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PM/90/015

PRIME MINISTER

EC Implications of German Unification: UK Tactics

1. I have seen the three new papers for our resumed OD discussion on 27 March. I also note that the unexpectedly good result for the CDU in the GDR elections on 18 March now makes it virtually certain that the Germans will choose the Article 23, not the Article 146, route to unification: this is good news, because it makes the process more predictable, more likely to proceed at a measured pace, and hence easier to keep within the right framework. This minute suggests five conclusions for our tactics at your meeting with Kohl on 30 March, and in the run-up to the 28 April Summit in Dublin.

2. First, our aim on 28 April should be agreement on the right Community framework and procedures to suit our interests. The key points to secure are transparency and full Council involvement: transitional arrangements must not be cooked up in cosy Bonn/Commission deals. If a target date for the completion of negotiations is set it should be after the FRG elections on 2 December: the Rome European Council is the earliest sensible target.

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3. Secondly, I agree with Nick Ridley and John Gummer that the Germans must remain demandeurs. On substance this means that we should not suggest to Kohl at the Anglo-German Summit, or in Dublin on 28 April, areas where derogations for the ex-GDR may be needed. It should be left to the Germans to seek negotiation of any point of difficulty they anticipate, on the understanding that:

- (a) in principle existing EC law will apply to the ex-GDR ab initio,
- (b) any derogations will apply only to the ex-GDR (i.e. not to existing FRG territory); and
- (c) all derogations will be kept as short as possible.

This tactic should have three advantages: it will encourage the Germans to minimise their demands; it will avoid the Eleven or the Commission offering up unsolicited concessions; and it should make it easier for us to achieve safeguards against any trade-distorting derogations.

4. The presentation of such a policy naturally needs care, but should be manageable. Our line, with Kohl and in Dublin, should be that once the Article 23 decision is taken, the objective should be to integrate the ex-GDR

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into the Community as fully and as quickly as possible. We also of course want to ensure that the transition is largely FRG-financed: this may mean accepting at the end of the day that certain derogations need not be very short. As the Secretariat paper brings out, one area where it would plainly be counter-productive to press for the shortest possible derogations is aspects of ex-GDR environmental pollution which do not affect competition. We shall want the German polluter to pay; but to insist he pays fast could produce pressures for Community/member state help.

5. Fourth, on the borders issues, I agree with Nick Ridley that controls on the Inner German Border (IGB) would not be the best way to combat trade distortions: the alternative forms of safeguards he suggests seem to me more logical and reliable, and well worth exploring quickly with the Commission. In general, I do not believe we could have any confidence in post-unification controls on the Inner German Border unless the authorities in Bonn saw a German interest in their effectiveness. I accept John Gummer's point that they might well have such an interest, at least in respect of farm products, if ex-GDR prices during the post-unification adjustment period differed from those in the rest of the Community; but this looks on balance unlikely. I conclude that we should not, at least at this stage, press for the continuation of IGB controls post-unification; and that with Kohl our key point for the present should be the importance of securing the Eastern border of the ex-GDR.

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6. In nearly all areas of the negotiation a majority will share our views. In many cases others will stand to lose more than us from concessions to the Germans. The French and Italians have no Fontainebleau abatement to limit extra costs to them. Your talk with Lubbers on 21 March showed the Dutch fully alive to the need to prevent trade distortions. Southern member states will oppose reallocation of existing structural funds to the ex-GDR. When negotiations start in earnest we shall achieve a better deal overall if we get others to take the lead on some of the issues. If it polarises into an Anglo-German debate, others will sit back, and we shall do less well. So we need to form alliances on 28 April, and to ensure that potential allies don't conclude, from reports of Kohl's talks here, that they can rely on us to do their work for them.

7. Operationally, I suggest that:

- (a) we should continue to press the Commission to produce their paper for 28 April in good time;
- (b) but we should argue, with them and the Irish, that the aim for 28 April should be to identify procedures for the subsequent negotiations, without addressing substance or itemising the negotiating agenda in ways which might appear to offer derogations: the Germans must remain demandeurs;

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- (c) with Kohl we should next week make clear that we believe the full assimilation of the ex-GDR into the Community should be as rapid as possible, and should not press for the maintenance of the Inner German Border post-unification;
- (d) the safeguards issue should be pursued with the Commission as Nick Ridley suggests; and
- (e) we should compare notes with the French, Italians, Dutch and Spanish, with a view to forming alliances.

8. Copies of this minute go to OD colleagues, the Home Secretary, the Minister of Agriculture, the Secretaries of State for the Environment, Energy, Transport, Employment, and Northern Ireland, the Solicitor General, and Sir Robin Butler.

DH.

(DOUGLAS HURD)

Foreign and Commonwealth Office

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