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INFO ROUTINE EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO

INFO SAVING OTTAWA, TOKYO

MIPT: ANGLO-GERMAN SUMMIT: HANDLING OF ISSUES

SUMMARY

1. GOOD OPPORTUNITY TO PRESS KOHL PRIVATELY ON SNF MODERNISATION, TO URGE HIM TO STRESS THE NEED FOR REALISM ABOUT GORBACHEV'S CHANCES, AND TO UNDERLINE THE IMPORTANCE OF MILITARY TRAINING IN THE FRG IF OUR COMMITMENT TO FORWARD DEFENCE IS TO REMAIN CREDIBLE.

2. EASTERN EUROPE AND SOUTH AFRICA WORTH MENTION.

3. KOHL MIGHT BE ENCOURAGED TO PRESS FORWARD WITH DEREGULATION OF THE GERMAN ECONOMY. THERE ARE DIFFERENCES OF APPROACH ON A NUMBER OF EC ISSUES, BUT COMMON GROUND IN OPPOSITION TO FORTRESS EUROPE.

4. A CHANCE TO POINT IN PUBLIC TO THE STRENGTHS OF THE BILATERAL RELATIONSHIP.

DETAIL

Is this attainable? 5. OUR INTEREST IN PUBLIC HARMONY AT THIS SUMMIT NEED NOT STAND IN THE WAY OF FRANKNESS IN PRIVATE. WITH IMPORTANT DECISIONS TO BE TAKEN IN DEFENCE AND COMMUNITY MATTERS LATER THIS YEAR, THE SUMMIT IS WELL TIMED. GIVEN HIS DIFFICULTIES, KOHL'S MANNER MAY BE TRUCULENT.

SNF MODERNISATION

6. MY TELNO 188 REPORTS SECRETARY BAKER'S TALKS WITH KOHL YESTERDAY. THE COALITION HAS REACHED NO DECISION YET. KOHL HAS RECENTLY WOBBLED AND GIVEN THE IMPRESSION OF WANTING TO DELAY DECISIONS UNTIL 1991-92. BUT TELTSCHIK, SPEAKING AFTER BAKER SAW KOHL, CLAIMED TO ME THAT KOHL STILL HOPED FOR A NATO DECISION IN PRINCIPLE ON MODERNISATION IN THE COMPREHENSIVE CONCEPT IN MAY. GENSCHER AND LAMBSDORFF WANT NO MODERNISATION DECISION UNTIL 1991-92. ALL THE MINISTERS CONCERNED WITH THE SUBJECT WANT A MOVE ON SNF NEGOTIATION TO BE INCORPORATED INTO THE COMPREHENSIVE CONCEPT. OPINION POLLS SHOW A LARGE MAJORITY AGAINST MODERNISATION. TELTSCHIK IS NOW

PESSIMISTIC ABOUT KOHL GETTING HIS WAY. UNLESS THE US ADMINISTRATION EXERT STRONG AND CONTINUOUS PRESSURE, AND GOOD ARGUMENTS, FOR A MODERNISATION DECISION IN 1989, GENSCHER LOOKS INCREASINGLY LIKELY TO WIN THE ARGUMENT HERE.

7. BUT SINCE THE OUTCOME IS NOT YET DECIDED, I RECOMMEND THAT THE PRIME MINISTER SHOULD EXPLAIN ONCE AGAIN WHY IT IS IMPORTANT FOR NATO TO TAKE A DECISION OF PRINCIPLE THIS YEAR AND WHY ARMS CONTROL NEGOTIATIONS ARE NOT IN NATO'S INTERESTS. MRS THATCHER COULD SAY THAT NOTHING HAS MADE A MODERNISATION DECISION LESS DESIRABLE SINCE KOHL TOLD HER IN RHODES THAT HE FAVOURED ONE THIS YEAR: AND THAT FAILURE TO TAKE THE DECISION WOULD BE A SIGN OF WESTERN WEAKNESS. IT IS TIME TO PIN KOHL DOWN ON HIS REAL AIM AND WHAT HE THINKS HE CAN DELIVER WHEN AND ON WHAT TERMS. I WOULD NOT EXCLUDE HIS WANTING TO LEAVE THE FINAL DECISION ON MODERNISATION TO THE SUMMIT ITSELF, WITH ALL THE RISKS THAT IT WOULD ENTAIL FOR THE SUCCESS OF THAT MEETING.

8. AT THE PRESS CONFERENCE, I THINK KOHL WOULD BE GLAD TO GIVE A CLEAR DECLARATION OF THE FEDERAL REPUBLIC'S SOLIDARITY WITH THE WEST. JOURNALISTS WILL PROBE HARD FOR DIFFERENCES ON SNF. AGREEMENT ON A COMMON LINE BEFOREHAND WILL BE IMPORTANT. I SUGGEST THAT IT SHOULD CENTRE ON THE AGREED NATO POSITION THAT COMPREHENSIVE CONCEPT SHOULD BE APPROVED THIS SUMMER AND THAT NATO'S NUCLEAR AND CONVENTIONAL FORCES WILL BE KEPT UP-TO-DATE WHERE NECESSARY.

GORBACHEV AND THE CLIMATE IN THE FRG FOR DEFENCE ACTIVITY

9. KOHL WILL NOT YET HAVE TURNED HIS MIND TO DETAILED ARRANGEMENTS FOR GORBACHEV'S STATE VISIT HERE IN JUNE. OFFICIALS ARE BEING CAGEY ABOUT THE LIKELY CONTENTS OF THE DECLARATION TO BE ISSUED BY THE TWO GOVERNMENTS. MEANWHILE PUBLIC ENTHUSIASM FOR GORBACHEV REMAINS INTENSE. MINISTERS ARE SENSITIVE TO THE CHARGE THAT POPULAR ENTHUSIASM FOR GORBACHEV AND OPPOSITION TO THE INCONVENIENCE OF MILITARY TRAINING ARE SYMPTOMS OF UNRELIABILITY. THEY POINT, AS EVIDENCE OF FIRMNESS, TO THE RECENT CONFIRMATION OF THE DECISION TO EXTEND NATIONAL SERVICE FROM 15 TO 18 MONTHS STARTING THIS SUMMER. GIVEN KOHL'S WORRIES ABOUT THE FRG'S STANDING IN THE WEST, THIS SHOULD BE A GOOD MOMENT TO URGE HIM TO EXERT LEADERSHIP IN THE PUBLIC DEBATE BY STRESSING REALISM ABOUT GORBACHEV'S CHANCES AND THE CONTINUED NEED FOR UP-TO-DATE DEFENCES. ONE SIGN THAT THIS MESSAGE MAY BE SINKING IN WAS A SPEECH BY GENSCHER ON 10 FEBRUARY, WHICH INCLUDED A PASSAGE ASSURING THE BUNDESWEHR OF ITS CONTINUED IMPORTANCE AND THE POLITICIANS' SUPPORT. KOHL IS NEVERTHELESS BEHIND SCHOLZ IN PUSHING FOR A REDUCTION IN LOW FLYING OVER THE FRG. I SUGGEST THAT THE PRIME MINISTER SHOULD MAKE A GENERAL POINT: THE

UK'S COMMITMENT TO FORWARD DEFENCE AND THE NEED FOR TRAINING IN THE FRG IF THAT COMMITMENT IS TO REMAIN CREDIBLE.

10. KOHL WILL BE INTERESTED IN BRITISH VIEWS ON EASTERN EUROPE, ESPECIALLY POLAND WHICH HE VISITS IN MAY. HE WILL BE CONCERNED THAT THE PACE OF THE CHANGE IN THE AREA, THOUGH VERY WELCOME, COULD ACCELERATE TO THE POINT OF SERIOUS INSTABILITY.

SOUTH AFRICA

11. THERE HAVE BEEN SIGNS OF AUSWAERTIGES AMT OFFICIALS WOBBLING AGAIN ON SANCTIONS. KOHL IS FIRM. THE PRIME MINISTER COULD EXCHANGE VIEWS WITH HIM PRIVATELY, AND URGE THAT THE FRG SHOULD REMAIN STEADY IN OPPOSING SANCTIONS.

ECONOMIC ISSUES

12. THE GERMAN ECONOMY GREW BY 3.4 PER CENT LAST YEAR. KOHL IS PROUD OF THIS. HE SEES THE FEDERAL REPUBLIC'S TRADE SURPLUS (DM 128 BILLION IN 1988) AS A SUCCESS RATHER THAN A THREAT TO THE STABILITY OF THE WORLD ECONOMY. GERMAN DOMESTIC ECONOMIC MANAGEMENT PUTS EMPHASIS ON KEEPING INFLATION VERY LOW. DEREGULATION, LIBERALISATION AND REDUCTION OF SUBSIDIES ALL FAR FROM BEING PRIORITIES. I DO NOT SUGGEST THE PRIME MINISTER SPENDS LONG ON THIS COMPLEX OF ISSUES BUT IT WOULD BE USEFUL TO URGE KOHL NOT TO ALLOW VESTED INTERESTS IN THE FEDERAL REPUBLIC TO BLOCK THE LIBERALISING IMPETUS OF 1992, ESPECIALLY IN THE SERVICE SECTOR, AND TO ENCOURAGE HIM TO ACT MORE VIGOROUSLY TO DEREGULATE THE GERMAN ECONOMY.

13. ON EC ISSUES, I SUGGEST THE PRIME MINISTER FOCUS ON TAX HARMONISATION, THE SOCIAL DIMENSION, MONETARY CO-OPERATION, FRONTIER CONTROLS AND EXTERNAL TRADE, ON ALL OF WHICH THERE ARE SIGNIFICANT DIFFERENCES OF APPROACH:

(A) THE GERMANS HAVE GOT IN A MUDDLE OVER THE WITHHOLDING TAX. FOR STOLTENBERG, WHO LAST YEAR INTRODUCED A (WIDELY CONDEMNED) 10 PER CENT TAX ON SAVINGS, JUSTIFYING IT HAS BECOME A MATTER OF FACE. MONEY HAS LEFT THE FEDERAL REPUBLIC FOR LUXEMBOURG. RATHER THAN ADMIT ERROR, THE FEDERAL GOVERNMENT HAS BACKED THE COMMISSION'S PROPOSAL, ARGUING ONLY ABOUT THE LEVEL OF THE TAX.

(B) ON VAT HARMONISATION, THE GERMANS HAVE FOUND IT EASY TO BACK THE COMMISSION'S PROPOSAL. THEY ARE NOT FUNDAMENTALLY OPPOSED TO THE UK MARKET APPROACH, BUT ARE INDIFFERENT AND SCEPTICAL.

(C) GERMAN ATTITUDES TO THE SOCIAL DIMENSION, WHICH REMAIN LARGELY

UNFORMED BEYOND THE LEVEL OF RHETORIC, ARE HARDER TO PIN DOWN. THE CDU HAVE A STRONG PATERNALIST TRADITION AND KOHL INSTINCTIVELY WANTS TO BE SEEN TO BE LOOKING AFTER THE WORKER, AS WELL AS PROTECTING GERMAN METHODS OF WORKER CONSULTATION WHICH HAVE MULTI-PARTY SUPPORT. AFTER THE BERLIN ELECTION, KOHL WILL BE ALL THE KEENER NOT TO EXPOSE A FLANK TO THE SPD. GERMANS LOOK SURPRISED BUT TAKE THE POINT WHEN ONE SAYS THAT MANY COMMUNITY COUNTRIES COULD NOT COMPETE IN THE SINGLE MARKET IF OBLIGED TO ACCEPT GERMANY'S HIGH SOCIAL SECURITY AND OTHER BENEFITS. IT WILL NOT BE EASY TO PERSUADE KOHL THAT IT FOLLOWS THAT THE COMMUNITY SHOULD KEEP OUT OF THIS AREA, BUT HE SHOULD BE SYMPATHETIC TO AN APPROACH WHICH CONTAINED GENUINE OPTIONS FOR MEMBER STATES.

(D) ON MONETARY COOPERATION, IT IS UNLIKELY THAT KOHL HAS YET FORMED VIEWS. HIS INSTINCT WILL BE TO WANT TO SEE 'PROGRESS' TOWARDS EMU AND FOR FRANKFURT TO BE THE CENTRE OF IT. HE WILL BE AWARE OF THE MISGIVINGS OF THE GERMAN FINANCIAL COMMUNITY. HE WILL NOT BE INFLUENCED BY ARGUMENTS RELATING TO SOVEREIGNTY, THOUGH HE WILL BE ONLY TOO AWARE OF THE DOMESTIC SENSITIVITY OF BUNDESBANK INDEPENDENCE. HE IS ALSO LIKELY TO BE IMPRESSED BY THE RISKS THAT COULD ARISE FOR THE DM OF TAKING ON RESPONSIBILITY WITHOUT POWER IN EMU AND TRANSITION TO IT.

(E) ON FRONTIER CONTROLS, THE GERMANS ARE SATISFIED WITH THE PROGRESS BEING MADE WITHIN THE SCHENGEN GROUP OF COUNTRIES. ALTHOUGH THE MINISTRY OF THE INTERIOR INCREASINGLY RECOGNISES THE DIFFICULTIES WHICH COMPLETE FRONTIER ABOLITION WOULD ENTAIL, KOHL IS DETERMINED TO REACH AGREEMENT ON A COMMITMENT TO ABOLISH IN THE COURSE OF 1990 INTERNAL FRONTIERS BETWEEN THE SCHENGEN SIGNATORIES. KOHL CONTINUES TO SEE HIS PROPOSAL (NOT FULLY THOUGHT THROUGH) FOR A EURO-FBI AS THE ANSWER TO SECURITY OBJECTIONS TO LIFTING THE BORDER CONTROLS IN THE EC AS A WHOLE. THIS IS AN OPPORTUNITY TO PROBE HIS THINKING IN AN AREA WHERE THE UNDERLYING OBJECTIVES OF THE TWO GOVERNMENTS, AS REGARDS THE IMPORTANCE BOTH ATTACH TO THE PRESERVATION OF LAW AND ORDER, ARE IN FACT VERY SIMILAR.

(F) ON EXTERNAL TRADE ISSUES, KOHL, BY GENUINE CONVICTION, IS ON THE RIGHT SIDE. HE MAY NEED DISABUSING OF THE NOTION THAT THE EC DID ENOUGH FOR THE TIME BEING ON AGRICULTURE AT THE BRUSSELS EUROPEAN COUNCIL, AND CONVINCING OF THE LIKELIHOOD OF SEVERE AND SELECTIVE AMERICAN RETALIATION AGAINST INDIVIDUAL COUNTRIES IF THE COMMUNITY CONTINUES TO DRAG ITS FEET OVER THE PUNTA DEL ESTE UNDERTAKINGS. THE PRIME MINISTER COULD POINT OUT THE ILLOGICALITY OF ALLOWING INDUSTRIAL EXPORTS, ON WHICH THE FRG DEPENDS FOR ITS LIVELIHOOD, TO

BE THREATENED BY DETERMINATION TO PROTECT THE SMALL, HEAVILY
SUBSIDISED AGRICULTURAL SECTOR.

14. A GOOD POINT OF AGREEMENT TO PLAY UP AT THE PRESS CONFERENCE
WOULD BE JOINT ANGLO GERMAN OPPOSITION TO FORTRESS EUROPE.

BILATERAL RELATIONS.

15. EXCEPT FOR THE POINTS MENTIONED ABOVE, THESE DO NOT NEED
DISCUSSION, THOUGH THE PRIME MINISTER WILL PRESUMABLY WANT TO FIND A
DATE FOR HER SPRING VISIT TO KOHL'S HOME. SOME POINTS COULD BE
MENTIONED AT THE PRESS CONFERENCE AS EVIDENCE OF THE IMPORTANCE OF
THE RELATIONSHIP. THESE INCLUDE THE IMPORTANCE OF BILATERAL DEFENCE
COOPERATION AS DEMONSTRATED BY THE RECENT JOINT STUDY: THE 40TH
KOENIGSWINTER CONFERENCE IN THE UK IN MARCH 1990 (WELL TIMED TO BE
MADE TO COINCIDE WITH NEXT YEAR'S SUMMIT): THE 40TH BIRTHDAY THIS
YEAR OF THE ANGLO-GERMAN ASSOCIATION (DEUTSCH-ENGLISCHE
GESELLSCHAFT): AND THE ADDITIONAL MONEY FOR BRITISH COUNCIL
SPONSORED SCIENCE AND TECHNOLOGY EXCHANGES. THE BRIEFING CONTAINS
OTHER EXAMPLES.

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