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CB 9/2

VISIT BY DR OTTO GRAF LAMBSDORFF, CHAIRMAN OF THE FDP, AT 4.45PM
ON THURSDAY 1 FEBRUARY 1990.

Present: Economic Secretary
Mr A C S Allan
Mr A Tyrie
Dr Lambsdorff
Baron Von Richthofen - German Ambassador
Mr M Uden - British Embassy
Mr K Jones - COI

The Economic Secretary asked if Dr Lambsdorff had been surprised by Mr Gorbachev's recent statements about German unification. Dr Lambsdorff agreed with the Prime Minister's comments in her recent Wall Street Journal interview, that matters should be handled in a way not to undermine Mr Gorbachev and should proceed in systematic fashion. He said that he understood Mr Gorbachev wanted to see a quick, orderly and non-chaotic development in the GDR. He added that the GDR had lost its strategic importance for the USSR, and that Mr Gorbachev was disappointed with the deterioration of the GDR economy.

The Economic Secretary enquired about the number of people crossing over from East to West and whether the fact that most of these people were young, skilled workers would cause significant problems to the GDR in particular. Dr Lambsdorff understood that people were still crossing to the West at a rate of approximately 2,500 a day and, of course, this could lead to serious problems in East Germany, though the labour market in the West was able to absorb the impact without difficulty. The earlier hope, based on what people in the East had said, was that provided they were allowed to travel freely to and from the West they would not necessarily choose to emigrate. This had proved unfounded. The Economic Secretary suggested that the migration of mainly unskilled ethnic Germans from other countries accounting to 370,000 a year must be causing difficulties to the Federal

Republic. Dr Lambsdorff agreed that this raised much greater problems of assimilation, since the younger generation of such migrants did not speak German - indeed they had been banned from learning German in many countries.

The Economic Secretary asked if Dr Lambsdorff envisaged a significant proportion of the migrants voting for the SPD rather than the FDP or CDU in view of the pre war social democrat traditions in the GDR. Dr Lambsdorff said that although he agreed that most people would not be voting for his party, he would not expect a landslide to the SPD: quite a number would vote CDU. However, he conceded that the SPD organisation in the GDR directed by Willy Brandt was better than the CDUs.

The Economic Secretary asked how long it would take the GDR to replicate the FRG's party system. Dr Lambsdorff predicted that it would happen quickly with the election approaching on 18 March. He was unable to assess what affect this would have on the FRG elections later in the year.

Mr Allan observed that, as with Poland, economic reform could be painful and stimulate emigration. Dr Lambsdorff replied that he appreciated this and the Federal Republic would want to do what it could to help ease the economic transition in the GDR.

Mr Tyrie asked what Dr Lambsdorff's views were on Community membership for Eastern European countries. Dr Lambsdorff said that the GDR was not an immediate candidate for full membership but he could see them heading in that direction in time.

On the Delors proposals, Dr Lambsdorff broadly shared the same views as Pohl. He felt that the most important aim was to achieve liberalisation of capital markets and that Stage two should not start prematurely. He favoured revaluing the DM in an EMS realignment.

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The Economic Secretary and Dr Lambsdorff concluded the meeting with an exchange of views on the extent to which the housing market caused inflationary pressures in Britain.



K SEDGWICK
Assistant Private Secretary
6 February 1990

cc Those present:

PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir T Burns
Sir P Middleton
Mr Wicks
Mr H P Evans
Mr R I G Allen

Mrs Brown
Mr Mountfield
Mr Pickering
Mr Bottrill
Mr P Edmonds
Mr A E W White

Mr Powell
WED/FCO

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