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TO IMMEDIATE PEKING

TELEGRAM NUMBER 179 OF 1 APRIL

INFO IMMEDIATE (PERSONAL FOR AMBASSADORS) BONN, PARIS, ROME,
WASHINGTON AND MOSCOW

FOLLOWING FOR PRIVATE SECRETARY.

GERMAN-SOVIET RELATIONS.

1. THE STATE SECRETARY IN THE GERMAN FOREIGN MINISTRY TELEPHONED THE PERMANENT UNDER SECRETARY AT HOME THIS EVENING TO CONVEY THE FOLLOWING TO THE SECRETARY OF STATE FROM HERR GENSCHER. THE LATTER WOULD HAVE WISHED TO SPEAK PERSONALLY TO LORD CARRINGTON BUT IN VIEW OF HIS ABSENCE HAD ASKED VAN WELL TO CONVEY MESSAGE THROUGH PALLISER.

2. THE SOVIET AMBASSADOR IN BONN HAD CONVEYED TO HERR GENSCHER THE DESIRE OF PRESIDENT BREZHNEV TO TAKE UP THE INVITATION CONVEYED IN MOSCOW LAST SUMMER BY CHANCELLOR SCHMIDT TO RETURN THE LATTER'S QUOTE WORKING VISIT UNQUOTE AT THE END OF JUNE IN BONN. HERR GENSCHER, WHO LEAVES TOMORROW FOR A 48 HOURS VISIT TO MOSCOW, WISHES TO REPLY WHEN HE CALLS ON BREZHNEV ON 3 APRIL. THE GERMAN GOVERNMENT HAD CAREFULLY CONSIDERED THIS AGAINST THE BACKGROUND OF THE POLISH SITUATION. THEY HAD CONCLUDED THAT IT WOULD BE PREFERABLE TO RESPOND POSITIVELY TO THE SOVIET APPROACH SINCE THIS SHOULD MAKE IT MORE DIFFICULT FOR THE SOVIET UNION TO TAKE DRASTIC ACTION TOWARDS POLAND. BUT CHANCELLOR SCHMIDT WOULD WISH FIRST TO HAVE SEEN PRESIDENT REAGAN: AND WOULD ALSO WISH THE OTTAWA ECONOMIC SUMMIT TO HAVE PRECEDED ANY MEETING WITH BREZHNEV. ACCORDINGLY, HERR GENSCHER INTENDED TO TELL BREZHNEV THAT A MEETING IN JUNE WOULD BE INCONVENIENT BUT THAT ONE COULD TAKE PLACE AFTER 27 JULY. THE INTENTION IS THAT IT SHOULD BE A SHORT TWO-DAY WORKING VISIT AS FOR CHANCELLOR SCHMIDT'S VISIT LAST YEAR TO MOSCOW.

3. THE GERMANS HAD SPOKEN ABOUT THIS TODAY TO THE AMERICANS AND THE FRENCH AND HAD ALSO BEEN IN TOUCH WITH THE ITALIANS. THE AMERICANS HAD CONCURRED IN THEIR APPROACH. THEY CONSIDERED IT WISE NOT TO TURN DOWN THE SOVIET REQUEST BUT ALSO DESIRABLE TO GAIN SOME MORE TIME (WITH AN EYE TO POLAND) AND THAT THE OTTAWA SUMMIT SHOULD COME FIRST. THE FRENCH HAD TAKEN A SIMILAR

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whatever the rationalisation, there can be no doubt of German commitment to a substantial and growing economic relationship with the Soviet Union and the Federal Government will not accept that the German economic stake in the Soviet Union can be jeopardised by anything less than a major European crisis. The value of FRG exports to the USSR last year was about DM 6.6 mrd, an increase of 5.1 per cent on 1978; imports from the Soviet Union were 7.3 mrd, an increase of 35.7 per cent: the steep rise largely accounted for by the jump in world energy prices. In contrast with the FRG's stake, that of the US is seen here as short term and relatively easy to manipulate (agricultural products account for about 85 per cent of US exports to the USSR). The German economic effort in the Soviet Union is based overwhelmingly on heavy plant (chemicals, metallurgy etc) and energy: all of which require, since a state trading nation is involved, a full framework for financial commitment over a long period. Industry here has therefore been as interested in the creation of long term programme as, for its own purposes, the Soviet Union.

4. The long term programme is not expected to produce short term changes in the trend of bilateral business: leaders in FRG/Soviet trade tell us they anticipate steady but unspectacular growth in the region of 5-10 per cent over the next few years. (To put things into perspective trade with the USSR is not much greater in value terms than with Denmark.) But German industry is clear in its own mind that the Soviet Union's economic potential is far from realised. Its oil, gas and raw materials reserves and its possibility as a market for manufactured goods make it an attractive market for most FRG businessmen: the more so with economic activity dropping as the second half-year begins and the outlook for 1981 as yet unclear. In particular, the gas/pipes deal comes at the right moment for the hard pressed steel sector, although on this front difficult negotiations lie ahead because of Soviet financing requirements regarded by German industry as unreasonable.
5. The German position in Alliance terms is one of rectitude: the Chancellor told Brezhnev very clearly that the long term programme in no way prejudices the FRG's commitment to Cocom or the OECD consensus; but Schmidt believes that it is in the

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long term interest of the Alliance itself to mesh the Soviet Union inextricably into the Western economies. This view has two immediate implications: when I discussed it at lunch with van Well he said the Chancellor was "fascinated" by the general problem of how the whole world should cooperate to solve its energy problems in the future. The implication, consistent with views of other contacts here, is that the West should cooperate with the Soviet Union across the energy sector from exploration to R&D.

6. Van Well confirmed that the Federal Government continued to be interested in energy discussions in the context of ECE, for Berlin reasons certainly, but not solely for Berlin reasons. The Federal Ministry of the Economy have no doubt that without Western know-how (not necessarily German) the Soviet Union will be unable to realise the potential of its energy resources. Problems such as boring through permafrost are currently beyond their capabilities. Western expertise is therefore essential if the USSR is to be kept from entering the world market as a major importer.

7. The Federal Chancellor's second major consideration is that the Soviet Union must be brought to recognise the realities of the North/South dialogue, its responsibilities in this context and the dangers for the world economy of OPEC surpluses, non-oil debt indebtedness and industrial recession. In Moscow he treated Brezhnev to a Schmidt lecture on international economics and, his officials say, left with the view that he had opened new doors of awareness for the Soviet leadership.

8. To sum up: the FRG sees jobs, business profits and political advantage in its economic relationship with the Soviet Union. Selfseeking to the extent that FRG industry wants the trade and needs the raw materials; but in Schmidt's view, in the broader interests of the West, if it draws the USSR from its economic isolation and confronts it with the need to contribute as a partner to international stability.

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