



Foreign and Commonwealth Office

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cc PC
BCP

30 November 1988

Dear Charles,

Prime Minister's meeting with Chancellor Kohl
in Rhodes: 2 December

The Prime Minister will have 1½ hours of discussion with Chancellor Kohl over breakfast in Rhodes on 2 December - their first bilateral meeting since 9 July. Although there are a number of EC issues to discuss, there is no need for these to take up the whole time available. We see this therefore as an opportunity also to discuss East/West issues in some depth as well as South Africa and the Middle East. We understand that Chancellor Kohl's brief will cover similar ground. I attach a scene-setting telegram from Sir Christopher Mallaby.

FRG Internal

In spite of problems within the CDU and among the coalition parties, the governing coalition still seem to be heading for victory under Chancellor Kohl's leadership in the 1990 Federal elections. The death of Herr Strauss and the election of Count Lambsdorff as FDP Chairman tend in different ways to make life easier for the Chancellor. He is no longer the victim of public sniping from Munich and should find co-operation easier with the new CSU leader, Dr Waigel. Count Lambsdorff's election is widely seen as evidence that a leftward swing by the FDP and possible change of coalition partner after 1990 have become less likely. Although he is expected not to intervene in foreign policy issues, Count Lambsdorff is now in a position to balance the influence of Herr Genscher in other areas of FDP policy. He is a powerful champion of free enterprise.

The coalition's position is also helped by the unexpected growth in the German economy. This is now expected to be 3% in 1988, but it appears to be largely export-led. The continuing structural rigidities in the domestic economy lead forecasters to predict growth of only 1.5-2% in 1989. Unemployment fell in October for the fourth consecutive month to 2.07 million (8%). The visible trade surplus in September climbed to DM 11.3 bn and the current account surplus to DM 6.1 bn. Average inflation for the year so far has risen to 1.1%.

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Anglo German Relations

Although the climate has much improved, especially as a result of the Chequers meeting on 9 July, the press in both Britain and Germany continue occasionally to play up differences of approach, eg over East/West relations. Some of the articles are largely fictional, such as German reports of the recent telephone conversation between the Prime Minister and Chancellor Kohl. We hope that a successful Summit on 20/21 February will help further to change public perceptions. It will also be well-timed for taking forward private discussion with the Germans of such sensitive issues as SNF.

We recommend that at this meeting the Prime Minister thank the Chancellor for maintaining the German abstention in the UN Falklands debate and welcome the intense pattern of discussions now taking place at Ministerial and official level in the run-up to the Summit.

EC Issues

Apart from the Rhodes agenda, the Prime Minister may wish to probe Kohl's idea for greater Police Cooperation, leading to a joint European police force. It would be useful to secure his agreement that, while frontier procedures should certainly be speeded up, police checks sufficient to defend the law-abiding citizen must remain post-1992.

On the Social Dimension of the 1992 programme, the Prime Minister might indicate that we shall have no difficulty with proposals (eg for more training) which would not entail extra burdens on business. But we would not accept a European Company Statute involving compulsory worker participation. Since the Germans could not accept provisions which were purely voluntary, and so provided an escape route from the FRG's domestic legal requirements, it might be worth suggesting to Kohl that we both have an interest in keeping the idea on the back-burner.

The Prime Minister could also stress our strong common interest in sustaining the open multilateral trading system through the current GATT Round; in ensuring that the Single Market stays open to the outside world; and helping the US Administration ward off protectionist pressures in Congress.

She might therefore say:

- Let us keep Rhodes discussion short and operational focussing on Single Market, wider world and environment.
- On Environment, it will be important to show the Community leading the way on international cooperation to protect the ozone layer. Our conference next March will make an important contribution.

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- Welcome your ideas for greater cooperation among police forces. If we are to smooth the flow of goods and people across frontiers we must strengthen collaboration against terrorism, drug trafficking and illegal immigration.
- Fully accept that 1992 has a Social Dimension. Need to do more on training etc. But mustn't impose new burdens on business, so cutting growth and jobs.
- Given your system of worker participation, see why you want obligatory provisions in any European Company Statute. But for the same reason of national practice, we would want only voluntary provisions. So best course might be to drop the whole idea? Recent surveys of British businessmen and European Round Table show that business sees no need for it.
- On the Uruguay Round, we must press for real progress on agriculture but at the same time not allow difficulties over agriculture to frustrate progress in other areas at next week's Montreal meeting. Community can of course take credit for our recent CAP reforms (which are working well) but must also be prepared to go further, making agriculture progressively more responsive to market forces.
- Glad we share a commitment to an open Single Market; and that we are speaking the same language in allaying American and Japanese fears of "Fortress Europe". Proposed Rhodes statement will be useful.

Transatlantic Relations

Both the Prime Minister and Chancellor Kohl visited Washington in mid-November. They may wish to compare their impressions of the prospects for the Bush Presidency. Generally, Vice-President Bush's election has been welcomed by Western European Governments, which see a number of reassuring features - his experience, competence, commitment to the Alliance and transatlantic consultation. His appointments so far (Baker, Brady, Sununu etc) command respect. He promised the Prime Minister that there would be "no hairpin bends" in US policy towards the Soviet Union during his Presidency. At the same time certain issues (the US budget deficit, resisting protectionist and defence burden-sharing pressures) will need careful transatlantic handling over the coming months, particularly given the difficult relationship Mr Bush is likely to have with the Democrat-controlled Congress.

We recommend that the Prime Minister tell Chancellor Kohl that she raised with Vice President Bush the idea of a Summer 1989 NATO Summit, and that Bush will consider it. Such a Summit should be held only if the comprehensive concept is ready for endorsement, thus preparing the way for decisions on

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nuclear modernisation.

Nuclear Modernisation

While in Washington Chancellor Kohl signalled a welcome development in the FRG's policy on the modernisation of NATO's Short Range Nuclear Forces (SNF). He said publicly that NATO's Comprehensive Concept should be ready for adoption by the middle of 1989; and that SNF modernisation should be clarified in the framework of this concept. The German press has interpreted these remarks as an indication that the Chancellor is disposed to take decisions on SNF modernisation in the course of 1989. Herr Teltschik has recently confirmed privately to Sir Christopher Mallaby that this is indeed the case; but that the Chancellor wants the Alliance, in addition to deciding on modernisation, to agree to start negotiations on SNF arms control once the conventional stability talks have produced certain results. Such a commitment is apparently the price Herr Genscher is demanding for acquiescence in a modernisation decision.

The aspect which will be the most sensitive in the FRG is the introduction of a longer range follow-on system to the LANCE missile. Studies in NATO's Nuclear Planning Group have confirmed the importance of deploying a new missile by 1995: it will have an important role in NATO's deterrent posture following the INF Treaty; and the current system cannot be maintained beyond 1995 without unacceptable costs. Development of the system will take 3 to 4 years and production a further 12 months: hence the need for an early decision.

We recommend that the Prime Minister:-

- welcome the Chancellor's determination to take modernisation decisions next year;
- express the hope that the Germans will be able to contribute in a more productive way than hitherto to completing a Comprehensive Concept report which will provide a rationale for such decisions;
- sound a note of caution about the idea of a commitment to SNF arms control. Our own analysis has failed to reveal any form of SNF arms control which would be likely to be compatible with our security, technically feasible or negotiable with the Soviet Union. What incentive would the Russians have for agreeing to a ceiling on SNF missiles above zero? Would they not be likely to offer a zero option either on missiles or on all nuclear weapons in Europe? And how would Chancellor Kohl envisage NATO being able to proceed with its modernisation plans in the face of such an offer?

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Arms Control

Work on an Alliance proposal for the conventional stability talks has been held up pending President Mitterrand's "review" of the relationship between them and the CSCE process. The Prime Minister might therefore brief Chancellor Kohl on her discussion with President Mitterrand at Mont St Michel and encourage him to join her in urging the President to ensure that this problem is settled soon on the basis agreed by NATO Foreign Ministers at their meeting in Reykjavik in 1987 (ie that the conventional stability talks should take place within the framework of the CSCE process, but that participation should be limited to the 23 members of NATO and the Warsaw Pact with appropriate safeguards for their autonomy). The priority for the West should be not arguments about procedure but agreement on the substance of our negotiating proposal.

On chemical weapons, the Prime Minister could refer to the unsatisfactory results of the Porton Down/Shikhany exchange visits this summer and say that she is considering underlining the need for much more Soviet openness about their CW capabilities, when she sees Mr Gorbachev in London. If Chancellor Kohl argues (as Herr Genscher has) that we should set an early target date for the conclusion of a CW convention, she could say that there are important issues still to be resolved, particularly on verification, and that such deadlines are unlikely to be helpful.

As Mr Shultz told the Prime Minister in Washington that the US had raised with Chancellor Kohl their belief that German companies had been involved in the supply of chemicals to the Middle East for CW purposes, it might be useful also to refer in general terms to the dangers of CW proliferation.

East/West and CSCE

Chancellor Kohl visited Moscow from 24 to 26 October, a visit seen as marking a substantial thaw in Soviet-FRG relations. A number of agreements - scientific, technical and cultural - and commercial contracts were signed, and proposals were made for co-operation in various industrial sectors and in management and other training. Chancellor Kohl also announced agreement on the release of "all" political prisoners, although it is now clear that he was speaking on the basis of a misleading account from Herr Genscher of his talks with Mr Shevardnadze. (The Soviet position remains that there are only 11 political prisoners ie those convicted under "political" articles of the criminal code which are due to be changed soon.) Mr Gorbachev is expected to pay a return visit to the FRG in the New Year, although dates have not yet been fixed.

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During the Chancellor's visit, there was German disappointment at the inflexibility of the Soviet position over Berlin and the division of Germany. If the subject arises, he will hope for the Prime Minister's understanding of his need for domestic reasons to broach these subjects in Moscow.

FRG policy on East-West relations, particularly its public presentation, has been coloured by the emotional approach of Herr Genscher, who has tended to be uncritically generous in his praise of Mr Gorbachev and optimistic about the irreversibility of Soviet reforms. He has spoken in favour of a more forthcoming policy towards the Eastern bloc (although without being specific). Chancellor Kohl and the Defence Minister, Dr Scholz, take a more realistic approach in line with our own. But there is still a danger of significant softening on arms control and other issues, including economic relations: public opinion in the FRG is more easily swayed towards uncritical rapprochement than in, for example, France or the UK.

Nevertheless, in practice there has not so far been much difference between our and the Germans' handling of the Russians. The Germans are privately happy to admit that there is no real prospect of a boom in trade with the Soviet Union, that their companies and Government take a hard-headed commercial approach to the Soviet market and that there is no disposition to throw German taxpayers' money at the Russians. They are prickly about any suggestion that they are somehow soft. But the Prime Minister could:-

- stress the importance of a consistent Western approach to the Soviet Union. In a European context this will be an important theme of the Rhodes European Council, but we should beware of giving the Americans the impression that there is a separate European agenda or a divergent basic analysis;
- remind Chancellor Kohl of the need to counter the Gorbachev publicity machine with our own PR: we should certainly not seem negative or rigid, but it is vital that public opinion remain behind Western security and defence policies. Too euphoric a picture of Gorbachev, without balancing stress on realities which have not changed (eg the military and KGB), is bound to be dangerous;
- assure Chancellor Kohl that the UK approach is open-minded and that we are taking every advantage of opportunities offered by the Russians to make progress in East/West relations, and in our own relations with the Russians (which have not suffered from a tough approach on security issues).

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A visit by Chancellor Kohl to Poland is in prospect if bilateral difficulties (mainly relating to the German minority) can be ironed out. He may therefore ask about the Prime Minister's visit. She might underline that she impressed on the Poles that we would be willing to provide economic assistance only when they had put their own house in order; they would need first to agree and adhere to an IMF programme and undertake necessary economic and political reforms.

We recommend that the Prime Minister urge Chancellor Kohl to back the UK and US approach on conditions for the CSCE Human Rights Conference in Moscow. We have argued in the Twelve and Sixteen that this is the best way of maintaining pressure on the Russians to continue improving their human rights performance; the more visible Western solidarity, the better the chance of securing improvements. Although Chancellor Kohl appeared to agree with the Prime Minister in their telephone conversation of 20 October on the need for specific practical improvements, the FRG have since expressed doubt whether it is realistic to expect the Russians to meet performance criteria. However, they are sympathetic to the UK/US approach as a means of breaking the negotiating logjam and have agreed to a co-ordinated Western approach on modalities for the conference itself.

Chancellor Kohl may argue, as the FRG did in July, for a renewed effort to conclude the Vienna meeting as soon as possible, with only a short technical break for Christmas to enable an early start to the conventional arms control negotiations. If so, the Prime Minister could reply that we would not wish to see a repetition of the procedural wrangling which split the Western camp in the summer, and that, if the Vienna meeting has to be prolonged past Christmas, there should be adequate time for full reflection and reassessment by governments.

South Africa

It would be useful for the Prime Minister briefly to exchange views with the Chancellor on the likely course of the new US Administration's policy towards South Africa. She could mention Mr Bush's warning of continuing Congressional pressure for sanctions. She could also tell the Chancellor that she briefed Mr Bush on Dr Leutwiler's forthcoming mission to South Africa, and that he expressed enthusiasm for the idea of an emissary. Chancellor Kohl will have seen Dr Leutwiler on 29 November. The Prime Minister might ask him for an account of the meeting (she herself is seeing Dr Leutwiler on 6 December). It is not clear whether P W Botha will be going to the United States for signature of the Namibia agreements since the Americans have indicated that they would not be willing to arrange a meeting with President Reagan. The Prime Minister may wish to say to Chancellor Kohl that, if P W Botha

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does go to the United States via Europe, and also takes in London, she would be willing to see him. We know more of P W Botha's intentions following Leutwiler's visit.

Arab/Israel

Like us, the FRG cautiously welcomed the PLO statement in Algiers calling for an international peace conference on the basis of UN SCRs 242 and 338. Chancellor Kohl should therefore agree that this represents a modest advance on which to build. But the sceptical US and Israeli reactions show that the Palestinians have not yet convinced them that they genuinely want peace. The Europeans must therefore continue to urge the Palestinians towards moderation, while ensuring that the new US administration pays early and sympathetic attention to the problem and encourages the Israelis to match the PLO's step forward with a parallel commitment to an international conference.

Chancellor Kohl may be on the defensive over Tornado for Jordan. He owes the Prime Minister replies to her letter of 13 October proposing a meeting of officials to address the problem of official credit for collaboratively-produced defence sales outside NATO, and to her letter of 29 October about the withdrawal of FRG public sector support from the credit arrangements for the German workshare. However, his Government continue to assure us that an alternative solution involving a consortium of banks will be found before the deadline of 8 December. We recommend that the Prime Minister underline her concern that this deadline should not be missed. The UK is already heavily exposed; without the support of the German banks the deal is likely to collapse. (The Prime Minister may also have an opportunity to raise Tornado for Jordan with Signor De Mita at Rhodes. If the Germans reach a satisfactory solution on credit arrangements, that would help to put pressure on the Italians, who could also be reminded of the wider implications for Italian participation in collaborative ventures.)

It would also be useful in this context for the Prime Minister to mention to the Chancellor Tornado for Oman. The decline in oil prices and the drop in the value of the dollar have forced the Omanis to ask us for a further improvement in financing terms. Part of the package which the Sultan has requested is cover from British sources for the German element in the contract (worth nearly £100 million).

I am copying this letter to Brian Hawtin (MOD), Alex Allan (Treasury) and Trevor Woolley (Cabinet Office).

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