal German Government had agreed to carry the dollar risk for the German share of the A330/A340 up to the year 2000. The Prime Minister said that she noted Herr Strauss' comment and would bear it in mind.

I am copying this letter to Neil Thornton (Department of Trade and Industry), Alex Allan (HM Treasury), Lyn Parker (Foreign and Commonwealth Office), Roy Griffins (Department of Transport) and to Trevor Woolley (Cabinet Office).

Yours sincerely,


(C.D. POWELL)

Peter Smith, Esq.,
Chancellor of the Duchy of Lancaster's Office.