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IMMEDIATE

GPS 730

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FM BONN 251115Z OCTOBER 79
TO IMMEDIATE FCO
TELEGRAM NO 631 OF 26 OCTOBER

PS / N° 10 D.S

ANGLO-GERMAN CONSULTATIONS: 31 OCTOBER.

1. THE FEDERAL GERMAN CHANCELLOR APPROACHES THE BONN SUMMIT FROM A STRONG POLITICAL AND ECONOMIC BASE AT HOME. HE IS UNQUESTIONABLY IN CHARGE. POLITICALLY, IN THE RUN-UP TO HIS PARTY CONFERENCE IN BERLIN IN DECEMBER, HIS MAIN CONCERN IS TO KEEP THE SPD UNITED ON DEFENCE (TNF MODERNISATION) AND ARMS CONTROL AND ON THE CIVIL USE OF NUCLEAR POWER: THE PROSPECTS ARE REASONABLY SATISFACTORY ON BOTH. IN THE LONGER TERM, HE HAS CAUSE FOR CONCERN ABOUT THE EFFECT OF THE GROWING ENVIRONMENTALIST VOTE ON HIS COALITION PARTNER, THE FDP. IT IS TOO EARLY TO FORM A VIEW ON THE LIKELY IMPACT OF STRAUSS ON THE OCTOBER 1980 ELECTIONS, BUT SO FAR SCHMIDT HAS LITTLE CAUSE FOR WORRY. THE ECONOMY CONTINUES TO PERFORM WELL: 4% GROWTH, 5% INFLATION, 3% UNEMPLOYMENT. BUSINESS CONFIDENCE, DESPITE THE GENERAL OUTLOOK, IS HIGH. BRITISH EXPORTS ARE UP 40% ON 1978 (EXCLUDING OIL 28%).

2. AGAINST THIS BACKGROUND, SCHMIDT HAS TWO BROAD OBJECTIVES FOR HIS MEETING WITH THE PRIME MINISTER: TO PREPARE THE

① GROUND BILATERALLY FOR THE EUROPEAN COUNCIL AT DUBLIN, AND
② TO SEEK A BROAD MEETING OF MINDS ABOUT THE STATE OF THE WORLD.

3. HE KNOWS THAT THE MAIN BRITISH PREOCCUPATION IS THE BUDGET. HE HAS ACCEPTED THAT WE HAVE A CASE IN EQUITY AND NEED SATISFACTION FOR DOMESTIC REASONS. HE REALISES THAT, IN ANY ADJUSTMENT, THE GERMANS WILL HAVE TO PICK UP THE BIGGEST TAB BUT HE IS NONETHELESS AT THE HELPFUL END OF THE SPECTRUM OF COMMUNITY OPINION. HE IS LOOKING FOR A SOLUTION BASED BOTH ON THE CORRECTIVE MECHANISM IN THE SHORT TERM AND ON THE REFORM OF THE CAP IN THE LONGER TERM. HE SEES THE FRENCH ATTITUDE AS THE MAIN OBSTACLE AND LYNCH'S CHAIRMANSHIP AS A MAJOR WEAKNESS, BUT WILL USE HIS INFLUENCE ON BOTH TO GET A COMPROMISE. HE WANTS THE PROBLEM OUT OF THE WAY SO THAT THE COMMUNITY CAN GET TO GRIPS WITH THE PROBLEMS OF THE WORLD.

4. WHILE NOT LOOKING FOR A SPECIFIC (NEXT THREE WORDS UNDERLINED) QUID PRO QUO HIS ZEAL IN WELL-DOING WILL BE INFLUENCED BY THE DEGREE THAT HE IS CONVINCED BY OUR EUROPEAN VOCATION, IN DEEDS

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AS WELL

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AS WELL AS IN WORDS. WITHIN THE COMMUNITY, HE EXPECTS US TO FIGHT FOR CAP REFORM AND WILL WEIGH IN WITH SUPPORT AFTER HIS OWN ELECTIONS IN 1980 AND THE FRENCH ELECTIONS IN 1981. HE HOPES WE HAVE SOME IDEAS CONSISTENT WITH THE TREATIES AND ACQUIS. HE LOOKS TO US FOR SOLIDARITY OVER THE 1% VAT CEILING. HE LOOKS FORWARD TO OUR FULL INTEGRATION INTO THE COMMUNITY WHEN WE JOIN THE EMS.

5. MORE BROADLY, HE HOPES THAT WE WILL TAKE A EUROPEAN VIEW OF THE WORLD, CONSISTENT WITH HIS OWN AND GISCARD'S. HE IS WORRIED ABOUT THE DEFECTS OF AMERICAN LEADERSHIP, WHILE RECOGNISING THAT, IN DEFENCE AT LEAST, THERE IS NO ALTERNATIVE. FOR HIM, DEFENCE AND DETENT ARE EQUALLY IMPORTANT, AND HE TAKES BOTH EQUALLY SERIOUSLY: HE WILL BE INTERESTED IN OUR VIEW OF BOTH. FOR HIS PART, HE WANTS A CLEAR AND PREDICTABLE RELATIONSHIP WITH THE RUSSIANS AND HIS OPINION ON MANAGING THEM NOW (THE BREZHNEV SPEECH) AND IN THE LONGER RUN WILL BE WORTH HEARING.

6. FOR THE REST HE WILL STILL BE UNDER THE INFLUENCE OF THE HUA VISIT AND WILL WANT TO COMPARE NOTES. HE WILL HOPE FOR AN ACCOUNT OF THE PROSPECTS FOR RHODESIA: HE IS A GREAT ADMIRER OF YOUR CONDUCT OF THE LANCASTER HOUSE CONFERENCE. HE SEES THE MIDDLE EAST AS THE MAJOR SOURCE OF PRESENT AND FUTURE CRISIS, WITH EASTERN EUROPE COMPETING FOR OIL SUPPLIES IN THE MIDDLE 80S AS THE RUSSIAN EXPORT SURPLUS DWINDLES. ENERGY, ITS PRICE AND AVAILABILITY, IS HIS CONTINUING PREOCCUPATION. HE HOPES THAT THE PRIME MINISTER WILL VOLUNTEER A PROGRESS REPORT ON THE BRITISH ECONOMY.

7. ABOVE ALL, HE HOPES THAT IN THE COURSE OF THE VISIT, WHETHER CONDUCTING SPECIFIC BUSINESS OR MORE BROADLY EXCHANGING VIEWS, A SENSE OF MUTUAL CONFIDENCE WILL GROW. THIS CAN COME AS MUCH, IF NECESSARY, FROM DIFFERENCES OF VIEW OR IMPEDIMENTS TO AGREEMENTS IF OPENLY STATED AS FROM AGREEMENTS REACHED. THE ESSENTIAL THING FOR HIM IS TO KNOW WHERE HE STANDS. HE WOULD LIKE EUROPE, UNDER FRANCO-GERMAN-BRITISH LEADERSHIP, AND IN PARTNERSHIP WITH THE UNITED STATES, TO DEVELOP A PERSONALITY AND STRENGTH OF ITS OWN TO EXERT INFLUENCE AND PROVIDE STABILITY IN AN UNCERTAIN BUT INTERDEPENDENT WORLD, BUT SEES US AS TOO PREOCCUPIED WITH OUR DOMESTIC PROBLEMS TO MAKE MUCH OF A CONTRIBUTION.

WRIGHT

FILES

WED

PS/PUS

EID

MR BULLARD

ACDD

MR FERGUSSON

RESO

ESSD

PS/LPS

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