

PRIME MINISTER

MEETING WITH CHANCELLOR KOHL

You are to see Chancellor Kohl at Chequers on Saturday. He arrives by helicopter at 11.30 and leaves again at 2.30. You will probably want to talk from 11.30 to 12.45. At 12.45 there is a photocall on the north lawn (weather permitting). Lunch might be at 1.15 and Chancellor Kohl will leave almost immediately after that.

Chancellor Kohl will be accompanied for the talk by Mr. Bitterlich from his Private Office. Another Private Secretary, Herr Neuer, will also be present at the lunch. Mrs. Kaltenbach will interpret for Chancellor Kohl: Mr. Lederer is coming to interpret for you.

You will find in the briefing folder a letter from the FCO summarising the main issues: Sir Christopher Mallaby's scene-setting telegram from Bonn; a note of your discussion with Sir Peter Walters; and the note of your meeting with Chancellor Kohl in Toronto.

Introduction

You might start by telling Kohl how absolutely splendidly he has done as President of the European Community: his has been one of the most productive Presidencies on record, and a great tribute to his leadership. This will please him no end. Since you discussed his domestic problems at length in Toronto - and they have got worse since - you might try to side-step his traditional account of his various triumphs by moving straight on to:

Anglo/German Relations

You will remember that Sir Peter Walters told you that Kohl felt that he was under-estimated by opinion in the UK (and by implication by you as well). You might therefore say that

you share his aim of giving some shine to Anglo/German contacts so that they do not appear to be the poor relation of the Franco/German axis. Your regular meetings with him are one part of this. But we should also try to make our bilateral Summit meetings more productive and newsworthy. We can do this by limiting the number of Ministers attending to those with real business to do, abolishing the formal plenary sessions, and looking for ways to achieve greater public impact - for instance by holding them outside London or Bonn. We have proposed dates for the next Summit early next year and you will let him have some suggestions on the organisation and venue of it in the autumn.

Tornado for Jordan

You should leave Chancellor Kohl in no doubt that we are very dissatisfied with the failure of the German Government to provide official credit support for the FRG's work share of the Tornado sale to Jordan. They will bear a heavy responsibility if the whole deal collapses. If they are not prepared to change their decision - and the signs are they will not (although Strauss was more optimistic) - then the least he can do is try to persuade MBB and/or the commercial sector to take more of the credit risk for a longer period. We are already committing a very substantial amount of credit support to this sale and it is simply not right for the Germans to refuse to bear their share. It will considerably diminish the attraction of collaborative projects if their export prospects in large parts of the world are ruined by German refusal to provide official credit support.

East/West Relations

Kohl is going to Moscow in October and Gorbachev is apparently committed to visiting Bonn in the spring of next year. We want to be sure that the Germans do not fall over themselves in their eagerness to please the Russians and end up making unnecessary concessions. (The greater danger of course comes from Genscher rather than Kohl.) The burden of your message to

Kohl might be that Gorbachev's speeches certainly mark a very significant advance on the sort of Soviet Communism we used to know: but the distance to be travelled before we can really consider the Soviet Union a normal country which poses no significant threat to us is still enormous. While we must support what Gorbachev is trying to do, it must not be at the price of sacrificing our fundamental interests or values. It is important that, when each of us meets Gorbachev, we should all stick to the agreed NATO positions so that he understands that the Soviet Union is continuing to deal with a resolute and united Alliance.

Particular points which you will want to make under this general heading are:

- while we share the wish to see the CSCE Conference in Vienna brought to a conclusion soon, we must not allow ourselves to be pushed into signing an unsatisfactory agreement. We should use their impatience to bring the proceedings to an end to achieve our human rights objectives;
- on no account should we agree to a human rights conference in Moscow. That would be an awful betrayal of brave people there;
- it will be important to make progress with the conventional stability talks. They are a much higher priority than further negotiations on nuclear weapons;
- we should try to push through the necessary decisions on modernising NATO's nuclear weapons in 1989, after the American elections but before the German ones. You might seek his view on the prospects for this;
- we remain convinced that it would not be in NATO's interest to start negotiations with the Russians on short-range nuclear weapons. The Germans should not make agreement to such negotiations the condition for

going ahead with modernisation of NATO's nuclear weapons

South Africa

There have been some signs recently of wobble in the German position on South Africa, not so much on economic sanctions, but non-economic measures such as putting restrictions on South African Embassies in Europe or withdrawing European Ambassadors from South Africa. You will want to bring home to Kohl that such gestures will not achieve anything, but would only increase the pressure for economic sanctions. You might say that we want to re-establish a solid Anglo/German front (plus Portugal) against the current wave of pressure for sanctions. We shall both also need to work on opinion in the United States, particularly in the event of a Dukakis victory.

Environment

Kohl may revert to this as he did at both Toronto and Hanover. Our main concerns are to avoid duplication by the EC of work in other bodies; and to avoid costly commitments which impose unnecessary burdens on our industry. You might congratulate him on what was achieved in the German Presidency on emissions from large combustion plants and vehicle exhausts. You might say that the priority in the North Sea is to implement the measures agreed at last year's Conference, rather than start devising new ones.

Agriculture

You will want to keep up the pressure on Kohl to accept that the Brussels CAP reforms, important as they are, are not enough and the Community must be prepared to go further in the GATT framework. This problem is not going to go away just because of the American drought.

Debt

The Paris Club is soon to start work on implementation of the

Toronto Economic Summit's conclusions. We shall be offering concessional interest rates as will Canada and Italy. The United States and Japan will offer to reschedule debts over longer periods. It is not quite clear what the Germans are going to do, but they may join America and Japan in rescheduling over longer periods. It is important that creditors should share the burdens equally and you will want to encourage Kohl to be as forthcoming as possible.

Franco/German Relations

Over lunch you might like to try to get a feel for Kohl's assessment of the situation following the French elections. There is no doubt that the French Government is going to be more Socialist. Does he expect this to have implications for Franco/German co-operation?

You might also say that we have never felt the need for the sort of institutional co-operation in Anglo-German relations as the French and Germans go in for. That is not our style. But you admit that this does have some disadvantages: because of the high profile given to them, the public probably believe there is more continuity and substance in Franco/German relations than Anglo/German relations, even though in reality they are of equal importance. It is particularly important that you and Kohl, as the two main conservative leaders in Europe who believe in strong defence, should keep very close. The need for this is all the greater when we are approaching a change of Administration in the United States. You do not want to get involved in setting up cumbersome groups which involve a great deal of bureaucracy. But you would like to see the contacts between your own office and Chancellor Kohl's office made more regular: that would be a good way for spotting incipient problems in our relations and trying to avert them as well as coordinating our approach to important issues. And you would like to see the regular talks between British and German officials dealing with defence and EC matters continue. You do not mind if there is less pomp and circumstance surrounding Anglo/French than Anglo/German

CONFIDENTIAL

- 6 -

relations, but we are not at the moment getting the results from them which should come from the politically very similar approach which you and he both have.

C.D.P.

Charles Powell

7 July 1988

VSCAIIH

CONFIDENTIAL

dti

the department for Enterprise

①

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422  
Our ref PS7AKP  
Your ref  
Date 8 July 1988

*Prime Minister*  
*I doubt that*  
*Chancellor Kohl will*  
*be aware of the*  
*case: or that*  
*a mention of*  
*it will have any*  
*effect on the*  
*outcome in the Commission*  
*8/7*

*Dear Charles*

Lord Young and Sir David Hannay both think it would be worthwhile the Prime Minister raising Rover when she meets ... Chancellor Kohl on Sunday. I am therefore attaching a short briefing note which has been agreed in broad terms by UKREP and FCO.

I am copying this letter to Alex Allen (Treasury) and Lyn Parker (FCO).

*Yours*

*Jeremy*

JEREMY GODFREY  
Private Secretary

*mt*

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL, 10 JULY 1988

ROVER GROUP STATE AID CASE

LINE TO TAKE

- 1 Concerned at continued German criticism.
- 2 This is the last step in a substantial programme to privatise Rover. Believe German Government gives us insufficient credit for ending state involvement and returning the company to market disciplines.
- 3 Negligible effect on competition.
- 4 Not in either German or UK interest for the Commission to turn the case down. Fear effects of this on UK public perceptions of EC.
- 5 Steel; German iron and steel industry is unjustifiably complaining to the European Court about aid given to British Steel. This is an irritant to BSC privatisation plans.

VM2

8 July 1988



the department for Enterprise

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL, 10 JULY 1988  
ROVER GROUP STATE AID CASE

BACKGROUND NOTE

In April, there was strong German criticism of the Commission's decision on aid to Renault, and the Commission's apparent laxity in applying the state aid rules. The German Government also intervened against the Rover Group state aid case. German official comment continues to criticise the case for its apparent generosity. However, both the German Government and VW have denied links between the Government's stance on RG and VW's apparent interest.

2 Keeping the issue live with Chancellor Kohl could help improve the climate for the Commission's imminent decision, and the public debate thereafter.

3 Steel: the German Iron & Steel Federation has made two complaints to the Commission about aid BSC received in the early 1980s. The Federation this week took one complaint to the European Court. The Commission, with our support, is taking a vigorous line to refute German allegations.

VM2  
DTI  
8 July 1988