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FRAME GENERAL

BM BERLIN FOR SECRETARY OF STATE'S PARTY

EUROPEAN COUNCIL 25/26 JUNE: GERMAN VIEWS

SUMMARY

1. KOHL WILL WANT THE SUMMIT TO MAKE A MOVE ON THE QUESTION OF AID TO THE SOVIET UNION, BOTH TO SUPPORT GORBACHEV AND TO SMOOTH THE PATH TO GERMAN UNITY.

DETAIL

2. WHEN KOHL ATTENDS THE EUROPEAN COUNCIL NEXT WEEK, GERMANY WILL BE LESS THAN A WEEK AWAY FROM THE START OF A UNIQUE EXPERIMENT: ECONOMIC AND MONETARY UNION BETWEEN THE FRG AND THE GDR. TO HAVE REACHED THIS POINT LESS THAN 8 MONTHS AFTER THE WALL WAS BREACHED ON 9 NOVEMBER 1989 IS A BIG ACHIEVEMENT FOR KOHL AND HIS COLLEAGUES, BUT HE KNOWS THAT A VERY DIFFICULT STAGE IS NOW BEGINNING:

(I) GEMU IS GOING TO BRING A WAVE OF BANKRUPTCIES AND UNEMPLOYMENT IN THE GDR WHICH WILL VERY LIKELY LEAD TO HIGHER BUDGETARY COSTS IN THE SHORT TERM, AND MIGHT WELL BRING A NEW EXODUS FROM EAST TO WEST. IN EACH OF THE LAST TWO WEEKS THE NUMBER OF EAST GERMAN RESETTLERS HAS BEEN ONLY 1,400 (COMPARED WITH 15,000 IN THE FIRST WEEK OF FEBRUARY IMMEDIATELY BEFORE KOHL'S OFFER OF GEMU). HE WANTS TO KEEP IT THAT WAY AND TO PREVENT SOCIAL UNREST IN EAST GERMANY EVEN IF THAT MEANS SUBSIDISING QUITE A PROPORTION OF GDR JOBS FOR A TIME.

(II) TRANSFORMING THE GDR ECONOMY IS ALMOST CERTAIN TO COST MORE AND TAKE LONGER THAN KOHL HAS TOLD THE WEST GERMAN PUBLIC: THERE IS ALREADY CONCERN AMONG VOTERS ABOUT THE COSTS AND HE NEEDS TO PREVENT THIS FROM BECOMING A MAJOR ISSUE BEFORE ALL-GERMAN ELECTIONS IN DECEMBER.

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(III) THE PRIVATE SECTOR INVESTMENT BANDWAGON HAS NOT YET STARTED TO ROLL. PARTIAL RESOLUTION OF THE GDR PROPERTY QUESTION (MY TELNO 738) MAY HELP, BUT MANY FIRMS MAY HOLD BACK UNTIL FULL UNIFICATION. OTHER MEASURES (EG ON GDR COMPANY DEBTS) MAY BE NEEDED.

(IV) GEMU WILL LOCK THE FRG AND THE GDR IRREVOCABLY TOGETHER. BUT THERE IS A RISK THAT UNTIL STATE UNITY THE FRG WILL BE LANDED WITH BUDGETARY RESPONSIBILITIES AND OBLIGATIONS WITHOUT EXECUTIVE POWER TO MAKE SURE THAT THE RIGHT ECONOMIC DECISIONS ARE TAKEN BY THE ILL-PREPARED, INFLEXIBLE (AND IN PART HOSTILE) GDR OFFICIALS WHO WILL BE RESPONSIBLE FOR IMPLEMENTING GEMU. SINCE THIS SITUATION OF FINANCIAL RESPONSIBILITY WITHOUT CONTROL CAN BE RESOLVED ONLY BY STATE UNITY, THE PRESSURE FOR AN EARLY DATE FOR THE LATTER IS INCREASING. POLITICIANS HERE ARE TALKING INCREASINGLY OF THE POSSIBILITY THAT, IF UNEMPLOYMENT, STRIKES AND DISCONTENT BECOME SERIOUS IN THE GDR IN THE LATE SUMMER AND AUTUMN, THE VOLKSKAMMER MIGHT MAKE A MOVE FOR IMMEDIATE STATE UNITY.

3. ECONOMIC HELP FOR THE RUSSIANS, SEEN HERE AS ONE OF THE KEYS TO PROGRESS ON THE EXTERNAL TRACK OF UNIFICATION, IS AT THE FOREFRONT OF KOHL'S MIND. IN HIS SPEECH TO THE BUNDESTAG TODAY HE CONFIRMED THAT HE WILL LAUNCH IDEAS AT THE DUBLIN EUROPEAN COUNCIL AND AT THE G7 MEETING IN HOUSTON FOR A PACKAGE OF WESTERN ECONOMIC ASSISTANCE TO THE SOVIET UNION IN ADDITION TO THE SHORT-TERM BILATERAL SUPPORT ALREADY UNDER CONSIDERATION IN BONN. THE FEDERAL CHANCELLERY HAVE ALL BUT EXPLICITLY CONFIRMED PRESS REPORTS THAT THE FEDERAL GOVERNMENT HAS AGREED (SUBJECT TO CLEARANCE BY THE BUDGET COMMITTEE OF THE BUNDESTAG ON 22 JUNE) TO GUARANTEE A DM5 BILLION CREDIT BY A CONSORTIUM OF WEST GERMAN BANKS, IN ORDER TO HELP THE SOVIET UNION OVERCOME ITS SHORT-TERM PAYMENT DIFFICULTIES. THE AUSWAERTIGES AMT BELIEVE THAT FINANCE MINISTER WAIGEL WILL GO ALONG. AS FOR LONGER-TERM ASSISTANCE, DETAILED PROPOSALS ARE STILL BEING WORKED ON IN A VERY SMALL CIRCLE UNDER KOHL'S PERSONAL SUPERVISION. PRESS REPORTS SUGGEST THAT THESE MAY INCLUDE EXTENSION OF SOVIET BORROWING RIGHTS FROM THE EBRD BEYOND THEIR CONTRIBUTION, AN IMF/WORLD BANK PACKAGE IF THE PROBLEM OF SOVIET NON-MEMBERSHIP CAN BE OVERCOME AND A RANGE OF OTHER MEASURES TO ASSIST THE REFORM PROCESS, INCLUDING TRAINING AND MARKETING ASSISTANCE.

4. AT DUBLIN, KOHL IS LIKELY TO SEE WILLINGNESS TO LAUNCH THE TWO IGCS WITHOUT MUCH FURTHER ARGUMENT AS AN ACCEPTABLE PRICE TO PAY TO GET AND KEEP THE FRENCH ALONGSIDE. FOR SIMILAR REASONS HE IS UNLIKELY TO DIFFER WITH THE FRENCH OVER STRASBOURG AS THE SEAT OF THE EUROPEAN PARLIAMENT (THOUGH THE GERMANS WOULD LIKE TO KEEP

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BRUSSELS OPEN AS A LONG TERM OPTION). HE WILL WANT THE EUROPEAN COUNCIL TO PRODUCE A RESOUNDING STATEMENT ON THE ENVIRONMENT AS A CURTAIN RAISER FOR THE HOUSTON SUMMIT, WHERE HIS INTENTION IS TO ASSUME A LEADING ROLE. WE HAVE BEEN TOLD THAT HE WILL SHORTLY BE SENDING A LIST OF PROPOSALS ON THE ENVIRONMENT TO G7 COLLEAGUES.

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