

GRS 1110 CONFIDENTIAL
CONFIDENTIAL [FRAME ECONOMIC]

FM BONN 151810Z MAR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 225 OF 15 MARCH

INFO IMMEDIATE ANKARA ATHENS BRUSSELS COPENHAGEN THE HAGUE LISBON
LUXEMBOURG OSLO OTTAWA PARIS REYKJAVIK ROME WASHINGTON UKDEL NATO D
DUBLIN UKREP BRUSSELS MOSCOW CICC(G)

ANGLO-GERMAN SUMMIT: THE MOOD IN THE FRG.

SUMMARY

1. CHANCELLOR SCHMIDT WILL BE COMING TO CHEQUERS IN A WORRIED STATE OF MIND. HIS GOVERNMENT'S MORALE AND PROSPECTS HAVE DECLINED SINCE THE BONN SUMMIT IN NOVEMBER. THE COALITION IS BY NO MEANS DEAD YET, BUT ITS PREMATURE COLLAPSE - PERHAPS EVEN THIS YEAR - CAN NO LONGER BE RULED OUT. THE CHANCELLOR IS ALSO ACUTELY CONCERNED ABOUT THE EFFECT OF US POLICIES (ECONOMIC, POLITICAL AND DEFENCE) ON THE TRANSATLANTIC RELATIONSHIP. THE WELL STAGE-MANAGED RAPPROCHEMENT WITH PARIS AT LAST MONTH'S FRANCO-GERMAN SUMMIT WILL HAVE BROUGHT HIM SOME REASSURANCE, BUT I DOUBT IF HE FEELS THAT THE RAPPROCHEMENT GOES VERY DEEP. HE IS LOOKING FOR FRIENDS AND WILL BE KEEN TO CEMENT THE FRG/UK RELATIONSHIP AT CHEQUERS, ESPECIALLY IF WE CAN SHOW HIM THAT WE ARE AS COMMITTED TO THE COMMUNITY AS HE IS, HOWEVER DETERMINED WE MAY BE TO BRING ABOUT CHANGES IN SOME OF ITS POLICIES AND MECHANISMS.

DETAIL

2. THE VOTE OF CONFIDENCE WHICH THE CHANCELLOR WON FROM THE BUNDESTAG ON 5 FEBRUARY HAS PROVED AS HOLLOW A VICTORY AS MANY PEOPLE PREDICTED. VOCAL OPPOSITION TO INF STATIONING HAS REVIVED AMONG THE GRASS ROOTS OF BOTH SPD AND FDP, AND THIS HAS CREATED FRESH NERVOUSNESS IN SPD CIRCLES AS TO HOW THE DEBATE ON THIS ISSUE WILL GO AT PARTY CONFERENCE IN APRIL. THE PARTY FINANCING SCANDAL, IN WHICH LAMBSDORFF, MATTHOEFFER AND STATE SECRETARY LAHNSTEIN ARE AMONG THOSE CURRENTLY UNDER INVESTIGATION, HAS FURTHER SAPPED THE MORALE OF BOTH COALITION PARTNERS.

3. INDICATIONS IN RECENT OPINION POLLS THAT THE SPD ARE LOSING SUPPORT HEAVILY WERE REINFORCED IN THE SCHLESWIG HOLSTEIN COMMUNAL (IE LOCAL AUTHORITY) ELECTIONS ON 7 MARCH., WHERE THE SPD WERE THE CHIEF LOSERS. SCHMIDT AND GENSCHER WILL NOW BOTH NERVOUSLY BE WATCHING THE LAND ELECTIONS IN LOWER SAXONY, TAKING PLACE TWO DAYS AFTER THE SUMMIT ON 21 MARCH, WHERE ALL THE INDICATIONS ARE THAT THE CDU MINISTER-PRESIDENT ALBRECHT WILL INCREASE HIS OVERALL MAJORITY AT THE EXPENSE OF THE BONN COALITION PARTNERS. BAD RESULTS FOR THE SPD AND FDP IN THE HAMBURG ELECTIONS IN JUNE OR MORE PROBABLY IN THE HESSEN ELECTIONS IN SEPTEMBER COULD THEN GIVE THE OPPOSITION A TWO-THIRDS MAJORITY IN THE BUNDESRAT (FEDERAL UPPER HOUSE) SUFFICIENT TO BLOCK GOVERNMENT LEGISLATION,

CONFIDENTIAL

/AND

CONFIDENTIAL

AND IT IS NOT OUT OF THE QUESTION THAT THEY MIGHT USE IT TO BRING THE GOVERNMENT DOWN. THERE IS MATERIAL FOR SOME COMFORT FOR THE COALITION ON THE INTERNAL ECONOMIC FRONT(SEE MY SECOND I.F. T.): BUT THE OVERALL PICTURE IS AN UNHAPPY ONE AND THE CHANCELLOR MUST BE FEELING THE GROUND SHIFTING UNEASILY UNDER HIS FEET.

4. SOME LEADING MEMBERS OF THE COALITIONS HAVE BEEN MAINTAINING THAT, DESPITE THE GROWING PRESSURES, RELATIONS BETWEEN SPD AND FDP ARE BETTER THAN FOR SOME TIME. IT IS HARD TO BELIEVE THIS: THE EVIDENCE IS CONTRADICTORY. GENSCHER AND LAMBSDORFF, BOTH FDP, HAVE NOT ENDEARED THEMSELVES TO THEIR SPD PARTENERS BY RECENT STATEMENTS CLEARLY DESIGNED TO DISTANCE THEIR PARTY FROM THE SINKING SPD AND TO PREPARE FOR THE EVENTUAL POSSIBILITY OF A SWITCH TO ALLIANCE WITH THE CDU. AT LOWER LEVELS, THERE IS GROWING BITTERNESS AND MISTRUST BETWEEN THE MEMBERS OF THE TWO COALITION PARTIES. NOR HAS GENSCHER'S SUCCESS IN RECENT WEEKS IN PROFILING HIMSELF AS THE MAN WHO IS ACTIVELY SEEKING SOLUTIONS TO ALLIANCE PROBLEMS GONE UNNOTICED. GENSCHER AND SCHMIDT AT CHEQUERS MAY SIT TOGETHER LESS EASILY THAN USUAL.

5. ALL THE SAME, IT WOULD BE RASH TO SELL SCHMIDT AND THE COALITION SHORT. THEIR DIFFICULTIES ARE REAL, BUT THE ODDS THAT THEY WILL LAST THE YEAR OUT STILL SEEM TO ME BETTER THAN EVENS. SCHMIDT MAY STILL HAVE TWO YEARS OF POWER AHEAD OF HIM. AND GENSCHER CAN LOOK EVEN FURTHER AHEAD THOUGH PROBABLY IN DUE COURSE WITH ANOTHER PARTNER.

6. ON TOP OF HIS DOMESTIC WORRIES, SCHMIDT IS EVEN MORE PESSIMISTIC THAN MOST PEOPLE ABOUT THE CURRENT STRAINS IN TRANS-ATLANTIC RELATIONS. UNWILLING TO ACCEPT THAT THE FRG AND HE HIMSELF MAY HAVE CONTRIBUTED TO THE MISUNDERSTANDINGS, HE HAS BEEN BOTH DISAPPOINTED AND IRRITATED BY THE REAGAN ADMINISTRATION'S PERFORMANCE - BY ITS ECONOMIC MANAGEMENT AND FAILURE TO BRING INTEREST RATES DOWN, BY WHAT HE SEES AS ITS EXCESSIVE DEFENCE EXPENDITURE PLANS AND UNREALISTIC DEMANDS ON ITS EUROPEAN ALLIES IN THE DEFENCE FIELD, BY ITS PATCHY RECORD OF CONSULTATION WITH THE ALLIES AND BY ITS APPARENT SEARCH FOR PUNITIVE POLICIES AGAINST THE SOVIET UNION AND POLAND WHICH, IN THE CHANCELLOR'S VIEW, DEMONSTRATE ITS LACK OF FEEL FOR EAST-WEST RELATIONS. THE OUTWARD SUCCESS OF GENSCHER'S RECENT VISIT TO WASHINGTON IS UNLIKELY TO HAVE DONE MUCH TO REMOVE THESE BASIC ANXIETIES AND THE SAME WILL PROBABLY BE TRUE OF BUCKLEY'S CURRENT VISIT TO BONN. MEANWHILE THE TRANSFER OF THE NATO SUMMIT TO BONN (ORIGINALLY GENSCHER'S IDEA) HAS GIVEN SCHMIDT A PERSONAL STAKE IN ACHIEVING A DISPLAY OF ALLIANCE UNITY AND SOLIDARITY ON THAT OCCASION. BUT IT ALSO CREATED FORMIDABLE PROBLEMS OF ORGANISATION AND MANAGEMENT OF OPINION, WITH THE RISK OF MASSIVE ANTI-REAGAN DEMONSTRATIONS.

CONFIDENTIAL

7. THE UPSHOT OF ALL THIS IS THAT THE CHANCELLOR, BOTH AT HOME AND ABROAD, IS LOOKING FOR FRIENDS. AS USUALLY HAPPENS WHEN THE GOING GETS ROUGH, BONN HAS TURNED IN THE FIRST INSTANCE TO PARIS AND A REAL EFFORT HAS BEEN MADE TO RESTORE THE INTENSITY OF THE FRANCO-GERMAN RELATIONSHIP WHICH EBBED WITH GISCARD'S DEPARTURE. BUT FOR ALL THE PUBLIC PROTESTATIONS OF AGREEMENT AT THE LAST FRANCO GERMAN SUMMIT, THE TWO SIDES STILL FIND THEMSELVES FAR APART ON SOME OF THE MOST IMPORTANT ISSUES, INCLUDING BOTH THE MANDATE AND HOW TO DEAL WITH HIGH US INTEREST RATES. (NOR, I THINK, DID THE GERMANS FALL FOR THE FRENCH LINE THAT THE NEED TO RESTORE THE BONN-PARIS AXIS STEMMED IN PART FROM THE UK'S FAILURE TO COME UP TO THE MARK AS A EUROPEAN PARTNER.) A FURTHER SYMPTOM OF THE GERMAN DESIRE TO AVOID ISOLATION HAS BEEN THE ATTENTION THEY HAVE BEEN PAYING TO ITALY- FIRST IN THE SHAPE OF THE JOINT GENSCHER-COLOMBO PROPOSALS FOR EUROPEAN UNION, AND MORE RECENTLY WHEN GENSCHER PICKED UP COLOMBO'S GEORGETOWN PROPOSALS FOR IMPROVING TRANS-ATLANTIC CONSULTATIONS. AT CHEQUERS, I BELIEVE THAT THE CHANCELLOR AND GENSCHER WILL BE AIMING TO ACHIEVE A DEMONSTRATION OF SOLIDARITY WITH THE UK COMPARABLE WITH (THOUGH DIFFERENT FROM)WHAT HAS BEEN DONE WITH FRANCE AND ITALY. THEY KNOW THAT ON MOST OF THE MAJOR ISSUES - EAST-WEST RELATIONS, THE ALLIANCE, ARMS CONTROL, THE STRENGTHENING OF POLITICAL COOPERATION AND TO SOME EXTENT EVEN ON THE MANDATE- THEY HAVE AS MUCH COMMON GROUND WITH THE UK AS WITH ANYONE: AND THEY HAVE NOTED WITH SATISFACTION THE MORE POSITIVE REPORTS ON THE UK'S ECONOMIC PERFORMANCE WHICH ARE NOW STARTING TO APPEAR IN THE INTERNATIONAL AND GERMAN PRESS. BUT THEY CONTINUE TO BE CONSTRAINED BY DOUBTS ABOUT THE STRENGTH OF BRITAIN'S COMMITMENT TO EUROPE AND THE LENGTHS TO WHICH WE MAY BE PREPARED TO GO TO GET OUR OWN WAY IN THE COMMUNITY. WHATEVER WE CAN DO TO REASSURE THEM ON THIS SCORE WILL PAY DIVIDENDS (SEE MY FIRST I.F.T., NOT TO ALL). THEY WILL ALSO BE LOOKING TO US FOR CONSTRUCTIVE IDEAS ON HOW TO HANDLE THE NATO SUMMIT AND SMOOTH OUT TRANSATLANTIC DIFFERENCES.

TAYLOR

FRAME ECONOMIC
ECD(I)
PS
PS/PUS

[COPIES SENT TO NO 10 DOWNING ST:]

CONFIDENTIAL

GPS 550

CONFIDENTIAL [FRAME ECONOMIC]

FM BONN 151915Z MAR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 227 OF 15 MARCH

AND TO IMMEDIATE UKREP BRUSSELS PARIS

AND TO ROUTINE DUBLIN ROME LUXEMBOURG COPENHAGEN THE HAGUE

EMBASSY BRUSSELS ATHENS AND CICC(G)

MY 2 IFTS: ANGLO-GERMAN CONSULTATIONS: ECONOMIC ASPECTS

1. DESPITE THE MAJOR AND CONTINUING POLITICAL DIFFICULTIES THAT ECONOMIC POLICY GIVES THE COALITION GOVERNMENT, THE PERFORMANCE OF THE GERMAN ECONOMY MUST BE BEGINNING TO GIVE POLICY-MAKERS IN THE GOVERNMENT AS IN THE BUNDESBANK SOME GROUNDS FOR SATISFACTION.

2. A TIGHT FISCAL AND MONETARY STANCE ARE THE PRINCIPAL CHARACTERISTICS OF GERMAN ECONOMIC POLICY. THE CONSEQUENCES ARE PAINFUL BY GERMAN STANDARDS BUT THERE ARE SIGNS THAT THE POLICY IS WORKING. THE CURRENT ACCOUNT BALANCE (SUPPORTED BY A STRONG AND SO FAR WELL-SUSTAINED DEMAND FOR GERMAN EXPORTS) IS IMPROVING RAPIDLY. THE RATE OF INCREASE OF PRICES AND WAGES IS FALLING. A FORTNIGHT AGO THE METALWORKERS UNION (WHICH INCLUDES THE LARGE AND VITAL ENGINEERING SECTOR) WHOSE PAY RATES HAVE A POWERFUL INFLUENCE ON THE REST OF THE LABOUR MARKET. SETTLED FOR A PAY INCREASE ABOUT 20 PER CENT BELOW THE RATE OF INFLATION. MOST EXPERTS AGREE THAT OUTPUT WILL EXPAND, IF ONLY MODESTLY. INTEREST RATES ARE EASING AND THE DMARK IS IN BETTER SHAPE THAN A YEAR AGO. THERE ARE SIGNS THAT SCHMIDT IS TAKING A RATHER LESS APOCALYPTIC VIEW THAN HE DID A FEW MONTHS AGO.

3. HIS MAJOR DOMESTIC WORRY REMAINS UNEMPLOYMENT. THIS IS STILL ON A RISING TREND AND IS AN ISSUE, AS THE STURM AND DRANG OVER THE EMPLOYMENT PROGRAMME HAS SHOWN, TO WHICH AN SPD-LED GOVERNMENT IS ESPECIALLY VULNERABLE. IT HAS REINFORCED SCHMIDT'S BELIEF THAT ECONOMIC AND POLITICAL PROBLEMS ARE INEXTRICABLY LINKED AND IT WILL CONTINUE TO BE A MAJOR PREOCCUPATION FOR HIM.

4. SCHMIDT IS ALSO WORRIED NOT ONLY BY THOSE EXTERNAL ECONOMIC FACTORS THAT DENY THE FRG ROOM FOR MANOEUVRE AND COULD CHECK RECOVERY HERE BUT ALSO BY THOSE THAT GIVE RISE TO STRAINS AND STRESSES WITHIN THE COMMUNITY AND THE ALLIANCE AND THAT LEAVE THE TWO GROUPINGS LESS ABLE TO DEAL WITH INTERNATIONAL ECONOMIC TENSIONS (EAST/WEST TRADE AND CREDITS, NORTH/SOUTH AND RELATIONS WITH JAPAN, ETC).

5. THE GERMANS ARE ALSO WORRIED BY FRENCH POLICY WHICH, IN THEIR VIEW, DOES NOT SUPPORT INTERNATIONAL EFFORTS TO FIGHT INFLATION NOR COHERENCE WITHIN THE COMMUNITY. FURTHERMORE, THE PRIORITY GIVEN TO COMBATTING UNEMPLOYMENT IN FRANCE (NOW BEING ECHOED IN DENMARK) GIVES RISE TO UNWELCOME POLITICAL PRESSURE FROM WITHIN

CONFIDENTIAL

/THE

CONFIDENTIAL

THE SPD FOR THE FRG TO FOLLOW SUIT. JAPANESE TRADE SUCCESSES ACTIVATE PROTECTIONIST IMPULSES. THE CHANCELLOR REMAINS CONCERNED OVER THE US BUDGET DEFICIT AND US INTEREST RATES ALTHOUGH HE NOW BELIEVES THAT THE IMPROVEMENT IN THE ECONOMIES OF SOME MAJOR EUROPEAN COUNTRIES MAY ALLOW THESE TO FOLLOW SOMEWHAT MORE INDEPENDENT POLICIES AND THUS AVOID THE FULL IMPACT OF DEVELOPMENTS IN THE U.S. THE WEAKENING OF OIL PRICES IS WELCOME: BUT ELSEWHERE ABROAD THERE IS LITTLE TO ENCOURAGE THE CHANCELLOR. EASTWARDS THE OUTLOOK IS POOR AND THE PROBLEMS OF THE LDCS AND THE NORTH/SOUTH DIALOGUE LOOK AS INSOLUBLE AS EVER.

6. AGAINST THIS GLOOMY BACKGROUND, THE SIGNS THAT THE BRITISH GOVERNMENT'S ECONOMIC POLICIES ARE BEGINNING TO PAY OFF ARE ALL THE MORE WELCOME HERE: AND, IN ADDITION TO RANGING OVER INTERNATIONAL ECONOMIC QUESTIONS WITH AN EYE TO THE EUROPEAN COUNCIL AND THE VERSAILLES SUMMIT BEYOND, THE CHANCELLOR WILL BE KEEN TO LEARN MORE ABOUT UK POLICY AND PROSPECTS.

TAYLOR

[COPIES SENT TO NO 10 DOWNING ST.]

FRAME ECONOMIC
ECD(I)
PS
PS/PUS

-2-

CONFIDENTIAL