

MEETING BETWEEN THE SECRETARY OF STATE FOR FOREIGN AND
COMMONWEALTH AFFAIRS AND ONOREVOLE GIANNI DE MICHELIS,
MINISTER FOR FOREIGN AFFAIRS OF ITALY, AT THE FOREIGN AND
COMMONWEALTH OFFICE, 23 FEBRUARY, 1030AM

Present

Secretary of State	HE On De Michelis
Mr Weston	HE Sr Biancheri, Italian Ambassador
Mr Bayne	HE Sr Vanni-d'Archirafi
Mr Kerr	HE Sr Perlot
Mr Synnott	HE Sr Vattani
Mr Gozney	Sr Nigido
Interpreter	Sr Grafini
	Sr Sessa
	Sr Muzi-Falconi
	Interpreter

1. The Secretary of State asked Sr De Michelis for his views on the situation in Eastern Europe. Sr De Michelis said that his most important concern was how to avoid the risk of negative effects between the various elements currently on the timetable, namely the European Community, CSCE, East/West relations, the evolution of NATO and, of primary significance, German unification. All these issues interrelated and there was not much time available. Italy had nothing against discussion of the German Question by the Four Powers and the two Germanys insofar as this concerned their legal rights. But if the idea was to discuss all external aspects of unification, this would give great political power to the Soviet Union.

2. The Secretary of State said that he was glad that there were now plans for discussions within NATO and the European Council. This was what we had long wanted.

3. Sr De Michelis said that Italy wished to speed up discussions within the EC on EMU. If EMU remained as planned, then the Deutschmark would dominate. Hence an arrangement was needed by which the Germans conceded control over the Deutschmark in exchange for cooperation over unification. This could be achieved by means of a Federal Reserve system and a European Bank. In the face of a united Western position in 1990, Germany could not dissent. But they would be strong enough to do so in 1991 or later. Without wishing to change the date of the IGC, Italy wanted Britain to accept that at the IGC it would be desirable to consider a draft treaty. A second Summit might then take a decision to conclude the treaty during the Luxembourg Presidency. If the British position was negative, Germany could dominate.

4. The Secretary of State suggested that a united Germany could be too powerful for European integration to serve the

purpose which Italy intended. And there was a divergence between the views of the British people and those of Italy. The Single Market was an important milestone and Italy had a crucial role during her Presidency. Sr De Michelis reiterated that Germany's political power had already increased, as demonstrated by the fact that the most important of the two debriefings at Ottawa (the Germans' and the Americans') had been the Germans'. The Ottawa arrangement, which amounted to a deal between Germany and the Soviet Union, was an embryo G5. It was bizarre that Soviet forces should be stationed in a NATO member country. Although it was not impossible, it would nonetheless change the face of NATO. The Secretary of State said that Britain would prefer to use existing institutions so far as possible, but the Soviet Union was not a member of these. Hence another mechanism was needed, but this was a long way from being a G5.

5. On EMU, Mr Kerr enquired whether it would be right to draft a treaty before the various EC committees had had sufficient opportunity to prepare for it. The Italian idea for a second IGC appeared to be a new development. Sr De Michelis confirmed that Italy attached importance to ECOFIN and to careful preparation. Once a common position had been reached, a treaty could be prepared very quickly (in a week). He claimed that the Italian ideas represented a compromise between others' positions. The Secretary of State commented that the Italians now had to remember that two parallel conferences would open the door to discussion of every aspect of the Community, including enlargement. Britain wished to carry forward Delors' ideas on the principle of subsidiarity. The difficulties related to the roles of the Deutschmark and of the European Parliament, which had little impact in Britain. If the role of the Commission were to be examined it would be useful to do so against the background of accountability. Sr De Michelis said that Italy had similar views about the Commission. But Britain was defending her sovereignty when in some respects it was already zero, eg currency was already dominated by the Bundesbank. The Secretary of State doubted that M Delors' ideas would help. They would involve losing more than was gained. Mr Kerr said that the boundaries of German economic power would be eroded within a Single Market. Mr Bayne observed that, since the GDR's economy was very depressed, it would be some years before the German economy developed fully. The Secretary of State said that there would be much hard work to do before the Irish Summit. Germany would need derogations and would want access to funds and markets. Many dossiers would be involved.

Eastern Europe

6. The Secretary of State asked Sr De Michelis for his views on the situation in Eastern Europe. Sr De Michelis said that

Italy was concerned about this, not only in the context of the German Question, bearing in mind that the population of the GDR was only 16 million. Other Eastern European countries should not be neglected. Italy had therefore pursued a very flexible and pragmatic regional cooperation arrangement with Austria, Yugoslavia and Hungary. Czechoslovakia would join in the next few months (in May). These arrangements would cover transport, telecommunications, use of Adriatic ports, and soft infrastructure such as universities. A summit at the end of July in Venice would approve a plan of projects and this would be a basis for an approach to the EBRD. The Secretary of State agreed that the East European countries needed such encouragement. Sr De Michelis said that, since Czechoslovakia had concerns about Poland, he had proposed that there should be another regional agreement involving Czechoslovakia, Poland, Sweden, Finland and possibly a united Germany. The first three countries had already started discussions. A forthcoming summit meeting of Czechoslovakia, Poland and Hungary would give a political message to the EC about their existence as Europeans. The Foreign Ministers of Italy, Yugoslavia and Austria would be invited also. Much political pressure could be expected after the East European elections: they would want everything at once. France, Britain and Italy had a special responsibility in this regard.

7. Considering the cases of individual countries, Sr De Michelis said that Hungary was likely to experience problems over political stability which would affect economic reform. It was necessary to give Hungary a political role. On Yugoslavia, Sr De Michelis had become less worried recently. The situation would depend upon results of economic reform. The problem of Kosovo would be manageable. On Albania, Sr Perlot said that the Albanians were studying ways of joining the Helsinki process. The internal situation was quite unknown, but there was no substance to recent press reports about instability. The situation did not seem to be worse than previously. Poland and Romania were the most worrying. The Secretary of State enquired whether further pressure should be exerted on Romania to ensure that elections were fair, or whether we should give them the benefit of the doubt. Sr De Michelis said that he attached importance to a visit by the Political Directors of the Troika. If the Front won, we would have to deal with them and hence it was desirable to show interest. Action only by Ambassadors was too low a level. The Secretary of State said that Britain would support that idea.

8. The Secretary of State enquired about Italian views on the Baltic States. What was the legal position? Sr De Michelis said that Italy did not recognise Soviet annexation. Handling of this, like the German Question, depended upon the framework. If there came to be only 22 countries in the CFE Conference, how would East German forces

be counted? The Secretary of State said that, at this stage, it might be better not to ask too many questions! Herr Stoltenberg had suggested that, for political reasons, unification would not take place before the Federal elections. Sr De Michelis was inclined to doubt this, since Kohl might judge that he would do best against a background of unification. Germany should tell the Allies about their timetable.

9. There was a brief exchange of views on Cambodia and Vietnam. The Secretary of State referred to Mr Maude's recent visit and progress over the Boat People. It was unfortunate that the American door was still closed on Vietnam. Sr De Michelis expressed the view that we should encourage the Americans to change their position.

10. Sr De Michelis expressed concern about the situation in the Mediterranean. The real problem was the spread of fundamentalism, which put Egypt and Algeria particularly at risk and which jeopardised security. The Secretary of State agreed. The leaders concerned were very experienced. How could others help? Sr De Michelis suggested that this should be done through economic aid and the start of a political process, on the lines of the Helsinki Agreement in relation to the Mediterranean area. France, Spain and Portugal had similar feelings. The situation was deteriorating, not just in the Mediterranean but also in Saudi Arabia.

11. On Libya, the Secretary of State expressed thanks for Italian protection of British interests in Libya. As regards Rabta, it had been concluded that Political Directors should study the issue further. We needed to consider proliferation in more detail. Mr Weston enquired whether fundamentalism was spreading to Italy. Sr De Michelis said that this was not yet the case since most of the Arabs in Italy were of Tunisian or Moroccan origin.

12. The meeting finished at 1125.

(Western European Department)

cc: Private Secretary	Soviet Dept
PS/Mr Waldegrave	MED
PS/Mr Maude	NENAD
PS/PUS	SEAD
Mr Weston	HKD
Mr Bayne	ECD(E)
Mr Kerr	ECD(I)
WED	Research Dept
EED	HMA ROME
	PS/No 10 (for para 3)

