

Confidential

CONFIDENTIAL

FM BONN

TO DESKBY 041330Z FCO

TELNO 443

OF 041155Z JUNE 87

INFO PRIORITY WASHINGTON, PARIS, OTTAWA, ROME, TOKYO, UKREP BRUSSELS

VENICE ECONOMIC SUMMIT: GERMAN VIEWS

SUMMARY

1. IN A PRE-SUMMIT INTERVIEW CHANCELLOR KOHL SETS OUT HIS APPROACH TO THE MAIN ECONOMIC ISSUES AT VENICE. MAIN EMPHASIS ON FENDING OFF PRESSURES ON THE FRG TO DO MORE TO STIMULATE ITS ECONOMY; ON AVERTING THE DANGER OF A FURTHER FALL IN THE DOLLAR'S VALUE AGAINST THE D-MARK; AND ON THE IMPORTANCE OF THE GATT.

2. ON POLITICAL ISSUES (TERRORISM, SOUTH AFRICA, THE GULF), THERE ARE NO MAJOR POINTS OF DISAGREEMENT WITH US THOUGH GERMAN SUPPORT MAY BE PASSIVE RATHER THAN ACTIVE.

DETAIL

A: ECONOMIC ISSUES

3. IN AN INTERVIEW GIVEN ON 27 MAY CHANCELLOR KOHL SET OUT THE GERMAN APPROACH TO THE VENICE SUMMIT.

I) THE SUMMIT SHOULD CONCENTRATE ON THE IMPLEMENTATION OF OBJECTIVES ANNOUNCED AT PREVIOUS SUMMITS AND REAFFIRM THE EXISTING ECONOMIC POLICY CONSENSUS. THROUGH CLOSE ECONOMIC, MONETARY AND FINANCIAL COOPERATION, THE AIM SHOULD BE TO SAFEGUARD MEDIUM-TERM STABLE GROWTH AND TO AVOID A FURTHER DEVALUATION OF THE US DOLLAR.

II) BUDGETARY CONSOLIDATION IN THE FRG OVER THE PAST FOUR-AND-A-HALF YEARS HAD CREATED A SOLID BASIS FOR SUSTAINED GROWTH. THE BUDGETARY LATITUDE THUS GAINED HAD BEEN USED FOR TAX CUTS WORTH NEARLY DM 50 BILLION OR AROUND 2.5 PER CENT OF GNP. MONETARY POLICY HAD PERMITTED STRONG MONETARY EXPANSION AND LOW INTEREST RATES. IMPORTS WERE GROWING RAPIDLY AND THERE HAD BEEN A REDUCTION IN THE FOREIGN TRADE SURPLUS.

III) THE UNITED STATES AND JAPAN WOULD BE ASKED AT VENICE TO EXPLAIN HOW THEY WERE PROGRESSING WITH THEIR INTERNATIONAL OBLIGATION TO REDUCE TRADE IMBALANCES. A FURTHER INCREASE IN US INTEREST RATES WOULD BE UNDESIRABLE. THE RESULTS OF EXCHANGE RATE COOPERATION HAD BEEN QUITE ENCOURAGING. THE CONTAINMENT OF FLUCTUATIONS IN THE DOLLAR/DMARK EXCHANGE RATE WITHIN NARROW LIMITS SINCE FEBRUARY WAS IMPORTANT TO THE FRG. BUT LASTING STABILITY OF EXCHANGE RATES REQUIRED PROGRESS IN THE COORDINATION OF ECONOMIC AND MONETARY POLICY. THE POOREST AND MOST HEAVILY INDEBTED COUNTRIES IN SUB-SAHARAN AFRICA SHOULD BE GRANTED LONGER REPAYMENT PERIODS WITHIN THE PARIS CLUB AGREEMENTS.

Confidential

/iv)

Confidential

IV) THE MAIN DANGERS TO THE FREE TRADE SYSTEM WERE THE ATTEMPTS TO PASS PROTECTIONIST LEGISLATION IN THE UNITED STATES, THE RISK THAT THE EC MIGHT COPY THE UNITED STATES' BAD EXAMPLE RATHER THAN SUBMITTING ITSELF TO GATT DISCIPLINES, AND JAPAN'S INABILITY TO ACT QUICKLY AND EFFECTIVELY TO ELIMINATE STRUCTURAL IMBALANCES IN ITS TRADE RELATIONS. AT VENICE THE FRG WOULD URGE ITS PARTNERS TO REAFFIRM AND ADHERE TO THEIR OBLIGATION TO FOLLOW THE GATT RULES AS WELL AS TO COOPERATE CONSTRUCTIVELY IN THE URUGUAY ROUND, INCLUDING AGRICULTURE.

4. IN A SPEECH TO ECONOMIC AND COMMERCIAL COUNSELLORS ON 3 JUNE, BANGEMANN (FEDERAL ECONOMICS MINISTER) SPOKE ON SIMILAR LINES, PROCLAIMING HIS OWN PERSONAL COMMITMENT TO FREE TRADE, EVEN IN SECTORS WHERE ADVANCED COUNTRIES' NARROW INTERESTS WOULD BE HURT TO THE ADVANTAGE OF DEVELOPING COUNTRIES, TO THE GATT URUGUAY ROUND AND TO THE NEED TO RESIST BOTH PROTECTIONISM AND BILATERALISM. HE STRESSED THE NEED TO BRING AGRICULTURE INTO THE FREE MARKET SYSTEM AND SPECIFICALLY OPPOSED THE COMMISSION'S PROPOSED OILS AND FATS TAX. POLITICIANS, ESPECIALLY IN THE US, MUST BE BRAVE ENOUGH TO RESIST LOCAL PROTECTIONIST PRESSURES, AND INTERNALLY THE FRG MUST DO AWAY WITH ITS SUBSIDIES.

COMMENT

5. CHANCELLOR KOHL WAS SPEAKING AGAINST A BACKGROUND OF UNCERTAINTY FOR THE DOMESTIC ECONOMY. VIRTUALLY ALL FORECASTS FOR GROWTH THIS YEAR HAVE BEEN REVISED DOWNWARDS TO BETWEEN 1.5 PER CENT AND 2 PER CENT REAL GNP. THE CABINET MUST FORMALLY AGREE THE FIVE YEAR FINANCIAL PLAN BY EARLY NEXT MONTH. TAX REVENUE OVER THE NEXT FIVE YEARS IS PROJECTED TO BE LOWER THAN EXPECTED AND BOTH GENERAL GOVERNMENT AND FEDERAL DEFICITS ARE FORECAST TO INCREASE IN NOMINAL TERMS. THE GOVERNMENT IS ALSO HAVING DIFFICULTY MAKING DECISIONS ON HOW TAX REDUCTIONS ALREADY ANNOUNCED SHOULD BE PAID FOR. KOHL WILL WANT TO LEAVE VENICE WITH HIS GOVERNMENT'S REPUTATION FOR FISCAL PRUDENCE AND FIRM ECONOMIC MANAGEMENT INTACT. BANGEMANN WAS ONCE AGAIN FIGHTING INTERNAL BATTLES IN PUBLIC.

B: TERRORISM

6. THE GERMANS CAN AGREE TO THE DRAFT STATEMENT ON TERRORISM PREPARED BY PERSONAL REPRESENTATIVES AND EXPECT IT TO BE ADOPTED BROADLY AS IT STANDS. THEY HAVE NO NEW INITIATIVES TO PROPOSE AND DO NOT EXPECT THE RECENT MEETING OF INTERIOR MINISTERS IN PARIS TO HAVE MUCH IMPACT ON THE SUMMIT, BUT THEY DO NOT EXCLUDE THE POSSIBILITY OF EG THE AMERICANS HAVING SOMETHING UP THEIR SLEEVES.

C: SOUTH AFRICA

7. YOU WILL KNOW FROM OUR TELEGRAM NUMBER 434 THAT THE GERMANS AGREE WITH US THAT A SUMMIT STATEMENT ON SOUTH AFRICA WOULD BE

-2-
Confidential

UNDESIRABLE

Confidential

UNDESIRABLE, ALTHOUGH THEY MAY HAVE UNDER-ESTIMATED THE EXTENT OF CANADIAN PRESSURE FOR ONE. WE SHALL BE URGING THEM (YOUR TELNO 309) TO DISSUADE THE CANADIANS, BUT THE DANGER THAT IN THE PRE-SUMMIT PERIOD THEY WILL LEAVE MOST OF THE RUNNING TO US MUST BE ACKNOWLEDGED. THEY SHOULD, HOWEVER, REMAIN SOLID AT THE SUMMIT ITSELF.

D. GULF SHIPPING

B. IT HAS BEEN MADE CLEAR, AND APPARENTLY ACCEPTED BY THE REST OF THE SEVEN, THAT CONSTITUTIONAL LIMITATIONS PRECLUDE THE GERMANS FROM ACTUALLY SENDING SHIPS OR OTHER FORCES TO THE GULF AREA. THE GOVERNMENT'S OVERT REACTION TO THE IDEA THAT THE FRG MIGHT PLAY ITS PART EITHER BY HELPING TO COVER FOR FORCES OF OTHER NATO COUNTRIES TRANSFERRED FROM EUROPE TO THE GULF AREA, OR BY MEETING SOME OF THE COSTS OF THE OPERATION, HAS BEEN CAUTIOUS; NOT LEAST BECAUSE ALL GERMAN FORCES ARE ALREADY ASSIGNED TO NATO. BUT CONTACTS AT DESK LEVEL WITH FMOD AND AUSWAERTIGES AMT HAVE INDICATED THAT THE POSSIBILITY OF AN APPROPRIATE POLITICAL GESTURE MAY NOT BE RULED OUT. IN THIS AREA, MUCH IS LIKELY TO DEPEND ON THE REACTION OF PARTNERS OTHER THAN OURSELVES AND THE FRENCH TO US PRESSURE. IF THE JAPANESE, WHOSE DEPENDANCE ON GULF OIL IS FAR GREATER THAN THE FRG'S, OFFER NOTHING, THE GERMANS MAY FEEL THAT THEY ARE OFF THE HOOK.

WILLIAMS

YYYY

BPLNAN 3708

ECONOMIC SUMMIT
STANDARD (PALACE)
ERD
ECONOMIC ADVISERS
FED
NAD
ECDS
TRED
SOVIET D
EED
UND
MAED
SCD
NCAU

MR MAUD
MR McLAREN
SIR D MIERS

ADDITIONAL DISTRIBUTION
ECONOMIC SUMMIT

-3-

Confidential