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Special European Council, Rome: 27/28 October

1. Signor Andreotti originally convened this Special European Council to discuss preparations for the two IGCs (political union and EMU) and to take stock of preparations for the CSCE Summit. The need for Heads of Government to discuss the CSCE has fallen away.

2. As Signor Andreotti's letter to you of 24 October indicates, the Italians want to concentrate on preparations for the two IGCs, and to discuss the Soviet Union, the Gulf, EC/US relations and CSCE. There is an outside chance Andreotti will seek agreement on his package of decisions on siting new EC institutions. We should ensure that the Summit delivers a strong message on the Gulf, and reaffirms the Community's commitment to a successful outcome to the GATT negotiations. If there is no agreement at the Trade and Agriculture Ministers' meeting today the European Council will also need a discussion of GATT agriculture.

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3. Andreotti proposes to take the two IGCs and aid for the Soviet Union in the opening session, with the Gulf discussed over dinner. Foreign Ministers will discuss CSCE and the EC/US declaration over dinner. Sunday morning will be reserved, as usual, for the conclusions.



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Political Union IGC

4. In the Foreign Affairs Council this week we agreed a report to the European Council based on work by Special Representatives. This was commissioned at the Dublin European Council. The report summarises proposals made by member states. Our main ideas are included. These include:

- greater financial accountability of the Commission to the European Parliament;
- improved implementation and compliance;
- a strengthening of the machinery of the EPC;
- ✓ - increasing the role of national parliaments.

The report includes other people's ideas too, many of them unrealistic. It will be our job in the IGC itself to try to get rid of these. We should counter any Italian attempt at Rome to set a "mandate" for the IGC, arguing that this would run counter to the Dublin conclusion that the IGC set its own agenda.

5. The main focus of interest this weekend is likely to be the case for a common foreign and security policy. There is much rhetoric here which jars with us. But beneath this lies a determination to strengthen the European response to outside challenges. The Gulf helps concentrate people's minds. We must argue for a strong and united European force in the Alliance. We have a political role to play in discussions in this area, not least to preempt any

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Franco-German initiative which might put too much emphasis on the Twelve. We have already floated ideas for strengthening political cooperation. We may be able to divert attention away from other aspects of the political union debate, such as stronger powers for the European Parliament.

6. There is clearly much more work to be done before the IGC opens. We want the European Council to commission that work from Special Representatives.

EMU IGC

7. Carli, the Chairman of ECOFIN, has reported on preparations so far. His report is broadly fair, well reflecting the UK reserve on full EMU. Our proposals for a hard ecu and an EMF are included in the report, and will form part of the continuing discussions. The Spanish and Dutch have ideas for Stage II as well. And there is a helpful consensus on the "E" of EMU: no bail-outs, no monetary financing of deficits, and recognition of the principle that budget deficits should be avoided. Further work on all this is needed in the Monetary Committee and ECOFIN.

8. At Rome, the Presidency are almost certain to press for a target date for the transition to Stage II. There is a consensus growing among other member states in favour of 1 January 1994. This is to put the cart before the horse. Until we know what the next stage will look like, it is silly to set a date. It is encouraging, however, that other member states are talking more now of the conditions to be satisfied before any move beyond Stage I.



9. We must argue at Rome that our hard ecu/EMF proposals would provide a sure and market-driven way forward, providing anti-inflationary monetary discipline, and a solid framework for economic convergence. They also provide a way for Community members to advance together.

GATT

10. The nature of the discussion of the GATT Uruguay Round will not become clear until after today's meeting of Trade and Agriculture Ministers. If the meeting has not agreed the Community's offer on agriculture, we must work for agreement in Rome. The Italians have not yet included it on the agenda but you are pressing for this and we, the Dutch and the Commission should be able to ensure there is a full discussion. We are working hard meanwhile to stop the Germans maintaining their block: I am seeing Kohl later today. We must hope that they will either acquiesce or that we can isolate them; others are becoming less vociferous in their opposition. Whatever the position on the agriculture offer, we shall need to include in the conclusions a firm message to the world that the Community is still committed to a successful outcome to the Round.

Gulf

11. This is the first European Council since the Iraqi invasion of Kuwait. We shall want Heads of Government to agree a strong declaration expressing support for the UN Security Council resolutions; admiration for the solidarity of the international response to the crisis; condemnation of Iraqi hostage-holding and their destruction of Kuwait; determination to seek unconditional Iraqi withdrawal through strict implementation of the embargo; and support for international efforts to respond to GCC requests for assistance in collective self-defence.



12. We shall want to emphasise the need to resist Iraqi attempts to split the international alliance against Saddam Hussein, (e.g. by manipulation of Western emotions over the hostages); and the impossibility of any compromise on the demand for Iraq's unconditional withdrawal.

Soviet Union and Eastern Europe

13. At Dublin we saw off pressure for a financial aid package to the Soviet Union. The Commission has been pursuing its study, as requested, and the IMF report commissioned at the Economic Summit in Houston should be ready in December. Delors has told me that the Commission on 27 October will only present an interim report, without proposals. Data has been difficult to obtain, and above all the absence of a coherent Russian economic plan against a turbulent constitutional background has made proposals impossible. We have pressed the EC to increase technological cooperation with the USSR under the existing trade and economic cooperation agreement. Energy is a particular priority. The French are arguing for an enhanced EC/Soviet relationship, based on a more substantive agreement focussing on technological cooperation. We can argue that this can be studied further.

14. Discussion at the Council will give you an opportunity to outline our approach to the Soviet Union and to Gorbachev. We should endorse technological cooperation as an effective and practical way of helping the Soviets help themselves. Financial aid should be played long: decisions are premature before an IMF report and before evidence of Soviet willingness to put reforms in place.



15. The pressure to help Eastern Europe has increased in recent weeks. They face the twin shocks of Gulf-induced oil price increases and the CMEA breakdown, with the need to make payments in convertible currencies. The Commission has identified a \$7 million financing gap for 1991 and believes that a G24 financing facility is necessary to help fill it, with the Community taking a strong lead. We argue that the IMF should be in the lead. The IMF agree, and are in contact with each country. A G24-type financial facility (which the US has advocated, but on condition that it does not contribute) would be premature. Only the Presidency appear to support the Commission thinking. We should continue to press for the IMF to lead, with consideration in the G24 context if necessary, in close cooperation with the IMF.

16. The Foreign Ministers agreed that the Community should be signatories to the CSCE Summit. Work continues in the preparatory committee in Vienna on the draft declaration but we are pressing hard for a good reference to a Magna Carta.

Sites

17. As you know, Signor Andreotti has been trying to put together a package of decisions on siting new institutions. He is unlikely to finalise this in Rome, but there may be discussion in the margins. Having secured the EBRD, we will not achieve any other successes in this round. So we want that round kept small, and to be agreed soon - Environment Agency, Trade Mark Office, Training Foundation. It would be a pity if he tried to add in other institutions whose establishment is not even agreed - the Medicines Evaluation Agency or the Plant Breeders Rights Organisation (for both

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of which we would want to bid). It would be particularly premature to talk about siting any future monetary institution - but again, London would be an obvious candidate for the EMF we have proposed.

18. I am sending copies of this minute to members of OD(E), to the Defence Secretary and to Sir Robert Butler.

DH.

(DOUGLAS HURD)

Foreign and Commonwealth Office

26 October 1990

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