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13 March 1990

Stephen Wall Esq
 PS/Secretary of State for Foreign and
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 Foreign and Commonwealth Office
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Dear Stephen,

STRATEGIC IMPLICATIONS OF CURRENT TRENDS AND GERMAN UNIFICATION

The Chancellor has seen the papers you circulated on ^{map} 2 March, following the seminar at Chequers on 27 January.

The Chancellor has noted that there are substantial financial implications, and balance of payments effects in the case of stationed forces, to be considered as the ideas in the papers are worked up and negotiations proceed with other countries.

He believes that it would be desirable to establish early in discussions with our main allies the principle that the financial burden of the future cooperative defence of Western Europe should be shared equitably among the major European countries involved, including a united Germany. At present the FRG spends a lower proportion than the UK of GDP on defence, and does not have to carry a balance of payments deficit for security reasons, with some adverse effect on the UK's relative economic performance. He would prefer this gap to be narrowed in the context of unification although the contributions of the French and others will also need to be taken into account. In any case he does not believe the Germans should get the impression that their proportionate financial contribution could fall as low as around one third of the UK's, as the tentative suggestions about future German force levels could imply. He also suggests that such a principle of equitable contributions might be presented to our allies as an extension of the principle of equity agreed for the much more

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limited apportionment of reductions in treaty limited items under CFE.

He would be grateful if officials here could be kept in touch with progress.

I am sending copies to Charles Powell (No.10), Simon Webb (MOD) and Sonia Phippard (Cabinet Office).

T. Tarkowski

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Private Secretary

for loc: East-West. 1711.

