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10 DOWNING STREET

From the Private Secretary

9 June 1991

Dear Jeremy,

VISIT OF CHANCELLOR KOHL TO CHEQUERS: 9 JUNE: EMU

My letter to Richard Gozney recording the Prime Minister's meeting with Chancellor Kohl contains an abbreviated account of the discussion on EMU. I give below the full account (including the paragraphs that were in the original letter).

The Prime Minister has asked that this letter be seen in the Treasury only by you, the Chancellor and Nigel Wicks. In the FCO, it should be seen only by the Foreign Secretary and Richard Gozney.

EMU

The Prime Minister said he hoped to examine the points of agreement and disagreement between us. We shared the objective of controlling inflation; we agreed on the dangers of moving to economic and monetary union without the proper convergence of economies, and on the risks of expensive budgetary transfers to the poorer member States. There were some difficult points for us, but he thought we could find a way through. The two main points of difference or difficulty were (i) the difficulty of making a commitment now to the ultimate objective of EMU and (ii) the very difficult issue of the independence of the Central Bank, which he knew to be imperative for Germany. Germany wanted to be sure that any replacement for the Bundesbank was just as good. We did not have the same tradition. Before we moved to stage 2 we would need some convergence of economies. We should not just say that we wanted convergence. We should set out what it meant, e.g., inflation, growth, flexibility of economies, spending controls, etc. If we were not clear, we could face economic catastrophe. We wanted to set convergence points as well as dates as the determinant for moving forward from one stage to the next. Of the two, convergence was more important than dates. We agreed with Germany that each country should maintain domestic control of its own monetary policy in stage 2 and that further convergence points would be needed before stage 3. These would need to be set out carefully.

The Prime Minister said that when, as Chancellor, he had put forward the hard ecu proposal, he had done so knowing that the independence of the Central Bank was crucial for Germany and politically impossible for the House of Commons. He had foreseen

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that the hard ecu would develop as a real currency which people would increasingly use. He would take steps to ensure wider use of the ecu here and had already announced as Chancellor a large bond issue in ecus. The Bundesbank had feared that a parallel currency would increase the money supply and lead to inflation. But, as people bought the hard ecu, domestic currency would be withdrawn proportionately from circulation. That was a route to a single currency that was sellable.

The Prime Minister said that if he could not persuade his partners of that route, then the only way he could get through the EMU IGC was (i) to set convergence points for stage 2 and subsequently stage 3 and (ii) for there to be two caveats: (a) that the British Parliament would have to make up its mind at the end of stage 2 and not before and (b) that we could not categorically commit ourselves to going to stage 3 until that point was reached, and we could make that judgement based on our experience in stage 2. To move to a prescriptive single currency on the lines proposed by the Delors Committee would take away the constitutional prerogatives of the House of Commons. Were he to come back from Maastricht saying that he had committed Britain to a single currency - even if it did not happen for years - he would not get it through the House of Commons. Even the pro-Europeans would vote against. The Prime Minister said that he recognised that the Beregovoy/Delors proposal had been helpful in intent but it had been politically unhelpful in practice.

Chancellor Kohl said that he would like to be in touch again about all this before Luxembourg. He said (in a reference which I think was more Old Testament than Chicago) that he would send two people to speak to the Prime Minister personally on this issue. The question was whether Britain alone wanted the right to decide for itself or whether she would act as a brake on others. He thought it unimaginable that the House of Commons would not in the end want Britain to join, but he would say nothing of all this in public. People should keep very quiet on this topic.

The Prime Minister said that if the House of Commons took a vote at the appropriate time on whether to go into stage 3, and if the other members of the Community were ready to do so, that must mean that the necessary conditions of convergence had been achieved because he could not imagine otherwise that Germany, as the Community's biggest payer, would be prepared to make the move. So British political opinion would face an intriguing choice; either to let the rest of the Community go ahead and stay outside, or to join in. Chancellor Kohl said that he could predict now that Britain would opt to go in. He thought that Europe was going to be the success story of the 1990s. We would have the Single Market in 1992. More and more young people looked increasingly across the Channel. He understood what the Prime Minister was saying. The European train was moving, and Britain had to decide whether she wanted to join it. That was not a responsibility the Prime Minister was trying to avoid, but the particular decision was not one for today but for the future, albeit the foreseeable future. The Prime Minister agreed. Chancellor Kohl commented that he was sure the City would want Britain to be part of EMU. The Prime Minister said that the City

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and the banks were conspicuous by their silence. Chancellor Kohl said he had similar problems but the banks always made sure they were on the winning side.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office).

Jan.
Steph

J.S. WALL

Jeremy Heywood, Esq.,
HM Treasury.

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10 DOWNING STREET

From the Private Secretary

9 June 1991

Dear Richard,

VISIT OF CHANCELLOR KOHL TO CHEQUERS: 9 JUNE

Thank you for the briefing provided by you and Jeremy Heywood for Chancellor Kohl's visit to Chequers today. The atmosphere was very good, and the Chancellor did not leave until 1545.

On substance, Chancellor Kohl reaffirmed his commitment to avoiding decisions in Luxembourg. He did not go into nearly as much detail on the two IGCs as the Prime Minister, but set out his own European convictions.

I enclose a copy of the agreed press line. The Germans were keen that this should be in pretty general terms.

At Chancellor Kohl's request he and the Prime Minister had over an hour on their own (with interpreters) at the start of the meeting. The discussion was mainly about domestic politics. The Chancellor was relatively up-beat despite the present difficulties in East Germany. Many there preferred the kind of Marshall aid they were getting from Bonn rather than work. Good people were no longer interested in going into politics. Chancellor Kohl reckoned that the worst of unemployment in the former GDR would be cured in two years. With the one to one exchange rate, most East Germans had considerable savings. Chancellor Kohl's sympathies lay with the pensioners, and he would probably have to increase pensions. He faced criticism from both West and East. In the East there were disappointed expectations; in the West people complained about the burden of unification. He spoke very critically of the role played by the Stasie. But he ended on an up-beat note. There were 900,000 telephones in East Germany now. There would be 2 million by the end of next year. That was a greater number of installations than in the entire period of Communist rule.

Chancellor Kohl said that he felt much more motivated than for a long time. Things were moving in the European Community. He intended to stand again in 1994 (i.e., to lead the Party in

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the 1994 election).

European Community

Peter Hartmann, Walter Neuer and I joined the talks at this point. The Prime Minister said that one of the frustrations sometimes felt by our European partners was that we gave them a clear idea of what we did not want to do. We did not always give a clear idea of what we positively wanted to do or of its timescale or how we could deliver it. The Community had changed a lot in the last few years and would change still more. The unification of Germany would have a significant effect.

The British were by temperament the least European of the present Community countries. This was for reasons of history and geography, our position as an island and the fact that we were appalling linguists. We had trailed behind in the development of European ideas. The Prime Minister felt strongly that the Community should develop beyond its present membership. That Austria and the EFTANs would join seemed very likely. We should begin to frame our European policies on the basis of Poland, Hungary, Czechoslovakia - and maybe others - joining as well. This might be a long way off, but we ought not to frame policies in a way that made it more difficult for those countries to join.

The Prime Minister identified two things as being necessary to carry the British along: (i) we should move a step at a time; (ii) we must find some policies on which Britain could give a lead and not just be dragged along in the tail-cart of the Community.

The Prime Minister described the trend of views about the Community in the three major British political parties. He did not see the Parliamentary handling of a treaty on political union being more or less difficult after the next general election than before. He and Chancellor Kohl were at one in working for a conclusion to the IGCs at the December European Council.

Chancellor Kohl said that he understood the political constraints. The important thing was that the Prime Minister should indicate that he was for Europe. The Prime Minister said he was for Europe, as far as he could go. There was no point in agreeing to a treaty if he could not deliver the necessary votes for it in the House of Commons.

Chancellor Kohl said that if we wanted to be successful at Maastricht we must not be too ambitious in Luxembourg. The Luxembourg Foreign Minister wanted to anticipate Maastricht. This would be disastrous, and Kohl had made this clear to Santer. In Luxembourg, we should review the subject matter of the IGCs, take stock, and see where we had to go. But we should not really engage on the issues.

The Prime Minister described his meeting last week with Monsieur Santer. He had made clear that we could not decide anything until the point where we came to decide everything. Monsieur Santer had wanted to nail down some agreements. The

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Prime Minister had sought to dissuade him. The two IGCs interlocked. To try to reach agreement and fail would make the European Council look like a failure. Monsieur Santer had been disappointed and hankered for more agreements than it was safe to aim for. The Prime Minister repeated: we should conclude the negotiations at Maastricht if we could. We should not take decisions at-Luxembourg.

Chancellor Kohl said he would again do what he could to deter Monsieur Santer. He would speak to Santer again on the telephone and discuss the matter with other party leaders. There were strained relations among Benelux countries. The Dutch Foreign Minister was not a man to arouse much sympathy.

Chancellor Kohl said that the European Council could discuss the Single Market. The Prime Minister agreed. He was happy to review the two IGCs. And he looked forward to a discussion about frontiers. Chancellor Kohl picked up this reference. Asylum and drugs trafficking were very sensitive issues which should be handled at the European level. The Prime Minister agreed. He described the large increase in asylum cases in Britain and the problems of immigration. Chancellor Kohl said it would be helpful if we had Europe-wide norms for tackling these issues. The Prime Minister said that if we had the right external frontier to the EC, that would enable us to deal with our problems over the relaxation of internal frontier controls. We needed stronger external controls and common, high standards, on the issuing of visas. If we had a relaxed standard, then we would be flooded. Chancellor Kohl agreed.

Chancellor Kohl spoke about the problem of drug trafficking. There had been a vast increase in the use of cocaine. The Mafia were now playing in the European league, and it was the prosperous countries such as Germany and Britain where they saw the fattest profits. This was not a problem that could be tackled by European Interior Ministries acting on their own. In the United States they had decided to supplement individual State police forces by the FBI. We needed a similar arrangement in Europe.

The PM asked whether we would do this on a Community basis or jointly among the Twelve. Chancellor Kohl said he was open about it. We should start in a pragmatic way and review the situation after five years. This was not an area where any of us had a great deal of experience.

The Prime Minister said he was attracted by the idea of coordinated action, particularly if it was done on an intergovernmental basis. He would be happy to examine Chancellor Kohl's idea and to discuss it, and the problems of asylum, in Luxembourg.

EMU

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Chancellor Kohl concluded this part of the discussion by saying that there were issues in EMU and political union which needed to be discussed in detail - but Luxembourg was not the place for that. At Luxembourg we should highlight the two very important issues of drug trafficking and asylum which were of great interest to ordinary people. He and the Prime Minister went on to identify the Single Market, and help for Eastern Europe and the Soviet Union as other topics for discussion. Chancellor Kohl said the French would want to talk about Japan. GATT was another obvious issue.

Over lunch, the Prime Minister also identified South Africa as a topic for discussion at the European Council. He hoped the European Council could make a declaration on the resumption of sporting links with South Africa and perhaps also move to lift some of the other sanctions.

Chancellor Kohl said he did not share the general admiration for Nelson Mandela. He respected his courage but he was now in the situation in which martyrs found themselves when they survived: the image of a legend was beginning to crack a bit. The same was true of Walesa. The Prime Minister described some of the pressures on Mandela and how he was torn between ANC moderates and radicals. He also described some of the resistance to realistic moves on the part of Commonwealth countries.

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Chancellor Kohl said that de Klerk was one of the most courageous men around, and he should be rewarded. Many of the African countries were pure hypocrites. They liked having P.W. Botha because he had been easy to hate. They were not altogether pleased to have in de Klerk a man who was prepared to make radical moves. The Chancellor went on to describe the long argument that he had had with Lubbers on sanctions at the Hague European Council in December 1987. Mrs. Thatcher had taken a back seat and let him make the running. The end result had been the ridiculous decision to ban the import of Krugerrands. The only effect had been that they were on sale in Zurich rather than Brussels, and the Swiss had made a fat profit.

Through various turns, the conversation got on to Canada. It appears that Mr. Mulroney is going to Germany later this week (so much for his Cabinet telling him to stay at home). Chancellor Kohl said that the example of Canada was proof of how the 1990s was the decade of Europe. He did not go into detail, but the implication was that Canada was a large, prosperous country but politically marginalised by her own internal problems and by the lack of a cooperative framework in which to maximise her influence. In Europe, we were on the right track. We had to be intelligent. Germany was in a position to give a lead but it must be subtle about it. There were enormous difficulties. Never had a Chancellor faced such media criticism. But he had never felt more confident.

Political Union

The Chancellor remained in this semi-philosophical mood after lunch. He saw a historic opportunity at the end of this century. He had just been to Crete. There he had seen the graves of three brothers aged 17, 18 and 19. That should never happen again.

The Prime Minister asked the Chancellor for his thoughts on political union. There were some difficult issues. For example, we thought it right to increase the powers of the European Parliament over the auditing of expenditure and over the Commission, but there were very real difficulties over increasing Parliament's legislative powers. But the Prime Minister knew these were very important matters for Chancellor Kohl.

Chancellor Kohl said he looked for parallel development in the two IGCs and progress in both. The most important point was that the direction should be clear and, from the German perspective, irreversible. He agreed with the Prime Minister that Sweden, Austria and Norway were likely to join the Community by the end of the decade. Perhaps Finland too. Of the East European countries, Poland would probably be the laggard but, by the end of this decade, Hungary and Czechoslovakia would be negotiating for membership. Following those accessions there would probably be no more for a long time. This sort of progress was necessary. Germany needed it more than others. He had no illusions about a Germany of 80 million people given its history and the economic power it would wield. There was no point in being coy about it. Fears about Germany would always be an item on the agenda. Mr. Ridley's view of Germany was not peculiar to

him. It was not hard to find similar views in the French Foreign Ministry. The Dutch too had their fears. He had no chip on his shoulder; he was being realistic. He wanted Germany's neighbours to see her fully integrated into Europe. That was why he wanted decisions this decade. As far as the European Parliament was concerned, he saw one stage of decisions being taken by the time of the 1994 elections and another by 1999. He hoped there could be a form of co-decision. He hoped the European Parliament could have a role in electing the President of the Commission. He hoped the Parliament could have a power of dismissal of Commissioners, perhaps acting by a majority of its members. Some of the Commissioners (Germany not excepted) had been pretty mediocre. The thought that they could be dismissed might encourage countries to choose better people. He agreed about better Parliamentary control of the way the Community spent its money. There was a whole range of issues where at the moment there was no democratic control at all.

Chancellor Kohl said that security policy was more difficult. We had to try and find agreement with the French. The question was how to include a European aspect which was compatible with the US commitment to Europe. He did not want an 'either or' situation. But nor could we just leave things to the military. The Chancellor reflected wryly on his arguments with Mrs. Thatcher over SNF. She had got in her tank and driven straight at him with the Union Jack flying. Some people were trying to duck difficult decisions, she had accused. He had pointed out that it was Germany that had taken Cruise missiles, and that he was the only Head of Government round the table to have two sons serving as officers in NATO forces. But the crucial point was that from today's perspective the argument could as well have taken place a hundred years ago, as two years ago. He would never do anything anti-American. At the same time we had to get a European dimension. Who would come after President Bush? Another Woodrow Wilson? Another Carter? He was worried by the failure of the present US Senate to support President Bush in transforming the Gulf victory into a peace dividend. He thought the Americans would want to build bridges over the Atlantic into Europe.

Th PM said that Chancellor Kohl should not take to heart some of the comments made about Germany. No one was in any doubt that unification had been right. Germany was the greatest single engine for the development of Europe. Chancellor Kohl had no need to prove his bona fides.

As regards the Treaty on Political Union the Prime Minister said that we could quite easily accept some areas of progress but not others. For example, although Chancellor Kohl had not singled it out, we would have difficulty in allowing the European Parliament to initiate legislation. Some other areas we could live with or sell to the House of Commons. He knew that Chancellor Kohl was keen to extend qualified majority voting. That was difficult for us, but we would look at it. Extensions of competence were also difficult. There was not a great deal in the Luxembourg draft treaty that instinctively appealed to us but we would look and see. Hartmann and Wall should be tasked with going over the issues to find out where were the points of

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agreement and disagreement. Chancellor Kohl agreed, making it clear that he held no brief for the Luxembourg text as drafted.

The Prime Minister said that we did prefer the architecture of the treaty as devised by Luxembourg. We would have more difficulty with the Delors version. Chancellor Kohl did not comment.

The Prime Minister said that we were perfectly happy to see the development of a Common Foreign and Security Policy. But we did not want to damage NATO and saw some difficulties in a separate European defence policy. We had no problems about developing a distinct European defence identity, working through the WEU as the bridge between the Twelve and NATO. We should build where we could.

Chancellor Kohl agreed. History had decided that we were going in a certain direction. We should be pragmatic. If we did not want to give the right of initiative to the European Parliament now, we should perhaps give it to the next Parliament or the one after. Churchill had made his Zurich speech about a United States of Europe in 1946. Now we were in 1991. These were matters of historical importance. His own goal was that the German train must be firmly on the right track so that nobody could divert it onto the wrong track. Speed was less important than direction. The Prime Minister agreed. We should go through the issues on the political union agenda in some detail.

Economic Summit

The PM said that we should try to set the context for President Gorbachev's visit to London and agree the sort of issues we would want to discuss with him, e.g., the Soviet budget deficit, price reform, relations between Moscow and the Republics. Chancellor Kohl said with some emphasis that we should tackle the relationship with the Republics first, since everything else followed from that. In coming to this view he had changed his earlier opinion.

The Prime Minister said that the view he got from his colleagues was that they were not very keen on large scale extra help for the Soviet Union at this stage. They were thinking of technical assistance now, and would consider financial support if the implementation of the reforms in the Soviet Union justified it.

Chancellor Kohl agreed that this was George Bush's view. He thought it was too dogmatic. Here again we should be pragmatic. We had to be sure that the situation in Moscow warranted help. We should help Gorbachev to help himself. We should not throw good money after bad. But he instanced two areas where help might be possible: (i) repair of the Soviet natural gas pipeline which was losing a third of the gas it carried through leakages. Could we organise a Western consortium to undertake the repair and could we finance it? (ii) reconstruction of the Soviet railway network. The IMF and the World Bank should be involved. The Japanese did not like any of this but they could not duck out of it. It concerned all of us. Nor could they expect to

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settle the issue of the Northern Islands until Gorbachev had settled his own relationship with the Baltic States. Kohl did not know if Gorbachev could survive. He could not imagine a better successor. Gorbachev had kept his word. He had helped over the Gulf. He really had changed the world. How would we fare with a military or a KGB man in charge? There were some in the US Senate who looked forward to the break-up of the Soviet Union and to the US being the only superpower. This was not the way Bush or Baker saw it. It was a stupid (very German) way of reasoning. The Chancellor thought we should give Gorbachev some advance aid. We should not insist on results first. Gorbachev needed the aid before he could get the results. The PM said he was inclined to agree.

Yugoslavia

The Chancellor was despondent about Yugoslavia. If Slovenia left the Federation that might not change things much. But Croatia's secession would be a disaster. He did not know how to persuade the Serbs to accept some sort of federal structure. The only consolation was that it was basically a regional problem. If this had occurred 10 years ago it would have threatened world peace.

The Prime Minister agreed that Yugoslavia had all the ingredients of a Greek tragedy. He had had some hope that Santer and Delors might persuade the Yugoslavs to seek help within the context of CSCE but Santer had reported them as not being interested.

Hartmann told me separately that the omission of any reference to Yugoslavia's territorial integrity from the Kohl/Mitterrand message had been deliberate, at German suggestion. The Germans no longer thought it realistic to urge the Yugoslavs to hold together in anything but a loose federation. It was, however, vital to continue to urge them to a peaceful and democratic solution. I said that by urging the maintenance of territorial integrity we hoped we might end up with a loose but viable federation. Insofar as any of us had any influence at all, we did not want to say anything which might be construed as encouraging secession.

Follow-up

I shall be in touch with Hartmann about a date for a meeting before the Luxembourg European Council. But the Germans' own travel schedule is pretty hectic with the signature of the Polish/German Treaties on 17 June, and a further meeting with President Mitterrand before the European Council.

The Prime Minister is inclined to look favourably on Chancellor Kohl's idea of a European FBI provided it is done intergovernmentally. He thinks it should be possible to devise some sort of central agency which could coordinate the exchange of information between international police forces. In other words, it need not be a fully fledged FBI on the American model, but equally it should not just be a new label on existing procedures. The Prime Minister would be grateful if the Home

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Secretary could advise on how this might be done.

I am copying this letter to Jeremy Heywood (HM Treasury),
Simon Webb (Ministry of Defence), Colin Walters (Home Office),
and Sonia Phippard (Cabinet Office).

Yours,
Stephen

J.S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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