



Foreign and Commonwealth Office

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16 June 1988

Dear Charles,

Toronto Summit: Prime Minister's Bilateral
with Chancellor Kohl

The Prime Minister will have a half-hour bilateral discussion with Chancellor Kohl at 1200 on 19 June. In the limited time available, the Foreign Secretary recommends that the Prime Minister concentrate on the more important short-term issues and leave other matters for the meeting at Chequers on 9 July. This letter therefore covers one or two points connected with the Toronto Summit agenda, EC issues before Hanover, the question of Tornado sales to Jordan, on which the final German decision is to be taken on 29 June, and Berlin air services, which Chancellor Kohl might raise.

Internal Background

The CDU Conference this week has been marked by murmurs of unhappiness at Chancellor Kohl's leadership; the Schleswig Holstein election on 8 May was a particular low point, and divisions within the Government coalition are chronic. Nevertheless, there is no sign of any inclination in the FDP to switch coalition partners. The only Land election due before the Federal elections in 1990 will be in Berlin, where the CDU seem bound to retain power. At present Chancellor Kohl looks set to continue in office for some years to come.

Anglo-German Relations

Our relations with the Germans are based on enormous common interests and habits of close consultation and frank discussion. They have however been going through a slightly difficult patch recently, stemming partly from disagreements of substance (eg SNF) but also from differences of perception. We consider that such fundamental factors as our contribution to German defence are too readily overlooked by the Germans. They seem to feel that we have not been devoting enough time and attention to their particular interests and preoccupations. There are moves on both sides to put this right. It would however be helpful if the Prime Minister could at some stage say to Chancellor Kohl:-

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- that we shall need to keep in particularly close contact at all levels over the coming period. With the forthcoming change of US Administration and the continuing uncertainties in the Soviet Union and Eastern Europe, Britain and Germany will have a crucial role within the Alliance.

- that she is conscious of the need to get across to public opinion in both countries the excellence and importance of our relationship.

- that she is looking forward to seeing him at Chequers on 9 July for a longer discussion of all these things.

We recommend also that the Prime Minister take this opportunity to thank the Chancellor for the work of the German police during the European Nations football competition and for their close cooperation with the British agencies involved, and to express regret at the appalling behaviour of some English fans.

Tornado sales to Jordan

The Prime Minister wrote to Chancellor Kohl on 18 May to press for a German decision on credit support for their work-share of the Tornado package for Jordan. Now that MOD have agreed on price and other arrangements with the Jordanians, this is the principal obstacle to concluding the deal (the only other problem being that the Italians have not yet firmly committed themselves to underwriting the credit for their workshare). The German decision will not be made until the Federal Security Council meets on 29 June. Prospects are bleak: the FRG may yet object, on grounds of policy and Jordanian credit worthiness, to the sale going ahead. We recommend that the Prime Minister press the Chancellor very firmly on the political case. The Germans claim many difficulties, including fear of the Jewish lobby; but the Israelis have so far made no opposition at all to the proposed sale. The Chancellor's mind should be focussed on the likely implications of any negative decision: renewed Jordanian interest in MiG 29 leading to closer Jordan/Soviet Union relations. This would be a disaster for overall Western interests in the Middle East (and most unwelcome to the Israelis). The Americans recognise this danger, and are supplementing our own pressure on the Germans at a high level.

Toronto Economic Summit

Chancellor Kohl will be feeling vulnerable to criticism about sluggish German growth. At the Venice Summit, the Japanese were under fire; in Toronto the Germans will be more

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exposed. FRG has done less well than Japan in switching to domestically generated growth, and in reducing her current account surplus relative to GDP.

We recommend that the Prime Minister press Chancellor Kohl on debt relief for the poorest: Germany is reported to be considering further write-off of aid debts, but is likely to join the US in agreeing Paris Club rescheduling over 25 years rather than offering genuine concessions through interest cuts or write-off of commercial debt. The Prime Minister might urge Chancellor Kohl to reconsider. She might point out that among European Summit countries Germany would be isolated in taking such a restrictive approach.

On the GATT negotiations, we recommend that the Prime Minister express appreciation at the progress that has been made under the German Presidency. The Toronto Summit provides a vital opportunity to give political impetus to the negotiations, particularly in the run-up to the Mid Term Meeting (MTM) in Montreal. By December, it should be possible to make progress on a range of issues including tropical products, dispute settlement and the functioning of the GATT system itself; it should also be possible to agree on a framework to guide future negotiations on other major issues (particularly agriculture, but also "new issues" such as services and investment).

Agriculture remains a vital element. We recommend that the Prime Minister underline that the EC and US must get into serious negotiations before the MTM. This will require flexibility and a constructive approach by both sides. The US must move away from insisting on removal of all support by the year 2000, and be prepared to acknowledge the significance of the Brussels reforms. The Community will have to show willingness to do more - in the short and long term.

On the political agenda, we want to persuade the Germans that the communique should include firm and specific language on terrorism.

/ I enclose a telegram from Bonn reporting German views on Summit issues.

EC issues

The meeting will provide a useful opportunity to influence Chancellor Kohl's handling of discussion at the Hanover European Council of single market issues and monetary cooperation. On the Single Market, the Prime Minister could congratulate Chancellor Kohl on agreement reached on capital liberalisation - one of the UK and Germany's major objectives.

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We also hope that the Transport Council (due to meet on 20 June) will be able to agree on road haulage liberalisation on the basis of a revised Commission text, which we support and is acceptable to the Germans. Few of the other measures in Chancellor Kohl's single market package present any substantive problems for the UK.

The Prime Minister might stress the importance we attach to setting some priorities on the single market through to 1989 (Greek, Spanish and French Presidencies). UK priorities are:

- financial services (further progress beyond capital liberalisation and non-life insurance) eg banking, securities and life insurance;
- mutual recognition of testing and certification procedures and further agreement covering product standards;
- further opening up of public purchasing in member states including measures to ensure compliance;
- further transport liberalisation (including shipping cabotage; further opening up of air transport services and road transport cabotage);
- opening up of market in telecommunications.

German priorities are very similar to ours. Others (eg France, Greece and Spain) may want to include a reference to social issues. The Prime Minister might say that we should not allow the notion to gain ground that the single market is good for employers but not employees. We need to explain the benefits to employees, which are those of extra job creation. The Commission's report suggests an extra 1.75 million jobs will be created over the medium term by the Single Market. We favour steps to tackle unemployment through training and retraining, or increased labour market flexibility. We should resist the imposition of more burdens on business. The Single European Act contains new provisions which encourage greater dialogue between management and unions but which provide that directives in the social area should avoid administrative, financial and legal constraints in ways which would hold back the creation and development of small and medium-sized undertakings.

The Presidency have not yet made up their minds firmly on the form of any group to which further work on European monetary cooperation might be referred at Hanover, or on the mandate they should be given. Chancellor Kohl said at a press conference on 9 June:

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"In Hanover we want to make preparations for the further development of cooperation on monetary policy on the path to economic and monetary union. It is not a question of taking a decision on the establishment of a European Central Bank. Such a bank, firmly rooted in a European central bank system, can only lie at the end of this road".

The German Finance Minister (Herr Stoltenberg) told Mr Lawson on 13 June that he was keen to avoid a committee of 'wise men'.

We understand that the latest draft mandate drawn up in Bonn is consistent with this, calling for the group to concentrate on concrete steps to improve coordination of financial and monetary policy and on strengthening the EMS, and referring to a European central bank within the framework of a system of national central banks.

We recommend that the Prime Minister draw on the following points:

- have followed closely discussion on European economic and monetary union taking place since January; a lot of useful work going on eg in Monetary Committee. Close consultations between Chancellor and Stoltenberg;

- two questions need to be resolved: the form of expert group to which further work should be referred at Hanover, and the mandate they receive;

- our strong preference is for a group of practitioners: eg Committee of Central Bank Governors, guided by ECOFIN. Wrong to remit work to those not directly involved and with no responsibility for these issues - could be recipe for delay and muddle;

- pleased to note Chancellor's comments at press conference on 9 June that further work should concentrate on practical measures in monetary area;

- any remit from Hanover should give further impetus to practical measures, eg greater use of the ecu and wider cross-holdings of Community currencies in foreign exchange reserves. Should be a practical remit to practitioners such as Committee of Central Bank Governors and should report back to ECOFIN or via ECOFIN to European Council.

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Berlin Air Services

If Kohl expresses concern about the failure of the three Allies to reach agreement on Berlin air services (about which I am writing separately), the Prime Minister might reassure him that we are working hard and urgently to reach an agreed solution, based on tripartite consensus, which will promote greater choice and competition while maintaining stability and the presence of airlines from all three Allies. Like the Germans, we believe that unilateral American action would be politically damaging.

I am copying this letter to Alex Allan (Treasury), Brian Hawkin (MOD) and Trevor Woolley (Cabinet Office).

Yours ever,
L Parker

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Private Secretary

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MY TELNO 518 : GERMAN VIEWS ON TORONTO SUMMIT

SUMMIT

1. NO SURPRISES EXPECTED AT TORONTO. ON DEBT, ONLY GENERAL GUIDELINES EXPECTED: A POSSIBILITY OF GERMAN MOVEMENT ON COMMERCIAL DEBT. NO WILLINGNESS TO SEE THE COMMUNITY GO FURTHER AT PRESENT ON AGRICULTURE AND VIEW TAKEN THAT ATTACKS ON WHAT WAS ACHIEVED ON CAP REFORM IN BRUSSELS SHOULD BE FIRMLY RESISTED. PARTNERS WELCOME TO LEAD ON POLITICAL SUBJECTS

DETAIL

2. SINCE MY TUR I HAVE BEEN ABLE TO DISCUSS GERMAN VIEWS ON DEBT, AGRICULTURE AND THE POLITICAL SUBJECTS SUGGESTED FOR THE TORONTO SUMMIT.

DEBT

3. THIS HAVING BEEN DISCUSSED BETWEEN KOHL AND MITTERRAND AT EVIAN, I ASKED TELTSCHIK (CHANCELLERY) HOW THE GERMAN APPROACH TO TORONTO WAS AFFECTED. HE SAID THAT THE GERMANS EXPECTED THAT ONLY GENERAL GUIDELINES WOULD BE AGREED, WITH DECISIONS ON SPECIFIC MEASURES BEING LEFT TO NATIONAL GOVERNMENTS. THE FEDERAL GOVERNMENT HAD ALREADY WRITTEN OFF AID LOANS TO 24 LLDCS THROUGH RETROSPECTIVE TERMS ADJUSTMENT. AND THE FEDERAL CABINET HAD DECIDED ON 8 JULY TO WAIVE REPAYMENT OF OFFICIAL DEBT FOR A FURTHER FIVE SUB-SAHARAN AFRICAN COUNTRIES. BUT THERE HAD BEEN NO CHANGE SO FAR IN THE FEDERAL GOVERNMENT'S POSITION ON RESCHEDULING OF COMMERCIAL DEBT. JELONEK (AUSWAERTIGES AMT) COMMENTED TO ME THAT THE MITTERRAND INITIATIVE, BEING CONFINED TO THE DEBTS OF THE POOREST COUNTRIES, WAS HARDLY CONCERNED WITH COMMERCIAL DEBT: BUT HE CONFIRMED THAT STOLTENBERG AND KLEIN (FINANCE AND ECONOMIC COOPERATION MINISTERS) HAD HAD A REMIT FROM THE CABINET ON 8 JUNE TO LOOK AGAIN AT GERMAN POLICY ON DEBT RELIEF. IT WAS POSSIBLE THAT THE GERMANS WOULD BE WILLING AT TORONTO TO AGREE TO RECONSIDER THE QUESTION OF

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CONCESSIONS ON COMMERCIAL DEBT. ECONOMICS MINISTRY CONTACTS THINK DECISIONS BEFORE TORONTO ARE UNLIKELY.

AGRICULTURE

4. KITTEL (STATE SECRETARY, AGRICULTURE MINISTRY) IN CONVERSATIONS WITH ME HELD FAST TO THE LINE THAT THE COMMUNITY HAD DONE A GREAT DEAL SINCE 1984 TO PUT ITS HOUSE IN ORDER AND SHOULD INSIST ON RECOGNITION FOR THIS. HE SAID KOHL WAS NOT KEEN TO SEE AGRICULTURE HIGH ON THE AGENDA AT TORONTO BUT IF THE CANADIANS OR OTHERS INSISTED COMMUNITY LEADERS HAD A GOOD STORY TO TELL. PRESSURE SHOULD BE PUT ON THE AMERICANS TO EXPLAIN WHY, HAVING BROUGHT PROGRESS TO A HALT WITH THEIR INSISTENCE ON A LONG-TERM ZERO SOLUTION, THEY WERE REDUCING SET ASIDE AND THREATENING FURTHER UNHELPFUL MEASURES. KITTEL SAW NO LIKELIHOOD OF A CHANGE OF APPROACH BY THE OUTGOING U S ADMINISTRATION. ON SHORT-TERM MEASURES HE WAS CLEAR THAT THE COMMUNITY COULD NOT GO FURTHER THAN THE BRUSSELS PACKAGE, THE IMPLICATIONS OF WHICH HAD NOT YET EVEN SUNK IN WITH THE FARMERS. JELONEK SAID WHILE HE PERSONALLY WOULD WELCOME FURTHER SHORT-TERM STEPS BY THE COMMUNITY ON AGRICULTURE, HE COULD NOT SEE THE FEDERAL GOVERNMENT AGREEING TO THEM.

POLITICAL SUBJECTS

5. I SPOKE TO SUDHOFF (STATE SECRETARY, AUSWAERTIGES AMT) ABOUT THESE. HE SAID THAT THE FRG WAS HAPPY WITH THE DRAFT POLITICAL DECLARATION AS IT STOOD AND DID NOT WANT TO RAISE ANY PARTICULAR SUBJECT. THEY DID NOT WANT TO DISCUSS SOUTH AFRICA BUT WOULD NOT OPPOSE DISCUSSION IF THE HOSTS INSISTED. SEE MY TELNO 564 FOR SUDHOFF'S COMMENTS ON TERRORISM. HE THOUGHT THAT EAST-WEST WOULD DOMINATE FOREIGN MINISTERS' DISCUSSIONS.

COMMENT

6. THE GERMANS ARE NOT EXPECTING SURPRISES AT TRORONTO, AND BELIEVE THE COMMUNITY SHOULD STAND FIRM AGAINST ATTACKS ON WHAT WAS ACHIEVED ON CAP REFORM AT THE BRUSSELS COUNCIL.

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ADDITIONAL 37

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