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CHIEF SECRETARY TO THE TREASURY

GDR and the Know How Fund

1. With your agreement, I announced on 22 January that we would extend the Know How Fund to Eastern European countries other than Poland and Hungary once they were firmly committed to political and economic reform. I emphasised this during my visit to the GDR on 22-24 January.

2. Following the GDR elections on 18 March, which were demonstrably fair and free, the CDU has a clear mandate to introduce a market economy, based on currency union, as soon as possible. I believe that the GDR now meets both our criteria and propose that we should extend the Know How Fund to it.

3. The objective would be to promote the direct interests of the UK in what will become a prosperous and important area in the centre of Europe. The prospect of unification puts the GDR in a unique situation. We have a chance to get British interests in on the ground floor, if we move quickly: in the period leading up to unification the Know How Fund can make a significant difference to our prospects.

4. The main aim would be to introduce British expertise and establish contacts in key sectors; and to reinforce these aims by taking maximum advantage of the great demand for English language training in the GDR.

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5. We would expect to use the bulk of the funds for:

a. feasibility studies to inform UK firms' investment decisions;

b. technical cooperation programmes (eg expanding our current management training effort in the GDR) to introduce key future personnel to UK expertise and technology; and

c. establishing English as the vehicle for the transfer of management and other skills, thus contributing to its development as the main second language in the GDR in place of Russian.

We would prepare a Country Strategy Plan.

6. The sooner the Fund starts the better it will serve our objectives. I propose, if you agree, that we should agree to extend the Fund to the GDR before the Anglo-German Summit on 30 March. This would enable the Prime Minister to announce at the Summit itself a significant English Language Training initiative for the GDR. As well as serving our interests in the GDR this would be very well received in the FRG. It would demonstrate our constructive involvement in the GDR.

7. As we agreed in January, I am not bidding for a specific country allocation for the GDR: funds would be made available from the £15 million for Eastern Europe

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already agreed. After German unification we would need to take a further look at the use of the Fund in the ex-GDR. Our activities in the ex-GDR would clearly need to be merged over time with our activities in the FRG and placed on the same financial footing. (In this way, for example, long-term responsibility for general ELT training would remain with the British Council.)

8. I am sending copies of this minute to the Prime Minister, the Secretaries of State for Trade and Industry and Education and the Cabinet Secretary.

DH

(DOUGLAS HURD)

Foreign and Commonwealth Office
23 March 1990