

PRIME MINISTER

ANGLO GERMAN SUMMIT

You are to attend an Anglo-German Summit in Frankfurt on 20 and 21 February. It is a rather more extended and festive occasion than usual, intended to demonstrate publicly the warmth and closeness of Anglo-German relations. Unhappily, there are more contentious issues to discuss than at any Summit in recent years. The tension between private disagreement and public harmony will be most difficult to reconcile at the joint press conference.

There is copious - unrealistically copious - briefing in the attached folder, and a more summary presentation of the issues in two telegrams from our Embassy in Bonn. You have an hour with Kohl the first evening and an hour and a half the next morning. There is also a further half hour with Foreign Ministers present. You will want to select the most important issues and work through them in order.

SNF Modernisation

The problem here is that Kohl is backing away from his earlier commitments and arguing that a decision is not really necessary until 1991/92. He is leaving the door ajar to some much more general decisions of principle, probably no more than a repeat of last year's Summit statement about updating. At the same time there is a growing tendency in Germany and elsewhere in NATO to argue that NATO unity is more important than a decision now on modernisation of SNF. This is the coward's way out: it is not worth being united on the wrong policy or on weakness.

The main points you will want to get across are:

- a decision to deploy a successor to LANCE is necessary. Development has to start next year and Congress will not authorise it without a clear decision to deploy;
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- failure to take the decision will be seen as weakness at a time when NATO needs to appear strong. It will give the wrong signal to Gorbachev;
- we cannot agree to negotiations with the Russians to reduce SNF. There is no outcome to negotiations which would not leave NATO worse off. Negotiations would lead inexorably to third zero. They would also undermine willingness to modernise;
- but there is scope for substantial unilateral reductions in NATO's nuclear artillery. We can challenge the Russians to match these;
- nothing has changed since Chancellor Kohl agreed with you at Rhodes that a decision should be taken this year. The decision will not get any easier if it is postponed;
- it is not for Heads of Government to take a production decision. What we must have is a clear decision in principle to keep NATO's nuclear weapons up to date by deploying a successor to LANCE when the time comes;
- we need a Summit in late May to take this decision;

Frankly, I don't think you are going to move him, at this stage anyway, although you may secure an ambivalent commitment to deal with the matter at the Summit. You will need to decide to what extent to emphasise our differences publicly at the subsequent press conference. I see no point in papering over the cracks. But the best way to keep Kohl aboard is to set out positively the case for modernisation rather than excoriate the Germans for their weakness.

Military Training

Military training, and particularly low flying, have become a controversial issue in Germany following the Ramstein disaster and a number of other accidents, and the Germans have been trying to persuade us to reduce our low flying still further.

There is obviously a limit beyond which we cannot go while keeping our forces effective. We look to the German Government to make clear publicly that training and low flying are essential to forward defence. Moreover, it is not the case that Germany endures more low flying per head of population than anyone else in the Alliance. The United Kingdom has more. The fact is that pilots have to practice where they may have to fight and there is very little more we can do to reduce our activity in Germany. The German Government has simply got to do a better job in putting the case to its public opinion.

East/West Relations

There are two aspects you will want to discuss. The first is the need for Kohl himself to give more leadership in countering exaggerated enthusiasm about Gorbachev in Germany. He ought to stress the need for realism about his prospects and the continued need for up-to-date defences. We have constantly to keep in mind what the position would be were Gorbachev to fail and be replaced. You have succeeded in the United Kingdom in getting people to understand that you can both support what Gorbachev is doing and yet remain utterly committed to a strong defence. Kohl needs to do the same.

The second aspect is Eastern Europe, especially Poland. Kohl will be going to Poland in May. You will want to urge him to take the same line as you did about the link between political reform and economic and financial help. There has been significant internal progress since your visit. But the essential point remains for Poland to get an agreement with the IMF. You hope Kohl will not dilute the message.

Tornado

You will want to put Kohl on notice that we cannot continue the situation where the United Kingdom has to shoulder an unfair share of the credit burden for sales of Tornado - and no doubt in future other collaborative projects - abroad. We need to have discussions between our officials to find a way of sharing the risks more fairly.

European Community

① The main EC issues on which to focus are economic and monetary union - on which you will have talked to Poehl - and taxation issues. You will want to convey to him the extent to which national Governments would have to surrender power over their own economies if the sort of ideas being discussed in the Delors Committee were put into practice. You could point out the risks for the stability of the Deutschmark of subjecting the value of Germany's currency to politically-diluted management involving Governments with socialist objectives. You will also want to make quite clear that you are not prepared to contemplate Treaty amendment and anyway could not get it through the House of Commons on this subject. It would be far better to scale-down ambitions and expectations on EMU and concentrate on practical steps. Cumulatively these would add up to significant progress.

You will also need to make clear that you cannot envisage the Community setting tax rates in member states and this means that you will resist an EC-wide withholding tax. This again is a matter which you could never get through our Parliament since it attacks the very basis of Parliament's powers. Anyway, the practical arguments for it are extremely thin. The main effect of an EC-wide tax would be to drive capital out of the Community, which is the last thing any of us want.

Other EC issues which deserve a brief mention are:

- the social dimension, where you will want to underline that measures must be optional for member states since there is no prospect of our introducing worker participation. We prefer employee share ownership, which has burgeoned in the United Kingdom (over 1500 schemes now);
- frontier controls, where we are all for making it easier for EC nationals to cross frontiers but cannot give up our essential security checks. If he reverts to his plan for a Euro-FBI, you could agree that this should be examined in the Trevi Group;

- GATT. You will need to continue your efforts to get him to understand that the EC must be willing to reduce protection and subsidies for agriculture further if the GATT round is to be successful. We cannot just camp where we are. Anyway, it is illogical for Germany, which depends for its livelihood on industrial exports, to put these at risk by insisting on protection for its small, heavily subsidised agricultural sector.
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South Africa

On this, you will want to talk to Kohl about the outcome of Leutweiler's mission. Since then we have had an enquiry from President Botha about a possible quid pro quo for Mandela's release. You could point out the particular problem which South Africa is likely to face later this year in redeeming its bearer bonds, which are held mostly by German and Swiss banks. The South Africans are going to need help with this and with rolling over their debt. You could propose that we make a joint reply to the South Africans about what would happen if they released Mandela, using the attached text (which you have already agreed). You could hand it to him.

You may find that you have to stiffen Kohl against further sanctions or non-economic restrictive measures. These would give quite the wrong signal and might jeopardise the prospect of a peaceful settlement in Namibia and Angola. It would be far better for Britain and Germany to collaborate on some positive measures. For instance, the Urban Foundation in South Africa will shortly suggest that Britain, Germany and Switzerland should contribute to a £5 million guarantee fund, to which private sector companies could also contribute. This would then allow the Urban Foundation to raise some £50 million to provide mortgages for cheap housing for Africans. This would be a very imaginative gesture, at low cost. You might also tell him about our plans to invite South African Ministers to London.

Economic Summit

You may want to put Kohl on notice that you intend to return at the Economic Summit to the problems of structural surpluses in Germany and Japan and the difficulties which they cause for Germany's partners. There really need to be sustained increases in domestic demand in Germany over the next few years if adjustment is to take place. One way to achieve this would be for Germany to give higher priority to deregulating its economy, getting rid of restrictive practices and reducing subsidies.

Environment

You will want to explain the reasons why you will not be attending the meeting in The Hague on 11 March.

Bilateral Issues

You will want to mention to Kohl that we will be making an application for extradition of Hanratty, one of the two Irish terrorists caught crossing the Dutch/German border.

You will also want to suggest that the next Anglo/German Summit should be held in March 1990 to coincide with the 40th Koenigswinter Conference. This will be in Cambridge.

Kohl may revert to his invitation to spend a private weekend at his home and also to visit Heidelberg.

I am doing separate notes about your programme, your meeting with Herr Poehl and about the press conference.

C.D.P.

CHARLES POWELL

17 February 1989

SOUTH AFRICA

- We believe that Mandela's release is in South Africa's own interests;
- in our assessment it would create a new and improved climate of benefit to South Africa internally and in her relations with the outside world;
- it would also reinforce our joint stand against sanctions and other restrictive measures;
- and it would make it easier for us to play a helpful role over the problems facing South Africa in its dealings with the banks over bearer bonds;
- looked at realistically, it would not on its own lead to the dismantling of any sanctions;
- but if the South African Government were to build on Mandela's release to launch a dialogue between all political groups in South Africa, we would then see what could be done to meet South Africa's concerns on sanctions (although we could not give advance assurances affecting others).