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Brief No 1

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STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

This brief is designed to serve the Prime Minister's bilateral with Chancellor Kohl and the Plenary.

The following are attached to the Brief:

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|---------|-----------------------|
| Annex A | Programme |
| Annex B | Personality Notes |
| Annex C | Possible press points |

OUR OBJECTIVES

GENERAL

- To influence German views on a wide range of issues, point up areas of agreement and seek to resolve differences.
- To raise the public profile of the relationship.

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- To urge Chancellor Kohl to agree at the NATO Summit to modernise NATO's SNF.
- To explain why SNF arms control negotiations should be avoided.
- To underline UK commitment to global CW ban but warn against raising public expectations.
- To caution against accepting Soviet statements on CW.
- Following Libyan CW debacle, to express support for FRG remedial action.

B. COLLABORATIVE DEFENCE SALES

- To persuade the Germans to work out a long-term solution to the problem of official credit for defence sales outside NATO.

C. BILATERAL DEFENCE ISSUES

- To ensure that momentum behind Joint Defence Study Group on extending and publicising bilateral cooperation within the Alliance is maintained.
- To convince the Germans that NATO forward defence requires an essential minimum of training and that they must help persuade their public of this.

D. EAST-WEST/SOVIET INTERNAL/CSCE

- To compare notes on respective approaches to Gorbachev visits.
- To encourage a realistic approach.
- To convince the Germans that, much as we wish it, success for Gorbachev is not assured, but there is little the West

OUR OBJECTIVES

can do to 'help' him.

- On CSCE to persuade them:

- a) to consider with us how best to activate the Human Dimension (CDH) review mechanism.
- b) to focus on the London Information Forum.

E. EASTERN EUROPE

- On Poland to elicit German views and intentions on debt problems.
- To argue that reform should be preconditions for debt relief and new credits.

F. TERRORISM

- To ensure continuing German cooperation: eg on Palestinian and Irish terrorism.
- To ensure that Hanratty and McGeough are brought to justice.
- To stress the need for a continued firm line on state sponsored terrorism.

G. ECONOMIC ISSUES

- To encourage the Germans:
 - a) to undertake faster structural reform of their economy.
 - b) to acknowledge continuing responsibility to contribute to sustainable development of world economy, including reduction of excessive current account surpluses.
- To indicate our intention to pursue these points at the Economic Summit.

H. EC ISSUES

- To persuade the FRG that the Community will have to give more on agriculture if the GATT Round is to succeed and to emphasise the need for continuing CAP reform.
- To obtain agreement to a constructive but cautious approach to the EC's relations with Eastern Europe.
- To enlist German support for our Single Market priorities and our approach to tax approximation, frontier checks, social issues and monetary cooperation.

OUR OBJECTIVES

- To underline the need for determined efforts to curb EC fraud.

I. REGIONAL ISSUES

- On South Africa: to discourage the Germans from launching initiatives in the Twelve for new restrictive measures.
- On Angola/Namibia: to show that recent agreements vindicate policy of engagement with South Africa.
- To stress the importance of helping an independent Namibia.
- To argue for discreet encouragement for internal reconciliation in Angola.
- On Middle East Arab/Israel: To stress the central role of the US. To argue for a common approach by the Twelve in dealings with Lebanon's two rival administrations.
- On Libya: to secure German help in preserving a firm Western line as long as Libya supports terrorism.

J. ENVIRONMENT

- To promote better understanding of UK policies.

K. BILATERAL

- To convince Germans that our relations need public recognition commensurate with their substance.
- To suggest 1990 Summit in UK coincide with 40th anniversary of Königswinter.
- To register progress in bilateral sphere (eg Joint Defence Study Group, school exchanges, Anglo-German Foundation, British Council collaborative research project).

GERMAN OBJECTIVES

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- To argue that no decision on SNF modernisation is needed before 1991/92.
- To convince us that if there is to be SNF modernisation, German public opinion will require there to be negotiations aimed at common ceilings.
- (Possibly) On CW to press for earlier deadline for completion of CW negotiations.

B. COLLABORATIVE DEFENCE SALES

- To resist offering official credit for out-of-area sales, which are controversial domestically.

C. BILATERAL DEFENCE ISSUES

- To convince us that German public anxieties should be appeased by reductions in training (especially low-flying) and/or by measures to reduce its environmental impact.

D. EAST-WEST/SOVIET INTERNAL/CSCE

- To persuade us that a more forthcoming policy towards the Soviet Union is in Western interest; that the changes there provide a historic opportunity for a more peaceful world which should not be missed.

E. EASTERN EUROPE

- On Poland to compare notes on PM's visit and prospects for Kohl visit, and (possibly) to seek a more forthcoming Western response to Eastern European debt.
- On Yugoslavia to see if we would support a concerted programme of financial assistance.

F. TERRORISM

- (Possibly) To persuade us that EC needs to reconsider measures against Syria.

GERMAN OBJECTIVES

G. ECONOMIC ISSUES

- To rebut criticism of their current account surplus, possibly by criticising our own large deficit.

H. EC ISSUES

- To explore UK's longer term vision of Community development.
- To keep EC reductions in agricultural support to a minimum and argue against further moves on the CAP which could hit German farmers.
- (Probably) To reassure us that their attitude to EC relations with Eastern Europe is still prudent.
- To ensure that Inner-German Trade is not adversely affected by any EC/GDR agreement.
- To enlist UK support for their Single Market priorities and approach to other current EC issues.

I. REGIONAL ISSUES

- To compare assessments of the situation in South Africa, Angola/Namibia, Middle East Arab/Israel.

J. BILATERAL

- (Probably) To invite the Prime Minister to Chancellor Kohl's home town (Ludwigshafen) later this year.

ARGUMENTS FOR USE

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- At Rhodes we agreed that Comprehensive Concept should be completed and decisions on SNF updating taken by middle of this year.
- Important not to let LANCE become obsolete: will require development from 1990 and production from 1993.
- Delay would leave gap in NATO defence, send wrong signal to Soviet Union that NATO is weak and Gorbachev winning.
- My letter of 23 January explained why we oppose SNF negotiations: Soviet pressure for third zero very hard to resist.
- Also severe technical problems: how to verify equal ceilings? Some systems are dual/triple capable. They are small and mobile. LANCE operated by 8 Allies.
- Arms control negotiations would also undermine NATO's willingness to update systems; shift spotlight to nuclear from conventional and CW.
- Best scheme: combine decision in principle in favour of deploying LANCE successor with substantial cuts in NATO stockpile (especially nuclear artillery shells). Challenge Russians to reduce to our level.
- US attitude: Baker has told me Administration needs assurance on deployment or it will not get funding from Congress for developing LANCE successor. US think negotiations unacceptably risky. Danger of major dispute. Important burden-sharing angle.
- NATO 40th Anniversary: Suggest we make firm statement of UK/FRG commitment to NATO, Western values etc at Press Conference.
- NATO Summit: easy on location. May seems good time. Will need forward looking message on taking Alliance's winning agenda into 1990s in order to make most of East/West opportunities.
- START: must be right, not rushed. Fully understand new Administration's decision to review before re-starting negotiations.

ARGUMENTS FOR USE

- CFE: negotiations will test Alliance unity. United front vital. Press Western proposals long and hard.
- Must resist superficial Eastern gambits. Keep eyes firmly on long-term security interests.
- UK working to help Turks come on board proposal: can FRG help too?
- Any CW Convention must have effective verification provisions. Shouldn't be rushed into accepting unsatisfactory provisions.
- Shevardnadze claim that Russians will start destroying CW aimed at public opinion. Soviet CW stocks and programme many times larger than claimed. Still largely secret. Need to see what they do in practice.
- Appreciate FRG action on Libya CW (prosecutions, tightening of export control legislation). Need to maintain concerted multilateral pressure to stop Qadhafi.

B. COLLABORATIVE DEFENCE SALES

- Important to export jointly produced defence equipment. Keep down NATO defence costs by increasing production runs; support Western foreign policy objectives beyond NATO area.
- Good prospects for further sales of Tornado and other joint products, eg European Fighter Aircraft, TRIGAT, NATO frigate. Need long-term solution for cases where one side cannot or will not provide official credit. UK shouldering unfair share of credit burden in case of Jordan.
- My letter of 13 October 1988: officials should meet to find way of sharing risks more fairly.

C. BILATERAL DEFENCE ISSUES

- British Forces here to help defend FRG.
- Recognise environmental burden on you.
- But no adequate defence without adequate training: without it, why keep forces ready to mount forward defence?
- British forces in Germany already aim to minimise disturbance eg Soltau-Luneberg. We restrict training at weekends and public holidays. Have reduced noise by moving battle simulation training further from inhabited areas.

ARGUMENTS FOR USE

But training cannot be reduced beyond minimum level without unacceptable detriment to operational effectiveness.

- Defence Ministers' joint initiative intended to strengthen and publicise defence relationship; but cannot substitute for operational readiness.
- Hope you will explain these points to German public.
- Refer to Joint Study Group in Press Conference: highlight 27 Luftlandebrigade training in UK, joint Skyguard/Oerlikon Point Air Defence Unit.

D. EAST-WEST/SOVIET INTERNAL/CSCE

- East-West Relations: Gorbachev's UN speech impressive exposition of "new thinking". 1917 and Lenin no longer sanctified.
- Bound to affect Western opinion. Need to explain reasons for our defence policies (Soviet military superiority, secrecy etc.). Solid Western voice essential.
- Gorbachev's foreign policy picks up our agenda. "New thinking" already old thinking in West.
- Our security policy must still take account of worst case.
- Your objectives for his visit to Bonn in June.
- Soviet Internal: Contrast between Gorbachev's public relations success internationally and growing internal Problems. What if perestroika fails to deliver?
- Overwhelming economic difficulties. Inflation 6-8%; government deficit of 100 billion roubles (10% of GNP); wages outstripping productivity; retail price reform delayed from fear of popular backlash; disappointing harvest (195 million tons against plan of 235 million); costs of Chernobyl and Armenia.
- Only way to revitalise economy: press ahead with fundamental reforms and convince population they will work. But little sign of enterprise and initiative among people (eg recent restrictions on cooperatives).
- Gorbachev's determination not in doubt. No coherent alternative or organised opposition. But plenty of resistance. Gorbachev has few natural supporters. Many in

ARGUMENTS FOR USE

positions of power fear/dislike what he is doing.

- Western reaction: should do what we sensibly can, eg management training could help shift attitudes. But West cannot rescue perestroika economically. Soviet economists estimate annual shortfall of consumer goods and services at 90 billion roubles (£90 billion at official rate).
- Cheap credits, loans etc, wrong answer (cf Poland in 1970s). Russians have resources: problem is appalling misuse of them. Attitudes/skills the key.
- CSCE: West must use Human Dimension mechanism agreed in Vienna to monitor Eastern implementation, come down hard on countries who break their undertakings.
- Arrangements for London Information Forum well advanced. Intend to include non-governmental representatives for frank debate - expect you will do likewise. Focus on breaking down barriers in field of information.

E. EASTERN EUROPE

- Much progress in Poland since my visit.
- Prospective talks with Solidarity encouraging but not enough to change Western approach.
- Told Poles during visit economic and political reforms essential before we consider further debt relief and new credits. Priority must be arrangement with the IMF. Important this message not diluted.

F. TERRORISM

- IRA terrorism a major threat not only to UK but, increasingly, to European countries. Middle-Eastern terrorism possibly responsible for Lockerbie disaster.
- Essential West sticks together: practical cooperation (Lockerbie), firm stand against state sponsors (Syria/Libya).
- Vital Hanratty and McGeough brought to justice.

G. ECONOMIC ISSUES

- Unsustainable imbalances among major economies are potential source of instability and strain on world

ARGUMENTS FOR USE

financial system.

- Further structural reform would improve longer term growth prospects for FRG and other countries. Could help reduce current account imbalances.
- Paris Summit will have to address these issues if G7 policies are to retain credibility.

H. EC ISSUES

- Share objective of successful GATT Round. Essential defence against protectionism. Much to gain from liberalisation - eg services, intellectual property.
- Agriculture remains the key. Without progress real risk Round as a whole will fail.
- US must move from utopian position on total elimination of trade-distorting agricultural support. Believe they will. EC will then need to move in its turn and accept much more precise commitments on reductions in support and lower protection against imports.
- CAP reforms, agreed at February 1988 European Council and subsequently, are working. Essential not to offset their effect. Farm price decisions must be at least as tough as Commission has proposed. And more will be needed to avoid isolation in GATT.
- EC relations with Eastern Europeans: constructive but cautious approach proving worth. Must differentiate carefully between them. Base all agreements on mutual advantage - reflect reforms already achieved, not just promised.
- Negotiations with Russians bound to be lengthy. Impatience will compromise our position. They are demandeur.
- Must not be distracted from Hanover/Rhodes single market priorities: banking and financial services; Public Purchasing; standards; also transport liberalisation.
- Major elements this year should include:
 - a) Second Banking Directive and Investment Services Directive. Commission proposals on reciprocity clauses are unworkable and wrong in principle;

ARGUMENTS FOR USE

- b) Public Procurement in the Excluded Sectors: we support principle, but want to see satisfactory means for ensuring compliance. Upstream oil and gas should be excluded: adequate competition exists.
- c) Transport. Despite substantial progress on road haulage, little progress last year on shipping, coach traffic or air transport liberalisation. Lower fares and better services throughout Community would be major gain to consumer from 1992.
- d) Insurance. Must reach early agreement on liberal life insurances directive. Current draft disappointingly limited but still an important element in completing internal market for financial services.

- On social issues welcome Rhodes stress on single market as best way to combat unemployment. Doubling of structural funds will make significant contribution.

- Must avoid harmonisation for its own sake. Deregulation the key. No unnecessary burdens on business.

- Respect national traditions: no wish to change your current practices on worker participation, don't try to change ours. European Company Statute is not wanted by business. Not wanted by business.

- Welcome signs of new Commission flexibility on indirect tax approximation (Commission report to ECOFIN in December, Mme Scrivener's meeting with Chancellor, 19 January).

- Commission have admitted major problems with excise duty harmonisation and doubts of most member states on VAT clearing house proposal.

- Fully committed to keeping VAT zero-rating. Does not distort trade.

- Must resist proposals for EC-wide withholding tax: Commission proposals unworkable, risk driving investment out of Community.

- Must make frontiers easier for EC nationals to cross; abolish checks where possible, but cannot give up essential security checks at water's edge against terrorists, illegal immigrants etc. On goods, should prove possible to abolish

ARGUMENTS FOR USE

fiscal frontiers.

- Package of CAP reforms agreed at Agriculture Council (23-24 January) a step forward. Could have been tougher. Advance indications of Commission price-fixing proposals encouraging.
- Further CAP reform justified, to reduce spending and reform way money is spent.
- Recent useful work by Court of Auditors and European Parliament on fraud shows need for determined action by Commission and Member States.

I. REGIONAL ISSUES

- South Africa: implications of President Botha's illness and his replacement as National Party leader not yet clear. Prospects for reform poor.
- Fresh initiatives now would drive whites further into laager.
- Afghanistan: must support resistance until illegally installed PDPA regime removed, enabling genuine self-determination.
- But need not prevent us channelling aid to innocent war victims in regime-controlled areas.
- Angola/Namibia: Recent agreements a landmark. Diplomatic engagement with South Africa can achieve results.
- Must work to make independent Namibia a success. Failure would set back prospects for whole region.
- Need to encourage peace in Angola. African states best placed to mediate: we are encouraging them to do so.
- Middle East Arab/Israel: Must encourage Palestinians to stick to moderate line, address realities ahead: need to identify negotiating team, consider modalities of International Conference etc.
- Should now focus on securing constructive Israeli response. No question of crude pressure; but they must recognise that status quo untenable (CW/missile proliferation in region; demographic trends; damage to international reputation caused by intifada).
- US role central in coaxing Israel forward. US/PLO

ARGUMENTS FOR USE

dialogue brought home to Israelis that times are changing.

Twelve must avoid deepening partition in Lebanon: adhere to strict neutrality between administrations.

- Adverse implications for our Beirut Embassies' security if we favoured one side over other.

- Libya:

Libyans still prepared to help IRA with terrorism, despite Eksund. A major threat to UK; also serious threat caused by its extension to mainland Europe. UK targets in FRG.

- Libyan CW development shows Qadhafi in true colours. Must maintain pressure until he makes makes convincing amends on terrorism (details of pre-Eksund arms shipment, expulsion of Abu Nidhal from Tripoli) and abandons CW project at Rabta.

J. ENVIRONMENT

- Already spending £1 billion on SO2 and NOx emissions-control equipment and will spend comparable amount following agreement on Large Combustion Plants directive. Implementing tighter vehicle emissions standards as provided for in Luxembourg package. Taking lead in implementing measures agreed at last North Sea Conference.

K. BILATERAL

- Must keep machinery of relationship in good repair as we deal together with contentious issues.

- Accentuate in public our many common interests including defence.

- Next Summit in UK, 1990. Could coincide with 40th anniversary of Königswinter.

- Understand school exchanges going well; mention them and Anglo-German Foundation, British Council Collaborative Research Project in press conference? Also mention Joint Defence Study Group.

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OUR RESPONSE TO THEIR ARGUMENTS

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- Understand domestic sensitivity of SNF in FRG. Want to reach private understanding with you and Bush. But nuclear deterrence has served West well. Need to preserve its credibility for next generation.
- We can show purpose of modernised SNF is to deter, not fight nuclear battles. But if we don't update LANCE wrong signal will be sent to Soviet Union, deterrent will be eroded and so will public support for it. Slippery slope to de-nuclearisation. Aircraft and artilleries cannot take all the strain.
- Soviet Union would call for third zero once negotiations began. Grinevsky (Ambassador to CFE) and Chervov (Head of General Staff Directorate) have both recently said Soviets want all TNF out of Europe.
- "FRG must do something to respond in particular to GDR cuts". Only response needed is to welcome belated recognition of massive WP superiority in conventional arms. Have been asking them to reduce for years. Vindication of tough line taken by Alliance.
- Need to keep in perspective: Soviet and NSWP cuts taken together leave WP with very substantial superiority. Withdrawal of 24 nuclear missile systems out of 1608 practically meaningless: pure propaganda. Their approach at CST will be litmus test of their seriousness.
- UK remains committed to CW ban. Playing an active part in negotiations. But arbitrary deadlines will only put pressure on West and lead to unsatisfactory agreement. [- Line on German initiative in EPC on CW exports, and approach to Arab league to be submitted separately.]

B. COLLABORATIVE DEFENCE SALES

- In both our interests that Jordan/Tornado experience not repeated.
- Appreciate your difficulties but need long-term solution. Problem will only grow. Vital to our defence industries.

OUR RESPONSE TO THEIR ARGUMENTS

C. BILATERAL DEFENCE ISSUES

- Understand low-flying problem. Allies working together on package to reduce impact. But German Government must make clear publicly that training is essential to forward defence and that FRG does not shoulder burden alone.
- Misconception that FRG endures more low-flying per head of population than anyone else in Alliance: UK has more (because UK low-flying system also used by USAF) including F-111 bombers not based elsewhere in Europe; also RAF Germany does 30% of training in UK.
- RAF(G) has cut back low flying 14% in recent years. Some modification of current levels may be possible but to retain operational capability and flight safety pilots must practice where they may have to fight. Very little scope for further significant reductions in FRG; no intention of facilitating further shift of RAF(G) training to UK.
- WEU can play a valuable role in support of NATO as forum for concerting views on European security and identifying improvements to common defence.
- Logical home for WEU is Brussels as headquarters of EC/NATO. Hope you will help us encourage France to agree.
- Do not believe WEU should contemplate further enlargement at this stage. Importing the Greece/Turkey dispute into WEU would inevitably damage its effectiveness.

D. EAST-WEST/SOVIET INTERNAL/CSCE

- Changes in Soviet Union not irreversible. Soviet Union still far from a "normal" member of international community, eg in human rights.
- Understand Germany's special interest in detente as divided nation: but must be prepared for possible reverse.
- Too much depends on Gorbachev personally.
- Naturally sympathetic to Gorbachev's aims. But sticking to our principles while encouraging his reform will help more than premature concessions.

OUR RESPONSE TO THEIR ARGUMENTS

E. EASTERN EUROPE

- On Poland: West has no interest in allowing Poles to repeat mistakes of 1970s. Over-generous credits would relieve pressure on regime.
- Not indifference. Want to encourage more humane and efficient society. Aim should be increases in personal contacts, exchange of knowledge in key fields. Help East Europeans to help themselves.
- Yugoslavia's difficulties unlikely to be eased by external finance. Yugoslavs have not asked for balance-of-payments assistance.
- We are not giving medium and long-term credit guarantees (because of high debts) but keep position under regular review.

F. TERRORISM

- Continuing evidence pointing to Syrian involvement with Palestinian terrorism - eg PFLP(GC) arrests in Frankfurt. Findings on Lockerbie certainly not inconsistent with this. Now is not the time to relax measures.

G. ECONOMIC ISSUES

- UK policy is concentrating on checking inflation in the domestic economy.
- Welcome growth achieved by FRG in past year; expect further sustained increases in domestic demand over next few years as part of adjustment process.

H. EC ISSUES

- Of course US intransigence the main problem at Montreal. But if they had been less utopian on agriculture, EC could have been isolated.
- Signs are Yeutter will negotiate constructively. Believe formula for long term can be agreed. Pressure will then be on Community. Must be ready to agree to cover both long and short term reductions in support, as well as improved access for imports.
- Fully appreciate domestic sensitivity of agriculture.

OUR RESPONSE TO THEIR ARGUMENTS

Reform surely easier if part of multilaterally agreed package.

- Economic concessions by the EC cannot substantially affect pace of Soviet reform process. Will be determined by internal factors. Should adopt patient, measured approach.
- Understand political importance you attach to principle of Inner-German Trade. Fully accept that any EC agreement with GDR should not affect this, but expect you to ensure no leakage of eg textiles into rest of Community.
- "Kohl's plan for Euro-FBI" Certainly agree on need for closer intergovernmental cooperation on drugs, international crime, etc. Take step by step. TREVI first.
- "Social charter of minimum rights": an unnecessary distraction.

I. REGIONAL ISSUES

- Arab/Israel: EC Troika efforts worthwhile. But must be properly targeted, complement US efforts. No substitute for US lead.
- Lebanon: "Mediation?". No chance of constructive mediation until Lebanese militias and regional powers ready for compromise. Arab League Mediation stands better chance than Twelve: deserves support.
- Libya: "Americans softening": Permission for US Oil companies to resume work in Libya unavoidable. No point in handing Qadhafi chance to take over their assets. Detect no weakening in new US administration on Libya.
- "Big British activity in Libya": British community there at their own risk; no political significance. Under 5,000 (7,000 before break in relations). German market share ahead of ours.
- "Should talk to Qadhafi": We talked to Libyans in March 1985. Their behaviour got worse. La Belle Discotheque bombing (April 1986). Eksund (1987). Rabta.

J. ENVIRONMENT

- Objectives of Saving Ozone Layer Conference? Political boost to existing international activity. Glad Töpfer

OUR RESPONSE TO THEIR ARGUMENTS

(Federal Environment Minister) will attend.

K. BILATERAL

- More money for School Exchanges? Funding matter for local authorities. Can make some assistance available in special cases.

BACKGROUND

A. SNF MODERNISATION/COMPREHENSIVE CONCEPT/ARMS CONTROL

- The Prime Minister's letter to Chancellor Kohl is attached. So is the relevant extract of Chancellor Kohl's interview with the Financial Times and a report on it from Bonn. Ambassador Grinevsky, speaking at Chatham House on 26 January, said "Negotiations on the reduction and eventual elimination of tactical nuclear weapons are inevitable." In an interview to Tass, broadcast on 21 January, Col-Gen Chervov said "The elimination of tactical weapons in Europe is a pressing problem." The timing of the recent unilateral Warsaw Pact force cuts, particularly those in the GDR, were clearly designed to influence the domestic debate on SNF.

- The negotiations on conventional armed forces in Europe (CFE) will start in Vienna on 6 March, together with parallel negotiations on confidence-building. The Alliance are currently finalising proposals for both sets of talks.

B. COLLABORATIVE DEFENCE SALES

- A reply is long overdue to the Prime Minister's letter to Chancellor Kohl of 13 October 1988 (attached), which sought an early meeting of officials.

- (Not for use) We shall want to propose an early offsetting ledger account under which, for example, the ECGD credit for the German work-share of a Tornado deal outside NATO would be balanced against official German credit for the UK work-share of defence sales within NATO and/or civil sales (eg Airbus) both within and outside NATO in countries where ECGD's market limits were under pressure.

C. EAST-WEST/SOVIET INTERNAL/CSCE

- The Twelve are considering how best to activate the Human Dimension mechanism set up by Vienna CSCE Meeting in preparation for the first Human Dimension meeting in Paris in June. The Czechs and Romanians should be brought to book soon. The Germans are often reluctant because of problems with their ethnic minorities in Eastern Europe.

BACKGROUND

- The UK has prepared a draft Western proposal for the London Information Forum (18 April - 22 May 1989). The Twelve are considering it. We are encouraging independent media experts to join national delegations to ensure a spontaneous debate. Lord Rees-Mogg will lead the UK delegation.

D. EASTERN EUROPE

- The Germans are anxious to improve their bilateral relations with Poland. Officials have recently confirmed an agreement in principle to allow the Poles to repay a 1975 DM 1 billion loan in zlotys, to be used for involvement in Polish industry. Following private talks in Bonn between Rakowski and a number of German Ministers, it has been conditionally agreed that Chancellor Kohl will visit Warsaw later this year and President von Weizaecker will go to Poland for the 50th anniversary of the beginning of World War II in September.

- The 1975 loan is not caught up in the Paris Club debt rescheduling agreements (nor has it ever been serviced) and the Germans can argue that the agreement to repay it in zlotys will not prejudice commitments to her partners within the Paris Club. Nonetheless it is bound to increase Polish pressure on others for long-term debt rescheduling. The Germans are keen on further economic help to Yugoslavia. The UK agreed last July, along with other official creditors, to reschedule Yugoslavia's debts. Her balance of payment has benefitted and does not need further support. The internal economic situation remains dire and the IMF programme of economic reform and liberalisation must be maintained. Britain withholds official credit guarantees (although an exception has been made to allow the sale of three Airbuses) because of Yugoslavia's debts to ECGD (£300 million).

E. TERRORISM

- Cooperation with Germans on Lockerbie has been good: they were annoyed by press accounts alleging security

BACKGROUND

shortcomings at Frankfurt, but accept that we have put the record straight: we still do not know for certain where the bomb was loaded. Still no firm pointers as to perpetrators.

- On 26 October 1988 the Germans arrested fourteen PFLP-GC suspects; two of the leaders remain in custody. This was only one of several indications of a resurgence of PFLP-GC activity in Europe. This organisation is based in Syria and it is inconceivable that the Syrians do not have considerable knowledge of the activities of this group.

F. ECONOMIC ISSUES

- There is considerable scope, in the service and non-exporting sectors of the FRG economy, for greater flexibility, more competition and less regulation and subsidies. This could help reduce current account surpluses and make room for more growth in the FRG.

- German economic growth in 1988 was around 3.4%, mainly due to a marked increase in fixed capital investment and exports (5.5%). Inflation edged up to 1.2%, unemployment fell slightly. Although imports rose sharply, export growth was enough to give a record trade surplus of some DM 125 billion (1987: DM 118 billion). The current account surplus may thus have shown a small rise in 1988 as a percentage of GDP, thus arresting, in at least one of the G3 countries, the trend towards a reduction of current account imbalances.

- In 1989 slower growth (around 2.5%) is likely. This is a little above the estimated sustainable growth rate. It implies a further rise in the nominal trade surplus. Inflation also is forecast to rise further to 1.75% to 2%, mainly because of consumer tax increases. With the German economy close to full capacity working, and inflation tending to edge up, monetary policy has rightly become more restrictive.

G. EC ISSUES

GATT Uruguay Round

- The GATT MTM in December reached provisional agreement on 11 out of 15 areas. Agriculture, textiles, intellectual

BACKGROUND

property and safeguards remain to be resolved at or before a meeting of senior trade officials in April. Without progress on agriculture the LDCs, in particular, will not allow agreement in remaining areas to be reached/confirmed.

- On GDR, the FRG wants to ensure that nothing in any future Trade Agreement should affect the Protocol on Inner-German Trade (which allows free access for most GDR products to the FRG - but not for circulation in the rest of the EC). We recognise the political importance which the FRG attaches to this issue and accept that the principle of Inner German Trade should not be called into question in the forthcoming EC/GDR negotiations. Given this reassurance, we hope the Germans will be willing to discuss the practicalities of quarantining Inner German Trade.

Insurance

- The directive would liberalise cross-frontier trade in life insurance. German opposition is expected. There is evidence their industry uncompetitive by UK standards. They justify their restrictive position by reference to consumer-protection needs.

Social Issues

- Chancellor Kohl agreed with the Prime Minister in Rhodes that any European Company Statute should provide only a framework, enabling Member States to preserve existing practices. Chancellor Kohl's priority is to preserve the FRG's present system of labour market regulation. We agree on the need for action on Health and Safety in the workplace; but elsewhere FRG can support social measures which are unwelcome to UK.

Indirect Tax Approximation

- Mme Scrivener, the new French Commissioner for taxation, told the Chancellor on 19 January that she agreed the need for a new, pragmatic approach to indirect tax approximation, and recognised that the Commission's clearing house proposals would need to be reconsidered. She also agreed

BACKGROUND

that the Commission would have to start afresh on excise duties. She acknowledged the importance of zero-rates in the UK and Ireland and said the Commission were working hard on new ideas. These statements represent a new beginning for the Commission's approach on tax approximation, in the face of a series of objections from member states including the UK.

- The Germans are relaxed on the Commission's tax approximation proposals because their own VAT rates fall within the proposed bands.

Withholding tax

- As part of the deal in June to liberalise capital movements it was agreed that the Commission would make proposals on taxation of savings aimed at eliminating or reducing risks of distortion, evasion and avoidance. The French fear that their high tax regime will mean funds flow out of France after liberalisation. They want an EC-wide withholding tax on savings to stop this happening. But any such tax, if it bit, would drive investment out of the EC altogether, damaging London and other financial centres. The Commission proposed a 15% withholding tax, with some exemptions, to ECOFIN on 13 February. We opposed with Luxembourg and the Netherlands. The Germans supported the Commission.

H. ENVIRONMENT

- Public concern for protecting the environment is probably greater in the FRG than in any other EC Member State. The Greens are represented in Parliament and environmental issues have long been politically important. The FRG tends to adopt a more precautionary approach to environmental protection than most countries, including the UK, and is often prepared to spend more money on it.

- Until recently the FRG was inclined to regard the UK as "the dirty man of Europe", but recent events have led to a substantial reappraisal. Agreement in June 1988 on the important Large Combustion Plants directive was followed in

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September by the Prime Minister's keynote speech to the Royal Society, which aroused keen interest in the FRG. In November the UK announced important initiatives on the ozone layer and movement of waste. On 5-7 March 1989 the Prime Minister will be hosting a major global conference on the ozone layer.

- Differences still exist in several areas, but we now share more common ground with the FRG in EC negotiations on the environment, and the Germans are studying closely what they perceive to be a marked change in UK attitudes.

I. REGIONAL ISSUES

- South Africa: The Auswärtiges Amt and the Chancellery do not see eye to eye on sanctions. Genscher favours non-economic measures, including restricting the size of South African diplomatic missions in Europe and re-introducing a visa regime (which they have anyway agreed to do by 1990 under the Schengen Agreement with France and the Benelux countries).

- In July 1988 Genscher launched a personal initiative aimed at incorporating a 14 point code of labour standards into the EC Code of Conduct for companies with interests in South Africa. Only the Dutch supported wholeheartedly. Others found the initiative too detailed; too narrowly based on German law; and too early (the existing Code of Conduct was only revised in 1985).

- Libya: The German handling of reports that German firms had been involved in the Rabta plant was very inept: but they are now trying to make amends (eg on initiative in EPC on CW exports). Chancellor Kohl is said to be angry with the US for leaking details to the press, and with his own security service for failing to keep him informed. The FRG raised their diplomatic representation in Tripoli last Summer by sending back an Ambassador to replace a Chargé d'Affaires. They have been rewarded with the Rabta affair.

- In 1986 under the US trade embargo, US oil companies operating in Libya were ordered by the US Government to end their operations there. It was later realised this would

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put the companies in breach of their contract with the Libyan Government, who would be legally empowered to nationalise their assets. The companies were allowed to negotiate a "stand-still" agreement with the Libyans whereby the companies' operations were suspended "without prejudice", but the Libyan Government was allowed to sell the oil from the companies' blocks. This "stand-still" agreement runs out in June, hence the reluctant US decision to allow the Companies to resume operations in Libya.

J. BILATERAL

- The next Summit will be due in Britain in 1990. The 40th anniversary of Königswinter will be marked at Cambridge in March 1990. If the two events could be combined to allow Kohl to make a brief appearance at Königswinter there would be a very welcome publicity spin-off for the bilateral relationship.

- The Joint Defence Study Group is a group of senior officials established by Ministers in October 1988 to report to them on ways of improving bilateral defence cooperation and of getting better public understanding of the level of cooperation which already exists. A first round of measures including additional joint training and increased cooperation in logistics and exchange, was announced during Dr Scholz's visit to London in January. These included participation by a Company from 27 Luftlandebrigade in an exercise with British Forces in UK (probably in Oct 89). An attractive additional measure - to form a joint short range air defence unit using German Skyguard radars and UK Oerlikon anti-aircraft guns to enhance the air defence at an RAF station in Germany - is also under initial consideration.

- Soltau-Lüneberg is the main non-live-firing training area in BAOR (the only one big enough to accommodate mechanised exercises up to battlegroup level). Part of the training area is used seven days a week. It is also an area valued by local inhabitants for recreational purposes. Steps have been taken to reduce the impact on the local population, but

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we continue to resist calls for a formal pause in training in the summer holiday period.

- A British-German Academic Research Collaboration scheme has been established by the British Council and the German Academic Exchange Scheme (DAAD), who will provide matching funds totalling £350,000 in the first year, for an exchange of researchers in approximately 80 projects in the areas of business-related studies, engineering and science. The results will provide better information to help industry exploit the commercial opportunities of the Single European Market.

- The Anglo-German Foundation was set up in 1973 with a lump sum grant from the FRG, following the State Visit of President Heinemann. Contributions from the FRG at present run at £250,000 annually, and from the UK £175,000 annually. German MPs are concerned that the AGF does not win enough publicity for its valuable work or its contribution to Anglo-German relations. The AGF is participating in the British Council/DAAD Exchange Scheme.

- The Prime Minister and Federal Chancellor agreed in 1985 that action should be taken to develop educational exchanges. Their number has grown and agreement has recently been reached on a further expansion programme. Endorse the agreement at Press Conference.

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FM BONN

TO DESKBY 101700Z FC0

TELNO 167

OF 101630Z FEBRUARY 89

INFO PRIORITY MODUK, WASHINGTON, PARIS, UKDEL NATO

YOUR TELNO 133: SNF MODERNISATION: FT INTERVIEW WITH CHANCELLOR KOHL

1. THE FT CORRESPONDENT, DAVID MARSH, HAS GIVEN US IN CONFIDENCE (PLEASE PROTECT) THE TRANSLATED FULL TRANSCRIPT OF HIS INTERVIEW WITH KOHL. (BY FAX TO WED). THIS INDICATES MANUSCRIPT AMENDMENTS AND DELETIONS MADE BY THE FEDERAL CHANCELLERY ON TELTSCHIK'S INSTRUCTIONS.

2. THERE WAS ONE SIGNIFICANT CHANGE ON SNF. KOHL IN FACT SAID: 'THE REAL QUESTION OVER THE DEPLOYMENT AND MODERNISATION WILL BE IN 1991/92, WHEN THE QUESTION OF THE AGEING OF THE LANCE WILL COME UP FOR DISCUSSION.' THIS WAS AMENDED TO: 'THE REAL DECISION OVER THE PRODUCTION WILL BE IN 1991/92. ONLY THEN WILL THE QUESTION OF THE AGEING OF THE LANCE REALLY COME UP FOR DISCUSSION.' THE PURPOSE OF TELTSCHIK'S CHANGE WAS TO KEEP OPTIONS OPEN. KOHL'S LANGUAGE WAS IMPRECISE AND CONFUSED HERE AND ELSEWHERE IN THE INTERVIEW. BUT HIS INTENTION, AS REPORTED BY THE FT, IS CLEARLY TO DELAY THE MODERNISATION DECISION.

3. THE FT INTERVIEW IS TOP ITEM ON TODAY'S GERMAN RADIO NEWS. FDP DISARMAMENT SPOKESMAN FELDMANN HAS WELCOMED KOHL'S 'CLEAR WORDS', IN WHICH HE SAW A CONFIRMATION OF THE FDP'S LONGSTANDING LINE.

COMMENT

4. IT WOULD APPEAR THAT KOHL HAS DECIDED, IN THE FACE OF A UNITED FDP STAND BY GENSCHER AND LAMBSDORFF (MY TELNO 153) NOT TO PUT THE COALITION AT RISK OVER THIS QUESTION. THE RESUMED COALITION DISCUSSION OF SNF, WHICH MAY NOW TAKE PLACE ON 14 FEBRUARY, SHOULD SHOW WHETHER THIS INFERENCE IS CORRECT.

MALLABY

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CONFIDENTIAL

KOHL, DR HELMUT

Federal Chancellor and Chairman of the CDU.

Born 1930 in Ludwigshafen. Studied law and history at Frankfurt and Heidelberg. Joined the CDU at 17 and became a member of its Land Executive in Rhineland Palatinate at 25. Member of the Land Parliament 1959, and Chairman of the CDU Parliamentary Group there from 1963. Member of the CDU Federal Executive since 1966. Chairman of the CDU in Rhineland-Palatinate, 1966-73. Minister President of Rhineland Palatinate 1969-76. Chairman of the CDU since 1973. Was Chancellor candidate of the CDU/CSU in the 1976 Federal election. Thereafter, elected Chairman of the CDU/CSU Parliamentary Party in the Bundestag, a post which he held until October 1982 when he was elected Federal Chancellor.

Politics have been Kohl's whole life. He first achieved national prominence as Minister President of Rhineland Palatinate, where he was active in modernising the Land Administration, expanding higher education and promoting industrialisation. He played a large part in the early 1970s in planning a new policy for the Federal CDU, but failed to stand up for certain aspects of this at the 1971 Party Conference. This contributed to his defeat by Barzel in the elections that year for the party chairmanship. But after careful ground work in the party, cultivating the younger generation in the centre, Kohl was the only candidate for the chairmanship at the special Party Conference in June 1973, after Barzel's resignation. Since then, he has never been challenged for the job.

After a period of intense political manoeuvring, he was nominated as Chancellor candidate of the CDU/CSU for the 1976 Federal elections. But the grudging support from Strauss and the CSU undermined his authority. Nonetheless, he ran a skilful and energetic campaign, and came within 200,000 votes of unseating Schmidt and the SPD/FDP Coalition. Subsequently he moved to Bonn to lead the CDU/CSU Parliamentary Party in the Bundestag. But for the 1980 Federal elections he lost the CDU candidacy to Albrecht, and it was Strauss who eventually secured the CDU/CSU nomination. Kohl fell in loyally behind Strauss and ran an energetic and effective campaign.

With Strauss's defeat, Kohl re-emerged as the natural leader of the CDU/CSU Parliamentary Party. But there were many in the party with reservations about his leadership, and he might have been overtaken for renomination as Chancellor candidate had the SPD/FDP government lasted its full term. Its premature collapse in September 1982, however, found him still in charge of the Parliamentary Party; and he was duly elected Chancellor on 1 October after the CDU/CSU and FDP had successfully moved a constructive vote of no confidence against Schmidt in the Bundestag.

When it took office, Kohl's government had a clear majority in the Bundestag. But Kohl was conscious of having become Chancellor without a mandate from the electorate and announced his intention to arrange for early Federal elections in March 1983. Many thought his tactics would rebound against him: either because the method he used for dissolving the Bundestag – a deliberately lost vote of confidence – would not be approved by the Federal President or the Constitutional Court: or because, if the election did take place, the FDP might be excluded from the Bundestag and Kohl thus lose his majority. But Kohl's calculations were correct. The CDU/CSU polled their second best result ever, the FDP got back into the Bundestag, and Kohl's government

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was thus secure. He had little difficulty in dealing with extreme demands by Strauss in the p election Coalition negotiations. Despite pressure from the CSU, the Coalition which he formed corresponded in policies and Ministerial appointments with what Kohl, not Strauss, wanted.

In opposition, Kohl was always under-estimated as a politician. His speeches were tedious and he was criticised, even within his own party, for his narrow outlook and lack of understanding of economic issues. But he has a steady determination and an outstanding political sense, which he used to the full in getting himself re-elected as Chancellor and in resisting the subsequent efforts of the powerful Strauss to increase his influence in the Government. Kohl is not an intellectual Chancellor like Schmidt: he likes to deal in the broad outline of policy and leaves detail to his Ministers. Nor is he the enthusiastic decision maker that Schmidt was. His tendency to procrastination, together with the looseness with which he holds the reins of Government, led to confusion and contradiction in the early months of his administration. After a series of gaffes had seriously damaged the image of his Government, he moved belatedly to strengthen his grip through a major shake-up in the Federal Chancellery whose coordinating role was much improved.

Murmuring about Kohl's style of leadership continues, as do gibes about his lack of intellectual pretensions and organisational ability. In early 1986 it even looked briefly as if his party might ditch him, after Public Prosecutors moved to investigate allegations that he had given false testimony to Parliamentary Committees inquiring into the party donations affair. But charges were not pressed, and he shrugged off this adversity as he has so many others. In January 1987 he led the CDU/CSU back to power in the Federal elctions, though this was a victory soured by the CDU/CSU polling their worse result ever. The poor result was ascribed in part to the low turn-out (eg abstentions by disaffected farmers) and in part to the CSU's attack on the FDP during the campaign. But again a number of gaffes by Kohl himself, such as a comparison in a magazine interview between Gorbachev and Goebbels, did not help.

Kohl is proud of his simple origins. His father was a minor official. His mother held the family together. He himself worked as a stone mason to get through school. He sees himself as one of that first generation of Germans who came into politics young immediately after the war with the belief in democracy and the rule of law. He is a big, genial man, with a relaxed and reassuring manner, who showed in 1976, and again in 1983 and 1987, that he could attract voters by means of straightforward propositions stated clearly, firmly and often. He is a great optimist, a man who visibly enjoys himself, who exudes confidence. He stresses old-fashioned virtues – hard work, self-reliance, thrift, family values – in populist speeches.

Kohl initially took little interest in foreign affairs. He has a strong commitment to the Atlantic Alliance, to the Franco-German relationship, and to the European ideal. But his contacts with other countries have otherwise been limited. He speaks a little French but no other foreign language. He has become increasingly aware of the importance of the UK.

His wife (Hannelore) studied in Paris and is a qualified interpreter, speaking fluent French and English. She is a determined woman who has certainly been a spur to Kohl's ambition. They have two sons, both of whom have studied in Britain.

GENSCHER, HANS DIETRICH, HON GCMG GBE

Federal Foreign Minister and Vice-Chancellor since May 1974.

Born 1927 in Reideburg, Saxony (now GDR). Son of a farm cooperative official. War service with the Luftwaffe. POW. Later studied law in Halle and Leipzig. Left the GDR for the Federal Republic in 1952 and joined the FDP. Became Business Manager of the FDP Parliamentary Party in 1959 and then in addition, from 1962-64, Federal Business Manager of the FDP. Elected to the Bundestag in 1965. Became a Vice-Chairman of the Party in 1968, Minister of the Interior 1969-74. When Scheel became Federal President in 1974, Genscher succeeded him as Chairman of the FDP, Vice-Chancellor to Schmidt, and Foreign Minister.

The FDP's excellent showing in the 1980 Federal election increased Genscher's standing both as Foreign Minister and Party Chairman. But it became increasingly clear that Genscher no longer believed that the SPD/FDP Coalition had a future; and he began to look for the best way to end it. When the moment came in September 1982, however, Genscher was outmanoeuvred by Schmidt, and he and his party took the full force of public criticism for the break-up of the Government. Genscher was also attacked by the FDP left-wing for the way in which he had forced through the switch without consulting his party. At the FDP Party Conference in November 1982, a determined, but unsuccessful, effort was made to unseat him as Party Chairman, and a large proportion of the FDP left then quit the party. By realigning it well to the right, Genscher managed to ensure that the FDP secured re-election to the Bundestag in March 1983.

But discontent with him in the Party re-emerged when he tried to corral the FDP into accepting an amnesty for politicians and businessmen in the so-called Flick scandal. Faced with a further challenge to his leadership at the Party Conference in 1984 he only succeeded in defusing the situation by announcing that he would stand down as Party Chairman in 1985, which he subsequently did to make way for Bangemann (qv).

Genscher's problems with his own Party inevitably affected his authority as Foreign Minister for a while. He also lost ground after 1982 to the Chancellor's adviser on foreign affairs, Teltschik (qv). But more recently he has made a remarkable comeback. In party terms he has turned Bangemann's rather incoherent leadership to his advantage, to the point where he is widely regarded as being Chairman again in all but name. The FDP's good showing in the 1987 Federal elections was largely due to his shrewd exploitation of the attacks made on him in the campaign by his old adversary Strauss. The current brand of ostpolitik is mostly his doing.

An immensely hard worker, with the capacity to absorb detailed information quickly. Perpetually on the wing, but with a knack of being in the right place at the decisive moment. In private he is an easy-going man, informal yet with a certain reserve. He divorced his first wife and married his then secretary in 1969. It was her second marriage also. Since then, he draws a clear line between business and family life, partly in the interests of his daughter (by his first wife), to whom he is deeply attached. He reads voraciously anything that lies to hand. His tastes in music are equally wide-ranging from classical to pop. In the 50s he suffered from a nearly fatal bout of tuberculosis which kept him three years in a clinic. In November 1977 he was admitted to hospital with pneumonia, and secondary blood circulation instability. He did not return to work until mid-January 1978. Although he seemed to recover well at the time, the enormous strain of his working habits has taken its toll and he often looks less than healthy.

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SCHOLZ, PROFESSOR DR RUPERT

Federal Minister of Defence (CDU) since May 1988

Born 1937 in Berlin. 1957-61 studied law at Free University, Berlin and at Heidelberg. 1961-72 academic appointments in Berlin and Munich. 1972-78 Professor of State and Administrative Law at Free University, Berlin. From 1978-1981 he taught at the Law Faculty at Munich.

1981 elected as Berlin Senator for Justice in the CDU minority government under Richard von Weizsäcker. In 1983 became Senator for Federal Affairs in the CDU/FDP coalition, at which point he formally joined the CDU. Elected to the Berlin House of Representatives only in 1985. Appointed as Wörner's successor as Federal Minister of Defence in April 1988.

Scholz is generally considered to be intellectually able and ambitious. Won respect in the Berlin House of Representatives for his robust debating style though his manner can, at times, be high-handed and brusque. Tended to neglect his responsibilities as Justice Senator, obviously much preferring the Bonn scene.

Scholz's dealings with the Allies in Berlin were not always easy. His public statements on Berlin status questions were, however, generally helpful to the Allied position.

Scholz was not a leading candidate to succeed Wörner. He had no national reputation and his lack of defence experience made him an unexpected choice. But he seems to enjoy relatively strong support from the right wing of the CDU and from the CSU.

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Kohl has known and respected Scholz for some years but the two are not friends.

Takes little care with his appearance. Married. His wife is a judge in Karlsruhe. Both speak some English. Visited the UK as a guest of HMG in 1986. An enthusiastic football supporter.

CONFIDENTIAL

ZIMMERMANN, DR FRIEDRICH

Federal Minister of the Interior (CSU) since October 1982.

Born 1925 in Munich. War service 1943-45. Joined CSU 1948. Studied law and public administration at Munich; doctorate in 1950. Bavarian civil servant 1952-55, thereafter Secretary-General and Business Manager of the CSU until 1963. Treasurer of the CSU, 1963-67. Member of the Bundestag since 1957; Chairman of the Bundestag Defence Committee 1965-72. Elected Vice-Chairman of the CSU in 1979. Vice-Chairman of the CDU/CSU Parliamentary Party and Chairman of the CSU Land group 1976-82. Appointed to his present post when the CDU/CSU took office in October 1982.

Zimmermann's skill as a politician has been overshadowed by his involvement in a number of well-publicised scandals. The most noteworthy concerned the granting of licences to casinos in Bavaria in 1960, and resulted in Zimmermann being sentenced to four months imprisonment on two charges of perjury. This judgement was later overturned on appeal by the Federal High Court on the grounds that Zimmermann had not been in full possession of his faculties when taking the oaths in question, but the explanation stated that "... there could be no question of the innocence of the defendant having been proven", and ascribed his action to a desire to protect the interests of his party. A later connection with a building firm involved in some dubious practice cost him the post of CSU party treasurer.

That he could recover from such apparently terminal set-backs lies in his closeness to Strauss who has always found him useful. He joined in with a will to help Strauss make life as difficult as possible for Kohl when the latter took over the Chairmanship of the CDU/CSU Parliamentary Party in 1976. He seems to have been the manager of events that year which threatened to divide the CSU from their joint Parliamentary Party with the CDU. He and Stoiber were mainly responsible for leading Strauss into his abortive Chancellor candidacy in 1980. After Strauss's defeat, however, Zimmermann moved to rebuild his bridges with the CDU. His relations with Strauss suffered as a result. The CSU leadership in Munich were deeply suspicious of Zimmermann's role in the negotiations with the CDU and FDP in September 1982 on the formation of the new Coalition and he was thought to be trying to keep Strauss out in the cold. After the Federal election in March 1983 Strauss made no secret of his readiness to sacrifice Zimmermann as Interior Minister to provide a slot for Genscher to move into and himself become Foreign Minister. In the event, Genscher was not to be shifted from the Foreign Ministry.

His appointment as Interior Minister provoked a storm of protest, given his chequered past. He continues to be one of the most controversial and frequently criticised members of the Cabinet. In 1985 he came under attack on a variety of issues, including vehicle emissions (where he adopted a position too radical to be acceptable to the other EC states and had to back down in confusion) and a series of scandals involving the FRG security and intelligence services, for which his vast and unwieldy ministry is also responsible. He lost responsibility for the environment when a separate Ministry was created in 1986, since when he has looked less uncomfortable. He has few political friends in Bonn, but Kohl does not remove him for fear of the row with Strauss which would follow. Constantly at odds with the FDP because of his hard-line views on law and order issues.

Zimmermann is married and has two daughters from an earlier dissolved marriage. He speaks competent English and deploys it in jocular and colourful style.

HAUSSMANN, DR HELMUT

Secretary General of the FDP and Federal Economics Minister since December 1988.

Born 1943. Studied economics and social sciences at the universities of Tübingen, Hamburg and Erlangen. 1968-71 business-manager for a private company. 1971-75 research assistant at the University of Erlangen. 1975 Doctorate on a subject related to the management of medium sized firm. Several publications on social science and economics.

Joined the FDP in 1969 and worked his way quickly up through the Baden-Württemberg party hierarchy. Joined the Bundestag in 1976. Appointed FDP Economics spokesman in 1980. Nominated by Genscher as Secretary General in 1984 after the party had made clear that it would not support Genscher's original nomination (Brodeur). Haussmann brought vigour and enthusiasm to the job and was responsible for rewriting the FDP's manifesto in 1985, committing the party to a strongly market orientated, right of centre approach. Renominated by the new FDP Chairman (Bangemann), who like him is from Baden-Württemberg, he was re-elected by the Party Conference in February 1985 with a large majority, a clear sign of the support he has won for himself in the party in a short time. Now a major authority in the party.

Visited the UK in 1977 as a member of the Budget Economics Committee; and as a guest of HMG in 1978 and 1987.

Married. Protestant. Fair English. Fond of fishing and fast cars.

DR LUDOLF-GEORG VON WARTENBERG

Parliamentary State Secretary (CDU), Federal Economics Ministry since 1987.

Born 1941. Educated in Hannover. Studied economics and history at the Universities of Hannover, Göttingen and Belfast.

From 1967 to 1976 small firms adviser in the Hannover Chamber of Crafts. Director of the Hannover Reinsurance Company and adviser to the Hanse-Merkur Insurance Group. A member of the supervisory board of Hannover Airport Company.

Chairman of the local CDU association in Hannover. From 1970 to 1976 a member of the Landtag in Lower Saxony. Elected to the Bundestag in 1976. Member of the Bundestag's Finance Committee. Appointed Parliamentary State Secretary in the Federal Economics Ministry in March 1987.

Chairman of the Society for the Study of Structural Policy Questions. Member of the German Foreign Policy Association and of the German Atlantic Society.

Protestant. Married with two children.

● ECHLE, IGNAZ

Federal Minister of Food, Agriculture and Forestry (CSU) since March 1983.

Born 1930 in southern Bavaria. Educated as agricultural apprentice. Self-employed farmer, qualified agricultural instructor. The first German agricultural trainee in the USA after the war, in 1949. Board member of Dairying Association of Allgäu/Schwaben and Chairman of Bavarian Dairying Association. Managing Director of a firm of agricultural publishers until his present appointment.

Elected to Bundestag in 1969 for a rural constituency where the CSU enjoys solid support from the farming community. Opposition spokesman for agriculture until change of government in 1982, when he was elected a deputy Chairman of the CDU/CSU Parliamentary Party. His surprise appointment to his present post after the Federal election in March 1983 was made largely to meet the CSU's demand for a fifth Cabinet seat as reward for their strong electoral showing.

Short, tubby and bald. As befits his strong Bavarian farming background, Kiechle has been a consistent defender of farming interests. His twin objectives are the raising of German farm incomes to a satisfactory level and the maintenance of the traditional small family farm structure of German agriculture. His single-minded pursuit of these goals makes few, if any, concessions to other considerations. The slide in farmer's incomes has left him facing a fair bit of resentment from his native territory, but he bears this bravely when speaking in Bavaria. Looks a simple backwoodsman, but is no fool.

Roman Catholic, married, four children. Speaks English well enough for most purposes.

PROPOSED THEMES FOR PRESS CONFERENCE

- (a) Welcome the results of the Bilateral Defence Study (some of which were made public following Professor Scholz's visit to the UK, 30 January - 1 February) and possibly mention:
- training in UK by elements of 27 Luftlandebrigade;
 - proposal to form a joint auxiliary Skyguard/Oerlikon Point Air Defence Unit (subject to confirmation by MOD by 17 February);
- (b) Current international questions on which we act together:
- Security issues: 40th Anniversary of NATO. Firm joint commitment to winning formula. Prospects for NATO Summit (including SNF etc).
 - East/West: Agreement on need for active policy of negotiation backed by sure defence;
 - draw attention to London Information Forum;
 - joint determination to achieve Single Market and agreement to prevent "Fortress Europe";
 - terrorism;
 - drugs.
- (c) Research collaboration:
- mention joint British Council/German Academic Exchange Service (DAAD) collaborative research project;
 - mention work of Anglo-German Foundation for the Study of Industrial Society (also contributing to British Council/DAAD Project above).
- (d) Fortieth Anniversary in 1989 of Deutsch-Englische Gesellschaft.
- (e) Environment: draw attention to UK initiative in organising a conference on the ozone layer, mentioning attendance of Töpfer (Federal German Environment Minister).

(f) School Exchanges: Welcome progress.

(g) Next Summit: intend to hold next Summit in 1990.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T158/88



10 DOWNING STREET
LONDON SW1A 2AA

File M22
c. HMT
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Subject cc MASTER
OPS

THE PRIME MINISTER

13 October 1988

T

Dear Helmut

I was glad that your Government approved the sale of the Tornado IDS aircraft to Jordan. But I am disappointed that you felt unable to provide official credit support for this sale which we both agree - as do the Americans - is strategically important.

I understand the political sensitivity for the Federal Republic of arms sales outside the NATO area. But I believe that we are entitled - indeed have a duty - also to take account of other needs such as maintaining the viability of our defence industries; keeping down NATO defence costs by increasing production runs; and supporting Western foreign policy objectives beyond as well as within the NATO area. All these considerations mean that it is important for both our countries to be able to export the defence equipment we manufacture collaboratively, with a fair division of the burdens.

There is every reason to suppose that further export sales will be forthcoming, not only of Tornado, but also of other collaboratively produced defence equipment, such as the European Fighter Aircraft, TRIGAT and the NATO frigate. It is all too likely, therefore, that exactly the same problem will arise again in future, as we have experienced over

in

Tornado for Jordan. To preserve this valuable order, the United Kingdom is being obliged to shoulder a considerably larger than expected share of the credit burden. I must tell you that for the future I would find it difficult to accept such credit arrangements. Risks associated with export sales should be shared according to the work ratio.

I propose that we instruct our respective officials to find a way of conforming more closely to that principle. I am sure that they can work out a practical solution to the problem, which would otherwise cause continuing differences between us. I would welcome your early agreement, so that they might meet and report fairly quickly. Important decisions need to be made soon on existing and future collaboration.

Low cost.

[Signature]

His Excellency Dr. Helmut Kohl.

PRIME MINISTER'S
PERSONAL MESSAGE



SERIAL NO. 117/89 10 DOWNING STREET

LONDON SW1A 2AA

SUBJECT A MASTER
OPS.

THE PRIME MINISTER

23 January 1989

Dear Helmut,

When we met in Rhodes, you told me how your thinking was developing over NATO's Comprehensive Concept of security and arms control including the modernisation of the Alliance's theatre nuclear forces. Charles Powell has subsequently given me an account of his discussion in Bonn on 20 January with Mr. Teltschik. I look forward to discussing the subject again with you myself in Frankfurt on 20/21 February. I thought it might be helpful to send you this personal message on how I see the problem.

My starting point is very much in line with what you said in Rhodes. I believe that NATO must in the course of 1989 - and preferably the first half - take clear decisions about modernising and restructuring its stockpile of nuclear weapons in Europe; that these decisions need to be taken in the framework of a proper concept of security and arms control; that some new systems, notably a tactical air to surface missile for aircraft (TASM) and a longer range ground based missile as a successor to LANCE, will be needed; but that the effect of their introduction will be to permit a major reduction in the overall size of NATO's nuclear stockpile and a shift of emphasis away from short range battlefield systems.

SECRET

A restructuring/modernisation package of this kind should achieve wide support throughout NATO. It would mean better deterrence with fewer weapons. I agree with you that we should work for the adoption of such a package at a Summit meeting in late April/early May.

I recognise the danger for Europe from the enormous superiority which the Warsaw Pact enjoys in short-range missiles. It was with this in mind that we agreed at the NATO Summit last year that the Comprehensive Concept should foresee, in conjunction with the establishment of a conventional balance and the global elimination of chemical weapons, tangible and verifiable reductions in US and Soviet land-based missiles in Europe leading to equal ceilings. I remain committed to that goal when the conditions are met.

But I believe that we should be very cautious about how we approach it. It is one thing to make our own autonomous cuts in theatre nuclear systems and to challenge the Soviet Union to reduce to NATO levels. But an arms control negotiation in this category would be a very different matter and I foresee major difficulties. We would surely come under extreme pressure to accept a third zero. It is far from clear how we could distinguish the nuclear from the conventional aspects of this dual capable system which are involved. There is an obvious risk that the possibility of an arms control agreement might sap NATO's willingness to agree the necessary updating and restructuring of existing systems. The attention which we have with difficulty focussed on the huge Soviet conventional and CW superiority could easily be diverted back to nuclear matters. For all of these reasons, and others, I do not see how we could include in the Comprehensive Concept an arms control proposal on SNF without storing up serious risks for our security. Let us proceed instead by taking decisions which meet our own security needs and give us the up-to-date systems which we need, while reducing the overall number of nuclear warheads in our stockpile.

I look forward to hearing your views on all of these points when we meet next month.

Warm regards

y
Lorenson

Raymond

His Excellency Dr. Helmut Kohl

ANNUAL REVIEW: THE FEDERAL REPUBLIC OF GERMANY IN 1988

Summary

1. Federal Government's solid achievements but poor image (para 2).
2. Gorbophoria rampant but Kohl steady so far on relations with Soviet Union. Questions on horizon concerning inner-German relations (paras 3-4).
3. Genscher, East-West activist (para 5).
4. Gorbophoria and environmental effects of military activity have caused deterioration in climate for defence (para 6).
5. Popularity of EC. Successful German Presidency. Attitude to 1992 not consistent (paras 7-8).
6. 3.5% economic growth in 1988, led by record trade surplus and domestic investment. DM lost value against Sterling and German surplus in trade with UK soared (paras 9-10).
7. Busy period ahead in British-German relations. Need to extract maximum publicity in FRG (para 11).
8. Big question in 1989 is whether Kohl will go for modernisation of short-range nuclear forces. Important visit by Gorbachev expected. General Election looms in December 1990: on present betting, existing coalition likely to continue afterwards (para 12).

British Embassy
BONN

6 January 1989

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
London SW1A 2AH

Sir,

ANNUAL REVIEW: THE FEDERAL REPUBLIC OF GERMANY IN 1988

1. For the Federal Republic 1988 was the year of great hope in East-West relations and at home a more difficult climate for defence.

Domestic Politics

2. The Federal coalition has some solid achievements but an ineffectual image. Foreign policy has gone well, with new activity in relations with the Soviet Union and a successful German Presidency of the Community. The economy is strong. The Government has put through a health care reform, to trim costs and increase contributions; and has pension reform in hand. Yet opinion polls at mid-point between federal elections are discouraging. The CDU won the regional election in Baden-Württemberg but lost in Schleswig-Holstein, in the wake of the Barschel affair, after 38 years in power. It has been dogged by mishap in other Länder. If Reagan's has been a Teflon administration, Kohl's seems like a fly paper, with every criticism sticking. The public bickering that has harmed the coalition's image may be less after the death of Strauss, a disappointed titan who sniped from the Bavarian wings. But coalitions are not wont to look united and the new FDP leader, the tough and experienced Count Lambsdorff, will not be shy of criticising Kohl.

Gorbophoria

3. There is no significant constituency in the Federal Republic for going neutral or making a bid for early reunification. When people stop to think, they realise that membership of the Alliance and the Community has brought the prizes of freedom, security, prosperity and international standing. But there are worrying

/trends

trends. Situated along the division of Europe and conscious of the 17 million Germans in the GDR, the Federal Republic is prone to excitement whenever there are signs of East-West thaw. Gorbachev has brought much more than that, and hope in the Federal Republic is intense. Kohl is steady: his visit to Moscow in October was a responsible operation. He got German-Soviet relations going again after a poor period. On multilateral matters he stuck to Western positions. He spoke up firmly on the aspiration for eventual reunification and got the reply, in effect, that on this subject Old Thinking prevailed in Moscow. This, and a realisation that Gorbachev faces tremendous odds, may have injected a little realism into the views of informed people in the Federal Republic. But Gorbophoria remains rampant and there will be impatience among politicians and public if the West is not seen to be making the running with imaginative proposals in arms control.

Eastern Europe and the GDR

4. Informed Germans realise that Marxism-Leninism has failed, and that the metamorphosis that has started in Eastern Europe is an opportunity but also could produce explosions. Most expect change to begin in due course in the GDR and to be very difficult for the authorities to control. That some 10% of the GDR's population visited the FRG in 1988 is one indication of the success of the Federal Republic's inner-German policy of building up links without causing destabilisation. People here worry whether it can be sustained if change sets in across the Elbe. There is a new factor in the Federal Republic's relations with Eastern Europe and the Soviet Union: the number of immigrants of German origin doubled in 1988 to reach 242,000. That represents success in a long-standing aim of Ostpolitik. One would expect it to be welcomed. But there is controversy about arrangements, such as housing, for new arrivals and concern about competition for jobs.

Genscher

5. The Foreign Minister has espoused demonstratively the cause of a new detente. His speeches deal briefly with the need for continued defences. He stays within the letter of agreed Western positions. But he puts all the emphasis on hope, and tries to present himself as battling against Western opponents of new progress. He has said of the West, for instance, that "the forces who are pushing forward must prevail against those who hesitate and defend existing positions". In 1988 he made two visits to the Soviet Union and five to Eastern Europe. All this helps to make Genscher top of the pops with public opinion. So does his energy in building relations with Third World countries. He will become even more hyperactive as Federal elections in 1990 approach.

/Defence and Public Opinion

Defence and Public Opinion

6. Gorbachev has made many Germans doubt that there is a significant Soviet threat. At the same time the burden of defence activity for the population has become a theme of intense public interest. Partly this is one side of Germany's obsession with the environment. Partly it is the genuine nuisance of noise from low flying in certain areas. A bad series of military flying accidents in 1988, the two biggest involving the Americans, intensified the concern. There is much sentiment and little logic in this. The effect has been to make the public climate for defence more unfavourable than before. That is of direct concern to us, with our 72,000 forces in Germany. The Federal Government has reacted weakly. Scholz, Defence Minister since May, is clever but inexperienced and without a political base. He has sought to appease the pressures by moves such as restricting exercises by the Bundeswehr outside training areas and a cut in Bundeswehr low-flying. The debate shows signs of sprouting a new dimension - a call to review Allied rights in Germany especially with regard to exercises and low flying. We should continue to encourage Federal Ministers to declare why a minimum of military training is needed for deterrence, and should ensure that they consult us and do not make concessions which our forces here would be expected to match.

The Community

7. European Union remains a popular cause. Germany's Presidency in the first half of 1988 was a success. In February the European Council finally accepted the British view that expenditure on agriculture simply must be curbed. The decision to increase the Community's own resources meant higher German net contributions, which in turn led to tax increases - with next to no political controversy about the EC angle. Fifty-six measures on the way to the Single Market were decided during the Presidency, including the crucial one of freedom of capital movements where the Germans stood up to the French. The Germans had to face on some matters the contrast between their free market principles and their narrow interests. On some - for instance liberalisation of road haulage - principle won out. Liberalisation of regulations on the composition of beer is likely to bring imports half the price of beer produced by small, inefficient breweries here. That Germany made national concessions for the sake of a successful Presidency is another example of the importance of the EC to the Federal Republic.

8. But the German attitude to the Single Market is not unambiguous. Big companies, exemplified by Siemens in its bid with GEC for Plessey, are beginning to look for European arrangements that can compete world-wide. The Germans join the UK in working to prevent protectionism - agriculture notably excepted - in the external trade policies of the Community. Germans readily agree when I say that, if there was a Fortress Europe, the prisoners

/would

would be the people inside. We should make the most of this ~~British/German common cause~~. On some other matters, our paths diverge, and internal inconsistency is a feature of Federal Government attitudes. On the one hand it still protects comparative disadvantage in the form of industry that is outdated or in border regions. Many German subsidies are questionable under Community law but are not about to be reduced. On the other hand, the Government makes leaps in the dark, for instance on tax harmonisation or moves towards a European Central Bank, despite the reservations of its own Central Bank and the business community. And it goes along with ideas for a "social dimension" despite the addition to the already high costs of German industry that this could bring. The Germans will be especially susceptible to French blandishments on many issues during the French Presidency in 1989.

The Economy

9. The Federal economy probably achieved 3.5% growth in 1988 and may achieve 2.5% in 1989. The 1988 figure is much better than expected. The low forecasts a year ago were caused inter alia by pessimism following Black Monday in October 1987, which in fact left little mark on the economy. World trade growth also helped improve performance. Unemployment remained high at 8.9%, though slightly lower than in 1987; in 1989 it is expected to be a little lower again. Inflation in 1988 was 1.2% and may reach 2.5% in 1989 because of tax increases. The positive trade balance in 1988 was a record at around DM 125 billion and may exceed that in 1989. This and domestic investment appear to have been the major components of growth in 1988. Private consumption was much less important and in 1989, with consumer taxes going up, it may contribute even less.

Trade

10. The Federal Republic's trade surplus with the USA fell by over a third in 1988 while with the EC it rose by almost the same proportion. The Mark's average rate against the pound in 1988 was DM 3.12, compared to DM 2.94 in 1987. With this exchange rate and the British boom, German exports to the UK in 1988 rose by 12.6%, double the increase in exports overall; and the bilateral surplus soared from DM 16 billion to DM 21 billion. German imports from the UK rose by 3%; non-oil imports by 6.6%. Our share of German imports dipped slightly to 7% but our share of non-oil imports held its own. (All 1988 figures are estimates based on German statistics.) Our export drive "Focus Germany" has three months to run. There are many signs of greater interest among British firms. But the trade figures do not yet show real impact. Meanwhile reorganisation of HMG's export promotion services in Germany is proceeding well. We are alert for deregulation related to 1992 which may open opportunities for British firms.

/British/German relations

British/German Relations

11. The British view that the "Quiet Alliance" between the United Kingdom and the Federal Republic should receive more publicity has been accepted by the Federal Government. Britain's importance to Germany in defence, trade and as a protecting power in Berlin is recognised by Ministers and officials. So are our economic renaissance and our weight in Washington and Moscow. You will be here in late January. So will the Defence Secretary. Straight after that the German Defence Minister will be in Britain. In February comes the first Anglo-German Summit since 1986. These are opportunities for publicity to remind the German public that Anglo-German relations matter to them. We need to accentuate the positive in our discussions with the Germans and in publicity about relations, so as to enhance our influence over an important partner.

Forward Look

12. 1989 will be another year of anniversaries in Germany. The 40th of the FRG in May will cause justified satisfaction. The 50th of the start of the war will cause few events but many uncomfortable feelings. The 100th of Hitler's birth may bring a number of articles but only one or two loony far right manifestations. The 200th of the French Revolution will cause a further burst of rhetoric in celebration of Franco-German reconciliation, a popular thing in here. Two important events are likely towards mid-year: a NATO summit and Gorbachev's visit to the FRG. There are plans for a Joint Declaration by Gorbachev and Kohl: we should urge that agreed Western positions be upheld. A key question will be whether the Federal Government will go for a decision by NATO to modernise short-range nuclear forces. Kohl wants to. Genscher favours delay. It would be very controversial. As of now the signs are unclear but not unhelpful. Domestic politics will heat up as the year goes on, and Federal elections in December 1990 come into sight. The need for visibly strong leadership will become greater but I am not optimistic that Kohl, despite many strong qualities, can produce this particular one. The present coalition parties are expected to go together into the 1990 elections, and the best bet at this range is that they should win. So the prospect is of the pro-NATO, pro-American government continuing - with the likelihood of the same Foreign Minister, and thus of strains and surprises as he tries to accelerate East-West progress.

13. I enclose this post's objectives for 1989 and a review of performance on the 1988 objectives. I am sending copies of this despatch without enclosures to HM Representatives in NATO and EC countries; Moscow and East Berlin; the Commandant in Berlin and Consulates-General in Germany; and the Commanders-in-Chief's Committee (Germany).

I am, Sir,
Yours faithfully

C L G Mallaby



LUNCH HOSTED BY THE PRESIDENT OF THE BUNDESBANK, KARL OTTO
PÖHL

1. Guests will be:

The Prime Minister
Sir C L G Mallaby KCMG
Mr Charles Powell
Dr Alfred Herrhausen (Deutsche Bank)
Dr Wolfgang Röllner (Dresdner Bank)
Dr Walter Seipp (Commerz Bank)
Dr Leonard Gleske (Bundesbank)

Personality Notes are attached.

2. Herr Pöhl does not intend to make any formal remarks and the Prime Minister need not do so herself. In addition to anything the Treasury may suggest on the subject of monetary cooperation (on which they are writing separately) the Prime Minister could usefully engage the other guests in conversation on:

Withholding tax
Indirect tax approximation
Liberalisation of financial services

These are covered in the steering brief.

DR ALFRED HERRHAUSEN

Chief Executive of the Deutsche Bank AG since May 1985, at first jointly with Dr Wilhelm Christians until the latter's retirement in April 1988.

Born 1930 in Essen. Studied economics in Cologne. Joined the VEW electricity supply utility where he rose rapidly becoming a member of the Board in 1967. Joined the Deutsche Bank in 1970 with responsibilities for export finance, the domestic economy and regional responsibility for North America and South Africa. Throughout a reputation as a whizz kid. In 1974 he participated in a Committee established by the Federal Finance Ministry to report on the structure of German banking, which resulted in new banking laws. He was one of the three "moderators" who in 1983 proposed a comprehensive plan for restructuring the German steel industry. He still regrets that these plans were not seen through. Represented German financiers at a EUREKA conference in London in October 1985. Has built up a close personal relationship with Chancellor Kohl and acts as one of his advisers on industrial affairs.

Dr Herrhausen has proved an energetic Chief Executive for the bank since the retirement of the more conservative Dr Christians. Always at the forefront of planning the bank's international strategy, particularly its approach to the Single Market, Dr Herrhausen has been involved in a number of international acquisitions for the bank over the last few months.

In addition, he has begun to widen the range of the bank's domestic financial operations by starting an insurance company and developing its property investment and mortgage services. Dr Herrhausen recently refused an offer to join the board of the Krupp industrial conglomerate saying that his responsibilities at Deutsche Bank were too onerous.

DR WOLFGANG RÖLLER

Chairman of the Board, Dresdner Bank. President of the Federation of German Banks since March 1987.

Born 1929. Graduated in economics in Berlin and Frankfurt in 1951 after which he joined Dresdner Bank (second largest in Germany). Left bank to do doctorate (economics) but returned in 1955. Career centred on international investment and portfolio management. In 1973 appointed to the Board. Appointed Chairman in 1985. On the Supervisory Boards of other banks and numerous German firms. On Board of Governors of Frankfurt Stock Exchange.

Although one of the top three largest German banks, under Dr Rölller's chairmanship the Dresdner has been slow to adapt its strategies to the changing domestic financial market and to the approach of the Single Market. Last year, however, Dr Rölller announced the bank's intention to expand its international activities. The bank has also moved to develop its property investment and mortgage banking operations.

Dr Rölller is married with three sons.



DR WALTER SEIPP

Chairman of the Managing Board of the Commerz Bank since May 1981.

Born 1925 in Hessen. Studied law at Frankfurt before joining the Deutsche Bank in 1951. After a spell in New York, he moved to the Westdeutsche Landesbank in 1974 where he became Vice Chairman in 1978 and was closely associated with its rapid expansion overseas. He was recruited by the Commerzbank in 1981 to take over the top job after the bank had experienced two poor years, partly as a result of the economic downturn and partly through management difficulties. Seipp reorganised the Bank's management structure and it is now one of the top five German banks, though the bank announced lower profits last year.

Dr Seipp is openly committed to developing the bank's European and international strategy in preparation for the Single Market. Commerzbank has expressed an interest in cooperating with banks in France and Italy and it already has a cross-holding with the Banco Hispano Americano in Spain. In addition, the bank has acquired holdings in banks in Brazil and Korea.

Dr Seipp's hobbies are golf and fishing. Married with two sons. A distinguished man, almost a father-figure in the banking community. Fluent English.



GLESKE, DR LEONARD

Member of the Board of the Bundesbank.

Born 1921 Bromberg. Studied economics at Hanover and Heidelberg and has been in banking since 1951. Director for Currency and Financial Questions at the EEC Commission, Brussels from 1958-64 when he was appointed President of the Landeszentralbank at Bremen. In 1969 became the second German representative on the Board of the BIS. Took up his current appointment in 1976. Made an Honorary Professor of Mannheim University in 1986. Has published a book and a number of articles on economic themes.

Speaks English, but more hesitantly than most West German bankers.

SIR CHRISTOPHER (LESLIE GEORGE) MALLABY KCMG

HM Ambassador at Bonn.

Sir Christopher Mallaby was born at Camberley in Surrey on 7 July 1936 and educated at Eton and King's College, Cambridge. He did National Service in the Army in 1955 and 1956, and spent some of that time in Germany (BAOR).

He entered the Foreign Service in 1959 and was assigned to full-time Russian language study for eight months. He then spent three months at the UK Mission to United Nations, New York, as a Reporter for the 1960 General Assembly. In 1961 he served a year in Moscow as Private Secretary to HM Ambassador before moving to general Chancery duties. In 1963 he worked in Central Department of the Foreign Office as Second Secretary and two years later was assigned to an economics course at the Treasury Centre for Administrative Studies. From 1966 to 1969 he was First Secretary (Senat Liaison Officer) at BMG Berlin, then Desk Officer for the Soviet Union in East European and Soviet Department in the FCO. In mid 1971, after a six weeks course at the Harvard Business School, he was appointed Deputy Director of the British Trade Development Office, New York. In 1975, he served as Counsellor and Head of Chancery in Moscow. From 1977 to 1982 he served in the FCO, successively as Head of Arms Control and Disarmament Department, East European and Soviet Department, and finally Planning Staff. He was then appointed Minister at Bonn and from April 1985 until February 1988 was on loan to the Cabinet Office, on promotion to Deputy Secretary. He took up his current appointment in Bonn on 20 March 1988.

Sir Christopher Mallaby was made a CMG in 1982 and a KCMG in the 1988 New Year Honours.

In 1961 he married Pascale (Francoise) Thierry-Mieg (born Le Havre 1939). She became a UK Citizen the following year. They have a son, born in 1964, who is a journalist, and three daughters, born in 1967, 1971 and 1972. Their personal interests include collecting pictures, reading and travel; Sir Christopher is a trout fisherman.

NOTES FOR THE FRANKFURT WALKABOUT

THE CATHEDRAL

The early parts of the building date from the 13th century. Its main claim to fame goes back to the custom instituted in the 14th century of holding the election there of the Holy Roman Emperor (which had taken place elsewhere in the City since 1152). In 1867 the cathedral burned down and was then rebuilt in 1880. In 1943 it was once more partly destroyed by fire. Restoration was completed in 1953.

The 95 metre high west tower with a helmet-shaped dome is the most impressive part of the building. In the interior two triptychs, one of St Mary and the other a Descent from the Cross by the school of Anthony van Dyck are particularly worth seeing.

THE GOETHEHAUS

Johann Wolfgang von Goethe was born in the Goethehaus (which consists of two neighbouring houses) on 28 August 1749. The two houses were acquired by his grandmother Cornelia Goethe; in 1754 they were joined together and remodelled. Goethe lived almost without a break in the house until 1775 (when he left to take up a position in the Court at Weimar).

The Goethehaus was almost completely destroyed in 1944. It was rebuilt in the 1950s exactly as the original. The old furniture and fittings, which had escaped damage, were reinstated. Apart from the elegant living rooms and Goethe's original collection of pictures, there is an attractive 18th century kitchen with a brick cooking-stove, large copper pans and valuable table-ware. In an annex is the Goethe Museum, with interesting documents from the poet's life, a library and an extensive collection of manuscripts.



THE PAULSKIRCHE

Construction of the church began at the end of the 18th century, but, owing to a dispute about the plans, it was only completed in 1833. The classical oval hall with galleries supported by Ionic columns makes it an unusual example of church architecture.

The Paulskirche has a particular significance in German political history as the site of the first meeting of the German Parliament in 1848. The German National Assembly also met there in 1849. In 1948 the church, which was badly damaged in the war, was rebuilt. Today the building is used exclusively for civic ceremonies such as the awarding of the Goethe Prize and the Peace Prize of the German Book Traders' Association.



BRÜCK, WOLFRAM

Lord Mayor of Frankfurt since August 1986.

Born 1939 in Cologne. Studied law at Cologne and Freiburg universities. In 1967 he joined the town administration of Koblenz. In 1970 he joined the Bundestag Sekretariat in Bonn and became Secretary of the Budget Committee. In 1974 he was appointed by the Bundestag to serve on the special Committee of Enquiry into the Guillaume Affair. In 1977 he was elected to the Frankfurt City Council and was made responsible for personnel and legal questions, a position which he held until his election as Lord Mayor.

He joined the CDU in 1957. From 1970-74 he was Leader of the CDU party organisation in Andernach and a member of the Koblenz Regional Council. In 1978 he became Chairman of the Frankfurt CDU, a position which he also retained until 1986.

He is very much the political protégé of Dr Wallmann (qv) with whom he worked in Bonn before accompanying him to Frankfurt in 1977. His succession, when Dr Wallmann was promoted back to Bonn, was predictable although he has remained relatively little known outside Frankfurt and has none of his predecessor's magnetism or stature. It was generally expected that he would have a difficult time establishing his authority and he could face problems at the communal election this year.

Married with one son. He and his wife both speak quite good English.

WALLMANN, DR WALTER

Minister-President of Hesse since April 1987. A Deputy Chairman of the Federal CDU.

Born 1932 in Uelzen, son of a schoolmaster. Studied law at Marburg University. Practised law in Kassel, Rotenburg and Giessen. Joined CDU in 1960. 1966-72 Member of the Hessen Landtag becoming deputy party leader. Represented Marburg in the Bundestag from 1972-77 and first came to public notice as Chairman of the "Guillaume Committee" investigating the activities of the notorious spy Günther Guillaume who had been employed in the Federal Chancellery. By the end of 1976 he was the Parliamentary Manager of the CDU/CSU group in the Bundestag.

Dr Wallmann was persuaded (initially against his wishes) to campaign in the 1977 municipal elections in Hessen and an unexpected majority in Frankfurt itself left him as Lord Mayor. He displayed toughness in dealing with politically motivated demonstrations in Frankfurt but otherwise his style of charm and civility was credited with much of the recent improvement in urban aspects of Frankfurt. His reputation within the CDU suffered from setback in 1983 Land elections, but he retained the CDU majority in Frankfurt in the 1985 communal elections against the trend in the rest of Hesse. Elected a Deputy Chairman of the Federal CDU in 1985 not least because of this success. Brought to Bonn by Kohl in June 1986 to head a new Environment Ministry after the Chernobyl disaster. Led the CDU to victory in the Hesse Landtag elections in April 1987.

Married, with one son. Protestant. Close to Chancellor Kohl and identified with right-wing of CDU. Affable and approachable. Friendly towards the UK and paid a very successful visit here on Category I terms in July 1985. Widely read and fond of classical music (plays the piano). Both he and his wife speak English.



HAUFF, DR VOLKER

A Deputy Chairman of the SPD Parliamentary Party responsible for Environmental policy.

Born 1940. Studied economics and sociology at the Free University of Berlin from 1959-66 and in the United States. Trained in data processing in Stuttgart, subsequently becoming manager of an institute for data processing and town planning in Bad Godesberg (Datum EV). Worked for IBM Deutschland (Stuttgart) 1971-72. A member of I G Metall (the metalworkers' trade union).

A member of the SPD since 1959, he was elected to the Bundestag in 1969 and was one of three younger left wing SPD Deputies who were given office after the 1972 elections. Parliamentary State Secretary for Research and Technology 1972-77 (and simultaneously for Posts and Telecommunications 1972-73). Promoted to Minister for Research and Technology and member of the Cabinet in February 1978. Moved to Transport after the 1980 Federal Elections. Elected to his present position after the SPD's defeat in the 1983 Federal Election.

In opposition, Hauff's fortunes have been mixed. He stood against Wallmann as Mayor of Frankfurt in 1985 and increased the SPD's vote, but failed to oust the incumbent. In 1986, in a volte-face from the policy he had pursued as a Minister, he chaired the party commission which drafted the policy paper calling for the closure of the FRG's nuclear power stations within 10 years, and adopted by that year's party conference. After showing signs of frustration with life on the Bundestag opposition benches, he has now transferred his residence to Frankfurt preparatory to standing again as the SPD Oberbürgermeister candidate in the March 1989 communal election where he stands a good chance of success.

Married with two children. Speaks good English. Sense of humour. Visited the UK in 1978 and 1980.



FRANKFURT OPERA HOUSE AND MUSEUM ORCHESTRA

Conductor: Gary Bertini

PROGRAMME

Benjamin Britten
(1913-1976)

Four Sea Interludes from "Peter
Grimes" op. 33a

Dawn - Lento e tranquillo

Sunday Morning - Allegro

spirituoso e

rubato

Moonlight - Andante comodo e

rubato

Storm - Presto con fuoco

Wolfgang Amadeus Mozart
(1756-1791)

Concerto for violin and orchestra

No.5, A major, Köchel No.219

Allegro aperto

Adagio

Rondo: Tempo di menuetto - Allegro

Soloist: Christian Tetzlaff

Richard Strauss
(1864-1949)

Also sprach Zarathustra

Symphonic poem for large orchestra

op.30,

based on Friedrich Nietzsche



EDUCATIONAL EXCHANGES BETWEEN THE FEDERAL REPUBLIC OF
GERMANY AND THE UNITED KINGDOM

We agreed in November 1985 that positive action should be taken to build up existing programmes of educational exchange, which have a vital role to play in developing international understanding between young people. Our authorities concerned with exchange have together identified a number of new ways in which a greater volume of more fruitful pupil contacts might be developed. We consider that it is fundamental to this purpose that steps should be taken to secure the interest and commitment of a greater number of senior education staff, both administrators and teachers. And the foreign language assistant programme is capable of development to make an important contribution to the creation of links between schools. We have agreed upon a programme of practical action aimed at the development of exchanges along these lines. We welcome the progress so far made and shall be charging the relevant bodies to proceed with the proposed programme, which we shall ensure receives appropriate financial support.

GOLDEN BOOK CEREMONY: FRANKFURT, 20 FEBRUARY

PRIME MINISTER'S SPEAKING NOTE

- It is an honour to be invited to Frankfurt, and to sign your Golden Book.
- My sightseeing tour impressed on me once again the extent of our shared European values. The Paulskirche is the home of the first German Parliament: a symbol of our shared democratic values.
- Frankfurt like London is a major European financial centre. It is fitting that from here the Rothschild family became a major force in London banking.
- The Frankfurt/UK free trade agreement of 1832 (preserved in your City's archives) today has a special symbolism. We are working together for a Single European Market which is open, liberal and deregulated.
- I echo the words of the Englishman John Moore visiting Frankfurt in 1806: "the kind looks of the Frankfurt citizens" were much in evidence this afternoon.

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CONFIDENTIAL

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RESTRICTED



ccp.e.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Con.

17 February 1989

Charles Powell Esq
No.10 Downing Street
LONDON SW1

Dear Charles

**ANGLO-AMERICAN SUMMIT 20-21 FEBRUARY: ECONOMIC AND MONETARY
CO-OPERATION**

We held back the drafting of a brief on economic and monetary co-operation for the Prime Minister's use at the Anglo-American Summit until after her meeting last Wednesday. I now attach the brief, which I am also copying to Stephen Wall (Foreign and Commonwealth Office) and Roger Lavelle (Cabinet Office).

Yours sincerely

J M G TAYLOR
PRIVATE SECRETARY

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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

17 February 1989

*A final barrage
of papers for the*

Anglo-German Summit.

Dear Charles,

*CJP
18/2.*

Anglo-German Summit

I enclose a number of additional background papers for the Summit as follows:

- (a) The Ambassador's Annual Review;
- (b) Poehl Lunch
 - guest list and personality notes;
- (c) Frankfurt
 - a note on the places to be visited during the sightseeing on 20 February;
 - a copy of the speaking note for the Golden Book Ceremony which we sent earlier today;
 - personality notes;
- (d) The concert programme.

On Chemical Weapons the Prime Minister should be aware that the German Government has now published a full report on its involvement in the Libya affair, and also given details of the proposed tightening of its export control legislation. She might welcome these developments. The Twelve Foreign Ministers have agreed a German proposal that an initiative should be taken in the Australia Group (we await detailed German ideas on this) and that a possible Twelve demarche to the Arab League should be considered further by Political Directors. The EC Foreign Affairs Council on 20 February will probably adopt a German-inspired EC regulation on export controls on certain chemical precursors. If these are raised, the Prime Minister might say that we fully support the FRG wish for better coordination and enforcement of CW export controls.

The Prime Minister may also wish to know that the Department of Education and Science and the German cultural authorities agreed on 16 February the enclosed text on school exchanges with a view to presenting it to Heads of Government at the Summit for their endorsement. At the Anglo-German Summit in November 1985 the Prime Minister and Chancellor Kohl agreed that more should be done in this field. Work is proceeding well. At her press conference the Prime Minister might like to endorse, in the briefest terms, the value of this programme.

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The Foreign Secretary is out of London today and
so has not seen this letter in draft.

Yours ever,
Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH

20 February 1989

Anglo-German Summit: Environment

We have some evidence that Chancellor Kohl may be briefed to raise with the Prime Minister in Frankfurt our performance on tackling pollution from large combustion plants and in the North Sea. In case this matter comes up, you may like to have some material additional to the brief.

Under the terms of last year's Large Combustion Plants Directive, we and the Germans are committed to the following percentage reductions in sulphur dioxide emissions:

	<u>1993</u>	<u>1998</u>	<u>2003</u>
UK	20	40	60
FRG	40	60	70

The lower targets for the UK took account of the substantial reductions we had achieved before 1980, and also our particular problems of high sulphur coal and ageing power stations. Meeting our post-1993 targets will cost around £900 million. This will be over and above the CEBG's current billion-pound programme of retrofitting. We are spending more than anyone in Europe other than the FRG on reducing acid emissions from power stations.

As for the North Sea, in 1985 the FRG incinerated at sea some 29 times as much industrial waste as we did: 58,000 tonnes against our 2,000. (The North Sea Conference has since agreed that incineration at sea should be phased out.) Rivers - especially the Rhine and Elbe - are the most important source of North Sea pollution. 1987 figures for some relevant pollutants are:

	<u>FRG</u>	<u>UK</u>
Phosphorus	16,490	3,439
Cadmium and Mercury	20.9	19.4
Liquid industrial	1,271,000	242,000
Nitrogen	259,000	110,740

/Some

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Some of these numbers might be quoted to the Chancellor if he speaks to his brief. (But the evidence we have seen does not indicate that he certainly will.)

I am copying this to Roger Bright (DOE) and to Trevor Woolley (Cabinet Office).

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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the department for Enterprise

CM

To:

MR POWELL

cc PS/Chancellor of the Duchy of Lancaster
Sir J Fretwell FCO
Mr Hadley MAFF

From:

CHRISTOPHER ROBERTS
Deputy Secretary
Room 706 1 V/S
215 5285
20 February 1989

ANGLO-GERMAN SUMMIT: GATT ROUND AGRICULTURE

Developments in Geneva last week require some updating of Section H of the Steering Brief.

2 Hitherto the US have insisted that there must first be agreement to the eventual removal of all forms of agricultural support: this was the issue on which talks broke down in Montreal in December. Now, without giving up this long term objective, they are ready to discuss short term measures to reduce support for farmers and to lower import protection and export subsidies.

3 The US position in this area is now close to that of the Cairns Group (Australia, New Zealand, Canada, Brazil etc). The pressure on the Community to respond has intensified.

4 Although the UK sees further reduction of agricultural support in the short term as desirable for its own sake, the Germans may find it easier to accept the argument that, without it, the whole GATT Round process may be stalled, and the Community blamed. The following points could be put to German Ministers:-

- (i) The recent US readiness to negotiate on short term agricultural reform requires a positive response from the Community before the major GATT meeting in early April;
- (ii) The Community should certainly take credit for reforms already introduced, but should also offer further reductions in support in the short term, and be prepared to negotiate as necessary on import access and export subsidies;
- (iii) We understand your domestic political difficulty, but without further moves the future of the GATT Round as a whole - a major interest for Germany and the UK - is at risk.

CWR

C W ROBERTS
DTI