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TO PRIORITY FCO

TELNO 298

OF 081703Z MARCH 90

AND TO ROUTINE UKREP BRUSSELS, OTHER EC POSTS, EAST BERLIN
AND TO WASHINGTON, MOSCOW, UKDEL NATO, UKDEL OECD

FRAME EXTERNAL

GERMAN UNIFICATION: EC ASPECTS

SUMMARY

1. A GERMAN OFFICIAL WELCOMES MR HURD'S SPEECH IN BRUSSELS ON 4 MARCH. HE COMMENTS THAT PLANNING IN THE FRG FOR THE INCORPORATION OF THE GDR INTO THE EC IS AT A VERY EARLY STAGE. HE DOUBTS WHETHER DEVELOPMENTS IN THE GDR WILL HAVE GONE FAR ENOUGH BY 28 APRIL TO ALLOW THE SUMMIT TO MAKE MUCH PROGRESS.

DETAIL

2. VON KYAW (AUS EQUIVALENT, AUSWAERTIGES AMT, IN CHARGE OF EC AFFAIRS) TOLD COUNSELLOR ECONOMIC ON 7 MARCH THAT THE FOREIGN SECRETARY'S SPEECH IN BRUSSELS ON 4 MARCH HAD BEEN WELCOMED IN THE AUSWAERTIGES AMT FOR ITS POSITIVE REMARKS ABOUT UNIFICATION AND ABOUT INCORPORATING THE GDR IN THE EC. HE SAID THAT AN UNDERSTANDING APPEARED TO BE EMERGING THAT THE GDR COULD ENTER THE COMMUNITY WITHOUT AMENDMENT TO THE TREATY. IT WAS ESSENTIAL TO AVOID TREATY AMENDMENT, WHICH WOULD RAISE DIFFICULT ISSUES.

3. ASKED ABOUT THE COMMISSION'S CALCULATION OF BUDGET COSTS REPORTED IN UKREP TELNO 673, VON KYAW SAID THAT THE GERMANS HAD DONE NO SUMS OF THEIR OWN. THEY HAD NO IDEA FOR EXAMPLE WHETHER THE GDR WOULD MERIT TREATMENT AS AN OBJECTIVE ONE REGION AND THOUGHT IT TOO SOON TO ADDRESS THIS. HE FELT THAT ANALYSTS IN OTHER CAPITALS AND IN BRUSSELS WERE GETTING AHEAD OF THE GAME. NOTHING COULD HAPPEN BEFORE 18 MARCH. AFTER THAT, IT WAS ANYONE'S GUESS HOW LONG THE GDR WOULD TAKE TO FORM A GOVERNMENT, DECIDE ON A NEGOTIATING POSITION AND BEGIN TALKS WITH THE FRG. HE THOUGHT IT UNLIKELY THAT THE SUMMIT ON 28 APRIL WOULD BE ABLE TO INITIATE NEGOTIATIONS INCORPORATING THE GDR INTO THE EC BECAUSE THE GDR WOULD NOT BY THEN HAVE DECIDED ITS POSITION ON ESSENTIAL QUESTIONS LIKE GEMU AND WHETHER TO JOIN THE FRG THROUGH ARTICLE 23 OR 146 OF THE FRG BASIC LAW. NOR WAS IT CERTAIN HOW FAR THE EXTERNAL SECURITY ASPECTS WOULD HAVE GOT. NEGOTIATIONS WITH THE EC WOULD THEREFORE BE PREMATURE. THE FRG HAD

DELIBERATELY NOT COMMITTED ITSELF TO A POSITION ON WHETHER THE DUBLIN SUMMIT SHOULD BE FORMAL OR INFORMAL SINCE WHATEVER WAS SAID WAS LIKELY TO BE MISUNDERSTOOD, BUT IF THE SUMMIT WAS FORMAL, IT MIGHT FIND ITSELF SHORT OF FORMAL THINGS TO DO.

4. COUNSELLOR ECONOMIC SAID THAT THE EXODUS FROM THE GDR CREATED PRESSURE TO DO THINGS QUICKLY. INTEGRATION INTO THE EC NEEDED TO BE LOOKED AT IN PARALLEL WITH THE NEGOTIATIONS OF INNER-GERMAN ECONOMIC ARRANGEMENTS. THE FRG'S PARTNERS WOULD WANT TO KNOW IN ADVANCE WHAT ABSORBING THE GDR INTO THE EC WAS GOING TO COST AND WOULD NOT WANT IMPORTANT DECISIONS TO BE PRE-EMPTED BY INNER-GERMAN ARRANGEMENTS.

5. VON KYAW AGREED THAT THERE WOULD BE PRESSURE TO AGREE ON GEMU BY THE SUMMER BUT SAID THAT GEMU NEED NOT PRE-EMPT DECISIONS WITHIN THE EC. THE GDR'S RELATIONS WITH THE OTHER 11 MEMBER STATES WOULD BE GOVERNED BY THE EC/GDR AGREEMENT, ONCE IT WAS SIGNED, UNTIL SOMETHING BETTER WAS PUT IN ITS PLACE. INNER-GERMAN TRADE WOULD CONTINUE TO BE GOVERNED BY THE PROTOCOL. THE INNER-GERMAN BORDER FOR GOODS WOULD PROBABLY HAVE TO REMAIN IN OPERATION FOR SOME TIME AFTER GEMU WAS INITIATED. THE FEDERAL REPUBLIC'S PARTNERS COULD EXPECT BENEFITS AS WELL AS COSTS FROM INCORPORATING THE GDR, FOR EXAMPLE THE GERMAN NET BUDGET CONTRIBUTIONS WOULD PROBABLY INCREASE OVER TIME, THOUGH THERE WOULD BE COSTS IN THE SHORT TERM. THE TRADE AND INVESTMENT OPPORTUNITIES WOULD BE AVAILABLE IMMEDIATELY AND NEED NOT AWAIT RESOLUTION OF THE EC ISSUES. IN ANSWER TO A QUESTION, HE CONCEDED THAT OPPORTUNITIES IN FINANCIAL SERVICES IN THE GDR WOULD BE GREATER IF AGREEMENT COULD BE REACHED SOON ON OUTSTANDING ELEMENTS IN THE RELEVANT SINGLE MARKET PACKAGE AND EXTENDED TO EAST GERMANY.

6. MORE GENERALLY VON KYAW SAID THAT PEOPLE WERE ONLY NOW WAKING UP TO HOW AWFUL THE SITUATION WAS IN THE GDR. CLAIMS THAT IT WAS THE 11TH MOST PROSPEROUS ECONOMY IN THE WORLD WERE WELL WIDE OF THE MARK. WHILE THE SITUATION IN THE AGRARIAN NORTH WAS NOT TOO BAD, THE SOUTHERN INDUSTRIAL REGION WAS AN ECONOMIC AND ENVIRONMENTAL DISASTER. NEW INVESTMENTS WOULD HAVE TO START FROM SCRATCH BECAUSE THE EXISTING STRUCTURES WERE INADEQUATE, HIGHLY POLLUTED OR EVEN DANGEROUS. ANOTHER DIFFICULTY WAS THE POLITICAL SITUATION IN AN ELECTION YEAR IN THE FRG. HE THOUGHT THESE FACTORS WOULD MAKE FOR A SLOWER TIMETABLE FOR UNIFICATION THAN SOME WERE ENVISAGING AND THEREFORE URGED US TO TAKE A MORE RELAXED VIEW OF TIMING OF GDR INTEGRATION INTO THE EC.

7. WE HAVE RECEIVED A SLIGHTLY DIFFERENT PICTURE FROM THE ECONOMICS

MINISTRY. THE UNDER SECRETARY RESPONSIBLE FOR SINGLE MARKET QUESTIONS, RAMBOW, TOLD COUNSELLOR ECONOMIC THAT HE PERSONALLY WAS IN FAVOUR OF LAUNCHING THE EC NEGOTIATIONS SOON. IT MADE NO SENSE FOR THE GDR TO REFORM ITS LEGISLATION WITHOUT TAKING ACCOUNT OF EC RULES. THE INNER-GERMAN AND THE EC NEGOTIATIONS THEREFORE NEEDED TO PROCEED AS FAR AS POSSIBLE IN PARALLEL. BUT LIKE VON KYAW, HE CAUTIONED THAT NO-ONE YET KNEW HOW QUICKLY THINGS WOULD DEVELOP IN THE GDR AFTER 18 MARCH. MOREOVER, FRG OFFICIALS HAD NOWHERE NEAR COMPLETED THEIR INTERNAL WORK ON THE EC IMPLICATIONS. THEY HAD DONE NO CALCULATIONS OF THE EFFECTS ON THE COMMUNITY BUDGET AND HE WOULD THEREFORE NOT COMMENT ON THE COMMISSION'S ESTIMATE. HOWEVER HE WONDERED WHETHER THIS WAS A NET FIGURE, SINCE THERE WOULD BE REVENUE TO THE COMMUNITY BUDGET FROM GDR-RELATED OWN RESOURCES. GERMANY AS A WHOLE WOULD REMAIN A SUBSTANTIAL NET CONTRIBUTOR TO THE COMMUNITY BUDGET EVEN IF SOME PARTS OF THE GDR QUALIFIED FOR OBJECTIVE 1 STATUS UNDER THE REGIONAL FUND. A DECISION ON THE LATTER POINT WOULD DEPEND ON OBJECTIVE FACTORS WHICH COULD NOT YET BE ASSESSED.

COMMENT

8. IT APPEARS THAT THE GERMANS HAVE NOT COMPLETED THEIR THINKING ABOUT THE EC ASPECTS OF GERMAN UNIFICATION BUT HAVE ALREADY CONCLUDED THAT THEIR INTERESTS WILL BE BEST SERVED BY TAKING THINGS IN A MEASURED FASHION ONCE ALL THE FACTS ARE KNOWN. IT WILL BE DESIRABLE, AS SEEN FROM HERE, TO ENSURE THAT THE EC ASPECTS ARE DEALT WITH IN PARALLEL WITH THE INNER-GERMAN ONES. WE WANT TO ENSURE A LEVEL PLAYING FIELD IN THE GDR FROM THE OUTSET AND TO PREVENT THE GDR ASSIMILATING FRG LAW IN THOSE AREAS WHERE THE FRG ITSELF IS OUT OF LINE WITH FREE MARKET PRINCIPLES.

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