

PERSONAL AND CONFIDENTIAL



Foreign and Commonwealth Office

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Dear Charles,

... I attach a copy of another Madrid recce report, this time on Bonn. Not wholly discouraging, though of course Kohl/Mitterrand today may tilt things Genscher's way again.

On monetary, the stress on the need to adopt the Stage I prescription in full was pretty heavy, but I contrived to avoid any substantive discussion on ERM. That will, however, not be feasible in Madrid!

Yours ever,

J O Kerr

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FM BONN

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OF 221544Z JUNE 89

INFO IMMEDIATE UKREP BRUSSELS, MADRID, PARIS, ROME, THE HAGUE
INFO IMMEDIATE BRUSSELS

FRAME ECONOMIC

EUROPEAN COUNCIL MADRID : GERMAN INTENTIONS

SUMMARY

1. KOHL WANTS A SUCCESSFUL EUROPEAN COUNCIL BUT SYMPATHISES WITH FRANCE'S WISH TO KEEP BIG DECISIONS FOR THE NEXT PRESIDENCY. HIS PRIORITIES AT MADRID ARE THE DELORS REPORT AND THE SOCIAL DIMENSION, BUT THE SINGLE MARKET AND FRONTIERS ARE ALSO SIGNIFICANT.

DELORS REPORT

2. KOHL WANTS TO MAKE A MOVE FORWARD BUT IF POSSIBLE TO AVOID CONTROVERSY. THERE HAS BEEN ARGUMENT WITHIN THE FEDERAL GOVERNMENT BETWEEN THE RELATIVELY CAUTIOUS WAIGEL, THE FINANCE MINISTER, AND GENSCHER, WHO WANTS TO SUPPORT FRANCE IN MOVING RAPIDLY. KOHL'S POSITION FOR MADRID SEEMS TO GIVE REASONABLE WEIGHT TO WAIGEL'S VIEWS.

3. I ANTICIPATE THAT THE GERMANS, WHO WISH TO MOVE QUICKLY ON STAGE ONE OF THE DELORS REPORT, WILL PRESS US EVEN MORE THAN IN THE PAST TO NAME A DATE FOR BRITISH MEMBERSHIP OF THE ERM.

4. KOHL'S OFFICIALS DO NOT EXPECT HIM TO WANT PARAGRAPH 39 OF THE DELORS REPORT TO BE EXPLICITLY ENDORSED OR REJECTED. THEY WANT THAT POINT TO BE FINESSED BY THE EUROPEAN COUNCIL AGREEING AGAIN ON THE GOAL OF ECONOMIC AND MONETARY UNION. GRIMM (FEDERAL CHANCELLERY) TOLD KERR AND ME ON 21 JUNE THAT THE FEDERAL CHANCELLOR MIGHT ALSO WANT A STATEMENT THAT POLITICAL UNION WAS THE GOAL, BUT DID NOT SEEM INSISTENT ON THIS ADDITION. KOHL IS EXPECTED TO WANT THE EUROPEAN COUNCIL TO PRAISE THE DELORS REPORT AND ACCEPT IT AS THE BASIS FOR PROGRESS. GENSCHER WOULD LIKE A MORE SPECIFIC STATEMENT, EG THAT THE COMMUNITY'S GOAL WAS EMU AS DESCRIBED IN THE REPORT, BUT THE ECONOMICS AND FINANCE MINISTERS DO NOT AGREE WITH MAJOR ELEMENTS IN STAGES TWO AND THREE OF THE REPORT, NOTABLY THE PROVISIONS ABOUT COORDINATION OF NATIONAL BUDGETARY POLICY, AND THE IDEA OF TAKING THE REPORT AS THE BASIS FOR PROGRESS IS THE RESULTING COMPROMISE.

KOHL WILL WANT MADRID TO SET IN HAND MOVES TO IMPLEMENT STAGE ONE OF THE REPORT, PROBABLY WITH A TIMESCALE. THE OTHER TWO STAGES WOULD BE REMITTED FOR CONSIDERATION BY ECOFIN AND OTHER BODIES, WITHOUT A TIMETABLE.

M 5. KOHL IS LIKELY TO WANT A MENTION IN THE MADRID CONCLUSIONS OF THE FUTURE PROSPECT OF AN INTERGOVERNMENTAL CONFERENCE. HE EXPECTS FRANCE TO WANT AT THE PARIS EUROPEAN COUNCIL TO SET A DATE FOR AN IGC. GENSCHER SUPPORTS THAT. BUT KOHL AND HIS ECONOMICS AND FINANCE MINISTERS THINK THAT CONDITIONS WOULD HAVE TO BE SET, ON WHICH THE CONVENING OF AN IGC WOULD BE DEPENDENT. OFFICIALS HERE ARE WORKING, ON A CONTINGENCY BASIS, ON A LIST OF SUCH CONDITIONS. SCHLECHT, PUS AT THE ECONOMICS MINISTRY, REMARKED TO ME THAT AN IGC WOULD ONLY BE NEEDED FOR STAGE THREE OF THE DELORS REPORT.

SINGLE MARKET

6. THE COMPLETION OF THE SINGLE MARKET REMAINS THE BIGGEST ISSUE IN THE PUBLIC DEBATE IN GERMANY ABOUT THE COMMUNITY. THE GERMANS, DESPITE GENUINE DIFFICULTIES ABOUT CERTAIN SUBJECTS, ARE COMMITTED TO MAKING A REALITY OF 1992. I BELIEVE THAT KOHL WOULD GO ALONG WITH A PROPOSAL AT MADRID TO DECLARE AGAIN THAT THE SINGLE MARKET IS THE BIGGEST PROJECT IN THE COMMUNITY NOW AND FOR THE NEXT 3 YEARS. THIS WEEK'S ECOFIN MEETING SHOWED THAT THE GERMANS CAN BE BROUGHT INTO LINE ON MATTERS WHERE THEY HAVE HESITATIONS. WE SHOULD CONTINUE TO PRESS THEM ON OTHER SUCH MATTERS, NOTABLY TRANSPORT AND LIFE INSURANCE.

SOCIAL DIMENSION AND FRONTIERS

7. SEE MY TELNOS 649 AND 651.

COMMENT

8. KOHL WILL RECKON THAT HIS POSITIONS ON THE DELORS REPORT AND THE SOCIAL DIMENSION ARE MODERATE AND REASONABLE AND THAT THEY TAKE ACCOUNT OF THE VIEWS OF THOSE WHO INSIST ON CARE AND DELIBERATION. ON FRONTIERS, THE GERMAN POSITION IS BECOMING MORE REALISTIC AND MORE HELPFUL TO US. IF WE CAN MAXIMISE THE OVERLAP BETWEEN BRITISH AND GERMAN POSITIONS AT MADRID, WE SHALL BE BETTER PLACED TO ACHIEVE A REASONABLE DEGREE OF COOPERATION WITH THE GERMANS IN THE RISKY WATERS OF THE FRENCH PRESIDENCY. TO HAVE A MAJOR ARGUMENT WITH THE GERMANS, SOON AFTER THE ONE ON SNF, WOULD REDUCE OUR INFLUENCE HERE AT A TIME WHEN UNWELCOME TRENDS IN THE FRG'S EAST-WEST AND SECURITY POLICIES MAKE MAXIMUM APPLICATION OF THAT INFLUENCE EVEN MORE IMPORTANT THAN USUAL.