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FM UKREP BRUSSELS
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INFO IMMEDIATE BONN
INFO ROUTINE OTHER EUROPEAN COMMUNITY POSTS

FRAME GENERAL

GERMAN UNIFICATION: VISIT OF GERMAN STATE SECRETARIES TO THE
COMMISSION

SUMMARY

1. A GROUP OF COMMISSIONERS CHAIRED BY BANGEMANN WERE BRIEFED THIS MORNING BY STATE SECRETARIES KOHLER (FINANCE) AND SCHLECHT (ECONOMICS) AND BY TIETMEYER (VICE-PRESIDENT OF THE BUNDESBANK). THE TEAM GAVE AN ACCOUNT OF DISCUSSIONS WITH THE EAST GERMANS AND URGED THE NEED FOR A POSITIVE VIEW BY OUTSIDERS EMPHASISING THE OPORTUNITIES AS WELL AS THE RISKS. THEY WERE CRITICAL OF THE LEAKED COMMISSION DOCUMENT WHICH WAS TOO NEGATIVE AND HAD HAD A BAD EFFECT ON THE DEUTSCH MARK. THEY EMPHASISED THAT THE PROCESS OF GERMAN UNIFICATION SHOULD HAVE NO ADVERSE EFFECT ON THE DEVELOPMENT OF THE COMMUNITY.

DETAIL

2. KOHLER SPOKE ABOUT THE LOSS OF AUTHORITY IN EAST GERMANY, FOR INSTANCE OVER THE COLLECTION OF CUSTOMS DUTIES AND TAXES. THE D. MARK WAS ALREADY BEGINNING TO ACT AS A PARALLEL CURRENCY AND WAS SEEN AS A SYMBOL OF A BETTER FUTURE. THE SUBSTITUTION OF THE D. MARK FOR THE E. MARK (HE DID NOT MENTION CONVERSION RATES) MUST BE ACCOMPANIED BY A PACKAGE OF REFORMS AND THIS WAS WHAT NOW BEING DISCUSSED WITH THE EAST GERMANS IN THE COMMITTEE OF EXPERTS. THE COMMITTEE HAD SET UP SUB-COMMITTEES ON ECONOMICS, FINANCE, SOCIAL SECURITY AND OTHER MATTERS. THE EAST GERMANS APPEARED TO BE ENCOURAGED BY WEST GERMAN OPENNESS AND HAD REACTED WELL TO IDEAS ABOUT THE REFORM OF THE BUDGET (INCLUDING THE INTRODUCTION OF VAT) AND THE ADOPTION OF THE BASIC PRINCIPLES OF THE WEST GERMAN SOCIAL SECURITY SYSTEM. HOWEVER FRAU LUFT'S PROPOSAL FOR JOINT VENTURES WITH A MAXIMUM OF 49 PERCENT PRIVATE PARTICIPATION, WERE HALF-HEARTED AND DID NOT GO FAR ENOUGH. THE COMMITTEE WOULD BE MEETING FREQUENTLY WITH THE AIM OF AGREEING BEFORE 18 MARCH THE CENTRAL ISSUES AND THE LEGAL STRUCTURES REQUIRED TO IMPLEMENT THE REFORM PACKAGE. IN EMPHASISING THE NEED FOR A POSITIVE VIEW OF THE

PROSPECTS HE DREW ATTENTION TO THE ENORMOUS SCOPE FOR INCREASING PRODUCTIVITY, BY SIMPLE REMEDIES SUCH AS REMOVING EXISTING BOTTLENECKS IN THE SUPPLY OF RAW MATERIALS. IT WAS NOT HELPFUL FOR OUTSIDERS TO POUR COLD WATER ON THE PROCESS. OBVIOUSLY ALL WOULD DEPEND ON WHAT HAPPENED AT THE 18 MARCH ELECTIONS. THEREAFTER THE DATES FOR MONETARY UNION AND UNIFICATION WOULD BE FIXED.

3. SCHLECHT EMPHASISED THE NEED FOR MONETARY REFORM TO BE LINKED WITH MUCH WIDER REFORMS IN THE ECONOMY INCLUDING THE LAW ON PRIVATE OWNERSHIP, THE ENDING OF STATE MONOPOLIES AND THE INTRODUCTION OF COMPETITION AND THE PROVISION OF LONG-TERM CREDITS FOR SMALL BUSINESSMEN. HE REFERRED TO ARTICLE 23 OF THE CONSTITUTION AS ONE QUICK WAY OF ACHIEVING UNIFICATION. THIS WOULD LEAVE ONLY THE NEED FOR THE ADAPTATION OF SECONDARY LEGISLATION AND THE ESTABLISHMENT OF TRANSITIONAL PERIODS. WITH REGARD TO STATE AIDS, HE EMPHASISED THE NEED FOR SPENDING ON INFRA-STRUCTURE IN THE BORDER REGIONS AS OPPOSED TO SUPPORT FOR PRIVATE COMPANIES.

4. TIETMEYER SPOKE OF THE PAUCITY OF FIGURES. SUCH STATISTICS AS WERE AVAILABLE WERE OUT OF DATE. THE BUNDESBANK HAD NO IDEA OF THE CREDIT RELATIONSHIPS BETWEEN THE CENTRAL BANK AND THE GOVERNMENT AND OTHER INSTITUTIONS, OR OF INDEBTEDNESS TO OTHER COMECON COUNTRIES. WHEN IN DOUBT THEY WERE MAKING PESSIMISTIC ASSUMPTIONS. A SYSTEM OF BANKING SUPERVISION WOULD BE REQUIRED. IT WAS UNHELPFUL TO SPECULATE ABOUT THE EFFECTS ON THE D. MARK AND THE RISK OF INFLATION. THE MORE SUCH RISKS WERE TALKED UP, THE MORE RESTRICTIVE MONETARY POLICY WOULD HAVE TO BE. THE COMMISSION'S LEAKED PAPER HAD BEEN PARTICULARLY UNHELPFUL IN THIS RESPECT. HE ADDED THAT IT WAS WRONG TO DRAW PARALLELS BETWEEN GERMAN MONETARY UNION AND EMU. THE TWO PROCESSES WERE QUITE DIFFERENT. THE ONE WAS A ONCE-OFF OVERNIGHT OPERATION, THE OTHER A LONG AND COMPLEX PROCESS.

5. IN A BRIEF DISCUSSION, SIR LEON BRITTAN SAID MISUNDERSTANDINGS ABOUT THE COMPETITION SITUATION MUST BE AVOIDED. IT WAS ESSENTIAL THAT ANY AIDS PROVIDED WERE TRANSPARENT. CHRISTOPHERSEN SAID THIS WORK ON THIS SUBJECT IN GERMANY OUGHT TO BE KEPT IN PARALLEL WITH THAT IN THE COMMUNITY. WHAT WAS DECIDED ABOUT RELATIONS WITH EAST GERMANY WOULD HAVE CONSEQUENCES FOR GERMANY'S COMMUNITY OBLIGATIONS. WILLIAMSON SAID THE COMMISSION WOULD BE DOING DETAILED WORK ON THE APPLICATION OF EXISTING CRITERIA TO EAST GERMANY IN SUCH AREAS AS AGRICULTURE AND THE STRUCTURAL FUNDS.

6. CLOSING THE MEETING, BANGEMANN CALLED ON COMMISSIONERS TO SET IN HAND PREPARATORY WORK IN THEIR OWN AREAS OF RESPONSIBILITY ON THE

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MAIN ISSUES WHICH HAD BEEN IDENTIFIED.

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ADDITIONAL

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