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FRAME AGRICULTURE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1562 OF 30 APRIL 1985

INFO SAVING BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN,
PARIS, BONN, LUXEMBOURG, ATHENS, LISBON, MADRID, WASHINGTON.

CAP PRICE FIXING: RUN UP TO AGRICULTURE COUNCIL STARTING ON
2 MAY

SUMMARY

1. FOLLOWING AN INTERVENTION BY DELORS, THE COMMISSION IS REPORTED TO HAVE AGREED THAT NO EXTRA FUNDS WILL BE AVAILABLE FOR A CAP PRICES SETTLEMENT AND THAT THE PRINCIPLE OF GUARANTEED THRESHOLDS MUST BE RESPECTED.

DETAIL

2. WE UNDERSTAND THAT IN TODAY'S COMMISSION MEETING ANDRIESSEN LAID INCREASED EMPHASIS ON GERMANY AS THE OBSTACLE TO A SETTLEMENT AT THIS WEEK'S COUNCIL. HE FELT THAT FRANCE AND ITALY WOULD SEEK TO AVOID ISOLATING GERMANY AND THAT A VOTE, THOUGH POSSIBLE, WAS NOT PROBABLE. IF GROUND WERE GIVEN TO GERMANY ON CEREALS, CONCESSIONS WOULD SIMILARLY NEED TO BE MADE ON SOUTHERN PRODUCTS.

3. DELORS APPEARS TO HAVE CHECKED ANDRIESSEN BY TAKING A TOUGH LINE, INSISTING ON A TIGHT PRICE SETTLEMENT. IT WAS CONCLUDED THAT ANY SETTLEMENT SHOULD BE ACCOMMODATED WITHIN EXISTING BUDGETARY PROVISION AND SHOULD MAINTAIN THE GUARANTEE THRESHOLD PRINCIPLE. IF THE COUNCIL MOVED TOWARDS A COMPROMISE INCONSISTENT WITH THIS STAND, THE COMMISSION WOULD NEED TO CONSIDER ITS POSITION - IF NECESSARY HOLDING A FULL MEETING DURING THE COUNCIL.

4. ANDRIESSEN WILL MEET THE PRESIDENCY IN LUXEMBOURG ON THE MORNING OF 2 MAY TO DISCUSS THE HANDLING OF THE COUNCIL. POOLEY (DG VI) TELLS US (PLEASE PROTECT) THAT THERE IS NOW NOT LIKELY TO BE A PRESIDENCY PAPER AND THAT THE COUNCIL WILL PROBABLY START WITH AN ORAL PRESENTATION OF THE PRESIDENCY'S IDEAS.

FCO ADVANCE TO:-

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FROMM BONN

FRAME ECONOMIC

TO FCO TELNO 8 SAVING OF 30 APRIL 1985. Info all EC Posts,
UKDel OECD, UKMis Geneva, all Consulates-General
in the Federal Republic, Washington, Tokyo, Vienna.

FEDERAL GERMAN ECONOMY *ms*

Summary

1. Flash estimates of first quarter outturn show a drop of 0.5% to 1% real GNP on Q4.1984. This was principally the result of the exceptionally hard winter. The underlying trend remains upwards: a view supported by the Spring Report of the five leading economic institutes who forecast export and investment led growth of 2.5% (real) this year, inflation running at 2.5%; little change is expected in the number of unemployed.

2. During the month Chancellor Kohl gave a report on the government's social and economic record, concentrating on the need to continue the fight against unemployment with the emphasis on using market forces to create jobs. Labour Minister Blüm lent substance to this approach by introducing a number of supply side measures designed to make the labour market more responsive.

3. In another development, the Bundesbank announced its intention of further liberalising the capital market by allowing foreign banks to lead-manage foreign DMark bond issues.

Detail

4. Flash estimates for Q1 growth confirmed earlier forecasts that the worst winter weather for 20 years would produce a fall in GNP of around 0.5% to 1% on Q4 1984. Apart from poor weather and other special factors eg. a sharp decline in construction and a fall in domestic demand for cars, the underlying growth trend remains upwards. New orders maintain their high level with the total volume of new orders now standing at 20% above the low reached in mid-1982. Most commentators believe that exports as well as investment in equipment will continue to show a better

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than average performance; the demand for investment in equipment will continue to improve because of better profits and the need for modernisation and replacement procurements.

5. This view is shared by the five leading economic institutes who, in their Spring Report published on 29 April, forecast 2.5% real GNP growth, fuelled by exports and investment (capital goods investment up 7% - construction down 3%), with inflation, cost of living index, rising by about 2.5%. However, while the number of employed is expected to increase by around 50,000, the number of unemployed is forecast to reach 2.28 million or 9.4%. Nevertheless the forecast, in underlining the importance of exports, highlights the slackness in domestic demand with private consumption growing by only 1% (real). The five institutes, in order to stimulate domestic demand, renew their policy recommendation to the government that the proposed two stage tax reform yet to be introduced in 1986 and 1988, should be brought in in one stage in 1986.

6. On 25 April Chancellor Kohl spoke about the coalition's economic performance. He highlighted the Government's success with inflation, public borrowing and growth but stressed the outstanding problem of mass unemployment. Kohl said that the Government, by spending more than DM 11 billion on short-time help for the unemployed, saw the introduction of more flexible methods as a longer term solution. To this end, Norbert Blüm announced that on 1 May a new employment bill would be introduced to encourage businesses to take on new workers under contracts of up to 18 months. In addition the new legislation will establish better conditions for part-time workers and job-sharing. To protect workers' rights the measure will be "transitional" during the current period of unemployment and will expire at the end of 1989. It will also apply only once for any individual ie an employer who wants to give a worker a limited contract for a second time would need to make out an exceptional case.

7. The Bundesbank announced its intention that from 1 May its capital markets will be further liberalised. Under the new arrangements foreign banks will be able to lead manage foreign DMark bonds. The move is seen as designed on the one hand to make Frankfurt more competitive compared with other