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Confidential filing

Visits of Chancellor Kreisky,

AUSTRIA

and his successor Chancellor Vranitzky

JUNE 1980

And visits by the President of Austria.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
See Relations —							
27.6.80							
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SUBJECT
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Filed on:

10 DOWNING STREET

LONDON SW1A 2AA

12 October 1992

From the Private Secretary

Dear Robert,

CALL ON THE PRIME MINISTER BY CHANCELLOR VRANITZKY
OF AUSTRIA: 12 OCTOBER

Thank you for your letter of 8 October with briefing for Chancellor Vranitzky's call on the Prime Minister which took place earlier today.

Enlargement

The Prime Minister spoke warmly in favour of Austrian membership of the Community. Western Europe was incomplete without Austria and the Nordic countries and Europe as a whole was similarly incomplete without those countries and, in due course, the Visegrad Three. Left to us, we would start detailed negotiations today. We were prevented from doing so by the southerners who wanted cohesion first. Chancellor Vranitzky said that the attitude of the southern member states was hard to understand. The Prime Minister said it was barmy and indefensible as well as being a profound mistake. The southerners ought to be able to see that (a) the existing net contributors could not afford to sustain more spending and (b) that most of the applicant countries would be net contributors.

Chancellor Vranitzsky said that he had talked very recently to the Spanish Prime Minister. He was worried about the British view of the way ahead and about the future of the Community in relation to the Danish referendum. He felt somewhat trapped. He saw the prospect of an EC of Eleven going ahead and that the mechanisms of the Community would not then work. Gonzalez would no doubt make a strong point at Birmingham, for domestic consumption, of the need for a genuine Community to continue.

The Prime Minister said that the Community's problems were very large but not cataclysmic. We had to accept the fact, however, that the Maastricht treaty would not be ratified by 1 January but only by May at the earliest. We

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ourselves would not have ratified by Christmas. Our Bill would take weeks and would be very painful. The Prime Minister described the political and practical difficulties.

Chancellor Vranitzsky thought that there were lessons to be learned for the future handling of issues such as Maastricht. The Prime Minister agreed. The Community had been growing economically and some of our partners had seen the need to take what Mao would have called a great leap forward. But Heads of Government were a long way ahead of their people. The best reassurance we could give to Community citizens now was our willingness to enlarge and the willingness of other countries still to join the Community.

Chancellor Vranitzsky said that if the ratification of Maastricht was postponed beyond the winter e.g. beyond March and if the Delors 2 package was also delayed then that would cause domestic problems in terms of support within Austria for membership. The Prime Minister said that it was at our insistence that the word "formal" had gone into the Lisbon European Council conclusions. He believed we could have informal negotiations immediately and that that would have the support of Germany and of France.

Chancellor Vranitzsky said that he had talked to the Danish opposition leader, Rasmussen. Maastricht was an issue that crossed party borders in Denmark. Rasmussen had briefed him on the Danish White Paper.

The Prime Minister said that we had to find a package to enable the Danes to ratify. Some members of the Community were suggesting going ahead as Eleven. We would dig our toes in against that. Without the Danes on board Maastricht could not go ahead in its present form. We were working on the assumption that the Treaty would stay as it is but with added declarations or protocols. The Prime Minister identified the areas where the Danes would need language (EMU, defence, citizenship, social provisions). We had also looked at an idea put forward by ex President Giscard d'Estaing of a clear dividing line between Community and Member State competence but this was difficult to achieve. We believed that three or four declarations added to the Maastricht Treaty should help Schluter but, unless he got something real, it would be difficult for him to win the referendum. And if the Maastricht Treaty were to fail then it would be difficult to replace except in the very long term. One of the advantages in the Prime Minister's mind of starting negotiations with the African countries now was that that could favourably influence the outcome of the Danish referendum.

Yugoslavia

Chancellor Vranitzsky said that one of the arguments used against the Community in Austria was that the Community had failed in Yugoslavia. That, combined with the weakness of present economies, did not make for a good climate. The Prime

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Minister agreed. We had to be worried about the impact of the costs of German unification. As regards Yugoslavia, the Prime Minister did not believe the Community could in practice have done more.

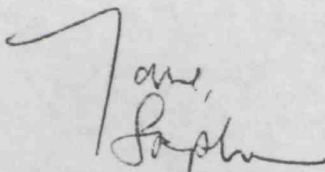
Chancellor Vranitzky said that in respect of the former Communist part of Europe, including East Germany, no-one had really come to terms with the fact that in tearing down the old fences we had also opened ourselves to a new distribution of wealth. Chancellor Vranitzky was shortly to see Prime Minister Meciar of Slovakia and was proposing to offer him a broad framework of economic and financial cooperation. This was not out of affection but as a necessary safeguard to avoid the resurgence of nationalism in Slovakia. Slovakia would not become another Bosnia but if they started to treat their own minorities badly the situation could deteriorate. He was hoping to develop aid to the East so that there would be new business agenda and improved access for eastern European goods, infrastructure investment, roads and pipelines, industrial cooperation etc. There was a risk of Slovakia seeing Austria as the umpire in the Danube river dispute. That he was not prepared to do.

The Prime Minister said that the problems of Slovakia would get worse with the disappearance of Czech funding for Slovakia. The economic problems in Germany, France, Italy and elsewhere if interest rates stayed high would also mean that there was less money available. We were looking at conditionality in our own association agreement with Slovakia. Chancellor Vranitzky commented that any such arrangement would need to be even-handed.

GATT

Chancellor Vranitzky said that he had found M. Beregovoy very negative when he had talked to him over the weekend.

I am copying this letter to Peter Smith (Department of Trade and Industry) and Melanie Leech (Cabinet Office).



J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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FM VIENNA

TO DESKBY 091415Z FCO

TELNO 325

OF 091453Z OCTOBER 92

INFO PRIORITY EC POSTS, EFTA POSTS, UKMIS NEW YORK, UKMIS GENEVA

VISITS OF AUSTRIAN CHANCELLOR AND FOREIGN MINISTER TO LONDON, 12
AND 13 OCTOBER

SUMMARY

1. TIMELY, THOUGH UNCOORDINATED, VISITS BY VRANITZKY AND MOCK WITH EC ISSUES TOP OF THEIR AGENDAS. EACH WILL HOPE FOR OUR SUPPORT FOR AN EARLY START IN 1993 TO EC ACCESSION NEGOTIATIONS AND, IF THOSE ARE TO SUFFER DELAY, FOR 'INFORMAL' NEGOTIATIONS IN THE MEANTIME.

DETAIL

2. BY COINCIDENCE, FEDERAL CHANCELLOR AND FOREIGN MINISTER MOCK ARE VISITING LONDON ON SUCCESSIVE DAYS NEXT WEEK. VRANITZKY, WHO WILL HAVE SPENT THIS WEEKEND AT THE BRUSSELS CONFERENCE OF EC SOCIAL DEMOCRAT PARTY LEADERS, WILL BE IN LONDON AT THE PRIME MINISTER'S INVITATION FOR TALKS WITH HIM AND WITH YOU ON 12 OCTOBER. MOCK'S VISIT, WHICH IS AN EPC BILATERAL, WILL COMPRISE LUNCH WITH MR GAREL-JONES AND TALKS WITH YOU ON 13 OCTOBER.

3. VRANITZKY (SOCIAL DEMOCRAT) AND MOCK (PEOPLE'S PARTY) ARE NOT THE CLOSEST OF FRIENDS. THERE IS UNLIKELY TO HAVE BEEN PRIOR CONSULTATION BETWEEN THEM OR THEIR ADVISERS OVER THE HANDLING OF THEIR RESPECTIVE TALKS IN LONDON. ONE OF MOCK'S ADVISERS IS QUOTED TODAY AS EXPRESSING ASTONISHMENT THAT VRANITZKY WAS ALSO GOING TO LONDON. (THIS IS DISINGENUOUS BUT TYPICAL: WE HAD TAKEN CARE TO ENSURE THAT BOTH THE CHANCELLERY AND THE MFA WERE AWARE OF THE RESPECTIVE PROGRAMMES). BUT DESPITE THE LACK OF CO-ORDINATION, BOTH MEN WILL SHARE THE SAME OBJECTIVES ON THE PRINCIPAL ISSUE OF AUSTRIA'S ENTRY INTO THE EC. THE COALITION GOVERNMENT HAS LONG APPRECIATED THE STRONG BRITISH SUPPORT OF THEIR APPLICATION. THEIR HOPE HAD BEEN THAT THE EDINBURGH COUNCIL IN DECEMBER WOULD CONSTITUTE THE 'GREEN LIGHT' FOR THE OPENING OF ACCESSION NEGOTIATIONS WITH AUSTRIA EARLY IN JANUARY 1993. IN THE LIGHT OF RECENT SET-BACKS OVER THE MAASTRICHT TREATY AND THE ERM THEY ACCEPT, RELUCTANTLY, THAT THAT TIMETABLE MAY

NO LONGER BE REALISTIC. THEY FEAR THAT THE OPENING OF ACCESSION NEGOTIATIONS COULD BE DELAYED INDEFINITELY PENDING THE RATIFICATION OF MAASTRICHT AND ENDORSEMENT OF THE DELORS FINANCE PACKAGE, AND THAT THIS WOULD HAVE ADVERSE IMPACT ON AUSTRIAN PUBLIC OPINION (WHICH IS, IN ANY CASE, FAR FROM PERSUADED OF THE BENEFITS OF EC ENTRY.)

4. I CALLED ON THE FEDERAL CHANCELLOR THIS MORNING TO DISCUSS HIS FORTHCOMING VISIT. HE MADE PLAIN THAT HE IS TAKING THIS VERY SERIOUSLY AND THAT HE WELCOMES THE OPPORTUNITY TO HEAR AT FIRST HAND ABOUT THE CURRENT STATE OF OPINION ON THE EC WITHIN BOTH THE CONSERVATIVE AND LABOUR PARTIES. (HE WILL BE MEETING THE LEADER OF THE OPPOSITION AND TOLD ME HE HOPED ALSO TO CALL ON THE GOVERNOR OF THE BANK OF ENGLAND.) VRANITZKY INDICATED THAT HE WOULD FIND IT PARTICULARLY HELPFUL TO KNOW HOW WE SEE DEVELOPMENTS BETWEEN NOW AND THE END OF THE UK PRESIDENCY, INCLUDING THE RATIFICATION OF MAASTRICHT AND THE DIVISION OF OPINION WITHIN THE COMMUNITY OVER WIDENING AND DEEPENING. HE WOULD ALSO LIKE TO ASCERTAIN HOW MUCH IMPORTANCE SHOULD BE ATTACHED TO THE ANTI-EC LOBBY IN WESTMINSTER.

5. VRANITZKY, WHO HAS BEEN FAR LESS VOCIFEROUS ABOUT EC ENTRY THAN MOCK AND OTHERS IN THE PEOPLE'S PARTY, THEN TALKED ABOUT THE TACTICAL PROBLEM HE FACES WITH PERSUADING AUSTRIAN PUBLIC OPINION ABOUT THE MERITS OF EC ENTRY. A LONG PERIOD OF UNCERTAINTY OVER THE FUTURE DEVELOPMENT OF THE COMMUNITY WOULD NOT HELP HIM IN THIS RESPECT. BUT UNTIL THE WAY AHEAD WAS MORE CLEARLY DEFINED HE COULD NOT RISK SWITCHING THE PUBLIC EDUCATION CAMPAIGN INTO HIGHER GEAR. HE WOULD BE INTERESTED TO HEAR FROM THE PRIME MINISTER AND YOU WHEN YOU THOUGHT ACCESSION NEGOTIATIONS MIGHT BEGIN AND WHETHER THERE WAS THE POSSIBILITY OF EMBARKING AT LEAST ON 'INFORMAL' NEGOTIATIONS IN THE INTERIM.

6. I HAD AN OPPORTUNITY YESTERDAY OF A PRIVATE WORD WITH MOCK ABOUT HIS VISIT. UNLIKE VRANITZKY, HE MADE NO MENTION OF THE BRITISH PARTY POLITICAL ANGLE BUT TOOK PRACTICALLY THE SAME LINE AS THE CHANCELLOR ABOUT AUSTRIA'S HOPES FOR EARLY PROGRESS ON ACCESSION. HE ALSO MENTIONED THE QUESTION OF EUROPEAN SECURITY CO-OPERATION AND HIS INTEREST IN WEU OBSERVER/ASSOCIATE STATUS.

7. THE OTHER SUBJECT DEAR TO MOCK'S HEART IS, OF COURSE, THE SITUATION IN THE FORMER YUGOSLAVIA ON WHICH HE HAS BEEN CONSISTENTLY MORE HAWKISH, EG ON ARGUING FOR MILITARY INTERVENTION, AND EMOTIONAL THAN VRANITZKY WOULD EVER DREAM OF

BEING. BUT DESPITE HIS EARLIER CRITICISMS OF THE FAILURE, AS HE SAW IT, OF THE EC AND THE UN TO STOP SERBIAN ATROCITIES, HE WAS FAVOURABLY IMPRESSED BY THE LONDON CONFERENCE. HE WILL WISH TO DISCUSS WITH YOU THE FOLLOW-UP STEPS THAT HAVE BEEN TAKEN AND THE PROSPECTS FOR PROGRESS. THE AUSTRIAN COALITION GOVERNMENT HAVE BEEN GENERALLY SUPPORTIVE ON A VARIETY OF FRY ISSUES, MOST RECENTLY ON READILY AGREEING TO REQUESTS FROM US AND OTHERS FOR THE POSSIBLE TRANSIT THROUGH AUSTRIAN TERRITORY OF MILITARY EQUIPMENT AND PERSONNEL IN THE CONTEXT OF UNPROFOR OPERATIONS.

8. IT IS AGREED THAT DURING THE EPC TALKS MOCK WILL LEAD ON THE FSU AND EASTERN EUROPE. AUSTRIA'S ECONOMIC AND COMMERCIAL LINKS WITH THE LATTER ARE STRONG AND, IT APPEARS, ARE DEVELOPING APACE. ALTHOUGH LOW COST EASTERN EUROPE IMPORTS IN SECTORS SUCH AS TEXTILES ARE MATTERS OF CONCERN TO THE AUSTRIANS, MANY OF THEIR COMPANIES ARE DOING WELL OUT OF TRADE AND JOINT VENTURES.

9. (INCIDENTALLY, IT IS BY NOW GENERALLY ACCEPTED HERE THAT MOCK IS FAR FROM WELL. HE IS BELIEVED TO BE IN THE INCIPIENT STAGES OF SOMETHING LIKE PARKINSONS DISEASE AND TO BE UNDER MEDICATION. HE HAS HIS GOOD DAYS AND HIS BAD. BUT HIS AFFLICTION NO DOUBT ACCOUNTS FOR HIS, AT TIMES, TWITCHY AND HESITANT MANNER.)

10. IN ADDITION TO THE AGENDAS AGREED WITH THE AUSTRIANS FOR MOCK'S AND VRANITZKY'S MEETINGS THERE IS ONE OTHER QUESTION WHICH EITHER COULD RAISE (THOUGH MOCK IS THE MORE LIKELY TO DO SO). THIS IS PRESIDENT KLESTIL'S KEEN DESIRE TO BE INVITED TO THE UK. HE HAS ALREADY UNDERTAKEN VISITS TO SEVERAL EC CAPITALS AND IS WORKING HARD TO RAISE AUSTRIA'S PROFILE AFTER THE WALDHEIM YEARS. I HAVE EXPLAINED TO THE PRESIDENT'S OFFICE AND TO THE MFA THAT THERE IS UNFORTUNATELY NO PROSPECT OF OUR BEING ABLE TO ARRANGE SUCH A VISIT BETWEEN NOW AND THE END OF THE YEAR. AUSTRIAN OFFICIALS, AND KLESTIL HIMSELF, SEEM TO HAVE ACCEPTED THAT. HOWEVER, MOCK MAY WELL HAVE BEEN ASKED TO RAISE THE POINT AGAIN. IT WOULD OBVIOUSLY HELP IF HE COULD BE TOLD THAT WE HOPE SUCH A VISIT COULD BE ARRANGED EARLY IN 1993.

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MR JAY
MR GREENSTOCK
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cc RB
B/np.

Foreign &
Commonwealth
Office

8 October 1992

London SW1A 2AH

Prime Minister

Jean Stephen,

[Handwritten initials]

Austrian Chancellor : Call on the Prime Minister, 12
October

The Prime Minister will see Chancellor Vranitzsky at 5 pm on 12 October (Mark Adams' letter of 10 August to Christopher Prentice).

Vranitzky leads the Social Democratic Party - the larger of the two parties in the coalition. He is keen for Britain to ratify Maastricht (so that negotiations can start on Austria's accession) and to discuss the former Yugoslavia, particularly plans to deploy the British UNPROFOR contingent. He may also raise developments in Central Europe.

The Austrian Foreign Minister, Mock, will be in town the following day, and will call on the Foreign Secretary. He and Vranitzky belong to rival political parties and frequently make conflicting policy statements.

Vranitzky will be accompanied by Eva Nowotny (his Foreign Affairs Adviser) and Dr Walter Magrutsch (the Austrian Ambassador). I enclose a personality note on Vranitzky.

Maastricht Ratification

Vranitzky described the result of the French Referendum as an important step towards European unification and, for Austria, "the green light for the next stage" of Austria's accession application. He also saw the close result as a signal that his government must work harder to convince the public of the benefits of economic and (especially) political union. The Prime Minister might say:

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- Welcomed the French result but the narrowness of the French "yes", and concerns elsewhere in Europe (Denmark, UK, Germany), have to be addressed. Want the Birmingham Council to issue a declaration of political intent on subsidiarity and openness, to show the Community is listening to those concerns. This will help us and the Danes.

- Danish intentions clearer following meeting with Schlüter on 30 September. Ratification procedures well advanced in most other member states.

- British Government remain firmly committed to the Treaty. Provided a successful outcome to the Birmingham summit, and following publication of the Danish White Paper, we shall resume ratification process in Westminster.

- UK and Denmark will not have completed ratification by January 1993. But are all committed to a speedy and successful conclusion of the process, without reopening the present text. Have committed the British Government to ratification within this session of Parliament.

Enlargement

Preparatory work is going well. We aim to complete work on the general negotiating framework by Edinburgh. The Commission's Opinion on the Austrian application identified three main issues: agriculture (the need to reduce support for Austrian farmers), Alpine transit (full freedom of movement for EC trucks, controversial in Austria) and the need to make Common Foreign and Security Policy compatible with Austria's neutrality.

The Austrians hope negotiations can begin in January 1993 before Maastricht is ratified. It may be difficult to start formal negotiations until the Lisbon conditions (ratification of Maastricht, agreement on future financing) have been met. The Prime Minister might say:

- UK support for Austrian accession undimmed. Working for early start to negotiations with EFTA applicants. Preparations going well. Aim to complete these by Edinburgh.



- Working for agreement on future financing at Edinburgh. Remaining condition for official negotiations, Maastricht ratification, will not be met by then.
- Edinburgh European Council will need to decide how to proceed. May be little support from partners for opening formal negotiations immediately. As a minimum will press for agreement for preparatory work to continue next year so negotiations can move quickly once they start.
- Neutrality and defence raise difficult questions. Community will want all applicants to demonstrate a willingness to participate fully in Common Foreign and Security Policy. But do not believe you should have to make a bigger commitment than existing Member States. Shadowing foreign policy decisions of the Twelve will help silence doubters.
- WEU Membership (if raised): States wishing to join the Union have three WEU options: full membership, observer status, nothing. Those wanting full membership would probably be expected to join NATO.
- Derogations (if raised): Community's opening position will be acceptance of all the aquis on accession. May be scope for some transitional periods in some areas, but no prospect of permanent derogations.

Single Market

Vranitzky has asked about our other priorities for the rest of the UK Presidency. Making the Single Market work is a major theme. The Prime Minister might say:

- Single Market already complete in several areas, including public procurement and insurance, and all but in others - financial services, indirect taxation, transport liberalisation. Agreement on 100% of the Cockfield White Paper programme not possible, nor, we believe, necessary.
- Making Single Market work a major theme of our Presidency. Important to address compliance/enforcement and to provide redress for those seeking to exercise Single Market rights.



Former Yugoslavia

A major preoccupation for the Austrians, who have now taken in some 65,000 refugees. Since July the Austrian Government have imposed visa regimes for holders of Yugoslav travel documents from Serbia, Montenegro and Macedonia (in the case of Serbia and Montenegro to counter what they believed to be a deliberate Serbia deportation policy). In practice these measures allow into Austria only those refugees fleeing direct from the war zone. Austria is so far the only country to make a firm offer to take 100 of the released detainees from the Trnopolje camp being processed by UNHCR.

The Austrians agreed to our request on 25 September for the possible initial deployment of the expanded British UNPROFOR contingent to Bosnia via Austria. This is no longer needed now we have decided to deploy by sea and air.

The Austrians are participating in the Sanctions Assistance Missions which help host countries (Romania, Hungary, Bulgaria) implement UN sanctions through advice (but not enforcement) from customs officers. The Prime Minister may wish to draw on the following:

- Deeply concerned by scale of refugee problem (1.9 million in former Yugoslavia alone). Provision of assistance to displaced in situ remains key.
- UK is third largest donor to Inter-Agency Appeal: have given £14.5 million bilaterally and £40 million through the EC.
- Support UNHCR view that best solution is for displaced to remain as close as possible to their homes, preferably within former Yugoslav republics. Dispersal to distant areas renders eventual repatriation more difficult and may be viewed as involuntary complicity in 'ethnic cleansing'.
- Appreciate Austrian efforts already made to care for those seeking sanctuary. Actively considering UNHCR request to donor countries to provide them with offers of 'temporary refuge' for detainees released from Trnopolje.



- (If raised) UK has received over 4,000 former Yugoslav nationals a month since crisis began, over 25,000 to date, of whom 2,000 have applied for refugee status.
- Need to establish a mechanism to collect and investigate evidence of atrocities: support action in hand in the UN.
- Glad Austria is able to participate in Sanctions Assistance Missions.
- Grateful for speedy Austrian response to request that additional British UNPROFOR contingent could transit Austrian territory. But as you may know decision has been taken to deploy by sea and air.

Central Europe

The Prime Minister might like to refer to the two meetings with the Visegrad group (Poland, Czechoslovakia, Hungary) this month - the EC/V3 Foreign Ministers Meeting in the margins of the FAC on 5 October, and the summit hosted by the Prime Minister in London on 28 October - as earnest of our commitment to closer relations.

Czechoslovakia

The timetable agreed by Klaus and Meciar on the dissolution of the Federation suffered a potentially serious blow on 1 October when the draft law on dissolution narrowly failed to secure the necessary three-fifths majority in both chambers of the Federal Assembly. Klaus and Meciar agreed on 6 October to cooperate to try to ease it through on a second attempt, and that their respective National Councils should approve the Agreements on future cooperation between the two republics. The target date for separation and for entry into force of the Cooperation Agreements remains 1 January. The Prime Minister might like to say:

- Klaus and Meciar's talks on 6 October appear to have got separation process back on track. Timetable (separation on 1 January ambitious. Do you think feasible?



Possible Visit by President Klestil

The new Austrian President, Klestil, very much wants to pay a working visit to London, including calls on the Prime Minister and The Queen, but it has proved difficult to find a date (correspondence rests with your letter of 22 July to Christopher Prentice). We have told the Austrians that a visit is unlikely to be possible before early next year. They have shown understanding of the pressures of the Prime Minister's workload, but attach particular importance to a meeting between him and Klestil, and it is possible that Vranitzky will return to the charge (although from different coalition parties, they get on well). The Prime Minister might say:

- Regret pressure of other business (UK Presidency, Yugoslavia) has precluded a visit this year, but hope it will be possible to find a mutually acceptable date towards the beginning of next year.

I am copying this letter to Peter Smith (DTI)

Yours ever,

Richard

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

VRANITZKY, DR FRANZ

Federal Chancellor since June 1986. Socialist Party (SPÖ) Chairman.

Born 1937. His whole professional career before becoming Chancellor was in accounting and banking, including periods with the Austrian National Bank and the Ministry of Finance. Has good links with the international financial community including British banks and institutions. A member of the Austrian Bankers' Mission to the UK in October 1982. Appointed Chairman of the Österreichische Länderbank in April 1981 after a short period as a Deputy Chairman and an earlier spell (1976-81) as Deputy Chairman of the largest state-run bank, the Creditanstalt-Bankverein. Was given the task of restructuring the Länderbank and rescuing it from its financial difficulties following the collapse of some of its largest industrial investments. Minister of Finance September 1984-June 1986. Chairman of SPÖ since May 1988.

Has consistently increased his hold over the party in the past year. On the right of the party (a financial conservative). No political experience prior to becoming Minister of Finance in 1984.

Considerable personal popularity, which was crucial in winning the 1986 election and in maintaining the SPÖ's position since. Vranitzky has the image of a level-headed, objective statesman, guiding his country through difficult waters whilst staying to a large degree above party politics.

IN CONFIDENCE

Vranitzky has been cautious and statesmanlike throughout the debate on the EC issues, and has ensured that the issues were fully analysed. He is known to be personally in favour of membership.

Called on Mrs Thatcher during a private visit to Britain in July 1988.

A keen sportsman, a former Austrian National Team basketball player.

Married, with two children.

IN CONFIDENCE

Points to make

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Call on the Prime Minister by the Austrian Chancellor

Maastricht Ratification

- Welcomed the French result but the narrowness of the French "yes", and concerns elsewhere in Europe (Denmark, UK, Germany), have to be addressed. Want the Birmingham Council to issue a declaration of political intent on subsidiarity and openness, to show the Community is listening to those concerns. This will help us and the Danes.

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- Deeply concerned by scale of refugee problem (1.9 million in former Yugoslavia alone). Provision of assistance to displaced in situ remains key. *will be discussed at*

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Possible Visit by President Klestil

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AA

c h vranitzky

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 August 1992

VISIT OF CHANCELLOR VRANITZKY

Chancellor Vranitzky mentioned to the Prime Minister in Helsinki his wish to come to London for talks in the autumn. The Prime Minister has agreed to offer the Chancellor a meeting on Monday, 12 October. We have provisionally allocated 1700-1800 for the meeting. I should be grateful if you could put the arrangements in hand.

MARK ADAMS

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

KW

*Sandra, main word at 1700-1800.
To note a return.
MST
No other action yet
7/8*

PRIME MINISTER

VISIT BY CHANCELLOR VRANITZKY

Chancellor Vranitzky mentioned to you in Helsinki his wish to come to London for talks this autumn and you told him he would be welcome. He has now suggested 28 September or 12 October.

On 28 September you could manage an hour in the afternoon but ~~one~~ otherwise tied up for the day.

Monday 12 October is the first working day after the Party Conference and is at present completely free. Do you want to keep it completely free or offer Chancellor Vranitzky a talk late in the afternoon or a working supper?

*OK. No more than an hour.
- Met in Helsinki.
-
JSD*

J. S. Wall
(J.S. WALL)

5 August 1992

c:\foreign\vrantzky (ecl)

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SUBJECT cc Maite

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cupc
file*

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 May 1990

Dear Richard,

PRIME MINISTER'S MEETING WITH THE AUSTRIAN CHANCELLOR

The Prime Minister had a talk this morning with Chancellor Vranitzky of Austria. The Chancellor was accompanied by the Austrian Ambassador and by Dr Eva Nowotny, his Foreign Affairs Adviser.

German Unification

Chancellor Vranitzky asked whether the Prime Minister expected German economic and monetary union to have consequences for the DM. The Prime Minister said that she expected unification to create some inflationary pressures, but the Germans would probably succeed in containing them. In the longer term, she expected the DM to go up in value. The Prime Minister continued that she thought East Germany would emerge in a few years' time as one of the most modern economies in Europe, following huge investment from the FRG. Chancellor Vranitzky said he was not pessimistic about East Germany. But he thought that the West Germans had underestimated, both politically and emotionally, the difficulties and heavy costs which unification would bring.

European Community

The Prime Minister said that she could understand Austria's irritation at seeing East Germany progress towards membership of the Community while her own application was stalled. However, the position remained that the Community did not feel able to contemplate any further enlargement until after 1992. The EC/EFTA negotiations could be viewed as a step towards membership and a significant part of the preparations for it. Chancellor Vranitzky said that Austria took the EC/EFTA negotiations seriously, but could not regard them as a substitute for membership of the EEC. His understanding was that all EC Governments were ready for negotiations with Austria in due course. For his part, he believed that Austria could contribute significantly to Europe. He wanted to emphasise that Austria would not come in as a third German state but as the one and only Austrian state. The Prime Minister confirmed that no-one was saying no to Austria. In the longer term, she took the view that we would have to move towards much wider membership of the European Community, which would itself be a rather looser organisation.

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Chancellor Vranitzky said that he could understand that other Member States wanted to come to grips with EMU and political union before tackling further enlargement negotiations. But would it not be possible to say that, once the Twelve had made up their minds about these matters, then negotiations with Austria could start? The Prime Minister said that this would not necessarily be to Austria's advantage: she expected discussions of EMU to be long and difficult. Chancellor Vranitzky concluded that it was best, therefore, to stick to the formula that the Community had no problems in negotiating with Austria over membership, but before doing that wished to resolve some internal issues. The Prime Minister said that gave her no difficulty.

Central Europe

The Prime Minister asked whether Chancellor Vranitzky was worried about growing nationalism among minorities in Central Europe. Chancellor Vranitzky confirmed that he was indeed concerned about this. In many ways, the situation was reverting to what it had been pre-1914. He was particularly anxious about Yugoslavia: if the country were to fall apart, it would create a whole new dimension of problems.

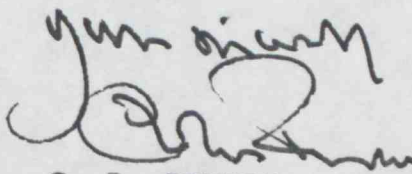
EBRD

Chancellor Vranitzky said that he had sent the Prime Minister a letter pressing Vienna's claim to be the seat of the EBRD and the Prime Minister had responded with a letter putting forward London's case. He understood that it was now in order for him to congratulate her.

CSCE

Chancellor Vranitzky asked the Prime Minister's views about CSCE. The Prime Minister said that a clear structure was developing in Europe. We conducted our defence through NATO, which would also in future have a rather greater political role. The European Community was the basic economic structure. CSCE was the forum for consulting about political and security issues across the East/West divide. She had made certain proposals in her Konigswinter speech for giving CSCE a more substantial role. Chancellor Vranitzky said that he very much agreed with this approach. He would let the Prime Minister have a copy of the speech he had himself recently made on this subject.

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


C. D. POWELL

Richard Gozney, Esq.
Foreign and Commonwealth Office

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VIENNA TELNO 95: AUSTRIA/FRANCE: VRANITZKY'S BILATERAL WITH MITTERRAND

SUMMARY

1. VRANITZKY CLAIMS FRENCH RESERVATIONS ON AUSTRIAN EC MEMBERSHIP REMOVED, AND IMPLIES DEAL ON CSCE.

DETAIL

2. IN COMMENTS TO THE AUSTRIAN MEDIA AFTER HIS BILATERAL WITH MITTERRAND AT THE INTERNATIONAL PRESS INSTITUTE MEETING IN BORDEAUX ON 7 MAY, VRANITZKY SAID FRENCH RESERVATIONS ABOUT AUSTRIAN ACCESSION HAD BEEN CLEARED UP, AND MITTERRAND HAD EXPRESSED SUPPORT FOR THE AUSTRIAN CASE: AUSTRIA WAS A NATURAL PARTNER IN THE COMMUNITY, BECAUSE OF ITS ECONOMIC DEVELOPMENT AND ITS GEO-POLITICAL AND CULTURAL POSITION. BUT FORMAL NEGOTIATIONS BEFORE 1993 WERE IMPOSSIBLE SINCE THE COMMUNITY WAS PREOCCUPIED WITH DEEPENING. MITTERRAND HAD CAUTIONED THAT AUSTRIA WOULD FACE A DIFFERENT EC IN 1993 TO THE ONE SHE ORIGINALLY APPLIED TO. IN THE FRENCH VIEW, TECHNICAL PREPARATIONS AT EXPERT LEVEL COULD PROCEED SOON, LEADING TO A SHORTENING OF EVENTUAL NEGOTIATIONS. VRANITZKY SAID AT NO POINT HAD REFERENCE BEEN MADE TO NEUTRALITY AS A HINDRANCE.

3. ON CSCE, VRANITZKY WAS LESS CATEGORIC. MITTERRAND HAD SAID FRANCE WAS NOT SEEKING TO CONFRONT AUSTRIA, BUT ONLY WISHED TO HOST THE SUMMIT LATER THIS YEAR. ON OTHER CSCE ISSUES FRANCE WAS NOT COMPETING WITH OTHER COUNTRIES. VRANITZKY HAD TOLD MITTERRAND THAT THE BASING OF FUTURE PERMANENT CSCE INSTITUTIONS IN VIENNA COULD BE AN ACCEPTABLE ALTERNATIVE TO HOSTING THE SUMMIT. THE AUSTRIAN MEDIA HAVE INTERPRETED THIS AS AN EXPLICIT DEAL BETWEEN THE TWO LEADERS THAT FRANCE WILL SUPPORT THAT SITTING OF FUTURE CSCE INSTITUTIONS IN VIENNA IF PARIS GETS THE SUMMIT. THIS WAS REPORTEDLY THE OUTCOME OF THE BILATERAL IN PARIS ON 6 MAY BETWEEN MOCK AND DUMAS (MY TELELETTER OF 8 MAY TO WED).

4. THIS MORNING'S NEWSPAPERS NOTE THAT VRANITZKY WILL DISCUSS THESE ISSUES WITH MRS THATCHER LATER TODAY.

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PRIME MINISTER

MEETING WITH CHANCELLOR VRANITZKY

Chancellor Vranitzky is calling on you on Tuesday. He will come from a meeting with President Mitterrand in Bordeaux: and is on his way to see Mr. Haughey, as current President of the European Community, in Dublin. You last saw him when you were on holiday in Austria last year.

Vranitzky's political position, going towards elections in October, is strong, largely because he is not pursuing socialist policies while being leader of the Socialist Party. Austria's economy is in fine fettle: growth last year was 4 per cent, unemployment 5 per cent and inflation 2.5 per cent.

Far and away the most important issue for Austria at the moment is its application for membership of the European Community. Chancellor Vranitzky will undoubtedly wish to raise this and indeed make it the main theme of the meeting. The Austrians are concerned that their own application will get lost in the Community's pre-occupation with absorbing East Germany and with extending association agreements to the other East European countries. They do not like the moratorium we have put on negotiations until 1993 at least, because it leaves them with no where to go in the meantime. They do not wish to appear too enthusiastic about EC/EFTA negotiations because that would suggest there is an alternative to membership of the Community. However, they tend to regard France, Spain and BENELUX as the main obstacles to early negotiation: Britain is regarded as being undecided on the issue. There is not very much more you can tell him except that the Community has the major task of completing the Single Market, deciding what to do about EMU and political union, and absorbing East Germany. It simply is not feasible to think of accession negotiations until after 1992 at least. But you might go on to talk about how you see the longer term shape of Europe, rather on the lines of your conversation with President Mitterrand on Friday. The Austrians might well take more comfort from a wider, looser Europe which would pose less

risk to their neutrality than to a tightly knit Community .
Their main concern is not to be left out.

Chancellor Vranitzky has also said that he wants to talk about agriculture, although it is not entirely clear why. Austria has traditionally provided very high subsidies for farming - above EC levels - but is now beginning to reduce them. You will want to remind him of the importance of making progress on agriculture in the GATT Round.

You might also like to take him through developments over Germany and Eastern Europe, as well as the Soviet Union. Two sensitive points to watch out for are: first, that Vienna was a candidate for the EBRD. The Austrians probably recognise that they are unlikely now to get it. You might want to tell him about your talk with President Mitterrand. Second, the Austrians had also hoped for the CSCE Summit, but it is clear that the French are going to snaffle this. That leaves the Austrians only with the prospect of securing further CFE negotiations (if they take place) for Vienna. While expressing our reservations about a commitment to such negotiations at this stage, you can say that we have no desire to see any eventual negotiations moved away from Vienna.

Finally, you might like to mention your holiday plans, of which he is already aware. You are very much looking forward to a further visit to Austria and are very grateful for the tremendous help you always receive over security and other arrangements. Your probable dates are 10-20 August. He is likely to invite you to the opera one evening. You might accept, and suggest that details be discussed between me and his own office.

You will find a fuller note from the Foreign and Commonwealth office in the folder, together with a telegram from our Embassy in Vienna.

CHARLES POWELL

5 MAY 1990

c:\wpdocs\foreign\AUSTRIA.mrm

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(COLLAR)

CALL BY CHANCELLOR VRANITZKY ON THE PRIME MINISTER: 8 MAY

SUMMARY AND INTRODUCTION

1. SCENE-SETTER FOR CHANCELLOR VRANITZKY'S CALL ON THE PRIME MINISTER ON 8 MAY ON HIS WAY TO A MEETING WITH MR HAUGHEY IN DUBLIN AND FROM A MEETING ON 7 MAY WITH PRESIDENT MITTERRAND IN BORDEAUX. IN LONDON HE WILL ALSO SEE MR KINNOCK AT THE HOUSE OF COMMONS (AT 15.45).

2. VRANITZKY'S DOMESTIC POLITICAL POSITION IS STRONG AND HE WILL PROBABLY LEAD THE NEXT COALITION GOVERNMENT AFTER THE OCTOBER ELECTION. HE WILL NO DOUBT PRESS AUSTRIA'S EC SUIT, WITH EMPHASIS ON EARLY COMPLETION OF THE COMMISSION'S OPINION, WHILE CRITICIZING THE COMMISSION'S POSITION ON DECISION-MAKING IN THE EC-EFTA DIALOGUE. HE MAY WANT TO BRING OUT AUSTRIA'S REGIONAL ROLE IN THE NEW EUROPE. ABOVE ALL HE WILL WISH TO HEAR THE PRIME MINISTER'S VIEWS ON EUROPEAN INTEGRATION FOLLOWING DUBLIN, TAKING IN ALSO EVENTS IN EASTERN EUROPE AND GERMANY AND THE IMPLICATIONS FOR AUSTRIA, NO DOUBT CONTRASTING AND COMPARING WITH WHAT MITTERRAND SAYS TO HIM THE PREVIOUS DAY.

DOMESTIC POLITICAL SITUATION

3. CHANCELLOR VRANITZKY WILL BE CALLING ON THE PRIME MINISTER AT A TIME WHEN THE RUN UP TO THE GENERAL ELECTION IN AUSTRIA ON 7 OCTOBER HAS ALREADY STARTED. HIS POSITION IN HIS PARTY IS SECURE, AS IS THAT OF THE SOCIALISTS AS THE PARTY WITH THE GREATEST POPULAR SUPPORT.

4. THE SOCIALIST PARTY NEEDS VRANITZKY, DESPITE HIS OFTEN DISTINCTLY NON-SOCIALIST POLICIES. THANKS TO HIS EVIDENT ABILITY AND CHARISMA, THE WRATH OF THE ELECTORATE HAS NOT BEEN VISITED ON A PARTY MANY OF WHOSE LEADING POLITICIANS OVER THE PAST FOUR YEARS HAVE BEEN DISCREDITED IN VARIOUS POLITICAL SCANDALS. VRANITZKY HAS BEEN HELPED BY THE LACKLUSTRE PERFORMANCE OF THE PEOPLE'S PARTY, THEIR COALITION PARTNER. THE NICE MR RIEGLER HAS NOT BEEN A MATCH FOR VRANITZKY'S

POPULAR APPEAL, EVEN THOUGH HIS PARTY CAN CREDIBLY CLAIM PARENTAGE OF THE MARKET-ORIENTED ECONOMIC POLICIES WHICH HAVE CONTRIBUTED TO AUSTRIA' PRESENT IMPRESSIVE ECONOMIC PERFORMANCE.

5. THE SOCIALISTS ARE HOLDING THEIR OWN IN THE POLL AS THE LARGEST PARTY (C.40%), WHILE THE PEOPLE'S PARTY HAVE BEEN LOSING GROUND (C.33%). THE MINOR PARTIES, THE GREENS AND MORE PARTICULARLY THE FREEDOM PARTY LED BY THE OPPORTUNISTIC HAIDER, ARE PICKING UP THE PROTEST VOTE, WITH MANY DEFECTORS FROM THE PEOPLE'S PARTY, (AND MANY DON'T KNOWS). THE GENERAL EXPECTATION IS FOR A FURTHER TERM FOR THE SOCIALIST/CONSERVATIVE GRAND COALITION, PROBABLY WITH A SOMEWHAT SMALLER PEOPLE'S PARTY COMPLEMENT IF THEIR ELECTORAL SHOWING IS PARTICULARLY POOR. HOWEVER, A COALITION LED BY THE PEOPLE'S PARTY WITH THE FREEDOM PARTY MAY STILL BE A POSSIBILITY, DESPITE FIRM BUT POSSIBLY TACTICAL STATEMENTS EARLIER THIS WEEK BY FP LEADERS PREFERRING TO STAY IN OPPOSITION, UNLESS THEY GOT THE CHANCELLORSHIP (HARDLY IMAGINABLE). MOCK AS WELL AS OTHER CERTAIN PEOPLE'S PARTY POLITICIANS (BUT NOT RIEGLER) ARE BELIEVED TO BE WORKING FOR A SMALL COALITION WITH THE PEOPLE'S PARTY HOLDING THE CHANCELLORSHIP.

EC/EFTA

6. AUSTRIA'S EC APPLICATION REMAINS THE TOP FOREIGN POLICY PRIORITY OF BOTH COALITION PARTIES (AND IS INCIDENTALY SUPPORTED BY THE FREEDOM PARTY). THE AUSTRIANS ACCEPTED RELUCTANTLY THAT NO ACCESSION NEGOTIATIONS ARE POSSIBLE UNTIL 1993. HOWEVER, IN RESPONSE TO AUSTRIAN FEARS THAT EVENTS IN EASTERN EUROPE MIGHT LEAD TO A FURTHER POSTPONEMENT, SOME MEMBER STATES HAVE PUBLICLY FAVOURED THE BRINGING FORWARD OF AUSTRIAN ACCESSION NEGOTIATIONS FROM 1993. THIS HAS LED SOME AUSTRIAN POLITICIANS (RIEGLER, MOCK) TO CALL FOR THE EARLY START OF NEGOTIATIONS (EVEN IN 1991), OR AT LEAST FOR THE RAPID COMPLETION OF THE COMMISSION'S AVIS. VRANITZKY RECENTLY CALLED FOR THAT AVIS TO BE FINISHED THIS YEAR. RIEGLER IS REPORTED TO HAVE TOLD AMERICAN BANKERS IN NEW YORK RECENTLY THAT AUSTRIA MIGHT EVEN BE A MEMBER BY 1993. FRANCE, SPAIN AND SOME BENELUX COUNTRIES ARE SEEN AS THE MEMBER STATES MOST RESERVED ABOUT AUSTRIAN MEMBERSHIP ON EUROPEAN POLITICAL UNION AND DEFENCE/NEUTRALITY GROUNDS. THE UK IS SEEN AS UNDECIDED. AS REGARDS THE DELORS EC-EFTA DIALOGUE THE AUSTRIANS ARE INCREASINGLY RESTIVE ABOUT SIGNING AWAY SO MUCH SOVEREIGNTY WITHOUT AN EQUAL ROLE IN DECISION-MAKING. HOWEVER, THEY DO NOT WISH TO BE SEEN TO SABOTAGE THE DIALOGUE (THEY MAY HOPE THE SWISS WILL DO THAT), AND I WOULD NOT EXPECT THEM IN THE END TO STAND IN THE WAY OF AGREEMENT.

REGIONAL ROLE

7. OTHER FOREIGN POLICY PREOCCUPATIONS HAVE CENTRED ON WINNING FOR AUSTRIA SOME SHARE AND A REGIONAL ROLE IN THE ARRANGEMENTS FOR A NEW EAST-WEST ORDER. THEY ARE SO FAR HAVING LITTLE SUCCESS, (ALTHOUGH THE REGIONAL ECONOMIC COOPERATION BETWEEN HUNGARY, AUSTRIA, ITALY YUGOSLAVIA AND NOW CZECHOSLOVAKIA HAS, WITH PLENTY OF HIGH LEVEL POLITICAL IMPETUS, APPARENTLY GOT OFF TO A GOOD START). THE EUROPEAN COUNCIL'S SUPPORT FOR PARIS AS THE LOCATION OF THE PROSPECTIVE CSCE SUMMIT LATER THIS YEAR, INTER ALIA TO SIGN CFE, WILL HAVE BEEN A MAJOR SETBACK, LEAVING THE AUSTRIANS WITH ONLY THE PREPARATIONS FOR IT. BEFORE THAT THEY HAD EFFECTIVELY LOST THEIR BID TO HOST THE EBRD. MOCK HAS PUBLICLY NOT GIVEN UP ON GETTING THE SUMMIT TO VIENNA AND THEY MAY STILL TRY TO GET THE CFE SIGNED THERE, IF ONLY AT FOREIGN MINISTER LEVEL, BUT THEY ARE NOW LIKELY TO PUT THEIR MAJOR EFFORT INTO ENSURING THAT CFE 2 TAKES PLACE IN VIENNA AND INTO SECURING CSCE SUMMIT FOLLOW-ON INSTITUTIONS SUCH AS THE CONFLICT CENTRE (LOOKING OVER THEIR SHOULDERS AT REGIONAL COMPETITION FROM PRAGUE) AND A PERMANENT CHEMICAL WEAPONS MONITORING AGENCY EMERGING FROM THE GENEVA NEGOTIATIONS.

POINTS VRANITZKY WILL RAISE

8. ACCORDING TO HIS FOREIGN POLICY ADVISER, EVA NOVOTNY (WHO WILL BE ACCOMPANYING HIM) VRANITZKY'S PRIORITY DURING THE DISCUSSIONS WILL BE TO HEAR MRS THATCHER'S VIEW ON EUROPEAN INTEGRATION POST-DUBLIN, AS WELL AS ON WIDER EUROPEAN DEVELOPMENTS. HE WILL NO DOUBT NEED TO BE ABLE TO SAY AFTERWARDS THAT HE PRESSED AUSTRIA'S EC CASE WITH APPROPRIATE VIGOUR. THE BILATERAL PROVIDES A USEFUL OCCASION TO PRESS ON VRANITZKY THE IMPORTANCE OF SUCCESS IN THE EC/EFTA NEGOTIATIONS.

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Foreign and Commonwealth Office

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2 May 1990

Dear Charles,

Call on the Prime Minister by the Chancellor of Austria:
8 May, 1200 hrs

Dr Franz Vranitzky will call for about an hour, with his Foreign Affairs Adviser, Dr Eva Nowotny, and the Austrian Ambassador, Dr Magrutsch (personality notes enclosed). Dr Vranitzky is to meet the Irish Presidency in Dublin the next day.

Dr Vranitzky called on the Prime Minister during a private visit to Britain in July 1988, and they met again informally during the Prime Minister's holiday in Austria in 1989.

We suggest that our objectives for the meeting are to hear Dr Vranitzky out, without commitment, about Austria's application to join the EC, to promote a constructive EC/EFTA dialogue, and to help warm up bilateral relations after the long chill before MOD's report on Waldheim last Autumn. This might be best achieved through a dialogue on wider European issues.

Dr Vranitzky's main concern is that the development of the EC's relations with East Europe should not be at the expense of Austria's application. He also wishes to discuss EC and GATT aspects of agricultural policies, including the problem of surpluses.

The Post will be sending a scene-setting telegram.

EC/EFTA/EC Membership

The Prime Minister may wish to emphasise her support for closer EC/EFTA relations, and her concern to maintain the momentum of the preparations for negotiations. The joint meeting of EC and EFTA Foreign Ministers on 19 December agreed to launch negotiations on expanded cooperation by mid-1990. Because of the complexity of the issues, the EC side has yet to agree on a negotiating mandate; the plan is to do so at the June Foreign Affairs Council, just within schedule.

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The Austrians are participating in EC/EFTA contacts but do not see them as a substitute for EC membership, for which they applied in July 1989 (the Council sought a Commission Opinion in the normal way). The Austrians are anxious that their application should not be overshadowed by the EC response to developments in Eastern Europe and do not like the EC's moratorium on any accession negotiations before 1993. The Prime Minister might recall that HMG has taken no formal position on the Austrian application: and that the Community consensus is in favour of maintaining the moratorium, which is not of course directed at Austria but at all newcomers, and arises from the weight of the Single Market legislative programme.

Agriculture

Dr Vranitzky has said that he wishes to discuss agriculture. Austrian farm policy has traditionally supported small family farms through a variety of subsidies, cheap loans, intervention purchasing and import restrictions. This was to encourage self-sufficiency in food as part of Austria's neutrality; to discourage depopulation of the Eastern border and mountainous tourism areas; and to keep food prices low. The present coalition Government has made some attempt to reduce subsidies and central direction and to encourage farmers to be more commercially independent but Austrian farm support remains well above EC levels.

In the GATT Uruguay Round negotiations, Austria has supported the long-term objective of substantial progressive reductions in support and protection but has also emphasised the importance of social objectives such as the maintenance of farming in difficult (eg mountainous) areas.

The Prime Minister may wish to:

- recall the EC's progress in reforming the CAP, in particular the February 1988 reforms, which are now producing results (intervention stocks a fraction of what they were: expenditure well within budget);
- welcome moves in the same direction by the present Austrian Government;
- underline the importance of a deal on agriculture if the GATT Round is to be successful.

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German Question

The Prime Minister could bring Dr Vranitzky up to date on German unification. Now that a broad coalition government has been formed in the GDR, the way is open for the Germans to pursue the formal unification process. Negotiations on a State Treaty for economic and monetary union are under way, with a target date for the introduction of the DM into the GDR of 2 July. For the FRG this will be costly but manageable. In the GDR there will be bankruptcies and unemployment, and the risk of new emigration.

The process of integrating the GDR into the EC can also begin. The Informal EC Summit on 28 April established the framework for the negotiating process. We want to see the GDR integrated as quickly and smoothly as possible, with the FRG, GDR and Commission keeping the Council closely involved. We believe the ex-GDR should be subject to full Community acquis from unification, though some temporary adaptations will be needed where the GDR cannot meet EC standards on time (eg on the environment). But we want to avoid any trade distortion.

The formation of de Maizière's coalition also opened the way for the resumption of the 2+4 talks on the external aspects of unification. The first 2+4 Ministerial takes place in Bonn on 5 May. The main issues are: termination of Four Power rights and responsibilities and a peace settlement; Berlin; borders; and some politico-military issues. The question of Soviet forces in the former GDR will need to be aired. But much else should be considered in other fora (eg, NATO and CFE). The Russians are still developing their views but appear to favour a tough opening position. We are glad that it has now been agreed by all concerned (including the FRG) that Germany's border with Poland should be definitively settled by a Treaty.

Eastern Europe

Austria is closely involved in regional groupings in Central Europe. It belongs to the "quadrilateral initiative" (Italy, Yugoslavia, Hungary, Austria), which involves cooperation in practical matters and was recently expanded to include Czechoslovakia. It also had an observer at the Bratislava Summit on 9 May involving Poland, Hungary and Czechoslovakia. The driving force behind this grouping are the Czechoslovaks, who would like it to play some coordinating role in the CSCE/security field, as well as in approaches to the EC. The Austrians appear unenthusiastic about any more than technical cooperation in the region. The Prime Minister might ask whether they see a future for any political grouping in Central Europe.



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Dr Vranitzky may mention his government's recent decision to provide some guarantees for Austrian investment in Eastern Europe. The Prime Minister could draw attention to the recent improvements in ECGD's investment insurance scheme for Eastern Europe.

Dr Vranitzky will probably express Austrian concerns about events in Yugoslavia. Republic elections have been won by the non-Communist bloc Demos in Slovenia (which will have to cohabit with a moderate Communist President) and by a Croatian nationalist party in Croatia. Both winning parties contain separatist elements, though actual policies remain to be decided. Federal elections are due this year and Prime Minister Markovic is working to put these on a multi-party basis. Heated debate over the future of the federation (or confederation) is likely and Serb/Croat tension will probably escalate. It would be interesting to have Dr Vranitzky's view of the prospects in the light of close Austrian/Slovenian links.

USSR/East-West Relations

The Prime Minister may wish to exchange views with Dr Vranitzky on recent events in the Soviet Union and their implications for East-West relations. She might focus on the latest developments in Lithuania - the cut in supplies of oil and gas from the Soviet Union, and reported moves to restrict the movement of goods in and out of Lithuania. She might draw on the following points:

- Latest Soviet moves worrying. Not calculated to help get essential process of dialogue off the ground.
- In contacts with Soviet leadership, stressing need for purposeful dialogue aimed at reaching agreement acceptable to all concerned, and importance of non-use of force.
- However much we may support principle of Lithuanian independence, only way forward in practice is compromise on basis for talks. Hopeful suggestions of talks on basis of temporary suspension of declaration of independence. But no immediate breakthrough in sight.
- With partners and allies, considering possible responses to any further Soviet moves towards policy of coercion. But will need to be very cautious of moves which might simply damage East-West relations while not helping cause of Lithuanians. Austrian views?

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- Otherwise, economy remains Gorbachev's biggest problem: reports now suggest that radical reform measures to be put off again. Believe Gorbachev aware of need for radical reform, but not clear that Soviet leadership has necessary political will.

- Some signs of hardening Soviet approach to East-West issues, notably on arms control. Not yet clear whether this is a negotiating tactic or a longer-term shift - or a result of Soviet worries over German reunification. Austrian impressions?

EBRD

Vienna is one of the leading non-EC candidates for the EBRD site - none of which is likely to succeed if the EC decides on a common candidate, though the final decision will be for Ministers of the full EBRD membership (G42), who meet on 29 May. If Dr Vranitzky raises the matter, the Prime Minister may wish to emphasise the strength of London's case, on practical, operational grounds.

CSCE Summit

On CSCE, the Prime Minister might repeat to Dr Vranitzky our objectives for the CSCE Summit:

- to further the principles of democracy and the rule of law;
- to be the occasion for CFE signature, and to explore the way ahead on disarmament in Europe;
- to give new impetus to market-oriented economic reform;
- to encourage the development of conciliation machinery;
- to reaffirm the Helsinki Final Act's commitments on frontiers;
- to launch a new system of more intensive political consultation among the 35 participants.

Dr Vranitzky should be able to subscribe in broad measure to these goals.

Dr Vranitzky may reiterate Austria's willingness to host the Summit. Paris is the other contender. We favour Paris (EC consensus at Dublin on 28 April).

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Austria: Internal and Bilateral

In Dr Vranitzky's party, the Socialists, political scandals continue. Dr Vranitzky has been criticised for a generous, though clearly legal, severance payment and pension arrangements from a leading Austrian bank when he joined the last government as Finance Minister in 1984. He has been tarnished by a Parliamentary Report on the so-called Noricum Affair, about illegal arms dealings, although there is no suggestion that he committed a criminal act. He stands head and shoulders above other Austrian politicians, and the success of his party and the continuation of the coalition depend on him.

Despite a poor showing for the Austrian People's Party in regional elections in March 1989 the Socialist-People's Party coalition seems quite likely to continue after general elections next October.

Austria's economy is doing well. GDP growth in 1989 was around 4% and is expected to remain high; unemployment was 5% and inflation about 2.5%. The government has successfully accomplished tax reform, profitability of nationalised industries, and a reduction of the budget deficit.

Britain is Austria's ninth largest supplier. In 1989, we exported £598m worth of goods to Austria, with a trade balance of about £335m in Austria's favour.

Anglo-Austrian relations were affected by the Waldheim affair, which curtailed visits. The Austrians welcomed our correct handling of the MOD Review and its objectivity. Although the Review did not implicate President Waldheim in war crimes, sensitivities remain (of which the Austrians are aware): these rule out a visit by President Waldheim to Britain. The question of contact with President Waldheim could also arise if a CSCE/CFE Summit is held in Vienna this year. The Austrian Government can be expected to ensure that Western leaders do not unwillingly encounter the President. President Waldheim is unlikely to stand for re-election in 1992.

Ministerial visits to Austria in 1989 included: Sir Geoffrey Howe in January and March for CSCE and CFE, Mr Clark (DTI), and Mr Sainsbury (FCO). Dr Mock, Austrian Foreign Minister, visited the UK in December 1989, and called on the Prime Minister, the Foreign Secretary, and the Trade and Industry Secretary.

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An Anglo-Austrian Round Table is taking place 18-20 May near Vienna. It will involve MPs but not Ministers.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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YOUR TELNO 31: CHANCELLOR VRANITZKY'S VISIT TO LONDON

1. VRANITZKY CONFIRMED TO ME TODAY THAT HE COULD MANAGE BETWEEN 12 AND 13.00 HRS ON TUESDAY, 8 MAY, AND LOOKS FORWARD TO SEEING THE PRIME MINISTER. HE WILL BE COMING FROM BORDEAUX FIRST THING THAT MORNING (AFTER ATTENDING AN INTERNATIONAL PRESS INSTITUTE MEETING THERE THE PREVIOUS DAY) AND WILL LEAVE FOR DUBLIN FIRST THING IN THE MORNING OF 9 MAY, BUT HE IS NOT ASKING US TO MAKE ANY OTHER ARRANGEMENTS FOR HIM.

2. I ASKED HIM WHETHER HE HAD ANYTHING IN PARTICULAR HE INTENDED TO RAISE WITH THE PRIME MINISTER. HE SAID THAT HE WOULD WISH TO CONVEY HIS CONCERN THAT AUSTRIA SHOULD NOT, BY BEING LUMPED IN WITH OTHER POTENTIAL EAST EUROPEAN APPLICANTS, BE HELD BACK FROM EARLY MEMBERSHIP OF THE EC. AUSTRIA WAS NOT IN A PARTICULAR HURRY, BUT DID NOT WANT TO BE PARKED ON A BENCH WITH THE RESERVES. THE OTHER SUBJECT HE SAID HE WISHED TO COMPARE NOTES WITH THE PRIME MINISTER ON WAS AGRICULTURE. HE THOUGHT AUSTRIA'S EXPENSIVE SURPLUS-PROMOTING AGRICULTURE POLICIES WERE ABSURD, WAS KEEN TO SEE THEM TURNED ROUND, WAS CONSCIOUS OF THE IMPORTANCE OF AGRICULTURE IN THE GATT MTNS AND WOULD LIKE TO TALK TO THE PRIME MINISTER ABOUT ALL THIS. IN DISCUSSION WITH ME VRANITZKY ALSO SHOWED CONSIDERABLE INTEREST IN THE PRIME MINISTER'S DOMESTIC POLITICAL SITUATION AND IN BRITISH VIEWS ON THE GERMAN QUESTION AND WIDER EUROPEAN ISSUES.

CROWE

YYYY

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bc: PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 March 1990

VISIT BY CHANCELLOR VRANITZKY

I have seen Vienna Telegram No. 54 about Chancellor Vranitzky's visit to London, and wish to call on the Prime Minister on 8 or 11 May. Both days are actually quite difficult, but the Prime Minister could manage 1200-1300 on Tuesday 8 May. I should be grateful if this could be put to him.

BF 11

C. D. POWELL

Richard Gozney, Esq.
Foreign and Commonwealth Office

John

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271 8505

Charles
1200 to 1300
on Tues
8 May

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MDHIAN 0249

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FM VIENNA
TO IMMEDIATE FCO
TELNO 54
OF 081030Z MARCH 90

AP 9/13
Amade
I think she'll love
to see him, as her
host in Argent. Can
you help please?
CN

MY TELNO 47 AND TELECON WITH SYNOTT (WED): POSSIBLE VISIT BY
CHANCELLOR VRANITZKY TO LONDON

1. CHANCELLOR VRANITZKY'S VISIT TO THE IRISH PRESIDENCY IS NOW
FIXED FOR 9-10 MAY. HE WOULD VERY MUCH LIKE TO CALL ON MRS THATCHER
ON HIS WAY TO OR FROM DUBLIN, FOR 30 MINUTES TO AN HOUR, ON THE
AFTERNOON OF EITHER 8 OR 11 MAY. ACCORDING TO EWA NOWOTNY, HIS
FOREIGN POLICY ADVISER, HE WILL WANT TO DISCUSS EC-RELATED, EAST
EUROPEAN AND GENERAL EUROPEAN DEVELOPMENTS.

2. I NATURALLY HOPE THAT THE PRIME MINISTER WILL SEE VRANITZKY. I
HAVE AN APPOINTMENT TO SEE HIM SEPARATELY ON THURSDAY AFTERNOON, 15
MARCH. IT WOULD BE HELPFUL IF I COULD CONVEY A RESPONSE BY THEN.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 July 1988

SUBJECT or MASTER

See Lyn.

PRIME MINISTER'S MEETING WITH THE AUSTRIAN CHANCELLOR

At the end of her talk with Dr Vranitzky, the Prime Minister said that she would not be able to visit Austria for her holiday this year, much as she would like to. She was sure that Dr Vranitzky would understand her reasons. Dr Vranitzky said that he and many other leading figures in Austria would be even sadder than the Prime Minister but of course he accepted that it was impossible at the moment. The Prime Minister continued that she nonetheless hoped to go again at some point in the future.

There was a brief exchange between the Prime Minister and Dr Vranitzky about Dr Waldheim as they walked down the stairs. The Prime Minister said that our main concern was with the fate of the British servicemen. Our enquiries were being pursued but would probably take several months yet to complete since the records in question were very extensive indeed. Dr Vranitzky said that he would like to telephone the Prime Minister confidentially about this matter at some stage.

The Prime Minister encouraged Dr Vranitzky to let her know if he was planning to visit London privately again and to come to see her at Chequers.

Yours sincerely,
Charles Powell

C. D. POWELL

Lyn Parker, Esq.
Foreign and Commonwealth Office



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 July 1988

SUBJECT CC MASTER

Dear Myr,

PRIME MINISTER'S MEETING WITH THE AUSTRIAN CHANCELLOR

The Prime Minister had a talk with the Austrian Chancellor this afternoon. Dr Vranitzky was accompanied by the Austrian Ambassador.

Much of the conversation was about domestic policies, in particular pensions which the Prime Minister and Dr Vranitzky discussed when they last met some years ago. The Prime Minister took the opportunity to mention the defence contract for the supply of battlefield communications about which you wrote on 1 July. Dr Vranitzky seemed to be familiar with it.

There was some discussion of East/West relations. Dr Vranitzky said that he had become quite friendly with the Czechoslovak Prime Minister, Strougal, who was now aligning himself with Mr Gorbachev. Indeed, he had said that he would resign if Gorbachev did not succeed. More generally, he thought that Eastern Europe was on its way to major changes in thinking and attitudes. Even hard liners thought that the process of reform on which Mr Gorbachev had embarked in the Soviet Union was irreversible. The Prime Minister gave Dr Vranitzky an account of her recent meeting with Mr Grosz.

Dr Vranitzky said that the Vienna Conference on Human Rights was in a sense a test of the new attitudes in the Soviet Union and Eastern Europe. He had reason to think that the Soviet position was not as rigid as currently presented and there could well be a satisfactory agreement, if not before the summer then at least by the end of the year. The Prime Minister took note.

Dr Vranitzky said that he wished to make only one point about Austria's relations with the European Community. So long as Austria had not finished defining its own position, it made no sense to get involved in controversial debate, either with the EEC or with the Soviet Union. But when they had reached their own decision, they would need to talk to their friends and he hoped that the United Kingdom would be ready to listen sympathetically. The Prime Minister said she thought Dr Vranitzky's judgement was sound on this. In any event, the

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- 2 -

Community was heavily engaged with absorbing Spain and Portugal, and with the completion of the Single Market.

I am recording one point separately.

your secret,
Chris Powell

C. D. POWELL

Lyn Parker, Esq.
Foreign and Commonwealth Office

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PRIME MINISTER

MEETING WITH DR. VRANITZKY

You are to see the Austrian Prime Minister (or Chancellor) on Monday. He is on a private visit to London, where his son is working. He will have attended the Wimbledon Final.

A note about Dr. Vranitzky is in the folder. He is a banker by profession and on the right of the Austrian Socialist Party. There is no doubt that he would be glad to see Waldheim go, although avoids any public comment. He is most unlikely to raise the issue with you. If he does so, you should say that our interest is in allegations of Waldheim's involvement in the fate of British servicemen. We are conducting a review of all the information available to us, but it will not be ready before the autumn.

The two main subjects he will want to discuss are East/West relations and Austria's relations with the EC.

On East/West, he will obviously be particularly interested in your assessment of developments in the Soviet Union and in Eastern Europe (in particular Hungary). He may also mention the CSCE: you will want to thank him for Austria's hospitality. We still hope that the meeting can end in the summer. But we want to squeeze out a bit more on human rights. A conference on human rights in Moscow would not be appropriate.

There is a lively debate within Austria on relations with the EEC, and particular concern about the implications for Austria of completion of the Single Market in 1992. Pressure is building up for Austria to apply for membership, although Dr. Vranitzky himself is more aware than most others of the political (as opposed to purely economic) commitment this would involve and the implications for Austria's neutrality. The Russians have said Community membership would not be compatible with that neutrality. I think you will want to be

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cautious about an Austrian application: it raises quite
difficult issues, and the Community has a great deal on its
plate.

C.D.?

(C. D. POWELL)

1 July 1988



Foreign and Commonwealth Office

London SW1A 2AH

1 July 1988

nm
Prime Minister

CDP

3/7.

Dear Charles,

Visit of the Austrian Chancellor

Further to my letter of 30 June, we have just learned of a potential defence contract with Austria worth £12 million, which we recommend that the Prime Minister mention to Dr Vranitzky when he calls at Number 10 on Monday.

The Austrian Ministry of Defence signed a Letter of Intent in mid May for the supply of communications equipment by a consortium led by the Austrian company Kapsch. Plessey and Siemens are also members of the consortium, with Plessey playing a prominent role. The project involves the supply of a battlefield communications switching system for the Austrian army developed from Plessey's Ptarmigan system, and the chances of clinching the sale are rated highly. The Prime Minister might express interest in the success of this project and go on to say that we hope that it would lead to more extensive defence cooperation between Britain and Austria in future. (Contacts between British companies and the Austrians suggest that there could be opportunities for high technology military sales of up to £50 million in the coming years.)

Lowes ever,

L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH



30 June 1988

Dear Charles

Call on the Prime Minister by the Austrian Chancellor

Dr Vranitzky's call on the Prime Minister on 4 July during his private visit to London will be the first such meeting since he became Chancellor in June 1986. He will also attend the Wimbledon finals with his son, who will remain in Britain during the summer to work. We understand that Dr Vranitzky's purpose, in addition to establishing contact, is to exchange views about East/West relations and Austria's relationship with the European Community. He will not be accompanied on the call.

// I enclose a biographical note together with a scene-setting telegram from HM Ambassador at Vienna. Bilateral relations are good, though overshadowed by the Waldheim affair. The planned visit on 7 June of the Vice-Chancellor, Dr Alois Mock, was postponed (ostensibly because of the Foreign Secretary's need to be at the UNSSOD meeting in New York). We have no plans to reinstate the visit and do not propose to give it further consideration until after completion of the Review of records relating to Waldheim being carried out by the Ministry of Defence. The Review is not now expected to be ready before the autumn. Dr Vranitzky, who would personally be glad to see Waldheim go, has shown tactful recognition of the problem of receiving here one of Waldheim's staunchest advocates.

The Waldheim Affair

Dr Waldheim seems to be gaining in assurance that the worst of the campaign against him is past. His confidence will have been helped by the ITV programme of enquiry on 5 June which found in his favour. The Pope's visit to Austria from 23-26 June passed off with negligible anti-Waldheim activity.

In the unlikely event that Dr Vranitzky raises the Waldheim Review, the Prime Minister might comment that our interest is in the allegations of Waldheim's involvement in the fate of captured British servicemen. Public and parliamentary interest remains strong. It is intended that the Review should be thorough and comprehensive. A report will be produced as quickly as possible consistent with the need to collate and analyse a large amount of fragmentary information, but cannot be presented to Parliament until after the summer recess.

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East/West Relations

The Austrians, despite their formal neutrality, share much of our thinking on East/West relations. They recognise the need for a combination of dialogue and firmness in dealing with the USSR. Austria's own relations with the Soviet Union are delicate, with Soviet attitudes crucial to the two important questions of EC membership and the acquisition of guided missiles. Dr Vranitsky, who plans to visit the Soviet Union in the autumn, will be interested in the Prime Minister's views on developments there. The Prime Minister might take the line that, while we welcome Gorbachev's reforms, our policy is inevitably conditioned by the continuing massive Soviet conventional superiority in Europe. Our arms control priorities reflect this concern: conventional reductions, CW and START. We have called on the Russians to follow-up the INF Treaty and the beginnings of withdrawal from Afghanistan with further concrete steps as proof of their intentions - in Cambodia, Angola and on human rights.

Dr Vranitzky will also be interested to hear the Prime Minister's impressions of the Moscow Summit, following her discussions with President Reagan. She might observe that we considered the Summit a success, notably in strengthening the framework of US-Soviet and East-West relations. We fully support President Reagan's emphasis on human rights: an issue which lies at the heart of differences between East and West. Despite Gorbachev's signs of irritation, the atmosphere was not soured unduly and President Reagan's general message about Western values should have hit home.

The Austrians take a close interest in Eastern Europe, especially neighbouring Hungary, and Dr Vranitzky will be interested in the Prime Minister's impression of Grosz following their meeting in early May. He may also want to tell the Prime Minister about his recent visit to the GDR, where Honecker has set his face against increased openness and reconstruction; and to Czechoslovakia, where economic reform is edging slowly forward but political life is caught in a post-68 time-warp.

Dr Vranitzky may also wish to discuss internal developments in the Soviet Union. The Party Conference should have just finished and will be the most obvious topic, not least the extent to which Gorbachev may have succeeded in overcoming resistance from the party hierarchy. The Conference will have taken place against the background of increasing nationalities problems, a major challenge for Gorbachev and a graphic illustration of the difficulty of political expectations heightened by glasnost.

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On CSCE, we recommend that the Prime Minister thank Dr Vranitzky for the Austrians' hospitality and efficiency in hosting the Vienna meeting. We still hope the meeting can end in the summer, but we are prepared to delay the start of the Conventional Stability Talks (CST) until a balanced outcome is achieved. The Austrians, whose main concerns are human rights and the environment, have proved one of the more helpful Neutral and Non-Aligned (NNA) delegations. The West have agreed to negotiate on the basis of a Neutral and Non-Aligned draft compromise Concluding Document, but the Prime Minister might reiterate our concern that the military security chapter contains a number of elements which undermine the autonomy of the CST. The level of ambition on human rights is also too low. The UK favours no more than 6 or 7 follow-up meetings; our priorities are the Conference on the Human Dimension, the London Information Forum and the Bonn Economic Forum. The Prime Minister could reaffirm our conviction that, despite positive internal developments in the Soviet Union, a Humanitarian Conference in Moscow would still be inappropriate.

Vienna is a front-runner for the site of the CST and the new talks on Confidence Building (but the French object). If Dr Vranitzky raises this, the Prime Minister could say that we are favourably disposed towards Vienna but have taken no final decision.

EC/Austria

The Austrians have left us in no doubt that the future of their relationship with the European Community is one of their major policy concerns. Of the EFTA countries they are the most preoccupied with the possible effects on them of the completion of the Single Market. They are assiduously adapting their own regulations, and seeking to broaden bilateral discussions with the Community on cross-border issues. We recommend that the Prime Minister welcome this approach, stressing the UK's wish to see co-operation between the Community and the EFTA countries develop as far as possible in step with the completion of the Single Market. The UK and other Member States are pleased with the recent progress, marked by the successful 15 June EC/EFTA ministerial meeting in Finland.

Fear of being left on the outside - together with some wishful over-emphasis on the benefits, as opposed to the obligations of membership - is propelling the Austrians towards an application in 1989 for accession to the Community. Although the Austrian Government's formal position is that a decision will not be made before 1989, the objective has broad public support.

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Dr Vranitzky is more cautious than his coalition colleagues in the People's Party. He has tried to correct the widely held impression that membership would be simply an economic issue. He is aware that there would be considerable political difficulties: the Austrian State Treaty (prohibiting political or economic union with Germany in any form) to which the UK, France, USSR and US are signatories, and Austria's "perpetual neutrality" (enshrined in the Constitution). The Russians have said publicly that Community membership would be incompatible with the latter.

We recommend that the Prime Minister avoid taking a definitive position, while encouraging Dr Vranitzky's cautious approach. She might take the line that neither the UK nor the rest of the Community can offer a response until an application is made. Any application from a European state would be considered on its merits as provided in the EC Treaty, but it is the Commission's view that at least until 1992 the Community should concentrate on "consolidation" (absorption of Spain and Portugal and completion of the Single Market) rather than enlargement.

I am copying this letter to Trevor Woolley (Cabinet Office).

Yours ever

L Parker

(L Parker)
Private Secretary

C D Powell Esq
Private Secretary

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VRANITZKY, DR FRANZ

Federal Chancellor since June 1986. Socialist Party (SPö).

Born 1937. His whole professional career before becoming Chancellor was in accounting and banking, including periods with the Austrian National Bank and the Ministry of Finance. Has good links with the international financial community including British banks and institutions. A member of the Austrian Bankers' Mission to the UK in October 1982. Appointed Chairman of the Österreichische Länderbank in April 1981 after a short period as a Deputy Chairman and an earlier spell (1976-81) as Deputy Chairman of the largest state-run bank, the Creditanstalt-Bankverein. Was given the task of restructuring the Länderbank and rescuing it from its financial difficulties following the collapse of some of its largest industrial investments. Minister of Finance September 1984- June 1986. Chairman of SPö since May 1988.

Regarded as an able technocrat rather than a party man. On the right of Socialist Party (a financial conservative). No political experience prior to becoming Minister of Finance in 1984.

Considerable personal popularity, which was crucial in winning the 1986 election and in maintaining the SPö position since, despite a spate of recent scandals affecting the party. Vranitzky has the image of a level-headed, objective statesman, guiding his country through difficult waters whilst staying above party politics (the latter may have to change now that he has become SPö Party Chairman).

The SPö is the dominant partner in Coalition with the conservative öVP. Vranitzky has shown disapproval at the "oppositionist" behaviour of the öVP over major issues, and at the support of its leader, Vice Chancellor and Foreign Minister Alois Mock, for President Waldheim.

Vranitzky believes that Waldheim has damaged Austria and hindered the efficient working of Government. But he is now concerned to limit any further damage and to play down the issue. He has always observed protocol and has never publicly condemned Waldheim or called for his resignation. May however have to show greater opposition to Waldheim now that he is the SPö Chairman (SPö rank and file are strongly opposed to Waldheim).

Vranitzky has been cautious and statesmanlike over the EC issue. Unlike Mock (who has called outright for membership) Vranitzky has set his Government to analysing the issues and said that a decision, based on this analysis, would be taken in 1989.

A keen sportsman, a former Austrian National Team Basketball player.

Married, with two children. Speaks good English.

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OF 231542Z JUNE 88

CALL BY CHANCELLOR VRANITZKY ON THE PRIME MINISTER

SUMMARY

1. VRANITZKY HAS CONSOLIDATED HIS POSITION AS CHANCELLOR AND AS CHAIRMAN OF THE SOCIALIST PARTY. HE NEVERTHELESS FACES OVER THE NEXT YEAR TWO MAJOR AND DIFFICULT ISSUES: HOW TO REDUCE A BUDGET DEFICIT WHICH IS QUITE OUT OF HAND (THERE ARE IMPLICATIONS HERE FOR PRIVATISATION) AND WHETHER TO MAKE AN APPLICATION FOR MEMBERSHIP OF THE EUROPEAN COMMUNITY. WALDHEIM REMAINS A CHRONIC PROBLEM.

DETAIL

2. WHEN CHANCELLOR VRANITZKY CALLS ON THE PRIME MINISTER ON 4 JULY, HE WILL HAVE BEHIND HIM A YEAR OF SOLID ACHIEVEMENT. THE COALITION GOVERNMENT HAS SETTLED DOWN UNDER HIS UNDISPUTED LEADERSHIP AND IS GENUINELY NOW WORKING TOGETHER AS A TEAM. THE STRAINS WHICH EMERGE FROM TIME TO TIME REFLECT PRINCIPALLY THE EVOLUTION OF THINKING WITHIN BOTH THE SOCIALIST AND THE PEOPLE'S PARTIES (IN EACH CASE GENERALLY TOWARDS THE RIGHT). BOTH VRANITZKY AND MOCK SEE NO ALTERNATIVE TO THE GRAND COALITION DURING THIS PARLIAMENT AND THE NEXT, AND THAT IS ALSO THE EXPECTATION OF THE AUSTRIAN PUBLIC. IN HIS NEW POSITION AS CHAIRMAN OF THE SOCIALIST PARTY, VRANITZKY HAS NOT YET COME UNDER CHALLENGE: HE IS SAYING THE RIGHT THINGS IN PUBLIC ON THE TRADITIONAL CONCERNS OF THE LEFT, AND THE REAL LEFT OF THE PARTY IS DEMORALISED. PARLIAMENT WILL PASS NEXT MONTH A HARD-FOUGHT MAJOR REFORM OF THE TAX STRUCTURE: THIS SIMPLIFIES AND RATIONALISES THE TAX SYSTEM AND LOWERS THRESHOLDS, BUT IT WAS NEVERTHELESS TOO TIMID IN ADDRESSING SENSITIVE POLITICAL ISSUES SUCH AS TAXING INCOME FROM SAVINGS DEPOSITS. IT WILL ALSO RESULT IN THE SHORT TERM AT LEAST, IN A REDUCTION IN TOTAL REVENUE.

3. VRANITZKY NOW FACES TWO MAJOR CHALLENGES: THE 1989 BUDGET, AND WHETHER TO APPLY FOR ACCESSION TO THE EC. THE PRESENT GOVERNMENT IS PLEDGED TO REDUCE THE BUDGETARY DEFICIT TO NO MORE THAN 2.5 PERCENT OF GDP BY 1990, BUT IT HAS ALREADY DECIDED AGAINST INCREASING TAX REVENUE (PARA 2 ABOVE), AND BOTH POLITICAL PARTIES AND THE TRADE UNIONS HAVE COME OUT AGAINST ACTION TO REDUCE THE EXCESSIVE BURDEN OF PENSIONS, EG BY ABATEMENT WHERE THOSE WHO RETIRE EARLY AT ONCE

TAKE UP FURTHER EMPLOYMENT. SOCIAL EXPENDITURE GENERALLY IS RUNNING OUT OF CONTROL. THE MOST SERIOUS IMMEDIATE PROBLEM IS HOWEVER THE CONTINUING HUGE LOSSES BY THE STATE INDUSTRIES AND AUSTRIAN RAILWAYS. (THE RAILWAYS ALONE ARE LIKELY TO MAKE A LOSS OF ONE BILLION POUNDS STERLING IN 1988). PRIVATISATION AUSTRIAN-STYLE (DOWN TO 51 PERCENT GOVERNMENT HOLDING) WILL BRING IN SOME REVENUE, BUT THERE IS STILL NO CONSENSUS WITHIN THE COALITION THAT BRINGING THE DEFICIT UNDER CONTROL MEANS MUCH MORE THAN JUST KILLING ONE OR TWO SACRED COWS.

4. THE PEOPLE'S PARTY AND AUSTRIAN INDUSTRY HAVE COME OUT UNRESERVEDLY IN SUPPORT OF AN EARLY AUSTRIAN APPLIATION FOR EC MEMBERSHIP. VRANITZKY IS SHOWING MUCH GREATER CAUTION. ONE REASON FOR THIS IS THAT THE SOCIALIST PARTY HAS STILL TAKEN NO POSITION (THOUGH AN EARLY, AND PROBABLE FAVOURABLE VERDICT BY THE TRADE UNION MOVEMENT WILL HELP HERE). MORE IMPORTANT, HE RECOGNISES WHAT MANY AUSTRIANS PREFER TO IGNORE: THAT THE POLITICAL COMMITMENT IMPLICIT IN COMMUNITY MEMBERSHIP WOULD MEAN A FUNDAMENTAL CHANGE IN AUSTRIA'S POST-WAR FOREIGN POLICY OF QUOTE PERMANENT NEUTRALITY UNQUOTE AND TRYING TO BE ALL THINGS TO BOTH EAST AND WEST. VRANITZKY IS LIKELY TO BE LOOKING FOR REASSURANCE THAT THE COMMUNITY WILL NOT EVOLVE TOWARDS A DEFENCE DIMENSION (AND HE RAISED THIS WHEN I SAW HIM ON 8 JUNE), BUT EVEN EUROPEAN POLITICAL COOPERATION WOULD REPRESENT A MAJOR CHALLENGE. AUSTRIAN OFFICIALS CONTINUE TO ARGUE FOR EXAMPLE THAT AUSTRIA REQUIRES EXCEPTIONS ENABLING IT TO OPT OUT OF SANCTIONS UNDER ARTICLE 113. THE RECENT FLURRY OF AUSTRIAN MINISTERIAL VISITS TO EASTERN EUROPE (VRANITZKY HAS HIMSELF RECENTLY VISITED THE GDR, AND HE GOES TO CZECHOSLOVAKIA NEXT WEEK AND TO THE SOVIET UNION IN THE AUTUMN) IS ALMOST CERTAINLY IN PART AIMED TO DEMONSTRATE THAT THERE CONTINUES TO BE A QUOTE BALANCE UNQUOTE IN AUSTRIAN FOREIGN POLICY.

5. MOST AUSTRIANS ARGUE THAT AUSTRIA'S SELF-PROCLAIMED NEUTRALITY IS ITS OWN AFFAIR, THAT THE MOSCOW MEMORANDUM OF 1955 (BY WHICH AUSTRIA AGREED WITH THE SOVIET UNION IN ADVANCE OF THE CONCLUSION OF THE STATE TREATY TO COMMIT ITSELF TO NEUTRALITY) HAS NO CONTINUING FORCE, AND THAT THE STATE TREATY (NOTABLY ARTICLE 4, ON PROHIBITING ANSCHLUSS WITH GERMANY) IS IRRELEVANT. THESE ARE BOLD WORDS. VRANITZKY HIMSELF HAS BEEN MORE GUARDED. HE WOULD CERTAINLY PREFER NOT TO OUT-FACE THE SOVIET UNION (AND I THINK THIS WOULD ALSO BE THE VIEW OF THE AUSTRIAN PEOPLE IF THE WATERS GOT ROUGH), AND HIS AIM IN MOSCOW WILL BE TO TRY TO ESTABLISH THE TERMS ON WHICH THE SOVIET UNION MIGHT BE PREPARED TO ACQUIESCE ANY AUSTRIAN ACCESSION. THAT WILL NOT NECESSARILY BE HELPFUL TO AUSTRIA'S PROSPECTS WITH THE

COMMUNITY ITSELF.

6. WALDHEIM REMAINS A CHRONIC PROBLEM FOR VRANITZKY, BUT ONE WHICH HE RECOGNISES IS NOT SUSCEPTIBLE TO DIRECT ACTION. WALDHEIM HIMSELF APPEARS NOW TO BELIEVE THAT THE WORST IS OVER, AND TO BE DETERMINED TO SOLDIER ON. BUT IN REALITY THINGS ARE GETTING NO BETTER, AND HE REPRESENTS A MAJOR NEGATIVE FACTOR IN THE AUSTRIAN GOVERNMENT'S RELATIONS WITH THOSE WESTERN COUNTRIES TO WHICH IT ATTACHES MOST IMPORTANCE. THE FACT THAT WESTERN HEADS OF GOVERNMENT WILL NOT COME TO VIENNA TO SEE VRANITZKY IS ONLY ONE ASPECT OF THE PROBLEM. VRANITZKY WOULD CERTAINLY DO ANYTHING HE COULD TO FACILITATE WALDHEIM'S RESIGNATION, EG BY OFFERING A CLEAR RUN TO A PEOPLE'S PARTY SUCCESSOR. BUT WHILST THE MAJORITY OF AUSTRIANS WOULD CERTAINLY NOW HEAVE A SIGH OF RELIEF IF WALDHEIM WENT, THERE IS STILL NOT A MAJORITY IN FAVOUR OF DELIBERATE ACTION TO MAKE HIM GO.

7. FINALLY, A WORD ABOUT MOCK. HE APPEARS TO BE ASSERTING HIS POSITION AS VICE CHANCELLOR RATHER BETTER, AND HE EARNS PRAISE FOR HARD WORK. HE HAS STOPPED DEFENDING WALDHEIM IN ANY WAY. WITHIN THE PEOPLE'S PARTY, HOWEVER, HE IS REGARDED AS A POLITICAL LIABILITY RATHER THAN AN ASSET - IN MARKED CONTRAST TO VRANITZKY, WITHOUT WHOSE PERSONAL IMAGE THE SOCIALIST PARTY WOULD LOOK GREY AND FADED. (A RECENT OPINION POLL SHOWED THAT 62 PERCENT OF VOTERS WOULD VOTE FOR VRANITZKY AS CHANCELLOR, AS AGAINST 17 PERCENT FOR MOCK). THERE IS, HOWEVER, NO NATURAL SUCCESSOR TO MOCK IN SIGHT.

O'NEILL

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30.11.08
8817

CONFIDENTIAL



*Mrs. Gaisman
for info.*

*Charles
Arranged for
1700 on 4 July*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 June 1988

Dear Lyn,

VISIT BY CHANCELLOR VRANITZKY

The Prime Minister has seen a copy of Vienna telegram number 134 about the visit of Chancellor Vranitzky on 4 July. She is ready in principle to see him subject to our being able to find a space in the diary. You may like to ask Sandra Phillips to telephone Tessa Gaisman to see what can be done.

*Yours sincerely,
Chris Powell*

(C.D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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dg

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114672
MDHIAN 2546

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TO DESKBY 090800Z F C O
TELNO 134
OF 081711Z JUNE 88

*will do
if possible*

PRIVATE VISIT BY CHANCELLOR VRANITZKY TO LONDON

SUMMARY

1. CHANCELLOR VRANITZKY WILL BE IN LONDON ON A PRIVATE VISIT ON 4 JULY AND WOULD LIKE TO CALL ON THE PRIME MINISTER. HE WOULD ALSO HOPE TO SEE THE LEADER OF THE OPPOSITION.

DETAIL

2. CHANCELLOR VRANITZKY ASKED ME TO CALL THIS AFTERNOON. HE SAID THAT HIS SON IS MOVING TO LONDON TO WORK THERE FOR A FEW MONTHS AND HE WILL ACCOMPANY HIM, TO HELP HIM SETTLE IN. HE WILL BE IN LONDON QUITE PRIVATELY FOR TWO OR THREE DAYS AT THE BEGINNING OF JULY. HE RECALLED WITH GREAT PLEASURE THE TWO MEETINGS HE HAD HAD WITH THE PRIME MINISTER WHEN HE WAS MINISTER OF FINANCE, ON THE OCCASION OF HER SUMMER HOLIDAY VISITS TO AUSTRIA, AND HE WOULD VERY MUCH WELCOME IT IF SHE COULD RECEIVE HIM FOR AN ENTIRELY PRIVATE, COURTESY CALL ON 4 JULY, BEFORE HE RETURNS TO VIENNA THAT EVENING. THE CHANCELLOR SAID HE WOULD ALSO HOPE TO BE ABLE TO PAY A CALL ON MR KINNOCK.

3. VRANITZKY, WHO SAW ME ALONE, ASKED IF I WOULD ENQUIRE WHETHER THE PRIME MINISTER COULD SEE HIM ON THAT DAY, AND THAT I SHOULD TELEPHONE HIM PERSONALLY WITH THE ANSWER. HE SAID HE HAD NOT BROUGHT THE FOREIGN MINISTRY OR THE AUSTRIAN EMBASSY IN LONDON INTO THE MATTER. IN THAT WAY, IF THE PRIME MINISTER WAS UNABLE TO SEE HIM, NO-ONE NEED KNOW OF HIS ENQUIRY: BUT HE VERY MUCH HOPED THAT SHE WOULD BE ABLE TO RECEIVE HIM.

4. I RECOMMEND THAT, IF THE PRIME MINISTER'S OTHER ENGAGEMENTS PERMIT, SHE SHOULD CONSIDER SEEING VRANITZKY WHILST HE IS IN LONDON. HE HAS VERY RECENTLY CONSOLIDATED HIS POLITICAL POSITION BY BECOMING CHAIRMAN OF THE SOCIALIST PARTY AS WELL AS FEDERAL CHANCELLOR, AND BARRING ACCIDENTS HE IS NOW SET FAIR TO BE THE DOMINANT FIGURE IN AUSTRIAN POLITICS FOR THE FORESEEABLE FUTURE. HE HAS ECLIPSED ALL HIS RIVALS IN THE SOCIALIST PARTY, AND THERE IS NO-ONE IN THE PEOPLE'S PARTY OF COMPARABLE STATURE. VRANITZKY IS ALSO, AND NOT ONLY BY AUSTRIAN STANDARDS, AN OUTSTANDINGLY SAFE PAIR OF HANDS. HE IS CARRYING OUT QUIETLY BUT FIRMLY LONG OVERDUE REFORMS, INCLUDING

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PRIVATISATION AND SOME PRUNING OF GOVERNMENT SOCIAL EXPENDITURE, WHICH ARE IN FACT LARGELY THE PROGRAMME OF HIS COALITION PARTNERS, THE PEOPLE'S PARTY. HE IS PURSUING A CAUTIOUS AND PRAGMATIC LINE ON AN AUSTRIAN APPLICATION TO JOIN THE EC, AND HE HAS MADE UNMISTAKEABLY PLAIN HIS DISTASTE FOR PRESIDENT WALDHEIM, WHILST ALWAYS REMAINING WITHIN THE BOUNDS OF CONSTITUTIONAL PROPRIETY.

5. VRANITZKY HAS ALREADY VISITED BONN AND PARIS, AND HE HAS ALSO HAD PRIVATE MEETINGS WITH CHANCELLOR KOHL IN AUSTRIA. HE IS TO VISIT THE SOVIET UNION IN THE AUTUMN. HE UNDERSTANDS VERY WELL THAT NO WESTERN EUROPEAN HEAD OF GOVERNMENT WILL COME TO VIENNA IN PRESENT CIRCUMSTANCES. THE OCCASION OF HIS VISIT TO LONDON ON FAMILY BUSINESS OFFERS THE POSSIBILITY OF HIS SEEING THE PRIME MINISTER WITHOUT THIS APPEARING TO BE AN OFFICIAL VISIT, OR TO CUT IN ANY WAY ACROSS VICE CHANCELLOR MOCK'S POSTPONED VISIT.

6. I SHOULD BE GRATEFUL TO KNOW HOW I SHOULD REPLY TO VRANITZKY.

O'NEILL

YYYY

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8 April 1982

POSSIBLE CALL BY DR. KREISKY ON THE PRIME
MINISTER

Thank you for your letter of 6 April.
The Prime Minister agrees to see
Dr. Kreisky if he comes to London.

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

6 April 1982

Dear John, *Yes* Prime Minister Agree to receive Dr. Kreisky if he comes on a private visit. *M 6/4.*

Possible Call by Dr Kreisky on the Prime Minister

I am writing to ask whether the Prime Minister would in principle be prepared to receive the Austrian Chancellor in the event of his paying a private visit to the UK.

In his minute to the Prime Minister of 18 March on his return from Austria, the Secretary of State for Trade said that he was sure that the Austrian Government would be delighted were the Prime Minister to pay an official visit there. As you know, Dr Kreisky issued an invitation to the Prime Minister when he called on her on his visit in 1980. It would indeed be much appreciated if the Prime Minister could find time to accept this invitation, but frankly we could not advance strong reasons for her doing so on foreign policy grounds.

When the Austrian Ambassador called at the FCO recently, the question of a possible visit to the UK by Dr Kreisky came up. Dr Thomas said that Dr Kreisky was not well at the moment, but that he had enjoyed his periodic visits to Britain. He hinted that Dr Kreisky might like to come again. When, during his call on Dr Kreisky on 1 March, HM Ambassador Vienna expressed regret at the diary problems which made it so difficult to bring the two Heads of Government together, Dr Kreisky left him with the vague impression that there was not a great deal of time left in which to resolve these problems. The implication was that Dr Kreisky might not see himself as taking an active part in Government affairs for very much longer.

Since Dr Kreisky's invitation to the Prime Minister to visit Austria is still on the table, we think it would be inappropriate for her now to extend an official invitation to him to visit this country. However, in view of the Austrian Ambassador's remarks, it could be that Dr Kreisky wants to pay a visit to the UK and is hoping for an indication that the Prime Minister will see him when he does before committing himself.

/Dr Kreisky's



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Dr Kreisky's health has been giving serious cause for concern for some time now and it is uncertain whether he will stand for re-election in 1983. He is still a statesman of European standing. Under him Austria has enjoyed great political and economic stability. He also appears to set considerable store by his close relations with HMG. The Secretary of State sees advantage in fostering the relationship. If the Prime Minister would be prepared to see him in the event of his coming to London, we would propose to inform the Austrians fairly soon, before Dr Kreisky's state of health makes it difficult for him to consider foreign journeys.

Yours ever,

A handwritten signature in dark ink, appearing to read 'Francis Richards', written in a cursive style.

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

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Amma

18 September 1980

Call by Chancellor Kreisky

I enclose a record of the conversation between the Prime Minister and Chancellor Kreisky of Austria which took place here yesterday.

MICHAEL ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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cc Master set.

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND CHANCELLOR
KREISKY OF AUSTRIA ON WEDNESDAY, 17 SEPTEMBER, 1980 AT 1100

Present:

Prime Minister

Chancellor Kreisky

Mr. M.O'D.B. Alexander

Dr. Lennkh

Dr. Heinrich Gleissner

Middle East

Item copied to Middle East Pt 5. Situation

In response to a question from the Prime Minister, Chancellor Kreisky said that the situation in the Middle East remained very serious. He did not believe that there was any real chance of a solution so long as the present Israeli Government remained in office - which might be for anything up to a year. He expected Mr. Begin to continue his present "policy of provocation", and to attempt to create more faits accomplis. The Prime Minister commented that she doubted whether Mr. Begin would, in the event, move his office to East Jerusalem. Chancellor Kreisky considered that Mr. Begin was likely to set up a shadow office. He liked to appear to be pursuing tough policies. It was, however, doubtful whether he was a really tough Prime Minister. It would be more accurate to say that he was the prisoner of his prejudices. The Prime Minister, recalling her conversation with Mr. Begin in London last year, agreed.

The Prime Minister asked whether Chancellor Kreisky considered that a new Government in Israel would be likely to take a materially different view from the present Government. Chancellor Kreisky said that although he and Mr. Peres were old friends, he was inclined to be sceptical about the Israeli Labour Party's leader. He was a very tricky man. Nonetheless, Mr. Peres had twice sent close collaborators of his to Vienna to discuss with the Chancellor the Labour Party's plans. The most recent emissary had been in Vienna the previous day. The Labour Party's blueprint had three parts:-

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- (a) A new Labour Government would declare as soon as it took office that there would be a halt in the construction of all settlements in the occupied territories, and that the future of at least some of the recently established settlements would be open to discussion;
- (b) The new Government would declare its readiness to return the West Bank to Jordan, except for "some small rectifications". (Mr. Peres seemed to envisage the return of 85% of the West Bank, and the retention, for security purposes, of 15%.)
- (c) In the event that King Hussein refused to negotiate on the basis of (a) and (b) above, the new Government would give full autonomy to the West Bank for 5 years, and announce its intention to discuss the future of the West Bank at the end of that period.

Chancellor Kreisky said that while this programme seemed plausible, he was inclined to fear a trick. Since the meeting in Rabat, Jordan had had no right to negotiate about the West Bank. Only the PLO had this right. ^{King} Hussein would therefore have to refuse to negotiate, and the option at (c) above would be implemented.

The Prime Minister said that she herself had the feeling that Arafat might be prepared to accept a solution involving the incorporation of the West Bank in Jordan. Chancellor Kreisky said that it was difficult to know what the position of the PLO was. They did not discuss these matters in a balanced way. But it seemed to him that Arafat was saying: "We want the West Bank and the Palestinians as the basis for a Palestinian State. Once this requirement has been met, we would be prepared to discuss

/ Federation:

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- 3 -

Federation with Jordan:". Mr. Peres, on the other hand, was saying: "We will never accept an independent Palestinian State. But we would be prepared to envisage a Jordanian Palestinian State. We want King Hussein to have overall responsibility because we trust him and his army. Within a federated state, the Palestinians can build up their own autonomous entity with a flag if they so wish." If both sides were speaking the truth it should be possible to bridge the gap in their positions. The possibility would have to be investigated in exploratory talks. If both sides wanted a solution (and Chancellor Kreisky made it clear that he was not confident of this) then a solution could be found.

The Prime Minister expressed some doubt as to whether, if Arafat succeeded in establishing an independent state, he would ever agree to federation with Jordan. However, there was a prior question as to whether a Palestinian state would be viable. Chancellor Kreisky said that Prince Fahd had made it clear to him that the viability of a Palestinian state would not be a problem. The Arabs would guarantee to support such a state. It would be easier for the Saudis to give the necessary subventions than it was for the United States to support Israel. Chancellor Kreisky said that his personal view was that there would be a federated state because Jordan was already a Palestinian state. The people who ran Jordan were Palestinians and Muslim Cherkassians. The Palestinian majority in Jordan would demand federation. A bigger question was perhaps whether King Hussein would be eager to go along with this. Reverting to the Prime Minister's original question, Chancellor Kreisky said that no-one could be sure that a new Government in Israel would bring a solution closer, but at least there would be a changed situation and a better chance of progress.

Chancellor Kreisky added that a change in Government would be very good for President Sadat. He would once again have a partner with whom to negotiate. Recalling her recent

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/conversation

CONFIDENTIAL

- 4 -

conversation with Vice-President Mubarak, the Prime Minister said that the Egyptians appeared to believe that a gesture on East Jerusalem would be more important than progress on the West Bank and easier for the Israelis to make. The Prime Minister said that in her view a gesture on Jerusalem would be impossible for the Israeli Government at present. Chancellor Kreisky said that Mr. Begin would give up neither East Jerusalem nor the West Bank. The Egyptians had always shown bad judgement both about Israeli attitudes and about the attitude of the rest of the Arab world. Nonetheless, it remained the case that President Sadat was perhaps the most remarkable practical politician of the second half of the 20th century. The Prime Minister observed that President Sadat had been very generous to both Mr. Begin and to President Carter, but did not seem to be getting a proper return for his generosity, particularly from the Israelis. Chancellor Kreisky agreed but added that there were limits to the amount of pressure which could be effectively exerted on Israel. Such pressure was liable to make Mr. Begin more rather than less stubborn. There were also objective limits to the degree of pressure which could be exerted. The Israeli army was the best and most experienced in the region. It was also a pro-western force which it would be impossible to replace. Probably the only effective external pressure would be from the Jewish community outside Israel. It was clear that they disapproved of the present Government's settlements policy and would favour a change of Government. The Prime Minister agreed that this was the attitude of the Jewish community in Britain.

The Prime Minister asked how Chancellor Kreisky saw the situation in Lebanon and Syria. Chancellor Kreisky said that there could be no solution in Lebanon unless the Palestinian problem had first been resolved. As for Syria, it was now a de facto satellite of the Soviet Union. Although President Asad was a considerable figure, he was facing great difficulties and had allowed the Soviet Union to dictate to him. His Foreign Minister was a fellow traveller. It was impossible to foresee how the internal crisis in Syria would be resolved. The possibility that events would follow the pattern of Iran could not be excluded.

/ As regards

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As regards Iran itself, the revolution continued. For the moment it was taking the form of a fight between the moderates represented by President Bani Sadr and his supporters on the one hand and "a lot of mad clergymen" on the other. Chancellor Kreisky said that visiting Beheshti was like what a visit to Robespierre must have been. Beheshti was smiling, shrewd, energetic and intelligent. But he reminded one of Stalin. He gave an impression of total indifference to cruelty. He seemed to be in no hurry to resolve the hostage issue. The policy of the Mullahs was leading to economic collapse. President Bani Sadr had succeeded in placing a number of able people in key posts in the economy but many of them now seemed unable to act. Chancellor Kreisky said he had recently met the new oil Minister, a man who in normal circumstances "wouldn't be allowed to drive a taxi". Once Khomeini left the scene there was a real likelihood of a full scale civil war. At one stage President Bani Sadr might have hoped to have the army on his side in such a situation but now his control of the armed forces was being undermined. President Bani Sadr's current efforts to mobilise the support of those who had fought against the Shah represented his last appeal.

"North/South dialogue"

*Here copied to
from the 10/79
The Brandt
Commission
Reports for
N/S dialogue*

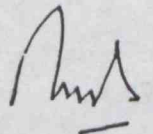
The Prime Minister said that she would be grateful to hear Chancellor Kreisky's views on the North/South dialogue. She herself thought that the phrase was a thoroughly misleading one. It epitomised the tendency to use jargon which did not match the facts. The problems being dealt with in the "dialogue" were of great importance and had to be tackled. But so long as the basic analysis was wrong, corrective action would be inhibited. Those who were at present worst off were not getting as much help as they should. Too much of the aid effort at present went to aiding the better off. Much of the United Kingdom's most effective aid was bilateral but we were being forced to channel more and more of our effort through multilateral agencies. More account had to be taken of the fact that we were not dealing with rich countries on the one hand and poor countries on the other: there was a spectrum of wealth and the position of countries on that spectrum did not necessarily match their geographical position.

Chancellor Kreisky said that he shared the Prime Minister's view that the "North/South dialogue" was an inadequate description. It had been invented by Dr. Kissinger as a way of getting discussion under way. But it had to be recognised that countries like Saudi Arabia would never leave the Group of 77. They wanted to be part of the non-aligned world since they saw it as a way of getting support for their regime. In Chancellor Kreisky's view their hope was misplaced. But it was deeply rooted. The danger of this sort of attitude was, of course, that while the OPEC countries were willing to increase their aid to the developing countries very substantially, they were at present reluctant to co-operate with the West in doing so. This would mean that their money would not get spent effectively. He and the President of Mexico hoped that a "broadminded^{and}/informal" discussion among 25 leading Heads of Governments might help in tackling this and related problems. The Prime Minister said that in her experience the difficulty with meetings of the kind envisaged by Chancellor Kreisky was that those attending felt forced to take up public positions. They would not repeat in a multilateral forum things which they would say in bilateral discussions. They were, inevitably, preoccupied with the danger of leaks. Chancellor Kreisky acknowledged the problem but said that a moment of truth was bound to come. Before long people would be forced to speak their minds.

Bilateral relations

Chancellor Kreisky repeated his invitation to the Prime Minister to pay an early visit to Vienna. The Prime Minister said that a visit to Austria would give her the greatest possible pleasure. She would do her best to take up Chancellor Kreisky's invitation at an early date. Unfortunately her programme was already very full.

The conversation ended at 1200.



Austria



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

You will wish to note the
point about a possible visit

12 September 1980

to Austria (I suspect that the Chancellor would like you to
open the 'Opera Ball' - which is usually held in February (I think).)

Dear Michael,

Aust-16/3

VISIT BY CHANCELLOR KREISKY OF AUSTRIA : 17-18 SEPTEMBER 1980

As requested, I enclose two sets of the briefs which have been prepared for Lord Carrington's meeting with Chancellor Kreisky on 17 September. The Prime Minister may wish to draw on these when the Chancellor calls on her at 11.00am.

The brief on UK/Austrian relations refers to the open invitation extended by the Chancellor to the Prime Minister and accepted by Mrs Thatcher in principle. Since Chancellor Kreisky is likely to renew the invitation when he calls on her, the Prime Minister may like to be reminded of the background. Dr Kreisky originally made the suggestion when HM Ambassador at Vienna's predecessor paid his farewell call in July 1979. When Mr Gordon paid his introductory call on the Chancellor in September 1979 he told the latter on instructions that the Prime Minister was very grateful for the invitation and that she hoped to be able to consider a visit to Vienna when her future programme was clearer. This remains the position and a visit to Austria does not figure in the Prime Minister's forward programme of overseas visits.

In view of Dr Kreisky's personal standing, particularly with regard to Middle Eastern and North/South affairs, and the useful contacts Lord Carrington has had with him this year, the Lord Privy Seal considers that it would be beneficial if the Prime Minister

/could

M O'D B Alexander Esq
10 Downing Street



could see her way to visiting Austria in the reasonably near future, perhaps in conjunction with another visit. However, given the relative unimportance of Austria to overall UK interests, he would not wish to press the case.

*Yours ever,
S J Gomersall.*

S J Gomersall
Private Secretary to the
Lord Privy Seal

VISIT BY CHANCELLOR KREISKY OF AUSTRIA: 17-18 SEPTEMBER 1980

- A Middle East/Iran
- B North/South
- C Poland
- D East-West Relations/Afghanistan
- E Background brief on UK/Austrian Relations
and Austria Internal
- F Personality Note on Chancellor Kreisky and
Guest List for the lunch to be given by the
Secretary of State

A

VISIT BY CHANCELLOR KREISKY OF AUSTRIA: 17-18 SEPTEMBER 1980

MIDDLE EAST

POINTS TO MAKE

Arab/Israel

1. Nine committed to Venice principles. They satisfy neither side entirely, but must work to gain acceptance of a balanced approach.
2. Thorn mission useful in demonstrating Nine's concern, keeping anti-Sadat Arabs in play and establishing a dialogue with the PLO. Nine now looking at how to follow it up. Want to make a concrete contribution, but cannot put forward detailed blueprints at this stage.
3. Looking to period of new US and Israeli Administrations. Labour party 'Jordanian option' insufficient, but could it be combined with Arab desire for a settlement to offer a way forward? Might the PLO be prepared to allow Jordan to negotiate with the Israelis on their behalf for the return of territory?
4. Grateful for Kreisky's help with Arafat after Fatah Congress. But PLO have not yet got the message about the damage their public intransigence can do. They must reciprocate European flexibility.

IRAN

US/Iran

5. Little change on hostage issue.

UK/Iran

6. Diplomatic relations with Iran have deteriorated. Have temporarily withdrawn our representation, but no break in relations.

VISIT BY CHANCELLOR KREISKY OF AUSTRIA: 17-18 SEPTEMBER 1980

MIDDLE EAST

ESSENTIAL FACTS

Arab/Israel

1. Chancellor Kreisky is in Britain to attend the Wilton Park Conference on the Middle East which he will be addressing himself.
2. The Secretary of State saw the Chancellor on 16 May shortly before the Venice meeting (Vienna telno 168 attached). The Chancellor subsequently publicly welcomed the Venice statement, although in private he was inclined to take the view that it was too little, too late. He has continued to take a considerable interest in Middle East affairs; the expelled mayors of Hebron and Halhul visited Vienna in June at his personal invitation and provided the opportunity for some strong criticism by the Chancellor of Mr Begin.
3. The Chancellor's relationship with the PLO, Arafat in particular, continues to be close, both in his personal capacity and as a representative of Socialist International. However he was disappointed with the Fatah Congress statements. (At one stage he appeared sufficiently disenchanted to talk about the need for other Palestinian elements, in particular the West Bank mayors, to be brought into the process. This was at variance with the Austrian acceptance of the PLO as the representative of the Palestinians and the accordance of diplomatic status to the PLO man in Vienna.) As a result of the Secretary of State's message after the Venice statement (attached), he wrote to Arafat, as he told the Secretary of State in his reply (also attached).

/4. The

4. The Chancellor's links with the Israelis Labour Party remain good. He has been invited to attend their Party Conference later this year. He continues to have great hopes of Peres. The Secretary of State may wish to explore with the Chancellor the possibility of influencing Peres (who is due to visit this country shortly) towards a position flexible enough to be attractive to Jordan and the Palestinians (by holding out a real prospect of recovering territory without having to accept Israeli sovereignty over any part of the occupied territories).

IRAN

US/Iran

5. EC Heads of Mission in Iran recently made representations to the speaker of the Majles and President Bani Sadr. The tone of Prime Minister Rejaie's recent address on hostages points to little favourable consideration of the hostage question.

Iran/Internal

6. Faction fighting continues. Recent assault on Bani Sadr's position by Prime Minister Rejaie, backed by the Islamic Republican Party, over choice of a Cabinet. Bani Sadr was able to re-assert some of his authority in the selection of the Cabinet list when Khomeini came out with a statement of support for him. But the battle is not yet over.

7. Iranians have been forced to consider an emergency budget to supplement their normal annual budget. But difficult to know how far economic problems are leading to popular antipathy towards the clergy.

/UK/Iran

UK/Iran

8. Hostile propaganda and public attacks on the UK have increased in recent weeks. The UK is now regarded as a major target and scapegoat for the regime. We have temporarily withdrawn our representation in Tehran and closed the Embassy. This is not a break in diplomatic relations. We hope to re-open the Embassy whenever possible. Meanwhile HM Consul will look after our residual affairs with the Iranian authorities, from a 'British Interests Section' in the Swedish Embassy.

MIDDLE EAST DEPARTMENT

11 September 1980

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21 MAY 1980

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FOLLOWING FROM PRIVATE SECRETARY

1. THE SECRETARY OF STATE SAW DR KREISKY AGAIN PRIVATELY THIS AFTERNOON, AT THE CHANCELLOR'S REQUEST, TO TALK ABOUT ARAB/ISRAEL. KREISKY WAS AFRAID THAT THE LACK OF A WESTERN RESPONSE TO THE PLO WOULD DRIVE THEM TOWARDS THE COMMUNIST CAMP. THERE WAS NOT THE SLIGHTEST CHANCE THAT BEGIN WOULD WORK FOR A SETTLEMENT. IN THESE CIRCUMSTANCES THE PLO WOULD MOVE TOWARDS RADICALISATION. A NUMBER OF WEST BANK MAYORS HAD ALREADY SHARED THEIR CONCERNS WITH HIM ABOUT THE DEVELOPMENT OF ISLAMIC FUNDAMENTALISM. ARAFAT'S POSITION WAS GETTING MORE DIFFICULT, AS WELL AS SADAT'S. ARAFAT WAS AN HONEST AND INTELLIGENT MAN. HE KNEW FROM DISCUSSIONS WITH HIM THAT EVERYTHING WAS NEGOTIABLE, PROVIDED A PALESTINIAN STATE WAS CONCEDED. SOME KIND OF RECOGNITION OF THE PLO'S ULTIMATE OBJECTIVES WAS NEEDED, AND THE NINE SHOULD DO THIS AFTER 26 MAY.
2. LORD CARRINGTON SAID THAT THE PROBLEM WAS NOT SOLUBLE WITHOUT THE AMERICANS. BOTH MONDALE AND MUSKIE WERE PRO-ISRAELI: THE PRESIDENT HAD BEEN DEFEATED IN A NEW YORK PRIMARY: AND THE ELECTION WOULD PARALYSE AMERICAN POLICY AT LEAST UNTIL NOVEMBER. THE AMERICANS WOULD THEREFORE TRY TO ENSURE THAT 26 MAY WAS NOT THE END OF THE CAMP DAVID PROCESS. HOWEVER HE AGREED WITH THE CHANCELLOR'S ANALYSIS. AFGHANISTAN AND IRAN HAD HIGHLIGHTED THE PROBLEM, IN THAT THE ARABS TENDED TO EQUATE THE SOVIET INVASION WITH ISRAELI OCCUPATION ARABS LANDS. TENSIONS WERE BOILING UP, AND THE ONLY PEOPLE WHO COULD ACT WERE THE NINE. THE QUESTION WAS WHAT SHOULD BE DONE. A SUPPLEMENTARY RESOLUTION TO 242, HOWEVER EVEN-HANDED, MIGHT BE VETCED BY THE AMERICANS. BUT THE ARABS COULD USE A EUROPEAN DECLARATION MADE OUTSIDE THE UN AS A BASIS FOR THEIR OWN RESOLUTION, WHICH THE EUROPEANS WOULD BE BOUND TO SUPPORT. WE WERE CONSIDERING OTHER IDEAS INVOLVING NEGOTIATIONS INCLUDING THE PLO, THE JORDANIANS, THE EGYPTIANS ETC: OR THROUGH EMISSARIES, EITHER NATIONAL OR USING THE PRESIDENCY OF THE COMMUNITY.
3. DR KREISKY SAID THAT AMERICAN POLICY WAS DISHONEST, SINCE THEY WERE PREPARED TO DEAL WITH THE PLO OVER IRAN. ON POSSIBLE EUROPEAN ACTION, WE SHOULD NOT FORGET THAT THE PLO WERE STILL AN UNDERGROUND ORGANISATION, FOR WHOM ANY SUPPORT HOWEVER DECLARATORY MEANT A LOT. THEY WOULD SAY THAT WHATEVER

CONFIDENTIAL

/ WE SAID DID

CONFIDENTIAL

WE SAID DID NOT GO FAR ENOUGH. BUT THEY GENUINELY WANTED TO COLLABORATE WITH THE WEST. THREE ELEMENTS IN A EUROPEAN DECLARATION COULD BE:

- (A) RECOGNITION OF THE LEGITIMATE RIGHTS OF THE PALESTINIAN PEOPLE.
- (B) SELF-DETERMINATION:
- (C) A REFERENCE TO THE NEED FOR NEGOTIATIONS WITH THE (LAST WORD UNDERLINE) REPRESENTATIVES OF THE PALESTINIAN PEOPLE.

4. LORD CARRINGTON SAID THAT THE ACTIVITIES OF THE IRAQI, LIBYAN AND IRANIAN STUDENTS IN LONDON WERE GETTING THE ARABS A BAD NAME IN BRITISH PUBLIC OPINION. BUT IF THE NINE DECIDED BETWEEN NOW AND THE EUROPEAN SUMMIT IN VENICE THAT THEY COULD MAKE SOME SORT OF DECLARATION ON THE LINES SUGGESTED BY KREISKY; HE WOULD BE IN TOUCH WITH THE CHANCELLOR. KREISKY SAID THAT, ALTHOUGH NOT A MEDIATOR, HE COULD REACH ARAFAT WITHIN 24 HOURS AT ANY TIME. IF WE COULD GIVE HIM A NON-PAPER ON WHAT EUROPE MIGHT SAY, HE COULD OBTAIN ARAFAT'S VIEWS ON IT. LORD CARRINGTON DID NOT RESPOND TO THIS, BUT UNDERTOOK TO BE IN TOUCH WITH THE CHANCELLOR AFTER THE DISCUSSIONS IN NAPLES.

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Vienna, 14 July 1980

via A. Poland

via M. Moberly

WED

cc 24/10

PK
 JH
 28/7

Dear Lord Carrington,

I thank you for your message and I would like to tell you that I fully agree with your assessment of the effect the recent decisions of the Fatah in Damascus have had and will yet have. I have passed on the mainpoints of your opinion to my Palestinian contacts and I am confident that they will be taken into consideration at the highest level.

In trying to assess the present situation, I thought that it might be useful to share some recent information with you which comes from one of our envoys in the area.

According to this information, one of the highest ranking moderate members of the PLO has offered the following opinion on the Venice-statement of the Nine:

Europe should recognize the PLO as the only legitimate representative (of the Palestinian people). The PLO is not a party, it encompasses right and left and it constitutes for the time being the Palestinian state or the Palestinian entity, and the only one at that. Neither Carter nor Sadat nor Begin have up to now succeeded in alienating the Palestinians from the PLO or in persuading them to follow an independent course of policy.

Europe has to state clearly that Camp David has failed.

The Right Honourable
 The Lord CARRINGTON
 Minister for Foreign and Commonwealth Affairs

Foreign and Commonwealth Office
 Downing Street
 London

Peace must be comprehensive and all parties, including the PLO, must participate in the negotiations. One cannot - as it is the case with Camp David - decide about the Palestinians behind their backs.

The PLO should participate and not "be associated" as in point 7 of the European communique. This difference is of great significance; why else would one have discussed this point for many hours in Venice and discarded the expression "participate" proposed by France because of British resistance. With reference to Jerusalem, the declaration is too vague. The role of France and of the Federal Republic of Germany is considered as encouraging, the role of Great Britain and of Denmark as disappointing.

The Palestinians continue to stand for the withdrawal of Israel from the occupied territories and the creation of a Palestinian state on the Westbank and in Gaza.

It was added that the Fatah-resolution of Damascus referred solely to the distruction of Zionism and not to the destruction of Israel.

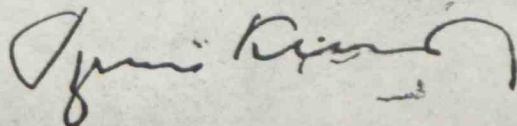
According to a member of the Fatah who had participated in the congress in Damascus, the radical line shown there did in no way correspond to the real sentiments of the majority.

In another context, we were told that the PLO did not consider the Austrian Middle-East policy as pro-Arab but simply as realistic since it would, in the long run, envisage the best solution, also for Israel.

Before ending, I would like to draw your attention to the enclosed copy of a letter to Secretary of State Muskie concerning the three Palestinian notables expelled from the Westbank, and which is self-explanatory.

Hoping that the meeting with you this summer will materialize I remain with my best wishes.

Yours sincerely



TOP SECRET

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TO IMMEDIATE VIENNA

TELEGRAM NUMBER 161

EUROPEAN COUNCIL: MIDDLE EAST

1. PLEASE PASS THE FOLLOWING MESSAGE FROM ME TO CHANCELLOR KREISKY. WE WILL NOT RELEASE THE TEXT OF THE MESSAGE BUT WILL CONFIRM ONE HAS BEEN SENT IF ASKED:

QUOTE DEAR CHANCELLOR, I WAS PLEASED TO HEAR, FOLLOWING OUR RECENT TALKS WHICH WERE MOST TIMELY AND HELPFUL IN OUR PREPARATIONS FOR THE VENICE SUMMIT, THAT YOU HAD FELT ABLE TO WELCOME THE STATEMENT ON THE MIDDLE EAST ISSUED BY THE EUROPEAN COUNCIL IN VENICE. OTHER REACTIONS HAVE BEEN PREDICTABLY MIXED BUT I AM HOPEFUL THAT IT WILL TURN OUT TO BE A CONSTRUCTIVE CONTRIBUTION TO PEACE EFFORTS. PARAGRAPH. WE ATTACH CONSIDERABLE IMPORTANCE TO THE CONTACTS WITH THE CONCERNED PARTIES WHICH ARE FORESHADOWED IN THE STATEMENT. THEY SHOULD NOT ONLY HELP TO KEEP UP MOMENTUM BUT ARE INTENDED TO EXPLORE IN DEPTHS HOW ISRAELI AND PALESTINIAN VIEWS MIGHT BE RECONCILED. I HOPE WE SHALL BE ABLE TO OBTAIN SOME HELPFUL ANSWERS FROM THE PLO, BUT THEIR INITIAL REACTIONS ARE DISCOURAGING. INTRANSIGENT STATEMENTS SUCH AS THOSE CONTAINED IN THE RECENT FATAH CONGRESS DOCUMENT AND PUBLIC ANNOUNCEMENTS IN RESPONSE TO THE NINE'S STATEMENT ARE VERY DAMAGING TO THE CHANCES OF PEACE AND THE PALESTINIANS' OWN PROSPECTS OF FULFILLING THEIR ASPIRATIONS. I HOPE YOU WILL BE ABLE TO USE YOUR INFLUENCE TO GET THIS POINT ACROSS TO THE PLO LEADERSHIP. PARAGRAPH. LET US CONTINUE TO WORK TOGETHER. YOURS SINCERELY,

PETER CARRINGTON

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VISIT BY CHANCELLOR KREISKY OF AUSTRIA; 17 - 18 SEPTEMBER:
NORTH/SOUTH

POINTS TO MAKE

1. Share widespread concern about economic predicament of developing countries. World recession and rapid increases in oil prices have hit them hard.
2. Important political aspects. Many politically sensitive countries in difficulty. (eg Turkey, Yugoslavia, Jamaica, Zambia).
3. Important to encourage recycling of oil surplus funds, and private investment flows to developing countries. Need for aid, especially to poorest, remains.
4. Must all encourage oil producing countries to take their share of financing burden they largely created.
5. Special Session ended satisfactorily. However, vigilance important to ensure that Global Negotiations do not decide matters within competence of IMF and IBRD and other Specialised Agencies.
6. What news of North/South Summit? Mexicans told Foreign and Commonwealth Secretary in August they were aiming for meeting in February or March. Understand invitation list causing some problems. We would be willing to attend, but we think it should be carefully prepared.

ESSENTIAL FACTS

1. Austrians are not generally prominent in international economic discussions. But Chancellor Kreisky takes a personal interest in relations with developing countries. Earlier this year in Delhi he urged the adoption of a new 'Marshall Plan' for them.
2. UN Special Session (25 August - 12 September) [agreed with difficulty] on procedures for Global Negotiations to begin in January 1981. These will cover energy, raw materials, trade, development, money and finance. West have insisted on maintaining integrity of IMF and IBRD.
3. Chancellor Kreisky has been associated with President Portillo of Mexico in initiative to launch the limited Summit meeting between representatives of developed and developing countries called for in the Brandt Report. Such a Summit would be intended to give political impetus to Global Negotiations. We have told Mexicans in reply to their inquiry that we would be willing to attend. There seem to be continuing problems over who should attend, particularly on developing country side; Cuba has asked to be invited as Chairman of Non-Aligned Movement.

Economic Relations Department
Foreign and Commonwealth Office
11 September 1980

VISIT BY CHANCELLOR KREISKY OF AUSTRIA: 17-18 SEPTEMBER 1980

POINTS TO MAKE

1. Polish crisis may yet deteriorate further and Soviet intervention cannot be excluded. New leaders probably intend to implement agreements reached with strikers, but may try to do so restrictively. They will have to convince the Russians that implementation will not threaten Poland's basic political structure. Their room for manoeuvre is very small, and there is a serious chance of further and perhaps more dangerous crises.
2. Poland's very serious economic situation will have been made still worse by the strikes and the concessions granted. There is a strong probability that Poland will look to the West for help. Will need to consider very carefully how to respond.
3. Independent trade unions and censorship changes represent a major inroad into Marxist-Leninist system. Much in Western interest that changes be consolidated. Important to continue to refrain from public comment which Russians could represent as outside interference.
4. I plan to see new Polish Foreign Minister, Mr Czyrek, in New York next week and to visit Poland on 30/31 October. News of any contacts you have with the new Polish leadership would be welcome.

Eastern European and Soviet Dept
Foreign and Commonwealth Office
11 September 1980

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VISIT BY CHANCELLOR KREISKY OF AUSTRIA: 17-18 SEPTEMBER 1980

ESSENTIAL FACTS

1. The new Polish leader, Kania, was involved in the negotiations with the strikers and has pledged that he will fulfil the agreements reached. The Russians will watch carefully to measure his success in bringing the internal situation under control - strikes are still continuing in some areas - and in implementing the agreed reforms in a way that does not undermine the supremacy of the communist party and Poland's communist system. Kania has suggested that the next plenum of the Central Committee should decide to hold a Party Congress (normally not due for nearly 5 years).
2. Poland's hard currency debt amounts to over \$20 bn and Western banks even before the recent events were showing reluctance to increase their lending. The Poles may therefore look to Western Governments to help persuade the banks to continue lending, and to be generous over export credits. The Polish Vice Minister for Foreign Affairs has told our Ambassador that Poland will not ask for Western aid but would welcome it if offered.
3. The Austrian government has been relatively liberal in its credit policy towards Poland including a recent \$300 million credit against future deliveries of coal. The Austrian 'Christian Trades Union Fraction' made a well-publicised donation of funds to the Polish strike leader, Mr Walesa, on 28 August.

Eastern European and Soviet Dept
Foreign and Commonwealth Office
11 September 1980

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VISIT BY CHANCELLOR KREISKY OF AUSTRIA: 17-18 SEPTEMBER 1980 D

BRIEF NO 4: EAST-WEST RELATIONS/AFGHANISTAN

POINTS TO MAKE

1. We must maintain a distinction between detente before and after Afghanistan. A drift back to normal would suit the Russians and ease pressure on them to withdraw. The UK will not resume the full range of contacts and will avoid those of no substance. But we intend to intensify our contacts with East European countries. British Ministers plan to visit all of them this autumn.
2. The Western approach to the Madrid CSCE meeting must be consistent with our broader objectives on East/West relations. The UK will not be unconstructive, but if the CSCE process is to retain credibility in light of Afghanistan and Soviet treatment of dissidents, West must insist on full and frank review of implementation.
3. Islamic countries are rightly in the lead in maintaining pressure over Afghanistan. The UN General Assembly should at the least pass a resolution, with support undiminished from January, calling for complete Soviet withdrawal. Pakistan is canvassing for a Conference. Without representatives of the Afghan resistance and while the Russians are unwilling to negotiate this would be ill-advised.
4. New Yugoslav leaders firmly in charge and internal situation under control. But economy going through a bad patch and necessary tough measures may strain relations between republics and provinces. We believe Russians will avoid confrontation with Yugoslavs and will try to woo them. Prime Minister will visit Yugoslavia from 24-26 September.
5. The imminent opening of US/Soviet talks on TNF arms control is welcome. But we believe the firm NATO consensus on TNF modernisation programme must be kept if the Russians are to be brought to negotiate seriously.

ESSENTIAL FACTS

1. The CSCE preparatory meeting opened in Madrid on 9 September. The main meeting opens on 11 November. Six weeks to Christmas break will be concerned with review of implementation.
2. Settlement proposals put forward by the Kabul regime on 14 May were clearly Soviet-inspired. They called for separate bilateral agreements between Afghanistan, Pakistan and Iran to end alleged outside interference, to be guaranteed by USA and other states. They carried no guarantee of Soviet withdrawal, but would confer de facto recognition of Kabul regime and retrospective legitimisation of Soviet invasion.
3. The Nine's proposals for a neutral and non-aligned Afghanistan remains on the table but Islamic countries have recently been in the lead. Islamic Conference set up three man committee (of Foreign Ministers of Iran, Pakistan and Conference Secretary-General, Habib Chatty) which met resistance leaders in Switzerland in June. Soviet and Afghan Governments have not agreed to meet the Committee and its efforts are running into the sand. The Pakistanis are now talking of a UNGA Resolution calling for a conference on Afghanistan. They do not envisage the resistance being present. That would play into Soviet hands and enhance the status of the Babrak Karmal regime. We and the Americans have tried to dissuade the Pakistanis from the conference idea but they remain set on it.
4. Yugoslavia's trade deficit in 1979 was \$7.2 billions; unemployment stands at $\frac{3}{4}$ million and inflation at 26%.
5. NATO proposed in December 1979 bilateral US/Soviet negotiations in the framework of SALT III to reach agreement on equal ceilings on US and Soviet long-range land-based theatre nuclear missiles. During Chancellor Schmidt's visit to Moscow on 30 June-1 July, the Russians offered to enter into discussions with the Americans on the question of medium-range missiles provided that American forward based systems were also included. They have made it clear that any agreement on these systems could only enter into force after SALT II agreement has been ratified.
6. The allies have welcomed this move and are rejecting Soviet accusations, made recently in letters from President Brezhnev to allied Heads of Government, that the Americans were delaying the opening of negotiations. The Americans have let it be known publicly that they hope talks can start, probably in Geneva, in early October.

VISIT BY CHANCELLOR KREISKY OF AUSTRIA: 17/18 SEPTEMBER 1980
 BRIEF NO 5: UK/AUSTRIAN RELATIONS AND THE AUSTRIAN INTERNAL SCENE
 ESSENTIAL FACTS

1. UK/Austrian relations are good and there are no current problems. The Secretary of State visited Vienna for the 25th Anniversary of the signing of the State Treaty in May. He invited the Austrian Foreign Minister to visit the UK and it was agreed that Dr Pahr would suggest dates. No dates have as yet been suggested. Chancellor Kreisky last visited the UK, briefly and only semi-officially, in July 1978. There is an invitation outstanding from Dr Kreisky to the Prime Minister to visit Austria; the Prime Minister has accepted in principle, although no dates have been fixed.

2. UK/Austrian trade was nearly balanced in 1977, but the balance moved against the UK during 1977 and 1978. This trend may be less marked this year.

<u>1978</u>	(£ million)
UK exports	240.1
UK imports	324.1
<u>1979</u>	
UK exports	259.3
UK imports	345.4
<u>January-June 1980</u>	
UK exports	145.9
UK imports	160.5 (Overseas Trade Statistics)

The UK is the only member of the Community to have a trade deficit with Austria.

AUSTRIAN INTERNAL SCENE

3. The Austrian Socialist Party led by Dr Kreisky was re-elected

/with

with a large majority in the 1979 national elections. President Birchschläger (supported by the Socialist Party) was re-elected for a second six-year term in May 1980. Austria has a low inflation rate (under 4% in 1979, but expected to rise to 5.5% in 1980) and is expected to remain more prosperous than most of her Western European neighbours (growth of GDP in 1979 was 5% and is forecast at 2.5% for 1980). Unemployment is low (a little over 2% in 1979), and relations between the Government and the trade unions are good.

4. Internal politics have recently been dominated by a scandal over the construction of a large Vienna hospital. The Vice Chancellor and Finance Minister (and Kreisky's heir apparent), Androsch, was criticised for the involvement of his private tax consultancy in the award of contracts. The Government survived a parliamentary no confidence motion, but Kreisky seemed to be about to sacrifice Androsch. However, the latter accepted a plan drawn up by Kreisky to limit Finance Ministry power and prevent private business activity by Ministers, and remained in office. Both men have lost face to a certain extent.

5. One problem for Austria in the 1980's will be energy. Following a referendum in November 1978, Austria has banned the use of atomic energy. The debate about atomic energy is not dead. The governing Socialist Party broadly favours the peaceful harnessing of nuclear energy but the opposition parties are strongly against a second referendum on the subject. Unless this decision is reversed, Austria will need to develop alternative energy sources to meet her requirements. She imports 70% of her oil, and depends heavily on Eastern Europe and the Soviet Union for gas.

AUSTRIAN FOREIGN POLICY

6. Austrian foreign policy is determined by her self-imposed neutrality. The Austrians are anxious to take full part in international diplomacy, using their good relations with both East and West. Dr Kreisky plays an active role in foreign affairs, especially in the search for a solution to the problems in the Middle East. A major Austrian concern is to develop Vienna as an international meeting place. Many major conferences already take place there and a new UN Centre (the Donaupark) was handed over to the UN in 1979. It will house several of the smaller UN agencies.


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KREISKY, DR BRUNO

Federal Chancellor since April, 1970. Leader of the Austrian Socialist Party, in succession to Dr Pittermann, since 1967.

Born Vienna 1911. 1926 joined Socialist Youth while still at school. Socialist activities continued at Vienna University. 1935 political arrest. 18 months' hard labour. 1938 arrested by Gestapo. 1939-45 exile in Stockholm. 1946-50 First Secretary, Austrian Legation Stockholm. 1951 transferred to Federal Chancellery, Vienna. 1953 appointed State Secretary for Foreign Affairs. 1956 elected to the National Assembly. 1959 Minister for Foreign Affairs. 1966 went with his party into opposition. Chairman of the Lower Austrian Socialist Party since April 1966.

It was to a large extent the SPO's poor showing in the 1966 General Elections that enabled Dr Kreisky to wrest the party leadership in the following year from Dr Pittermann. During his leadership of the party in opposition he succeeded in giving it a new public image and the party's success in the 1970 election was largely Dr Kreisky's personal achievement. Since coming to power, Dr Kreisky has revealed an arrogant and somewhat authoritarian streak in his dealings with Cabinet colleagues. But he is an astute and even cunning tactician. His success in the 1975 election left him unchallenged as leader of the SPO. The SPO's further success in 1979 was very much his personal achievement; he has become a unique political and electoral phenomenon in Austria.

He has succeeded in making himself not only a household name at home but, rare for Austria, an international figure. Active in the affairs of the Socialist International, for which he carried out fact finding visits in 1973-77 on the Arab-Israel problem. His Jewish ancestry (though he is not reticent about it) is however apt to cloud his judgement by way of over-compensation, and he is not trusted by Israel. His emotional outbursts in November 1975 against Simon Wiesenthal, Head of the Jewish Documentation Centre, were another example of this. But he remains very active in Middle East affairs, with close ties to President Sadat and to Palestinian leaders. In 1978 he arranged a meeting between Sadat and Shimon Peres near Salzburg, and in 1979 received Arafat in Vienna (together with Willy Brandt). He continues to give the Middle East a fair amount of his attention, together with North/South economic world problems.

Genuinely admires Britain and the British, but does not allow it to affect his judgement where Austrian interests are at stake.

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VISIT BY CHANCELLOR KREISKY OF AUSTRIA: 17-18 SEPTEMBER 1980

GUEST LIST FOR LUNCH TO BE GIVEN BY THE SECRETARY OF STATE

Host: The Rt Hon Lord Carrington KCMG MC

Guest of Honour: Dr Bruno Kreisky, Federal Chancellor of Austria

Dr Heinrich Gleissner, Austrian Ambassador

Mr George Walden, Private Secretary to the Secretary of State

Dr Lennkh, Private Secretary to Chancellor Kreisky

Sir Michael Palliser GCMG, Permanent Under-Secretary, FCO

The Rt Hon Peter Shore MP

Mr Anthony Sampson, Editorial Adviser to the Brandt Commission

Professor Elie Kedourie, FBA, Editor of 'Middle Eastern Studies'

Mr Anthony Kershaw, MC MP, Chairman of the Parliamentary Select
Committee on Foreign Affairs

Mr Keith Graves, Foreign News Editor, BBC

Lord Caccia GCMG GCVO, President of the Anglo-Austrian Society

Professor Rolf Dahrendorf, Director of the LSE

Mr Ian Davidson, Foreign Editor 'The Financial Times'



Foreign and Commonwealth Office

London SW1A 2AH

1. ~~CA~~ to see ~~CP.12/8~~

2. ~~MODRA~~ to see o/R

11 August 1980

I have confirmed by phone that FCO will brief as usual. MJD 11/8.

Pre check on 15 Sept.

Print

Dear Mike,

Visit by Chancellor Kreisky of Austria:
17-18 September

Chancellor Kreisky is visiting the UK on 17 September to address a Wilton Park Conference on the Middle East. He will also be having lunch and talks with the Foreign and Commonwealth Secretary. You confirmed by telephone that the Prime Minister would be happy to receive him on that day as well; and that 11.00 would be a convenient time.

Yours etc

P Lever

(P Lever)

M A Pattison Esq
10 Downing Street



Austria

10 DOWNING STREET

~~MR. ALEXANDER~~

Lehlin.

B/F 28/7

VISIT OF CHANCELLOR KREISKY

I have blocked out
10 - 11 a.m. on Wednesday
17 September for a possible
meeting with the Chancellor.

el.

27 June 1980



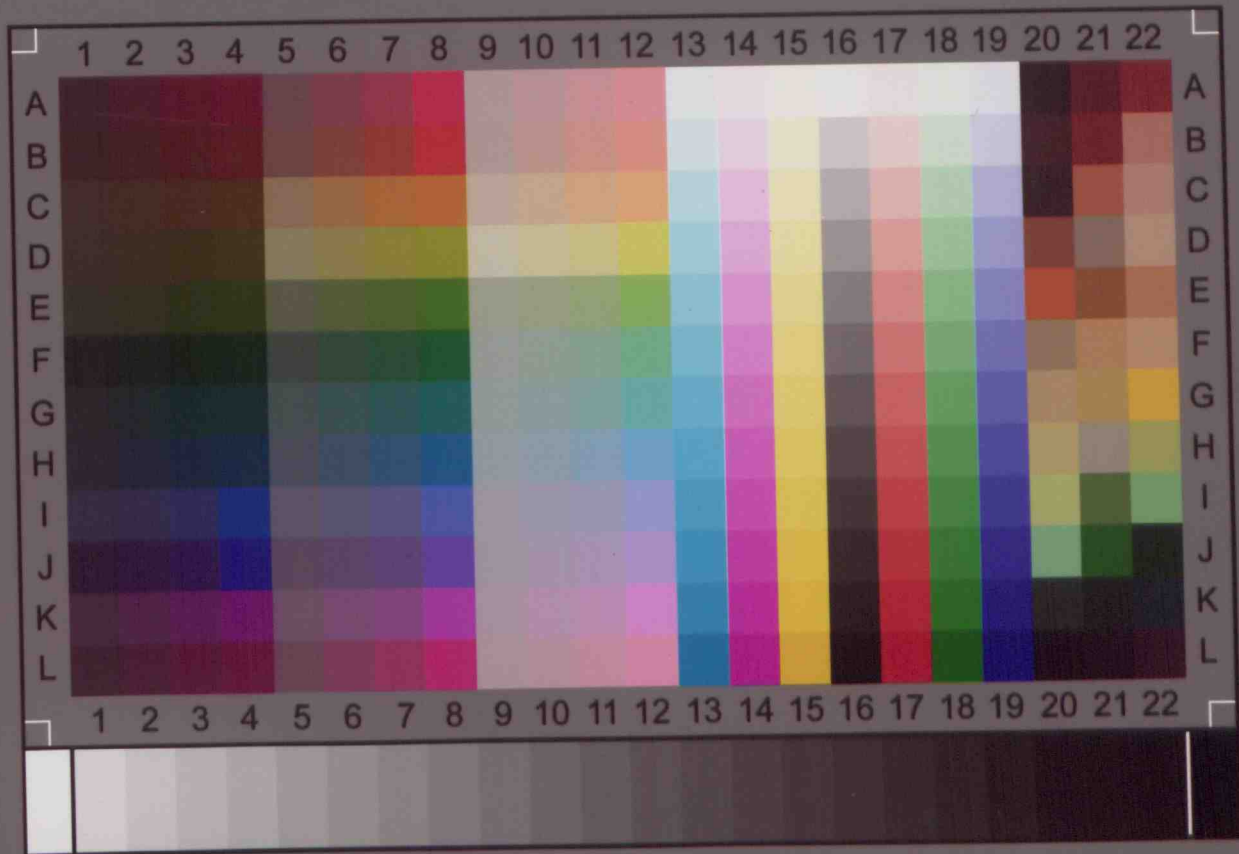
10 DOWNING STREET

Miss Stephens

Could we keep an hour
free at a convenient moment
on 17 September for a
possible meeting with
Chancellor Kressing?

Perk.

~~HERTSIA~~



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