

PRIME MINISTER

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OD: EC IMPLICATIONS OF GERMAN UNIFICATION

There is to be a meeting of OD tomorrow to discuss the EC implications of German unification. You saw an earlier version of the paper for this meeting, and the present draft is very little changed. I have underlined the main points of importance. We have enlarged OD for the occasion to cover virtually all Departments, since most will in practice be affected.

There are quite a number of detailed aspects, and you will probably want to allow each Minister to raise his Department's concerns. But the broad issues on which OD ought to take a view are the following:

- economic and monetary union between the two Germanies. This process seems likely to start very shortly after 18 March. The Community relatively will have very little say, even though it has major implications (particularly for countries in the ERM). There is bound to be some effect on the wider debate on economic and monetary union within the European Community as a whole. There will be those who will press for the process to be speeded up, and an Intergovernmental Conference to be brought forward. But common sense suggests that in practice GMU will slow down EMU. That would certainly suit our interests, and we should consider how things can be pushed in that direction.
- the Budgetary costs of absorbing East Germany. The question of who pays? is probably the most important of all. And the answer must be that Germany pays to the greatest extent possible. We shall need to consider whether we can get this established as a general principle: or whether it has to be negotiated for each area of the Community's policies. The paper, incidentally, takes quite a rosy view of the costs, suggesting that no increase in the

own resources ceiling will be needed. I suspect this is a bit sanguine.

- policy on transitional derogations.
We need to decide whether we want derogations to be short or long. On the whole, the judgement of the paper is that they should be short, so that East Germany is brought to comply with Community standards and regulations as rapidly as possible. But there will need to be very effective arrangements for surveillance of East German performance and trade.

- how we build alliances to secure our interest
As always in the Community, we shall want to try to get as many member states as possible on our side. The Foreign Secretary might be invited to circulate a paper on the tactical handling of this.

- the management of the informal European Council on 28 April.
We shall want to avoid any attempt at bounces at this. We shall need to work very closely with the Irish Presidency, and persuade them to accept our concept of an annotated agenda for the meeting rather than have a plethora of papers.

Provided the discussion is generally satisfactory, you will want to agree the conclusions in paragraph 43 of the paper, and ask the Foreign Secretary to supervise further more detailed work in OD(E).

C.D.P.
CDP

7 March 1990

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Points for Conclusions.

- ① We must assert and get recognized early on the principle that Germany pays the cost of East German membership.
- ② We should take any opportunities to secure further reform of the CAA.
- ③ We should support the concept of preserving the Inner-German frontier as a means of monitoring trade from East Germany & compliance with Community regulations.

④ We should be ~~set~~
seeking alliances with other
EC countries now, so that
we present a united front
at the meeting on 20 April.

⑤ Departments should do
further detailed work on
solutions to these problems, so
that we are well-equipped
for debate in the Community
when it starts.

C.D.]

• We shall have to
wrap up the border issue.

We should not refer to
it as a border as such.

We should have East
Germany designated as a
zone within the Community, to
which special arrangements for
customs & fiscal surveillance apply
during a transitional period, along
the line of the former inner-German
border.