



Foreign and Commonwealth Office

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Jean Charles,

Visit by the Italian Prime Minister

Signor Andreotti, accompanied by his diplomatic adviser (Vattani), will visit Chequers for lunch and talks with the Prime Minister on Saturday 20 October. This will be last of his consultations with Community Heads of Government before the special meeting of the European Council on 27/28 October in Rome. He will want to discuss the Rome agenda and his proposed package on the sites of EC institutions.

Italy Internal Situation

Andreotti's coalition Government almost fell in July when five Christian Democrat Ministers from the Left-Wing de Mita faction resigned over a broadcasting bill. But the Government carried through the legislation and is likely to see out the EC Presidency intact. The next General Election may be in spring 1991. Italian economic prospects are worrying. Italy imports 80% of its energy supplies. Inflation will probably exceed 6% by the end of 1990 and may rise further. To tackle the high public deficit (11.5% of GDP), the Government have proposed a tough budget for 1991. This will be fiercely resisted in Parliament and increase the strain in the coalition.

European Council: Programme

The Presidency have proposed working sessions before and after dinner on 27 October and on the morning of 28 October. Signor Andreotti has suggested discussion of: preparation of the two IGCs, sites of Community institutions, German unification, the CSCE Summit, future economic and financial cooperation with the Soviet Union and international issues. The Chequers meeting will enable the Prime Minister to underline the importance of the Special European Council taking united positions on the key international issues and not dwelling on the Community internal agenda. In contrast to Signor Andreotti's likely preference, the UK preference would be for the major part of the Rome meeting to be devoted to discussion of the Gulf crisis, GATT, and developments in the Soviet Union and Eastern Europe. Some form of stock-taking of preparations for the Inter-Governmental Conferences on economic and monetary union and institutional reform will be unavoidable, but the Prime Minister might steer Signor Andreotti away from any idea of the October European Council establishing substantive guidelines for the IGCs. This would

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be premature.

### Gulf Crisis

The Prime Minister might draw on the following:

- EC resolve on sanctions against Iraq <sup>is</sup> ~~proof of effectiveness of political cooperation~~. Continuing need for close coordination within both EC and international community;
- Different countries have responded in different ways. We are making a large military contribution. International community should get on with provision of assistance to countries hit by imposition of sanctions. Applaud Italy's sizeable national contribution (150m dollars);
- (if necessary) UK response through military commitments to international force. Combined UK economic and military contribution greater than any other except US (UK 0.23% GDP: cf Italy 0.05%).

### GATT

Agriculture Council will meet on 19 October to try for the third time to agree the Community's offer of reductions in agriculture support and protection in the GATT Uruguay Round. They need to succeed. The content of the Commission's proposal is well known and to offer anything less, or delay any longer, will lose the Community most of our negotiating credibility. The US and Cairns Group tabled their more ambitious offers on time on 15 October. If the Council do not manage to agree on Friday, we hope FAC on 22 October will give a strong enough steer to allow the Commission to table the offer, and it will not be necessary for the issue to go to the European Council on 27 October. As a member state the Italians are strongly resisting tabling the offer as it stands, seeking to exclude Mediterranean products and demanding a commitment to compensation for their farmers. As Presidency, however, they realise that they have an interest in leading the Community towards a successful GATT agreement and are working to get an offer agreed. The Prime Minister might say:

#### If the Agriculture Council has unblocked the offer

- Welcome final agreement to EC offer. Still a long way to go if we are to reach agreement on time in December.
- Recognise that US will have to moderate its demands but we must also give Commission enough negotiating flexibility to reach agreement.
- Community has too much at stake in the Round as a whole, particularly in view of Gulf Crisis, to sacrifice it over one

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sector, however sensitive. Genuine risk that Cairns Group and developing countries will walk away from agreement that does not give them a substantial deal on agriculture.

- At European Council we should reaffirm our commitment to success and our willingness to take painful decisions.

If Agriculture Council still blocking offer

- Although the UK earlier argued for improvements, we are ready to support the EC offer in its present form. But will not accept changes that weaken the offer.
- Offer has to be comprehensive. Can be no question of excluding Mediterranean products.
- US and Cairns offers on the table. By further delay and public wrangling Community has lost the initiative. Must table our offer as quickly as possible.
- Look to the Italian Presidency to ensure the Community contributes fully to a successful GATT Round. Community has too much at stake - particularly in view of the Gulf Crisis - to sacrifice the success of the Round over one issue - however sensitive.
- Hope we will be able to table our offer after FAC on 22 October. Can't afford to wait until European Council on 27 October.
- Hope European Council will however, reaffirm our strong commitment to the Round as a whole and our willingness to take further painful decisions as necessary.

EC/Soviet Union and Eastern Europe

Assistance to the Soviet Union will be one of the main topics at the Rome European Council. We believe the Commission will present an interim report on its study of the Soviet economy, focussing on technical assistance and certain specific sectors, eg energy, which we favour. There seems to be no desire in the Commission to propose large scale financial assistance of the sort touted at the Dublin Council. This is welcome, but we believe that the Italians may persist in arguing for major financial support, of the sort they have already offered bilaterally; and, for Eastern Europe, they may seek support for Andriessen's idea that the Community should provide balance of payments support/loans. The Prime Minister will want to emphasise to Andreotti the importance of realistic aims at the Rome Council and might like to draw on the following points:

- essential that the Commission report is consistent with the parallel IMF study. Any proposals for EC aid should not

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pre-empt the later analysis which we asked for at Houston;

- EC can help by providing technical assistance in specific sectors of Soviet economy such as energy, transport and food distribution. Under present circumstances no question of major financial aid;
- right to be considering effects of Gulf crisis on economic reform programmes in Eastern Europe, but as G24 Ministers agreed in June, IFIs should be in the lead over any balance of payments assistance. Community already involved in major aid programme.

Sites of Community institutions

This may be Signor Andreotti's main preoccupation at Chequers. He is likely to float with the Prime Minister a package deal on the sites of several new EC institutions. An agreement on this was blocked during the Irish Presidency by the French insistence that Strasbourg be confirmed as the site of the European Parliament. The Italians were asked to make a proposal by the end of October. We do not know exactly what Andreotti will propose, but we gather he is preparing a package that might include the following elements:

- acknowledging Strasbourg as the (permanent) site for EP plenaries and giving the Belgians the EP Secretariat (now in Luxembourg);
- locating the European Environment Agency (EEA) in Copenhagen or Milan;
- locating the Community Trade Mark Office (CTMO) in either Madrid or The Hague, possibly with the legal section in Luxembourg;
- expanding the package by giving another proposed institution (for example, the Medicines Evaluation Agency or Plant Breeders Rights Agency which have not yet been formally proposed) to the loser(s) in the race for the European Environment Agency/Community Trade Mark Office;
- Training Foundation to Berlin;
- a European Council statement promising any future European financial institution (whether the European System of Central Banks or some other) to Luxembourg, who have indicated they would accept this as compensation for losing the EP Secretariat.

Following our EBRD success we cannot expect another institution to be sited in the UK in this round. Many uncertainties still surround the Italian package, and it may come unstuck. But it is in our interest to get the EEA, CTMO

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and Training Foundation agreed and in operation as soon as possible. If the EEA goes to Copenhagen, the possible Italian deal would be close to the best outcome we envisaged before the EBRD decision. But we would prefer the package not to be enlarged to include prospective agencies (or any possible monetary institution), in order to preserve our chances of securing a worthwhile future institution for the UK in a later round; and, if possible, we would like to avoid splitting the CTMO. The Prime Minister might therefore:

- welcome a Presidency effort to settle the question of sites, and undertake to reflect on Signor Andreotti's suggestions;
- urge that establishment of the Environment Agency and Trade Mark Office should not be delayed any longer, and that, even if overall package not agreed, at least these should be settled at the European Council;
- discourage expansion of the existing package. We have not even discussed the need for the other agencies/institutions yet, let alone agreed them;
- make clear that it would be premature to take any decision on siting of a possible monetary institution but note that London would be a strong candidate for the European Monetary Fund which we have proposed.

#### EMU

There is little common ground on EMU with Andreotti, who sticks by Delors' call for a pre-determined date for transition to Stage II and a rapid move to Stage III. The Italians want to accelerate preparations for the IGC by encouraging the European Council to declare ECOFIN preparations over and ask for Treaty-drafting to begin. They may even float a text. They want Foreign Ministers as well as Finance Ministers to attend, if not lead, the EMU IGC. The Prime Minister may wish to say that:

- sterling's entry into the ERM underlines our commitment to the effective implementation of Stage I;
- our evolutionary, market-based approach to EMU including our proposals for the next step - a hard ecu and a new Community institution, the EMF - are increasingly relevant to the debate, given the recent Spanish and Dutch proposals for a substantial Stage II predicated on economic convergence;
- but it is premature to decide now on any later stages. The hard ecu could in the long term evolve into a single currency, but only if governments and peoples so choose. But imposing artificial dates would put us in a politically impossible position.

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- plenty of preparation for IGC still to do; European Council should note good progress so far and ask ECOFIN to continue its work, particularly on immediate steps beyond Stage I, until the IGC opens.

#### Political Union IGC

We want to avoid a substantive discussion of 'political union' at Rome and head off any Presidency attempt to pre-empt discussion at the IGC itself. In particular we want to avoid the European Council agreeing a "mandate" for the IGC - ie setting goals - as Signor Andreotti may suggest. The report from Special Representatives and Foreign Ministers will set out a range of options. The European Council need do no more than note the preparations undertaken so far and, if necessary, ask for further work to be done. There is no need to settle priorities at this stage. The Prime Minister might wish to:

- reiterate the need for the Political Union IGC to adopt a realistic, incremental approach to reform of the Community institutions, the key criteria remaining those of efficiency and accountability;
- reaffirm the importance of national institutions, and of involving national parliaments more closely in EC affairs;
- make clear that the IGC should be free to set its own agenda, as agreed at Dublin.

#### EC aspects of German unification

As mandated by the Dublin European Council in April, the Commission produced proposals in August for the integration of the former GDR, involving a limited number of derogations in areas where Community obligations (eg environment standards) cannot yet be met. Discussion of the proposals is progressing well in Brussels. There are no major UK problems: we are satisfied that there will not be serious distortions of competition which might adversely affect the opportunities available to UK industry. We expect the package to be adopted in early December. There are no issues which are likely to need resolution on 27/28 October, but the Presidency want to refer to the integration of the ex-GDR into the Community as part of the unification process. If Andreotti raises this, the Prime Minister could say that:

- the UK is working for smooth and rapid integration of GDR into EC;
- we are broadly satisfied with progress of discussions in Brussels;
- we hope that procedures are complete well before Christmas.

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Two other Community issues may be raised.

#### Japan/Cars

The post 1992 regime for imports of Japanese cars will be a test-case for the open Single Market. Community discussion has reached a critical stage, with the Commission pushing a package provisionally agreed with the Japanese but so far rejected by protectionist and liberal member states. Five member states (Italy, France, Spain, Portugal and UK) restrict imports of cars from Japan. Only the first four want a long period of continued protection after 1992 but we have not yet made public our intention to abolish our own Voluntary Restraint Agreement. Although we favour immediate EC-wide liberalisation, we are prepared to accept a transitional period on certain conditions. Since the Italians, with the French, are the most vociferously protectionist in this debate, the Prime Minister may wish to say:

- UK firmly committed to liberal approach. Regard any transitional arrangements as second best;
- transitional arrangements should be short; should cover only those countries who want continued restrictions; and should not limit the production and intra-EC trade of cars built in the UK by Japanese-owned firms ("transplants").

#### EC Enlargement

Italy accepts the Community consensus that there should be no decisions on enlargement until 1993 at least but has called for negotiations on Austrian accession to begin before then. The Italians also encouraged Malta to make an application this July. But they have spoken of the need for major "deepening" or development of the Community before any wide enlargement is contemplated. The Prime Minister might draw on the following:

- continue to support consensus that no decisions should be made before 1993. Sensible to complete existing tasks first;
- but Article 237 of EC Treaty clear: Community open to all European countries able and willing to accept obligations of membership;
- Community should make clear, open and generous offer of eventual membership to reforming countries of Eastern Europe;
- further enlargement inevitable this decade. In keeping with Community's open, liberal character;
- the Community is developing all the time: completion of the

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Single Market must remain our top priority at present.

Other international issues may also be discussed:

### Iran

Our agreement to resume diplomatic relations with Iran at UNGA cleared the way for a normalisation of EC/Iran relations. The Italian Foreign Minister told his Iranian counterpart this could be announced after the next meeting of Foreign Ministers (22 October). Now that we have obtained an Iranian undertaking not to interfere in the affairs of any other country, we can agree to drop a proposed EC/Iran exchange of statements and lift the high-level visits ban. We would, however, want the Italian Presidency to make clear reference to the Iranian undertaking and, if possible, get the Iranians to repeat it when announcing a normalisation of relations.

The Prime Minister could draw on the following:

- took the opportunity to resume diplomatic relations at UNGA as we felt our remaining bilateral problems could then be more easily resolved. Also believed it would provide us with best basis to talk to Iranians about their role in Middle East following Iraqi invasion of Kuwait, particularly their enforcement of sanctions;
- making preparations to open our Embassy in Tehran. Hope to have first staff in place by 27 October as agreed with Iranians;
- now that we have obtained Iranian undertaking not to interfere in affairs of any other country, see no overriding need for formal exchange of statements. But, when announcing normalisation of relations, hope Presidency will refer to Iran's undertaking and urge Iranians themselves to repeat it;
- no objection to dropping ban on high level visits.

### Syria

There is wide support in the Community, including Italy, for normalisation of relations with Syria. The Syrian Foreign Minister has suggested a Ministerial Troika visit to Damascus to discuss improved EC/Syrian relations with President Asad amongst others. We have told Partners we would not object to this. The Prime Minister might:

- acknowledge Syria's regional significance and role in Gulf crisis. Welcome Syrian decision to send troops to Saudi Arabia. Robust sign of international solidarity. Progress on hostages;

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- for these reasons glad to have been able to remove UK block on proceeding with negotiations for Third Financial Protocol to EC/Syria Cooperation Agreement;
- understand desire to remove remaining EC measures. But we still have some serious bilateral problems to resolve which led to imposition of measures in 1986. Looking at ways forward. No objection to possible Ministerial Troika visit.

### South Africa

The Italians are keen to follow up on the Dublin Council conclusions which included a willingness to consider a gradual relaxation of pressure as the process of change continued. We are keen for them to take a lead on this amongst the Twelve with the objective of lifting the voluntary investment ban or, at a minimum, of establishing a firm timetable for the lifting of measures. The Prime Minister might draw on the following:

- Essential not to lose sight of South Africa during Gulf Crisis. Changes deserve our support.
- Important progress since Dublin. Pretoria Minute - joint commitment by the South African Government/ANC that way is now open to negotiations. No remaining obstacles to genuine national dialogue - specific EC objective.
- De Klerk needs clear vote of confidence from international community. Twelve best-placed to give this. Sanctions already crumbling. Mandela addressed businessmen in US and UK calling for new investment. EC should move rapidly to regularise situation on new investment. As we said in February when lifting voluntary investment ban, businessmen should be free to exercise own judgement about South Africa.

### China

In June the Twelve agreed to review the remaining measures agreed at the Madrid European Council, following a Troika meeting with the Chinese Foreign Minister at UNGA. We have been pressing within the EC for moves on concessional finance and high level contacts and have indicated this to the Chinese. The Italians are willing to chair discussion on how to improve relations but there is as yet no consensus among the Twelve. The Prime Minister might draw on the following:

- important not to isolate China. Gulf Crisis has illustrated importance of China as Permanent Member of Security Council. Cooperation over Cambodia and improved relations with Vietnam, India and Indonesia also notable;
- should continue to speak out on Human Rights. But believe

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time now right to resume regular high-level political contact and to relax, if only partially, restrictions on aid. Both relaxations would assist China back into the fold.

#### Vietnam

We announced the lifting of our block on the resumption of EC/Vietnam official relations at the Political Committee, 17-18 October, following agreement reached in Hanoi between the British, Hong Kong and Vietnamese governments and UNHCR on simplifying the return of volunteers and on the return of non-volunteers who do not object. The Italian Foreign Minister played a helpful role in attempting to break the impasse with the Vietnamese. The Prime Minister might say that we were:

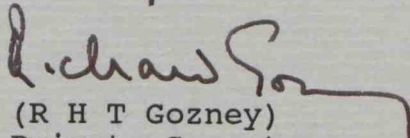
- glad we were able to lift our block on resumption of EC/Vietnam official relations after Vietnamese made it clear they accepted their responsibility towards their own people;
- grateful for Italian help in resolving this difficult issue.

#### Anglo-Italian Relations

The Prime Minister might:

- say how much the Government are looking forward to President Cossiga's State Visit, 23-26 October; and
- welcome any proposal Andreotti may make for an Anglo-Italian Summit in the spring (the last one was in London in February and you have identified possible dates next February/March, subject to the Summits in Germany and France).

I am sending copies of this letter to John Gieve (HM Treasury), Martin Stanley (DTI) and Sonia Phippard (Cabinet Office).

*Yours ever,*  
  
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Private Secretary

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