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YOUR TELNO 297: GERMAN APPROACH TO THE LONDON ECONOMIC SUMMIT

SUMMARY

1. CHANCELLOR KOHL WILL ATTEND THE SUMMIT WITH HIS CONFIDENCE INTACT BUT WILL LEAVE AT HOME A GOVERNING COALITION AND AN ECONOMY BOTH SUDDENLY LOOKING LESS GOOD THAN ONLY A FEW WEEKS AGO. HE WILL BE LOOKING FOR SOLID ACHIEVEMENTS ON INTEREST RATES, ON TRADE AND ON THE ENVIRONMENT AND A DECLARATION ON DEMOCRATIC VALUES.

DETAIL

2. THE DISARRAY IN BONN'S GOVERNING COALITION, WHATEVER ITS LONG TERM IMPLICATIONS, SEEMS TO HAVE LEFT KOHL AND GENSCHER ON LESS INTIMATE TERMS THAN BEFORE. THAT MAY BE APPARENT IN THE SUMMIT. THE WEAKNESS OF GENSCHER WITHIN HIS OWN PARTY AND THE FDP'S POOR PROSPECTS FOR THE EUROPEAN ELECTIONS, HAVE STARTED SPECULATION ABOUT THE COHESION, IF NOT THE DURABILITY OF THE COALITION, NOT SEEN IN BONN SINCE THE DAYS OF SCHMIDT'S GOVERNMENT. IT IS NEW AND UNWELCOME FOR KOHL. ON THE ECONOMIC FRONT, THE METAL WORKERS' STRIKE FOR A 35 HOUR WEEK WITHOUT LOSS OF PAY CONTINUES, SOLUTION NOT YET IN SIGHT. IN ADDITION, THE GOVERNMENT'S INABILITY TO MAKE UP ITS MIND ON INCOME TAX REFORM AND ITS SUDDEN SURRENDER TO THE FARMERS IN GIVING THEM EXTRA COMPENSATION FOR THE REDUCTION IN POSITIVE MCAS HAVE SUGGESTED A LESS COHERENT APPROACH TO POLICY THAN HAS BEEN APPARENT HITHERTO. A SUCCESSFUL SUMMIT AND THE CLEAR REGISTERING OF GERMAN VIEWS AT IT WILL BE WELCOME TO KOHL.

3. THE MAIN GERMAN ATTACK WILL BE ON US INTERST RATES. ECONOMIC GROWTH IN THE FRG HAS, NOTWITHSTANDING HIGH REAL INTERST RATES, KEPT UP WELL. THE GERMANS BELIEVE THAT THE FUNDAMENTALS IN THEIR ECONOMY ARE CONSISTENT WITH LOWER RATES AND THAT THE 5.5 POINT GAP BETWEEN GERMAN AND US RATES COULD NOT OTHERWISE BE SUSTAINED. BUT THEY FEAR THAT THAT GAP CANNOT BE STRETCHED FURTHER. THEY WANT US RATES TO COME DOWN. THEY ARE LIKELY TO APPROACH THE ISSUE FROM THE POINTS OF VIEW OF THE LDC INDEBTEDNESS PROBLEM AND THE FAILURE TO IMPLEMENT FULLY THE WILLIAMSBURG DECLARATION. KOHL WILL NOT BE AGGRESSIVE BUT WILL MAKE CLEAR THAT RESPONSIBILITY LIES IN WASHINGTON.

4. WILLIAMSBURG CALLED FOR MORE TRADE LIBERALISATION, BUT IN THE GERMAN VIEW THERE HAD BEEN MORE PROTECTIONISM INSTEAD. IT HAD CALLED FOR REDUCTION OF PUBLIC DEFICITS, THE US DEFICIT HAD RISEN. IT WAS IMPORTANT FOR SUMMITS TO GIVE SIGNALS. THE US

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BUDGET DEFICIT CAUSED US INTEREST RATES TO RISE WITH DAMAGING CONSEQUENCES FOR LDCS, LOWER RATES AND FREER TRADE RATHER THAN INCREASED LIQUIDITY WERE NEEDED. SIGNS SUCH AS THE WOBBLING IN THE US BANKING COMMUNITY AND THE RECENT APPEAL BY FOUR LATIN AMERICAN PRESIDENTS FOR AN EASING OF THEIR DEBT BURDENS HAVE BEEN SEEN AS SIGNIFICANT. AS FOR THE LEAST DEVELOPED COUNTRIES, THE GERMANS SEE NO ALTERNATIVE TO WRITING THEIR DEBTS OFF, THIS WILL NOT DO IN THE CASE OF THE RICHER COUNTRIES WHO, WITH THE BANKS WHO LENT TO THEM, MUST NOT BE ALLOWED TOTALLY TO ESCAPE THE CONSEQUENCES OF THEIR OWN FOLLY.

5. ON INTERNATIONAL TRADE THE GERMANS HOPE FOR PROGRESS. THEY RECOGNISE THAT THE FRENCH AND THE ITALIANS WILL MAKE DIFFICULTIES, BUT SEE THE SUMMIT AS AN OPPORTUNITY TO PUT PRESSURE ON THEM, TO TAKE ADVANTAGE OF WHAT THEY SEE AS A BROADENING CONSENSUS AND FOR SUMMIT PARTICIPANTS TO GIVE A FIRM COMMITMENT TO UNDERTAKE MEASURES OF ROLLBACK (PHASES I AND II) WITHIN A SHORT TIME SCALE. SUCH MEASURES WOULD TAKE ACCOUNT OF THE INTERESTS OF DEVELOPING COUNTRIES AND BY BEING ONE OF THE FEW PRACTICAL POSSIBILITIES FOR THE INDUSTRIALISED COUNTRIES TO HELP THE LCDS AT THE PRESENT TIME WOULD BOTH ENCOURAGE THEM AND GIVE A POSITIVE IMPULSE TO NORTH/SOUTH RELATIONS. THE GERMANS SEE NO PROSPECT OF A MORE FORTHCOMING COMMITMENT TO A NEW GATT ROUND THAN WAS REACHED AT THE OECD.

6. THE GERMANS ATTACH IMPORTANCE TO THE PROPOSED DECLARATION ON DEMOCRATIC VALUES, AMONG OTHER THINGS AS A FORWARD-LOOKING ANTIDOTE TO THE BACKWARD LOOK IN NORMANDY WHICH PRECEDES THE SUMMIT. THEY LIKE THE 'TIMELESSNESS' OF OUR DRAFT, THOUGH THEY ARE PROPOSING MORE SPECIFIC REFERENCES TO EAST-WEST CORRELATIONS AND ARMS CONTROL.

7. WITH THE MUNICH ENVIRONMENT CONFERENCE LATER IN THE MONTH, KOHL WILL ARGUE THAT THE TIME HAS COME FOR INTERNATIONAL ACTION, FURTHER STUDIES WILL NOT BE ENOUGH.

8. THE AUSWAERTIGES AMT SEEMS TO ACCEPT THAT MUCH CANNOT BE EXPECTED FROM THE SUMMIT ON NORTH/SOUTH RELATIONS. OUR FIRST

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/ SOUNDINGS

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SOUNDINGS CONFIRM THAT MRS GANDHI'S EMISSARY HAD A FRIENDLY HEARING AND A FIRM REJECTION FROM THE FINANCE MINISTRY (TIETMEYER) FOR INDIAN IDEAS ON A PREPARATORY CONFERENCE ON MONEY AND FINANCE FOR TRADE, BUT HE HAD A LITTLE MORE COMFORT FROM THE AUSWAERTIGES AMT.

9. ON ENERGY THE GERMANS HAVE MADE THEIR ATTITUDE PLAIN ON CRISIS MEASURES. THEY SEE NO PRESENT NEED FOR FURTHER DISCUSSION. THEY ARE INTERESTED IN A SUBSTANTIVE DISCUSSION OF TERRORISM AND KOHL MAY BE EXPECTED TO SPEAK HELPFULLY ON THE SUBJECT, THOUGH HE WILL BE CAUTIOUS ABOUT REVIEWING THE VIENNA CONVENTION.

TAYLOR

ECONOMIC SUMMIT  
LIMITED  
ERD  
ESID  
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PLANNING STAFF  
TRED  
ES&SD  
SOV D  
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PS  
PS/LADY YOUNG  
PS/MR RIFKIND  
PS/MR WHITNEY  
PS/MR RAISON  
PS/PUS

SIR C TICKELL  
SIR J BULLARD  
MR RENWICK  
MR J THOMAS  
MR WILSON  
MR WRIGHT  
MR CARTLEDGE  
MR ADAMS  
MR BARRINGTON  
MR EGERTON  
MR MILES  
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