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FM BONN 171555Z MAY 84

TO PRIORITY FCO

TELEGRAM NUMBER 493 OF 17 MAY

INFO SAVING ATHENS EC BRUSSELS EMBASSY BRUSSELS COPENHAGEN DUBLIN
LUXEMBOURG PARIS ROME THE HAGUE WASHINGTON MOSCOW UKDEL NATO
CGS IN FRG BMG BERLIN EAST BERLIN CICC(G)

THE STATE OF THE BONN COALITION

SUMMARY

1. KOHL'S COALITION IN TROUBLE ON TWO FRONTS: THE FIASCO OVER THE GOVERNMENT'S PROPOSAL, NOW WITHDRAWN, FOR AN AMNESTY OVER TAX AVOIDANCE ON DONATIONS TO POLITICAL PARTIES, AND THE SPREADING STRIKES OVER UNION DEMANDS FOR A 35-HOUR WEEK (SEE MIFT). THE FORMER PROBLEM HAS DAMAGED THE COALITION'S IMAGE AND RELATIONS WITHIN IT, AND IS A FURTHER BLOW TO GENSCHER'S STANDING. IT IS EXPECTED TO COST THE CDU AND ESPECIALLY THE FDP VOTES IN THE EUROPEAN ELECTIONS. THE STRIKES DO NOT SEEM YET TO BE AFFECTING THE GOVERNMENT'S PUBLIC SUPPORT BUT WILL DO SO IF THEY LAST LONG ENOUGH TO THREATEN THE ECONOMIC UPTURN.

THE AMNESTY

2. A POLITICAL STORM HAS BEEN CAUSED BY THE COALITION'S PLANS - UNEXPECTEDLY SPRUNG TWO WEEKS AGO - FOR AN AMNESTY FOR PEOPLE UNDER INVESTIGATION FOR EVADING TAX ON FINANCIAL CONTRIBUTIONS TO POLITICAL PARTIES. THERE WAS A WIDESPREAD PRACTICE OVER MANY YEARS OF LAUNDERING CONTRIBUTIONS THROUGH TAX-EXEMPT ORGANISATIONS. THE AMNESTY WOULD NOT HAVE AFFECTED THE SEPARATE CORRUPTION CASE AGAINST LAMBSDORFF, BUT WOULD HAVE HALTED INVESTIGATIONS INTO THE AFFAIRS OF TWO DOZEN OTHER LEADING POLITICIANS. BACKGROUND IN TORRY'S LETTER OF 15 MAY.

3. IT SEEMS THAT THE INITIATIVE FOR THE AMNESTY CAME FROM GENSCHER, WHOSE FDP IS DEEPLY INVOLVED IN THE ALLEGED EVASIONS: AND THAT HE, KOHL AND STRAUSS AGREED IT WITH VIRTUALLY NO WIDER CONSULTATION. PRESS AND PUBLIC REACTION HAS BEEN ALMOST UNIVERSALLY HOSTILE. THE SPD HAVE BEEN STRONGLY CRITICAL. SO TOO HAVE SOME IN THE CDU AND MOST IN THE FDP. KOHL, WITH THE FULL SUPPORT OF STRAUSS, MANAGED TO CORRAL THE CDU INTO SUPPORTING THE AMNESTY AT THEIR PARTY CONFERENCE LAST WEEK. GENSCHER, HAVING LED KOHL AND STRAUSS OUT ON A LIMB, HAD HUMILIATINGLY TO INFORM THEM YESTERDAY THAT HE COULD NOT SECURE FDP SUPPORT. SO THE PROPOSAL FOR AN AMNESTY BILL HAS HAD TO BE WITHDRAWN.

4. BY SO BADLY MISREADING THE MOOD IN HIS PARTY GENSCHER HAS SERIOUSLY HARMED HIS POLITICAL REPUTATION. HIS POSITION IN THE FDP WAS ALREADY UNDER STRAIN BECAUSE OF THE PARTY'S DISAPPOINTING

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SHOWING IN OPINION POLLS AND IN THE RECENT BADEN-WUERTTEMBERG ELECTION, AND HE WILL NOW HAVE A ROUGH RIDE AT THE PARTY CONFERENCE ON 1 JUNE. THERE HAS BEEN SPECULATION THAT HE MIGHT RESIGN, OR BE FORCED OUT, AS PARTY CHAIRMAN. BUT THIS SEEMS VERY UNLIKELY, IF ONLY BECAUSE THERE IS NO CREDIBLE SUCCESSOR SO LONG AS LAMBSDORFF IS UNDER A CLOUD FACING CORRUPTION CHARGES.

5. THE AFFAIR HAS ALSO DONE KOHL NO GOOD. NORMALLY SENSITIVE IN JUDGING OPINION, HE EITHER MISJUDGED IT BADLY THIS TIME OR DECIDED TO IGNORE IT. IN JUSTIFYING THE AMNESTY AT THE CDU CONFERENCE HE DISPLAYED A HIGH-HANDEDNESS OF WHICH THERE HAD ALREADY BEEN SIGNS IN HIS BEHAVIOUR OVER THE KIESSLING AFFAIR. MANY POLITICIANS FRIENDLY TO HIM WONDER HOW LONG THE PUBLIC'S FUND OF GOODWILL FOR HIM CAN LAST IF HE CONTINUES TO BEHAVE LIKE THIS. THIS WEEK'S ISSUE OF 'STERN' MAGAZINE PORTRAYS KOHL AS LOUIS XIV IN FULL FIG, WITH THE CAPTION 'L'ETAT C'EST MOI'. THE AFFAIR IS BOUND TO COST THE CDU/CSU SOME VOTES IN NEXT MONTH'S EUROPEAN ELECTION AND MAKE IT ALL THE MORE LIKELY THAT THE FDP WILL FAIL TO CLEAR THE 5 PER CENT HURDLE.

6. GENSCHER'S FAILURE TO DELIVER THE FDP IS LIKELY TO DO CONSIDERABLE DAMAGE TO RELATIONS WITHIN THE COALITION. STRAUSS HAS DESCRIBED THIS AS THE WORST BREAKDOWN SO FAR IN THE AFFAIRS OF THE COALITION. HE WILL NO DOUBT CONTINUE TO PORTRAY THE FDP AS THE EVER UNRELIABLE PARTNER. THIS TIME, KOHL TOO HAS BARELY DISGUISED HIS IRRITATION. THE COALITION IS NOT BY ANY MEANS IN DANGER OF DISINTEGRATION. BUT THE BALANCE OF FORCES WITHIN IT MAY NOW SHIFT CONSIDERABLY AGAINST GENSCHER AND THE FDP, REDUCING THEIR HITHERTO DISPROPORTIONATE INFLUENCE.

FCO PLEASE PASS SAVING ADDRESSEES EXCEPT CGS IN THE FRG, BMG BERLIN, AND EAST BERLIN.

MALLABY

[REPEATED AS REQUESTED]

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