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Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Secretary of State for Foreign Affairs
Foreign & Commonwealth Office
King Charles Street
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29th March 1990*Douglas Hurd*

GDR AND THE KNOW-HOW FUND

Thank you for your minute of 23 March.

2. I am frankly sceptical about the case for extending the Know-How Fund for Eastern European countries to the GDR. In the other cases which we have considered so far, the case can be considered not only on the basis of recipients' commitment to political and economic reform, but on grounds of need for support - met primarily from the aid budget.

3. While the GDR may now meet the criteria for commitment to reform, it is not self-evidently in need of help. Its economic prospects are good. UK firms are already examining the commercial opportunities there and do not appear to need help or encouragement in this. The ECGD, as you know, remains on full cover for export credit for the GDR. The GDR is, as you say, moving rapidly towards German unification and is, in that process, receiving very substantial help from the FRG to which we should look to take care of most of its needs.

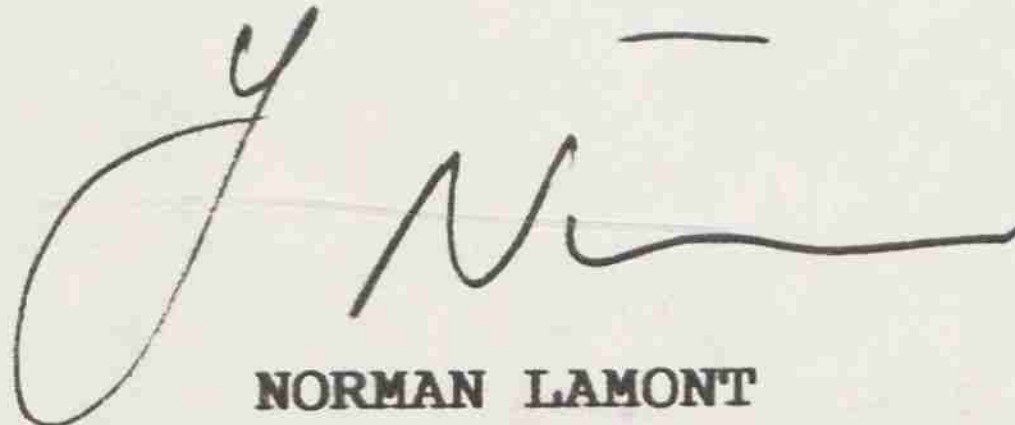
4. Your proposal, however, appears to rest on a case for extending UK influence in the GDR in the run-up to unification. This is essentially a judgement for you. In the circumstances, I agree with some reluctance to your announcing this extension in the application of the Fund. I would however, make the following points:

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- the case seems, in my view, to point to at most only very modest resources from the Fund being used for this purpose;
- it would not be appropriate to continue assisting GDR from the Fund once German unification was achieved;
- I should hope you would derive maximum capital from this initiative in resisting any pressure for UK participation in multilateral, especially EC, initiatives for the GDR. Trade liberalisation, not further financial support, is the most important form of assistance which the EC can provide in any future cooperation agreement.

5. I welcome your undertaking to contain any support from the Fund to the GDR within the £15 million provision for Eastern Europe already agreed for 1990-91.

6. I am copying this letter to the Prime Minister, Nicholas Ridley, John MacGregor, and Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'N. Lamont', with a large, stylized initial 'N' and a long horizontal stroke extending to the right.

NORMAN LAMONT

GERMANY: Unification pt 3

