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TO IMMEDIATE FCO

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INFO ROUTINE UKREP BRUSSELS PARIS

INFO SAVING ATHENS BRUSSELS COPENHAGEN DUBLIN THE HAGUE LUXEMBOURG
ROME

EUROPEAN COUNCIL

SUMMARY

1. THE FEDERAL CHANCELLOR AND FOREIGN MINISTER COME TO THE COUNCIL UNDER THE SHADOW OF A SERIOUS COALITION CRISIS: HERR GENSCHER IN PARTICULAR IS UNDER STRAIN OVER DECISIONS AFFECTING THE FUTURE OF HIS PARTY. THE FEDERAL GOVERNMENT ARE ONCE MORE SERIOUSLY WORRIED OVER TRANSATLANTIC RELATIONS (THE EMBARGO ON GAS PIPELINE EQUIPMENT IN PARTICULAR). THEIR OTHER MAIN CONCERN WILL BE WITH FRENCH ATTITUDES ON ENLARGEMENT. EC AND FALKLANDS ISSUES ARE IRRITANTS ON ANGLO-GERMAN RELATIONS.

PREOCCUPATIONS AT HOME

2. THE OUTSTANDING DIFFERENCES BETWEEN THE TWO FEDERAL COALITION PARTIES WILL NOW NOT BE RESOLVED BY THE TIME SCHMIDT AND GENSCHER COME TO BRUSSELS, AS HAD BEEN HOPED (MY TELNO 592). DESPITE HOURS OF DISCUSSION THE BUDGET GAP OF DM 11 BILLION REMAINS UNBRIDGED, WITH THE SPD SETTING THEIR FACE AGAINST SUBSTANTIAL FURTHER SAVINGS IN PUBLIC EXPENDITURE, AND THE FDP EQUALLY STRONGLY OPPOSED TO HIGHER TAXES OR CUTS IN INDUSTRIAL SUBSIDIES. BECAUSE OF THE COUNCIL, THERE IS TO BE NO FURTHER MEETING OF THE TWO PARTIES UNTIL 30 JUNE. IT REMAINS, IN MY JUDGEMENT, ON BALANCE UNLIKELY THAT THE CRISIS WILL BRING DOWN THE FEDERAL GOVERNMENT. BUT IT IS PUTTING A GREAT STRAIN ON THE PARTICIPANTS - MOST OF ALL ON GENSCHER, WHO AS CHAIRMAN OF THE FDP, THE JUNIOR COALITION PARTNER, WILL HAVE IF THE TALKS FINALLY FAIL TO TAKE THE VITAL DECISION WHETHER TO LEAVE THE COALITION.

US/EUROPE RELATIONS

3. OF THE ISSUES TO BE DISCUSSED IN BRUSSELS, THE GERMANS HAVE ON THE PAST FEW DAYS BEEN PARTICULARLY CONCERNED WITH TWO. THE QUESTION OF RELATIONS WITH THE US HAS BEEN BROUGHT SMARTLY BACK TO THE TOP OF THE PILE BY PRESIDENT REAGAN'S EXTENSION OF THE EMBARGO ON EQUIPMENT FOR THE SIBERIAN PIPELINE. THIS DECISION, WITH ALL ITS FOREIGN POLICY IMPLICATIONS AND COMING ON TOP OF US/EC PROBLEMS OVER STEEL, TEXTILES AND AGRICULTURAL EXPORTS, SEEMS TO THE GERMANS TO REPRESENT A SERIOUS CHANGE IN THE TRANSATLANTIC CLIMATE, WHICH THEY FEEL ALL THE MORE SEVERELY AFTER THE REASSURANCE OF THE VERSAILLES AND NATO SUMMITS. SCHMIDT WAS UNUSUALLY STRONG IN HIS PUBLIC CRITICISM OF US POLICY DURING HIS STATEMENT IN THE BUNDESTAG YESTERDAY, EXPRESSING CONCERN AND REGRET OVER THE PIPELINE DECISION- THE FRANKFURTER ALLGEMEINE ZEITUNG TODAY ASKS WHY HE DOES NOT USE THE SAME TONE ABOUT THE RUSSIANS.

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4. AT THE SAME TIME GERMAN OFFICIALS HAVE BEEN SAYING TO US THAT, WHILE THEY HOPE THE COMMUNITY CAN RESIST AMERICAN POLICY WITH ALL AVAILABLE LEGAL MEANS, THEY THINK IT IMPORTANT TO AVOID AGGRESSIVE PUBLIC STATEMENTS THAT COULD ONLY RESULT IN A DETERIORATION OF THE TRANSATLANTIC CLIMATE AND MAKE RESOLUTION OF THE PROBLEMS MORE DIFFICULT. THEY SEE THE DANGER THAT FIERY RHETORIC (A LA VHANDERNAGOR) COULD LEAD TO THE SITUATION GETTING OUT OF CONTROL. THEY ALSO WANT TO AVOID THE UNITED STATES BEING TURNED INTO THE SCAPEGOAT FOR COMMUNITY AND INDIVIDUAL MEMBER COUNTRIES' ECONOMIC DIFFICULTIES, SINCE THAT WOULD IN ITSELF BE NEGATIVE AND MIGHT PROVIDE THE FRENCH WITH A PRETEXT FOR GOING IT ALONE AND PERHAPS REVERTING TO A GREATER DEGREE OF PROTECTIONISM.

ENLARGEMENT

5. THIS IS THE OTHER COUNCIL ISSUE WHICH HAS BEEN WORRYING THE GERMANS IN THE PAST FEW DAYS THEY RECOGNISE THAT ENLARGEMENT WILL POSE VERY REAL DIFFICULTIES FOR THE FRENCH, BUT BELIEVE THAT THERE IS A VERY LARGE TACTICAL ELEMENT IN THE FRENCH POSITION. THEY NOTE A CONTRADICTION BETWEEN FRENCH FEARS ON DESTABILISING TENDENCIES IN THE MEDITERRANEAN AND FRENCH DEMANDS IN THE MEDITERRANEAN PRODUCTS NEGOTIATIONS, POINTING OUT THAT A SOFTER FRENCH POSITION COULD REDUCE THE POTENTIAL FOR DESTABILISATION. THEY ALSO POINT OUT THAT IF THE SOCIALISTS COME TO POWER IN SPAIN NEXT YEAR IT WOULD MAKE IT MORE DIFFICULT FOR THE FRENCH TO BLOCK SPANISH ACCESSION. BUT THEY DO NOT EXCLUDE THE POSSIBILITY THAT THE FRENCH MAY BE READY TO CONTEMPLATE JUST THAT EVENTUALITY. WHILE SCHMIDT AND GENSCHER ARE FULLY DETERMINED TO SECURE ENLARGEMENT, THE FORMER WORRIES MUCH MORE ABOUT THE PROBLEMS OF ABSORBING THE NEW MEMBERS THAN THE LATTER. THEIR AIMS REMAIN TO MAINTAIN MOMENTUM OF THE NEGOTIATIONS, TO RESIST ATTEMPTS TO DE-LINK SPANISH ACCESSION FROM PORTUGAL'S AND TO LIMIT THE COSTS TO THEMSELVES OF WHAT THEY SEE AS A FRENCH ATTEMPT TO MAKE OTHER MEMBERS PAY A HIGHER PRICE FOR ENLARGEMENT.

ANGLO-GERMAN RELATIONS

6. THE FEDERAL GOVERNMENT CONTINUES TO WORRY ABOUT PROBLEMS CREATED BY THE FALKLANDS AND WHAT THEY REGARD AS OUR RIGID STANCE, AND BY THE PROSPECT OF FURTHER DIFFICULT NEGOTIATIONS IN THE COMMUNITY OVER THE UK BUDGET CONTRIBUTION. WE ARE NOT THE MOST POPULAR PARTNERS AT PRESENT: BUT I HOPE THAT THE REASONABLENESS OF OUR STANCE ON THESE ISSUES MAY GET THROUGH FOR THE STATEMENTS WHICH THE PRIME MINISTER WILL NO DOUBT HAVE TO MAKE.
FCO PLEASE PASS SAVING ADDRESSEES.

REPEATED AS REQUESTED

TAYLOR

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