

Agree.
① *Pol. Hung. (Zech to join EC.
(Hard Euro error)*



Foreign &
Commonwealth
Office

Edinburgh

CONFIDENTIAL

London SW1A 2AH

5 June 1991

① *Mineral*
② *Qu. to Fed Oct 92
for Presidency*

Dear Stephan,

③ *Our route to EMU - Ind. Fin. Inst.
(Hard Euro!)*

④ *EC is not democratic. Zech Co. of 7/8/91
Oct
E.P.*

Chancellor Kohl's Visit to Chequers, 9 June

Chancellor Kohl is visiting Chequers for talks and lunch between 1100 and 1500 on 9 June. I understand that Mrs Kohl is using the opportunity to sight-see in London. The objective of the meeting is to build on the Prime Minister's relationship with Chancellor Kohl to ensure that he understands the political background and rationale of our policies, particularly in the IGCs. ✓

Chancellor Kohl has weathered the spring storm over his handling of the economic problems of the new Länder, though the coalition continue to trail the opposition in polls and have lost control of three Land Governments in the last 13 months. Talk of a grand coalition has died down, and the government/opposition working groups set-up to discuss policy on the new Länder have been quietly wound up with no significant concessions by the Government. Chancellor Kohl is now able to turn his attention to the two IGCs and preparation for the Luxembourg European Council. This will form the bulk of the talks. It might be best to deal with the other subjects over lunch. I understand that you have agreed with Sir Christopher Mallaby that it would help the talks to get off to a good start if the Prime Minister were to begin by presenting Chancellor Kohl with the German version of Sir Julian Bullard's Chamberlain lecture of 17 October 1990. We will send you a bound copy later in the week. I enclose the English text in case you have not yet seen it.

*Not necessary
at the beginning!*

Bilateral

The Prime Minister's last bilateral with Chancellor Kohl was at the Anglo-German Summit on 11 March in Bonn. Chancellor Kohl was delighted with his reception in Edinburgh on 23 May when he received a honorary degree. We have not yet agreed dates for the informal weekend in the country which the Prime Minister has suggested to Chancellor Kohl. Other

/Ministerial

CONFIDENTIAL



CONFIDENTIAL

Ministerial exchanges are taking place at a good rate. The Foreign Secretary is spending the weekend of 8-9 June with the Genschers in Halle, where many of the same subjects will come up, though the agenda is likely to range wider over regional issues. Mrs Chalker's opposite number, Herr Spranger, will be in London on 12-13 June at her invitation. Sir C Mallaby has been instructed to sound out the Germans informally about the possibility of a State visit by HM The Queen in October 1992.

The Prime Minister might like to say:

- Welcome regular Ministerial exchanges. Douglas Hurd in Halle today; Herr Spranger in London next week.
- Awaiting German response to idea of State visit next year.
- Prospects in the new Länder? Glad that UK business interest second only to the French among EC. Keen to see our relations with new Länder reach level we have with old.

Kohl may mention plans to encourage German studies at UK universities and ask us to give more money to the Anglo-German Foundation for the Study of Industrial Society, a worthy but sleepy body. The Prime Minister might say:

- UK increased funding from £125,000 to £175,000 in 1989. AGF does not need more government money: instead needs to update its activities and seek private sector money.

IGCS

The Prime Minister will be familiar with the general state of play in the political union IGC from his meeting with Santer on 5 June, which we expect will concentrate on the handling of the European Council. The Kohl/Mitterrand Summit on 29/30 May appeared to endorse the current twin-pillar structure, but also favoured recording agreement reached so far at the June Council. Kohl stressed the need for parallelism between the EMU and Political Union outcomes, and appeared to regard the Political Union IGC as the one now causing the greater problems. At the Dresden informal Foreign Ministers meeting on 3 June there was a good deal of support for a unitary structure. Although Dumas spoke strongly in favour of the twin-pillar approach, Genschner sat on the fence.

It is therefore important to impress upon Kohl the strength of our views on structure, to reinforce our concern to avoid rushing fences in Luxembourg, and to give Kohl an indication of the key issues for the UK in the difficult negotiations to follow. The Prime Minister might want to draw on the following:

/- Structure

CONFIDENTIAL



How is this Treaty

CONFIDENTIAL

x1 - Structure of the union a key issue for us: Union and Community must remain separate. A unitary approach could restrict development of European cooperation, not promote it.

- [If raised] No difficulty in principle with review clauses - accept evolutionary approach: political union a process. But any review clause must be neutral.

Begin.

- Grateful for Kohl's pragmatic approach to June European Council. Any attempt to reach substantial agreements premature and would set back progress. We are looking for a neutral stock-taking commending the Presidency's work and looking forward to conclusion by Maastricht. Agree EMU and EPU process must proceed in parallel.

- IGC raises some difficult issues for UK. Social chapter risks opening Pandora's box, undermining UK policy and practice. Europe not ready for a single social model.

which one?

- The UK believes that the present Treaty provides scope for a sensible social dimension. Ready to make progress in line with the priorities of last December's European Council.

x1 - Nor do we support other proposals for extension of competence. Want clear definition of subsidiarity in treaty: will provide reassurance in UK.

E.P.

x1 - Fully accept need to enhance democratic legitimacy in the EC. But we do not see a case for extending the legislative power of the European Parliament. Likely to provoke Westminster opposition. Better in our view to concentrate on EP's monitoring role, e.g. better financial control; and create stronger partnership between EP and national parliaments.

x1 - But accept German government have different emphasis. If you believe it essential to make a further move in favour of the EP, UK could consider an EP role in appointment of the Commission, providing this does not give them a say in the programme and does not involve separate decision on the President and other Commissioners.

- Chancellor Kohl has pressed hard for fiscal harmonisation in the transport sector as a reaction to competition from other member states, particularly the Dutch. The Prime Minister might therefore refer to the Chancellor's statement at the 3 June ECOFIN (Jeremy Heywood's letter to you of 4 June) that the UK could now accept a minimum rate of diesel duty. and and

/There will

CONFIDENTIAL



CONFIDENTIAL

There will be a meeting of Interior Ministers on 13 June at which agreement is possible on an External Frontiers Convention (EFC). The Germans want an explicit link between the EFC and internal frontier abolition. We do not. Failing agreement, the frontiers coordinators (senior EC Interior and Foreign Ministry officials) are likely to report to the European Council that progress on inter-governmental work on frontiers is blocked because of UK refusal to abolish internal frontiers. Bangemann, German Commissioner who covers frontiers issues, would use the excuse of a failed EFC to table radical Commission proposals relating to internal frontiers. In the political union IGC, the Germans want common action and a greater Community role. Kohl has for some time wanted a common reponse to the growing threats of cross-border crime, immigration etc and has spoken of creating a "Euro-FBI". We prefer increasing police cooperation rather than setting up a new structure which would have enormous practical problems, and problems of jurisdiction.

The Prime Minister may want to:

- Express the hope that frontiers issues will not be discussed in detail at Luxembourg. He might make clear that the UK is working constructively for an External Frontiers Convention. Meanwhile we have considerably reduced frontiers checks. Water's edge controls make practical sense for UK as an island. Key thing is that movement of people will be far freer after 1992 than when SEA came into force.

- Confirm our preference for cooperation in this area to continue on an inter-governmental basis, as a separate pillar of union activity.

The Prime Minister may also wish to draw attention to our proposal for the G7 Summit to launch an initiative on a trade and carrier cooperation programme to counter illicit drugs traffic. The Sherpas will discuss this on 7-9 June. European Security and Defence

Chancellor Kohl was careful to play up his support for the Alliance during his visit to Washington on 20 May. The Germans have underlined to us the significance of Chancellor Kohl's comment in a speech there that "my government does not want to see the long standing Atlantic Alliance in any way weakened, less still replaced by a European structure". President Bush said in his message to the Prime Minister after the visit (your letter of 21 May) that he had done some heavy lifting with the Germans and hoped that he had helped further convince Kohl that European defence, however common, must be within the Alliance and not separate from it.

/However

CONFIDENTIAL



(By wire take!)

CONFIDENTIAL

However, the Franco-German Summit the following week did not suggest any lessening of Chancellor Kohl's enthusiasm for the concept of a common defence policy of the Union in the longer term. The Chancellor apparently still gives high priority to achieving a political commitment this year to such a long term goal, and sees no incompatibility between this and maintaining the Alliance.

The Chancellor has also been prominent in the debate in Germany about a role for the Bundeswehr outside the NATO area. At a CDU Foreign Policy Conference on 15 May Kohl made clear that in his view a constitutional amendment would be necessary; that there would be an open vote this year in the Bundestag on the question of Bundeswehr action sanctioned by the UN; and that he would press for constitutional change in the context of European political union to enable Germany to participate in out of area action with other Europeans. But the SDP (whose consent is necessary for an amendment to get the required two thirds majority) are opposed to anything more than participation in UN peace-keeping operations.

The Prime Minister might take the following line:

- The UK and Germany at one on the need to sustain the Alliance and the US presence in Europe. Welcomed Chancellor Kohl's comments on this in Washington. ✓
- We are supporters of a stronger European defence identity. But we are concerned that in building this up we should not unintentionally damage our wider security by undermining NATO. ✓
- That is why we stress the need to be clear on how a European defence identity will in practice complement the Alliance. ✓
- To our ears a "common" defence policy of the Twelve sounds like something separate from the common policy we already have in NATO. It would also seem to leave other European allies - Turkey, Norway, Iceland - out in the cold. And it would pose a dilemma when neutral or East European states join the EC. ✓
- Not all these issues can be settled this year. We need to lay down some guiding principles: particularly complementarity and openness within the Alliance. ✓
- More work needed on the details of the European defence identity and how this would relate to the Alliance. We are ready to see the WEU take on an operational role, including a European Reaction Force for use outside the NATO area. ✓

/- Have

CONFIDENTIAL



CONFIDENTIAL

- Have followed the debate on Bundeswehr involvement out of area with interest. Welcome your intention to press for constitutional changes to enable Germany to participate in out of area action with other Europeans. An ERF would give substance to the European defence identity.

- Clarity on the relationship between the European defence identity and NATO part of the overall package we seek later in the year: balancing reform of NATO and a strengthening of the European defence role. Need matching progress in NATO, the WEU and the IGC.

Non-Proliferation and Conventional Arms Control

Following the revelation of German military supplies to Iraq, the Germans are keen to be seen in the forefront of efforts to strengthen non-proliferation regimes and restrain conventional arms sales in the wake of the Gulf war. Mr Genscher has proposed the establishment of a G7 Working Group on export control policies to look at the issues. We would not oppose continuing talks on arms restraint between G7 officials, but we would not want to make the G7 the centre of action on this front: it contains some countries (eg Japan) which are very minor exporters, but excludes key players such as the Soviet Union and China. The Prime Minister might say:

- We share German interest in promoting non-proliferation and greater responsibility in the conventional arms trade. There is much activity on these fronts, in the Twelve, the G7 and among the Permanent Five. Last group of special importance, because it includes Russians and Chinese.

- We believe the way forward on NBC weapons and missiles is to work to strengthen existing regimes where there is already considerable momentum and commitment to change.

- On conventional weapons, our aim is to encourage greater responsibility in the arms trade. No country must be allowed to follow Iraq in amassing such a grossly unjustified arsenal.

- A key element in our approach is greater transparency - hence our proposal for a UN Register of arms sales, which we hope will gain support at the next General Assembly. Encouraged that both President Bush and President Mitterrand have renewed support for the concept in their own recent initiatives.

- Hope we can work closely together in the run-up to European and G7 Summits. The Twelve and the G7 can set an example to other arms-exporting countries.

/Soviet Union

CONFIDENTIAL



CONFIDENTIAL

Soviet Union

Discussion of the Soviet Union is likely to focus on the prospects for Mr Gorbachev's attendance at the G7 Summit in London in July. It is likely that by the time of the meeting, the Prime Minister will have written to colleagues proposing that Mr Gorbachev be invited to London after the summit. The Germans support an invitation to Gorbachev. Chancellor Kohl's visit will be an opportunity to discuss how to ensure that Gorbachev's involvement genuinely assists the process of reform and how to avoid raising unfulfillable expectations of large scale Western financial aid. The Prime Minister might draw on the following points:

- Soviet Union in deep crisis. But some hopeful signs (Gorbachev/Yeltsin relations; 9 + 1 Agreement; Yavlinsky's economic reform proposals). West should use its limited influence to push Gorbachev towards further reform.
- Reports of Yavlinsky's proposals quite encouraging. But still very sketchy, and not clear how far they are backed by central or Republic leaderships.
- Not a question of some "grand bargain" between the West and the Soviet Union; but of help for self-help. If serious reform measures are introduced in Soviet Union, should be ready to consider Western/IFI assistance.
- To some extent encouraged also by beginnings of development of independent market in Soviet Union: but still on very small scale in relation to size of Soviet economy. Important that West should do what we can to encourage growth of market sector.
- Applies in particular to Gorbachev and G7 Summit: essential to avoid building up impression in Western/Soviet media that Summit will be focussing on question of massive financial aid to Soviet Union. Will need to present attendance as:
 - a) Recognition of political importance of Soviet Union's role in international community, and of part played by Gorbachev in changing international atmosphere (eastern Europe, regional disputes, Iraq). But without allowing him to dominate Summit or distort its agenda.
 - b) Chance for Gorbachev to endorse Summit's approach/conclusions - eg on conventional arms transfers.
 - c) Opportunity for Gorbachev to brief G7 leaders on efforts directed at reform; for G7 to confirm support for reform

/process

CONFIDENTIAL



CONFIDENTIAL

process; perhaps to offer eg IMF advice on latest proposals, to pledge to pursue technical assistance/provision of Western expertise (eg through closer association with IFI's). Sherpas will need to discuss further.

- Important that Summit's message to Gorbachev should spell out clearly criteria for future cooperation, and should help bind him more closely to reformist policies.

Yugoslavia

The situation in Yugoslavia remains serious. Slovenia is set on declaring independence on 26 June, with Croatia likely to follow on 30 June. The Serbs continue to block the rotation of the Federal Presidency to Croatia.

We still believe that our proposal to involve the CSCE in the crisis offers the best means of defusing tension and providing the Yugoslavs with the breathing space to seek their own solutions. Discussion of this proposal at the EC Foreign Ministers' meeting in Dresden on 3 June produced only general agreement to keep the idea under study. The Prime Minister could therefore seek Chancellor Kohl's endorsement of it and ask whether failing this, the Chancellor has any other suggestions. EC Foreign Ministers also agreed that the Presidency and Commission should draft a message to the Yugoslavs setting out the EC's pre-conditions for aid.

On 30 May Chancellor Kohl and President Mitterrand issued an appeal for dialogue in Yugoslavia in the margins of the Franco-German summit. The appeal made no reference to Yugoslavia's unity and integrity: the Prime Minister might ask whether this represents any shift in German policy on preserving Yugoslavia's unity.

Iraq

Future decisions on the relief effort for Iraqi refugees are becoming more pressing. The humanitarian relief operation has been largely successful. Those UK forces associated with the relief operation whose task is now complete will be withdrawn and we are urgently considering the timing of the departure of the rest of the contingent. We need to continue to encourage the UN to speed up its takeover of the humanitarian operation. We should also keep in close touch with the Germans (as major donors) on the timing of the final withdrawal. Whatever underpinning is agreed to reassure the Kurds, some form of continuing deterrent in the region will be necessary, almost inevitably American.

/ South Africa

CONFIDENTIAL



CONFIDENTIAL

South Africa

When the Prime Minister saw him in Bonn on 11 March Chancellor Kohl agreed on the need to remove at an early stage further EC measures, on which we had handed a paper to him. His office have since indicated support for a declaration on sport at the Luxembourg European Council (28 -29 June). But MFA officials continue to argue that the 1985 EC measures - including EC ban on official sporting contacts and agreements - should stay until there is more progress in South Africa. The ANC sports spokesman - Steve Tshwete - said he would favour an EC Declaration when here last month. We need to encourage Kohl to get Genscher to help attain our objectives at the Luxembourg Council, in particular a declaration on sport.

By the time of the European Council, the South African Parliament will have repealed the bulk of statutory apartheid. It would be right for the EC to mark this progress by lifting a further sanction at Luxembourg (the best candidate: the 1985 oil embargo). In proposing this, we would not fight too hard: but it may be useful to have something to concede in return for a declaration on sport.

Against this background, the Prime Minister may wish to say:

- South African sports bodies now integrating. ANC sees this as good means to non-racial nation building. We should encourage this process, which will also help de Klerk with his right wing. The Twelve should declare support for resumption of contact with sports which achieve unified governing bodies.
- EC should continue to match President de Klerk's actions by measures of encouragement: Would be sensible for European Council to mark abolition of statutory apartheid by lifting 1985 oil embargo to encourage more reform.

I am copying this letter to Jeremy Heywood (HM Treasury), Martin Stanley (DTI), Simon Webb (MOD) and Sonia Phippard (Cabinet Office).

*Yours ever,
Christopher Prentice.*

(C N R Prentice
Private Secretary)

J S Wall Esq
10 Downing Street

CONFIDENTIAL

CHANCELLOR KOHL'S VISIT TO CHEQUERS, 9 JUNE

PROGRAMME

1035	Arrive Northolt
1040	Depart for Chequers
1100	Talks begin
1300	Lunch, then further talks
1500	Leave for Northolt
1520	Depart Northolt