

GRS 1000  
CONFIDENTIAL  
FM BONN 041615Z JUN 80  
TO PRIORITY FCO  
TELEGRAM NUMBER 441 OF 4 JUNE  
INFO WASHINGTON, TOKYO, OTTAWA, PARIS, ROME, UKREP BRUSSELS, MOSCOW

CONFIDENTIAL

*Very depressing. Read in full*

YOUR TEL 990 TO WASHINGTON

VENICE ECONOMIC SUMMIT

1. THE VENICE SUMMIT IS TAKING PLACE ONE WEEK BEFORE THE FEDERAL CHANCELLOR VISITS MOSCOW AND HIS IMMEDIATE PRIORITY WILL BE TO CLEAR HIS LINES WITH HIS PRINCIPAL ALLIES BEFORE MEETING BREZHNEV AND TO IMPROVE HIS RELATIONSHIP WITH CARTER. HE WILL HAVE EXPERIENCED HIS PARTY CONFERENCE ON 9-10 JUNE AND WILL STILL BE FEELING THE BRUISES OF THE COMMUNITY BUDGET NEGOTIATION AND THE COST OF THE SETTLEMENT TO THE FRG. HE FACES ELECTIONS ON 5 OCTOBER.
2. IN ELECTORAL TERMS IT IS EAST-WEST RATHER THAN DOMESTIC ECONOMIC ISSUES WHICH MOST PREOCCUPY SCHMIDT. HE IS ON RECORD AS WANTING A DAY AT VENICE DEVOTED TO POLITICAL SUBJECTS. SO FAR HE APPEARS TO HAVE SUCCEEDED IN CATCHING THE MOOD OF MUCH OF THE ELECTORATE IN HIS HANDLING OF THE FRG'S RELATIONS WITH THE EAST POST-AFGHANISTAN. BUT THE MOOD COULD CHANGE. THERE IS WIDESPREAD CONCERN AT THE CONTINUED DECLINE IN MUTUAL CONFIDENCE BETWEEN BONN AND WASHINGTON, AND THE OPPOSITION HAVE BEEN MAKING SOME EFFECTIVE PLAY WITH THE CHANCELLOR'S ALLEGED AMBIGUITY IN HIS ATTITUDES TO THE SOVIET UNION AND THE UNITED STATES, EXPLOITING HIS ILL-CONSIDERED WORDS ON THE ARMS CONTROL IN APRIL. SCHMIDT HAS FELT THE NEED TO STEADY HIS RELATIONS WITH WASHINGTON SUFFICIENTLY TO HAVE MY AMERICAN COLLEAGUE HERE TO A TETE-A-TETE DINNER LAST WEEK: AN UNPRECEDENTED HAPPENING. THIS SUBJECT IS TINDER IN THE COALITION AND SCHMIDT HAS ALREADY DEMONSTRATED HIS SENSITIVITY BY RETRACTING WHAT HE SAID IN APRIL AND BY LOSING HIS TEMPER IN PUBLIC WITH THE (FDP-ORIENTED) FRANKFURTER ALLGEMEINE ZEITUNG. THE TICHONOV VISIT, UNDERLINING THE FEDERAL GERMAN ECONOMIC STAKE IN THE EAST, AND PERHAPS TYING GERMAN HANDS TIGHTER, HAS NOT HELPED TO REASSURE EITHER THE AMERICANS OR THE OPPOSITION.
3. SCHMIDT WILL THEREFORE BE HOPING TO USE THE VENICE MEETING TO MEND HIS FENCES WITH THE US: TO PRESENT HIMSELF AS A CENTRAL FIGURE IN THE WESTERN ALLIANCE; AND TO DEMONSTRATE THAT THE POLICIES ON WHICH HIS VISIT TO MOSCOW IS BASED, IF NOT IDENTICAL WITH MOST OF HIS PRINCIPAL PARTNERS, ARE ACCEPTED AND ENDORSED BY THEM. IN SHORT, HE WILL WANT TO SHOW THAT STRAUSS'S EXPRESSED VIEW OF HIM AS AN UNRELIABLE WESTERN ALLY WITH NEUTRALIST TENDENCIES IS NOT SHARED BY THE ALLIES THEMSELVES.
4. HE DOES NOT NEED TO WORRY ABOUT IMMEDIATE GERMAN ECONOMIC PROSPECTS. IF NOT PERFECT, THE MANUFACTURING AND INVESTMENT OUTLOOK IS MUCH BETTER HERE THAN ELSEWHERE. GERMANY'S MAJOR MARKETS HAVE NOT DRIED UP. HOWEVER WIDER ENERGY AND MONETARY ISSUES CAUSE HIM DEEP ANXIETY: IN PARTICULAR THE OIL PRICE/CPPEC SURPLUS COMPLEX WHICH HAS FORCED THE FEDERAL REPUBLIC INTO DEFICIT. SCHMIDT

CONFIDENTIAL

*Lawrence*

*We can't  
be used  
like this*

## CONFIDENTIAL

WORRIES ABOUT THE ABILITY OF EXISTING INTERNATIONAL POLITICAL AND FINANCIAL INSTITUTIONS TO COPE. HE WILL WISH TO OBTAIN RECOGNITION BY THE SEVEN THAT RECESSION AND INFLATION CAN BE DEALT WITH ONLY BY GRITTING THE TEETH AND STICKING TO FREE MARKET PRINCIPLES; AND EXAMINE WHAT MUST BE DONE TO HELP THE LDCS ADJUST QUICKLY (A MINIMUM RESPONSE AFTER THE BRANDT REPORT). FOR THE LONGER TERM HE WILL BE LOOKING FOR ACTIVE SUPPORT FROM OTHER ECONOMIC GROUPINGS IN THE TASK OF MAINTAINING PROVEN ECONOMIC PRINCIPLES AND UNDERPINNING THE THIRD WORLD.

5. IN SCHMIDT'S MIND THE VARIOUS SUMMIT ITEMS ARE INSEPARABLY LINKED. HE WILL WANT TO REVIEW THE CHANCES OF A WESTERN UNDERSTANDING WITH OPEC ON RECYCLING. THIS SUBJECT IS CONTROVERSIAL IN THE FRG AND IT IS NOT YET CLEAR WHETHER HE WILL HAVE PROPOSALS TO BRING FORWARD. GENERALLY HE WILL ARGUE THAT OPEC MUST DO MORE FOR THE NON-OIL DEVELOPING COUNTRIES IN THE FORM OF DIRECT FINANCE, WHILE THE INDUSTRIALISED WEST'S MOST EFFECTIVE CONTRIBUTION LIES IN KEEPING ITS MARKETS OPEN. BOTH MATTHOEFER (FEDERAL MINISTER OF FINANCE) AND OFFERGELD (ECONOMIC DEVELOPMENT) HAVE MADE RECENT STATEMENTS ON THE NEED TO ENGAGE OPEC IN THIS TASK.

6. IN SCHMIDT'S VIEW AFGHANISTAN HAS NOT REDUCED THE NEED TO SECURE A SOVIET CONTRIBUTION TO THE NORTH/SOUTH DIALOGUE. HE WILL RAISE THIS WITH BREZHNEV AND SEEK COMMON GROUND IN VENICE BEFOREHAND. HE SEEKS WIDER AREAS OF ECONOMIC COOPERATION INTO WHICH THE BLOC WOULD BE DRAWN. HE FAVOURS THE DEVELOPMENT OF A WESTERN ENERGY DIALOGUE WITH THE SOVIET UNION AND HIS ENTHUSIASM FOR A HIGH LEVEL EEC MEETING ON ENERGY IS, WE BELIEVE, UNABATED.

7. ON ENERGY AS SUCH THE GERMAN PRIORITIES HAVE BEEN MET BY THE TEXT AGREED AT THE IEA ON 23 MAY - THE AVOIDANCE OF 1985 OIL CONSUMPTION COMMITMENT IN FIGURES AND A PARAGRAPH WHICH BACKS UP THE COALITION'S EFFORTS TO ENLARGE GERMAN NUCLEAR POWER CAPACITY. IN OTHER RESPECTS THE ENERGY OUTLOOK HERE (PRICE APART) HAS IMPROVED. THE COAL AND ELECTRICITY INDUSTRIES HAVE NEGOTIATED A LONG TERM AGREEMENT ON COALBURN IN POWER STATIONS AND THE GOVERNMENT HAS INTRODUCED A SLIGHTLY MORE LIBERAL COAL IMPORT REGIME. OIL SUPPLY IS GOOD AND STOCKS HIGH. BUT THE CONGRESSIONAL THREAT TO PRESIDENT CARTER'S OIL IMPORT FEE CAUSES GLOOM.

8. SCHMIDT WILL REITERATE THE GERMAN VIEW THAT THE STATE OF THE WORLD ECONOMY IS AN INVITATION TO PROTECTIONISM AND THIS MUST BE RESISTED. HE IS AWARE THAT SOME GERMANS WANT THE CURRENT ACCOUNT DEFICIT CUT BACK BY A SPECIFIC EXPORT DRIVE; AND THAT THE GERMAN CAR INDUSTRY IS BEGINNING TO FEEL THE WIND OF JAPANESE COMPETITION. SCHMIDT WOULD FIND AN FRG DRIFT INTO PROTECTIONISM REPUGNANT BUT WILL BE LOOKING FOR SUPPORT BY DEEDS FROM HIS PARTNERS.

9. VENICE WILL ALSO BE SCHMIDT'S FIRST MEETING WITH THE PRIME MINISTER SINCE THE COMPROMISE REACHED OVER THE UK'S SHARE OF THE COMMUNITY BUDGET. THIS HAS LED TO SERIOUS STRAINS WITHIN THE SPD/FDP COALITION AND SET THE FEDERAL GOVERNMENT A DIFFICULT

CONFIDENTIAL

PROBLEM OVER FINANCING THE ADDITIONAL GERMAN CONTRIBUTION. SCHMIDT  
WILL THEREFORE BE LOOKING FOR BRITISH RECOGNITION OF THE LENGTHS  
TO WHICH THE FRG HAS GONE TO MEET OUR REQUIREMENTS AND FOR INDICAT-  
IONS THAT, WITH THE BUDGET DISPUTE OFF THE TABLE, THE UK WILL NOW  
BE PREPARED TO PLAY A CONSTRUCTIVE PART IN SOLVING THE REMAINING  
PROBLEMS FACING THE COMMUNITY. BUT, ONCE HIS ELECTIONS AND THE  
FRENCH PRESIDENTIAL ELECTIONS ARE OVER, HE SHOULD BE READY TO USE  
HIS WEIGHT FOR RE-STRUCTURING THE BUDGET AND GETTING REFORM OF THE  
CAP UNDER WAY. BUT BOTH WILL BE A HARD SLOG.

WRIGHT

FILES  
FRD  
EN 5 53  
PS/145  
LORD SAATCHI

COPIES TO

PS/No 10 DOWNING ST.

3  
CONFIDENTIAL