

MEETING RECORD

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 March 1990

See Stehr.

PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL

The Prime Minister had an hour and a half's talk with Chancellor Kohl at the beginning of the Anglo-German summit this morning. Herr Hartmann of the Federal Chancellery was also present.

Some of the information in this letter is sensitive and I should be grateful if you could ensure that it is circulated only to those with a real need to know.

Summary

The Chancellor was in jovial mood and the Prime Minister no less friendly. None of the difficulties of recent weeks or months were mentioned. The Chancellor commented that it would be particularly important not to allow the press to stir up trouble between them. The subsequent lunch was also conducted in high good humour on all sides.

The substance was a bit more meagre. Most of the Prime Minister's talk with the Chancellor concentrated on aspects of unification, but he was determinedly elusive when the Prime Minister pressed him on transitional military arrangements for East Germany. There was no mention of the issue of nuclear weapons on German territory, nor any discussion of European Community issues, apart from the GDR aspect. Lithuania and South Africa were covered briefly. The only operational point was agreement to institute more frequent direct contacts between No.10 and the Federal Chancellery.

Germany and NATO

Chancellor Kohl said that a united Germany would be a member of NATO. There was no problem with the German people on this point: they wanted to belong to the West. The Soviet Union

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would in the end come round to accept it. Gorbachev had never made a big issue of it in discussion with him. In his view, the Russians were playing poker and wanted to extract more money from the FRG. The point which seemed to exercise the Russians most was to see their trade agreements with the GDR confirmed. The NATO issue was just a smoke-screen for this. It was interesting that, at a recent Warsaw pact meeting, Czechoslovakia, Poland and Hungary had all said they wanted to a united Germany to be in NATO. Soviet officials took the same line in private discussion.

The Prime Minister said that Chancellor Kohl had always been rock solid on German membership of NATO and we all appreciated that very much. She was inclined to agree that Mr. Gorbachev wanted to use the issue as a negotiating card. There would have to be some face-saving mechanism for him, including a transitional period during which Soviet troops would remain in the GDR. The importance which the Russians attached to maintaining the trade agreements with the GDR was interesting. But she understood they were falling behind with their deliveries to all East European countries. Indeed the deterioration in the Soviet economy was alarming, and something we might need to discuss at the Economic Summit.

Chancellor Kohl said that he did not absolutely rule out that the Soviets would want to pull their forces out of the GDR immediately after unification. After an initial hiatus, living standards in the GDR would rise very rapidly, and it would be uncomfortable for the Soviets to expose their troops to the Western lifestyle. Moreover he thought that the Poles were keen to see the Russians out. The Prime Minister said that Mazowiecki had given the impression that he would prefer to see Soviet troops remain for a while at least. She was more concerned to get our own Western thinking straight on the defence arrangements we envisaged for the GDR. In our view the NATO guarantee should apply in full, and presumably at least a limited number of German forces should be stationed there. There might also be a case for keeping some Allied forces in Berlin. Chancellor Kohl did not respond directly to these points (although he did say in the press conference that it would be necessary to guarantee the full protection of NATO for Germany under articles 5 and 6 of the Treaty). Reverting to the point about Soviet troops, Chancellor Kohl said that he could envisage a treaty allowing them to stay for five years if that was what they really wanted. The problem over the GDR was really a transitional matter and not very important. But the key point he wanted to register with the Prime Minister was that he would never agree to neutrality for Germany as the price of unification.

Two Plus Four Group

Chancellor Kohl said that he wanted as few security issues as possible to be discussed to the Two plus Four Group. The right place to consider them was NATO. He wanted to avoid the impression that Germany had some special status in security matters. The Russians, of course, wanted to take as much as possible into the Two plus Four Group, in the hope of dividing the Western members. The Prime Minister agreed that the main defence issues had to be settled in NATO, although there was

bound to be some overlapping between what was discussed in the Two plus Four Group and NATO.

Chancellor Kohl continued that it was important for the four Western members to consult closely among themselves in advance of Two plus Four meetings (and we would shortly be able to involve the GDR in such consultations as well, acting through him). But we must not drag into that group matters which properly belonged to NATO. The Prime Minister said that the Chancellor no doubt had in mind such questions as the presence of nuclear weapons in Germany. Chancellor Kohl said that this was precisely the sort of issue on which the Soviets wanted to use the Two plus Four Group to prejudice NATO's decisions.

German/Polish Border

Chancellor Kohl rehearsed the commitments which he had given on the Polish border. He hoped that in June the Bundestag and the East German Parliament would pass identical motions, stating clearly that the Oder-Neisse border was definitive. These could then be handed over to the Polish government in a formal note, with a statement of the wish of both German governments to embody this in a legally binding treaty immediately after unification. What he could not do was initial a treaty now, because he had no constitutional authority to do so. It would only become another contentious issue.

Chancellor Kohl continued that the Russians were pressing for discussion of Polish borders in the Two plus Four Group. He had reached the conclusion that their real concern was with Poland's eastern border. There were no problems in the parts of Poland which had formerly belonged to Germany: but there was trouble in parts of the Soviet Union which had formerly belonged to Poland. He took the view that all border questions other than the Oder-Neisse Line should be discussed in the CSCE framework and not the Two plus Four Group. The Prime Minister agreed with this.

The Prime Minister said she could understand why Chancellor Kohl did not want a formal Peace Treaty, but there would have to be some form of overall peace settlement. Chancellor Kohl simply let this pass.

Timetable for Unification

In response to a question from the Prime Minister, Chancellor Kohl gave a rather rambling account of the likely timetable for unification. The first task had been to stop the flood of emigration from the GDR, and there were signs that this was now declining. There would be local elections in May. They were important as a means of rooting Communists out of local government. The next task would be rebuild the Laender. There was genuine popular demand for this in the GDR, but it was a major task. There would then be Land elections in the autumn. The elections in the FRG would go ahead as planned in December this year, even though some people had suggested postponing them. His current thinking was that the first all-German elections would be in the second half of next year. But this was only

tentative.

German Economic and Monetary Union

Chancellor Kohl said that discussions on GEMU were going well, with the Bundesbank in the lead. It was very important that they should be responsible for conducting the negotiations, because of their duty to put stability of the currency above everything else. Once monetary union was achieved, the Bundesbank would take over responsibility for all monetary matters for Germany as a whole, and the national Bank of the GDR would be wound up. No final decisions had been taken on the rate of exchange between DM and the Ostmark. But his intention was to use a 1:1 rate up to a ceiling of DM 2000 per capita, and change the rest at 1:2. The real problem lay not with individual savings but with the huge debts accumulated by GDR industry. In parallel with monetary union, the legal framework for a market economy would be introduced following in the footsteps of Professor Erhard in the FRG after 1948. The full FRG social security system would also be introduced. Pensions were a particularly important aspect, given that 37 per cent of the population in the GDR was over the age of 60.

Chancellor Kohl continued that all this would be very expensive and there were risks. He expected a huge surge of investment and of spending in the GDR, particularly on cars and in the building industry. But he was determined not to raise taxes. Rather, there would have to be economies in other areas of the FRG's expenditure. This was the real political problem, because the Laender and the communes would be reluctant to surrender some of their resources and see them allocated to the GDR. There would also be problems with the trade unions, but they held no fears for him. It was fortunate that the FRG had enjoyed eight good years of economic growth with the prospect of more to come. If all this had happened at the end of the Schmidt era, there was no way the FRG could have afforded to finance the modernisation of East Germany.

Chancellor Kohl dwelled at some length on the appalling state of the GDR's economy and infra-structure. Although its population was 16 million, the GDR's GNP was less than that of Land Hesse. The environment was in a shocking state, and two or three nuclear power plants would have to be shut down completely. Some people asked whether absorbing East Germany would change the nature of Germany as a whole. He doubted this: Germany's centre of gravity would remain on the Rhine and in South Germany even after unification. That would be true both for Germany's mentality and in economic terms.

EC Aspects of Unification

The Prime Minister said that we did not expect the informal European Council on 28 April to be an occasion for decisions. Rather there should be a general discussion and agreement on procedures for resolving the various problems which would inevitably result from absorption of the GDR into the Community. Other member states would want various safeguards both before and after unification.

Chancellor Kohl said he entirely agreed with this analysis. The 28 April meeting should just take a sighting shot. The Federal Republic was not seeking money from the EC for the GDR, but would need transitional arrangements and derogations in specific areas, above all for the environment and some areas of industry.

Anglo-German Contacts on Unification

Chancellor Kohl said that he wanted to keep the Prime Minister personally informed of all his intentions about unification, so as to remove any possible sources of misunderstanding or apprehension. He would pass on even matters which his Cabinet would not know, subject always to the qualification there would inevitably be in unexpected developments. He would like to suggest that Charles Powell should meet with Herr Teltschik and other members of the Federal Chancellery staff once a month in total discretion, with no announcement of such meetings. The Prime Minister said she was very grateful for this offer, which she would like to take up.

Lithuania

The Prime Minister gave Chancellor Kohl an account of her talk with President Gorbachev about Lithuania. He was clearly under great pressure. The issue was a complex and sensitive one and could only be resolved by dialogue and discussion. The Lithuanians must show themselves ready for this, as well as the Soviet authorities. Chancellor Kohl said he entirely agreed but we must do nothing to complicate an already difficult situation.

South Africa

The Prime Minister said that both she and Chancellor Kohl would be seeing President de Klerk in May. The two of them had traditionally kept close to each other on South African issues and she hoped that could continue. De Klerk had changed the situation in South Africa fundamentally and we had thought it right to recognise that. Chancellor Kohl agreed emphatically, but gave no indication that the Germans would in fact join us in lifting some measures.

Bilateral Relations

The Prime Minister said that she proposed to announce at the joint press conference an initiative to extend English language teaching in the GDR. Chancellor Kohl said that he would very much welcome this. It would make even more impact if the Prime Minister could refer to an intention to make a number of scholarships - perhaps 50 - for qualified East German students. The Prime Minister said we would be ready to do something on these lines.

Follow Up Action

The Prime Minister is committed to sending a message to President Gorbachev about the Anglo-German summit. I should be

grateful if you could let me have a draft, based on this note, by the evening of Monday 2 April.

I am copying this letter to John Gieve (HM Treasury), Simon Webb (Ministry of Defence), Martin Stanley (Department of Trade and Industry) and to Sir Robin Butler.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'C. D. Powell', with a stylized flourish at the end.

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 March 1990

Dear Hans.

ANGLO-GERMAN SUMMIT: ENGLISH LANGUAGE TRAINING INITIATIVE
FOR THE GDR

BF / The Prime Minister duly raised the points in your letter of 29 March with Chancellor Kohl. He welcomed our intention but said it would have even more impact if we could say that we were setting aside a number - perhaps 50 - scholarships for qualified GDR students. The Prime Minister said that we would certainly be willing to do something of that sort. She subsequently reiterated this at her press conference. I should be grateful to know of the plans we have to give substance to this commitment.

I am copying this letter to Carys Evans (Chief Secretary's Office), Martin Stanley (Department of Trade and Industry), Stephen Crowne (Department of Education and Science) and Sonia Phippard (Cabinet Office).

*Yours sincerely
C. D. Powell*

C. D. POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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