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FM BONN

TO IMMEDIATE FCO

TELNO 734

OF 220650Z SEPTEMBER 87

INFO IMMEDIATE BMG BERLIN

INFO SAVING CONSULATES-GENERAL IN THE FRG, EUROPEAN COMMUNITY POSTS

PRIME MINISTER'S MEETING WITH KOHL: BERLIN, 25 SEPTEMBER: THE SCENE
IN THE FRG

SUMMARY

1. KOHL WORRIED BY CDU'S ELECTORAL SETBACKS BEFORE AND SINCE HONECKER'S VISIT. ON THE ECONOMIC SIDE, A SENSE OF DRIFT. KOHL'S DECISION ON THE PERSHING 1-AS A NEAT TRICK, BUT AT THE PRICE OF FURTHER STRIFE IN THE COALITION. IRAN/IRAQ THE CHIEF FOREIGN POLICY PREOCCUPATION.

DETAIL

DOMESTIC POLITICS

2. APART FROM MANAGING THE HONECKER VISIT (BONN TELNOS 684, 693 AND 694, BMG TELNO 068, EAST BERLIN TELNOS 148, 152 AND 156), KOHL HAS LITTLE CAUSE FOR SATISFACTION AT PRESENT. LAND ELECTIONS IN SCHLESWIG-HOLSTEIN AND BREMEN ON 13 SEPTEMBER BROUGHT FURTHER HEAVY LOSSES TO THE CDU, WHICH HAS NOW SUFFERED SETBACKS IN FIVE OF THE SIX ELECTIONS THIS YEAR, INCLUDING THE FEDERAL ELECTIONS IN JANUARY. IN SCHLESWIG-HOLSTEIN, WHERE THE CDU HAS PREVIOUSLY RULED WITH AN ABSOLUTE MAJORITY, THEY AND THE FDP TOGETHER NOW ONLY HAVE HALF THE SEATS. WORSE STILL, ALLEGATIONS OF DIRTY TRICKS DURING THE CAMPAIGN BY THE CDU PRIME MINISTER BARSCHEL MAY COST HIM HIS JOB AND HAND POWER TO THE SPD.

3. THESE REVERSES HAVE GIVEN FRESH IMPETUS TO THE ARGUMENT WITHIN THE CDU/CSU ABOUT FUTURE STRATEGY (MY LETTER OF 18 SEPTEMBER TO RATFORD). THE PARLIAMENTARY PARTY IS NERVOUS. STRAUSS IS STILL BITTER THAT KOHL DID NOT CONSULT HIM ON HIS SUDDEN COMMITMENT ON 26 AUGUST TO SCRAP THE FRG'S PERSHING 1-AS IF AN INF AGREEMENT IS IMPLEMENTED. THE CSU WILL BE UNCOMFORTABLE PARTNERS FOR KOHL IN COMING MONTHS.

ECONOMIC ISSUES

4. THE ECONOMY MAY ALSO BE ON KOHL'S MIND. THERE IS A CONTINUING SENSE OF DRIFT. EVEN THE BUNDESBANK HAS BEEN CHIDING THE GOVERNMENT ABOUT ITS SPENDING POLICIES: IMPORTANT DECISIONS CONNECTED WITH THE

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TAX REDUCTION PROGRAMME ARE STILL AWAITED: THERE IS A RELUCTANCE TO GET TO GRIPS WITH THE PROBLEMS OF SUBSIDIES, OR THE OVERDUE STRUCTURAL CHANGES IN SMOKE-STACK INDUSTRIES. AFTER MONTHS OF IMPROVEMENT, THE LABOUR MARKET IS SHOWING SIGNS THAT IT HAS REACHED A PLATEAU: THE PSBR IS WELLABOVE THE PLANNED FIGURE, AND GROWTH THIS YEAR NOT LIKELY TO EXCEED 2 PERCENT. ALL THIS IS LIKELY TO INFLUENCE GERMAN ATTITUDES IN THE EC. THE GOVERNMENT MAY BE INCLINED TO BLUR THE STATED COMMITMENT TO BUDGETARY DISCIPLINE ON ACCOUNT OF THE POLITICAL NEED TO BUY OFF THE FARMERS. THERE IS AS YET ONLY LIMITED RECOGNITION BY GERMAN INDUSTRY THAT FAILURE TO REFORM THE CAP MAY LEAD TO UNCONTAINABLE PRESSURE IN THE US FOR RETALIATORY PROTECTIONISM IN INDUSTRIAL SECTORS. ON SUBJECTS SUCH AS TAX HARMONISATION, DOMESTIC CONSIDERATIONS COULD PUSH GERMANY TO PURSUE POLICIES WHICH WOULD PUT THEM ON THE OPPOSITE SIDE OF THE FENCE TO THE UK.

DEFENCE ISSUES

5. THE DUST IS SLOWLY SETTLING AFTER KOHL'S PIA ANNOUNCEMENT (BONN TELNOS 656-8). HE CAN FEEL SATISFIED THAT HE REMOVED A POTENTIAL OBSTACLE TO AN INF TREATY AT A KEY JUNCTURE, AND WILL WELCOME THE PROGRESS MADE BY SHULTZ AND SHEVARDNADZE IN WASHINGTON. THE CSU ARE STILL GROWLING AND LICKING THEIR WOUNDS, WHILE THE FDP ARE DELIGHTED, AND TURNING THEIR THOUGHTS TO THE NEXT STEP. CAREFUL HANDLING OF THE SNF ISSUE WILL BE NEEDED OVER THE COMING WEEKS, TO AVOID CEMENTING THE UNHOLY ALLIANCE NOW EMERGING BETWEEN THE FDP AND THE CSU/CDU RIGHT-WING ON THE ISSUE OF NUCLEAR MISSILES WITH A RANGE LESS THAN 500 KM (SEE MY LETTER OF 18 SEPTEMBER TO FALL).

6. THE ANNUAL BUDGET SEASON IS NOW UNDER WAY IN PARLIAMENT, WITH DEFENCE STARTING UNDER A HANDICAP. FOLLOWING CABINET DISCUSSION IN JUNE, THE DRAFT DEFENCE BUDGET WAS SET TO GROW AT LESS THAN THE RATE FOR THE FEDERAL BUDGET OVERALL: THIS WAS IN CONTRAST TO THE PAST FEW YEARS, AND AT A TIME WHEN WOERNER ARGUED THAT AN EXTRA INCREASE WAS NECESSARY. THE PROSPECT IS FOR SLIGHTLY NEGATIVE OR AT BEST ZERO REAL GROWTH IN DEFENCE SPENDING IN 1987.

FOREIGN AFFAIRS

IRAN/IRAQ

7. INITIAL GERMAN REACTIONS TO THE SECRETARY-GENERAL'S REPORT ON HIS MISSION TO TEHRAN AND BAGDAD HAVE BEEN POSITIVE. THEY ARGUE THAT THE IRANIAN POSITION HAS MOVED SUFFICIENTLY OVER THE LAST TWO MONTHS TO JUSTIFY FURTHER DIPLOMATIC EFFORTS BY THE SECRETARY-GENERAL BEFORE ANY MOVE TO A UNSC SANCTIONS RESOLUTION. KOHL AND ESPECIALLY GENSCHER WILL SEE THIS AS VINDICATING THEIR POLICY TOWARDS THE

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BELLIGERENTS. THE HOSTAGE AFFAIR IS PART OF THE REASON FOR THEIR ATTITUDE TOWARDS IRAN, BUT THEY DO ALSO BELIEVE THAT THE FRG HAS A POLITICAL ROLE TO PLAY, AS THE ONLY MAJOR WESTERN COUNTRY WHOSE RELATIONS WITH IRAN STILL CONTAIN A MEASURE OF CORDIALITY. THEY WILL BE LOOKING FOR EXCUSES NOT TO JOIN IN ANY ATTEMPTS TO ISOLATE IRAN INTERNATIONALLY, UNLESS THESE HAVE THE CLEAR SUPPORT OF ALL FIVE PERMANENT MEMBERS OF THE SECURITY COUNCIL.

SOUTH AFRICA

8. THE ANTI-APARTHEID LOBBY IN THE FRG HAS BEEN MORE ACTIVE THIS YEAR, WITH THE CHURCHES AND TRADES UNIONS IN THE FOREFRONT, BUT THE FEDERAL GOVERNMENT DOES NOT FACE THE DEGREE OF DOMESTIC PRESSURE GENERATED IN THE UK. THE GOVERNMENT ARE CONCERNED BY THE SPIN-OFF OF THEIR ANTI-SANCTIONS POLICY ON RELATIONS WITH THE THIRD WORLD. BUT THERE IS LITTLE PROSPECT OF THEM CHANGING THEIR POSITION ON SANCTIONS UNLESS THE UK AND US WERE TO DO SO. KOHL WILL BE PARTICULARLY INTERESTED IN THE PRIME MINISTER'S VIEWS ON THE LIKELY OUTCOME OF CHOGM, AND WOULD WELCOME ASSURANCES THAT HE WILL NOT BE LEFT IN THE LURCH.

BULLARD

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