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MINISTRY OF DEFENCE

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MO 14/3S

21 February 1990

Dear Charles,

GERMAN REUNIFICATION

I undertook to let you have a note of the Defence Secretary's discussion with Dr Stoltenberg at the IEPG meeting in Gleneagles today, in advance of the Prime Minister's meeting with him tomorrow, and to supplement the brief forwarded by Stephen Wall yesterday.

At the lunch which Mr King hosted for his colleagues, Dr Stoltenberg gave a full account of the Federal Government's approach to unification, and the security of the GDR territory. He stressed that the rapidly declining economic situation in the East argued for early progress towards unification. After elections in the GDR, the FRG and GDR Governments would begin discussions; subsequently these would continue in the "two plus four" forum. He recognised that there was concern amongst European Communities and NATO partners, and in Poland and Czechoslovakia and other Eastern European nations, about the security implications of unification. The Federal Government was accordingly fully committed to extensive consultations in appropriate EC and NATO fora. They wished to proceed in full co-operation with friends and allies. The security implications were particularly complex. Chancellor Kohl had made clear last week in the Bundestag that Germany could not be neutralised and could not be demilitarised; that Germany must be incorporated within the Western Alliance; but that taking into account the legitimate security interests of the Soviet Union, there was no intention to transfer units and institutions of NATO, including the Bundeswehr, into GDR territory. The Federal Government was also ready to accept that the Soviet Union would maintain forces in the former GDR at least for a limited time; Germany would have to address with the Alliance how long this transition period might be. Equally the future of the GDR National People's Army was an issue which would need to be addressed in the "two plus four" group. A critical requirement would be to ensure that allied forces could remain in FRG territory; numbers were

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relatively unimportant compared to the stability given by retaining stationed forces. It was particularly critical to retain a US presence.

In the subsequent discussion lasting over an hour, Stoltenberg said that a recent joint statement from himself and Herr Genscher had been designed to put a stop to public discussion, and not to provide answers to questions which would need to be addressed in both "two plus four" and wider fora. He believed that it would be very difficult for Germany to accept an unlimited (in terms of time) Soviet presence in the former GDR. Moscow's acceptance of US troops in Europe in excess of Soviet levels (225,000 v 195,000) gave some encouragement that Moscow might accept stationed forces in the FRG even after their own withdrawal from the GDR. In response to more detailed questions on how the security of the GDR would be maintained in the longer term, Stoltenberg said that even in such a private forum he only had questions and no answers. Other Ministers present, but particularly Mr ter Beek (Netherlands) stressed their concern at the exclusive nature of the "two plus four" arrangement, and in particular that Belgium, Netherlands and Canada who all maintained forces in FRG, would not be involved in the consultation. This would make it increasingly difficult for them to sustain domestic agreement to the stationing of such forces. There was a general welcome for Stoltenberg's willingness to be cross-questioned at such length, and an agreement that such consultations should continue in future. The Defence Secretary alluded to Mr Baker's approach to Dr Wörner (UK Del NATO telegrams 71 and 72), and suggested that this might form the basis for further necessary consultations within NATO.

In a subsequent private discussion with Dr Stoltenberg the Defence Secretary re-emphasised the importance of maintaining alliance cohesion at a time of great uncertainties and potential instability. In particular it was critical not to cause doubt on the continued requirement for stationed forces in the FRG. The close and continuous consultation between the NATO allies was therefore essential; Stoltenberg readily agreed.

Comment

Overall the Defence Secretary thought it useful to engage the Germans in this kind of discussion amongst Defence Ministers. For the Prime Minister's own information, we are preparing a military assessment of the operational and force planning aspects of German unification - based illustratively on a commitment to defend German territory to the Oder-Neisse line.

EFA

Dr Stoltenberg confirmed that he had the full support of Chancellor Kohl and the CDU/CSU for the continuation of the EFA

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programme, and believed that he had persuaded coalition partners in the FPD of the need to proceed with the development phase including the radar. There was no significant problem with the selection of ECR 90. He hoped to be able to report his intention to proceed with development to the Bundestag Defence Committee on 7th/8th March and to confirm German participation in the programme immediately thereafter.

A brief on EFA is enclosed.

I am copying this letter to Stephen Wall (FCO), Sonia Phippard Cabinet Office.

Yours sincerely,

Simon Webb

(S WEBB)
Private Secretary

Postscript: As he was leaving, Dr Stoltenberg gave Mr King privately a clear indication that he considered the joint statement on security of the GDR to be untenable.

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LINE TO TAKE

- Welcome your continuing support for EFA. How do you see political attitudes to the project in Germany?
- We are firmly of the view that EFA will be an essential element of our air defence forces in the mid to late 1990s and beyond.
- Glad to see that progress was made last month in discussions on the selection of radar. As you know, we believe that ECR 90 is the right choice.
- Look forward to a successful completion of the negotiations on the proposed side letter. Important that it is seen as fair if Parliament is to be persuaded that this very unusual step is justified.
- Can confirm that the proposed acquisition of Ferranti Defence Systems by GEC is not to be referred to the Monopolies and Mergers Commission. The takeover will assure the future financial viability of Ferranti.
- Hope that final agreement will be reached soon on all outstanding issues. Pleased to hear from Tom King that Stoltenberg optimistic about the future of the programme.

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BACKGROUND

1. In an effort to solve the long standing disagreement between ourselves and Germany over the choice of radar for EFA, the Defence Secretary and Dr Stoltenberg agreed to recommend ECR 90 to their colleagues provided that Ferranti's financial status was assured and subject to the provision by HMG of a side letter to the Memorandum of Understanding for the development of EFA. This would guarantee Germany against any extra costs at Messerschmitt Bolkow Blohm (MBB) (the firm responsible for integrating the radar into the aircraft) attributable to delays or defaults on the part of the consortium led by Ferranti within a ceiling of DM 200 million (non escalating). Spain and Italy support ECR 90 as the choice of radar; and have been kept in touch with our negotiations with the Germans.

2. GEC has announced its intention of taking over Ferranti Defence Systems; and the Trade and Industry Secretary has accepted the recommendation of the OFT not to refer it to the Monopolies and Mergers Commission. The takeover now seems likely to be completed early next month.

3. Negotiations are proceeding between MOD and German officials on the text of a side letter. The Treasury are being kept fully informed. Agreement has been reached on much of the substance; but a number of points have still to be resolved. It would be helpful to stress to Dr Stoltenberg that we attach great importance to achieving an agreement which is fair to both sides.

4. Discussions are also in hand with GEC about a back to back agreement under which they would accept any financial liability flowing from the side letter. This is a domestic issue for ourselves and not of interest to the Germans, though clearly GEC would be reluctant to accept liabilities from the side letter which they considered inequitable.

5. The SDP is opposed to EFA; and the FDP has recently expressed hostility to the project, though Stoltenberg's officials believe that this may be principally for electoral reasons in order to improve their chances of entering into a coalition with whichever major party wins the General Election later this year. Stoltenberg and the Defence Secretary indicated their continuing commitment to EFA following their meeting on 22 January 1990. A copy of the relevant Press statement is attached.

6. In discussions with the Defence Secretary in the margins of the IEPG Ministerial meeting in Scotland today, Dr Stoltenberg confirmed that he had the full support of Chancellor Kohl and the CDU/CSU for the continuation of the EFA programme. He also believed that he had persuaded coalition partners in the FPD of the need to proceed with the development phase including the radar. There was no significant problem with the selection of ECR 90. He hoped to be able to report his intention to proceed with development to the Bundestag Defence Committee on 7th/8th March and to confirm German participation in the programme immediately thereafter.

MINISTRY OF DEFENCE NEWS RELEASE

Issued on

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22 January 1990

MEETING BETWEEN MR KING, THE SECRETARY OF STATE FOR DEFENCE AND DR STOLTENBERG, FEDERAL MINISTER OF DEFENCE

The two Ministers met this morning (22 January) to discuss important questions on East/West relations, developments in the arms control process and EFA. The talks took place in a constructive and friendly atmosphere.

As far as EFA is concerned:

- a. The two Ministers agreed that there is a requirement for a modern fighter aircraft in the future, particularly since the Soviet Union continues to deploy modern fighter aircraft.
- b. The two Ministers stated that EFA is the best solution to meet the requirements of their Air Forces in the second half of the 1990s and beyond.
- c. More than 85 per cent of contracts for the development phase of EFA have already been let.
- d. During the talks significant progress was made in discussion of the major outstanding contract, covering the radar. Both Ministers have expressed the hope that they will reach a final decision very shortly.

