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FILE TITLE:

RELATIONS

SERIES

Germany

PART:

13

PART BEGINS:

4³ JANUARY 2001

PART ENDS:

16 MARCH 2001

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PART
13
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DATE CLOSED

16 MARCH 2001

Series : GERMANY

File Title : Relations

Part : 13

Date	From	To	Subject	Class	Secret
08/01/2001	FA/APS	DTI	Federation of German Industries	C	0
09/01/2001	Cab Off	FCO	Michael Steiner	R	0
10/01/2001	Cab Off	PM	Talks with the German Chancellery:Post-Nice Agenda	U	0
11/01/2001	M/MAFF	PM	New Agriculture Policy and Minister in Germany	U	0
16/01/2001	Cab Off	Cab Off	Meetings with German Chancellery:Monday 15 January	U	0
16/01/2001	Cab Off	Cab Off	Silberberg off the record	R	0
16/01/2001		FA/PS	From Johanna Liddle, German British Forum: Award Dinner for Ger	U	0
18/01/2001	Germany/HME	PU	Call on Bernd Pfaffenbach Federal chancellery	C	0
19/01/2001	Telegram/IN		Tel no 26 : German economy Russian debt link to G8 membership	C	0
19/01/2001	FCO	FA/APS	PMs meeting with German chancellor in Berlin 29/1	C	0
19/01/2001	Germany/HMA	PU	Call on Bernd Pfaffenbach - Federal Chancellery	U	0
19/01/2001	Germany/HME	PU	Call on Nowak, German Chancellery	R	0
22/01/2001	CDS	SS/MOD	Visit to Berlin ESDI	C	0
23/01/2001	Cab Off	Germany/HMA	What do the Germans mean by integration?	U	0
23/01/2001	FA/PS	FCO	Prime Minsiter's dinner with Chancellor Schroeder, 29 January	U	0
23/01/2001	Germany/HMA	HO	Germany: Immigration Issues	U	0
24/01/2001	PPS		No10-Kanzleramt Economic Working Group:Letter to Bernd Pfaffenb	U	0
24/01/2001	Telegram/OUT		FCO tel no 16 to Berlin: Foreign Sec's talks with German Foreign	R	0
25/01/2001	PU	PM	Your dinner with Schroeder: Thoughts from my Berlin visit	C	0
25/01/2001	Germany/HME		Scroeder and European Integration	R	0
25/01/2001			FT and Daily Telegraph articles re Schroeder	U	0
25/01/2001	Germany/HMA	Cab Off	What do the German's mean by Integration	R	0
25/01/2001	FA/APS	PM	Your dinner with Schroeder : thoughts from my Berlin visit	C	
26/01/2001	H/PU	PM	Dinner with Schroeder: Third Way	R	0
26/01/2001	FCO	FA/PS	Briefing for the PM dinner with Chancellor Schroder in Berlin	R	0
26/01/2001	HA/PS	FA/PS	CAP Reform : meeting with Schroeder	R	0
26/01/2001	Cab Off	PM	Your Dinner with Chancellor Schroder:29 January	R	0
26/01/2001	Telegram/IN		Berlin 34: Blair/Schroeder: German Political Situation	R	0
29/01/2001			Chancellor Schroeder : Checklist	U	0
29/01/2001	FA/PS	H/PRESS	(M) PM's dinner with Chancellor Schroeder	C	0
29/01/2001	FA/PS		To Denis MacShane MP: Thank you for note on German-French-Briti	U	0
29/01/2001	SOC	PM	Cabinet Office/Federal Chancellery Secondments	U	0
29/01/2001	PM		To Joschka Fischer, German Foreign Minister: Europe Speech	U	0
30/01/2001	FA/PS	FCO	(M) Prime Minister's dinner with Chancellor Schroeder: European Iss	C	0
30/01/2001	FA/PS	FCO	(M) Prime Minister's dinner with Chancellor Schroeder: Germany, Fr	C	0
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31/01/2001	Germany/HMA	FA/PS	PM's meeting with Chancellor Schroeder: 29 January	R	0
05/02/2001	FA/PS	SOC	Cabinet Office/Federal Chancellery Secondments	U	0
08/02/2001	HA/PS	Germany/HME	Thank you for hospitality	U	0
14/02/2001	Telegram/IN	Telegram/IN	Tel No 70 :Germany/EU : Clement's Speech on Division of compete	U	0
16/02/2001	Telegram/OUT		Tel no 73 : Fischer's past update	C	0
23/02/2001	Cab Off	Germany/HMA	Exchange of officials: Kanzleramt/Cabinet Office	U	0
28/02/2001	Germany/HMA	Germany/HME	An Evening with Hans Eichel	U	0
06/03/2001	Telegram/IN		Berlin 102: Germany Internal: Culture Minister Nida-Ruemelin	U	0
07/03/2001	Ch.Staff	SOC	Chancellery Secondment	U	0
07/03/2001	FCO	FA/PS	Germany : Message for the Konigswinter Conference	U	0
09/03/2001	FA/PS	PM	German & French Elections - att;Telegrams - Berlin 108 & Paris 145	R	0
13/03/2001	Germany/HME	Cab Off	Kompetenzabgrenzung - What Germany's Law says about the divisi	U	0
15/03/2001	FA/APS	FCO	Germany: message for the Konigswinter conference Potsdam, 22-24	C	0
15/03/2001	FA/PS	PM	Talks with the Germans - Foreign Policy	C	0
16/03/2001	Germany/HMA	FA/PS	Talks with the Kanzleramt, 15 March: Foreign Policy Issues	R	0

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Date	From	To	Subject	Class	Secret
16/03/2001	Cab Off	PM	Discussions with the Germans on EU Issues	U	0
16/03/2001	Cab Off	Cab Off	Talks with the Germans: More Detailed Follow-Up Points	U	0
16/03/2001	Cab Off	Cab Off	Chancellery Secondment	U	0

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FROM: Stephen Wall
DATE: 16 March 2001

MARTIN DONNELLY

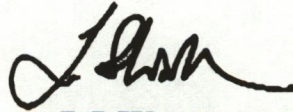
cc: John Sawers
Michael Roberts
Rachel Green
Michelle Sutton
Mike Thomas, COLA
Kim Darroch, FCO
Sir Nigel Sheinwald, UKRep Brussels

TALKS WITH THE GERMANS

I attach the minute I have sent to the Prime Minister. A few more detailed follow-up points.

- (i) In our summary paper, the Germans noted what little notice we gave to the Commission's role. I said this was because we were looking at which might change, not challenging the fundamentals.
- (ii) They did not want a Sherpa role in preparing European Councils. I said there were malign forces in the Cabinet Office which occasionally got behind my guard and inserted this thoroughly bad idea while my attention was averted. Anyone who wanted the European Council to continue as a serious decision making body rightly opposed the idea, so he should treat it as a typing error.
- (iii) On enlargement, the Germans have devised three arguments in favour of enlargement in 2005:
 - (a) That is when reweighted voting takes effect. Negotiating an interim arrangement would be a nightmare. (MS: Please dig out our earlier correspondence on this.)
 - (b) Article 31 of the Sweden, Finland etc accession treaty allowed them to take part in EP elections after signature of their accession treaty. It did not require prior membership. (MS: Please check.)
 - (c) 2005 would allow more time for CAP reform.

- (iv) The Germans have done some work on competence creep which they will share with us.


J S WALL

FROM: Stephen Wall
DATE: 16 March 2001

MICHAEL ROBERTS

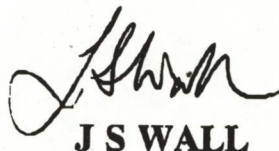
cc: PS/Sir Richard Wilson
PS/Sir John Kerr, FCO
Jonathan Powell, No 10
John Sawers, No 10
Sir Paul Lever, Berlin

CHANCELLERY SECONDMENT

The Germans would welcome a short term (2-3 week) swap in June. They cannot manage a year-long swap because they do not have anyone they can spare for that long but they are open to the idea of an asymmetric arrangement whereby we send them somebody and they do not reciprocate for the time being.

Next steps

We should identify when Paul Heardman could be spared in June (or it could be later). I suspect we will not tie down the longer term arrangement until the first step is underway, but it would be a good idea for the Prime Minister to mention Julian Braithwaite's name to Schröder when they meet in June.


J S WALL

FROM: Stephen Wall
DATE: 16 March 2001

PRIME MINISTER

cc: John Sawers
Jonathan Powell
Alastair Campbell
Roger Liddle
Julian Braithwaite
Jeremy Heywood
Sir Richard Wilson
Sir Nigel Sheinwald, UKRep Brussels
Sir Paul Lever, Berlin
Kim Darroch, FCO

✓
cc Stephen Wall
2 (Pin)
J

DISCUSSIONS WITH THE GERMANS ON EU ISSUES

John Sawers and I spent half a day with Steiner and Silberberg in Schröder's office. Our positions are coming together and we have now got a work process going. But there are some differences as well, and their rhetoric will remain more traditionalist and integrationist than ours. Main points:

- (i) Joint discussion (with outsiders) in June. Agreed. Probably Brandenburg. Eight a side. John and I thought we would organise a UK mini seminar on the future of Europe as a basis for recommending to you three or four outside participants to join on our side. Obviously we would not tell them they were taking part in a beauty contest.
- (ii) Role of the European Council. The Germans have accepted that the European Council should give political and strategic guidance to the Commission, simply because they see the Commission as leaderless. They would like to do this covering a 1½ - 2 year period ahead. They will not do anything which undermines the Commission's right of initiative or which turns the Commission into the civil service of the Union. This is the main area where their rhetoric will remain different, even as they come closer to us on substance.
- (iii) The Germans would like to see more informal/strategic discussion at Heads only level, and less use of the European Council as a court of appeal from lower Councils. Where the European Council has to decide on issues which are determined by QMV, it too should operate by QMV eg to prevent Chirac doing what he did at Berlin when he used

consensus in the European Council to claw back reforms he had been obliged by QMV to concede at the Agriculture Council; and to encourage the lower level councils not to refer things upwards. This seems sensible to me, especially as the European Council already can act as a normal Council if it chooses.

- (iv) On the specific issue of competences, the Germans say that, while we worry about giving competence to the Commission, they worry about what is done at European (as opposed to national/regional) level. Thus, the Lisbon/Stockholm method (which we like) causes them problems because it is action at European level even though competence as such is not conceded. It is not clear whether they see a problem which can only be managed by Treaty change (to row back on bits of the Treaty) or whether the issue can be managed by greater use of political subsidiarity. An illustration of their ambivalence is culture. This is one of the areas where the Länder resent EU encroachment. Yet Schröder would have been prepared to allow QMV at Nice, together with a declaration saying that this need not mean action at European level.
- (v) The Germans are quite keen on a second chamber of the EP, composed of national parliamentarians, so as to allow oversight of ESDP without conceding powers to the EP as such. But they do not much like our idea of the second chamber policing subsidiarity (a) because it could undermine the European Council's role in agenda setting and (b) because they think it would rapidly become another expensive, power grabbing cuckoo in the European nest. They think the Council could have a 'second reading' debate on each new piece of legislation instead to decide whether it should go ahead or not. I am sceptical whether this would work: it is still non p.c. to oppose the idea of legislation, as opposed to its content. Our idea is not perfect, but no-one has come up with anything better.
- (vi) Efficient decision making. The Germans would like to reduce the number of Council formations from 16 to 10 (good). They are thinking of suggesting elected chairs (for two years) of all Councils except Agriculture, GAC, ECOFIN and the European Council. As you know, we have looked at this before. It makes a lot of sense but probably will not get enough support since the small member states will see it as a threat to their position.
- (vii) On enlargement, the Germans would clearly like to push the joining date for the first wave into 2005 and will resist further hardening of the 2004 date we prefer. They look for our support for their position on free

movement of people ie a seven year transition period. We said we understood that they would bear the brunt of Polish immigration and would not want to create any political difficulties. But there were various ideas on the table including a safeguard clause (triggered at a certain level of immigration) which we thought they would need to consider in order to get a deal with the Poles. I think there is a bit of negotiating room for them here. This is a pretty key issue for Schröder. His December speech defused a difficult internal issue in Germany so it will require careful handling to keep both Poles and Germans content.

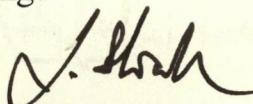
- (viii) German views on managing the Future of Europe agenda are similar to ours ie an IGC (not a Convention) in 2004; formal preparation in 2003 and an open debate extending into 2002. They favour a steering board to help ensure the debate is representative but not to act as a wise man determining the outcome.

You may have seen that Amato wants to get himself appointed as the coordinator of the post Nice debate. The Germans were a bit coy on this and may have gone further towards encouraging him than is wise. We said (knowing that our view is shared by the Dutch, Swedes, Danes and Finns) that Amato was a great guy but the idea was premature.

- (ix) They want a fundamental review of the Structural Funds so that money goes to the poorest countries and regions and to prevent micromanagement by the Commission. Dutch and HMT thinking is similar, and we need to work up some ideas.
- (x) Their rethink of the CAP continues in a useful direction: more emphasis on food safety and the environment and less on market support mechanisms. Again, further scope for continued cooperation, to which they have agreed.

Next steps

- (i) We left the Germans some papers on how to manage competence/subsidiarity in the direction we want. They will comment. So we have a pretty close dialogue with them on a continuing basis. They have nothing similar with the French so far.
- (ii) Organising the June meeting.


J S WALL

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From The Ambassador
Sir Paul Lever

cc JS
cc JPB
LMT
AW
AC

EX-100

1. Sir George Jones, FCO
Robert Cooper, Cab Off
Alan Goulby, FCO
Richard Hatfield, No 10



British Embassy
Berlin

Wilhelmstraße 70
10117 Berlin

Tel: +49 (0)30 204 57 0
16 March 2001

John Sawers
No 10

2. Jir JF

Dear John,

TALKS WITH THE KANZLERAMT, 15 MARCH: FOREIGN POLICY ISSUES

1. I noted the following points from your discussions with Michael Steiner yesterday on foreign policy issues. I have reported Missile Defence separately.

New US Administration

2. Steiner said that Schroeder would be visiting Washington later this month, around 28/29 March. He asked for your impressions of the mood music from the Prime Minister's recent visit.

3. You confirmed that Bush had been impressive, had talked frankly and openly, and had been, although not the master of every point of detail, on top of most of the issues. The perceptions that there was a Powell/Rice versus Cheney/Rumsfeld division in the Administration was false. It was more complicated than that. The President had asked his advisers to speak on occasions, but had equally made clear at least once that what they said did not necessarily reflect his own view. You encouraged Steiner to ensure that Schroeder spent some time informally with President Bush. The latter enjoyed talking through issues in a forum where no one was necessarily noting down his every word. You said also that the Prime Minister had told Bush that he would find Gerhard Schroeder an enjoyable and reliable interlocutor in Europe.

4. Overall, Bush's Administration had a moderate tinge. He would press ahead on missile defence, but wanted it to be done in an alliance friendly way and he recognised the problems of handling China and Russia. He was not protectionist. His people would be professional and easy to deal with. Initially, there would be much more order in the Bush Administration than there was with Clinton.

BRITISH EMBASSY BERLIN OFFICE

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5. Steiner asked about the American attitude to European defence. You said that Bush was in principle supportive. The language on the subject in joint statement with the Prime Minister had been helpful. ~~The last sentence of the relevant paragraph was a British draft.~~ There was however an underlying problem. Bush and his team did not know much about Europe. In particular, they were ignorant about what the European Union really was and how it worked. Steiner said that this was his impression too. You both agreed that Bush's encounter with EU Heads of State/Government in Gothenburg would be an important occasion. It would be an opportunity to show him how close and unique a gathering the European Council was.

[Applied to
missile defence!]

Libya

6. Steiner said that he would be going to Libya on the following day. He explained the background. When Schroeder had telephoned Gadafi three or four months ago to thank him for his help in the Philippine hostage crisis, Gadafi had suggested a meeting. Schroeder's initial reaction had been to sound positive: he had, like other EU leaders, talked to Gadafi in the margins of the Africa/Euro Summit in Cairo in April 2000 and had lost sight of the wider political dimension. Only when he saw Steiner gesticulating at him from the room next door, did he deftly disengage. But, typically Schroeder said Steiner, he offered Gadafi a visit by his Foreign Policy Adviser instead. Steiner wasn't particularly looking forward to the trip. He had no business to transact. You said that the Libyans would raise sanctions over Lockerbie. The key point was that they should pay compensation. But this did not mean accepting responsibility for having ordered the attack. (We subsequently sent Steiner a note explaining the background.)

Middle East

7. Steiner said he had recently made a trip to the region which had been surprisingly pleasant. He had seen Sharon, Arafat and Bashar amongst others. The reality was that there was now a complete breakdown of trust there. The EU had an opportunity to play more of a role. All the key players, even Sharon, would welcome this. But the EU needed to change its game. There was no point in going on issuing high-minded declarations calling for the resumption of talks. Rather, the Europeans should focus on something more "operative". In the short term the issues to be addressed were the Israeli closures, the economic situation, the level of violence, the problem of payments to the Palestinian Authority, corruption and so on. These were the issues where the EU should try to encourage progress. Maybe Solana should be sent there. Maybe the Mitchell team could be beefed up. But whatever the EU sought to do should be related to the current situation on the ground.

8. You agreed with this diagnosis and thought that the Swedish Presidency would as well. The problem was the weakness of the Palestinians. Arafat's authority was crumbling. The Palestinian Authority did not function. Bush was willing to help, but not to take the lead or micromanage the way Clinton had. The Europeans could provide expertise and support, but this should not mean just money.

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Israel/Syria

9. Steiner said that though Sharon had been evasive he had given the impression that he still hankered after a separate deal with Syria. Peres had however told him this was not on because Bashar wasn't ready for it. Bashar was an interesting phenomenon: he was far from being a 100% modern man and his view of democracy was old-fashioned. But he did yearn to be part of the modern world. There was scope therefore for getting across to him the message that this meant, as far as Syria was concerned, getting rid of its medieval approach to Israel. The problem was that Bashar was a less dominant figure than his father. He was nervous about public support. You noted that, coming as he did from a minority community, Bashar would probably stand no chance in a really democratic election.

Turkey

10. You emphasised the seriousness of the situation. The economic background was catastrophic. And within the Alliance the Turks were playing a real spoiling game on European defence. You would be going there in a couple of weeks or so to discuss the issue with them.

11. Steiner asked how far the Americans would be helpful in pressing the Turks to allow the EU guaranteed access to NATO facilities. His impression from his visit to Washington was that what the Americans really cared about were capabilities (Steiner acknowledged ruefully that this was a big problem for Germany). But they tended to see the EU as an organisation like the UN, ie anyone ought to be able to join. You agreed. ~~in the margins of the Prime Minister's discussions in Washington Cheney had asked why Turkey could not join the EU along with the other current candidates. He had been asked in reply if America would be happy for NAFTA to be developed so as to give Mexicans free movement into the United States. Cheney seemed not previously to have grasped that this was what, inter alia, EU membership meant.~~ *Americans did not easily grasp that bringing Turkey into the EU was comparable to bringing Mexico into the United States.*

One approach to deal with Americans was to ask

One approach to deal with Americans was to ask

12. On ESDP/Turkey, you thought that there should be a major push to get the issue resolved at the May Ministerials. If this was not possible, President Bush's visit to NATO in June would be another opportunity. But it would be far better if the problem could have been resolved beforehand.

NATO Enlargement

13. You said that your impression from the Prime Minister's visit to Washington was that the Americans had not yet made up their minds as to how they wanted to handle this. They were clear that the Russians must not be allowed to dictate the agenda or to establish red lines. But equally, there would be no likelihood of the Baltic States, for example, being invited next year to join.

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14. Steiner said that his was his impression too. As far as Germany was concerned, a minimal further enlargement (Slovenia and Slovakia) would in theory be feasible. But whether it was politically worth it was another issue. The key requirement though was to emphasise "functionality". NATO had a demanding set of tasks, particularly in the Balkans. The key criterion should be whether, and in what timeframe, enlargement would enhance, and not detract from, NATO's ability to function. At a minimum, NATO should now draw the line at new applications and make this clear to the likes of Ukraine and Georgia. We should tell Putin that he could not dictate terms on NATO's membership, while emphasising that we were not insensitive to Russia's concerns.

Balkans

15. You and Steiner reviewed current developments in Macedonia and Kosovo. Steiner said that he had seen Rugova in Berlin the previous day. It had been a depressing meeting. Rugova was normally the good guy and the voice of reason. But on this occasion, while he had listened politely to Steiner's appeal for him to speak out against Albania extremism, he had replied simply that the only solution was Kosovan independence and that this would solve all the problems.

16. You noted that in the long run this might be the outcome, as it would for Montenegro. Maybe, said Steiner, but we should nonetheless focus on the short term. All the lessons of the Balkans were that if action was not taken early on, trouble would follow. We could not let the situation in the Presevo Valley or on the Macedonia/Albania border continue to fester. When SFOR had gone into Bosnia it had made clear that it expected opposition and was ready to deal with it. In the event, there had been hardly any need for SFOR to open fire. But the fact that SFOR was perceived as almost looking to do so had been noted. This was the posture that KFOR should be in now. This meant doing some planning and preparation. Not least because any action by KFOR outside Kosovo itself would need, in the case of Germany, a new Bundestag mandate.

Yours ever

Paul

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From: John Sawers
Date: 15 March 2001

PRIME MINISTER *file*

cc: Stephen Wall
Jonathan Powell
Alastair Campbell
Anna Wechsberg
Michael Tatham
Robert Cooper

TALKS WITH THE GERMANS - FOREIGN POLICY

Stephen and I were in Berlin yesterday seeing Steiner and Silberberg. Michael had some interesting points to make on foreign policy.

Bush Administration

Schroeder will be in Washington at the end of March. I recommended they press for some informal time with Bush.

Missile Defence

The Germans have shifted to a more positive approach. This was mainly to neutralise the political threat posed by Volker Ruehe's pro-missile defence position (similar to William Hague's). But there had been no domestic backlash, and Joschka Fischer was following the new line. And Steiner was relaxed about the end of the ABM Treaty, if that's what it came to, as long as nuclear arms reductions continued. The Germans share our concern that Putin's appearance at Stockholm runs the risk of a row on missile defence: we should hold the line on "No US proposal, so no European decisions needed, consultations underway".

Michael's main concern was handling French (ie Chirac's) hostility to missile defence. He thought Chirac saw this as another threat to one of the symbols of France's standing. The four power status over Berlin had gone; parity with Germany had been challenged at Nice; now the force de frappe was in question (he recalled that one bizarre argument Chirac had used pre-Nice for retaining voting parity was France's status as a nuclear power). Chirac's position wasn't coherent, but he was clearly wound up on missile defence. I argued that this was Chirac defending the Gaullist conception of France; but we should not accept it as an unchangeable French view. Much of France was modernising itself rapidly and Jospin had been careful at Cahors not to associate himself with Chirac's approach.

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Michael welcomed the idea of UK-German discussions on MD (the N of NMD is now firmly dropped), and shared our aversion to European concertation. But he continues, in a confused way, to see a mis-match between European defence and Europe's different views on missile defence. You should try to talk to Schroeder on missile defence in the margins of Stockholm, using his Washington visit as a hook.

European defence

Germany's poor record on capabilities is beginning to weigh on them, though Schroeder is not yet ready to increase Germany's defence spending (now less than 1.5 per cent of GDP – cf UK 2.4%, US over 3%). You need to keep pressing the capabilities point on Schroeder. Nothing would do more to give ESDP credibility than increased German investment in defence.

NATO enlargement

We agreed that there was no good reason to invite the Baltic States to join NATO next year. But there was a danger of Putin declaring this to be a Russian red line, which we could not be seen to accept. With Russia, we should keep Putin calm and assure him Baltic accession in 2002 was unlikely unless he provoked the Americans into insisting on it. With the US, we should stress the primacy of NATO's strength and effectiveness; we had not yet swallowed the last enlargement and in keeping the process of enlargement moving forward, we should not over-reach.

Michael thought we would end up with a small further enlargement (eg Slovenia and Slovakia), and a better package for those not included this time. He's probably right, though I said we had made no decisions and would keep our options open. We may face a late bid from Austria, and we need to avoid too sharp a disappointment from Balkan countries like Bulgaria who are not going to join the EU for a good while. One way of dealing with Russia will be to balance progress on the existing candidates while making clear NATO is not going to accept applications for now from countries further East (Ukraine, Georgia etc).

MEPP

Steiner has just done a Michael Levy style grand tour. Everyone was fed up with US micro-management. There was a role for the EU. We should not just call for renewed talks – there was zero chance of progress for now. But the EU could give practical support to the Palestinian authority, and address the issues of closures, economic support, corruption and security co-operation. (All this

makes eminent sense: we need to make the PA work so when negotiations do re-start, Israel has a valid partner).

On Syria, Michael's impressions were like ours: no prospect of democracy or of a separate peace with Israel, but Bashar is keen to open Syria up to the West and reform the economy - Lebanese business will have a big role to play.

North Korea

Clinton had recently seen Schroeder: his one beef about Bush was that he was turning his back on the North Korean missile deal he had tee-d up before he left office. Clinton implied Bush was doing this to justify missile defence. I cast some doubts on this. Bush was sceptical about Kim Dae Jung's policy, and the assessment of the CIA (whose views weighed more heavily with Bush than they had with Clinton) was that North Korea's missile sales remained the major proliferation problem the US had to contend with.

Balkans

Increasing German worries on Macedonia - unless nipped in the bud, we may have another Balkans crisis to deal with in the next year.

Turkey

Ditto with Turkey.

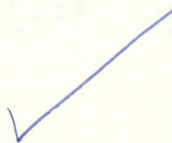
Comment

German interest in the world is slowly widening beyond Europe, Russia and promoting their exports. There remains a big gap resulting from their non-membership of the Security Council - nothing on Iraq, Libya, Africa etc. But their military presence in the Balkans and increased profile in the Middle East is making them more valuable partners on foreign policy.

I don't think Michael had given any thought to the Future of Europe since your discussion with Schroeder. Defence and security issues have returned to the top of the agenda (as they have for us). But we remain on course for a wider meeting in Germany in June.



JOHN SAWERS





10 DOWNING STREET
LONDON SW1A 2AA

file

From the Private Secretary

15 March 2001

Dear Mark

**GERMANY: MESSAGES FOR THE KÖNIGSWINTER CONFERENCE
POTSDAM, 22-24 MARCH**

Further to your letter to John Sawers dated 7 March, I now enclose a message from the Prime Minister for the Königswinter Conference which is being held in Potsdam from 22 to 24 March.

Yours ever

Michael

MICHAEL TATHAM

Mark Sedwill
FCO



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

Last year was another good year for German-British relations. I was delighted to attend the special 50th Anniversary of the Königswinter Conference in Oxford where Chancellor Schröder and I could see at first hand the special impact that Königswinter has in furthering relations between our two countries.

This year, you will be discussing some of the Lisbon agenda issues that Chancellor Schröder and I will be tackling with our EU partners at the same time in Stockholm. The Lisbon agenda lies at the heart of modern governance: it answers the question "what is Europe for?". It shows that Europe is a union of nations who, acting together, can deliver more for their peoples than Member States could acting alone. Lisbon is about the creation of a more dynamic European economy with more jobs and greater inclusion. Germany and the UK are at the forefront of work towards these goals, which is why I attach particular importance to continued close co-operation with Germany on this agenda.

I wish you all at the Conference this year a rewarding and successful time.

Tony Blair

March 2001



From The Ambassador
Sir Paul Lever

British Embassy
Berlin

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13 March 2001

Sir Stephen Wall
European Secretariat
Cabinet Office

Dear Stephen,

KOMPETENZABGRENZUNG

1. I attach, as something to read on the plane before your talks in Berlin on 15 March, a note which Susannah Simon has prepared on the division of responsibilities between the Bund (Federation) and the Länder in Germany; together with the text in English of the relevant articles of the German Basic Law (Grundgesetz).
2. They help explain some of the thinking behind, and the terminology used in, the discussion in Germany of Kompetenzabgrenzung (delimitation of competences).
3. As the note indicates, federalism in Germany is principally about political power and the organisation of administration. It is much less about actual differences in the laws or practices which apply in the various Länder. When it comes to it, the ability and will of the Länder to enact individual pieces of legislation or to vary taxes, is small.
4. This corresponds to the impression one has from living in this country. Despite all the hype, the differences between Bavaria and Schleswig-Holstein are much less than between Devon and Scotland.

Yours &c

cc: John Sawers, No 10
Kim Darroch, Director - EU, FCO

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WHAT GERMANY'S BASIC LAW SAYS ABOUT THE DIVISION OF COMPETENCES BETWEEN LAND AND FEDERATION

Division of competences

1. The key part of the Basic Law is **Chapter VII - Federal Legislation** (attached). It divides legislation into three sorts:

a) Exclusive legislation of the Federation (articles 71 and 73)

- The list of areas includes foreign affairs and defence; citizenship; freedom of movement, passports and immigration; currency; customs; air and rail transport; postal and telecommunications services.
- In matters of **exclusive federal legislation** the Länder have the right to legislate only where and to the extent that they are explicitly empowered by federal law.

b) Concurrent Legislation of the Federation (articles 72 and 74)

- In matters of **concurrent legislation** the Länder have the right to legislate as long as and to the extent that the Federation does not exercise its legislative powers. The Federation has the right to legislate on such matters if and to the extent that the creation of equal living conditions throughout the country or the maintenance of legal and economic unity makes federal legislation necessary in the national interest.
- The list of areas is over twice as long as the one for exclusive federation legislation and includes civil law, criminal law and penal measures, court organisation and procedure, and the legal profession; registration of births, deaths and marriages; foreigners' residence and establishment; weapons and explosives; refugees and expellees; public welfare, economic affairs, waste disposal, air pollution control and noise abatement etc

c) Exclusive legislation of the Länder (Article 70) and Federal Framework Legislation (Article 75)

- There is no list of **exclusive** legislation of the Länder. **Article 70** of the Basic Law gives them the right to legislate in so far as the Basic Law does not confer legislative powers on the Federation. In practice, this leaves them with exclusive responsibility for only a handful of areas, including education, sport and culture. But the Federation still has the right to enact **framework legislation**, i.e. give broad guidance, on aspects of some of these issues e.g. the general principles of higher education and the general legal status of the press.

2. Article 31 says, "Federal law shall override Land law." The exception is Land constitutions which, according to Article 142, "shall also remain in force" where they guarantee basic rights in conformity with Basic Law.

Implementation of Federal legislation

3. Administrative competences are also divided between Federation and Länder. There are three types:

- direct federal administration (e.g. Foreign Service, Federal finances, armed forces, nuclear energy, air transport, railways, waterways and shipping, postal services and telecommunications);

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- Implementation of federal legislation by the Länder (in practice the Länder implement most federal legislation);
- direct Länder administration - Article 30 says that "except as otherwise provided or permitted by this Basic Law the exercise of governmental powers and the discharge of governmental functions shall be incumbent on the Länder."

Municipalities (Article 28)

4. The municipalities' right to self-management is also enshrined in the Basic Law. Article 28 (2) says, "The municipalities shall be guaranteed the right to manage all the affairs of the local community on their own responsibility within the limits set by law. Within the framework of their statutory functions the associations of municipalities likewise have the right of self-government in accordance with the law."

Legislative process (Articles 76-79)

5. The Länder participate in all federal legislation, and can initiate it, through the Bundesrat. Any change to the Basic Law (including to the division of competences) requires a two-thirds majority of their weighted votes. The Bundesrat can also block through simple majority of weighted votes "Consent Bills", which include any legislation affecting Land finances (thus taxation) or even partially their administrative responsibilities. The Bundesrat can also delay all other legislation, known as "Objection Bills", but can be overridden by a majority in the Bundestag. The attached table sets out the two federal legislative processes.

6. Article 79 of the Basic Law prohibits changes affecting Germany's Federal nature.

Taxes

7. The German system of revenue sharing and equalisation ("Finanzausgleich") greatly reduces Länder tax and financial autonomy. The Länder have the right to levy a trade tax on local businesses. But "Länder equalisation" redistributes revenue from relatively wealthy to relatively poor Länder. Thus there is little incentive to attract new companies or even increase local GDP, since marginal increases in revenue are mostly redistributed.

Comment

8. Federalism in Germany is rather unitary. Power is in practice divided horizontally, not vertically (cf. the USA, where the States legislate and administrate autonomously across a broad range of competences). The scope for policy variation is small, and takes place mostly in the field of education. Most legislation is federal, though over 60% of it requires Länder agreement through the Bundesrat.
9. One of the key reasons for the Länder push to sort out division of competences between Europe and Member States is their frustration that their individual powers have been eroded by the Federation and are being squeezed further as a result of the EU's ever-expanding areas of activity.

British Embassy Berlin, 13 March 2001

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Federal Chancellor, dissolve the Bundestag within twenty-one days. As soon as the Bundestag elects another Federal Chancellor with the majority of its Members it may no longer be dissolved.

(2) Forty-eight hours must elapse between the motion and the vote.

Article 69 The Deputy Federal Chancellor and members of the Federal Government

(1) The Federal Chancellor shall appoint a Federal Minister as his deputy.

(2) The tenure of office of the Federal Chancellor or a Federal Minister shall end in any event when a new Bundestag convenes, that of a Federal Minister also where the Federal Chancellor's tenure ceases for any other reason.

(3) At the request of the Federal President the Federal Chancellor, or at the request of the Federal Chancellor or of the Federal President a Federal Minister, shall be obliged to continue in office until a successor has been appointed.

Chapter VII: FEDERAL LEGISLATION

Article 70 Legislative jurisdiction of the Federation and the Länder

(1) The Länder have the right to legislate in so far as this Basic Law does not confer legislative powers on the Federation.

(2) The legislative jurisdiction of the Federation and the Länder shall be governed by the provisions of this Basic Law concerning exclusive and concurrent legislation.

Article 71 Exclusive legislation of the Federation

In matters of exclusive federal legislation the Länder have the right to legislate only where and to the extent that they are explicitly empowered by federal law.

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Article 72 Concurrent legislation of the Federation

(1) Where concurrent legislation is concerned the Länder have the right to legislate as long as and to the extent that the Federation has not exercised its legislative powers.

(2) The Federation has the right to legislate on such matters if and to the extent that the creation of equal living conditions throughout the country or the maintenance of legal and economic unity makes federal legislation necessary in the national interest.

(3) It may be determined by federal law that in cases where federal legislation is no longer required pursuant to paragraph (2) of this Article it may be replaced by Land legislation.

Article 73 Areas of exclusive legislation

The Federation shall have exclusive legislative jurisdiction in respect of

1. foreign affairs and defence including protection of the civilian population;
2. citizenship in the Federation;
3. freedom of movement, passports, immigration, emigration and extradition;
4. currency, money and coinage, weights and measures, as well as standard time;
5. unity of the customs and trading area, treaties of commerce and navigation, free movement of goods, as well as international trade and payments including customs and border protection;
6. air transport;
- 6a. the operation of railways wholly or majority-owned by the Federation (federal railways), the construction, maintenance and operation of infrastructure of the federal railways as well as rates charged for the use of such infrastructure;
7. postal services and telecommunications;

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8. the legal status of persons employed by the Federation and federal public corporations;
9. industrial property rights, copyright and publishing;
10. cooperation between the Federation and the Länder in
 - (a) criminal police work,
 - (b) safeguarding the free democratic basic order and existence of the Federation or a Land (protection of the constitution), and
 - (c) measures to counter activities in the federal territory which through preparations for or the use of force jeopardize the external interests of the Federal Republic of Germany, as well as

the establishment of a Federal Criminal Police Office and international action to combat crime;
11. statistics for federal purposes.

Article 74 Areas of concurrent legislation

- (1) Concurrent legislative jurisdiction shall cover:
 1. civil law, criminal law and penal measures, court organization and procedure, the legal profession, notarial and legal advice services;
 2. registration of births, deaths and marriages;
 3. association and assembly;
 4. foreigners' residence and establishment;
 - 4a. weapons and explosives;

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5. (Repealed)
6. refugees and expellees;
7. public welfare;
8. (Repealed)
9. war damage and restitution;
10. pensions for war-disabled persons and dependants of war victims as well as assistance for former prisoners of war;
- 10a. war graves and graves of other victims of war and despotism;
11. economic affairs (mining, industry, energy, crafts and trades, commerce, banking, the stock exchange system and private insurance);
- 11a. production and utilization of nuclear energy for peaceful purposes, construction and operation of facilities serving such purposes, protection against hazards arising from the release of nuclear energy or from ionizing radiation, and disposal of radioactive substances;
12. labour relations including works constitution, industrial safety, labour placement, as well as social security including unemployment insurance;
13. educational and training grants and promotion of research;
14. expropriation where applicable to the matters enumerated in Articles 73 and 74;
15. transfer of land, natural resources and means of production to public ownership or other forms of public enterprise;
16. measures to prevent abuse of economic power;

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17. promotion of agricultural production and forestry, food security, import and export of agricultural and forestry products, deep-sea and coastal fishing and coastal preservation;
 18. real property transactions, land law (excluding regulations concerning development charges) and agricultural lease, as well as housing and land settlement;
 19. measures to combat communicable human and animal diseases that constitute a danger to public health, admission to the medical or ancillary professions, as well as trade in drugs, medicines, narcotics and poisons;
 - 19a. economic viability of hospitals and regulation of hospital charges;
 20. protective measures in connection with the marketing of food, drink and tobacco, essential commodities, feedstuffs, agricultural and forest seed and seedlings, protection of plants against diseases and pests, as well as protection of animals;
 21. ocean and coastal shipping, as well as sea-marks, inland navigation, meteorological services, sea routes and inland waterways used for general traffic;
 22. road traffic, motor transport, construction and maintenance of roads for long-distance traffic as well as the collection of tolls for the use of public highways and allocation of the revenue;
 23. non-federal rail-bound systems, except mountain railways;
 24. waste disposal, air pollution control and noise abatement;
 25. state liability;
 26. artificial insemination of humans, genetic engineering as well as the transplantation of organs and tissues.
- (2) Legislation pursuant to paragraph (1) No. 25 shall require the consent of the Bundesrat.

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Article 74a **Concurrent legislation of the Federation, public service pay scales and pensions**

(1) Concurrent legislation shall also extend to the pay scales and pensions of members of the public service whose status, service and loyalty are governed by public law in so far as the Federation does not have exclusive powers to legislate pursuant to Article 73 (8).

(2) Federal legislation pursuant to paragraph (1) of this Article shall require the consent of the Bundesrat.

(3) Federal legislation pursuant to Article 73 (8) shall likewise require the consent of the Bundesrat in so far as it envisages criteria for the structuring and computation of pay scales and pensions including appraisal of posts other than those provided for in federal legislation pursuant to paragraph (1) of this Article.

(4) Paragraphs (1) and (2) of this Article shall apply *mutatis mutandis* to the pay scales and pensions for Land judges. Paragraph (3) of this Article shall apply *mutatis mutandis* to legislation pursuant to paragraph (1) of Article 98.

Article 75 **Areas of federal framework legislation**

(1) Subject to the conditions laid down in Article 72 the Federation has the right to enact framework legislation for legislation of the Länder on

1. the legal status of persons in the public service of the Länder, municipalities or other public corporations in so far as Article 74a does not provide otherwise;
- 1a. the general principles of higher education;
2. the general legal status of the press;
3. hunting, nature conservation and landscape management;
4. land distribution, regional planning and water management;

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5. registration of residence or domicile, as well as identity documents;
6. measures to prevent the transfer abroad of German cultural property.

Paragraph (3) of Article 72 shall apply *mutatis mutandis*.

(2) Framework legislation may only in exceptional cases contain detailed or directly applicable provisions.

(3) Where the Federation enacts framework legislation the Länder shall be obliged to introduce the necessary Land legislation within a reasonable time-limit as prescribed by the law.

Article 76 Bills

(1) Bills shall be presented in the Bundestag by the Federal Government, Members of the Bundestag or the Bundesrat.

(2) Bills of the Federal Government shall first be submitted to the Bundesrat. The Bundesrat is entitled to comment upon them within six weeks. Where on important grounds, especially the size of the bill, it demands an extension the time-limit shall be increased to nine weeks. Should in exceptional cases the Federal Government, on presenting a bill to the Bundesrat, declare it to be particularly urgent it may refer it to the Bundestag three weeks or, if the Bundesrat has demanded an extension pursuant to the third sentence of this paragraph, six weeks after its submission to the Bundesrat even though it may not yet have received the latter's comments; upon receiving such comments it shall transmit them to the Bundestag without delay. In the case of bills amending this Basic Law and transferring sovereign powers pursuant to Article 23 or Article 24 the time-limit for comments shall be nine weeks; the fourth sentence of this paragraph shall not apply.

(3) Bills of the Bundesrat shall be submitted to the Bundestag by the Federal Government within six weeks. The Federal Government shall state its opinion on them. Where on important grounds, especially the size of the bill, it demands an extension the time-limit shall be increased to nine weeks. Should in exceptional cases the Bundesrat declare a bill to be particularly urgent the time-limit shall be three weeks or, if the Federal Government has demanded an extension pursuant to the third sentence of this paragraph, six weeks. In the case of bills amending this Basic Law and transferring sovereign powers pursuant to Article 23 or Article 24 the time-

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limit shall be nine weeks; the fourth sentence of this paragraph shall not apply. The Bundestag shall debate and vote on bills within a reasonable period of time.

Article 77 The legislative process

(1) Bills shall be adopted by the Bundestag. After their adoption they shall be transmitted to the Bundesrat by the President of the Bundestag without delay.

(2) The Bundesrat may within three weeks of receiving the adopted bill demand that it be referred to a committee composed of Members of the Bundestag and the Bundesrat. The composition and proceedings of this committee shall be governed by rules of procedure drawn up by the Bundestag and requiring the consent of the Bundesrat. The Members of the Bundesrat on this committee shall not be bound by instructions. Where the consent of the Bundesrat is required for a bill to become law the Bundestag and the Federal Government may likewise demand that it be referred to such a committee. Should the committee propose an amendment to the bill the Bundestag shall vote on it a second time.

(2a) In so far as its consent is required for a bill to become law the Bundesrat shall take a vote within a reasonable period of time if no demand for referral has been made pursuant to the first sentence of paragraph (2) of this Article or the mediation procedure has been completed without any amendment being proposed.

(3) In so far as its consent is not required for a bill to become law the Bundesrat may, when the procedure described in paragraph (2) of this Article is completed, object within two weeks to a bill adopted by the Bundestag. The period for objection shall begin, in the case of the last sentence of paragraph (2) of this Article, on receipt of the bill as passed again by the Bundestag and in all other cases on receipt of a communication from the chairman of the committee provided for in paragraph (2) of this Article to the effect that the committee's proceedings have been concluded.

(4) If the objection was adopted with a majority of the votes of the Bundesrat it may be rejected by a decision of the majority of the Members of the Bundestag. If the Bundesrat adopted the objection with a majority of at least two thirds of its votes its rejection by the Bundestag shall require a majority of two thirds of the votes or at least the majority of the Members of the Bundestag.

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Article 78 Passage of federal laws

A bill adopted by the Bundestag shall become law if the Bundesrat consents, does not request a referral as provided for in paragraph (2) of Article 77, does not enter an objection within the period stipulated in paragraph (3) of Article 77 or withdraws its objection, or if the objection is overridden by the Bundestag.

Article 79 Amendments to the Basic Law

(1) This Basic Law may be amended only by a law expressly modifying or supplementing its text. In respect of international treaties concerning a peace settlement, the preparation of a peace settlement, or the phasing out of an occupation regime, or serving the defence of the Federal Republic, it shall be sufficient, in order to make clear that the provisions of this Basic Law do not preclude the conclusion and entry into force of such treaties, to supplement the text of this Basic Law and to confine the supplement to such clarification.

(2) Such law must be carried by two thirds of the Members of the Bundestag and two thirds of the votes of the Bundesrat.

(3) Amendments to this Basic Law affecting the division of the Federation into Länder, their participation in the legislative process, or the principles laid down in Articles 1 and 20 shall be prohibited.

Article 80 Delegated legislation

(1) The Federal Government, a Federal Minister or the Land governments may be empowered by law to issue statutory orders. The content, purpose and scope of that power shall be specified in the law. Statutory orders shall contain a reference to their legal basis. Where the law provides that the power to issue statutory orders may be further delegated another statutory order shall be required to that effect.

(2) Unless otherwise provided for by federal legislation the consent of the Bundesrat shall be required for statutory orders issued by the Federal Government or a Federal Minister concerning rules and rates governing the use of postal services and telecommunications, rules governing rates for the use of federal railways or concerning the construction and operation of railways, as well as for statutory orders issued pursuant to federal legislation requiring the consent

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of the Bundesrat or implemented by the Länder as agents of the Federation or in their own right.

(3) The Bundesrat may submit bills for the issue of statutory orders requiring its consent to the Federal Government.

(4) In so far as Land governments are empowered by federal law or on the basis of existing federal legislation to issue statutory orders the Länder shall also be entitled to legislate on the matter.

Article 80a Application of legal provisions where a state of tension exists

(1) Where this Basic Law or a federal law on defence including protection of the civilian population stipulates that legal provisions may only be applied in accordance with this Article their application shall, except where the country is in a state of defence, be admissible only after the Bundestag has confirmed that a state of tension exists or where it has specifically approved such application. Confirmation of a state of tension and specific approval in the cases mentioned in the first sentence of paragraph (5) and the second sentence of paragraph (6) of Article 12a shall require a two-thirds majority of the votes cast.

(2) Any measures taken by virtue of legal provisions pursuant to paragraph (1) of this Article shall be revoked should the Bundestag so require.

(3) In derogation of paragraph (1) of this Article the application of such legal provisions shall also be admissible by virtue of and in accordance with a decision taken by an international organization within the framework of a treaty of alliance with the approval of the Federal Government. Any measures taken pursuant to this paragraph shall be revoked should the Bundestag with the majority of its Members so require.

Article 81 Legislative emergency

(1) Should in the circumstances provided for in Article 68 the Bundestag not be dissolved the Federal President may at the request of the Federal Government and with the consent of the Bundesrat declare a state of legislative emergency with respect to a bill which is rejected by the Bundestag although declared urgent by the Federal Government. The same shall apply where a

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bill has been rejected despite the Federal Chancellor having combined it with a motion under Article 68.

(2) Where after a state of legislative emergency has been declared the Bundestag again rejects the bill or adopts a version unacceptable to the Federal Government it shall be deemed to have become law if it receives the consent of the Bundesrat. The same shall apply where the bill is not passed by the Bundestag within four weeks of its reintroduction.

(3) During the term of office of a Federal Chancellor any other bill rejected by the Bundestag may become law in accordance with paragraphs (1) and (2) of this Article within a period of six months after the first declaration of a state of legislative emergency. After the expiration of this period no further declaration of a state of legislative emergency may be made during the term of office of the same Federal Chancellor.

(4) The Basic Law may not be amended nor repealed nor suspended in whole or in part by a law pursuant to paragraph (2) of this Article.

Article 82 Signing, promulgation and entry into force

(1) Laws enacted in accordance with the provisions of this Basic Law shall, after countersignature, be signed by the Federal President and promulgated in the Federal Law Gazette. Statutory orders shall be signed by the authority which issues them and, unless otherwise provided by law, promulgated in the Federal Law Gazette.

(2) Every law and statutory order should specify the day on which it enters into force. In the absence of such a provision it shall take effect on the fourteenth day after the day on which the Federal Law Gazette containing it was published.

Chapter VIII: IMPLEMENTATION OF FEDERAL LEGISLATION, FEDERAL ADMINISTRATION

Article 83. Federal legislation

The Länder shall implement federal legislation in their own right in so far as this Basic Law does not provide or permit otherwise.

Article 84 Implementation by the Länder, supervision by the Federal Government

(1) Where the Länder implement federal legislation in their own right they shall establish the authorities and administrative procedures in so far as federal legislation with Bundesrat consent does not provide otherwise.

(2) The Federal Government may, with the consent of the Bundesrat, issue general administrative rules.

(3) The Federal Government shall oversee the implementation of federal legislation by the Länder in accordance with applicable law. For this purpose the Federal Government may send commissioners to the supreme Land authorities and, with their approval or, where it is refused, with the consent of the Bundesrat, to subordinate authorities as well.

(4) Should any shortcomings in the implementation of federal legislation in the Länder which have been identified by the Federal Government not be rectified the Bundesrat shall decide, at the request of the Federal Government or the Land concerned, whether that Land is in breach of the law. The decision of the Bundesrat may be appealed from in the Federal Constitutional Court.

(5) With a view to implementing federal legislation the Federal Government may be empowered by a federal law requiring the consent of the Bundesrat to issue directives in special cases. They shall be addressed to the supreme Land authorities unless the Federal Government deems the matter urgent.

Article 85 Implementation of federal legislation by the Länder

(1) Where the Länder implement federal legislation for the Federation the establishment of authorities shall remain their concern except in so far as federal legislation with the consent of the Bundesrat provides otherwise.

(2) The Federal Government may, with the consent of the Bundesrat, issue general administrative rules. It may provide for the uniform training of civil servants and other public employees. The heads of intermediate authorities shall be appointed with its approval.

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(3) The Land authorities shall comply with directives from the supreme federal authorities concerned. Such directives shall be addressed to the supreme Land authorities unless the Federal Government deems the matter urgent. Compliance with directives shall be ensured by the supreme Land authorities.

(4) Federal supervision shall relate to the legality and expediency of implementation. For this purpose the Federal Government may call for reports and the submission of files and send commissioners to any authority.

Article 86 Direct federal administration

Where the Federation implements laws through its own administration or through federal public corporations or institutions the Federal Government shall, in so far as the law in question does not contain any specific provision in this respect, issue the general administrative rules. It shall provide for the establishment of the necessary authorities unless the law provides otherwise.

Article 87 Areas of direct federal administration

(1) The Foreign Service, federal financial administration and, in accordance with the provisions of Article 89, administration of federal waterways and shipping shall be the direct responsibility of the Federation and have their own organizational substructures. Federal legislation may establish Federal Border Guard authorities and central offices for police information and communications, the criminal police and compilation of data for the purpose of protecting the constitution and countering activities on federal territory which, through the use of force or preparations for it, jeopardize the external interests of the Federal Republic of Germany.

(2) Social insurance institutions whose jurisdiction extends beyond the territory of one Land shall be administered as federal public corporations. Social insurance institutions whose jurisdiction extends beyond the territory of one Land but not beyond that of three Länder shall, in derogation of the first sentence of this paragraph, be administered as public corporations under the direct authority of one Land if it has been given supervisory authority by the Länder concerned.

(3) Furthermore, independent higher federal authorities as well as new federal public corporations and institutions may be established by federal law for matters falling within the legislative

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jurisdiction of the Federation. Where new responsibilities arise for the Federation in areas where it has the power to legislate, intermediate and lower federal authorities may, in case of urgent need, be established with the consent of the Bundesrat and the majority of the Members of the Bundestag.

Article 87a Establishment and purpose of the Armed Forces

(1) The Federation shall establish Armed Forces for defence purposes. Their numerical strength and general organizational structure shall be shown in the budget.

(2) Other than for defence purposes the Armed Forces may only be employed to the extent explicitly permitted by this Basic Law.

(3) When a state of defence or tension exists the Armed Forces shall be authorized to protect civilian property and perform traffic control functions to the extent necessary to fulfil their defence mission. Moreover, they may, when a state of defence or tension exists, be assigned to protect civilian property, where necessary also in support of police measures; in this event the Armed Forces shall cooperate with the appropriate authorities.

(4) Where necessary to avert an imminent danger to the existence or free democratic basic order of the Federation or a Land the Federal Government may, should the conditions referred in paragraph (2) of Article 91 prevail and the police forces and the Federal Border Guard be insufficient, employ Armed Forces to support the police and the Federal Border Guard in protecting civilian property and combating organized armed insurgents. Any such employment of Armed Forces shall be terminated if the Bundestag or the Bundesrat so requires.

Article 87b The Federal Defence Administration

(1) The Federal Defence Administration shall be the direct responsibility of the Federation and have its own organizational substructure. It shall be responsible for personnel and directly provide the equipment and facilities required by the Armed Forces. Responsibilities connected with the pensions of disabled persons or construction may not be assigned to the Federal Defence Administration except by federal legislation requiring the consent of the Bundesrat. Such consent shall also be required for any legislation authorizing the Federal Defence Administration to encroach upon rights of third parties; this shall, however, not apply in the case of legislation on personnel matters.

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(2) Moreover, federal laws on defence including recruitment for military service and protection of the civilian population may, with the consent of the Bundesrat, provide that they shall be implemented wholly or in part either by the Federal Defence Administration direct or the Länder on behalf of the Federation. Where such laws are implemented by the Länder on behalf of the Federation they may, with the consent of the Bundesrat, provide that the powers vested in the Federal Government or the appropriate supreme federal authorities by virtue of Article 85 shall be transferred wholly or in part to higher federal authorities; in such an event they may provide that these authorities shall not require the consent of the Bundesrat in issuing general administrative rules in accordance with the first sentence of paragraph (2) of Article 85.

Article 87c Nuclear energy administration

Laws enacted under Article 74-11a may with the consent of the Bundesrat provide that they shall be implemented by the Länder for the Federation.

Article 87d Air transport administration

(1) Air transport shall be the direct responsibility of the Federation. The question of public or private status shall be determined by federal legislation.

(2) Air transport administration responsibilities may be delegated to the Länder by means of federal legislation requiring the consent of the Bundesrat.

Article 87e Federal railways administration

(1) Federal rail transport shall be the direct responsibility of the Federation. Rail transport administration responsibilities may be delegated to the Länder by means of federal legislation.

(2) The Federation shall discharge rail transport administration responsibilities assigned to it by federal legislation, over and above those concerning federal railways.

(3) Federal railways shall be operated as private enterprises. Such enterprises shall remain the property of the Federation to the extent that their operations include the construction, maintenance and operation of infrastructure. Any sale of federal shares in enterprises referred to in

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the second sentence shall be effected on the basis of a law; the Federation shall retain a majority holding. Details shall be the subject of federal legislation.

(4) The Federation shall ensure that in improving and maintaining infrastructure of the federal railways and in providing services other than local passenger rail services due account is taken of the interests and especially the transport requirements of the whole community. Details shall be the subject of federal legislation.

(5) Legislation pursuant to paragraphs 1 to 4 of this article shall require the consent of the Bundesrat. Legislation governing the winding up, merging or splitting up of federal railway enterprises, the transfer of ownership of federal railway infrastructure to third parties or the closure of such infrastructure, or affecting local passenger rail services, shall likewise require the consent of the Bundesrat.

Article 87f Postal services and telecommunications

(1) In accordance with the provisions of a federal law, which shall require the consent of the Bundesrat, the Federation shall guarantee appropriate and adequate postal and telecommunication services throughout the country.

(2) Services within the meaning of paragraph (1) shall be provided by the private companies ensuing from the Deutsche Bundespost Special Fund and by other private operators. Public responsibilities concerning postal and telecommunication services shall be carried out within the scope of direct federal administration.

(3) Notwithstanding the second sentence of paragraph (2) of this Article the Federation, in the legal form of a federal public institution, shall carry out individual responsibilities relating to the companies ensuing from the Deutsche Bundespost Special Fund in accordance with the provisions of a federal law.

Article 88 The Federal Bank

The Federation shall establish a note-issuing and currency bank as the Federal Bank. Its responsibilities and powers may, within the framework of the European Union, be transferred to the European Central Bank, which is independent and whose primary aim is to safeguard price stability.

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Article 89 Federal waterways

- (1) The Federation shall be the owner of the former Reich waterways.
- (2) The Federation shall manage the federal waterways through its own authorities. It shall discharge public responsibilities concerning inland navigation which extend beyond the territory of any single Land as well as those vested in it by law. Upon request the Federation may delegate the management of federal waterways, in so far as they lie within the territory of one Land, to that Land acting on its behalf. Where a waterway passes through the territory of several Länder the Federation may delegate responsibility to one Land at the request of the Länder concerned.
- (3) In the management, development and construction of waterways account shall be taken of land improvement and water management requirements in agreement with the Länder.

Article 90 Federal highways

- (1) The Federation shall be the owner of the former Reich motorways and Reich highways.
- (2) The Länder or the local authorities with responsibility under Land law shall manage the motorways and other federal highways for the Federation.
- (3) At the request of a Land the Federation may place motorways and other federal highways within the territory of that Land under its own administration.

Article 91 Internal emergency

- (1) Where necessary to avert an imminent danger to the existence or free democratic basic order of the Federation or a Land, a Land may call upon the services of the police forces of other Länder or of the forces and facilities of other administrative authorities and of the Federal Border Guard.
- (2) If the Land where such danger is imminent is not itself prepared or able to combat the danger the Federal Government may place the police in that Land and the police forces of other Länder under its own authority and employ units of the Federal Border Guard. The rele-

- 46 -

vant order shall be cancelled when the danger has been removed, otherwise at any time at the request of the Bundesrat. Where the danger extends to a region larger than a Land the Federal Government may, to the extent necessary to combat the danger effectively, issue directives to the Land governments; the first and second sentences of this paragraph shall not be affected by this provision.

Chapter VIIIa: JOINT RESPONSIBILITIES

Article 91a Participation of the Federation

(1) The Federation shall participate in discharging the responsibilities of the Länder in the following areas provided that they are relevant to the community as a whole and that its participation is necessary in order to improve living conditions (joint responsibilities):

1. building and extension of institutions of higher education including university clinics;
2. improvement of regional economic structures;
3. improvement of agricultural structure and coastal preservation.

(2) Joint responsibilities shall be specified by federal law requiring the consent of the Bundesrat. Such legislation should include general principles governing the discharge of responsibilities.

(3) The law shall provide for the procedure and institutions for joint overall planning. The inclusion of a project in overall planning shall require the consent of the Land in which it is to be carried out.

(4) In cases to which sub-paragraphs 1 and 2 of paragraph (1) of this Article apply the Federation shall meet one half of the expenditure in each Land. In cases to which sub-paragraph 3 of paragraph (1) of this Article applies the Federation shall meet at least one half of the expenditure; the proportion shall be the same for all Länder. Details shall be the subject of a law. Provision of funds shall be subject to appropriation in the budgets of the Federation and the Länder.



10 DOWNING STREET

PRIME MINISTER

Land elections in Germany on 25 March, and local elections in France on 11 and 18 March are both likely to show a swing to the Left.

The Right in France face the loss of control of Paris and Lyon; and the CDU could be tipped into crisis if it does badly in Baden-Wurttemberg. The attached telegrams from Berlin and Paris give more detail.

John

interesting

RESTRICTED
GERMANY INTERNAL: LAND ELECTIONS - PREVIEW
From: BERLIN

TO PRIORITY FCO
 TELNO 108
 OF 091135Z MARCH 01
 INFO ROUTINE ACTOR, CABINET OFFICE, CEE POSTS, DTI, EU POSTS
 INFO ROUTINE HMC GS GERMANY, HMT, MODUK, MOSCOW, UKDEL NATO
 INFO ROUTINE WASHINGTON, WHIRL

CABINET OFFICE PLEASE PASS COPY TO NO 10
 SUMMARY

1. Up-coming elections in Baden-Wuerttemberg, Rheinland-Pfalz last big test before Bundestag elections next year. Results unlikely to change present Land regimes. But might provoke crisis in the national CDU leadership. And could improve Schroeder's options for 2002.

DETAIL

2. A CDU-FDP coalition currently runs Baden-Wuerttemberg (B-W); a SPD-FDP one Rheinland-Pfalz (R-P). Both face Land elections on 25 March. Hessen has less significant local elections on 18 March. Together they make up over a quarter of the overall electorate.

3. This is the last big test of public opinion before the next Bundestag elections (only Land elections in small-fry Hamburg and Sachsen-Anhalt are left to come). Although Germans vote differently at regional from federal level, local swings do read across to national politics. So the results could have a major influence on electoral strategy from now until Autumn 2002. SPD victory in B-W would give Schroeder a working majority in the Bundesrat (Upper House); defeat in R-P would make it much more difficult to get government business (e.g. pension reform) through.

4. The latest polls are (1996 results in brackets):

parties B-W R-P

CDU 39 (41.3) 39 (38.7)
 SPD 31 (25.1) 44 (39.8)
 FDP 10 (9.6) 7 (8.9)
 Greens 8 (12.1) 5 (6.9)
 Republikaner 6 (9.1) 2 (3.5)

5. So far campaigning has been flat. Local issues (education, crime) have not caught public imagination. Personalities matter more in R-P, where the jovial, flesh-pressing Minister-President Beck is a big advantage for the SPD over the CDU with their distant, donnish leader Boehr; but less so in B-W, where neither the fresh but inexperienced SPD leader Ute Vogt, nor the dull but competent sitting CDU Minister-President Teufel, appears to be making much difference.

6. The key to significant poll swings, however, has been national not local politics. Immigration has played a surprisingly minor role, given indications that the CDU would try to repeat its success with it in Hessen in 1999. Nor have the eco-tax, pension reform or Fischer's past hit the Federal Government parties as severely as the CDU had hoped. Instead the drivers of swing have been (i) BSE/consumer protection, which quick-witted Government positioning has turned into a plus for the SPD and in particular

the Greens; and (ii) the continuing strife within the CDU/CSU leadership, which has cost the party about -4% in B-W and -2% in R-P since December.

Predictions

7. The most likely outcomes remain no change in the current Land regimes, so no effect on the Bundesrat:

(a) in R-P, the present SPD-FDP coalition has high (60% plus) approval ratings. The polls give them a comfortable cushion for a majority of seats. Both have a strong tactical interest in sticking together in order to cultivate the SPD-FDP option for the Bundestag elections. The key variable will be whether the Greens do so (unexpectedly) well that SPD-FDP don't have a working majority;

(b) in B-W, the current CDU-FDP regime enjoys good fundamentals (low unemployment, above average growth) and high ratings. Even a majority of SPD voters think it more competent than their own party. Disillusioned CDU voters seem mostly to be switching to the FDP. So the present coalition still looks to have a sustainable edge. But the race is more open here, since a third of the electorate have yet to make up their mind. And a significant numbers of CDU voters could be lying to pollsters and give their protest vote to the far right Republikaner. If this prevents the current coalition getting a majority, then a grand (CDU-SPD) coalition is the most likely outcome. But it is possible that the FDP might join the Greens in a traffic light coalition with the SPD.

CDU crisis ?

8. Even if the CDU retains power in B-W, a poor result could well provoke a crisis in its leadership. B-W is the CDU's heartland, which it has ruled for 48 years. Its 41.3% score last time was historically bad. Anything under 40% is likely to force local leader Teufel's resignation; Oettinger, party leader in the Landtag, is his most likely successor.

9. But the national leadership will - rightly - get the lion's share of the blame. A bad result (c.38%) might be enough to panic the CDU into instant changes. Party Chairman Merkel ought to carry the can for electoral failure (and privately many in the party machine blame her lack of political presence); but it seems to be Parliamentary Leader Merz's neck which is on the block: less popular with the public than Merkel, he is the easier scapegoat. Speculation on quick fixes include unifying the leadership roles under Merkel; or, unprecedentedly, giving the parliamentary job to a popular CSU man, Seehofer (a former Health Minister); or even bringing back a senior figure from the Kohl past like Ruehe (former Defence Minister) or Wissmann (former Transport Minister).

10. A really bad result (e.g. coalition with the SPD) would almost certainly force change. A catastrophic one (i.e. losing power) would probably also bring forward the decision to nominate the party's Chancellor candidate in order to restore clear leadership. That would point to CSU leader Stoiber, who has now overtaken Merkel in the popularity stakes.

Schroeder's perspective

11. These elections at one stage looked like being a stumbling block for the Federal Government after a difficult winter with

unpopular eco-tax and pension policies. Instead:

- the SPD is well placed to meet or exceed expectations: almost certain to stay in power in R-P, and greatly to improve on their last score in B-W. That will maintain its electoral momentum;

- Schroeder is already in a strong tactical position for 2002, with the option of coalition with either the Greens or the FDP - or even conceivably (though the FDP have hitherto rejected the idea) with both. Good results, as expected, for both will keep his room for manoeuvre open;

- a strong performance by the Republikaner could tempt the CDU to protect its right flank by taking a harder anti-immigration line. But such an approach now looks to have less appeal to the wider electorate, risks further CDU divisions between northern liberals and southern conservatives, and should make it easier for the SPD to occupy the political middle-ground.

12. So it now looks as if the CDU can't win, and that Schroeder can't lose.

LEVER

Sent by BERLIN on 09-03-2001 11:35
Received by No10 on 09-03-2001 13:29

RESTRICTED
FRENCH MUNICIPAL ELECTIONS: SCENE-SETTER
From: PARIS

TO IMMEDIATE FCO
 TELNO 145
 OF 071612Z MARCH 01
 INFO IMMEDIATE CABINET OFFICE
 INFO PRIORITY EU POSTS, UKDEL STRASBOURG, HMC GS IN FRANCE
 INFO PRIORITY UKDEL NATO

PM
 To see

CABINET OFFICE FOR WALL AND SAWERS NO 10
 SUMMARY

1. Two rounds of municipal and departmental elections on 11 and 18 March. Significant because French Mayors matter and as a precursor to the 2002 presidential and legislative elections. The Left has the psychological advantage and may win Paris and Lyon (both for the first time ever). Several Ministers, including Defence Minister Richard, are seeking a local power base. This could force a Government reshuffle.

DETAIL

2. The French will vote on 11 and 18 March to elect municipal councillors and Mayors for the next six years. These elections matter. French Mayors have political power and patronage, which means that voting is heavily influenced by local personalities and issues. This is also the last major election before next year's Presidential and Legislative contests, and everyone is looking for omens.

3. The Right did well in the 1995 municipal elections, with nearly 62% of the vote. But that means they have more to lose this time. The pundits predict gains and losses for both sides across the country, but the Left have the psychological advantage and are expected to come out ahead. In particular they are mounting a serious challenge in the Right's key strongholds: Paris and Lyon. The result in these two cities will determine public perceptions of the overall result. For either side victory will be a big boost and defeat a major blow.

PARIS

4. The Left have never won Paris (Chirac's political fiefdom where he once won all 20 arrondissements). The contest has been one of high drama tinged with farce: an unknown Socialist senator close to Jospin (Delanoe) against the powerful but eccentric Gaullist candidate (Seguin) - with the discredited current Mayor Tiberi running as an independent. Delanoe has grown in stature. Seguin has made a series of blunders, hamstrung by Tiberi, his complicated relations with his own party, and Chirac's machinations.

5. The media and the polls predict a victory for the Left. But we should not rule out a dramatic twist between the two rounds. If the Right does badly on 11 March, Seguin may be forced to step down, paving the way for a fusion of the right-wing lists possibly led by former Prime Minister Balladur.

OTHER KEY TOWNS

6. The Right is also divided in Lyon, where former Prime Minister Raymond Barre is retiring. As in Paris, the Right's chances of keeping control are likely to depend on deals done between official

and rebel factions between two rounds. Too close to call at the moment. Former Prime Minister Juppe looks set to hold Bordeaux.

7. Otherwise media attention is focused on the campaigns of various Ministers and former Ministers. Aubry looks a sure winner in Lille. Trautmann (ex-Culture) should hold Strasbourg. Moscovici (Europe) and Schwartzberg (Research) may win. But Gayssot (Transport), Guigou (Employment and Solidarity) and Voynet (the Green Environment Minister) are all trying to win towns held by the Right and all seem likely to lose.

IMPLICATIONS FOR THE GOVERNMENT

8. Defeat for Ministers may be embarrassing for the Government. But success could also cause problems because Jospin prefers his Ministers not to hold other elected office. Voynet says she intends to leave the Government in June anyway. Defence Minister Richard (who is standing for the presidency of his Departmental Council) has said that he will quit if asked. So some sort of government reshuffle seems likely before the summer. Several of Jospin's key personal advisers are also seeking election.

THE RIGHT

9. The Right are talking down their chances. This is partly tactical. Losing Paris (and Lyon) would be a serious set-back and would damage Chirac. But it could also be the catalyst for another, more serious effort to unite the divided parties around Chirac's presidential candidature.

10. Since the disintegration of the Front National in 1998 into two hostile groups, the electoral significance of the Far Right has diminished. They are expected to lose two of the four towns they now control, and their ability elsewhere to split the right-wing vote to the Left's advantage will be more limited.

CONCLUSION

11. The nationwide picture may look mixed on 19 March. Mayors in Paris and Lyon are unlikely to be confirmed for several days after that. At present the Left seem to have the edge, including in Paris. But complex voting procedures and the two round system mean there could be surprises ahead. Whatever the outcome, all eyes will thereafter be fixed on the Presidential election next Spring, and 'cohabitation' will get even tenser.

JAY

Sent by PARIS on 07-03-2001 16:12
Received by No10 on 08-03-2001 11:57



cc: Jlg
mg
v

Dealt with.

file

Foreign & Commonwealth Office

7 March 2001

FAKED
cc Stephen Wall

London SW1A 2AH

Any thoughts on this message?

[Handwritten signature]

Direct
Pse finalize this week.
[Handwritten signature]

Dear John,

Germany: Messages for the Königswinter Conference, Potsdam 22-24 March

The Deutsch-Englische Gesellschaft have requested messages from the Prime Minister and the Foreign Secretary to the participants of this year's Königswinter Conference, which will take place in Potsdam from 22-24 March this year with the theme "Europe: Opportunities and New Uncertainties."

As you know the Prime Minister attended last year's 50th Conference, in Oxford, and has previously contributed a short traditional message for this annual bilateral event. We place particular importance on a message this year as UK Ministerial attendance may be fairly thin given the clash of dates with the Stockholm Council. I should be grateful if you could approve the attached draft by 15 March, in order to meet the organiser's deadline.

...

Yours age
[Handwritten signature]

(Mark Sedwill)
Private Secretary

John Sawers
10 Downing Street

**DRAFT MESSAGE FROM THE PRIME MINISTER
TO THE PARTICIPANTS OF THE 2001 CONFERENCE**

Last year was another good year for German-British relations. I was delighted to attend the special 50th Anniversary of the Königswinter Conference in Oxford last year where Chancellor Schroeder and I could see ^{at} first hand the particular impact that Königswinter has in furthering relations between our two countries.

This year, I see that you will be discussing some of the Lisbon agenda issues that Chancellor Schröder and I will be tackling with our EU partners at the same time in Stockholm. The Lisbon agenda is at the heart of modern governance: it answers the question "what is Europe for?". It shows that Europe is a union of nations who acting together can deliver more for their peoples than Member States could acting alone. Lisbon is about the creation of a bigger and better European economy with more jobs and greater inclusion. Germany and the UK are at the forefront of work towards these goals which I why I attach particular importance on continued close co-operation with Germany on this agenda.

I wish you all at the Conference this year a rewarding and successful time.

[B Marshall
EUD(B) 3030]

TEMPORARILY RETAINED

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OF THE PUBLIC RECORDS ACT

CC

From: Jonathan Powell
Date: 7 March 2001

RICHARD WILSON

CHANCELLERY SECONDMENT

As you know, the Prime Minister is taking a keen personal interest in your proposal for a Chancellery secondment to strengthen our links with Schröder.

Assuming the Germans bite, getting the right person will be the key to success. We need someone with a detailed knowledge of the Prime Minister's views on Europe; who understands what we want to do with the Germans; knows and has worked with the key people in Downing Street and the European Secretariat; and is adaptable enough to fit into Schröder's operation.

I believe Julian Braithwaite would be an extremely strong candidate, and the Prime Minister agrees. Julian has been here on loan from the FCO for the last three years. His work on Europe with Alastair Campbell has given him an insight into what we're trying to achieve that's difficult to match. He's well plugged in with the European Secretariat. He has worked on all the Prime Minister's speeches on Europe in some capacity over the last three years, particularly the Warsaw speech.

Julian is willing to be a candidate for the attachment, particularly if we can secure an appropriate follow-on job in the Embassy in Berlin. This seems

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OF THE PUBLIC RECORDS ACT

PREM 49/1952

MINUTE DATED
07/3/2001

reasonable, even desirable: we would want to recycle his experience in the Chancellery and continue to draw on it up to 2004.

As regards timing, I would want Julian to stay on here for a couple of months after the election. Julian has some German, but would need further language training. Should he be the successful candidate, he could only begin at the end of the year. This might have some logic to it: he would be starting work after the Laeken summit had further defined the 2004 agenda in December.

I am copying this letter to John Kerr and Stephen Wall.

A handwritten signature in black ink, appearing to read 'Jonathan Powell', with a stylized flourish at the end.

JONATHAN POWELL

4 DIO, MR COOPER, MR DRUMMOND, NO.10

LNCYAN 5789 BJLNAN 3481
UNCLASSIFIED
RR CAOFF
FM BEBER TO FCOLN
061657Z MAR
GRS 510

UNCLASSIFIED
FM BERLIN
TO PRIORITY FCO
TELNO 102
OF 061657Z MARCH 01

INFO ROUTINE ACTOR, CABINET OFFICE, HMCOS GERMANY, HMT, WHIRL

FCO PLEASE PASS TO PS/MR SMITH, DEPT CULTURE, MEDIA AND SPORT
CABINET OFFICE PLEASE PASS TO SAWERS AND LIDDLE, NO 10

SUBJECT: GERMANY INTERNAL: CULTURE MINISTER NIDA-RUEMELIN

BERLIN TELNO. 25

SUMMARY

1. CULTURE MINISTER NIDA-RUEMELIN HAS MADE A CONFIDENT START. HAS TAKEN A HIGH PROFILE IN PUBLIC DEBATE ON THE ETHICS OF BIOTECHNOLOGY ALTHOUGH HE IS NOT DRIVING POLICY. CONSTITUTIONAL ARRANGEMENTS MAKE IT DIFFICULT FOR HIM TO MAKE CULTURAL POLICY. I WILL LOBBY HIM TOMORROW ON WORLD CUP BROADCASTING RIGHTS, TAX ON VISITING ARTISTS AND ARTISTS' RESALE RIGHT.

DETAIL

2. TUR REPORTED NIDA-RUEMELIN'S APPOINTMENT AS SUCCESSOR TO MICHAEL NAUMANN AS CULTURE MINISTER. THE SECRETARY OF STATE FOR CULTURE, MEDIA AND SPORT MAY APPRECIATE A SHORT UPDATE BEFORE HIS MEETING WITH NIDA-RUEMELIN AT THE NATIONAL GALLERY TOMORROW.

3. BEFORE HIS APPOINTMENT LAST NOVEMBER, NIDA-RUEMELIN HAD SERVED FOR TWO YEARS AS CULTURAL ADVISOR TO THE CITY OF MUNICH, HIS HOME TOWN. ALTHOUGH A LONGSTANDING MEMBER OF THE LOCAL SOCIAL DEMOCRATS, HE DID NOT HAVE A BACKGROUND IN TRADITIONAL PARTY POLITICS AND APPEARS TO SAVOUR HIS POSITION AS AN INDEPENDENT THINKER. LIKE HIS PREDECESSOR NAUMANN (WHO HAD A DOCTORATE IN AESTHETICS) HE IS PROFESSIONALLY WELL QUALIFIED FOR HIS NEW JOB. HIS FATHER WAS A SCULPTOR AND HE WAS HIMSELF FOR SEVEN YEARS A PROFESSOR OF PHILOSOPHY, SPECIALISING IN ETHICS.

4. UNDER THE GERMAN CONSTITUTION, CULTURE IS A RESPONSIBILITY FOR THE LAENDER (REGIONS) AND NIDA-RUEMELIN HAS NOT INTERVENED NOTICEABLY IN RECENT CULTURAL POLICY ISSUES SUCH AS ARTISTS' RESALE RIGHT, SALE OF THE 2002 WORLD CUP BROADCASTING RIGHTS OR FOOTBALL TRANSFERS. HOWEVER, HE CLEARLY HAS MODERNISING IDEAS. IN TODAY'S MAIN ECONOMIC DAILY THE HANDELSBLATT, NIDA-RUEMELIN CALLS FOR MORE PRIVATE SPONSORSHIP AND DONATIONS TO HELP REDUCE GERMANY'S CONSIDERABLE 20BN DM (7BN PDS) FUNDING FOR CULTURAL ACTIVITIES. HE WOULD DOUBTLESS BE INTERESTED TO HEAR MORE ABOUT UK EXPERIENCE IN THIS AREA IF OPPORTUNITY PERMITS.

5. NIDA-RUEMELIN HAS TAKEN AN ACTIVE INTEREST IN THE PUBLIC DEBATE ON ETHICS IN BIOTECHNOLOGY: HE ATTRACTED WIDESPREAD PRESS

2
cc
JRO
ON
MT
RL(PV)

CONDEMNATION AFTER APPEARING OPEN-MINDED ON USE OF STEM CELLS FOLLOWING THE HOUSE OF COMMONS VOTE TO DO SO LAST DECEMBER. BUT HE WILL HAVE NO FORMAL RESPONSIBILITY FOR THE NEW ETHICS COUNCIL WHICH CHANCELLOR SCHROEDER IS SETTING UP IN THE KANZLERAMT.

6. I WILL ALSO BE SEEING NIDA-RUEMELIN TOMORROW, WHEN I WILL RAISE THE SALE OF THE WORLD CUP BROADCASTING RIGHTS, TAX ON VISITING ARTISTS AND ARTISTS' RESALE RIGHT. WE WILL REPORT ANY POINTS THAT EMERGE IN TIME FOR YOUR MEETING.

7. NIDA-RUEMELIN IS 47 AND UNMARRIED. HIS PARTNER IS A (MUCH YOUNGER) NOVELIST WHO HAS JUST PUBLISHED A ROMAN A CLEF WIDELY (BUT, SHE CLAIMS, WRONGLY) ASSUMED TO BE BASED ON THEIR OWN RELATIONSHIP. AT THE RECENT BERLIN FILM FESTIVAL, WHICH NIDA-RUEMELIN OPENED, THEY WERE THE MOST GLAMOROUS COUPLE ON THE CIRCUIT.

8. CONTACT: SOPHIE GOODRICK (0049 30 204 57 332).

LEVER

YYYY

BJLNAN 3481

(P)

From: Ambassador
Date: 28 February 2001

To: Mike Bolton

cc: Leigh Turner
Ivan Rogers, HM Treasury
Stephen Wall, Cabinet Office
Kim Darroch, FCO

AN EVENING WITH HANS EICHEL

1. I attended a talk which Hans Eichel, the German Finance Minister, gave yesterday evening inaugurating the new "Berliner Gespräche" series at the Axel-Springer-Haus. His subject was "the Federal Government's tax policy". After it I was, slightly to my surprise, invited to dinner à trois with Eichel and Herbert Wessels, the Editor of the Berliner Morgenpost with whom I had had lunch the previous day and who had moderated the discussion following Eichel's talk.

2. I had not seen Eichel perform in public before. He was surprisingly (given his slightly technocratic image) impressive. He spoke for nearly an hour, without a text, and with both fluency and passion. Although Zitzelberger, the State Secretary at the Finance Ministry who deals with taxation issues, was also present, Eichel had total command of all the facts and figures.

3. The main points which he made in his presentation were:

- Taxation had to be seen as a third element in a policy mix, the other two parts of which were the national debt and expenditure. Those who advocated lower levels of taxation needed to explain how such reductions would affect fiscal policy overall.

- The importance of reducing the national debt was a key element in this strategy. Germany was not, by international or European standards, overly in debt though in Germany the overwhelming proportion of public debt lay with the Federal Government. 60% of GDP was average within the EU. But having to pay (18%) of national income on debt service was a bad use of resources. The old argument that borrowing was justified because it financed long term investments which would otherwise not be affordable could no longer be sustained. Most aspects of public infrastructure needed to be replaced after 30 years or so. There were hardly any projects any more which were genuinely long term.

- Hence the critical importance of the commitment to balance Germany's budget by 2006. This was an ambitious, but achievable, target. But it meant that until 2006 Germany would still be increasing its borrowing, albeit not as much as had previously been planned. Those countries who had been able to balance their budgets earlier (he mentioned the UK and Sweden as examples) had derived huge advantages.

- On the expenditure side, the government had made a rigorous choice of priorities, protecting the areas where failure to invest properly would be damaging in the future, eg education. But rigid discipline would still be needed. Eichel noted in this context that he support 100% Frau Künast's position that there could be no question of increasing agricultural expenditure in the EU because of BSE. Whatever financial measures were needed to deal with the crisis in the beef market would have to be found by adjusting priorities within the existing CAP budgetary envelope.

- As regards the details of the taxation package itself, a key underlying principle had been to enlarge the tax base, while lowering tax rates. Those who complained that taxation levels in Germany were still too high should look at the overall picture. For example (Eichel conspicuously used in many instances the United Kingdom as the potential model which critics or commentators might refer to) the proposed eventual top rate of income tax rate in Germany of 42% was higher than the top rate in the UK, but it kicked in later; the threshold for income tax liability in Germany was higher than in almost all other EU countries and the initial tax rate lower. Overall, the tax burden in Germany compared not too badly.

- The Ökosteuer was necessary both in order to help Germany meet its Kyoto climate change commitments in the energy field and to help pay for pensions reform. It would continue until 2003. What would happen thereafter was for future decision. It was wrong to blame the Ökosteuer for the increases in fuel price of last autumn. What had been noticeable with those increases had been the fact that the oil companies had raised prices the most in those areas where the tax increase had been the lowest, eg domestic heating oil; and had raised them the least in those areas where the tax burden had been higher. (Eichel noted in passing that despite the Ökosteuer oil companies' profits were increasing healthily.)

- The decisions which the government had taken on fiscal policy overall were a courageous long term package. He did not see any scope for significant further reductions in taxation before 2006. As far as he, Eichel, was concerned bringing the budget into balance by then was an absolute priority.

4. Most of the questions, from an audience of 300 or 400 most of whom seemed to be Mittelsständler, were special pleading. The ADAC representative claimed that the Ökosteuer was damaging car production in Germany. Eichel cheerfully trotted off a host of figures which showed that this was nonsense. Somebody from a building company demanded more encouragement to home ownership: Eichel reeled off the figures to show that construction was the single biggest recipient of subsidy in the whole German budget. Someone from a medium-sized company complained about differential treatment of companies which paid corporation tax and those which, because of their status as family enterprises, paid income tax. Eichel quoted figures to show that the number of Mittelsstand companies who would in practice be disadvantaged by remaining private was less than 5%; and that few of them had chosen, because of other tax advantages, to take up the option of being treated for tax purposes as a public company.

5. At dinner afterwards Eichel was in relaxed and cheerful form. I congratulated him on his presentation (which the audience, albeit not composed of natural SPD supporters, had obviously found impressive). He said that he had made it so many times he could almost do it by heart. He reckoned he spoke to a group of this kind at least twice a week. Other points:

- Eichel spoke warmly of Gordon Brown. He hoped that after the election Mr Brown would find time to come and see Eichel in Germany.

- With hindsight it had been a mistake to hypothecate the Ökosteuer to pension reform. Hypothecation was in any case artificial. But it would have been cleverer to link it to investment in transport infrastructure (either more motorways or more freight onto the railways) so as to disarm the motorists lobby.

- He regretted the fact that Spain and Ireland had in 1999 blocked agreement on guidelines for energy taxation. There might now be scope, within the reinforced cooperation provisions agreed at Nice, to make progress in this area. For a country like Germany, with so many land borders, avoiding too great variations in petrol prices was important. He could see that this did not apply to an island like the United Kingdom. But cheap petrol in Luxembourg and, potentially in Poland, was a real problem for a German Government trying to introduce environmentally responsible price structures.

Paul Lever

**CABINET OFFICE**

70 Whitehall, London, SW1A 2AS
Telephone 020 7270 0044 Facsimile 020 7270 0112
e-mail jswall@cabinet-office.x.gsi.gov.uk

JJH (P)
GJS
JPO
MT O/R

Sir Stephen Wall KCMG LVO
European Secretariat

Sir Paul Lever KCMG
BERLIN

23 February 2001

Dear Paul,

**EXCHANGE OF OFFICIALS:
KANZLERAMT/CABINET OFFICE**

You will have already seen the exchanges between the Cabinet Office and No.10 on this subject. The Prime Minister is keen that we should get a move on. To set the ball rolling I attach a letter from me to Michael Steiner. If you agree, could you pass it on?

As you will see from the letter to Steiner we have asked the Germans to nominate a contact point at working level so that we can get on with sorting out the detailed arrangements. We will of course keep the Embassy involved as the proposal develops. And it goes without saying that we would welcome your advice at any stage. For example, I am sure you will have ideas as to particular individuals at the German end we should be seeking to encourage.

I am sending copies of this correspondence to Sir John Kerr, Michael Arthur, Jeremy Heywood and Sir Nigel Sheinwald.

James
Stephen
J S WALL

**CABINET OFFICE**

70 Whitehall, London, SW1A 2AS
Telephone 020 7270 0044 Facsimile 020 7270 0112
e-mail jswall@cabinet-office.x.gsi.gov.uk

Sir Stephen Wall KCMG LVO
European Secretariat

Herrn Michael Steiner
Bundeskanzleramt
Berlin

23 February 2001

Dear Michael,

**EXCHANGES OF OFFICIALS BETWEEN
KANZLERAMT AND CABINET OFFICE**

I am writing to ask you whether you would be interested in an exchange of officials between your office and ours.

What we have in mind is a two-stage approach. The first stage might involve a two-week exchange of officials. We could send you one of my colleagues in the European Secretariat who is a German speaker. In exchange, you might send someone from the Kanzleramt to spend two weeks with us. The overall objective would be to understand how each other operates, to make contacts and to develop the relationship. As to timing, we could make someone available in May/June.

If this worked we would like to think of a subsequent, longer exchange of officials, eg up to a year, perhaps focussing on our work on the future of Europe. Let me know what you think. The idea has Tony Blair's warm blessing at this end.

Yours ever,
Stephen Wall
J S WALL

cc COS
FALPS
AC/ress3 X DIO
1 X PS/NO.10
1 X FILELNCYAN 4344 BULNAN 3338
RESTRICTED
PP CAOFF
FM BEBER TO FCOLN
161435Z FEB
GRS 480RESTRICTED
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TELNO 73
OF 161435Z FEBRUARY 01
INFO PRIORITY ACTOR, CABINET OFFICE, EU POSTS, HMCOS GERMANY, HMT
INFO PRIORITY MODUK, MOSCOW, UKDEL NATO, WASHINGTON, WHIRL

MY TELNO 22

SUBJECT: FISCHER'S PAST: UP-DATE

CABINET OFFICE PLEASE PASS TO NO 10

SUMMARY

1. JOSCHKA FISCHER MAY BE FORMALLY INVESTIGATED FOR ALLEGEDLY MAKING FALSE STATEMENTS AT THE TERRORISM TRIAL OF KLEIN. BUT DIFFICULT TO SEE HOW HE COULD BE FOUND GUILTY. ALSO ACCUSED OF ECONOMY WITH THE TRUTH OVER HIS PAST SUPPORT FOR THE PLO. MORE AMMO FOR THE PRESS AND OPPOSITION. BUT PROBABLY STILL NOT ENOUGH TO FORCE FISCHER OUT.

DETAIL

2. IN JANUARY FISCHER WAS CALLED A WITNESS IN THE TRIAL OF JOACHIM KLEIN FOR PARTICIPATION IN THE ATTACK ON THE OPEC CONFERENCE IN VIENNA IN 1975. (KLEIN HAS NOW BEEN GIVEN A 9 YEAR JAIL SENTENCE) THAT SPARKED A POLITICAL AND MEDIA DEBATE OVER FISCHER'S MILITANTLY RADICAL PAST IN FRANKFURT. THE KEY ISSUE HAS BEEN WHETHER HE WAS EVER INVOLVED IN, OR ACTIVELY ENCOURAGED, VIOLENCE. BUT SO FAR HE HAS NOT BEEN PROVED TO HAVE HAD LINKS WITH THE USE OF PETROL BOMBS IN STREET PROTESTS, OR WITH THE VARIOUS TERRORISTS KNOCKING AROUND FRANKFURT AT THAT TIME.

3. THERE HAVE BEEN TWO MAIN DEVELOPMENTS SINCE TUR:

(A) AT THE KLEIN TRIAL FISCHER SCOFFED AT QUESTIONS WHETHER HE HAD SHELTERED ANY TERRORISTS IN HIS COMMUNAL SQUAT IN FRANKFURT. IT THEN EMERGED THAT MARGRIT SCHILLER, A MEMBER OF THE RED ARMY FACTION, CLAIMED TO HAVE SPENT A FEW DAYS IN 1977 IN THE SAME BUILDING THOUGH NOT APARTMENT, AND TO HAVE BREAKFASTED AND PUB-CRAWLED WITH FISCHER. FISCHER HAS NOT DENIED IT. THE FRANKFURT STATE PROSECUTOR'S OFFICE HAS NOW NOTIFIED THE BUNDESTAG IT INTENDS TO INVESTIGATE WHETHER FISCHER MADE FALSE STATEMENTS AT THE KLEIN TRIAL:

(B) IN A RECENT INTERVIEW FISCHER IMPLIED HIS ONLY CONTACT WITH ARABS BEFORE HE BECAME A MINISTER HAD BEEN WHEN BACK-PACKING IN THE NEAR EAST IN 1966. IT THEN EMERGED THAT IN 1969 HE HAD BEEN A MEMBER OF A YOUNG GERMAN SOCIALISTS DELEGATION TO THE PLO

CONFERENCE IN ALGIERS WHICH RESOLVED TO USE VIOLENCE AGAINST ISRAEL. FISCHER HAS SINCE CLAIMED HE CUT MOST OF THE CONFERENCE FOR LOCAL SIGHTSEEING.

COMMENT

4. FISCHER IS STILL NOT (YET) IN SERIOUS TROUBLE. NEITHER STORY LINKS HIM CONVINCINGLY WITH VIOLENCE. THE FRANKFURT PROSECUTOR'S INVESTIGATION LOOKS VERY THIN, AND SMELLS POLITICAL (THE CDU RUN THE STATE GOVERNMENT). THE BUNDESTAG MAY BLOCK IT (ON IMMUNITY GROUNDS). EVEN IF IT DOES NOT, ONLY CONVICTION - OR POSSIBLY INDICTMENT - RATHER THAN INVESTIGATION WOULD MAKE HIS POLITICAL POSITION UNTENABLE. THERE IS STILL NO POLL EVIDENCE THAT REVELATIONS ABOUT HIS RADICAL PAST ARE DAMAGING FISCHER'S RATINGS, OR HIS GREEN PARTY'S, OR THE GOVERNMENT'S. HE REMAINS GERMANY'S MOST POPULAR POLITICIAN. BUT HIS CONTINUING ECONOMY WITH THE TRUTH COULD DO MORE LASTING DAMAGE TO HIS REPUTATION. THE OPPOSITION AND MEDIA ARE BEGINNING TO SHIFT THEIR FIRE ONTO THIS.

LEVER

YYYY

BJLNAN 3338

UNCLASSIFIED
GERMANY/EU: CLEMENT'S SPEECH ON DIVISION OF COMPETENCES
From: BERLIN

TO IMMEDIATE FCO
TELNO 70
OF 141000Z FEBRUARY 01
INFO ROUTINE CABINET OFFICE, DTI, DUSSELDORF, EU POSTS, FRANKFURT
INFO ROUTINE HAMBURG, HM TREASURY, MUNICH, STUTTGART

CABINET OFFICE PLEASE PASS TO NO 10

CABINET OFFICE FOR DONNELLY
HM TREASURY FOR JOWERS AND ROGERS
DTI FOR SAVILL
NO 10 FOR LIDDLE

SUMMARY

1. Clement outlines proposals for a redefinition of competence categories and a reordering of competences, including repatriation of structural policy and aspects of agriculture to Member States. An important contribution from a Land heavyweight.

DETAIL

2. Wolfgang Clement, Minister President of North Rhine Westfalia (population = 18 million) entered the Future of Europe debate on 12 February at the Humboldt University, Berlin with a call for a reordering of competences in Europe according to the principles of clarity, transparency, responsibility and subsidiarity.

3. Referring to Fischer's Future of Europe Speech (delivered at the same venue) Clement commented that it was remarkable that subsequent contributions from Blair, Verhofstadt and Lipponen had all given more weight to the competences question than Fischer. He associated himself in particular with Verhofstadt's demand that "every level - Union, Member States, Regions and Laender must know what their competences are". This was what mattered to the citizens, not a sketchmap for how Europe might look in 2030.

The Problem

4. Clement began with the familiar Laender complaint that the European institutions were interpreting their responsibilities too widely in many policy areas, leaving the Laender little room for action in their traditional areas of competence. This applied particularly to the Commission, whose increasingly restrictive state aid controls applied not just to regional structural policies, but also culture, education, procurement and environment policy.

5. As an example, Clement gave the Flora and Fauna Habitat Directive. He did not dispute the need for agreed European criteria in this area. But all that was necessary was for the EU to tell its members how much land should meet these criteria. Brussel's insistence on ensuring that these criteria were met in every village and community was unduly bureaucratic and resource intensive (Clement went into some detail on how Commission concern to protect non-existent hamsters in the Aachen region had delayed the creation of 12,000 new jobs for the last seven years).

The Right Approach

PT
Fischer. An interesting
speech, though obvious problem
in excluding state aids from
automatic ECJ review.
In practice, 2004 is more
likely to focus on reinforcing
subsidiarity than in separating
out competences. But this
sorts of tug on the rope
can only help.

✓ *JK*

6. The first step, Clement said, should be to stop the EU's centralising tendencies by anchoring the subsidiary principle in the Treaties. There needed to be a better balance between the EU, national and regional level. This would counteract increasing malaise about the distance between the EU and its citizens. The guiding principles should be:

- a limit to the EU's exclusive powers
- subsidiarity
- restricting community action to what was necessary to achieve the aims of the Treaty
- concentration on the aims of the single market and EMU
- respect for the national identity of Member States.

Clement's prescription

7. Clement admitted that there were no obvious answers to solving the competences issue. It was difficult because each Member State approached it in different ways. He stressed that his preferred solution did not follow the system of competence catalogues in Germany's basic law. This would be counterproductive because it could give the impression that Germany was trying to impose its model on everyone else. Instead he proposed:

- a set of clear general rules about competences, combined with specific competence categories
- a more precise assignment of aspects of individual policy areas to these categories
- that any competence not expressly allocated to the EU in the Treaties should be a Member State responsibility.

8. Clement's three competence categories were:

a) Exclusive EU competences.

Only the EU should be able to legislate for these categories.

b) General EU competences

This would be the most normal category. The EU would only be able to set standards and issue regulations which were essential to prevent unacceptable distortions of the single market or other EU objectives. They should remain of a general nature eg setting targets for cutting CO2 emissions, but not specifying how this should be done.

c) Supplementary EU competences

Member states would be responsible for operational decisions and regulations. The EU would play a supporting role eg member states would retain competence for education, but the EU would be responsible for recognition of university degrees

9. Clement added that it was not sufficient to improve competence delimitation in the legislative field alone. It was also necessary to introduce rules and categories for EU soft law as follows:

a) Competence for EU subsidies

The ECJ should only be able to intervene on financial subsidies where the EU had exclusive competence.

b) EU Coordination Competence

In order to stop the abuse of the EU's coordination role (he had earlier complained about education targets set at Lisbon) the EU should only be able to use coordinating tools (eg setting objectives and imposing reporting requirements) in areas where it had a legitimate competence or had been expressly given a coordination competence. Coordination must not lead to a de facto harmonisation of member states' policies. EU leaders should be bound by this and European Council activity made justiciable.

c) EU Administration Competence

The EU should only be able to administer where it had exclusive legislative competence or, exceptionally, where EU law could not be applied effectively by Member States or regional administrations (eg cross-border mergers and other competition cases seriously impacting on the internal market).

10. Clement argued for a redistribution of competences in certain areas. The EU should be able to do more on CFSP, external trade policy, immigration, corporate taxation (with democratic control to be guaranteed by the European Parliament). But competences should be returned to Member States in the areas of agriculture and structural policy.

Repatriating Structural and Agricultural Policy

11. It was time to stop the efforts of all, including the richest regions, to squeeze as much money as possible out of Brussels. Half of the 30 billion euros allotted to structural policy was recycled amongst the richest states, providing little value added and simultaneously restricting the regions' scope for decision making. Clement suggested it would be simplest to redistribute income between poorer and richer countries. This could be organised and controlled by the Commission. Above a certain threshold, Member States would no longer get structural funds. The quid pro quo would be that Member States could carry out their own regional and structural policies independently, leading to genuine competition between regions.

12. Likewise, the Commission should retain its responsibility for WTO negotiations on and set the general EU framework for agricultural policy. But Member States would be responsible for fleshing out the framework. Clement also argued for a move away from production subsidies. The future lay with direct payments linked to social and environmental criteria and structural policy tools.

Institutional Changes

13. The Council should withdraw from its executive function and concentrate on its legislative role. It should become a Chamber of States, while the European Parliament became a Chamber of citizens, with equal decision-making rights in all areas. The Committee of the Regions would have the right to appeal on competence issues to the ECJ, which would have a special chamber made up of national judges for this purpose.

14. From now on treaty changes should be prepared by a convent which could decide things by QMV. An IGC could then ensure that nothing unacceptable to Member States had been agreed.

COMMENT

15. Clement was speaking in his capacity as Head of the North Rhine Westfalia government, and not as deputy chairman of the SPD and close confidant of Schroeder. But there is no doubt that the Government will pay close attention to what he said, and to the reactions of other Laender. The tenor of the speech reflects widespread Laender frustration at loss of power because of EU interference in areas which they regard as their own, particularly (but not exclusively) state aids and services of general economic interest. The first seriously thought-out post-Nice contribution from the Laender on division of competences, it will disabuse anyone who thought the Laender problem would go away following agreement at Nice to hold an IGC in 2004.

16. The speech does not represent an agreed Laender position, though Clement showed it in advance to other Laender Prime Ministers and the others will no doubt subscribe to the broad thrust. North Rhine Westfalia, Bavaria, Lower Saxony and Saxony are now working together to reach an agreed Laender position on division of competences to present to the Federal Government by the autumn.

17. Contact: Susannah Simon 0049 30 20457331
simon@berlin.mail.fco.gov.uk

LEVER

Sent by BERLIN on 14-02-2001 10:00
Received by No10 on 14-02-2001 12:55

FILE



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 February 2001

Dear Gareth,

Thank you very much for giving up your day yesterday to meeting John Bourne and me in Berlin, and looking after us so well.

I thought the meeting with Schaefer went well as an introductory call, due in large part to the very helpful briefing that we had not only from you, but also from the Ambassador and Leigh Turner. I should be grateful if you could pass on our thanks to them. As you are aware, our hope is that yesterday's meeting will be the start of a process, so we will no doubt be calling on your help again before too long!

I do hope you made it back to Bonn in time for the main course of your dinner, if not the starter. Many thanks again.

I am copying this to John Bourne (Cabinet Office)

Yours ever,

David

DAVID NORTH

Gareth Steel Esq,
BE Bonn.

AOB

Fu

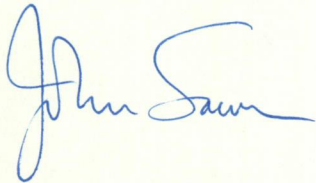
From: John Sawers
Date: 5 February 2001

SIR RICHARD WILSON

cc: Sir Stephen Wall
Mavis McDonald
Jeremy Heywood
Colin Budd
Sir Paul Lever, Berlin
Sir Nigel Sheinwald,
UKRep Brussels

CABINET OFFICE/FEDERAL CHANCELLERY SECONDMENTS

The Prime Minister has seen your minute of 29 January. He is enthusiastic about the proposed exchange of officials between the European Secretariat in the Cabinet Office and the Federal Chancellery in Berlin. He would like the exchange to begin as soon as reasonably possible.



JOHN SAWERS

BERLIN OFFICE

WED 31 JAN 01 17:55

PG.05

From The Ambassador

RESTRICTED



British Embassy
Berlin

Wilhelmstraße 70
10117 Berlin

Tel: 349 (30) 204 27 6

Sir Paul Lever

31 January 2001

John Sawers
No 10

cc JPO
m?
AC/GS
TL
RC(PJ)

Dear John,

PRIME MINISTER'S MEETING WITH CHANCELLOR SCHROEDER: 29 JANUARY

1. Michael Steiner telephoned me this morning. He confirmed that the Chancellor had thoroughly enjoyed his dinner with the Prime Minister and would be enthusiastic about holding such events every three months or so. Michael joked that the Chancellor had been saying all yesterday that if only he could look forward to as agreeable an evening tonight (when he is seeing Chirac and Jospin in Strasbourg) his life would be a lot happier. (The meeting with the French is, incidentally, principals (including Foreign Ministers) only. Michael himself is not going.)
2. Michael also said that he was sorry that his press briefing had been reported in the British media the way that it had. He had been through the transcript again and he still could not see how any of his remarks could have been interpreted as implying that the Prime Minister had in some way assented to propositions about tax harmonisation or economic governance in Europe. What he had had to say on the subject had been in a wholly different context from his remarks about Chancellor Schroeder's dinner with the Prime Minister the previous evening. But, he said, he supposed that you needed to be hyper cautious in the presence of the British press. ("Welcome to the club", I commented).

RESTRICTED

WED 31 JAN 01 17:56

PG.06



RESTRICTED

3. Alp Mehmet, who was present at the press briefing, confirms that nothing which Michael said could logically have borne the interpretation which some of the British correspondents seem to have put on it. And the Reuters correspondent here, who carried the further clarification from Michael, has said that she too could not understand what the fuss was all about: she hadn't understood him to be speaking in the way that some of her British colleagues had implied.

4. I suspect that nonetheless Michael will have learned a lesson. But I am sure that he was genuinely surprised that his remarks which he had thought were harmless and uncontroversial were interpreted in the way that they were.

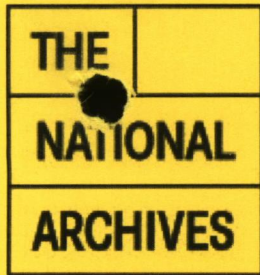
Yours ever,

H. P. [Signature]

[dictated by the Ambassador and signed in his absence]

cc: Sherard Cowper-Coles, Private Secretary, FCO
John Williams, Head of News Department, FCO

RESTRICTED



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10 DOWNING STREET
LONDON SW1A 2AA

file
see JRS
JH
MT
Ac

From the Private Secretary

30 January 2001

SUBJECT
MASTER

Dear Stewart,

Medons

**PRIME MINISTER'S DINNER WITH CHANCELLOR SCHROEDER,
BERLIN, 29 JANUARY**

EUROPEAN ISSUES

The Prime Minister visited Berlin last evening for dinner with Chancellor Schroeder – their fourth in the last ten months. Michael Steiner and I were also present. The bulk of the discussion was on Europe. I am writing separately on defence and security issues.

After an opening discussion on domestic politics, the Prime Minister invited Schroeder to set out his thoughts on where to go after Nice.

Enlargement

Schroeder said there were two priorities. First, enlargement. He was categorical that Poland had to be part of the first group. The Scandinavians and others who were tempted with a small first wave had to be told clearly that that was unacceptable. The first group would have to consist of Poland, the Czech Republic, Hungary, Estonia and Slovenia from central and Eastern Europe, plus of course Malta and Cyprus. The Prime Minister said he entirely agreed that Poland should be part of the first group.

Schroeder said that left the issue of timing. The earliest possible date for new states to enter the EU was 2004, which would mean concluding negotiations some time before that. Even then, he thought it would be difficult to bring in the first group in time to take part in the European Parliament elections. The Prime Minister agreed this would be challenging, but said we should stick to that goal.

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The two leaders agreed that there should be exchanges between their agricultural advisers on the next phase of CAP reform. Schroeder was concerned that the French may not be ready for CAP reform even after their 2002 elections. How long would we have to wait? I said that the UK and Germany had to insist on CAP reform going ahead before enlargement: it would be much harder to make progress once Poland and the other candidates were inside the EU and enjoying the subsidies from an unreformed CAP. Schroeder agreed. (In the margins, Steiner gave me the name of Joachim Schaefer as the right person to pursue this within the Kanzleramt.)

Future of Europe

The second challenge, Schroeder said, was the post-Nice agenda. This was relatively easy for Germany where there was a consensus with regard to integration and clear German objectives. The Charter should become the basic law of the EU. Competences should be strictly de-limited. The Union's chaotic finances had to be sorted out. He wanted to reach agreement with us on the right process to take the work forward: it had to be an open one – a Charter-style Convention was completely unacceptable. The work had to be “under our control”, ie that of the elected leaders. They could not lay down a blueprint, but he, the Prime Minister and the French leaders would need to test each other's views regularly as the process unfolded.

In principle, Germany was ready to accept as much deepening of the EU as Britain and France could take. He hoped it would not turn into an argument between integration and inter-governmentalism. We needed to agree which route was appropriate on which issue. He was confident of reaching a compromise between Germany and Britain, as both knew what we wanted. It was more difficult with France who were much less sure where they wanted to end up. He had been struck that the French position on CSFP for example was less integrationist than Britain's.

The Prime Minister, in response, said he wanted to probe Schroeder's approach to integration and inter-governmentalism. He did not think it was a question of a choice between the two. He thought Europe would integrate more and that in certain areas, it was necessary. This was not the traditional British view which was usually to sign up to each new phase of integration on the basis that this was the last (though we then went on and signed up to the next phase on the same basis). But to get popular consent, Europe had to integrate on the basis of retaining national identities (Schroeder strongly agreed). This was partly a

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- 3 -

problem of language, and we would need to find the right words. We also needed to find a way to show that nations were deciding to integrate and not simply giving up powers to Brussels. People needed to have a sense that integration was a controlled process; without that, governments would become vulnerable, including in Germany.

Schroeder enthusiastically agreed adding that we had to be able to explain why we were pursuing further integration. The Prime Minister said there was the obvious argument of efficiency, as the Union enlarged to 20, 25 and 30 nations. It would also be easier to argue for integration if the direction of economic reform in Europe was in a liberal and deregulating direction, rather than spreading worst practice which seemed to be the French concept. To show that there was a sovereign decision by nations to integrate further, it was important to give a role to national parliaments and for the European agenda to be set by the European Council. That gave voters the necessary sense of control. Elected leaders could explain such an approach to the voters, but they could not explain handing over responsibility for Europe to the President of the Commission.

Schroeder reacted very positively to this line of argument. He proposed that Britain and Germany should formulate a joint attitude towards the content, objectives and language on the future of Europe. He repeated that the process should be open and it would be totally wrong to create a new Convention. He and the Prime Minister agreed that officials in No10 and the Kanzleramt should work together on this project, involving one or two outsiders from each side such as a political scientist and an economist; and that this group should produce a report for the two leaders to consider at a meeting in, say, June when they would set aside a day or so at a country retreat to reflect on the issues raised.

Steiner added a couple of points. We needed to change the nomenclature: "post-Nice" sounded as though a correction was needed after the Nice Treaty, and it made the French very defensive. He also urged that we avoid any rush into substance: there were three years to fill before the IGC needed to start work in 2004. He thought a slower approach would help France. Time was also needed for the Germans to clear their minds: in the Chancellor's discussions with the Laender on the division of competences, both sides had realised it would prove very difficult to define exactly who did what.

The Prime Minister agreed. The two sides should work together from first principles to find a way, and the right language, to show that Europe was

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integrating more as a result of national sovereign decisions to do so. This would be helpful to France as well as to Germany and Britain: France more than any other country favoured both further integration and more inter-governmentalism.

Charter of Rights

On the Charter of Rights, the Prime Minister said that what was essential for him was that the Charter could not be used to knock down national laws. For example, the strike laws in Britain were a result of 25 years of our history and we could not possibly open up the prospect of having to change them because of European decisions. If we had clarity, and European courts could not use the Charter of Rights to interfere in national law-making, then he thought we could find a way through. Schroeder said that no-one wanted a European constitution which enabled the European Court to knock down national laws: that would not be acceptable in Germany either. But fundamental rights were required. Steiner suggested that we should find a way to limit those rights as applying to European citizens defending themselves against actions by the European institutions, not by national governments. (The Prime Minister was tempted by this approach, and would welcome advice on whether it is sustainable.)

Asylum and Immigration

The Prime Minister asked Schroeder how the debate on asylum was moving in Germany. Schroeder said it was much easier. The number of applicants was down. More importantly, the Green Card initiative had changed the terms of the political debate, so that the question at grassroots level was no longer "why should we accept immigrants?" and was now "how many more do we need?" This had meant he was able to change the immigration laws without having to tighten up on asylum. His political pitch was that Germany had to attract the mega-brains who were needed to make a success of the economy so that Germany could afford to accept those asylum seekers who needed to come. The Prime Minister thought this might be a move we could learn from.

Steiner used the exchange to raise one of his hobbyhorses – the need for fairer sharing of the refugee burden in times of crisis. Now that the numbers of asylum seekers was more evenly balanced, perhaps Britain would have a more open attitude to the issue. I pointed out that there had, in practice, been burden sharing during the Kosovo crisis.

Comment

The Prime Minister came away from this dinner feeling that he had had another excellent exchange with Chancellor Schroeder, perhaps the best of the four small dinners they have had this past year. They talk the same political language and have sufficient trust in one another and in the small format they both prefer to be open and frank. Schroeder talks the standard German talk on integration but is very responsive to arguments on preserving national identities and the role of national leaders.

We will plan on the next substantive exchange taking place in June, and Stephen Wall and I will set in train the preparations as agreed by the two leaders.

I am copying this letter to Tom Scholar (HMT), Bernadette Kelly (DTI), Hilary Jackson (HO), Stephen Wall (CO), Nigel Sheinwald (UKRep Brussels) and Paul Lever (~~Bonn~~
Berlin).

Yours ever,



JOHN SAWERS

Sherard Cowper-Coles
FCO

Free



10 DOWNING STREET
LONDON SW1A 2AA


THE PRIME MINISTER


29th Jan.

Dear Torcha,

Firstly, thank you for your speech in London & very desirable & well-judged remarks. Secondly, every solidarity to you. I have watched your performance under pressure

↓

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or Number not used.

in Germany with much
admiration for you and
contentment for your criticism.
Well done.

Yours truly

—
/ony

Herr Joschka Fischer

Federal Vice Chancellor, Foreign Affairs

Federal Republic of Germany.



F

Top - JJH
cc JS
JPO
MT

Secretary of the Cabinet and Head of the Home Civil Service

PRIME MINISTER

Pr

cc Sir Stephen Wall
Mavis McDonald
Jeremy Heywood
John Sawers
Colin Budd, FCO
Sir Paul Lever, Berlin
Sir Nigel Sheinwald, UKRep

This seems to me to
be in excellent idea

9. Better still is No
to but we have never
been able to work that well. J

CABINET OFFICE/FEDERAL CHANCELLERY SECONDMENTS

I would be grateful to know whether you would be content in principle with the idea of setting up an exchange of officials between the Cabinet Office European Secretariat and the German Federal Chancellery in Berlin. We would not put it into practice until after the Election but would start to prepare the ground now.

Yes. ASAP.

The proposal

2. As part of our efforts to improve our co-operation with the German Government, Stephen Wall has sought my views on setting up an exchange of officials between the European Secretariat and the Federal Chancellery. The Germans are particularly keen to collaborate with us on the post-Nice agenda leading to a further IGC in 2004. An exchange of officials offers a good opportunity to influence that agenda.

3. Stephen Wall has proposed a two-stage approach.

- i. first an exchange lasting one or two weeks only, in which the Germans send one of their officials to us, and we send our trade expert (a German speaker) to them. The purpose would be to establish as much as we can about how our respective organisations operate;
- ii. second, an exchange of long-term secondees. We would invite the Germans to send us an individual at their cost to work with us for about a year on the post-Nice agenda. This would be on a no-holds-barred basis: he or she would be involved in everything we do, although we would seek to ringfence the most sensitive areas. For our part, we would offer the Chancellery a slate of candidates

following a trawl of Whitehall departments. The cost would fall to the successful department, but the individual would operate as a secondee from this Secretariat.

4. The first stage would build on a similar exchange which took place last year. The second stage would be a novelty for the Cabinet Office, though it is an arrangement which the FCO has operated successfully for a number of years with the USA, France and Germany.

Potential Pitfalls?

5. Exchanges inevitably require a high degree of mutual trust. To ensure we meet our objectives, both our secondee in Germany and the Federal Chancellery person here need to be treated on the same terms as other members of the team, with the same access to documents, meetings etc. Equally there may be occasions where we, and the Germans, might want to ring-fence particularly sensitive issues on which we would not want to expose our position to the Germans and vice versa.

6. In my view this needs to be dealt with pragmatically on a case by case basis. It would be for senior management in the European Secretariat to identify the issues concerned and to ensure that the secondee was not concerned in any way with them. Other Government departments could be alerted to the secondment in advance and asked to exercise discretion in the circulation of documents on sensitive issues. In the unlikely event that there were serious difficulties over this in either Germany or the UK, then the secondments would have to end in both directions. But both we and the Germans have a common interest in making this work.

7. There could be media or political interest in a secondment of this nature and potential mischief making. Our response would need to focus on the nature of the exchange and the obvious benefits in terms of better mutual understanding; the fact that getting closer to our major European partners was an important part of ensuring the best deal for the UK in Europe; and that the FCO had been running similar exchange programmes for a number of years with great success.

8. Stephen Wall and I believe that acceptable arrangements can be put in place to minimise the risks, and that the latter are in any case outweighed by the potential benefits that these exchanges could bring. I therefore recommend that Stephen Wall should be given the green light to proceed. He would discuss timing with your office.

RJW.

RICHARD WILSON

29 January 2001

file
Copy in DOW box



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 January 2001

Dear Denis,

Many thanks for your very helpful note on German-French-British triangulation. The Prime Minister read it on the plane to Berlin this evening and found it valuable preparation for his dinner with Schroeder.

Yours ever,

JOHN SAWERS

Dr Denis MacShane MP

From: John Sawers
Date: 29 January 2001

ALASTAIR CAMPBELL

SUNJEL
MASTER
PERSON

cc: Jonathan Powell
David Miliband
Anji Hunter
Stephen Wall
Paul Lever (Berlin)

**PRIME MINISTER'S DINNER WITH CHANCELLOR SCHROEDER,
29 JANUARY**

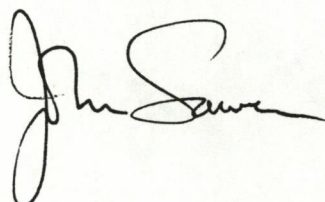
DOMESTIC POLITICS AND THE MEDIA

Schroeder began last night's dinner by asking the Prime Minister about Conrad Black. Black had asked to see him to talk about Europe and the role of the euro, and was giving the impression that there seemed to be change underway in Germany which might require him to change his attitude to European issues. Was it worthwhile him seeing Black? The Prime Minister said that, put like that, it would be very helpful if the Chancellor could see him. Schroeder said he would do so.

This led into a wider discussion of the media. Schroeder confirmed that the press in Germany were changing, and becoming more personal in their approach. The German media was dominated by two big corporations and he had had fights with both of them (he gave some colourful details of the allegations that one of his female security guards was carrying his baby). Schroeder said he had taken a clear decision not to take any shit from them and to hit them hard. He felt that Willy Brandt had made the mistake of being too nervous and conciliatory towards the press, which he was not prepared to repeat.

Schroeder continued that one of the problems in Germany, like in Britain, was that there was no opposition of any quality. That contributed to the strength of the governing party. He could see that the same was the case in Britain. He had no doubt at all that the Prime Minister would win the election, albeit with a smaller majority. In Britain, as in Germany, the strength of the economy and the weakness of the opposition would be dominant factors.

The only hint of change in Germany came from Schroeder's comments that the SPD's coalition with the Greens exposed the SPD to attack from both sides. He was not critical of Joschka Fischer, on the contrary he praised him as a very skilful politician. But he was clearly uncomfortable being associated with a party someway to the left of the SPD and, in particular, of Schroeder's own politics.

A handwritten signature in black ink, appearing to read "John Sawers". The signature is written in a cursive style with a large initial "J" and "S".

JOHN SAWERS

CHANCELLOR SCHROEDER: CHECKLIST

1. **Germany-France-Britain**
2. **Integration, inter-governmentalism and democracy**
3. **Post-Nice:** competences, status of the Charter, Treaty simplification, role of national Parliaments. "Basic Law" of EU?
4. **Stockholm: Economic Reform:** UK/Germany to work for
 - energy liberalisation by 2003
 - unified capital market, agreement on Prospectus Directive by 2002
 - better regulation, especially for Small Firms
 - action plan on biotechnology.
5. **EU/US:**
 - should we aim for a high level political attempt to solve trade disputes (Airbus, FSCs, beef, bananas)
 - WTO Round
 - Blair/Schroeder joint article for US media on the modern face of the EU?
6. **European Defence:** big effort with US. Must bring Turkey round. Cannot work in a pro-NATO way without EU-NATO agreement.
7. **NMD:** Will happen. Should consult bilaterally, and in Quad. Against EU3 concerting position before we have any US proposal.
8. **NATO Enlargement:** priorities – maintain military effectiveness and meet our commitments to applicants. Agree the Baltic States a step too far for now.
9. **Russia:** any change in your assessment of Putin?
10. **EU Enlargement:** target date at Gothenberg? Have to keep pressure on Poland if they are to make first wave.
11. **CAP Reform and Food Safety:** areas for UK/German co-operation. Vital to start reforming CAP before Enlargement, so need to start in 2002, after French elections. Joint initiative on Food Safety?

12. **Other Issues**

- (i) **Information and Consultation of Workers.** Continued German support much appreciated, and necessary.
- (ii) **Droit de Suite:** explain sensitivity in UK. Should stick to Council's common position.
- (iii) **Asylum:** welcome German support for our initiative to combat people smuggling and illegal immigration

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From: David North
Date: 26 January 2001

JOHN SAWERS

cc: Jeremy Heywood
Michael Tatham
Anna Wechsberg

CAP REFORM: MEETING WITH SCHROEDER

1. I agree with the headline points on CAP reform for the Prime Minister/Schroeder dinner set out in Stephen Wall's minute of 26 January. But you might find it helpful to have a bit more detail on how we might interpret and respond to German indications that they are more open to reform in the wake of their recent domestic BSE crisis.

2. Partly, I am sure, because their thinking is still developing, there is some lack of clarity in the German signals in recent weeks that they are becoming more open to CAP reform. On one level, the signals are clear: they are saying that they are more open to a reform that moves away from the current market support mechanisms and their emphasis on volume production. But we should beware concluding that this gives us a clear opportunity to press them to support the kind of reform we want. The German signals about a reformed CAP that focuses more on "quality production" and high welfare and health standards seems more likely to have in mind a CAP that is different from the present, but that remains highly-regulated, expensive and insulated from the market.

3. The trick for us, therefore, is to convince them that our vision of CAP reform delivers what they want in terms of encouraging better-quality production and environmental protection, while also delivering what we want in terms of lower costs and greater exposure to the market. The argument might run as follows:

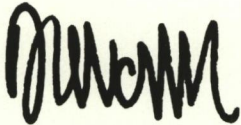
- Welcome German comments that agricultural policy needs a new direction. Share the view that there must be more emphasis on consumer and environmental protection rather than support for production. Agree that high standards are very important.
- But the answer does not lie in promoting high-cost agriculture, insulated from market, that can only compete with ongoing production subsidies. It is precisely this approach that has created the problems we now face.

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- 2 -

- Much more effective if "quality" is rewarded and promoted through the market, not by subsidy. Must avoid imposing so many costs on farming that they can only survive through ongoing subsidy or protectionism.
- So European farming must become more competitive. Further CAP reform is now becoming urgent to achieve these goals. Key is to reduce market support and direct payments and phase out quotas; and to strengthen substantially the CAP "second pillar" (rural development regulation). UK has already begun this process through national "modulation" of direct aids to put more money into environmental and diversification schemes.
- This approach would allow member states to target funding on promoting environmental and rural development goals and help our farmers adjust to more competitive markets.



DAVID NORTH

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Foreign &
Commonwealth
Office

26 January 2001

London SW1A 2AH

CC JPO
MT
AC
Press
BUP.

Briefing for the Prime Minister's dinner with Chancellor Schröder in Berlin:
Monday 29 January

Thank you for your letter of 23 January setting out the agenda for the Prime Minister's dinner on Monday. As requested, I attach briefing on European Defence, National Missile Defence, NATO Enlargement, and Russia. I also enclose two reporting telegrams on the lunch the Foreign Secretary gave Joschka Fischer on Wednesday and a scene-setting telegram from Berlin.

The priority with most of these issues is to agree a common approach to developing a constructive relationship between the EU and the Bush Administration.

There are three main points on **European Security and Defence Policy**:

- Germany needs to do more to develop capabilities since it is one of the five European Allies whose defence spending will fall in 2001;
- US support for ESDP is necessary to reassure public opinion and to remove the Turkish road-block. German engagement with the US on improving capabilities could help.
- EU/NATO agreements need to be in place before the EU can have an initial operating capability, otherwise the pressure will build for autonomous EU capabilities.

On **National Missile Defence**, our objective should be to encourage Schröder to engage the new US Administration constructively, pointing out the risk, if we do not engage, of alienating Bush and undermining work on other key

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EU-US issues. The Prime Minister might reiterate his opposition to a common EU position on NMD.

On **NATO enlargement**, the Prime Minister should stress the importance of maintaining NATO as an effective transatlantic military alliance at the same time as implementing our commitment to the Open Door. German officials have taken a predominantly sceptical line about the need to issue invitations to join the Alliance in 2002.

Schröder may raise NATO's use of **Depleted Uranium**. The Prime Minister might highlight the need to focus follow-up work in NATO, and on the scientific evidence to avoid suggestions of a DU moratorium and to find ways of working constructively with the Bush Administration.

On **Russia**, we expect Schröder will want to compare notes on Putin following his visit to Moscow over Orthodox Christmas and the Prime Minister's visit to Moscow in November. The Prime Minister might also raise Russian debt.

I am copying this letter to Sir Stephen Wall (Cabinet Office) and Julian Miller (MOD).

Yousay

Mark Sedwill

(Mark Sedwill)
Private Secretary

John Sawers
10 Downing Street

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PRIME MINISTER'S DINNER WITH CHANCELLOR SCHRÖDER,
BERLIN, 29 JANUARY 2001

CHECKLIST OF TOPICS

EUROPEAN DEFENCE

- Germany needs to do more to develop its capabilities. It is one of the five European Allies whose defence spending will fall in 2001.
- US support for ESDP is needed to reassure public opinion and to remove the Turkish road-block. German engagement with the US could help as would clear signs of improved capabilities.
- EU/NATO agreements need to be in place before the EU can have an initial operating capability, otherwise the pressure will build for autonomous EU capabilities.

NMD

- Bush Administration serious about NMD, but also serious about consulting Allies and Russia before making decisions.
- Must engage them constructively on the issues to avoid alienating new Administration - which would undermine European Defence, NATO enlargement and other EU-US issues (eg trade).

NATO

Enlargement

- Unclear at this stage how NATO will handle its Open Door commitment at the 2002 Summit. A wide range of possible ways forward. UK view is not fully developed. Essential that enlargement meets the three tests:
 - NATO is ready;
 - the aspirant is ready;
 - European security and stability is improved.
- Important to manage the process in a way that maintains the aspirants' momentum for political, economic and military reform. New Allies ought, in principle, to contribute to enhanced security and stability, not just profit from it.

Their military capabilities will be important.

- NATO must press on with internal reform to prepare for eventual enlargement. Secretary General will need support of key Allies as his thinking develops.

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- Grateful for German thinking on how enlargement should be taken forward.
- Useful to introduce Bush to NATO leaders. One idea a meeting in Brussels this summer at head of Government level, possibly to coincide with a Bush visit to Europe for the G8 or EU-US Summits. Essential, however, that such a meeting does not pre-empt the Prague Summit in 2002 which is the right place and time for consideration of the next phase in the enlargement process.

Depleted Uranium (if raised)

- We have seen no evidence of ill health resulting from use of DU munitions in the Balkans or elsewhere. No grounds for implementing a moratorium on DU use. This would damage our military capability, reduce our foreign policy reach and would provoke a transatlantic row within the Alliance.
- Work should continue to be led by NATO, and to be focussed on the scientific evidence.

RUSSIA

- Exchange of views on Putin;
- Ask about debt.

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PRIME MINISTER'S DINNER WITH CHANCELLOR SCHROEDER,
BERLIN, 29 JANUARY 2001

Background

EUROPEAN DEFENCE

1. Although Germany has been a firm ally in supporting solid NATO foundations to ESDP, they have recently shown impatience at the lack of movement in NATO. If the Turkish block in NATO prevents the EU and NATO reaching agreement on access to NATO capabilities and other issues by the Gothenburg European Council, there is the danger that Germany will accept that the EU could declare an initial operating capability even without NATO support. This will fuel pressure for the EU to develop autonomous planning capabilities and will alarm the US that the EU will undermine NATO.

2. Germany is central to our efforts to improve European military capabilities. They spend well below the European average of their GDP on defence (approximately 1.5% in 2000 compared to a European average of 2.2%) and defence spending will fall by a further 2% in real terms in 2001 (11 out of the 16 European Allies plan to increase defence spending in 2001). Schroeder has claimed that Defence spending will rise in 2001. But the German Chief of Defence Staff denied this in his recent meeting with CDS, and claimed that the problem would be compounded by a political reluctance to carry out the reforms agreed in Germany's defence review. A real demonstration that Germany is prepared to turn its crisis management aspirations into reality is now needed. For instance, Germany should make clear the number of A-400 air transport aircraft that they will actually buy. We estimate that they will buy fewer than the 73 they claim.

NMD

3. German statements on NMD have been inconsistent, but have tended to be sceptical about NMD. Their main concern is the impact NMD will have on relations with Russia. German objections to NMD would disappear if the US could negotiate a deal with the Russians.

4. The obvious desire of the new Administration to deploy an NMD system, and their intention to review the technical options (which include boost phase and space based) will concern the Germans. However, Bush has made very clear his intention to consult Allies and Russia on NMD before taking a decision. It will be important that Germany and other NATO Allies do so constructively over the coming months, particularly in light of potential US/European friction over European Defence, NATO enlargement and Depleted Uranium. NATO Allies may also need to address the implications of a potential US offer to extend NMD to protect them.

W.B. || 5. The Prime Minister will recall that Schroeder, with Chirac, previously suggested adopting an EU position on NMD. The Prime Minister strongly opposed this idea.

6. The Germans are currently engaged with the US (and Italy) on the procurement of the MEADS theatre missile defence system.

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NATO

Enlargement

7. The DOP officials' note summarised the main consideration on the handling of the enlargement debate.

8. German thinking on NATO enlargement is still evolving. We do not know Schroeder's views. German official caution is based on the poor performance so far of the V3 and the aspirants' need for further military reform. Some have suggested that for Russia handling reasons Baltic security should be handled by the EU, with NATO eventually expanding in south-east Europe.

9. We do not wish to find ourselves cast publicly as the back markers on enlargement within the Alliance. Several Allies would find it convenient for us to be so described, not least the Germans. Discussion of the merits of individual candidates or of different models of NATO enlargement is also best avoided. Any leak would inevitably attract the fire of potentially excluded candidates and their supporters.

Depleted Uranium (DU)

10. DU has been a major story in Germany. Schroeder was quoted as saying he was personally in favour of a ban during his visit to Moscow on 7 January. The Defence Minister, Scharping, has been very critical of the US in public. We should not comment on Scharping's leaden performance.

11. Preliminary evidence presented by Germany to the NATO Ad Hoc Committee on DU shows their troops to have suffered no ill effects from contact with DU while serving in the Balkans.

RUSSIA

12. We should sound out Schroeder following his visit to Moscow on 6-7 January. His officials have played down the visit, billing it as a non-business event, but it appears to have been a success. Schroeder developed his personal relationship with Putin, while hanging tough on debt, despite Russian attempts to force Paris Club rescheduling. The Prime Minister might ask Schroeder if Putin took seriously his urgings that Russia must repay its debt.

13. Putin and Schroeder also discussed NATO with Putin underlining his adamant opposition to Baltic membership. Putin favoured good EU/Russia relations but continued to focus on bilateral relations with individual European countries. They also discussed economic reform, and Chechnya.

14. 2000 was a successful year for Putin, who was able to deliver on his promise to bring about political and economic stability. But his tough treatment of the media, his Chechnya policy, and the resurgence of the intelligence agencies have raised concerns about his authoritarian tendencies. And it is not clear that he used the benign economic conditions of 2000 to press ahead with the vigorous economic reform needed for sustainable growth in the long-term.

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COMMENT:

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FM BERLIN

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INFO DESKBY 261220Z CABINET OFFICE

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INFO IMMEDIATE MAFF, MOD, MOSCOW, WASHINGTON, WHIRL

CABINET OFFICE PLEASE PASS TO SAWERS, POWELL, MILLIBAND AND LIDDLE
NO 10.

SUBJECT: BLAIR/SCHROEDER

SUMMARY

1. Schroeder still politically secure. Consumer protection his top domestic concern. German-French falling out makes it easier for us to do business with him. Opportunity make common ground on some EU issues. Schroeder is worried about NMD.

DETAIL

2. The Prime Minister will meet a more subdued but still self-confident Schroeder for dinner on 29 January.

DOMESTIC POLITICS

3. 2000 was a dream year for Schroeder. He dominated the political landscape and got his legislation through. He had a good Nice summit. He is gradually establishing himself as a key EU player.

4. 2001 has begun less well. Schroeder's leadership grip has looked weaker, reacting to, not dictating, events and the popular mood.

5. Problems dominating his short-term horizon are:

- BSE. Schroeder has shown again his powers of political recovery by snatching this issue away from the Opposition with a consumer protection crusade. But he must deliver on the rhetoric soon to prevent the public mood turning back against the government;

- the centre-right media are still trying to get another Ministerial scalp. In the last three months Schroeder has already lost three Ministers (Klimmt/Transport, Funke/Agriculture, Andrea Fischer/Health) to scandal or (BSE) failure. Three other key ones are now in the firing-line: Fischer for '70s street-fighting, Eichel for allegedly misusing government flights, Scharping for mishandling depleted uranium. But they look safe, unless something new emerges;

- pension reform (pay more, get less) risks becoming a bigger electoral headache. The government got it through the Bundestag this morning, but without cross-party support and thus shared responsibility for it. It will almost certainly fail to get that at the Bundesrat either. Party managers and pollsters expect that to hurt the SPD at the Land elections at the end of March in Rheinland-Pfalz and Baden-Wuerttemberg. The SPD fear it could haunt them at the October 2002 Bundestag elections as well;

- the eco-tax could also do political damage again if world fuel prices bounce back up;

6. Schroeder will, however, be reassured by how solid his political base looks: recent problems have cost only 1-2% in the polls, with the SPD still up to 4% ahead of the CDU, Schroeder's personal ratings 10-15% ahead of Merkel or Stoiber, and the government's competence ratings still higher than the CDU's on most key issues. That picture could've been a lot worse if the Opposition had been more effective. However, its leadership (Merkel, Merz) still isn't making a mark. Its latest fiasco was a mug-shot poster of Schroeder arrested for his pension "betrayal", which had to be instantly withdrawn after public outcry at its bad taste. Stoiber in Bavaria is positioning himself more assertively to take over.

(Stoiber is keen to come + see you. We've said Yes, but after May.)

7. And even if the CDU get better at opposition, Schroeder knows his longer-term prospects remain good. The economic fundamentals look set to deliver solid growth (2.4-3.0% in 2001) and lower unemployment through to the 2002 elections. The Trade Unions are back on side, having been bought off on pensions and labour market reform. Future coalition options have got (even) better: consumer protection has brought the SPD and Greens closer together (they are now Schroeder's stated first choice partners post-2002), while the FDP has become more attractive and available under the new leadership of Westerwelle.

8. So if you had to bet now, put money on Schroeder still being Chancellor after the next elections.

HANDLING SCHROEDER

9. That is why he will still be looking and feeling assured. And able to focus on a 2004 not just 18 month horizon. He increasingly takes his own line on EU issues independent of Fischer. He is said by close staff still to be fed up with the French, Chirac in particular; so should be willing to consider bilateral initiatives with us, and be ready to accommodate the Prime Minister's political needs pre-election. But he is not looking for a new strategic alliance.

10. Follow-up on the German side is a perennial problem. So the Prime Minister might suggest jointly dictating key conclusions and remits to officials at the end.

AGENDA

11. Schroeder may take a cross-cutting approach to several agenda items, e.g.

PREM 49/1952

TELEGRAM DATED 26 JANUARY
2001

(a) tackling CAP reform and the biotech/genetic engineering elements of Stockholm through the prism of consumer protection. The more we can offer a joined-up European policy which helps him domestically to win back public confidence post-BSE, the more likely he is eventually to sign up to the kind of CAP reforms we want (Joyce Quinn's talks this week with the new Ministerial team at the German Ministry of Consumer Protection, Food and Agriculture suggest that they are keen to work more closely with us);

(b) on other EU issues, he may look to cut political deals. Transition periods on free movement are an important part of his strategy to defuse enlargement as a potential Opposition issue in the 2002 elections. He should have been briefed on the sensitivity for us of any early move to formalise the Eurogroup as an Enhanced Co-operation with strengthened powers over fiscal and tax policy;

(c) his meeting with Putin (6-7 January) appears to have had a significant impact. So Schroeder may take a cooler, Russia-centric approach to NMD and NATO enlargement. He remains sceptical of American arguments on NMD, and may suggest Europeans jointly press caution on Washington. But he is enough of a realist not to oppose Bush outright. He may therefore argue that Putin can't swallow both NMD and NATO enlargement to the Baltics; and that ruling out the latter for the time being might be linked to EU membership.

12. I have written separately on what Schroeder might mean by his newly found commitment to European integration. In brief, he probably does not want integration for visionary or economic governance reasons. But he does want an enlarged EU to be capable of making decisions in a timely and effective manner; and has become convinced that "integration" (certainly QMV, but perhaps not the full Community method) is the best way to achieve that. One consequence is that, as Roger Liddle has minuted, any Second Chamber of National Parliaments enforcing a statement of principles on competences/subsidiarity needs to be sold to him as more community method than greater inter-governmentalism. A real prize would be to get Schroeder to task Steiner/Silberberg to produce a joint paper with Sawers/Wall on this basis.

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PS PUS	1
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DUS WIDER WORLD	1
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CHIEF CLERK	0
DIR EU	0
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DIR INTNAT SEC	0
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[JACKSON]

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START OF TEXT

FROM PRIVATE SECRETARY

SUBJECT: FOREIGN SECRETARY'S TALKS WITH THE GERMAN FOREIGN
MINISTER, 24 JANUARY - EU ISSUES

SUMMARY

1. Agreement to work together on the post-Nice agenda. Fischer sees some merit in combining a Convention process with wider public consultation, but ready to compromise. Fischer says Germany could not accept Poland not being in the first wave of enlargement but agrees with the Foreign Secretary that we should keep up the pressure on the Poles to meet accession requirements. Fischer underlines firm German position on seven-year transitional period for Freedom of Movement. Exchange on ESDP: hope that US will put pressure on Turkey.

DETAIL

POST NICE AGENDA

2. The Foreign Secretary said he was anxious to keep the focus on Nice ratification. Nice had produced important achievements for the EU. He hoped UK and Germany could work together on the post-Nice agenda, which was ambitious enough as it was: he was worried by suggestions from eg the Belgians that the agenda should be expanded. There should be wide public consultation leading up to 2004, and we should try to agree on the process by Gothenburg. Governments, and in particular the GAC, had to steer the agenda and the process: we should include national parliaments in the debate but not hand over responsibility to a Convention as had happened over the Charter. Perhaps there could be a gathering of national parliamentary representatives: but preparation of texts should be for governments and Ministers. He mentioned the Prime Minister's Second Chamber proposal.

3. Fischer said Nice was a success though public opinion eg in Germany had seen it as falling short of its objectives. It was important that we should not convey a message that France had failed. Not all ambitions had been achieved but Nice had opened the way for enlargement and the post-Nice process. He welcomed the idea of bilateral co-operation on the post-Nice agenda, bearing in mind that public debate in our two countries had different perspectives. He expected ultimately a big majority for Nice ratification in the Bundestag and the European Parliament. The German government was under pressure from the opposition and the Laender on the issue of definition of competences. Fischer saw merit in certain aspects of the Convention process: it was important to bind in national parliaments and the EP. Parliaments would produce draft documents anyway whatever governments said they wanted. Possibly the process could be combined with one of public consultation. Germany was ready for compromise on the mechanism to be employed. But Fischer thought if we did not give parliaments a role then there would be serious problems at least in Germany and some other countries. The

competence debate was important if the EU22-plus was to function effectively and to have democratic legitimacy. The accession states could be involved in the debate even if they were not members by 2004. He urged the Foreign Secretary to include national parliaments and the EP in the mechanism while maintaining the GAC role.

ENLARGEMENT

4. The Foreign Secretary said we wanted Poland in the first wave if it was really ready for membership. But this should not hold others back. The best way to put pressure on Poland was to say that we would go ahead without them if necessary.

5. Fischer said with some vehemence that the Swedes didn't want Poland in the first wave: this would be unacceptable to Germany. He agreed we should put pressure on Poland to ensure it did not relax its preparations but exclusion of Poland from the first wave would create real problems in the region. He went into a short historical diversion about the relevance of Poland to the outbreak of World War II and the involvement of Germany, France and Britain; the Poles had never surrendered; and Solidarnosc had paid a key role in breaching the Iron Curtain. The Poles would feel betrayed if they were not in the first wave. It would be a historical mistake not to have them in. The Swedish emphasis on Baltic State membership was misguided. The Foreign Secretary said others eg the Czechs and Hungarians might feel they were betrayed if we delayed membership so that Poland could be in the first wave.

6. Fischer said France and Spain were not so keen about Polish membership because of the CAP and structural funds. We should discuss the issues with them. He appreciated the very important signal made by Vedrine in Warsaw last week when he said Poland must be in the first wave. We should cooperate in putting pressure on Poland. The Foreign Secretary said he understood that partners more protectionist than us saw real problems about the CAP.

7. Ambassador Von Ploetz said we should look together at the agricultural issues, focussing on northern products: he knew the UK had already done some useful work on this.

FREEDOM OF MOVEMENT

8. In answer to the Foreign Secretary's question on the German attitude, Fischer said Schroeder had made a firm announcement about the need for a seven-year transition period. There was no scope for compromise on this from the German point of view though he could envisage incorporating a review mechanism. Fischer himself thought the problem was much more apparent than real (as were Polish fears that Germans would return with chequebooks and buy up the country). Schroeder had to be firm on this issue to keep the domestic debate under control; and the SPD stood to lose out if he didn't. Austria was in the same position as Germany. He would welcome UK support on this.

9. Jessen (Auswaertiges Amt) suggested other countries could adopt different transitional conditions on freedom of movement if they wished: the Foreign Secretary said this could in turn encourage euro sceptics in other countries; Fischer said it would be best to have the rules applied generally throughout the EU.

ESDP

10. The Foreign Secretary raised the Turkish impasse. Nice had been good ESDP but the NAC had been depressing. His instinct was that m would settle but had no leeway from Ankara. It was very important that we made progress before the Spring NAC. This would entail guaranteed access to NATO planning capabilities for the EU. Private assurances to the Turks about their security might help unlock the problem but possibly this was not the real issue and they would demand more. In telephone conversations with Colin Powell the latter had been quite robust on ESDP. The Foreign Secretary thought it would be in the US interest for the EU to build up its defence capabilities if the US wanted to extricate itself from Balkan involvement. The US government was in a crucial position to influence the Turks, who might have been delaying to await the incoming administration. We should press the US to get the Turks to budge.

11. Fischer said the Turks feared a situation where the Greeks would have vetoes in both the EU and NATO. But he could not accept that Turkey could use NATO as a lever to open the door to the EU (the Foreign Secretary agreed): this would play very badly in Germany and the government would have to be very strict on this. Scharioth (Political Director) pointed to differing views within the US administration, with Powell more understanding of EU views than Rumsfeld. We needed to work on the Pentagon. Armitage (prospective Deputy Secretary of State) had influence in Turkey and could be helpful.

PRESIDENCY ARRANGEMENTS

12. Fischer noted that according to the predicted schedule, Germany would have the EU Presidency in the second half of 2006: but this would be a bad time because it would clash with the German elections. Jones Parry pointed out that enlargement might lead to a changed schedule anyway. The Foreign Secretary noted that the question of Presidency arrangements should be part of the post-Nice agenda.

COOK

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EUD (I)		0
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.FRAME GENERAL		0
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DCMS//MR HELSTON		1
LD ADV//REGISTRY		1
TSY SOLS//A RIDOUT		1
TSY SOLS//M C THOMAS		1
WELSH ASMB		1
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IMMEDIATE BERLIN

TELNO 17

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INFO IMMEDIATE OTHER EU POSTS, NATO POSTS, MOSCOW

INFO IMMEDIATE PEKING, ACTOR, WHIRL

START OF TEXT

SUBJECT: FOREIGN SECRETARY'S TALKS WITH THE GERMAN FOREIGN
MINISTER, 24 JANUARY: OTHER ISSUES

MIPT

SUMMARY

1. Agreement that the main EU Foreign Ministers should discuss NMD in advance of a meeting with Colin Powell. UNSC membership, China Human Rights, North Korea, Africa and the Middle East also discussed.

DETAIL

NMD

2. Fischer said there had not yet been a serious debate on this in Germany. He didn't see the problems as insoluble if a sensible procedure was adopted, including close consultation in NATO. But Helms' speech about NATO enlargement to the Baltic states had been alarming taken in conjunction with the NMD issue and could create public opinion problems. We needed a strong US role in Europe, and he hoped the US administration would act in a balanced way. He feared China might pose a bigger problem than Russia over NMD. As a non-nuclear power Germany was interested in international nuclear control and non-proliferation: he hoped NMD would not have a negative impact on the ABM treaty and encourage proliferation. It might be useful to have an informal agreed European position to use with the US.

3. The Foreign Secretary said he would welcome solidarity on this issue, though we didn't yet know what questions might be asked of us. It was important to have a discreet forum to discuss these issues, possibly the quint minus Ivanov. The four might then discuss the issue with Colin Powell, perhaps in London, and before the Italian elections. Fischer encouraged the Foreign Secretary to go ahead with such a welcome dinner for Powell; he hoped also we could encourage Powell to continue Madeleine Albright's habit of frequent consultations by telephone. Jones Parry said we should avoid any appearance of the Europeans ganging up on the US on NMD.

UNSC

4. Fischer raised German candidacy for a non-permanent UNSC seat in 2003/4. The Foreign Secretary said we never reacted to such requests but privately he could not imagine us not supporting such a close partner. More broadly he would prefer to see Germany as a permanent member and hoped that we could press for progress on the issue at the next General Assembly. It was deeply damaging to UNSC credibility that it could not reform itself.

CHINA HUMAN RIGHTS

5. Fischer said we needed to sort out the EU position on this. There were serious problems as shown by the crackdown on the Falun Gong. The Chinese would understand if the EU took a clear position. The Foreign Secretary agreed: he had told the Chinese that the dialogue process could only be justified if it showed results. He and Fischer should discuss the issue before the GAC. He did not want the EU to adopt a lowest common denominator position.

6. Jones Parry noted that some such as the French, Italians and Greeks tended to keep their heads down on this issue. The Foreign Secretary and Fischer agreed they would raise this at their respective forthcoming summits with Vedrine.

NORTH KOREA

7. The Foreign Secretary thanked Fischer for providing the German building in Pyongyang for our use. Fischer said the German cabinet had decided this morning to open diplomatic relations with North Korea.

AFRICA

8. The Foreign Secretary welcomed the recent visit to Sierra Leone by an Auswaertiges Amt official. He hoped Germany would support our position at the UN on sanctions against Liberia - perhaps Fischer could talk to the French who were still reluctant about this. In response to a remark from Fischer expressing scepticism about the prospect for a common EU position on Africa, the Foreign Secretary said one should not discount the prospect, pointing to his own joint visit to Africa with Vedrine.

MIDDLE EAST

9. The Foreign Secretary, noting that the establishment of a contact group as agreed by Fischer, Vedrine and himself had not progressed, said that the new US administration would not be so involved as Clinton's in the Middle East at least at the outset: a greater EU role might be useful. The three Foreign Ministers might usefully meet soon to discuss the Middle East before meeting Colin Powell. Fischer suggested a discussion a trois in Berlin very soon after the Israeli elections. The Foreign Secretary noted that the situation could remain very uncertain for a while thereafter.

COOK

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MAIN 14

FRAME GENERAL 14

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LACD X 0

ADDITIONAL 6

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DCMS//MR HELSTON 1

LD ADV//REGISTRY 1

TSY SOLS//A RIDOUT 1

TSY SOLS//M C THOMAS 1

WELSH ASMB 1

SCOTLAND OFF 0

RESTRICTED
BLAIR/SCHROEDER
From: BERLIN

TO DESKBY 261220Z FCO
TELNO 34
OF 261159Z JANUARY 01
INFO DESKBY 261220Z CABINET OFFICE
INFO IMMEDIATE ACTOR, CEE POSTS, DTI, EU POSTS, HMC GS GERMANY, HMT
INFO IMMEDIATE MAFF, MOD, MOSCOW, WASHINGTON, WHIRL

CABINET OFFICE PLEASE PASS TO SAWERS, POWELL, MILLIBAND AND LIDDLE
NO 10.

SUMMARY

1. Schroeder still politically secure. Consumer protection his top domestic concern. German-French falling out makes it easier for us to do business with him. Opportunity make common ground on some EU issues. Schroeder is worried about NMD.

DETAIL

2. The Prime Minister will meet a more subdued but still self-confident Schroeder for dinner on 29 January.

DOMESTIC POLITICS

3. 2000 was a dream year for Schroeder. He dominated the political landscape and got his legislation through. He had a good Nice summit. He is gradually establishing himself as a key EU player.

4. 2001 has begun less well. Schroeder's leadership grip has looked weaker, reacting to, not dictating, events and the popular mood.

5. Problems dominating his short-term horizon are:

- BSE. Schroeder has shown again his powers of political recovery by snatching this issue away from the Opposition with a consumer protection crusade. But he must deliver on the rhetoric soon to prevent the public mood turning back against the government;

- the centre-right media are still trying to get another Ministerial scalp. In the last three months Schroeder has already lost three Ministers (Klimmt/Transport, Funke/Agriculture, Andrea Fischer/Health) to scandal or (BSE) failure. Three other key ones are now in the firing-line: Fischer for '70s street-fighting, Eichel for allegedly misusing government flights, Scharping for mishandling depleted uranium. But they look safe, unless something new emerges;

- pension reform (pay more, get less) risks becoming a bigger electoral headache. The government got it through the Bundestag this morning, but without cross-party support and thus shared responsibility for it. It will almost certainly fail to get that at the Bundesrat either. Party managers and pollsters expect that to hurt the SPD at the Land elections at the end of March in Rheinland-Pfalz and Baden-Wuerttemberg. The SPD fear it could haunt them at the October 2002 Bundestag elections as well;

- the eco-tax could also do political damage again if world fuel prices bounce back up;

Pass

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6. Schroeder will, however, be reassured by how solid his political base looks: recent problems have cost only 1-2% in the polls, with the SPD still up to 4% ahead of the CDU, Schroeder's personal ratings 10-15% ahead of Merkel or Stoiber, and the government's competence ratings still higher than the CDU's on most key issues. That picture could've been a lot worse if the Opposition had been more effective. However, its leadership (Merkel, Merz) still isn't making a mark. Its latest fiasco was a mug-shot poster of Schroeder arrested for his pension "betrayal", which had to be instantly withdrawn after public outcry at its bad taste. Stoiber in Bavaria is positioning himself more assertively to take over.

7. And even if the CDU get better at opposition, Schroeder knows his longer-term prospects remain good. The economic fundamentals look set to deliver solid growth (2.4-3.0% in 2001) and lower unemployment through to the 2002 elections. The Trade Unions are back on side, having been bought off on pensions and labour market reform. Future coalition options have got (even) better: consumer protection has brought the SPD and Greens closer together (they are now Schroeder's stated first choice partners post-2002), while the FDP has become more attractive and available under the new leadership of Westerwelle.

8. So if you had to bet now, put money on Schroeder still being Chancellor after the next elections.

HANDLING SCHROEDER

9. That is why he will still be looking and feeling assured. And able to focus on a 2004 not just 18 month horizon. He increasingly takes his own line on EU issues independent of Fischer. He is said by close staff still to be fed up with the French, Chirac in particular; so should be willing to consider bilateral initiatives with us, and be ready to accommodate the Prime Minister's political needs pre-election. But he is not looking for a new strategic alliance.

10. Follow-up on the German side is a perennial problem. So the Prime Minister might suggest jointly dictating key conclusions and remits to officials at the end.

AGENDA

11. Schroeder may take a cross-cutting approach to several agenda items, e.g.

(a) tackling CAP reform and the biotech/genetic engineering elements of Stockholm through the prism of consumer protection. The more we can offer a joined-up European policy which helps him domestically to win back public confidence post-BSE, the more likely he is eventually to sign up to the kind of CAP reforms we want (Joyce Quinn's talks this week with the new Ministerial team at the German Ministry of Consumer Protection, Food and Agriculture suggest that they are keen to work more closely with us);

(b) on other EU issues, he may look to cut political deals. Transition periods on free movement are an important part of his strategy to defuse enlargement as a potential Opposition issue in the 2002 elections. He should have been briefed on the sensitivity for us of any early move to formalise the Eurogroup as an Enhanced Co-operation with strengthened powers over fiscal and tax policy;

(c) his meeting with Putin (6-7 January) appears to have had a significant impact. So Schroeder may take a cooler, Russia-centric approach to NMD and NATO enlargement. He remains sceptical of American arguments on NMD, and may suggest Europeans jointly press caution on Washington. But he is enough of a realist not to oppose Bush outright. He may therefore argue that Putin can't swallow both NMD and NATO enlargement to the Baltics; and that ruling out the latter for the time being might be linked to EU membership.

12. I have written separately on what Schroeder might mean by his newly found commitment to European integration. In brief, he probably does not want integration for visionary or economic governance reasons. But he does want an enlarged EU to be capable of making decisions in a timely and effective manner; and has become convinced that "integration" (certainly QMV, but perhaps not the full Community method) is the best way to achieve that. One consequence is that, as Roger Liddle has minuted, any Second Chamber of National Parliaments enforcing a statement of principles on competences/subsidiarity needs to be sold to him as more community method than greater inter-governmentalism. A real prize would be to get Schroeder to task Steiner/Silberberg to produce a joint paper with Sawers/Wall on this basis.

LEVER

Sent by BERLIN on 26-01-2001 11:59
Received by No10 on 26-01-2001 12:48

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FROM: Stephen Wall
DATE: 26 January 2001

PRIME MINISTER

(fle)

cc: John Sawers
Jonathan Powell *cf. mt*
Alastair Campbell *BUP*
Roger Liddle
Julian Braithwaite
Jeremy Heywood
Tim Livesey
David North
Sir Richard Wilson
Sir Nigel Sheinwald, UKRep Brussels
Sir Paul Lever, Berlin
Kim Darroch, FCO

**YOUR DINNER WITH CHANCELLOR SCHRÖDER:
29 JANUARY**

A perfect opportunity to get at Schröder before his Summit with Chirac and Jospin on 31 January. It is clear that the French and Germans want to mend fences (particularly the French) but are still at a loss to find common ground. Schröder slightly took people's breath away at a recent conference when he said (unscripted) that Germany was reviewing its relations with France and that Germany believed in the integrationist model of the European Union and would make this clear to the French. This last point ties in with what Schröder said to you privately before Nice and you may want to have a look at the attached note from Paul Lever in reply to my question as to what exactly the Germans mean by an integrationist approach.

In practical terms, the Germans nonetheless come close to us in their views on procedural handling of the post-Nice agenda. In particular, they want to get the process right first (ie a broad and deep debate on Europe, involving ordinary people), and stick to the four subjects agreed at Nice (competences, status of the Charter, simplification of the Treaties and role of national parliaments) and not to allow the Belgians to broaden the scope into a great debate about the final destination of the EU. They do, however, see a combination of agreement on division of competences, subsidiarity and incorporation of the Charter into the Treaties as constituting what they would call a constitution or at least the basic law of the Union. They insist on the

Charter being incorporated in the Treaties because they see this as giving the citizen rights against the overweening power of the EU institutions. They do not share our fears about the ECJ interpreting the Charter to override existing agreements reached at EU level. They think that is what the ECJ should do. They are, however, just about prepared to accept that the Charter might have to be renegotiated so that there were not glaring disparities between it and existing EU legislation. None of the German positions need be incompatible with your view on an increased role for the European Council. We have provisionally agreed to work with the Chancellery on the post-Nice agenda: you might want to confirm this with Schröder himself. You might also mention our continued interest in the Second Chamber concept: Schröder's staff seemed attracted by it.

Stockholm

We agree on the importance of a good outcome at Stockholm. Should aim to work together to deliver:

- a clear commitment to energy liberalisation by 2003;
- a unified EU capital market to help finance small firms, with agreement on the Prospectus Directive by 2002 ie a single European prospectus for issues;
- a new initiative on better regulation to make a real difference for small firms;
- an action plan for biotechnology (where we are already working with the Germans and Dutch).

EU/US Relations

You and Schröder can play the key roles in the EU in getting the EU/US relationship off to the right start. The two most important bits of this are:

- (i) European defence, where the Germans are basically sound but not quite as rigorous as us in insisting that ESDP can only become operational once the NATO arrangements are in place. Helpful to pin Schröder down on this, and to encourage the Germans to sell ESDP hard to the new Administration in Washington (we and Germany are the two best-placed partners to do this); and

- (ii) EU/US trade relations. Worth getting Schröder's view on whether we should try and get some high level political attempt (which would have to have Lamy and Zoellick up front) to solve disputes on eg FSCs and Airbus, which otherwise risk spiralling out of control and potentially damaging US commitment to the WTO. You and he could also agree on the importance of getting a new WTO Round going this year. You might float with him the idea of a joint Blair/Schröder article for the American press on the modern face of the European Union ie showing that the EU and the US share a modern defence and economic agenda as well as the old traditional values.

CAP Reform

With the developing BSE crisis in Germany and the recent resignations of the Agriculture and Health Ministers. Schröder's thinking is evolving. He thinks that the old emphasis on market support mechanisms which encourage volume production have been discredited and that the focus should be much more on ecologically sound agriculture. These ideas have so far got short shrift with the Länder (more out of fear of economic loss than ideology). Schröder's ideas could still be expensive but they give us a foot in the door for reform. The Germans are a bit nervous of working with us on this issue until they have worked through their own ideas, but they are reasonably open and you might offer to send David North (as your personal guy on agriculture) to talk things through with them. Useful too if you can sign up Schröder to stick with the Commission's CAP reform timetable of action in 2002 ie after the French elections, but no later. We do not want to make CAP reform a condition for enlargement. But equally we do not want to be landed with enlargement and an unreformed CAP and because we ought to be one jump ahead within the EU of the pressures we will anyway face from our external trading partners in the new WTO Round.

EU Enlargement

Schröder's December speech on enlargement was by and large positive for us. He has lanced the boil of the issue of free movement of people for Germany by saying that the applicants should have a transition period of around seven years (ie up to 2011 for those joining in 2004) before full freedom of movement provisions come into force. This is because demographic trends in Germany mean that they have too many people in the workforce now but will have gaps after 2011. If the Germans can resolve free movement to their satisfaction they are likely to be more relaxed about an early (2004) date for

the first wave, but they would still be prepared to let it slip to 2005 if that was necessary to ensure Poland's inclusion. The Poles, and the other applicants and some member states, do not like Schröder's line because it is discriminatory. UK support at this stage would damage our reputation. Swedish Presidency see the German position as a step forward because they think it makes it more likely that, as a *quid pro quo*, the Germans would accept a 2004 target date for the first wave. We would support the Swedes if they try at Gothenburg to go for a target date for the first wave, but it is frankly less necessary than it was six months ago given that the Commission approach and the language we secured at Nice imply the possibility of a first wave in 2004. The Germans suspect the Swedes of wanting a first wave without Poland because the Swedes think Poland will hold up the entry of their protégé, Estonia. Our position has been that we support differentiation (for you when you're ready) but that we are very keen to see Poland ready to join in the first wave.

Information and Consultation of Workers

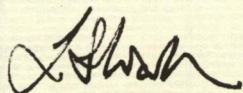
Worth mentioning to Schröder that the Swedes understand the political sensitivity of this. We have made clear to the Swedes that we will try and keep together our blocking minority. Schröder is sound. His Social Affairs Minister less so. The Chancellery promised to bring him into line.

Droit de Suite

Now in conciliation with the EP, who are trying to unravel the hard won common position of the Council. Could come to a head in April. The Germans are not on the same side as us but the Chancellery have told their Justice Ministry not to rock our boat given the political sensitivity.

Justice and Home Affairs

If time permits, worth also reminding Schröder of your initiative to combat illegal immigration and people smuggling; to thank him for the initial, positive German response at official level; and to enlist Schröder's support in keeping this issue under the spotlight with the (perhaps reluctant) Swedish Presidency.



J S WALL

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PRIME MINISTER

From: David Miliband
Date: 26 January 2001

Cc: John Sawers
Jonathan Powell
Roger Liddle

DINNER WITH SCHROEDER: THIRD WAY

Roger mentioned in his note that Schroeder may raise the Third Way summit in Stockholm, scheduled for 14 September.

Plans are now quite advanced, with the Swedes putting real effort into the organisation of something more constructive than was possible in Berlin. I think it would be a bad idea to start changing the invite list. As for Clinton's participation, you and the Swedes (at Schroeder's prompting) made it clear that he was welcome to attend. We can tackle nearer the time the question of how high a profile he should have.

The big message to get to Schroeder is that the Stockholm event will be much more practical, focussing on best practice in progressive governments.

Signed : David Miliband
26/01/2001

DAVID MILIBAND

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Offending poster: 'mug shots' of the chancellor over the words: 'Watch out, Traps'

AP

Schröder 'criminal' poster halted

By Tony Barber in Berlin

Germany's opposition Christian Democrats bowed to a storm of indignant protests yesterday and withdrew a political poster that implicitly suggested Chancellor Gerhard Schröder was guilty of criminal activity.

The poster attacked the chancellor's efforts to reform the German state pension system by showing three police-style photographs of him above the slogan "pension fraud" and the words "file number 1999, file num-

ber 2000 and file number 2001".

The poster drew condemnation from all other main political parties, and from some CDU politicians, as tasteless and even dangerously provocative in a country where prominent politicians have occasionally been the targets of assassination attempts.

The ruling Social Democrats called the poster "disgraceful", and the liberal Free Democrats said it had touched "a new low in political culture".

Laurenz Meyer, the CDU's

general secretary, who launched the campaign on Tuesday, hastily called it off yesterday but insisted the poster had been misunderstood. German pensioners had indeed been betrayed in the three years since Mr Schröder became chancellor, he said.

The CDU is replacing the poster with another one showing Albert Einstein, the late scientist, and Walter Riester, Mr Schröder's labour minister. The new slogan reads: "This one can explain the world, the other one can't explain pensions."

Party drops Schröder 'thief' poster

By TOBY HELM
IN BERLIN

GERMANY'S opposition Christian Democrat Union was forced to abandon a poster campaign depicting Gerhard Schröder as a criminal yesterday after an impassioned protest from the Chancellor's wife.

Doris Schröder-Kopf, 37, accused the CDU of breaching acceptable norms of political combat when it portrayed her husband as a thief wanted by police for swindling the German population out of its pension rights.

"The limit has been crossed," she protested. The poster showed three "wanted" pictures of the Chancellor — two of them gruesome shots in profile — next to the words "Stop the pension fraud".

As part of its pre-election poster war, the CDU hoped that the image would bolster its campaign against government reforms of the German pension system.

The changes aim to contain the state's ballooning pension bill by encouraging people to take out private policies and by cutting what they will receive direct from government.

The CDU, sensing a populist issue, is claiming that the reforms will cheat future pensioners out of their dues and make them poorer.

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SCHROEDER AND EUROPEAN INTEGRATION

Schroeder's Background

Before becoming Chancellor Schroeder had never served in the Federal Government. Although as Minister President of Lower Saxony he was aware of the EU dimension to politics, he was never involved in EU policy formation or in the workings of its institutions. Nor did he show any personal interest in European issues. At one point in the last Bundestag election campaign he flirted with the idea of coming out against the Euro, but decided that there was not enough domestic political mileage in it. He sees himself essentially as a German, not a European, politician.

And one from a new generation. The language which his predecessor Helmut Kohl used about Europe ("a question of peace and war"), and the notion that because of its history Germany has to be bound in Gulliver-like to European institutions otherwise it will run amok, is alien to Schroeder.

Schroeder therefore brings no historical or emotional Euro-baggage with him. He is not someone whose political life has been shaped by the ideals of the EU's founding fathers or by any specific "vision thing". His thinking about Europe and about the EU's future reflects largely, if not exclusively, his experiences of 2¼ years in government.

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His Underlying Concern: Making Things Work

Schroeder sees European integration as a tool for ensuring that necessary policy decisions are taken in a timely and effective way, not as a political end in itself. His underlying worry is that as the EU expands its membership, it will not, unless it reforms its structures, be able to take such decisions. He shares therefore the concerns of Joschka Fischer and others that unless "widening" is accompanied by "deepening" it won't work. Hence his enthusiasm for Qualified Majority Voting. Schroeder believes that without it, decisions which are needed for the success of the EU's policies will become difficult, if not impossible.

Integration, or deepening, for Schroeder is therefore essentially about process, less about content.

The Monnet Method

Schroeder is probably not personally committed to the classic structures as the only way of getting things done. Indeed, he has sometimes expressed frustration with them (for example, he once noted that it was unsatisfactory that the Commission had the responsibility for taking decisions on issues like state aid or competition without the obligation to defend or explain those decisions politically). But he has probably accepted the advice of his key officials (Steiner and Silberberg) that this is the best that is realistically on offer.

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RESTRICTED**How Much Harmonisation?**

Schroeder has shown no signs of wanting to give the European Union more competence. His political position, and his personal background, incline him to support an active role for the state in social policy (ie he believes firmly in the values of the German social market economy model). He thinks that for the Euro to succeed, some degree of compatibility between tax rates and social standards is desirable. But he is essentially focussed on indirect taxes, particularly corporation tax rates and structures. And he would not favour complete harmonisation: rather, as with VAT, an understanding on the brackets within which tax rates would be set. He is opposed to any EU competence on direct taxation or in fields like social security, education or health. He does not favour a "big budget" Europe.

Intergovernmentalism

Schroeder's criticisms of intergovernmentalism reflect his conviction that the requirement for unanimity in decision taking will critically hinder the EU's ability to act. So he wants QMV even in areas like foreign policy or justice and home affairs (he would probably have given up the German veto on asylum at Nice if other partners had been willing to sacrifice their own concerns). But this does not mean that he favours applying the classic community method to these areas of activity. His vision of an EU foreign policy is that of national

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governments cooperating closely to take common action and being prepared to decide things by QMV in order to do so, rather than of a future in which national foreign ministries would not exist and in which the Commission, or the Council Secretariat, would represent the EU abroad.

A European Constitution

Schroeder shares the concern that, if the EU is to prosper, it needs to connect better to its citizens. The issue of democratic legitimacy is for him crucial. In Germany's history the only successful democratic structure has been the Federal Republic, based on a written Basic Law (Grundgesetz) which defines the functions of the State and the relationship of the State to its citizens.

This Basic Law is taught in German schools. Most, at least educated, Germans are familiar with it. It is widely respected. The Constitutional Court which the Basic Law established is one of the most revered institutions in Germany. There is no disposition in Germany to challenge the appropriateness of judges issuing rulings on matters which might be thought to be more suitable for political rather than legal decision. Just as the German electorate is content for fundamental decisions to be taken by its Parliament (there was little pressure for a referendum on the Euro), so too is it content for the Constitutional Court to strike down legislation which the Parliament has passed.

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Hence Schroeder's belief that a constitution for Europe will enhance democratic legitimacy and "carry the people with us".

His enthusiasm for including in this constitution the Charter of Rights is part of this approach. Just as German citizens see the Basic Law as guaranteeing their rights, so too, in Schroeder's view, would the European public feel more secure if there was an EU document guaranteeing their rights as EU citizens. He has probably not thought through the problems that could arise if judges were left with the task of interpreting a Charter which had been drafted in a political context. (Silberberg, by contrast, does see this as a potential problem. In the past he argued that the UK should have nothing to fear from a non-binding Charter of Rights, because before it could ever be given legal force "every i would have to be dotted and every t crossed in the time-honoured IGC fashion".)

Delimitation of Competences

Schroeder's enthusiasm for the delimitation of competences reflects both his concerns about democratic legitimacy and his need to take account of the views and interests of the German Länder. The latter are worried that developments in European integration could lead to the erosion of competences which under the German Constitution currently lie with them (eg health, education and cultural policy); and they want in certain fields to escape from the full rigour of internal market/state aids/competition disciplines.

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Schroeder's observation to the Prime Minister that his own personal instincts are intergovernmental, but that he had concluded that Germany's interest lay in the integrationist approach should be taken at face value. He is not by nature a Euro-visionary. But in office he has seen how many of the key decisions relevant to Germany's prosperity and security are taken at the European level; and he views integration as a means of ensuring that these decisions are taken in a timely and effective fashion. Although Germany is more frequently outvoted in the Council of Ministers than Britain, it is rare for an EU decision or policy to provoke outrage on the part of German public opinion (although a proposal by the European Council for harmonised speed limits on European motorways probably would have this effect!). Hence Schroeder has probably not given much thought to the underlying dilemma in his position, namely: how can democratic legitimacy be reinforced if there is more scope for decisions to be taken against the will of a national parliament?

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CONFIDENTIAL

From: Roger Liddle
Date: 25 January 2001

PRIME MINISTER

cc: Jonathan Powell
Jeremy Heywood
John Sawers
David Miliband
Sir Stephen Wall
Martin Donnelly
Robert Cooper
Sir Paul Lever
Policy Unit

YOUR DINNER WITH SCHROEDER: THOUGHTS FROM MY BERLIN VISIT

Discussions with the Chancellery (Novak, Pfaffenbach and Bucksteeg), German politicians and attendance at the Bertelsmann International Forum have given me a useful insight on the **Future of Europe and our relations with Germany** in advance of your dinner with Schroeder on January 29th.

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So to build a closer relationship with Germany, there is **a dissonance we have to find a way of resolving.** On the detail of the post-Nice agenda it is evident from our earlier talks with Steiner and Silberberg that there is much practical common ground. But on the presentation, the German attachment to "integration" creates a gap.

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We will face real difficulties with Schroeder if we maintain our opposition in principle to incorporation of the Charter right up to 2004.

Equally the Germans see a **clearer definition of competencies as in line with the German concept of "federalism"**. And this is how they will describe it! There is recognition, outside the Chancellery as well as in it, of the difficulties of drawing up a "competence catalogue". But that will not deflect the Germans from seeking a mechanism that enforces greater subsidiarity. Your Warsaw speech proposes potentially attractive mechanisms for doing just this job : the strategy setting role for the European Council; a Statement of Principles and a new Second Chamber of National Parliament to enforce it. **But the Germans will not endorse these ideas if they are sold to them as moves towards greater inter-governmentalism or a weakening of "the Community method"**.

- **Germans are deeply attached to the notion that democratic legitimacy flows from Parliament, not Government.** Our political culture has become pretty accepting of a degree of “elective dictatorship” between General Elections. For understandable reasons of history, Germans are reluctant to accept the idea that Leaders and Heads of Government are the only font of democratic legitimacy. So for them, stressing the importance of the European Council must be matched by **dutiful obeisance to the role of the European Parliament, even though respect for the institution is low in Germany,** and the links between the EP and German national politics are if anything, weaker.

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Building a long-term alliance means we must avoid making claims and staking positions that in time Schroeder will be forced to contradict. In the election, it is desirable, if we can, to avoid extravagant claims that intergovernmentalism is triumphing over federalism; still less over integration. A better line may be that there are competing visions of Europe where

differences of language are often starker than those of substance, but that you proved at Nice how through a policy of constructive engagement, you can strike compromises that are totally justifiable in our national interest.

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ROGER LIDDLE

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f.t.

Roger

*I think of the note from
the boys I had on the list (that be
PRIME MINISTER*

**From: Roger Liddle
Date: 25 January 2001**

**cc: Jonathan Powell
Jeremy Heywood
John Sawers
David Miliband
Sir Stephen Wall
Martin Donnelly
Robert Cooper
Sir Paul Lever
Policy Unit**

are on the same track (Jan p. 7).

*We have to say 'celebrate' having the new
of 'and for us. My line is that whatever the way
nature is called it will still be a treaty between*

foreign government is not a celebration & the enunciation see us.

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*We need to be a double approval. Hence we shall have
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2/1/2001*

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From The Ambassador

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British Embassy
Berlin

Wilhelmstraße 70
10117 Berlin

Tel: +49 (30) 204 57-0

Sir Paul Lever

25 January 2001

Sir Stephen Wall
Cabinet Office

Dear Stephen,

*Clarifying German views on
Integration vs Intergovernmentalism*

WHAT DO THE GERMANS MEAN BY INTEGRATION?

1. Thank you for your letter of 23 January.

2. I can understand why you ask the question. I wish I could offer a confident reply. Alas, I confess to feeling pretty confused myself. Schroeder's comments on the future of the EU do not reflect any very consistent line. His professed enthusiasm for classic integration à la Monnet is rather new. And, as you note, when Michael Steiner talks about Europe he sometimes uses terminology (intergovernmentalism, directives etc) rather loosely. The attached paper is an attempt to shed some light on Schroeder's thinking and the reasons which lie behind it. But I only hope that the Prime Minister will get a clearer picture on Monday.

Yours E:EI

Paul

cc: Michael Arthur, Director for EU and Economic Affairs, FCO
Kim Darroch, Director - EU
Sir Michael Jay, Paris
John Sawers, No 10

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SCHROEDER AND EUROPEAN INTEGRATION

Schroeder's Background

Before becoming Chancellor Schroeder had never served in the Federal Government. Although as Minister President of Lower Saxony he was aware of the EU dimension to politics, he was never involved in EU policy formation or in the workings of its institutions. Nor did he show any personal interest in European issues. At one point in the last Bundestag election campaign he flirted with the idea of coming out against the Euro, but decided that there was not enough domestic political mileage in it. He sees himself essentially as a German, not a European, politician.

And one from a new generation. The language which his predecessor Helmut Kohl used about Europe ("a question of peace and war"), and the notion that because of its history Germany has to be bound in Gulliver-like to European institutions otherwise it will run amok, is alien to Schroeder.

Schroeder therefore brings no historical or emotional Euro-baggage with him. He is not someone whose political life has been shaped by the ideals of the EU's founding fathers or by any specific "vision thing". His thinking about Europe and about the EU's future reflects largely, if not exclusively, his experiences of 2¼ years in government.

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His Underlying Concern: Making Things Work

Schroeder sees European integration as a tool for ensuring that necessary policy decisions are taken in a timely and effective way, not as a political end in itself. His underlying worry is that as the EU expands its membership, it will not, unless it reforms its structures, be able to take such decisions. He shares therefore the concerns of Joschka Fischer and others that unless "widening" is accompanied by "deepening" it won't work. Hence his enthusiasm for Qualified Majority Voting. Schroeder believes that without it, decisions which are needed for the success of the EU's policies will become difficult, if not impossible.

Integration, or deepening, for Schroeder is therefore essentially about process, less about content.

The Monnet Method

Schroeder is probably not personally committed to the classic structures as the only way of getting things done. Indeed, he has sometimes expressed frustration with them (for example, he once noted that it was unsatisfactory that the Commission had the responsibility for taking decisions on issues like state aid or competition without the obligation to defend or explain those decisions politically). But he has probably accepted the advice of his key officials (Steiner and Silberberg) that this is the best that is realistically on offer.

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How Much Harmonisation?

Schroeder has shown no signs of wanting to give the European Union more competence. His political position, and his personal background, incline him to support an active role for the state in social policy (ie he believes firmly in the values of the German social market economy model). He thinks that for the Euro to succeed, some degree of compatibility between tax rates and social standards is desirable. But he is essentially focussed on indirect taxes, particularly corporation tax rates and structures. And he would not favour complete harmonisation: rather, as with VAT, an understanding on the brackets within which tax rates would be set. He is opposed to any EU competence on direct taxation or in fields like social security, education or health. He does not favour a "big budget" Europe.

Intergovernmentalism

Schroeder's criticisms of intergovernmentalism reflect his conviction that the requirement for unanimity in decision taking will critically hinder the EU's ability to act. So he wants QMV even in areas like foreign policy or justice and home affairs (he would probably have given up the German veto on asylum at Nice if other partners had been willing to sacrifice their own concerns). But this does not mean that he favours applying the classic community method to these areas of activity. His vision of an EU foreign policy is that of national

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governments cooperating closely to take common action and being prepared to decide things by QMV in order to do so, rather than of a future in which national foreign ministries would not exist and in which the Commission, or the Council Secretariat, would represent the EU abroad.

A European Constitution

Schroeder shares the concern that, if the EU is to prosper, it needs to connect better to its citizens. The issue of democratic legitimacy is for him crucial. In Germany's history the only successful democratic structure has been the Federal Republic, based on a written Basic Law (Grundgesetz) which defines the functions of the State and the relationship of the State to its citizens.

This Basic Law is taught in German schools. Most, at least educated, Germans are familiar with it. It is widely respected. The Constitutional Court which the Basic Law established is one of the most revered institutions in Germany. There is no disposition in Germany to challenge the appropriateness of judges issuing rulings on matters which might be thought to be more suitable for political rather than legal decision. Just as the German electorate is content for fundamental decisions to be taken by its Parliament (there was little pressure for a referendum on the Euro), so too is it content for the Constitutional Court to strike down legislation which the Parliament has passed.

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Hence Schroeder's belief that a constitution for Europe will enhance democratic legitimacy and "carry the people with us".

His enthusiasm for including in this constitution the Charter of Rights is part of this approach. Just as German citizens see the Basic Law as guaranteeing their rights, so too, in Schroeder's view, would the European public feel more secure if there was an EU document guaranteeing their rights as EU citizens. He has probably not thought through the problems that could arise if judges were left with the task of interpreting a Charter which had been drafted in a political context. (Silberberg, by contrast, does see this as a potential problem. In the past he argued that the UK should have nothing to fear from a non-binding Charter of Rights, because before it could ever be given legal force "every i would have to be dotted and every t crossed in the time-honoured IGC fashion".)

Delimitation of Competences

Schroeder's enthusiasm for the delimitation of competences reflects both his concerns about democratic legitimacy and his need to take account of the views and interests of the German Länder. The latter are worried that developments in European integration could lead to the erosion of competences which under the German Constitution currently lie with them (eg health, education and cultural policy); and they want in certain fields to escape from the full rigour of internal market/state aids/competition disciplines.

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Conclusion

Schroeder's observation to the Prime Minister that his own personal instincts are intergovernmental, but that he had concluded that Germany's interest lay in the integrationist approach should be taken at face value. He is not by nature a Euro-visionary. But in office he has seen how many of the key decisions relevant to Germany's prosperity and security are taken at the European level; and he views integration as a means of ensuring that these decisions are taken in a timely and effective fashion. Although Germany is more frequently outvoted in the Council of Ministers than Britain, it is rare for an EU decision or policy to provoke outrage on the part of German public opinion (although a proposal by the European Council for harmonised speed limits on European motorways probably would have this effect!). Hence Schroeder has probably not given much thought to the underlying dilemma in his position, namely: how can democratic legitimacy be reinforced if there is more scope for decisions to be taken against the will of a national parliament?

Does Schroeder equate integration with EMU?

*Why does he see integration + inter-Governmentalism
as alternatives?*

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FOREIGN SECRETARY'S TALKS WITH THE GERMAN FOREIGN
From: FCO

TO IMMEDIATE BERLIN
TELNO 16
OF 242008Z JANUARY 01
INFO IMMEDIATE OTHER EU POSTS, NATO POSTS, ACTOR, WHIRL

FROM PRIVATE SECRETARY
MINISTER, 24 JANUARY - EU ISSUES

SUMMARY

1. Agreement to work together on the post-Nice agenda. Fischer sees some merit in combining a Convention process with wider public consultation, but ready to compromise. Fischer says Germany could not accept Poland not being in the first wave of enlargement but agrees with the Foreign Secretary that we should keep up the pressure on the Poles to meet accession requirements. Fischer underlines firm German position on seven-year transitional period for Freedom of Movement. Exchange on ESDP: hope that US will put pressure on Turkey.

DETAIL

POST NICE AGENDA

2. The Foreign Secretary said he was anxious to keep the focus on Nice ratification. Nice had produced important achievements for the EU. He hoped UK and Germany could work together on the post-Nice agenda, which was ambitious enough as it was: he was worried by suggestions from eg the Belgians that the agenda should be expanded. There should be wide public consultation leading up to 2004, and we should try to agree on the process by Gothenburg. Governments, and in particular the GAC, had to steer the agenda and the process: we should include national parliaments in the debate but not hand over responsibility to a Convention as had happened over the Charter. Perhaps there could be a gathering of national parliamentary representatives: but preparation of texts should be for governments and Ministers. He mentioned the Prime Minister's Second Chamber proposal.

3. Fischer said Nice was a success though public opinion eg in Germany had seen it as falling short of its objectives. It was important that we should not convey a message that France had failed. Not all ambitions had been achieved but Nice had opened the way for enlargement and the post-Nice process. He welcomed the idea of bilateral co-operation on the post-Nice agenda, bearing in mind that public debate in our two countries had different perspectives. He expected ultimately a big majority for Nice ratification in the Bundestag and the European Parliament. The German government was under pressure from the opposition and the Laender on the issue of definition of competences. Fischer saw merit in certain aspects of the Convention process: it was important to bind in national parliaments and the EP. Parliaments would produce draft documents anyway whatever governments said they wanted. Possibly the process could be combined with one of public consultation. Germany was ready for compromise on the mechanism to be employed. But Fischer thought if we did not give parliaments a role then there would be serious problems at least in Germany and some other countries. The competence debate was important if the EU22-plus was to function effectively and to have democratic legitimacy. The accession states

should be involved in the debate even if they were not members by 2004. He urged the Foreign Secretary to include national parliaments and the EP in the mechanism while maintaining the GAC role.

ENLARGEMENT

4. The Foreign Secretary said we wanted Poland in the first wave if it was really ready for membership. But this should not hold others back. The best way to put pressure on Poland was to say that we would go ahead without them if necessary.

5. Fischer said with some vehemence that the Swedes didn't want Poland in the first wave: this would be unacceptable to Germany. He agreed we should put pressure on Poland to ensure it did not relax its preparations but exclusion of Poland from the first wave would create real problems in the region. He went into a short historical diversion about the relevance of Poland to the outbreak of World War II and the involvement of Germany, France and Britain; the Poles had never surrendered; and Solidarnosc had paid a key role in breaching the Iron Curtain. The Poles would feel betrayed if they were not in the first wave. It would be a historical mistake not to have them in. The Swedish emphasis on Baltic State membership was misguided. The Foreign Secretary said others eg the Czechs and Hungarians might feel they were betrayed if we delayed membership so that Poland could be in the first wave.

6. Fischer said France and Spain were not so keen about Polish membership because of the CAP and structural funds. We should discuss the issues with them. He appreciated the very important signal made by Vedrine in Warsaw last week when he said Poland must be in the first wave. We should cooperate in putting pressure on Poland. The Foreign Secretary said he understood that partners more protectionist than us saw real problems about the CAP.

7. Ambassador Von Ploetz said we should look together at the agricultural issues, focussing on northern products: he knew the UK had already done some useful work on this.

FREEDOM OF MOVEMENT

8. In answer to the Foreign Secretary's question on the German attitude, Fischer said Schroeder had made a firm announcement about the need for a seven-year transition period. There was no scope for compromise on this from the German point of view though he could envisage incorporating a review mechanism. Fischer himself thought the problem was much more apparent than real (as were Polish fears that Germans would return with chequebooks and buy up the country). Schroeder had to be firm on this issue to keep the domestic debate under control; and the SPD stood to lose out if he didn't. Austria was in the same position as Germany. He would welcome UK support on this.

9. Jessen (Auswaertiges Amt) suggested other countries could adopt different transitional conditions on freedom of movement if they wished: the Foreign Secretary said this could in turn encourage euro sceptics in other countries; Fischer said it would be best to have the rules applied generally throughout the EU.

ESDP

10. The Foreign Secretary raised the Turkish impasse. Nice had been good on ESDP but the NAC had been depressing. His instinct was that Cem would settle but had no leeway from Ankara. It was very

important that we made progress before the Spring NAC. This would entail guaranteed access to NATO planning capabilities for the EU. Private assurances to the Turks about their security might help unlock the problem but possibly this was not the real issue and they would demand more. In telephone conversations with Colin Powell the latter had been quite robust on ESDP. The Foreign Secretary thought it would be in the US interest for the EU to build up its defence capabilities if the US wanted to extricate itself from Balkan involvement. The US government was in a crucial position to influence the Turks, who might have been delaying to await the incoming administration. We should press the US to get the Turks to budge.

11. Fischer said the Turks feared a situation where the Greeks would have vetoes in both the EU and NATO. But he could not accept that Turkey could use NATO as a lever to open the door to the EU (the Foreign Secretary agreed): this would play very badly in Germany and the government would have to be very strict on this. Scharioth (Political Director) pointed to differing views within the US administration, with Powell more understanding of EU views than Rumsfeld. We needed to work on the Pentagon. Armitage (prospective Deputy Secretary of State) had influence in Turkey and could be helpful.

PRESIDENCY ARRANGEMENTS

12. Fischer noted that according to the predicted schedule, Germany would have the EU Presidency in the second half of 2006: but this would be a bad time because it would clash with the German elections. Jones Parry pointed out that enlargement might lead to a changed schedule anyway. The Foreign Secretary noted that the question of Presidency arrangements should be part of the post-Nice agenda.

COOK

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10 DOWNING STREET
LONDON SW1A 2AA

FAXED

Treat as file.

From the Principal Private Secretary

24 January 2001

Dear Bernd,

NO 10 - KANZLERAMT ECONOMIC WORKING GROUP

I am looking forward to our next meeting on 13 February and the first under your stewardship. I thought it might be useful to indicate to you those areas that we for our part are interested in discussing. Along with the customary exchange of views on the economic situation in Britain and Germany, and upcoming domestic policy priorities, we would welcome a discussion on the progress reports from our experts on state aids and services of general economic interest. We might also examine areas where we can pursue joint initiatives for Stockholm. An initial discussion on the prospects for CAP reform would also be useful. Let me know if there is anything else you want to put on the agenda.

I understand that last week's meeting between Ed Richards and Johannes Kindler went well and put forward some suggestions for a joint approach on biotech sector at Stockholm. I know the Swedes and the Commission are interested in hearing our ideas in this area.

As regards participants at our talks in Berlin I will probably be joined by Roger Liddle, Derek Scott, Ed Richards, Geoffrey Norris, Martin Donnelly and Francis Campbell.

JEREMY HEYWOOD

Bernd Pfaffenbach



From The Ambassador

British Embassy
Berlin

Wilhelmstraße 70
10117 Berlin

Tel: +49 (30) 204 57-0

23 January 2001

Sir Paul Lever

Peter

① letter to Paul
Lever excellent paper
② copy to box going to
Berlin tomorrow +
David M, Tomlinson,
John Savers + David C.

Peter Wrench Esq
Deputy Director General
Immigration and Nationality
Home Office

*RK
LL
FC*

Dear Peter,

GERMANY: IMMIGRATION ISSUES

1. You are planning to visit Berlin soon to look at possible options for collaboration with the Germans in the immigration field, and at the scope for action at EU level. You might find useful in preparation for your visit the enclosed paper, prepared by Matthew Kidd, which explores changing German public attitudes to immigration issues; the links with the problem of right-wing extremism; and the implications for policy-makers here.

2. Its overall conclusions are:

- immigration will be a prominent issue in Germany between now and the federal elections in autumn 2002. The opposition think it is a vote-winner for them, so the Schroeder government will have to parry or outflank their pressure;
- public opinion is becoming readier to accept that Germany needs some immigration, though efforts at integrating immigrants are half-hearted. So, with less public neuralgia, the government has a bit more room for manoeuvre;
- Germany is in the market for collaboration with partners, at EU level or bilaterally. But we need not to assume that German attitudes start from the same point as ours.

Yours ever

Paul

cc: ✓ Roger Liddle, No 10 Policy Unit
Kim Darroch, FCO
Lesley Pallett, Home Office
Robert Brinkley, JECU
Martin Donnelly, Cabinet Office

GERMANY: CITIZENSHIP, IMMIGRATION, ASYLUM AND EXTREMISM

Summary

1. Germany no longer feels as besieged by immigrants as five or ten years ago. Numbers coming have declined. Unemployment is coming down. Proposed reform of the pension system has brought home Germany's need for newcomers to maintain its demographic profile. So minds are becoming more open to the idea of immigration.
2. But there is little steam behind efforts at integration, and much evidence of casually discriminatory attitudes. Diversity as enriching is a novel concept; German-ness as better is more prevalent. Responses to the wave of far-right violence have tended to focus elsewhere than on the attitudes to foreigners often revealed.
3. The opposition see a chance to attack the government as too soft, on immigration, asylum-seekers and the extent to which newcomers can be required to conform to German ways. A tough line in this area helped win the CDU one Landtag election. So it will feature in the run-up to the next Federal elections. The SPD seemed earlier to be in damage-limitation mode, but could try to wrongfoot the CDU by making more liberal proposals.
4. Germany might be interested in collaboration on EU-wide work on asylum or on controlling illegal immigration. They are worried about right-wing extremists' ability to operate from abroad via internet. But their underlying attitudes are some way from ours; and the domestic political background will be murky.

GERMANY: CITIZENSHIP, IMMIGRATION, ASYLUM AND EXTREMISM

1. JHA issues are rising up the EU agenda. German attitudes to them are affected by changing domestic assumptions about immigration and asylum, reflecting a society where some old certainties are ceasing to apply. Anxiety about right-wing extremism recrudescent (and with international ramifications) is a further unsettling factor. This paper looks at the figures and trends for immigration in its various forms; the correlation with far-right extremism; and the politics. It offers some conclusions about Germany as a possible partner in this area.

Demography: Immigration figures

2. At the time of the 1998 federal elections, it was still received wisdom that Germany should not be a "country of immigration". The Kohl government had done nothing to challenge that, or amend the status of the mostly disenfranchised 7-8 million foreign residents already in Germany (out of a population of 82 million). Unemployment still hovered around four million. The influx of hundreds of thousands of refugees from former Yugoslavia had intensified the public sense of Germany being under siege. Germany received more asylum applications than any other EU state.
3. But the figures were already changing. 1992, as former Yugoslavia fell apart, was the first year since 1970 (when the inflow of Gastarbeiter from Turkey was originally halted) with net immigration of over half a million. But it turned out to have been a peak: only one year since has seen an inflow of even 300,000. In 1997 and 1998 there was a net outflow (22,000 in 1997, 33,000 the following year). In 1999, thanks to Kosovo, there was again a net inflow, of 118,000.
4. So the current overall immigration figures read: total non-German population 7.9 million, or 9.0% (up from 8.4% in 1990, 4.9% in 1970); largest constituent groups Turks (27.9%), other EU countries (25.3%), former Yugoslavia (12.9%), Asia overall (11.2%); very uneven distribution among the Länder, from 15.4% of total population in Hamburg and Bremen to only 1.7% in Thüringen and Sachsen-Anhalt, with concentrations in some big cities even higher (27.9% of the population of Frankfurt, 23.9% in Stuttgart, 22.5% in Munich).
5. Most of the Bosnian refugees have now returned to Bosnia, after enormous German pressure on the donor agencies after Dayton to give priority to resettlement programmes. Few of the Kosovars who arrived last year have stayed long enough to appear a significant burden. There was even a recent story in Spiegel about a village in Niedersachsen resisting government instructions to press its Bosnian refugees to go home: they were making a positive contribution which the local community did not want to lose. Unthinkable a couple of years ago.
6. There are still widespread misperceptions: one of the CDU Deputy Fraktion leaders, Bosbach, was recently still talking of the challenge to Germany of absorbing half a million immigrants a year (remembering 1992? or just forgetting to subtract the

departures from the arrivals?). Bundestag Speaker Thierse has also described asking people in towns around Germany how many foreigners live in their communities, and getting estimates ten or twenty times the truth. But the anxiety that used to drive attitudes is no longer so urgent.

7. There is still anxiety about what EU enlargement to Central Europe may mean for immigration from new member states, especially Poland. But discussion has become a bit more rational. A series of independent reports have concluded that the likely numbers are smaller than feared. Open borders will bring economic activity to the German side of frontier areas too. Some, especially seasonal, businesses actually need casual labour eg from Poland. The asparagus-growers of Mecklenburg-Vorpommern could not get their harvest in when the Land authorities tried to prevent Poles crossing the border to pick it. The fact that jobless figures overall are now declining helps too.
8. One particular feature of Germany's immigration profile is the returning Aussiedler (descendants of German emigrants from the eighteenth and nineteenth centuries, who settled mostly in the former Soviet Union). Under German citizenship law, dating back to 1913, their descent gives these people an automatic right to German citizenship. Millions seized the opportunity of the end of the Soviet Union to come to Germany, even though many no longer speak German or have any other connection here. The flow has now declined to 100,000 per year, but the total number of returned Aussiedler is around 4 million. They do not feature in the figures for immigrants; but they present just as difficult challenges of absorption.

Asylum

9. Throughout the 1990s Germany was easily the EU country receiving the most asylum applicants. This added to the sense of Germany being under pressure; and there was resentment that other EU countries did not do more to share the burden. But the numbers are declining, thanks in part to quicker processing and to new measures for sending back applicants arriving in Germany from 'safe' third countries. There were 99,000 in 1998, 95,000 in 1999, and 78,500 in 2000. The UK now receives more applicants than Germany.
10. There is widespread public belief that only a tiny minority of claimants are granted asylum; the rest must, ergo, be chancers out to exploit German social benefits. In fact, the proportion of those allowed to stay is nearly a half: some directly under German law as victims of political persecution; more as refugees under the Geneva Convention; and as many given temporary leave to remain because of conditions in their countries of origin (Bosnia, Somalia, Afghanistan etc). But the process can take years, with scope for repeated appeals as far as the Constitutional Court. Since 1996 applicants have not been allowed to work while their cases were being processed. Labour Minister Riester has recently lifted this restriction, without creating any outcry: the balance of anxiety between their being a burden on the tax payer and their grabbing jobs has swung back again.

Demography: long-term trends

11. Germany's indigenous population is sinking. There have been fewer births than deaths in Germany over every one of the last ten years, with a total deficit of nearly 770,000. Two developments have brought this home. One has been the government's attempt to reform the pension system. To explain the unwelcome need for reform, they have needed to make clear the changing balance between working-age and retired population over the decades to come. The other was a big alarmist story in Spiegel a year ago about Germany's population declining by up to three quarters over the next century.
12. Spiegel's figures are indeed startling. In Germany's current population of 81.7 million, the ratio of those aged 15-64 to those over 65 is 4.4:1. On present trends, with no net immigration the population would decline by 28% by 2050 (to 58.8 million). There would need, according to Spiegel, to be average annual immigration of 324,000 until 2050 to leave the same overall population then as now.
13. But that would not achieve maintenance of the 4.4:1 ratio. With no immigration, the ratio would drop to 1.8:1 by 2050, or one person in three over 60. With enough immigration to maintain overall population, the ratio would still be only 2.3:1. To sustain 4.4:1 against the trend of longer living, there would according to Spiegel need to be average annual immigration of 3.4 million, leading to a total population by 2050 of 299 million.
14. Projections of this sort may be sensational rather than scientific. But they change attitudes, and the climate of political debate. The notion of a Germany comfortably self-sufficient in its long-term demography has been severely shaken. That is likely to help the government get its pension reforms through (chalking up another modernising success for them). Even the CSU now take it for granted that Germany will need some immigration in the future, despite Stoiber's cheery efforts to raise the birth-rate by promising more generous child allowances.

Citizenship

15. The Red-Green government has also shaken up assumptions about the criteria for being German. A new citizenship law was one of the first of its projects to come a cropper. Fuelled by Green idealism, and a SPD eye to a possible new source of voters, the first draft, at the end of 1998, proposed radically more generous provisions for foreigners resident or born in Germany to acquire German citizenship, and even hold it and another nationality together. It went too far for public opinion; the CDU spotted an opportunity, and based their winning campaign for the Hessen Landtag in February 1999 on opposing it; and the law eventually agreed was well watered-down. But the process prompted public questioning of the 1913 legislation, and drew some attention to the economic benefits (jobs created, taxes paid) brought by some of the long-established immigrants. One effect of the

CDU's campaign was to polarise those uncomfortable with it to stronger questioning of old assumptions.

16. The new legislation has been in force since January 2000. Occasionally there are small press articles noting that applications for citizenship from those newly entitled have been fewer than expected. There is a tone of puzzlement, almost of hurt pride. Even though the cost of applying, and the German language test, are probably the main disincentives, one hears hints that the low take-up reflects a lack of readiness to integrate with the host society. Ironic, really. (In 1999, the last year before the new law, there were 143,300 grants of citizenship to long-standing immigrants, up by a third on 1998. 72.5% were of Turkish origin, then 4% each of Moroccans and Bosnians.)

Green Cards for Computer Experts

17. A subset of recognition that Germany will need some immigration has been pressure from business to make it easier to fill certain skills gaps (especially in IT) by allowing in foreign experts. Schroeder seized on this and announced last March a scheme for "Green Cards" for computer specialists, up to 20,000. This was initially resisted by parts of the CDU (despite the enthusiasm of the business sector) and by some trade unions. The CDU leader in the NRW Landtag elections in May coined the infamous slogan Kinder statt Inder (children not Indians), hoping it would repeat the CDU's success in Hessen. But it did not.
18. The scheme has been in operation since August, and is already taken for granted. The low take-up (only 3000 until November) has been greeted with some of the same hurt pride as over citizenship (the main factors are probably that the cards are time-limited and do not extend to families). But there is also growing recognition that this is a market in which Germany has to compete to attract the best. That's a long way from being under siege.

Right-Wing Extremism

19. The spate of incidents last summer of far-right violence cast light on the immigration debate from another direction. Most of them had an anti-foreigner or anti-Jewish character. A disproportionate number of them took place in eastern Germany, though they have increased elsewhere too. There is a striking negative correlation between concentrations of incidents and of immigrant population: the Länder with the fewest immigrants have some of the worst records. Incidents have included stonings, arson, nail-bombs, graffiti attacks on synagogues, and several beatings to death.
20. They were prominently reported in the media, especially over the summer season; and they prompted a renewed bout of soul-searching about how Germans relate to others in their society. Ministers, including Joschka Fischer, warned of the effect on Germany's attempts to attract investment and expertise from abroad (including

Green Card applicants). A protest march to the Brandenburg Gate on 9 November attracted several hundred thousand participants.

21. How big the increase has been is a matter of dispute. Different agencies and different Länder have used different counting rules. But there seems to be reasonable consensus within the police (a) that 1999 figures were exceeded by around 20%, and (b) that incidents tend to be under- rather than over-estimated.
22. Government at various levels has been developing projects in response: notably, a programme of youth employment measures; an attempt to get the Constitutional Court to ban the NPD, one of the three far-right political parties; and efforts to encourage public involvement. The move against the NPD, in particular, has generated lots of column inches and political debate. But there is conspicuously less sign of enthusiasm for tackling two other angles to the problem: extremists' use of the internet as a communication and recruiting tool; and racial prejudices.

Discriminatory attitudes

23. It is always hard to generalise about attitudes in this area. It is notoriously one on which people are less than honest with pollsters. But evolving attitudes to immigration in principle are not being much reflected in changing approaches to non-Germans. As Vural Öger, Germany's most successful Turkish businessman, put it at a seminar we held in the Embassy in December, "it's not an access of humanitarian feeling that is changing German attitudes, but perceived economic needs".
24. Before reunification, both Germanies imported cheap labour, but supposedly for limited periods, so made little effort to bring the Gastarbeiter into the community. The yearning for a homogenous community which had led to the Holocaust had not disappeared: still has not, say some. The former East Germans have also come through reunification with a tendency to be suspicious of all outsiders, including (perhaps especially) the Wessis. Many Wessis, on the other hand, seem to think that integrating the Ossis is as much of a challenge as their society can be expected to take on, let alone anyone else.
25. As became clear at our Embassy seminar, the landscape of the debate is quite different in Germany from in the UK. There is none of the anti-discrimination legislation we in the UK have had since the 1970s, nor consequently of the learning process it imposes. It is not unusual here to hear casually discriminatory remarks about immigrants, and Jews, even from people who would think of themselves as belonging to liberal elites. Attitudes to mixed marriages (Boris Becker's a current example) and to child abduction cases tend to betray an (ironically almost Atatürkist) assumption, even among the judges trying them, that German-ness is exclusive, and better. The idea that cultural and ethnic diversity can enrich rather than threaten is still novel. The debate is conducted more in terms of whether

particular administrative obstacles (eg work permits) can be lifted for immigrants, or privileges extended.

26. The old citizenship law has provided one encouragement to develop this sense of Germanhood. Other causes are not so easy to identify. Germany does not have a long tradition as a single nation (any more than Italy); or defining characteristics like long-standing natural borders or institutions, or a single religion. Regional identities are strong, and might be expected to compete with German-ness. Two generations of division might have undermined it too. Hence, perhaps, the stress on cultural factors: the need for immigrants to master the language; and the pride in literary, musical, philosophical traditions. A national identity based on culture, old-fashioned personal virtues, community, and explicitly rejecting national political interests, has seemed to offer the best way of leaving the Nazi experience behind. But it is not a good basis for making outsiders welcome.

Political consequences

27. So: public assumptions often unenlightened, but under pressure from several directions: demography; the economy's need for IT experts; rampaging hooligans. How have the politicians responded? At first, the CDU saw an opportunity. The CDU victory in Hessen in February 1999 seemed to confirm how chauvinist the man in the street was. But nationality was not a significant theme in the series of SPD defeats later in 1999. And 'Kinder statt Inder' fell flat in May 2000.
28. That helped the SPD recover their nerve. Until summer 2000 they still seemed to be thinking only in terms of neutralising the CDU's scope for causing trouble. Schroeder set up a Commission to examine possible changes to the law on immigration and/or asylum, and succeeded in persuading a CDU former Minister, Rita Süßmuth, to chair it. It was given plenty of time: report in a year, for possible action after 2002, seemed to be the game-plan. That fitted in with a broader SPD hankering after seeing pension reform through, then battening down the hatches for the rest of this legislature. But the CDU sought through the autumn to raise the temperature, still seeing a vote-winner in immigration. So there are now increasing hints from the SPD of legislation of some kind already in 2001, to settle the issue before the Federal elections.
29. There are three key questions for the parties to differentiate themselves on:
- immigration: how easy or difficult to make it? quotas? how far could or should Germany try to pick and choose its immigrants? how open to be to family reunifications? are time-limited Green Cards a model to apply more widely?
 - asylum: whether or not to amend the existing constitutional rights to asylum, perhaps to raise the barriers to so-called economic migrants? whether administrative procedures can be further tightened or speeded up? whether

and how to pursue a common EU approach, towards burden-sharing or police-work? whether pull-factors can be further neutralised?

- integration, of both immigrants and asylum seekers: how far can Germany insist on new arrivals learning, or already having, German? how high can standards be set? how active a degree of commitment to German culture or constitution can be required? how much scope for immigrant communities to retain their own cultural identity and practices?
30. As usual, the debate is spawning catchwords. For immigration, 'Germany is/is not an immigration country'; and the nasty "überfremdet" (over-foreigned). 'The boat is/is not full' for asylum. Under integration, the CDU has coined two: 'parallel societies', aka multiculturalism, both in CDU eyes undesirable; and 'Leitkultur', for which the best translation seems to be 'dominant culture'. This was CDU Bundestag Fraktion Leader Merz's contribution, apparently unpremeditated in answer to a question; it has had a sharply polarising effect.
 31. The CDU/CSU are still setting the pace. For the CSU, it is easy: they want immigration quotas (favouring Europeans), replacement of individuals' right to asylum by an 'institutional guarantee' (to limit the scope for appeals), and no parallel societies. They have no discomfort with 'Leitkultur'. In the CDU, there is a wider range of opinions to bring together. Merz and Hessen Minister-President Koch are towards the right-hand end of the range, Saarland Minister-President Müller (chairman of the CDU's own working party on this issue) and party vice-chairman Rühle towards the left; Merkel has not showed her colours. So far, they have all felt pretty free to advance their own lines and disagree publicly with each other, both on the principles and the issue's suitability as an election theme.
 32. Some expected that EU policy would split the CDU after the forced unity of the Kohl era; in fact, immigration has been more divisive. But they will need to settle on a policy soon if they are to use it against the SPD. Merz may well not be far from the point of balance: tightened procedures or quotas for both immigrants and asylum-seekers (but probably no attempt to change the constitution); a sprinkling of Leitkultur and no multiculturalism.
 33. The SPD will need a policy that can hold the line against the CDU, if they cannot engage them in a search for consensus. At this stage, they talk only in terms of possible legislation, possibly covering both asylum and immigration. They appear to be thinking in terms of tidying up current arrangements, rather than significantly tightening them. If only in revulsion to Leitkultur, they may propose flanking measures to promote integration and combat xenophobia. They will want to argue that they are furthering a modern Germany.
 34. The Greens' instincts would be for more liberal arrangements still. The FDP are closer to SPD than to CDU, (one member of the FDP executive has just called for a quota for immigrants in the Bundestag).

Conclusions

35. If, because of the CDU financing scandals, the Hessen Landtag elections of 1999 are annulled this spring and have to be re-run, the CDU under Koch are certain to make immigration a central theme, as they did citizenship last time. If not, the issues may take a little longer to come to a head. But they will be a main issue of political debate here in 2001, to a large extent at CDU behest.
36. There are two imponderables:
- how far, if at all, public attitudes towards foreigners are changing. Is growing acceptance of Germany's need for immigrants matched, anywhere outside metropolitan chattering classes, by evolving understanding of how attitudes to German-ness need to adapt to make a success of a plural society? Hard to read, especially on issues where instincts tend to be polarised (either you agree with Merz on Leitkultur, or you strongly disagree – even if you generally support him on other things). Generational differences may matter too. But at least developments in a variety of fields are shaking up assumptions;
 - how ambitious the government will want to be. With 2002 on the horizon, Schroeder will not want to give unnecessary hostages to fortune. But his government has developed a record for being slightly more risk-taking than immediate pressures require (eco-tax, citizenship, capital gains tax on industrial cross-holdings), when in pursuit of modernisation. And it has had successes too in exploiting fault-lines within the CDU (tax reform, EU policy) to spike their guns. Not to be excluded, therefore, that he will conclude that the best way to neutralise the CDU's threat is to go a bit further in liberalisation, rather than a bit less far.
37. Will all this make the field a promising one for joint work with the Germans? In some respects, yes: they have long sought action at EU level on asylum, and our shared position at the top of the recipients' league may give us interests in common. They are likely to see shared interests too in action to control illegal immigration flows, eg through the Balkans. EU cover would help protect any proposal for ambitious liberalisation. They would also welcome international action, or even collective worry, on the use made by the far-right of the internet.
38. Beyond practical issues of this kind, though, the ground may be less fertile. Starting assumptions on nationality, inclusiveness, diversity are different in the two countries. We risk antagonising by appearing to preach, if we press too energetically on the Germans our own perspectives and solutions. Where there is interest in our experience, we should continue to encourage and respond to it. We are developing modest ideas for following up our seminar on multiculturalism, and some of the contacts made there. Particularly in the pre-electoral climate of the next eighteen months here, though, we should not expect too much.

File



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 January 2001

Dear Howard,

**PRIME MINISTER'S DINNER WITH CHANCELLOR SCHROEDER,
29 JANUARY**

The Prime Minister will be going to Berlin next Monday for discussions with Chancellor Schroeder, returning the same evening. I have discussed the agenda with Michael Steiner and we agreed it should cover the following issues:

1. Europe:
 - post Nice agenda;
 - preparations for Stockholm;
 - EU enlargement;
 - CAP reform;
 - EU/US.
2. European Defence
3. National Missile Defence
4. NATO Enlargement
5. Russia

To avoid duplication, it would be helpful if the Foreign Office could provide briefing on items 2-5. Stephen Wall will provide a summary note on European issues, on which he is in contact with Kim Darroch.

I should be grateful if briefing could arrive here by noon on Friday 26 January. I am copying this letter to Stephen Wall and to Paul Lever (Berlin).

Yours ever,

JOHN SAWERS

Sherard Cowper-Coles
FCO

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Sir Stephen Wall KCMG LVO
European Secretariat

Sir Paul Lever KCMG
BERLIN

23 January 2001

WHAT DO THE GERMANS MEAN BY INTEGRATION?

Your telno 28 on Schröder's speeches coincided with a meeting a few of us had yesterday with Peter Sutherland, who had been at the Bertelsmann gathering and had been deeply struck by Schröder's remarks on redefining the Franco-German relationship and his commitment to integration. Apparently, Vedrine sought a right of reply but was told that the meeting had moved on to other topics.

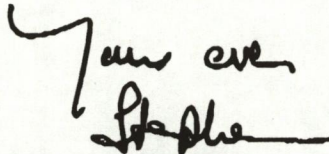
Can you help us interpret what Schröder means by integration? He took a similar line in private with the Prime Minister before Nice implying that he personally was more 'intergovernmentalist' but had concluded that Germany's interest lay in the integrationist approach. When we saw Steiner and Silberberg the other week, they said that Germany supported the Monnet method and did not want the post-Nice agenda to be about *finalité*. So that, I guess, is one part of the explanation. Is a second part, emu related eg fiscal harmonisation to ensure the success of the emu area?

I imagine the Germans might also equate the idea of a basic law (their attempt to modify 'constitution' in a way that helps us) as an element of integration. What was puzzling about Steiner was his passionate conviction that the Charter had to be incorporated in the Treaty and that the UK would have to

come to terms with that. When John Sawers and I argued that it was bizarre to negotiate eg a directive on working time only to have the important political compromises in it overturned by an ECJ interpretation of a loosely drafted Charter, Steiner said that the Charter had to take precedence over a directive. Directives were essentially intergovernmental. "Eh?" we said. Directives, co-decision, conciliation etc were the classic Community method. Steiner reluctantly acknowledged this. And he sort of conceded that you might have, as the Dutch have suggested, to renegotiate the Charter's content before you could think about Treaty incorporation. But he and Silberberg clearly saw the Charter as vital to the separation of powers - giving the citizen rights *vis-à-vis* the institutions. That I can understand, but it too does not fit readily with our understanding of 'integration'.

I think it would be helpful to the Prime Minister before his meeting on 29 January to have more of an insight into German thinking in this area. Any chance of a note from you that could be fed in to his briefing?

Dare I say it, but both John and I have the feeling that quite a lot of Schröder is Steiner at prayer, and Steiner's own thinking is not always clear on these particular issues. Or is that standard British wishful thinking on my part?


J S WALL

cc: Michael Arthur CMG, FCO
Kim Darroch CMG, FCO
Sir Michael Jay KCMG, Paris
John Sawers CMG, No 10

JS
cc: JP
MT

D/CDS/1/12

22 Jan 01

SofS

Copy to:

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- UKMILREP
- Political Director (FCO) - Mr Jones Parry
- No10 - Mr John Sawers
- DUS(SP) - Mr Steven Wright
- Defence Attaché Berlin

VISIT TO BERLIN – ESDI

1. I paid a farewell visit to my opposite number in Berlin, Gen Kujat on 19 Jan and had the opportunity to talk to a number of people about European Defence.
2. The mood was gloomy. I was told that apart from the Chancellor who was asking good questions, few of the senior Ministers were showing much interest in the way things were developing. Scharping was preoccupied with his private life, Fischer with accusations about his past and Eichel with criticism about misusing Luftwaffe transport. The defence budget was in far greater trouble than was admitted and it was nonsense to say it was being increased. The programme was undeliverable. Scharping was exacerbating the situation by reprieving Garrison closures as a result of Lander pressure.
3. Relations with France were going through a difficult time and would be unlikely to return quickly to what they were. There was a fear that the French would behave even less reasonably now they no longer held the presidency.
4. As far as Kujat himself is concerned I think we have a real ally, and one whom we should take considerable trouble over.

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John
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David
Steph
de la



British Embassy
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10117 Berlin

Telephone: (030) 204 57 211
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19 January 2001

Roger Liddle
No 10 Downing Street
By fax

Dear Roger

CALL ON NOWAK, GERMAN CHANCELLERY

1. You called on Nowak (roughly David Miliband's equivalent) in the Chancellery on 19 January. Discussion focused on what might be on the agenda for Blair/Schröder on 29 January. Some of it overlapped with your separate talks with Pfaffenbach (Leigh Turner's letter of 19 January).

Blair/Schröder 29 January

2. Key points from Nowak were:
 - genetic engineering (i.e. biotech, GM food and stem cell research) was currently Schröder's top concern. Nowak has submitted a paper proposing (i) support for a British (ie more permissive) approach, and (ii) a public commission to develop an EU-wide approach.
 - agriculture policy was Schröder's next priority (NB. Pfaffenbach put it ahead of biotech etc). His focus was on the consumer protection not the EU enlargement angle. Nowak confirmed German government willingness to take on the agricultural lobby and push for CAP reform. He suggested an UK-German working group.
 - Immigration. Nowak thought Schröder would be interested in a joint initiative with Blair for an EU policy on illegal immigration/trafficking in human beings. He confirmed that the German government would pass new immigration legislation this year, but that changing asylum law was politically too sensitive before the 2002 Bundestag elections.

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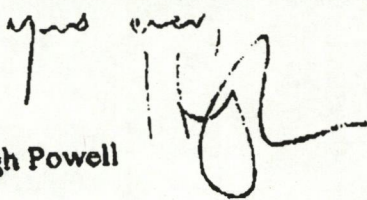
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- Bush-handling. Nowak was also enthusiastic about a possible Blair/Schröder initiative on transatlantic relations, e.g. a joint article or even a joint visit to Washington. He agreed that UK and Germany should make common cause against any French wedge driving in NATO. But doubted that Schröder would support any offer to extend any NMD umbrella to Europe, because he had "promised Putin a lot". Nowak also thought the Chirac-Bush project to create a conservative equivalent to the social democratic modern governance process would cause difficulties.
 - Baltic states. Post his Putin meeting, Schröder was convinced that NATO membership had to be ruled out, with early EU entry offered as compensation.
 - EU enlargement. Schröder would be looking for the Prime Minister's acceptance of his demand for 7-year transition periods on FMOP, given its domestic political importance here.
 - UK-Germany. Nowak himself was attracted by the idea an Elysee-type treaty. But said Schröder would be cautious. At a separate point he also said that the Chancellery were looking to move away from Franco-German leadership by developing a series of issue-specific bilateral relationships.
3. Nowak repeated his view that the best way to tackle Schröder was one-to-one, without others present.

France-Germany

4. Nowak said that pre-Nice the Germans would probably have supported any French proposal to apply enhanced co-operation to the Eurogroup, so that it could e.g. establish a common fiscal policy and harmonise taxes. But Franco-German relations were now bad. Schröder actively disliked Chirac. So Schröder would only go for such a proposal if he were confident it would be domestically popular. Nowak doubted that it would be. And said Schröder would be very receptive to the argument that such an initiative would undermine HMG's domestic position on euro entry.
5. I am copying this to James Bevan (EUD(I)), Jeremy Cresswell (EUD(B)), Adam Thomson (Sec Pol), and Martin Donnelly (Cabinet Office).

Yours ever

 Hugh Powell

(P)
 copy [unclear] cc MT DN
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 [unclear]



British Embassy
 Berlin

EU & Economic Counsellor

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 10117 Berlin

Tel: (030) 20457301

Fax: (030) 20457575

E-mail: leigh.turner@berlin.mail.fcn.gov.uk
 www.britischesbotschaft.de

19 January 2001

Roger Liddle
 No 10, Downing Street
 (by fax)

Dear Roger,

CALL ON BERND PFAFFENBACH, FEDERAL CHANCELLERY

1. You called on Bernd Pfaffenbach, Director General for Economic and Financial Affairs at the Chancellery, on 19 January. Carsten Pillath (Deputy to Pfaffenbach for External Economic Affairs) and Christian Holters (support on G7/G8 issues) were also present.

Agenda for Blair/Schroeder meeting on 29 January

2. You noted that the Blair/Schroeder meeting would be a chance to discuss big strategic issues for the next few years. Possibilities might include agricultural reform (including the impact of enlargement) and how to reconcile competition policy with the legitimate role of government in stimulating economic development. Pfaffenbach said these were important themes. He thought it likely that Schroeder would raise agriculture, which was a central concern to him. Schroeder might also want to discuss economic developments in both countries and in Europe, and the world economy. Pillath said Schroeder might raise biotechnology. Did we think this was this more an issue for Stockholm, or for Genoa? Schroeder's views were set out in two articles published recently (comment: reported separately; we are getting the texts translated). You said that the Prime Minister wanted to co-operate with Germany on this, with a view to having an outcome on biotechnology at Stockholm.

Agricultural Reform

3. Pfaffenbach said that those who had pointed fingers at the UK over BSE were now pointing their fingers at the German Government. The situation for beef farmers was dramatic. The task now was to "rethink the direction of agricultural subsidies". But thinking was at a very early stage. While it was important not to leave discussion in the hands of agricultural experts, responsibility for this issue in the Chancellery was divided. His own Department (Dept.4) did not have lead responsibility: that lay with Department 3, led by Herr Tiemann (comment: Dept. 3 houses officials who shadow the work of the domestic

(2)



government departments. Department 2, dealing with EU issues, is also involved in CAP reform, in the shape of Silberberg). In the past, the strong agricultural lobby had prevented change. But now Schroeder was clear that change was inevitable. Pillath said Germany might bring forward proposals quite soon, perhaps for discussion at the Agriculture Council. But Schroeder had said at Nice that he wanted Finance Ministers as well as Agriculture Ministers to be involved. Pfaffenbach said Schroeder had not yet focused on the relationship between agriculture and enlargement. Nor was he necessarily focused on reducing the German share of agricultural financing. What was needed was to shift from subsidies for production to subsidies for quality.

Competition Policy

4. You noted Gordon Brown's concern that existing Commission policy on competition could interfere with our efforts to promote venture capital and R&D in small companies. The UK still wanted a strong and liberal competition policy, but wanted to define better the scope for government action of this type.

5. Pfaffenbach said Germany could certainly agree to a general liberal line in Brussels, although they too had their problems, eg coal. The idea of agreeing to a target for a general reduction in state aids, combined with a statement saying that certain types of state aid were legitimate, could be something the UK and Germany could develop jointly. But it was a difficult area: each member state had its special cases. Pillath said he would be interested to see more information about our problems with the Commission on venture capital and R&D.

Other issues

6. There was a brief discussion about the prospects for British membership of the euro, and prospects for interest rates. Pfaffenbach and Pillath both thought European growth would exceed that in the US shortly, depending on what the ECB did on interest rates. A further cut of perhaps ½ % over the coming year looked plausible.

7. I am copying this letter to Jane Darby (EUD(I)), Creon Butler (Economic Policy Dept), Martin Donnelly (Cabinet Office), Ivan Rogers (HM Treasury), John Alty (DTI) and Andy Lebrecht (MAFF).

Leigh Turner
EU & Economic Counsellor

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SUBJECT: GERMAN ECONOMY: RUSSIAN DEBT - LINK TO G8 MEMBERSHIP

SUMMARY

1. Senior German official links Russian membership of G8 to their behaviour on debt repayment.

DETAIL

2. On 18 January, the Frankfurter Allgemeine Zeitung (FAZ - heavyweight conservative broadsheet) and Financial Times Deutschland (FTD) carried similar reports of a briefing given by Caio Koch-Weser, official State Secretary in the Federal Finance Ministry.

3. According to FTD, Koch-Weser said that "Russia's current behaviour is irreconcilable with its aspiration to become a full member of the G8". In response to the argument that the Russians did not have enough money in their budget to service their debt in full, Koch-Weser replied that they knew exactly what they had to pay in 2001 when they drew up the budget. "If they haven't put enough money in, the budget will simply have to be revised". He also rejected vehemently Russian offers to strengthen their reform efforts in return for debt forgiveness - it would be a "dangerous game" for the West to buy reforms. He warned the Russians that they risked losing the confidence of the international capital markets if they did not honour their obligations.

4. Koch-Weser confirmed to FAZ that the Germans had given no new Hermes export credit guarantees to Russia since the start of the year (TUR). He played down expectations on debt-equity swaps for transferable rouble debt inherited from the former East Germany. The Russians were to put forward a list of possible firms which might be part of a future deal at the Russian-German expert sub-committee meeting in Berlin on 29 January. Koch-Weser

PAGE 1

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commented that if the firms were of no value, nothing would come of the idea. MDDPAN 1138

5. FTD comments that, although there are good reasons for opposing Russian membership of the G8, it is wrong to make a link with their debt repayment performance. It claims that the G7 does not need to enlarge, but to refocus on core issues, particularly the stability of financial systems and coordination of economic and monetary policy.

Comment

6. Koch-Weser's tough talking is a further signal that the Germans are serious in their insistence that Russia should service its debt in full - not surprisingly, given that almost half of Russia's official bilateral debt is owed to Germany.

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cc: JS

● Michael Tatham. No 10

From: Bernard Marshall, EUD(B)

Date: 19 January 2001

cc: Private Secretary
PS/Mr Vaz
Kim Darroch
Heads: EUD(B), EUD(I), EUD(E)
CFSPD, SEC POL, EAD,
NAD, NENAD, EPD, Easterr
Dept
Special Advisers
Alison Johnson, EUD(B)
Nick Astbury, News Dept
Matthew Kidd, Berlin

- Grateful if you could
let us know if you
think we have missed
any topics you might want
including -

Documents

19 Jan 2001

- Angus Lapsley, EUD(I)
- Kara Owen, EUD(I)
- James Kariuki, EUD(I)
- Peter Taylor, EUD(I)
- Paul Gaskell, EUD(I)
- Barbara Woodward, EUD(E)
- Matthew Lownds, EUD(E)
- Alison Blake, EAD
- Paul Johnston, SecPol
- Nigel Casey, SecPol
- Jonathan Darby, NAD
- Rosemary Thomas, Eastern Dept
- Philip Hall, NENAD
- Helen Marquard, EPD

GERMANY: PM's MEETING WITH THE GERMAN CHANCELLOR IN BERLIN, 29 JANUARY: CALL FOR BRIEFS

BRIEFING REQUIRED BY COP WEDNESDAY 24 JANUARY

1. The Prime Minister will be meeting Gerhard Schroeder for dinner principally as a follow-up to Nice and to focus on EU issues and a couple of live foreign policy items. I would be grateful for briefing on the following subjects, to reach Richard Petherbridge (ideally by **Firecrest**) by cop Wednesday 24 January;

- Post-Nice/Future of Europe (Angus Lapsley)
- Stockholm/Economic Council (Peter Taylor)
- Information and Consultation (Kara Owen)
- BSE (Kara Owen)

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- CAP Reform (James Kariuki)
- Droit de Suite (Peter Taylor)
- Takeover Directive (Peter Taylor)
- UK efforts on Illegal immigration (Paul Gaskell)
- Enlargement (Barbara Woodward)
- European Defence (Paul Johnston)
- Western Balkans (Alison Blake)
- NMD (Nigel Casey)
- US Administration (Jonathan Darby)
- EU/US Relations (to include possible joint PM/Schroeder article for US Press) (Matthew Lownds)
- Russia (Rosemary Thomas)
- MEPP (Philip Hall)
- Environment (Helen Marquad)

2. I would be grateful if briefing could be provided in the following format, with no duplication between the three elements:

- **A short contribution for the covering letter to No10**, setting out objectives for the meeting and any relevant advice on handling.
- **Main points** to get across, for inclusion in the checklist of topics the Prime Minister will use at the dinner. This should be very concise-the whole checklist is supposed to fit on one side of paper.
- **Background**, which should be kept short and contain the key facts and arguments the Prime Minister needs to know for the meeting, and the likely German counter-arguments.

3. I attach a short note from Private Office to No 10 which may guide some EU desk officers in compiling their briefing. As the Cabinet Office have also requested to see the briefing in draft I should be grateful for punctual returns.

Bernard Marshall

European Union Department (Bilateral)

DSE 203

Tel: 020 7270 3030

Fax 270 2821.



(F)

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First Secretary (Economic)

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18 January 2001

cc. JOP
JS
DN
MD DM

Derek Scott Esq
No.10 Policy Unit
London

By e-mail

Some quite interesting stuff here
which I will follow up next week JS

CALL ON BERND PFAFFENBACH, FEDERAL CHANCELLERY

1. We had a brief but interesting call on Bernd Pfaffenbach, new Director-General in charge of Economic and Financial Affairs at the Chancellery, on 17 January. Pfaffenbach was joined by one of his deputies, Carsten Pillath.

German Economy

2. Pfaffenbach said he was happy that the euro was appreciating: it would help to stem inflationary pressures, promote public acceptance of the euro (which he admitted was currently low in Germany) and boost inward investment. He was relaxed about the impact on growth – the economic upturn was less export-dependent as domestic demand strengthened. Pfaffenbach predicted growth of “up to 3 per cent” in 2001. The Government’s annual economic report would say 2¾ per cent (not yet published, please protect).

Economic Reform

3. In response to your question about the future direction of economic reform in Germany and the EU, Pfaffenbach began by saying that it was unrealistic to expect major reforms to be implemented in Germany year after year. But he hoped that the pension reform, which he characterised as a major success, would be implemented by the end of this year. The health insurance system was also overloaded and in need of reform – people’s expectations needed to be reduced. Pfaffenbach said he could envisage a solution along the lines of the pension reform, with some form of private top-up provision financed by patients themselves. On the EU side, Pfaffenbach saw liberalisation of gas, electricity, telecoms and postal markets as particularly important for Stockholm. He stressed that Schroeder was personally committed to market liberalisation as an essential part of the Government’s programme.



State Aid

4. You correctly identified coal, shipbuilding and agriculture as three areas of state aid policy which were particularly tricky politically for Germany. Pfaffenbach said that, while the Germans were in principle in favour of reducing state aid, it was difficult to do so in the case of shipbuilding, where Korea was practising price dumping on a massive scale. Pillath added that something needed to be done to improve the operation of state aid policy in the EU – he favoured a system where Brussels set overall ceilings but Member States (and in Germany the Länder) had more freedom to apply aid within the overall limit as they saw fit.

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jcd

EU Enlargement

5. You asked how the market liberalisation agenda played in the light of EU enlargement, particularly in the Eastern Länder. Pfaffenbach pointed to the speech given by Schroeder in Weiden (Eastern Bavaria) on 18 December, where he had argued for a transition period of 7 years on the free movement of people and services. This was much more generous to the new Member States than the Commission itself had been proposing. It cut both ways too: there would be sensitive areas, such as land purchase, where the candidates themselves would want to impose transitional restrictions. Pfaffenbach said that Germany was committed to enlargement; for historical reasons it was difficult to envisage a first wave of new members without Poland.

Agriculture

6. You concluded by asking what most concerned the Chancellery at present. Agriculture, said Pfaffenbach. A new direction was needed for EU policy, moving away from subsidising production to providing income support to farmers. Pillath said that there could be an opportunity to link reform of the agricultural support system to a more open policy on biotechnology (comment: not clear whether this is just a Pillath idea or if it is more widely accepted within the Chancellery).

7. I am copying this letter to Jane Darby (FCO), Martin Donnelly (Cabinet Office), Ivan Rogers (HMT), John Alty (DTI) and Andy Lebrecht (MAFF)

M A BOLTON

1st Secretary (Economic)



John Sawers
Prime Minister's Office
10 Downing Street
London SW1A 2AA

16 January 2001

Dear John Sawers,

**German-British Forum Award Dinner for German Foreign Minister Joschka Fischer
Claridge's, 6.45 for 7.00 p.m., Wednesday 24 January 2001**

We are very pleased that you are able to attend the above event. Guests are asked to arrive at the Ballroom entrance of Claridge's, Brook Street, W1A 2JQ (tel: +44 (0)20 7629 8860, fax: +44 (0)20 7499 2210). You will find the registration desk just inside the Ballroom reception area. The evening will follow the timetable detailed below:

- 18.45 Reception
- 19.00 Welcome by Lord Hurd, Chairman, German-British Forum
- 19.10 Dinner
- 20.30 Presentation by Thomas Kielinger, President, German-British Forum Awards Jury
- 20.35 Speech by Mr Fischer
- 21.00 Questions from the floor, moderated by James Naughtie, Presenter, 'Today', Radio 4
- 21.30 Vote of thanks by Lord Hurd

Dress code: lounge suit

Please note we have revised the timings owing to an unavoidable change to Mr Fischer's schedule. Dinner will start promptly at 19.10.

If you are unable to attend, please let us know in advance as we will have to adjust the seating plan accordingly (tel: +44 (0)20 8938 6761, fax: +44 (0)20 7753 2778, j.liddle@gbf.com). We look forward to seeing you on 24th.

Yours sincerely,

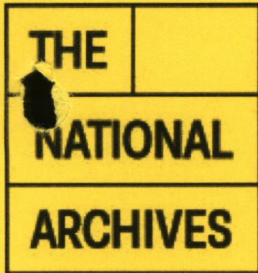
Johanna Liddle

Johanna Liddle
Coordinator, German-British Forum

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FROM: Martin Donnelly
DATE: 16 January, 2001

STEPHEN WALL

cc: Jeremy Heywood
John Sawers
David Miliband
Roger Liddle
Ed Richards
Richard Abel
Paul Lever - B/E, Berlin

**MEETINGS WITH GERMAN CHANCELLERY: MONDAY 15
JANUARY**

Lunch with Silberberg

1. Silberberg had clearly enjoyed his session with you and John Sawers last week and was on relaxed form. He remained focused on the post-Nice agenda, and the need to develop policies to make the EU more legitimate to prepare for 2004. The Chancellery expect a fairly quiet year on the European front, though enlargement is moving up their agenda. Susanna Simon's note from the Embassy (attached) sets out key points of interest.

Preparation for Stockholm

2. Pillath and Steinheuer took me through the draft German paper for Stockholm, about to go into interdepartmental clearance. It would cover the following themes:

- technology and research: improve the 6th Framework Programme and make it more customer friendly; provide a better framework for mobility of researchers;
- enterprise and Europe: greater liberalisation in the energy sector (by 2002), the posts sector, telecoms, (directive to be adopted by 2001) and financial markets liberalisation. An improved legal framework covering VAT on e-commerce, agreement on the energy tax, some (unspecified) VAT harmonisation, and progress on the European patent;

- training and mobility: increased mobility for students and those in training; greater mutual recognition of qualifications; more working together by universities. The social partners should contribute;
- demographic change: reform of national social security systems; a focus on equal opportunities; more work on migration to help avoid labour shortage bottlenecks;
- public finances: some ideas for the next BEGs, including a continued focus on stability, a reduction in the public deficit, more spending on new industries rather than old ones; biotechnology.

3. Pillath emphasised that these ideas were all within the framework of Lisbon; there would not be a new strategy.

4. I stressed the convergence between our approaches. In addition to the points raised I underlined the importance of better regulation, particularly for smaller firms; the need to implement rapidly the Lamfalussy Report; the importance of a biotechnology initiative at Stockholm; and ran through our outline list of priorities.

5. I also emphasised the importance of the Commission's planned initiative on flexible labour markets and the business led taskforce. This should provide a practical focus on future skills needs in the European economy. Someone like Irwin Stout (head of IBM Germany) might be a suitable member. The Chancellery were interested by this approach.

6. We agreed to stay in close touch in the run up to Stockholm, and coordinate briefing for the Council.

Biotechnology

7. Ed Richards and I had a useful discussion with Kindler supported by Botzenherdt (responsible for health policy in the Chancellery). We ran through the key points in the outline DTI initiative. The German side were hesitant about the ethical aspects of biotech, but willing to work together. Kindler confirmed that Schroeder was very keen on biotechnology.

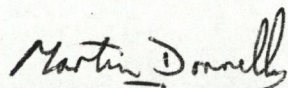
8. We agreed to put together a summary of the key areas in which we might work together on biotechnology as background to the Prime Minister's forthcoming dinner with Schroeder on 29 January. I attach a draft, also

copied to DTI for comments. We should aim to let the Chancellery have something before the end of the week.

Other issues

- Football: Silberberg said that there had been no further approaches to the German government, although Schroeder was due to see sporting leaders later that day. He agreed that it was best to allow negotiations between the football bodies and the Commission to carry on without government intervention "otherwise we lose".
- Hushkits: Silberberg confirmed that the Germans shared our opposition to an appeal. They would take this position in Brussels.
- Takeovers: the Chancellery were aware that the European Parliament amendment would cause problems. I promised to send them a more detailed note, which has been commissioned from DTI.
- Droit de suite: no enthusiasm for a fight with the Parliament on this.
- Lamfalussy Report: I emphasised the importance of avoiding European Parliament opposition to the streamlined legislative system proposed by Lamfalussy. Silberberg agreed but said that Radzio-Plath was not someone with whom it was possible to do business.
- Sheep: I expressed our gratitude for the Chancellery's opposition to bilateral measures, and underlined our desire to work together to keep the scientific evidence under review in Brussels.

9. Overall, a useful visit with good atmospherics and a willingness to focus on detail as well as the broader picture. We might aim for a further review of EU issues with the Germans pre-Stockholm. I am grateful to Rachel, Sarah, Neil, Adam, and Mark for the helpful briefing provided.



MARTIN DONNELLY
European Secretariat
Room 323 70W
☎ 270 0177

MARTIN DONNELLY'S LUNCH WITH SILBERBERG: 15 JANUARY

1. Silberberg was in friendly, relaxed mood and unaccompanied.

2. POST NICE PROCESS

- Reiteration of what was said at the Wall/Sawyers meeting on 10 January. Chancellery still believe in the Monnet method and do not think that the next IGC should mark the end of integration. But this does not mean they are lowering their sights.

Process

- Chancellery want to avoid a debate on finalité at Laeken. Gothenberg should set up a group of member states representatives to produce guiding principles for EU public consultation and launch the process at Laeken. This should consist of personalities who know a bit about Europe and have access to public opinion.

European Council

- Chancellery are not against a stronger political role for the Council, but this should not hamper the Commission's legitimate role. The Council should be Europe's guiding institution. Silberberg and Donnelly agreed that this could be a starting point for a common UK/German approach.

European Commission

- Chancellery wants to strengthen the political accountability of the Commission both to the European Parliament and public opinion ("make it more government-like"). They have no answers about how to do this but are considering whether the EP might elect the President.
- Chancellery agree we need to improve preparation of the European Council. They see some danger in tasking leaders with particular expertise to prepare topics. Sherpas could be an alternative.

European Parliament

- Key issues for Chancellery are how to make the EP more like a parliament ie how to make MEPs more responsible to their voters, and fostering MP and MEP links.
- Chancellery is concerned that EP is using its powers to get involved in security issues eg. trying to get codecision on CFSP by using its budgetary powers. Considering if now is the time to overcome the distinction between compulsory and non-compulsory expenditure.

Competences

- The most difficult issue. Chancellery have no answers but some ideas. They are open to a second chamber and don't want a list of competences. On the **technical** side they think it necessary to make a judgement about whether the competences (public health, transport etc) in the present Treaty go too far or not far enough. They also want to examine the opening articles of the treaty covering the EU's objectives and activities

to see whether these are actually covered by competences in the rest of the Treaties (eg energy isn't).

- The **political** question is who decides whether to exercise the competences (once agreed) in each specific case. Ideas include:
 - Writing into the Treaty a role for the European Council in Commission Programme (comment: sounded like a variant for PM's idea of annual agenda set by European Council)
 - Drafting a code of conduct to stop the abuse of articles such as those on the single market, anti-discrimination and the environment
 - Using the second chamber to give political judgements on whether competences should be exercised.
- Chancellery think it might be possible to put more pressure on CAP reform by looking at it through the competences prism. Ditto Structural Policy
- Asked about putting more in the Treaty about modernising objectives and different ways of working together, Silberberg confirmed there were Länder sensitivities about creating new forms of cooperation with no reference to the Treaty. They were afraid this could pave the way to an increase in Brussels competences. Discussing with the Länder would be difficult.

Simplification of Treaties

- It is not acceptable for Chancellery to have the principles part agreed unanimously and the competences by QMV. They might agree to the opposite of this, since only a 2/3 majority is required in the Bundesrat and Bundestag to change German basic law.

NICE

- Silberberg commented that it was remarkable that Stoiber (Bavarian Prime Minister) had been so enthusiastic about Nice. As a result, there would be no need to amend the German constitution to give Länder more say in EU matters (which the Chancellery had been seriously considering.)
- Silberberg said Germany would ratify Nice this year, so that it did not get mixed up with next year's election. He did not anticipate any problems.

ENLARGEMENT

- Silberberg said it had been a hard fight to get agreement on their Free Movement of People proposals. The previous government had wanted a transition period of 15 years. Schroeder had rejected even 10 years, arguing that the German model should reflect both realities and limitations. Silberberg argued that there was not much scope for movement from this model. The detail might change, but the key points should now form the basis of a common EU position.
- He expected Gothenberg to produce encouraging words for enlargement and to put more flesh on the work programme. But he did not expect dates. These might be achievable by Brussels, depending on what progress the candidates made.
- Silberberg thought the Poles were doing well on incorporating the *acquis*, but implementing was a key problem. Schroeder consistently made it clear that Germany

would always support Polish inclusion in the first group, but never failed to add that it was up to the Poles to reach the necessary standards.

- Silberberg asked what we should say to the candidates about vote reweighting if they join before the new key is introduced in 2005. Donnelly agreed that we should all be saying the same thing.

CAP

- Silberberg said that the key problem was how to reconcile the market economic and consumer-protection approaches to CAP reform. Germany did not have to wait until after the German election to embark on the hard bits of the discussion, but would need some time to work out their position (eg to give the new agriculture Minister, Künast, time to settle down). He was interested in an informal dialogue with the Cabinet Office later in the year.

CFSP AND FLEXIBILITY

- Silberberg was worried that future contributions of Eurocorps to European forces might be hampered by the absence of flexibility provisions for security policy. Donnelly assured him that this was not the UK intention and states should not be prevented from going ahead with such activities when part of a coalition of the willing.

FOOTBALL

- Both sides agreed that governments should stand back while diverse football organisations continued their discussions with the Commission. Schroeder was seeing the Chairman of the German sports federation on 15.1, but would not be committing himself to more involvement

HUSHKITS

- Silberberg said Germany was also against appealing to the ICJ. There was not enough time.

CABINET OFFICE/CHANCELLERY EXCHANGE

- Silberberg was keen to get on with this as soon as the Chancellery had settled in their new offices (1 April). The next step is for Silberberg to get the Chancellery Administration to make a formal invitation to the Cabinet Office candidate.

BIOTECHNOLOGY: KEY POINTS FOR JOINT APPROACH TO STOCKHOLM COUNCIL

- **Benchmark** EU progress against US and Japan, using OECD data.
- Highlight potential **advantages** of strong biotechnology sector, particularly in **healthcare** and **environmental** clean up.
- Work with biotechnology industry to **inform Europe's citizens** of the facts about bioscience, and encourage an open dialogue about its role.
- Encourage **transparency** by biotechnology companies and develop self-regulation wherever possible.
- Use the 6th **R&D Framework Programme** to develop **biotechnology infrastructure** across the EU and encourage the exchange of researchers.
- Speed up **patent approvals** to improve protection of intellectual property in the EU.
- Encourage **venture capital** into the biotech sector, including through the EIB and national venture capital schemes.



Ministry of Agriculture, Fisheries and Food,
Nobel House, 17 Smith Square, London SW1P 3JR

Rec'd already
11/1

From the Minister

RESTRICTED - POLICY

Prime Minister

NEW AGRICULTURE POLICY AND MINISTER IN GERMANY

Germany has a new Green Party Agriculture Minister, in charge of a restructured Ministry for Consumer Protection, Food and Agriculture. The latest BSE crisis is causing an urgent rethink of German agricultural policy. Implications for UK CAP reform and BSE policy.

2. The latest BSE crisis in Germany has pushed the need for a different kind of agricultural policy rapidly up the agenda in Berlin. Schroeder himself is now fully engaged and looking to define new priorities, including moving towards "an agriculture which is more respectful of nature". His broadening of the Agriculture Ministry well beyond its farming industry sponsorship role towards the food chain as a whole is a positive sign that German policy making will no longer be dominated exclusively by producer interests.

3. This is good news for us, but there are risks. German willingness to move away from highly subsidised agriculture and to press for change within the EU is essential if we are to secure CAP reform on the timetable required to make enlargement a success. We need to plug in quickly to Berlin and seek to understand and influence the new policy direction. Although it is still early, we need to be conscious of the risk that the new German vision of farming may yet signal a move away from more market-oriented policies and towards models that could only be sustained through ongoing production subsidy.

4. A debate has already begun about the way ahead and Ms Kuenast will want to give it a fresh impetus. We have a strong interest in encouraging a more active German policy towards CAP reform and in seeking to define a common approach to reform. I will be meeting Ms Kuenast at the Agriculture Council later this month and may pursue the opportunity for a formal bilateral in the margins of the Biofach Organic conference in Nuremberg next month. Joyce Quin will see her during a visit to "Green Week" in Berlin next week. My officials will be visiting their German counterparts early next month. We will need to gain a clear understanding of where they are coming from and seek to persuade them that less reliance on production support and more emphasis on measures to encourage rural development, farm restructuring and diversification and environmental conservation is



Recycled Paper

the best way forward. I hope colleagues with a close interest in enlargement and the CAP reform agenda will press the message home with their counterparts when suitable opportunities arise.

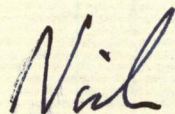
5. Turning to BSE policy, until November when the first cases of BSE were confirmed in Germany the attitude had been a failure to accept reality or an unwillingness to adopt precautionary measures should BSE occur. Until October 2000 the German authorities were permitting SRMs, in particular brain, spinal cord and mechanically recovered meat, to enter the animal and human food chains. The German authorities especially in some Laender had been reluctant to implement EU legislation. They have adopted an extremely hard line attitude to the UK position and yet have been relaxed and unwilling to adopt precautionary measures in Germany.

6. We can expect Germany, under the new Minister, to adopt a hard line approach. Their immediate priority will be to restore consumer confidence. They are likely to press to extend the herd slaughter policy for BSE onto an EU-wide basis, and for the extensive feed bans to become permanent. They may require testing of sheep for the presence of prion and recommend this should be a requirement throughout the Community, perhaps associated with a ban on the import of sheep or sheepmeat from countries which do not undertake testing. This could have serious implications for the export of sheep from the UK.

7. The German authorities will be pushing for extensive testing requirements to enhance consumer confidence even though the value of testing of bovines, particularly under 30 months of age, is debatable in terms of public protection. There is no reason to think they will change their hard line in relation to UK beef exports, and pressure that British beef in triangular trade should be labelled is unlikely to ease. However, if incidence in other Member States is shown to be much higher than expected, the Germans may more willingly agree with us that the origin of all processed beef should be identified.

8. Much of these developments would have happened irrespective of the appointment of a Green party Minister but it is likely Ms Kuenast will take a hard line in areas such as the feeding of animal protein to herbivores, intra-species recycling and animal welfare. Whilst aspects of this will be welcome, we will want to ensure Community policy remains measured and based on sound science. We will need to continue watching developments in German, thinking carefully and remain closely engaged with them as well as the Commission and other key member states.

9. I am copying this minute to (E)DOP colleagues and Alan Milburn and to Sir Richard Wilson, Sir Stephen Wall, Sir Paul Lever, Sir Nigel Sheinwald, Sir Michael Jay and Sir John Krebs.



NICK BROWN

11/01/2001

FROM: Stephen Wall
DATE: 10 January 2001

PRIME MINISTER

cc: John Sawers *CCMT*
Jonathan Powell
Alastair Campbell
Roger Liddle
Julian Braithwaite
Jeremy Heywood
Tim Livesey
Sir Richard Wilson
Sir Nigel Sheinwald,
UKRep Brussels
Kim Darroch, FCO
Sir Paul Lever, Berlin

✓ Stephen Wall
✓ *at an expense*
Please see TR's minute at end.
Grateful for a note id.c.

John Sawers
File

**TALKS WITH THE GERMAN CHANCELLERY:
POST-NICE AGENDA**

The main points from the talks John Sawers and I had with Steiner and Silberberg were:

- The 2004 IGC should be limited and operational, ie it is about delimitation of competences, simplification of the Treaties, the role of national parliaments and the status of the Charter. It is not, as Verhofstadt wants, about the ultimate destiny of the Union. As discussions get underway with the Länder, the Germans are coming to the view that the Länder fears (which are about competence creep; whether we want the Union to act even where it does have competence and the sense that power is devolved from Brussels to the regions rather than flowing in the other direction) are more capable of political solution than legalistic solution.
- The Germans are waking up to the difficulties of listing competences, and the near impossibility of simplifying the treaties without changing the nature of the compromises that have led to the present text. They now see the end product as a combination of a declaration of principles (similar to our own ideas) at the beginning of the Treaties, together with some operational guidelines ie ensuring that not only is there clarity on competences but also on subsidiarity. In that context, the Germans seem

attracted to our idea of a second chamber as a means of implementing subsidiarity, but they want assurance that it will not, in practice, kill off all EU initiatives (most unlikely given that it will operate by a majority of its members, presumably representing the majority view within the EU, which remains more rather than less integrationist).

- German thinking is at an early stage. It will be kept within the Chancellery because Schröder wants to handle this as an SPD issue, not least because Fischer's approach is too close to that of Verhofstadt and the maximalists.
- The one point of substance where we part company is German insistence on the need to incorporate the Charter of Fundamental Rights in the Treaties. They just about begin to buy our argument that there is no point in having detailed negotiations among the 15 on directives on working time, equality in the workplace etc if the results of those negotiations could be overridden in the ECJ via the Charter. But they believe the way to meet our concern is to amend the Charter, or restrict its scope of application. We will have to come back to this in due course, but hopefully not for a year or two.
- On process, the Germans share our view that the IGC should not start before 2004 and that any formal preparation, ie personal representatives or whatever, should not start until around the middle of 2003. They believe that the Gothenburg Summit should decide to set up a group of representatives of member states (but not officials or Ministers necessarily) who would work up suggestions for the nature of the EU-wide public consultation, which would then be launched by the Belgian European Council at Laeken in December 2001. They see the group's remit as being primarily about process and that it would have to be very clearly a different, younger, less formal, less bureaucratic group than is the norm. (Lots of jokey stuff about Claudia Schiffer or Beckenbauer being the German representative.) This idea is not without risk, but if we can keep it largely about process it gives us a better chance of ensuring that the Laeken Summit simply launches the Europe-wide consultation and does not (as Verhofstadt would like) get into saying what the final (and maximalist) outcome should be.
- On agricultural reform, Schröder sees the BSE crisis (and the enforced resignations of the Health and Agriculture Ministers) as an opportunity to reorient agricultural policy in a more environmentally friendly, less maxi-production direction. The Germans are edging their way towards agricultural reform. We need to work hard on them and on the new Green Agriculture Minister.

- On freedom of movement, we took a very non-committal approach to the Schröder line (no freedom of movement for seven years but with the possibility of derogations for individual candidate countries and bilaterally between candidates and particular member states) given our wish not to alienate the candidates. The Germans maintain that Persson is inclined to support their approach. It is, anyway, up to the Germans to make the arguments in the enlargement negotiations in Brussels.
- On Stockholm, German thinking still at a very early stage and we will have further contacts with them. They claim to be prepared to go even further than us and have a commitment to completion of energy liberalisation by 2002. They would like to add a target of 2003 for postal liberalisation. Hear, hear, I say. But I don't have to manage the domestic politics of it.
- On Information and Consultation of Workers, despite the wobbliness of the German Social Affairs Minister last month, Silberberg confirmed that the Germans remain solid in opposing the draft directive. They said they would try to bring the Social Affairs Ministry into line.

J S Wall

J S WALL
European Secretariat
Room 322, 70W
☎ 270 0044

*I agree with this. But, is it possible to get an other Warsaw point on board, namely the agenda set by the Council?
C) SW minute me on this?*

PERSONAL AND RESTRICTED



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Sir Stephen Wall KCMG LVO
European Secretariat

Colin Budd Esq CMG
c/o HOMMS
FCO

9 January 2001

MICHAEL STEINER

Thank you for the Steiner correspondence, which is riveting.

To add one further source. David Owen speaks highly of him. He found him able and loyal up to the point where Steiner concluded ("probably correctly" says David) that David had outlived his usefulness.

J S WALL

cc: John Sawers Esq CMG, No 10
Kim Darroch Esq CMG, FCO

PERSONAL AND RESTRICTED



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 January 2001

Dear Bernadette

FEDERATION OF GERMAN INDUSTRIES

I attach a letter from the London representative of the Federation of German Industries (BDI) requesting a meeting between the Prime Minister and the BDI President, Dr Rogowski, during the latter's visit to London on 8 February. The Prime Minister will be unable to see Dr Rogowski but he is keen that he should be received at a high level in London. I would therefore be grateful if the Secretary of State for Trade and Industry (or, if he is unavoidably committed elsewhere, another DTI Minister) could take this on. I have acknowledged the BDI's letter and told them to expect an approach from DTI - I would be grateful if you could now take this forward.

I am copying this letter to Mark Sedwill (FCO) and Sir Paul Lever (Berlin).

Yours ever

MICHAEL TATHAM

Bernadette Kelly
DTI



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 January 2001

Dear Mr. Atenstaedt

Thank you for your letter of 3 January requesting a meeting between the Prime Minister and the President of the BDI, Dr Rogowski, during the latter's visit to London on 8 February. Unfortunately the Prime Minister has prior commitments on this day but I have passed your letter to the Department for Trade and Industry (DTI) with the recommendation that the Secretary of State or another DTI Minister should see Dr Rogowski in the Prime Minister's place. You should be contacted shortly by DTI officials.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Tatham'.

MICHAEL TATHAM

Dr Bernd Atenstaedt
Federation of German Industries

Dr. Bernd Atenstaedt
Representative in the United Kingdom

FEDERATION OF GERMAN INDUSTRIES
16 Buckingham Gate, London SW1E 6LB
Telephone and Fax: 020 7233 7816



KG

The Rt Hon Tony Blair MP
Prime Minister
First Lord of the Treasury and Minister for the Civil Service
10 Downing Street
London
SW1A 2AA

1 - MT to see

2 - KG on

3 January 2001

Dear Prime Minister,

The new President of the Federation of German Industries, Berlin, since 1 January 2001, Dr Michael Rogowski, who is Chairman of Voith Engineering, will be visiting London on Thursday 8 February 2001 to meet the President of the Confederation of British Industry, Sir Iain Vallance, and to speak at a dinner given by the German Industry Forum in the United Kingdom.

X Would it be possible for you to meet him briefly in the afternoon any time between 2.00 p.m. and 7.00 p.m.? He would very much like to introduce himself to you.

I look forward to hearing from you soon.

Yours faithfully,

Bernd Atenstaedt

