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TELNO 935

OF 261802Z MARCH 90

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INFO ROUTINE LUXEMBOURG, ATHENS, LISBON, MADRID, STRASBOURG

INFO ROUTINE EAST BERLIN, UKDEL NATO

FRAME GENERAL

CALL ON BANGEMANN TO DISCUSS GERMAN UNIFICATION: 26 MARCH 1990

SUMMARY

1. BANGEMANN CONFIRMS THE COMMISSION'S THREE-STAGE APPROACH TO GERMAN UNIFICATION, CLARIFIES HIS THINKING ON THE KEY PROBLEMS OF STRUCTURAL FUNDS AND SAFEGUARDS TO PREVENT UNFAIR COMPETITION, AND AGREES THAT THE APRIL EUROPEAN COUNCIL SHOULD SEEK TO AGREE THE TIMETABLE AND METHOD OF FUTURE WORK WITHOUT BEING TOO PRESCRIPTIVE AT THIS STAGE. I ALSO RAISED BRIEFLY UK CONCERNS ON BARRIERS TO TAKEOVERS AND THE FRENCH DRAFT LAW ON THE LEGAL PROFESSION.

DETAIL

GERMAN UNIFICATION

2. I CALLED ON VICE PRESIDENT BANGEMANN TODAY PRIMARILY TO DISCUSS GERMAN UNIFICATION. HE WAS CLEAR AND OPEN IN HIS ANALYSIS, OUTLINING THE 3-STAGE TIMESCALE FOR GERMAN UNIFICATION WHICH THE COMMISSION AND GERMAN GOVERNMENT ARE NOW WORKING ON (SEE MY TELNOS 928 AND 930 OF 23 MARCH). THE FIRST PHASE IS THE PREPARATION FOR MONETARY UNION AND ACCOMPANYING ECONOMIC MEASURES WHICH THEY EXPECT TO END BY 1 JULY WITH THE INTRODUCTION OF THE DEUTSCHMARK IN THE GDR. THE SECOND PHASE WILL INVOLVE GDR'S ADAPTATION OF FEDERAL AND COMMUNITY LAWS. IN BANGEMANN'S VIEW, THIS WOULD LAST AT LEAST 2 YEARS, WHICH WOULD BE NECESSARY TO DEVELOP A POLITICAL CULTURE IN GDR, RESOLVE LEGAL PROBLEMS, PROPERTY OWNERSHIP ISSUES ETC, AND TO PREPARE FOR UNIFIED GERMAN ELECTIONS. THE THIRD PHASE WHICH BANGEMANN HOPED COULD SYMBOLICALLY BEGIN ON 1 JANUARY 1993 TO COINCIDE WITH THE SINGLE MARKET WOULD CONSIST OF FULL POLITICAL UNIFICATION WITH SOME TRANSITIONAL ARRANGEMENTS DURING WHICH FULL EC RULES WOULD BE PHASED IN IN SUCH AREAS AS AGRICULTURE.

3. BANGEMANN SAID THAT, AT HIS MEETING WITH THE COMMISSION ON 23 MARCH, CHANCELLOR KOHL HAD ACCEPTED THE NEED FOR CLOSE INFORMATION

AND CONSULTATION AND IF NECESSARY CO-DECISION WITH THE COMMUNITY IN ALL THREE PHASES. TO DATE THE COMMISSION HAD HAD NO REASON TO COMPLAIN ABOUT THE GERMAN GOVERNMENT'S COOPERATION - VISTS BY SCHLECHT (ECONOMICS MINISTRY), KOHLER (FINANCE) AND TIETMEYER (THE BUNDESBANK) HAD ALREADY TAKEN PLACE, AND WOULD BE FOLLOWED THIS WEEK BY TOPFER (ENVIRONMENT) AND NEXT WEEK BY BLUM (SOCIAL AFFAIRS).

4. I SAID THAT WE RECOGNISED THE COMMISSION'S MAJOR ROLE IN MAKING THE PROCESS OF FACING UP TO THE EC IMPLICATION OF GERMAN UNIFICATION MORE SYSTEMATIC AND ORGANISED. IT WAS IMPORTANT TO ENSURE THAT THE OTHER MEMBER STATES WERE FULLY INVOLVED IN THIS PROCESS.

STRUCTURAL FUNDS

5. BANGEMANN HIGHLIGHTED THIS, AND THE BORDER PROBLEM (SEE BELOW) AS TWO KEY QUESTIONS TO BE RESOLVED. HE SAID THAT ACCORDING TO MILLAN'S FIGURES, IF THE GDR BECAME PART OF THE COMMUNITY NOW IT WOULD BE ELIGIBLE FOR OBJECTIVE 1 SUPPORT. BUT THAT WOULD CLEARLY BE VERY COSTLY, AND KOHL HAD AGREED THAT THE GDR COULD NOT BE A BURDEN FOR SUCH STATES AS GREECE, PORTUGAL AND SPAIN. BANGEMANN'S SOLUTION THEREFORE WAS TO TRY AND FIND A MIDDLE WAY IN THE SECOND PHASE WHEREBY THE GDR STILL OUTSIDE THE EC WOULD BE TREATED 'AS IF' THE RELEVANT EC LEGAL FRAMEWORK APPLIED SO AS TO AVOID ANY DISTORTIONS OF COMPETITION FROM THE NECESSARY HELP IT WOULD RECEIVE BUT THE COST OF SUPPORT WOULD BE MET BY THE FRG. THIS WOULD HAVE THE ATTRACTION OF NOT DIVERTING EC FUNDS WHILE ENSURING THAT SUPPORT WAS GIVEN ACCORDING TO THE SAME EC RULES.

6. I AGREED THAT DESIGNATING THE GDR AS OBJECTIVE 1 WOULD CREATE MAJOR DIFFICULTIES, AND THAT IT WAS IMPORTANT FOR THE FRG TO BEAR THE LION'S SHARE OF THE RECONSTRUCTION PROCESS. I EXPRESSED INTEREST IN THE SUGGESTION THAT THE GDR BE TREATED 'AS IF' IT WAS IN THE EC FOR STATE AIDS PURPOSES SINCE THIS WOULD HELP IN LIMITING THE DISTORTION OF COMPETITION. BANGEMANN CONTINUED THAT HE DID NOT THINK IT POLITICALLY WISE TO EXCLUDE COMMUNITY FUNDING TOTALLY. THEREFORE HE WAS CONSIDERING THE POSSIBILITY OF DEFINING A SPECIFIC FUND (EG FOR THE ENVIRONMENT) TO WHICH ALL MEMBER STATES COULD CONTRIBUTE. THIS WOULD HAVE THE ADVANTAGE THAT THE MONEY INVOLVED WAS LIMITED WHILE AT THE SAME TIME AVOIDING POLITICAL DIFFICULTIES IN GERMANY SINCE GDR WOULD VERY SOON BE ADDING TO EC INCOME. I COUNSELLED CAUTION ABOUT SINGLING OUT THE ENVIRONMENT FOR SPECIAL TREATMENT. IT WAS THE SINGLE MOST EXPENSIVE PROBLEM, AND ALSO COULD SET A DANGEROUS PRECEDENT FOR OTHER STATES SUCH AS GREECE AND ITALY SEEKING EC SUPPORT TO DEAL WITH THEIR POLLUTION PROBLEMS,

CONTRAVENING THE POLLUTER PAYS PRINCIPLE. RATHER I SUGGESTED THAT THERE COULD BE MORE ATTRACTIONS IN USING EXISTING INSTRUMENTS, SUCH AS THE EIB, TO PROVIDE INVESTMENT. BANGEMANN ACCEPTED THE RISKS OF A DANGEROUS PRECEDENT IN FUNDING ENVIRONMENTAL SPENDING WHILE NOTING THAT THE GDR WAS A 'SPECIAL CASE'.

DISTORTION OF COMPETITION

7. BANGEMANN DESCRIBED THE QUESTION OF THE BORDER AS THE SECOND KEY PROBLEM. HE SAID THAT THERE WOULD NEED TO BE AN ADMINISTRATIVE BORDER TO CONTROL GOODS (BUT NOT PEOPLE) RIGHT UP UNTIL POLITICAL UNIFICATION AT LEAST. AT PRESENT THE COMMISSION WERE CONSIDERING WHETHER THE INNER GERMAN TRADE PROTOCOL, AND THE CONTROLS UNDER IT COULD CONTINUE TO BE USED TO DEAL WITH TRADE PROBLEMS. IT HAD PROVED PRETTY EFFECTIVE TO DATE.

8. I AGREED THAT IT COULD MADE SENSE TO TRY TO HANDLE DISTORTION THROUGH BASING CONTROLS ON PRESENT LINES, BUT INDUSTRY WOULD NATURALLY BE CONCERNED AT THE EFFECTIVENESS OF SUCH CONTROLS. GIVEN THE POTENTIAL INCREASE IN TRADE, THERE WAS A CLEAR RISK THAT THE IGT ARRANGEMENTS WOULD BE LEAKIER. ALL MEMBER STATES HAD A REAL FEAR OF DISTORTION OF COMPETITION FROM CHEAP, NON-COST RELATED PRODUCTION IN THE GDR. ONE POSSIBLE IDEA WHICH COULD SUPPLEMENT PHYSICAL CONTROLS AT THE IGB, WOULD BE SOME KIND OF DISPUTES PROCEDURE OPEN TO CONCERNED FIRMS. BANGEMANN COMMENTED THAT THIS SOUNDED A 'GOOD IDEA'. I ALSO SAID THAT WE WELCOMED THE COMMISSION'S EFFORTS TO BE INVOLVED AT AN EARLY STAGE POSSIBLY THROUGH INFORMAL NOTIFICATIONS OF STATE AIDS.

9. BANGEMANN AGREED, AND SAID THAT THE FRG WAS PREPARED TO DO THIS. HE WAS ALSO CONSIDERING A SPECIAL TASK FORCE TO CONSIDER ALL THESE PROBLEMS. THE DIFFICULTY WAS FINDING THE CORRECT LEGAL BASE IN ADVANCE OF UNIFICATION. HE CITED THE EXAMPLE OF ALLIANZ TAKING A 49 PER CENT STAKE IN THE STATE-OWNED GDR INSURANCE COMPANY AND THUS ACQUIRING A VIRTUAL MONOPOLY OF THE GDR INSURANCE MARKET. AT PRESENT THE BUNDESKARTELLAMT WAS POWERLESS TO INTERVENE. HE LATER CITED A SIMILAR EXAMPLE WHEREBY THE STATE-OWNED OIL/PETROL COMPANY WAS SELLING OUT TO TWO WEST GERMAN FIRMS, SINCE THEY WERE ANXIOUS TO MAINTAIN THE MONOPOLISTIC STRUCTURE. IT WOULD CLEARLY BE NECESSARY TO HAVE AGREEMENT WITH THE GDR TO APPLY FRG COMPETITION LAWS IN THE SECOND PHASE. I SAID THAT WE SHARED THE WISH FOR A FIRM COMPETITION POLICY. EQUALLY THERE WAS A NEED FOR THE NEW LEGAL FRAMEWORK IN THE GDR TO BE IN LINE NOT ONLY WITH THE FRG BUT ALSO WITH COMMUNITY RULES. I CITED THE EXAMPLE OF BANKING AND OTHER FINANCIAL SERVICES WHERE THERE WAS GREAT SCOPE FOR THE NEW REGIME TO REFLECT EC RULES

FROM THE BEGINNING.

10. ON OTHER PROBLEMS, BANGEMANN BRIEFLY MENTIONED AGRICULTURE WHERE HE BELIEVED THE GDR WOULD BE EFFICIENT RATHER SOON. HE ALSO NOTED THAT THERE WAS CONSIDERABLE POTENTIAL FOR RAPID INDUSTRIAL RECOVERY IN THE GDR. IMPROVED MANAGEMENT AND DISTRIBUTION SYSTEMS COULD BRING QUICK RESULTS: ALREADY THERE WERE SIGNIFICANT LINKS BEING ESTABLISHED BETWEEN FRG AND GDR FIRMS. HE EXPRESSED CONCERN THAT FIRMS FROM OTHER MEMBER STATES INCLUDING THE UK WERE NOT SIMILARLY BECOMING INVOLVED IN THE GDR.

COMMISSION PAPER

11. I SUGGESTED THAT AT THIS STAGE IT WAS IMPORTANT THAT THE EUROPEAN COUNCIL SHOULD AGREE ON AN ORGANISED AND SYSTEMATIC APPROACH. IT COULD NOT EXPECT TO TAKE FIRM DECISIONS IN THE ABSENCE OF FULLER INFORMATION. IT WAS IMPORTANT THAT THE COMMISSION'S APRIL PAPER SHOULD NOT BE TOO PRESCRIPTIVE. THE 28 APRIL INFORMAL EUROPEAN COUNCIL SHOULD SEEK TO AGREE ON THE PROCESS AND SYSTEM. BANGEMANN AGREED, AND SAID THAT THE COMMISSION PAPER NEXT MONTH WOULD TRY TO SET OUT THE TIMETABLE, THE FUTURE METHOD OF WORK, AND TO DEFINE IMMEDIATE PRIORITIES.

OTHER ISSUES

12. BANGEMANN BRIEFLY MENTIONED SITES OF COMMUNITY INSTITUTIONS. HE SAID THAT DELORS HAD AGREED TO TAKE UP HIS SUGGESTION OF A PACKAGE APPROACH INVOLVING THE MAIN SITES, INCLUDING THE TRAINING FOUNDATION, CTMO, THE EBRD ETC.

13. I IN TURN RAISED BARRIERS TO TAKEOVERS. I SAID THAT UK MINISTERS WERE ANXIOUS TO KEEP UP THE MOMENTUM FOLLOWING THE COMMISSION'S ACTION PLAN AND WE HOPED IT WOULD BE POSSIBLE TO SEE A DEBATE AT THE MAY IMC. BANGEMANN DID NOT SEEM WELL BRIEFED ON THE DETAIL, BUT AGREED THAT SHOULD BE POSSIBLE.

14. I ALSO RAISED OUR CONCERNS ON THE POTENTIALLY DISCRIMINATORY NATURE OF THE DRAFT FRENCH LAW ON THE LEGAL PROFESSION WHICH WOULD REMOVE RIGHTS CURRENTLY ENJOYED BY UK LAWYERS IN PARIS, AND SAID THAT IT WOULD BE HELPFUL IF THE COMMISSION COULD EXERT SOME OFFICIAL PRESSURE AT THE POLITICAL LEVEL ON THE FRENCH GOVERNMENT. AGAIN BANGEMANN WAS NOT BRIEFED, BUT AGREED TO CONSIDER THE POINT (WE WILL FOLLOW UP IN DETAIL WITH HIS CABINET).

HANNAY