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SIC

MODSH PASS TO MODUK AND CICC GERMANY SIC ECA

UK/FRG SUMMIT 30 MARCH: SCENE SETTER

SUMMARY

1. COALITION STRONGLY PLACED AT HOME. MARKING TIME BRIEFLY ON ACTUAL STEPS TOWARDS UNIFICATION, PENDING FORMATION OF GDR GOVERNMENT. UNCOMFORTABLE AWARENESS THAT PROSPECT OF A LARGER GERMANY STILL CAUSES ANXIETY ABROAD. FRANCO-GERMAN RELATIONS GOING BADLY. GERMAN ATTEMPTS TO REASSURE OTHERS.

2. ON UNIFICATION, CONSCIOUSNESS OF NEED TO SYNCHRONISE INTERNAL AND EXTERNAL TRACKS. THIS MAY IN DUE COURSE BE DIFFICULT. THIS SUMMIT WELL TIMED TO INFLUENCE GERMAN THINKING FOR 2 PLUS 4. KEY ISSUES FOR DISCUSSION ARE THE SECURITY ASPECTS OF UNIFICATION, BOTH TRANSITIONALLY AND IN THE LONGER TERM, AND GERMAN MONETARY UNION AND ITS IMPLICATIONS.

DETAIL

3. THE LATEST OPINION POLL GIVES THE COALITION PARTIES A SUBSTANTIAL LEAD OVER THE OPPOSITION. THEY ARE MORE POPULAR THAN AT ANY TIME SINCE THE BUNDESTAG ELECTIONS OF 1987. THE GREENS AND REPUBLIKANER HAVE FALLEN BACK SINCE UNIFICATION BECAME THE BIG ISSUE. THE ECONOMY CONTINUES TO BOOM AND MIGRANTS FROM EAST GERMANY ARE JUST RECENTLY DOWN (SINCE THE GDR ELECTION ABOUT HALF THE RATE OF OVER 2,000 A DAY BEFORE THEN). THE BALANCE BETWEEN THE PARTIES IS:

CDU/CSU.....45 PER CENT (37 A YEAR AGO)
FDP.....9 PER CENT (7)
SPD.....36 PER CENT (40)
GREENS.....5 PER CENT (9)

REPUBLIKANER...2 PER CENT (4).

4. THE CDU MAY NOW RETAIN THEIR PRECARIOUS HOLD ON LOWER SAXONY IN THE LAND ELECTION THERE ON 13 MAY AND THUS KEEP CONTROL OF THE BUNDESRAT (THE FRG'S UPPER HOUSE). IN THE RUN UP TO THE FEDERAL ELECTIONS IN DECEMBER KOHL WILL HOWEVER BE CHALLENGED BY LAFONTAINE TO DEMONSTRATE THAT HE CAN KEEP HIS PROMISES TO THE GDR VOTERS TO BRING PROSPERITY QUICKLY AND HIS PLEDGE TO FRG VOTERS THAT TAXES WILL NOT BE INCREASED.

5. THERE IS A LULL IN THE ACTUAL STEPS TOWARDS UNIFICATION WHILE A COALITION IS CONSTRUCTED IN THE GDR. AS THE COLLECTIVE ADRENALIN LEVEL HAS MODERATED, THE MAGNITUDE AND COMPLEXITY OF THE ISSUES THAT HAVE TO BE RESOLVED HAS BECOME MORE WIDELY KNOWN. SOME GOVERNMENT SUPPORTERS WILL STILL JUSTIFY KOHL'S HANDLING OF THE POLISH BORDER ON DOMESTIC GROUNDS. BUT MOST KNOW IT WAS A MISTAKE WHICH REVIVED MISTRUST OF GERMANY ABROAD AND AMONG OTHER THINGS UPSET RELATIONS WITH FRANCE. THIS HAS MADE THE FEDERAL GOVERNMENT AND MANY POLITICIANS MORE CAREFUL IN THEIR STATEMENTS ABOUT THE EXTERNAL ASPECTS OF UNIFICATION AND HAS LED THEM TO SAY REPEATEDLY THAT STATE UNITY WILL COME ONLY AFTER AGREEMENT IS REACHED IN 2 PLUS 4. KOHL'S VISIT TO THE EC (UKREP TELNO 930) AND GENSCHER'S TO WEU AT STRASBOURG, BOTH ON 23 MARCH, HAD THIS PURPOSE OF REASSURANCE. IN GIVING NEW EMPHASIS TO EUROPEAN POLITICAL UNION, PERHAPS VIA ANOTHER IGC, KOHL HAS SOUGHT TO PACIFY MITTERRAND BY PARADING EUROPEAN COLOURS, WHILE STILL REFUSING TO START THE IGC ON EMU BEFORE HIS DECEMBER ELECTIONS.

6. THE FEDERAL GOVERNMENT NOW HAS A REASONABLY CLEAR VIEW OF THE BROAD SEQUENCE OF EVENTS ON THE ROAD TO UNIFICATION (MY TELNO 399). THE CHOSEN CONSTITUTIONAL METHOD IS ACCESSION OF THE GDR TO THE FRG UNDER ARTICLE 23 OF THE FEDERAL CONSTITUTION. KOHL AND GENSCHER CLAIM THAT THEY CAN CONTROL THE TIMING OF THIS BY USING THEIR INFLUENCE OVER THE GDR COALITION AND DELAYING THE IMPLEMENTING LEGISLATION IN THE BUNDESTAG UNTIL AGREEMENT IS SURE IN 2 PLUS 4. BUT IF IN DUE COURSE INABILITY TO SETTLE THE SECURITY (OR OTHER) ASPECTS OF 2 PLUS 4 THREATENED TO DELAY UNIFICATION, THERE WOULD BE A REAL DANGER OF THE GERMANS WANTING TO CONCEDE TOO MUCH TO THE SOVIET UNION. IT IS NOW URGENT TO AGREE THE WESTERN POSITION ON CRUCIAL ISSUES SO THAT THE 4 PLUS 2 PROCESS CAN GET INTO SUBSTANCE ONCE THERE IS A GDR GOVERNMENT. THE BRITISH/GERMAN SUMMIT IS WELL TIMED TO INFLUENCE GERMAN THINKING. DESPITE RECENT DIFFICULTIES BETWEEN US, I THINK KOHL WILL WANT TO CONSOLIDATE AREAS OF AGREEMENT. THE PRESS CONFERENCE GIVES AN OPPORTUNITY TO HIGHLIGHT

THESE IN PUBLIC.

7. IMPORTANT ISSUES AT THE SUMMIT WILL BE:

(A) SECURITY ISSUES IN 2 PLUS 4. IT WILL BE IMPORTANT TO PRESS KOHL TO BE CLEAR ABOUT THE EXTENSION OF NATO ARTICLES 5 AND 6 TO EAST GERMANY AND THE MILITARY ASSETS TO MAKE THAT CREDIBLE WHILE THE RUSSIANS ARE WITHDRAWING. THERE IS SOME EVIDENCE (MY TELNO 396) THAT KOHL MAY RECOGNISE THAT GERMAN GROUND TROOPS OF SOME KIND MUST BE PRESENT IN EAST GERMANY EVEN DURING A TRANSITION PERIOD. BUT I DO NOT EXCLUDE THAT PEOPLE HERE COULD BE TEMPTED, IF 2 PLUS 4 WAS DIFFICULT ON THIS ASPECT, TO POSTPONE ALL QUESTIONS CONCERNING THE SECURITY OF THE GDR, EXCEPT SOVIET WITHDRAWAL, FOR A SUBSEQUENT NEGOTIATION. THAT WOULD CREATE SERIOUS UNCERTAINTY ABOUT FUTURE EUROPEAN SECURITY.

(B) EUROPEAN DEFENCE AND SECURITY IN THE LONGER TERM. THERE ARE IMPORTANT DIFFERENCES BETWEEN KOHL'S AND STOLTENBERG'S GOALS ON THE ONE HAND AND GENSCHER'S ON THE OTHER. KOHL MEANS IT WHEN HE SAYS THAT HE WANTS A UNITED GERMANY PERMANENTLY IN NATO AND THE INTEGRATED MILITARY STRUCTURE AND ACCEPTS THE CONTINUING NEED FOR NUCLEAR WEAPONS ON GERMAN SOIL. BUT THERE IS AN INCIPIENT TENDENCY IN BONN TO ARGUE THAT SOME OF THE KEY ISSUES THAT THE SOVIET UNION IS LIKELY TO RAISE IN 2 PLUS 4, NOTABLY NUCLEAR WEAPONS ON GERMAN SOIL AND THE FUTURE SIZE OF GERMAN ARMED FORCES, CAN ONLY BE SETTLED IN OTHER FORA - SNF NEGOTIATIONS OR A SECOND ROUND OF CFE - WHERE GERMANY WILL NOT BE 'SINGULARISED'. KOHL IS APPREHENSIVE ABOUT HOW HARD THE RUSSIANS WILL PRESS, ESPECIALLY ON NUCLEAR WEAPONS (MY TELNO 375). GENSCHER MAKES IT INCREASINGLY CLEAR (MY TELNO 397) THAT NATO WITH ITS PRESENT FORM AND FUNCTIONS WILL ONLY BE NEEDED FOR A TRANSITIONAL PHASE OF UNSPECIFIED DURATION UNTIL THE MILITARY PACTS CAN BE ABSORBED INTO A NEW COOPERATIVE EUROPEAN SECURITY ORDER.

(C) GERMAN ECONOMIC AND MONETARY UNION. KOHL HAS COMMITTED THE FRG TO AN EXCHANGE RATE OF 1DM TO 1 EAST MARK FOR CURRENT FLOWS AND SMALL SAVERS. DEBATE RAGES OVER THE RIGHT RATE FOR OTHER FUNDS AND THERE IS A GOOD DEAL OF CONFUSION ABOUT THE TIMING AND NATURE OF THE ECONOMIC REFORMS WHICH MUST ACCOMPANY MONETARY UNION, THE TARGET DATE FOR WHICH IS 1 JULY. I SUGGEST THAT HAUSSMANN SHOULD BE PROBED ON THE RELATIONSHIP BETWEEN MONETARY AND ECONOMIC UNION, ON MEDIUM AND LONGER TERM ECONOMIC PROSPECTS FOR THE GDR AND ON HIS DEPARTMENT'S VIEWS (WHICH DIFFER IN IMPORTANT RESPECTS FROM THOSE OF THE AUSWAERTIGES AMT) ON EAST GERMAN ABSORPTION INTO THE COMMUNITY. I SUGGEST THAT WAIGEL SHOULD BE ASKED ABOUT THE EFFECTS OF

UNIFICATION ON THE DM. HAUSSMANN AND WAIGEL COULD BE ASKED ABOUT POSSIBLE OVERHEATING OF THE FRG ECONOMY AS GDR CONSUMPTION IS PUMPED UP AND ABOUT CONSEQUENTIAL PROSPECTS FOR INFLATION AND INTEREST RATES.

(D) BERLIN. THERE IS INCREASING TALK IN BERLIN, ACROSS PARTY LINES, OF ALLIED GARRISONS STAYING THERE ON A NEW CONTRACTUAL BASIS AS LONG AS SOVIET FORCES ARE IN EAST GERMANY. PROVIDED THE GERMANS WANT THIS AND ARE PREPARED TO SAY SO PUBLICLY, THERE ARE OBVIOUS ATTRACTIONS. NEITHER KOHL NOR GENSCHER SEEMS TO HAVE FOCUSED ON THIS IDEA.

8. OTHER ISSUES FOR THIS SUMMIT ARE:

(A) FINANCIAL SERVICES. THE FEDERAL GOVERNMENT HAVE SAID THAT THEY WANT THEIR EUROPEAN PARTNERS TO PARTICIPATE IN DEVELOPING THE GDR. THEY HAVE ALSO AGREED THAT EAST GERMANY SHOULD IF POSSIBLE ADOPT EC-COMPATIBLE LEGISLATION FROM THE START. THIS HAS IMPLICATIONS FOR THE FRG IN INSTANCES WHERE IT IS OUT OF LINE WITH EC OBLIGATIONS. FEDERAL CHANCELLERY AND FINANCE MINISTRY OFFICIALS HAVE RECENTLY BEEN COOPERATIVE IN MAKING BILATERAL PROGRESS ON TWO EC DOSSIERS WHICH, IF UNBLOCKED, WOULD INCREASE BRITISH CHANCES OF PROVIDING FINANCIAL SERVICES IN A UNITED GERMANY. THESE ARE LIFE INSURANCE AND THE RULES FOR NON-BANK FINANCIAL INSTITUTIONS. THE SUMMIT PROVIDES THE OPPORTUNITY FOR MINISTERS TO ENDORSE THE EFFORTS TO BREAK THE LOG JAM IN A WAY WHICH COMMITS THE GERMANS TO FOLLOW THROUGH IN BRUSSELS (MY TELNO 395).

(B) PROMOTION OF THE ENGLISH LANGUAGE IN THE GDR. ENGLISH CAN NOW DISPLACE RUSSIAN AS THE FIRST FOREIGN LANGUAGE IN EAST GERMANY. I HOPE WE CAN ANNOUNCE AT THE SUMMIT THE START OF A BRITISH COUNCIL PROGRAMME ON THIS. IT WOULD BE MUCH WELCOMED HERE.

(C) FOR USE AT THE PRESS CONFERENCE, THE BRIEFING FOR THE SUMMIT WILL ALSO LIST SUBJECTS WHERE BILATERAL COOPERATION IS CURRENTLY SUCCESSFUL. THESE COVER SCIENTIFIC AND ACADEMIC RESEARCH, THE FIGHT AGAINST DRUG TRAFFICKING AND COOPERATION OVER MILITARY EXERCISES.

9. PLEASE ADVANCE TO PS'S TO CHANCELLOR OF THE EXCHEQUER AND SECRETARIES OF STATE AT DTI AND MOD.

MALLABY

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