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PM/89/53

PRIME MINISTER

Eastern Europe

1. I had talks with Genscher in Bonn on 15 November and visited Berlin yesterday. The German analysis of developments in the GDR is very close to our own. They want to encourage free elections, avoid talk of reunification and reassure the Soviet Union. Only the right-wing of the CDU are making much of reunification. The reformers in the GDR are deliberately avoiding the topic. Genscher thought the new government in the GDR would want free elections. These might well come a month or two before the elections in West Germany and the FRG political parties are already thinking about what role they might play. Whatever happens, it is clear that developments in the GDR will be a major election issue in the FRG over the next year. So far the government parties are benefiting but the SPD claim that what is happening was started by Willy Brandt, and that the credit belongs to them.

2. The Germans think the time has come for the Commission to open negotiations on a Community trade agreement with the GDR. If democracy takes hold, we shall need to look at other forms of cooperation. Genscher agreed with me that we should look at all the models, including EFTA and the Council of Europe. But he doubted if EFTA would turn out to be the right model and thought that different agreements would be needed with each emerging Eastern European democracy, tailored

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to their requirements. The Association Agreement which we have with Turkey looks forward to eventual membership of the EC, which may not be realistic for the East Europeans for a long time to come. As agreed at our talk this week, we are working on a paper on all this for Strasbourg.

3. We agree with the Germans that the Community has been a pole of attraction to the countries of Eastern Europe. *? Has it-* The Germans think we will give the wrong signal if we do not now proceed apace with further integration. I suspect the French may try and point up differences with us on this in Paris at the weekend. I said to Genscher that we too wanted to see progress in Europe. The best signal we could give to Eastern Europe was to show that the Community was implementing its existing undertakings, notably completion of the single market. The argument about EMU was less about the pace than about whether we should have a liberal free market approach or a more bureaucratic centralist one.

4. The French have proposed in the Monetary Committee the establishment of an investment bank for Eastern Europe. It would have a capital of 10 billion ecu, 20% up front. It would be financed primarily by EC countries but participation by other OECD members is envisaged. Mitterrand will mention this on Saturday. We shall want to look in detail, but I think we should welcome it as an interesting idea.

5. Genscher agreed that the kind of message which should emerge from Paris would be:

- an enthusiastic welcome for developments in Eastern Europe;

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- reaffirmation of NATO and EC policies which have helped to make these developments possible;
- recognition both of Gorbachev's role and his concerns.

Mitterrand will obviously want to talk to Bush after the weekend meeting. I see no point in trying to prevent him from conveying the sort of message outlined above.

6. There are a number of other issues which you will want to discuss with President Bush and which we can talk about with Tom King next Wednesday. I shall send you a note on these before our meeting but some of them may come up on Saturday night, notably what kind of initiative Gorbachev may produce at Malta. It would be surprising if he does not produce a trump card. This might be:

- some dramatic proposal on nuclear weapons so as to get SNF talks underway straight away;
- a proposal to give Berlin back to the Germans: East Berlin to the GDR and West Berlin to the FRG;
- a proposed peace treaty to end the Second World War.

I hope Bush would resist being bounced. But he should be prepared.

7. The press were suggesting a few days ago that NATO was now redundant. People have sobered up since then. It was very obvious to me that the role of the Allies continues to give a tremendous sense of stability to West Berlin and is one reason why they have been able to react

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with such controlled enthusiasm to developments in the East: they know they still have the underpinning of Allied support. The British garrison in Berlin has responded to recent developments with everything from accommodation to soup kitchens. We shall have to adapt to changing circumstances and the Commandant and his team are giving thought to this. But our presence remains a necessary insurance policy for the democratic reforms that are now taking place.

8. I am copying this minute to the Chancellor of the Exchequer, the Defence Secretary and the Cabinet Secretary.

DH.

(DOUGLAS HURD)

Foreign and Commonwealth Office
17 November 1989

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