

CONFIDENTIAL

FILE SHZAWN
cc/BT

SUBJECT
CC MASTER



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 April 1989

Dear Stephen,

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL, 30 APRIL

The Prime Minister flew to Germany today to meet Chancellor Kohl in the village of Deidesheim in the Rhineland-Palatinate. After various ceremonies in the village, which included the planting of a vine in the Prime Minister's honour from which she will receive the wine each year, she and Chancellor Kohl talked for rather over two hours in the main hotel, continuing over lunch (for connoisseurs this consisted of potato soup, followed by pig stomach, sausage, liver dumplings and sauerkraut). There was then a press conference attended by some 200 journalists: you will be receiving the verbatim text of this separately. The Prime Minister and Chancellor Kohl subsequently drove to the nearby town of Speyer where they visited the cathedral and had a glass of wine with the local bishop. So far as outward appearances go, the meeting was cheerful and friendly. The Prime Minister was welcomed by a large and good-natured crowd in Deidesheim, with only a few banners protesting about low-flying.

The remainder of this letter records the main points of the talks on subjects other than SNF, on which I am writing separately.

South Africa

Chancellor Kohl suggested that he and the Prime Minister began by discussing South Africa. His own position remained unchanged: he was against sanctions. Nonetheless he expected pressure for them to mount again if President Botha's successor failed to take some dramatic measures fairly soon after the elections.

The Prime Minister said that she was glad to hear the Chancellor's position had not changed. She had recently met both Pik Botha and du Plessis and hoped to see de Klerk during the summer. She thought it vital not to isolate the new generation of politicians who would take over after President Botha's retirement. She was hopeful that the new government would release Mandela fairly soon after the elections. It would be easier for them to do so if Western leaders kept a fairly low profile on the issue in the meantime. She also expected a resumption of reform. All this was on the assumption that the extreme right did not make extensive gains in the elections.

CONFIDENTIAL

Chancellor Kohl asked about President Bush's attitude. The Prime Minister said that basically he agreed with her and Chancellor Kohl. But he was likely to have trouble with Congress over sanctions. There was still great pressure for disinvestment by American companies, as evidenced by Mobil's recent and most regrettable decision to pull out of South Africa.

The Prime Minister continued that we were giving substantial assistance for education of black South Africans and were now planning to give some modest help also to the Urban Foundation to finance mortgages which would allow more black people to buy their own homes. Chancellor Kohl said that he had seen my letter to Herr Teltschik about this proposal. The German government was ready to participate. Herr Teltschik subsequently handed me a letter confirming this (copy enclosed).

Chancellor Kohl asked whether the Prime Minister was optimistic about Namibia. The Prime Minister said that she thought the worst was probably over. SWAPO had behaved very stupidly. Fortunately she had been there on the day the settlement process started and had been able to persuade the South Africans that they must keep within the agreement. It was very important that the Namibia agreement should succeed, because that would give a positive signal for the future of Southern Africa as a whole.

Chancellor Kohl expressed satisfaction that he and the Prime Minister were in full agreement. They should both stick to their course and act together so far as possible. He wanted to be helpful. His main worry remained the US Congress.

Delors Report

Over lunch the Prime Minister asked Chancellor Kohl for his views on the Delors report. Chancellor Kohl turned up his speaking note and began to read it out. He thought Germany could work with the report. The key question was the extent to which Member States could agree on the three stages. The Prime Minister asked whether he was really saying that he was prepared to make the transfer of sovereignty envisaged in the report and give up national control of economic, monetary and fiscal policy. Chancellor Kohl seemed rather startled by this suggestion and commented that any such thing was a very long way off. The Prime Minister commented that there were quite a lot of practical steps which could be taken to strengthen monetary cooperation, without getting involved in treaty amendment. She would never accept the proposition in paragraph 39 of the report that embarking on the first stage committed us to the whole process of economic and monetary union. Chancellor Kohl said that this was something which required unanimity, so the Prime Minister should have no fears. The Prime Minister asked what procedure Chancellor Kohl envisaged for dealing with the report. The Chancellor said there would be first discussion at the Madrid European

Council, after which the report should be remitted to ECOFIN to continue work. The Prime Minister asked once again whether Germany would really agree to give up control over economic, monetary and fiscal policy. Chancellor Kohl answered with a question: would we ever have political union?

Frontiers

The Prime Minister explained to the Chancellor our concern to maintain adequate frontier controls against drugs, terrorism and crime, and in order to protect plant and animal health. It had been agreed at the time of the Single European Act that these matters should be dealt with by unanimity. But the Commission was trying to act under Article 43 of the Treaty which was a majority vote article, and were getting the support of the European Court in this. It was a matter of great importance and very sensitive politically in the United Kingdom. Chancellor Kohl appeared bemused by all this.

CAP

Chancellor Kohl referred to progress made in reducing agricultural supluses. Much faster progress had been made than had been envisaged at the European Council in February 1988. The Prime Minister agreed that there had been an improvement and the recent price-fixing had been quite satisfactory. But one could hardly say that the CAP was an example of market forces at work. Chancellor Kohl conceded that it might be some time yet before the CAP was on a really sound footing. The Prime Minister referred to the problem of fraud which was causing taxpayers huge sums. She would wish to pursue this matter at the European Council in Madrid.

Environment

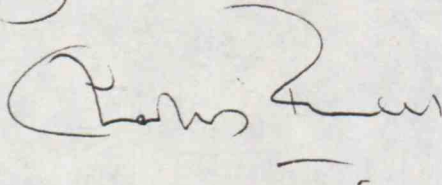
Chancellor Kohl said that he hoped for a thorough discussion of environmental issues at the Economic Summit, particularly the problem of disappearing tropical rain forests. Indeed, he would like to see agreement in principle beforehand to launch a special effort or initiative at the Summit on this issue. He had in mind some concrete action such as promising Brazil aid or credit in return for measures to preserve the rain forest. The Prime Minister said that there were a number of ideas under discussion in this area, including schemes for reducing debt in return for action to preserve the forests. But most of the debt was held by commercial banks and there was no particular reason to relieve them of it at the taxpayers' expense. Moreover, these issues were very sensitive for countries like Brazil who regarded many of the proposals made as an intrusion on their sovereignty. She was far from certain that the summit would be able to agree on a scheme.

Poland

Chancellor Kohl said that he was very encouraged by

developments in Poland. He had agreed entirely with the points made by the Prime Minister in her speech in Warsaw. The time had now come for the West to provide economic help. We should move rapidly on this. The Prime Minister cautioned that Poland must first reach agreement with the IMF and conclude bilateral debt agreements. But she agreed that the time had come to spell out the help we would be prepared to give once these steps were taken.

I am copying this letter to Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,


(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office

Translation

The guarantee fund to facilitate access to loans for home purchase by black South Africans envisaged by the "Urban Foundation" is fully consistent with the Federal Government's policy towards South Africa.

Positive signals are necessary to promote a better and more permanent integration of the black population into the South African community, instead of punitive measures which polarize the situation further still.

In the Federal Government's view the "Urban Foundation" is a most suitable agency for such positive steps.

The Federal Government intend to make an appropriate contribution to the guarantee fund of the "Urban Foundation". The question of finance is already being discussed in the context of the current federal budget deliberations.