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PRIME MINISTER

EC IMPLICATIONS OF GERMAN REUNIFICATION

OD on Tuesday is to have a further discussion of the EC implications of German unification. You saw the main papers over the weekend.

The main conclusions from these can be summarised as:

- on the trade side we need to distinguish between the pre-unification and post-unification phases.
- before unification, there is a risk - particularly if unification is delayed - that increasingly efficient GDR companies under West German management will exploit the Inner-German Trade (IGT) arrangements to pour cheap goods into the EC market to our disadvantage. The only way to counter this is to insist that the FRG continues to police the operation of the IGT strictly. At worst we can fall back on national safeguard action at our own border (if we can distinguish between East and West German goods).
- after unification, the Trade and Industry Secretary's advice is that we should keep derogations and transitional arrangements to a minimum, so that GDR does not benefit from 'holidays' from EC regulations to build up a strong market position.
- the main problem is likely to be unfair pricing of GDR products. But the Trade and Industry Secretary does not recommend trying to keep controls at the inner-German border. Instead, he proposes a dispute settlement procedure, which would enable the Commission to pursue evidence of unfair pricing at point of sale and penalise offending GDR firms.

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- we shall also need to ensure that there are effective controls at the eastern border of the GDR, which will be the new EC frontier, against cheap goods from Eastern Europe.
- on the agricultural side, it is difficult to reach a firm judgement about derogations and transitional arrangements until we know what the DM/Ostmark conversion rate will be: and know more, too, about East German prices and how they are calculated. But assuming GDR prices are judged to be lower than EC prices, we shall want only a short transitional period to raise them to EC levels, because it would be hard to have much confidence that exports of East German food to the rest of the EC could be policed effectively.
- the balance of the judgement both on trade and agriculture is therefore that there is little to be gained from pressing for maintenance of inner-German border controls.
- we shall want to resist derogations from EC standards which would allow East German agricultural products which do not conform to EC standards to circulate freely.
- but on environmental issues, we should accept longer derogations because we want the Germans rather than the EC to pay the costs, and we cannot realistically expect them to pay them all at once.
- on the tactics, our aim at the Dublin meeting on 28 April should be to get agreement on procedures, not to settle issues of substance. And we should make sure that the Germans are left to ask for any concessions. The assumption should be that the full rigours of EC rules and standards should apply unless specifically stated to the contrary. We should not ourselves take the lead in suggesting where derogations or transitional arrangements might be needed.
- since we shall pay far less of the costs of bringing the GDR into the Community than for example France and Italy, we

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should leave it to others to make the running. We should not get ourselves out front and turn the issue into an Anglo-German dispute.

These all seem sensible and well-documented conclusions. The only one likely to be controversial is whether or not we should go for maintenance of inner-German border controls. Certainly we should do so pre-unification: but the consensus of your colleagues is that post-unification they would not be acceptable to the FRG and anyway unlikely to be effective. We should therefore focus instead on dispute settlement procedures and safeguard action. This will be the main issue to be resolved at the meeting. Perhaps our position should be that zonal controls must be maintained on the former inner-German border unless the Commission and the FRG can demonstrate that something more effective can be devised.

C.D.P.

C. D. POWELL

25 March 1990

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10 DOWNING STREET

Prime Minister

German vegetation

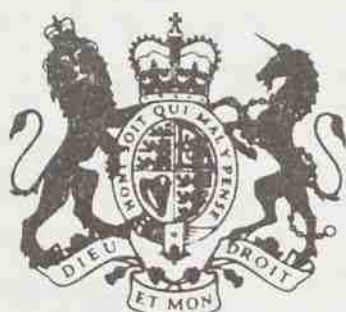
EC Aspects

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Rice Minister

Common Unification:

EC Aspects

This is the last

in the series of

papers which OD

will consider on

Tuesday. (The others

are in the earlier

box). CDP



CC Backup

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Prime Minister

German Unification : EC Consequences

You may like to look
at the two attached papers
for OD on the safeguards
we would need to seek
on trade & on agriculture
when negotiations start for
East German entry to the EC
C.O.P. 2272