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Foreign and Commonwealth Office

London SW1A 2AH

7 July 1988

*Dear Charles,*

Prime Minister's Meeting with Chancellor Kohl: 9 July

The Prime Minister's meeting with Chancellor Kohl at Chequers on 9 July will provide an occasion for fairly wide-ranging discussion, following their briefer bilateral meeting at Toronto. After that summit and the Hanover European Council, there is little pressing business to conduct, except on the proposed sale of Tornado IDS aircraft to Jordan. Otherwise, this letter covers the full range of current international business. We understand that Chancellor Kohl's briefing will cover similar ground. Sir Christopher Mallaby will send a scene-setting telegram on 7 July.

Anglo-German Relations

This meeting, including the photocall, will be valuable as a demonstration of close Anglo-German consultation after the media speculation earlier this year. It comes shortly after the visit to Oxford and London of President von Weizsäcker on 22/23 June and before the first visit to London on 20 July of the new German Defence Minister, Dr Scholz. The Foreign Secretary will have a bilateral meeting with Herr Genscher at Chevening on 18/19 July.

The only element missing is a more formal bilateral summit, but since your letter of 30 June we have put to the Germans a good selection of dates in early 1989. Kohl may raise the format of summits. If so, the Prime Minister could say that:-

- we are keen to make them more intimate and businesslike, reflecting the character of Anglo-German relations,
- we should therefore prefer to limit the number of Ministers to those with real business to do,
- we should also like to get away from the rather stilted plenary sessions and concentrate on bilateral discussion between pairs of Ministers and informal discussion at the Ministerial lunch,
- it is important for summits to have a real public impact, and we are looking at possible ways to achieve that, including holding them outside capitals,

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- there will of course continue to be informal high-level meetings, like the present one.

Tornado for Jordan

/ I enclose for reference a copy of the Prime Minister's letter of 18 May to Kohl about the proposed sale of Tornado IDS aircraft to Jordan. The FRG Federal Security Council (FSC) decided on 29 June not to raise any political objection, but not to participate in credit arrangements for the deal. We recommend that the Prime Minister express deep dissatisfaction at this poor response: as her message and her follow-up remarks to Kohl in Toronto made clear, the provision of official credit support for the FRG work-share is critical to the successful conclusion of the deal. It is not acceptable for the FRG to try to leave the UK to finance the FRG work share - given our already very large liabilities.

Sir Christopher Mallaby advises that there is no prospect of re-opening the FSC decision (Kohl himself argued against the provision of credit support) though I see that Franz-Josef Strauss suggested to the Prime Minister yesterday that he might succeed in doing so. The Prime Minister might, while acknowledging the uncertainties of Jordanian economic prospects, challenge Kohl on what alternatives he can offer for protecting Western interests in Jordan and the Near East by securing the Tornado deal rather than allowing the Russians in with MI29s. If the FSC decision is final, can he help by persuading MBB and/or the commercial sector to take more of the risk for a longer credit period? In addition, would he agree that officials should meet to consider some way of sorting out similar problems on Tornado in the future? (This might include the idea of a trade-off between cover for future Tornado sales and cover for other civil business - mainly Airbus; but there are doubts about the "fairness" of such a trade, and it should not be put to Kohl in these terms yet.) If he has no solace to offer, we shall be left with the difficult decision of whether we can offer the Jordanians any further increase in our already heavy (£380 million) allocation of cover for the Tornado deal (a large slice of the new £1 billion special arms facility: if the UK had to cover the Italian as well as German shares, this would rise to a level which Ministers may conclude is unacceptably high). This would leave a bad taste for collaborative ventures - both Tornado and future projects - particularly as the FRG refusal to provide credit support for such business gives their exporters an unfair advantage in the civil sector.

EC and International Economic Issues

We recommend that the Prime Minister congratulate Kohl on his handling of the Hanover discussions, particularly on monetary issues, where the outcome was entirely satisfactory to us. She could say that:-

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- The German Presidency produced remarkable progress on single market issues: eg, capital liberalisation, road haulage, insurance, public purchasing, mutual recognition of diplomas.
- The need now is to maintain momentum, particularly on the priorities agreed at Hanover, ie public purchasing, banks and financial services, approximation of standards and intellectual property.
- It will be important to distinguish between these and "slower track" issues like company law, broadcasting, and tax (where a market forces approach would be best). The overall aim should be liberalisation not harmonisation: where regulation is necessary, it must be with a light touch.
- We welcome also the Hanover commitment to a Single Market that is open to third countries. We wish to work with the Germans to hold the Community to this.
- The Greeks and Spaniards will no doubt push for action on a social area. We must stress that the best way of tackling unemployment is through non-inflationary growth, and avoid proposals which would increase burdens on business. Between 1983 and 1986 (the last year for which figures for EC members are available) UK employment rose by 920,000 (an increase of 4%) whereas employment in the rest of the EC countries combined rose by only 708,000 (or 0.7%). Unemployment has fallen in the UK now for 22 consecutive months.

Kohl may raise environmental issues, especially air and water pollution, on which public feeling is strong in Germany; it was at German request that the subject came up at both Toronto and Hanover. The Hanover conclusions invited the Commission and the Council to "improve the means to combat and prevent air and water pollution". While this is an unexceptionable aim we are wary of duplication with other bodies such as the Oslo and Paris Commissions, which are responsible for the North Sea. If Kohl raises the subject the Prime Minister might take the following line:

- agreements reached in this month's Environment Councils on emissions from large combustion plants and vehicle exhausts are signs of our commitment to action against air pollution.
- at last year's North Sea Conference we agreed on a useful series of measures. The task now is to implement them.

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- the Toronto Summit endorsed the concept of sustainable development and called on all countries to sign and ratify the Montreal Protocol on Substances that Deplete the Ozone Layer; we welcome this and with other EC countries will ratify the Protocol by the end of 1988.
- we are also active participants in the negotiations on a Protocol on emissions of nitrogen oxides and on an Agreement on transfrontier shipment of hazardous waste.

On multilateral trade issues, we recommend that the Prime Minister say that the Toronto commitment to a successful GATT Round means that the Community must negotiate constructively. The MTM should be more than a simple stocktaking: we need early agreements eg on strengthening the GATT and dispute settlement. On agricultural reform, the Community must obtain credit for the Brussels CAP reforms, but must be prepared to go further, in a multilateral framework. If Kohl demurs, quoting "the diversity of our agricultural situations" (para 18 of Toronto economic declaration) the Prime Minister might say that while she appreciates the domestic German difficulty of agricultural reform, the creation of a more market-orientated farm sector is in the Community's own interest, and is perhaps easier to explain at home if reforms are multilaterally secured. Kohl himself seems to share the view that agriculture should be more strongly market-orientated.

The Prime Minister might also congratulate Chancellor Kohl on the progress on EC/East Europe relations under the German Presidency. We may be moving into a new phase in the Community's trade relations with Eastern Europe. The Community's approach should be positive but cautious; any future agreements - eg with the Soviet Union - must be balanced and of mutual benefit.

It would be useful if the Prime Minister could ask Kohl about German intentions on debt post-Toronto. Summit leaders agreed that official creditors should ease the debt burden of some of the poorest countries through concessional interest rates, longer repayment periods, partial write off of debt service, or a combination of these. There are many technical details yet to be resolved. The Paris Club has been asked to reach agreement on detailed implementation by the end of 1988. It meets on 11-12 July. We shall offer concessional interest rates, which were an integral part of the Chancellor's initiative, as will Canada and Italy; the US and Japan will reschedule over longer periods. We understand that the Germans will write off more old aid loans; and that they may reschedule official debt over longer periods. They have said that they are also considering reducing interest rates, like us. It is important that creditors share the burden equally

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while maximising the benefit to recipients. We hope the Germans will decide to cut interest rates. If not, they really should be prepared to be repaid over a longer period (eg 25 years).

East/West Relations

Relations between the FRG and the Soviet Union are becoming increasingly active. Kohl is to visit Moscow in October (taking with him a party of German businessmen), and Gorbachev is to visit Bonn next spring. This is therefore a good moment to underline again to Kohl the need for a steady head in responding to change inside the Soviet Union and in East/West relations.

Last week's Party Conference saw the kind of frank and largely public debate unknown in the Soviet Union for over 50 years: criticism of the Party leadership and open divisions within it (Yeltsin); complaints about the continuing shortage of food/consumer goods; genuine disagreements on matters of policy. Full details of what was agreed are not yet available, but the proposals to distance the Party from economic management, to make officials more publicly accountable, and to establish a proper, independent judicial system would have radical implications if fully implemented. Real political reform is now openly on the agenda.

Even so, most of the party apparatus remain reluctant converts, particularly to glasnost. There is little sign of the major personnel changes which will be required if the pace of perestroika is to be accelerated. Economic reform is still a long way from delivering the goods and thus generating real popular enthusiasm for reform. It will be a long time before the Gorbachev Revolution (if such it is) can be considered irreversible.

We in the West should continue to seek a worthwhile and constructive dialogue, but not attempt to "help" Gorbachev at the price of sacrificing our fundamental interests or values. Progress so far reflects the fact that the Russians have moved towards us (INF, Afghanistan, human rights). But there is a long way to go before the Soviet Union will be a comfortable neighbour for Western Europe (or indeed for Eastern Europe). It continues to maintain its massive conventional superiority, and to modernise and deploy new military systems; and there is no sign of the KGB pulling in its horns.

Of particular interest to the Germans is the CSCE Conference in Vienna. We still hope that a Concluding Document can be agreed in July but the East (less Romania) have only recently shown serious willingness to compromise. The West have agreed that a Neutral and Non-Aligned (NNA)

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draft Document tabled in mid-May represents a suitable basis for negotiation. However, much remains to be done - on follow-up, military security and human rights (on which the NNA text is very much a bottom line) . The FRG (and France) wish to end the Vienna meeting quickly in order to start Conventional Stability Talks. If Kohl raises this, the Prime Minister could say that the East are as anxious as the West for an early start to those talks; we should not let them pressure us into an unbalanced outcome, but use their impatience to achieve our own human rights objectives.

The Soviet Union have not withdrawn their proposal for a Moscow Humanitarian Conference but no longer press it hard. The FRG have favoured going to Moscow under minimal conditions. The Prime Minister might say that despite internal progress in the Soviet Union, a Moscow Conference would be a travesty and betrayal of many brave people there; we hope the Germans will agree now to a Western veto of Moscow in order not to complicate the Vienna end-game.

Defence and Arms Control

We recommend that the Prime Minister remind Kohl of the importance of our defence relationship. We and the FRG make the two biggest contributions to NATO among the European Allies. Good cooperation, political and military, between us is a prerequisite for a healthy Alliance. Recent efforts to give better publicity to what we already do together are very welcome, but not enough. We should give a lead in furthering defence co-operation between the European Allies, which is particularly important as burden-sharing pressures begin to bite harder. A promising area for example is that of air mobile forces, which is currently being studied by AFCENT.

On nuclear issues the Prime Minister might reaffirm our support for the US approach to START, namely that it is more important to get it right than to rush it. Following agreement at the NATO Summit to keep nuclear weapons up to date, we support the agreement at the April NPG to a step-by-step approach to implementing necessary nuclear modernisation measures. Kohl has said that he is prepared to take the necessary decisions when the time comes, though Genscher is unlikely to support SNF modernisation without the prospect of an East-West SNF negotiation. 1989 - after the US elections but before the German ones - may provide a window of opportunity for taking decisions. Whether the Alliance can seize this chance will depend on the readiness of the US (on technical grounds) and the FRG (in domestic political terms).

In the conventional arms control field, the conclusion of the Hanover European Council that the conventional imbalance is "the key issue of European security" is right: our next

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priority, assuming a balanced CSCE outcome, must be the conventional stability talks rather than further nuclear negotiations. In the process of preparing a Western position for the conventional stability talks, we and the Germans are trying to work out a joint proposal which would overcome French objections to equal NATO/Warsaw Pact equipment ceilings in the Atlantic to Urals area. Our co-operation in this field is good.

The CW negotiations resume in Geneva on 7 July, but progress is likely to be slow. Kohl should be discouraged from expecting early or easy agreement. It is essential that the West speak with one voice if the Russians are to be pressed effectively to show more openness and make practical contributions to resolving the outstanding problems.

The Third UN Special Session on Disarmament (UNSSD III) ended on 26 June without a consensus Final Document. Kohl may suggest that this is a setback for arms control. We do not however believe that the outcome is likely to affect work in other fora adversely. An unbalanced document would have been worse. The West must continue to press worthwhile initiatives; the UK will be pushing for action on proposals on CW use made in the Foreign Secretary's speech to UNSSD on 7 June.

South Africa

In view of recent German unsteadiness, we recommend that the Prime Minister raise the issue of sanctions. She might suggest to Chancellor Kohl that the intellectual debate on sanctions has largely been won. There is increasing understanding of the effects of punitive economic sanctions on the black population and on neighbouring states. But we are concerned at signs that the German position on non-economic measures (eg restrictions on South African Embassies in Europe) may have shifted. Of course we oppose the execution of the Sharpeville Six or restrictions on foreign funding of aid programmes. But futile political gestures will not help. What they will do is increase pressure for economic sanctions - for instance, within the EC for a ban on coal imports (which the Germans oppose and which we have no wish to see, although we have committed ourselves publicly to go along with a consensus). It is important to re-establish a solid UK/FRG front (with Portugal) against the current wave of sanctions pressure: France is thinking of a fruit and vegetable ban. Apart from the trade embargo under consideration by Congress, a Dukakis Administration would be certain to pursue policies which caused problems for both FRG and UK.

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Iran/Iraq

On the Gulf conflict, we recommend that the Prime Minister stress that the tragic incident of the Iranian Airbus underlines the importance of achieving an early settlement of the conflict on the basis of SCR 598 and an end to attacks on shipping by both sides. We do not yet know the outcome of US investigations, but we fully accept the right of foreign forces in the Gulf to defend themselves in accordance with Article 51 of the UN Charter. We attach importance to maintaining the European naval presence in the Gulf as a commitment to upholding the principle of freedom of navigation. (The Germans do not have any forces there, but have deployed vessels in the Mediterranean, in theory to fill the gap created by deployment of other NATO forces to the Gulf).

At the UN we support the Secretary-General's continuing efforts to secure implementation of SCR 598. He is likely now to work on a detailed implementation plan. But neither side at present seems ready to negotiate. The Prime Minister could rehearse the argument for a follow-up arms embargo Resolution against the Iranians if they remain non-compliant. The Germans are not enthusiastic for such a resolution and there is no immediate prospect of one's being introduced in view of Soviet and Chinese opposition.

The Prime Minister could also reaffirm that our policy on UK/Iranian relations remains unchanged. We are ready to talk about improving relations, but based on mutual interests, respect and reciprocity. There are many aspects to Iranian behaviour which we find unacceptable: the violation of diplomatic immunity; contravention of consular convention; attacks on neutral shipping in the Gulf; attempts to destabilize other countries and an appalling human rights record. If Iranian behaviour were to improve, this might make it easier to have a normal relationship. But there is no reason why we should court the Iranians' favour.

If Kohl raises the hostages, the Prime Minister could tell him that our policy on that too remains unchanged; we will not negotiate for the release of our hostages. She could ask about the remaining German hostage Cordes and the trial of the Hizbollah terrorist Muhammed Ali Hamadei (which began this week in Frankfurt). No news of our hostages emerged from the privately-organised visit (co-ordinated by the Archbishop of Canterbury's staff) by four British Parliamentarians to Iran on 19-22 June. During the recent compensation talks with Iran in London, the question of hostages was not raised by either side.

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I am sending a copy of this letter to Trevor Woolley  
(Cabinet Office).

*Howls 2005*

*L Parker*

(L Parker)  
Private Secretary

C D Powell Esq  
10 Downing Street

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10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

18 May, 1988.

*Dear Helmut,*

You will be aware that we have secured a commitment from King Hussein of Jordan to purchase 8 Tornado IDS aircraft. Detailed negotiations on the contract (between the British and Jordanian Governments) have been underway for some time and are now close to conclusion except for one critical point related to the financing arrangements. These are complex with UK, German and Italian workshares being financed in various currencies and it is on this point that I urgently seek your help.

Sir Geoffrey Howe and Mr. Younger have previously written to Herr Genscher and Herr Woerner respectively on the financing arrangements for the project but this has not produced a response that would help to conclude the contract quickly. I find that disappointing. The matter is of such importance and urgency that I felt I must write to you personally.

Apart from the significant industrial benefits accruing from the sale, there are very strong political reasons for us to work together to reach agreement with the Jordanians. We take encouragement from the Jordanian preference for turning to Western suppliers for their air defence, as shown by their decision to upgrade their Mirage aircraft, and their positive attitude in their discussions with us on Tornado. But if we fail to reach agreement on this sale King Hussein could well still turn to the Soviets for his next generation of new aircraft and purchase the MiG 29; neither of us would want

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that to occur or to see Western influence in the area correspondingly undermined. In the view of my Government, the need to head off the Soviet threat clearly outweighs any possible doubt there may have been over the supply of an aircraft such as Tornado, to a neighbour of Israel; especially one with Jordan's enviable record for moderation. This was a view shared by President Reagan and the US Administration when they approved the supply of components of US origin.

I am sure you will agree that the partner countries in collaborative projects should share their respective proportions of the benefits and the burdens of export sales. To date the UK has shouldered a disproportionate burden for the sales of Tornado to Oman and Saudi Arabia. So far as Jordan is concerned, I know that the Federal Government attaches importance to further sales of Airbus; and we are giving careful and urgent attention to how we might contribute towards the appropriate financing package. Officials of the appropriate German Ministries are familiar with the details of our ideas on this. I feel that the political as well as the industrial importance of the Tornado sale provides a powerful argument for participation by the Government of the FRG. I accept that, on the face of it, a conventional assessment of Jordan's credit worthiness would make it difficult to provide official credit cover. But the credit terms being offered are generous and I have little doubt that King Hussein will ensure that a debt for a project to which he is personally committed, will be honoured. It is therefore vital that HERMES support for the FRG workshare, on the same terms offered by our ECGD, is provided in order to obtain the contract.

The tri-national programme for Tornado has, to date, been a great success but we need to continue to build on that and pull together to secure this important export sale. Without your help it could slip away from us. I would ask therefore that you give your personal attention and support to the project and early agreement to HERMES providing the necessary credit backing to MBB. United Kingdom negotiators are due to return to Jordan shortly and your agreement by 23 May is

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essential if we are to conclude this business which is not only significant in its own right for our aerospace industries but which also has great political importance for our two countries in the Middle East.

I am sure you will agree that we must not let King Hussein down at this very difficult moment in Middle Eastern affairs.

*Y  
Luswa*

*Ryan*  

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His Excellency Dr. Helmut Kohl

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