



Foreign and Commonwealth Office

London SW1A 2AH

1 November 1990

Sir Stephen Egerton KCMG
British Embassy
ROME

| | | |
|----------------------|----|--------------|
| MWS 011/16 | | |
| RECEIVED IN REGISTRY | | |
| 05 NOV 1990 | | |
| DESK OFFICER | | REGISTRY |
| INDEX | PA | Action Taken |
| | | Care |

Dear Ambassador

SPECIAL EUROPEAN COUNCIL, ROME : 27-28 OCTOBER

1. Rome telnos 917-925 and UKRep's commentary telno 3128 gave a fairly full report of the discussion at the Special European Council in Rome, 27-28 October. I now enclose the usual record of discussion put together by UKRep from notes taken at the Council Secretariat's briefing.

Yours ever

M A Arthur

M A Arthur
European Community Department
(Internal)

MA3AAU/1

/cc:



Sir A Acland, GCMG, KCVO, Washington
 Sir C Mallaby, KCMG, Bonn
 Sir J Whitehead, KCMG, CVO, Tokyo
 Sir N Fenn, KCMG, Dublin
 Sir E Fergusson, KCMG, Paris
 Sir R Braithwaite, KCMG, Moscow
 Sir D Miers, KBE, CMG, Athens
 Sir M R H Jenkins, KCMG, The Hague
 Mr R J O'Neill, CMG, Brussels
 Mr N C R Williams, CMG, Copenhagen
 Mr H J Arbuthnott, CMG, Lisbon
 Mr P R Fearn, CMG, Madrid
 Mrs J J d'A Campbell, CMG, Luxembourg
 Private Secretary
 PS/Mr Garel-Jones
 PS/Mr Waldegrave
 PS/PUS
 Mr Weston CMG
 Mr Bayne CMG
 Mr Jay
 Mr Tait CMG, LVO
 Mr Greenstock
 Mr Slater CMG
 The Hon D Gore Booth CMG
 Mr Jones-Parry, ECD(E)
 Mr Figgis, Research Department
 Mr Cooper, MVO, Policy Planning Staff
 Mr Broadbent, Economic Advisers
 Mr N L Wicks, CVO, CB, HM Treasury
 Sir C Whitmore, GCB, Home Office
 Sir G Holland, KCB, Dept of Employment
 Sir T Heiser, GCB, Dept of Environment
 Sir P Gregson, KCB, DTI
 Sir A Bailey, KCB, Dept of Transport
 Mr D H Andrews, CB, CBE, MAFF
 Sir M J A Partridge, KCB, DSS
 Mr D A Hadley, Cabinet Office

List of Annexes

- A. Speech by President of the EP
- B. Note on Foreign Ministers' dinner
- C. Draft conclusions circulated on 28 October
- D. Final conclusions

EUROPEAN COUNCIL, ROME: 27/28 OCTOBER 1990

27 OCTOBER

1. Andreotti welcomed the members of the European Council and the President of the Parliament, congratulating Baron on the success of the Inter-Institutional Conferences and looking forward to the assises with national Parliaments. Baron spoke in accordance with the attached text. Andreotti took note and promised to retain close links with the Parliament. He then congratulated Kohl and Genscher on German unification. This was a historic event which had taken place with the support of the Community and NATO and had made possible the other changes in Central and Eastern Europe. The Community fully supported unification which would increase the weight of the Community in the world. Kohl was grateful for the Community's support and emphasised the political importance of unification for the German people. Germany would not forget this support. Nor would they forget the action of Hungary which had set the process in motion by opening its frontiers. He noted that there was currently a serious situation developing in Hungary with the police refusing to obey the government and a general strike threatened. The Council should urgently agree on a message to the Hungarian Government. Unification would have been impossible without the support of NATO and he was particularly grateful to the US. He also singled out Mr Gorbachev's policies and the importance of the withdrawal of Soviet troops. He recalled that the preamble to the German Constitution referred to the objective of European unification as well as German unification. His colleagues should assume that the present German Government (which would also be the next German Government!) would support European construction with a view to European union in the next century.

2. Andreotti said Foreign Ministers should discuss over dinner the text of a message to Hungary which should be shown to the European Council first thing next day so that it would reach Hungary by midday. If the Ministers agreed on a text this evening it could be assumed to have the European Council's

blessing. The agenda for the present session included political union, EMU and the USSR/East and Central Europe. Mrs Thatcher had asked to talk about the GATT negotiations. The Presidency had worked hard for a solution and important progress had been made. There would be a further meeting of Ministers on the subject on Tuesday. The European Council should give a political impulse to their work but could not go into the substance. The conclusions should include a statement on the political determination of the European Council to adopt quickly the mandate for the Commission. This was particularly urgent because of the interest of other countries such as the US. If some member states wanted to discuss this subject it should be done at dinner, after the discussion on the Gulf. The Ministers of Foreign Affairs could discuss the CSCE and trans-Atlantic relations over their dinner.

GATT

3. The Prime Minister said the GATT dossier had been discussed at numerous Councils, including a 16-hour discussion on the previous day. At the end, the Council had been close to agreement but there had been a blockage at the last minute. The matter should be discussed now. There was no point in discussing long term issues if the Community could not agree a common position on this matter. We were the only trading bloc not to have a position. She recalled the Houston Economic Summit - we must respect its conclusions. It would be very bad for the Community's reputation in the eyes of the US and the developing countries if we did not reach agreement on this subject, bearing in mind the progress made on intellectual property and industrial products. It would be particularly unfortunate for the Community to come out in opposition to the US when the latter was engaged in the Gulf and had given its full support to German unification. The Community must not appear to be a closed club of rich countries. The European Council should give firm instructions to Agriculture Ministers. She repeated that it was contradictory to talk about EMU and political union if we could not agree a mandate for the GATT. These instructions should be based on the proposals of the Commission.

4. Andreotti said all were agreed to give firm instructions to the Ministers to resolve this problem but the European Council could not go into detail and the Presidency were determined to stick to their agenda.

Political Union

5. Andreotti referred to the report by Foreign Ministers and expressed the hope that the result of the discussion would assist the European Council in December to agree a basis for the work of the IGC. Santer said the Community must be ambitious. Much had happened since the Single European Act (SEA) and what was needed was a new step in the evolutionary process of changing the institutions. The Community needed a real foreign policy. Some matters would continue to be done inter-Governmentally. But we must not dilute present Community elements. We needed democratically legitimate and efficient institutions: we must avoid a situation where we had democratic but inefficient institutions or efficient but undemocratic institutions. All the institutions should be strengthened, not some at the expense of others. He was not in favour of a right of initiative for the European Parliament (EP). The European Council should play its full role. There should be no change in the balance between the institutions. The Commission's executive powers should be increased and the EP's role should be increased in particular in the co-operation procedure and the assent procedure. Qualified majority voting should be extended and there should be better respect for the Court's decisions.

6. Lubbers said serious progress had been made under the Italian Presidency. The absolute priority was to reduce the democratic deficit and strengthen the powers of the EP. Extension of competence should be agreed with the clear objective of a federal Europe. Subsidiarity was a reasonable principle but difficult to put in legal terms. It was suitable for inclusion in the preamble. The European Council would work successfully if it remained informal. It should not be given precise competences which would be against the process of building the Community.

7. Cavaco welcomed the two papers on the table. The Commission's opinion involved four principles: flexibility on the way to reach European union, the need to retain the institutional balance, the need to safeguard national interests and subsidiarity. He was in favour of extending competence to health and strengthening it in relation to research, the environment and energy. He attached particular importance to trans-European networks. Under the European citizenship heading his priority was free movement of people. The role of the Parliament should be increased but he did not support the EP right of initiative - this was the Commission's prerogative. Nor did he support co-decision. The Parliament should be brought closer to national Parliaments. The European Council must remain the motor of Europe. On foreign policy it should develop a co-ordinating role. He was in favour of having qualified majority voting as a general rule for decision-making. A common foreign and security policy was an absolute necessity but it should be common, not single and should respect the specificity of the member states. Solidarity between member states and with the south was essential and the Community should have a real aid policy.

8. The Prime Minister said that proposals for organisational change were no substitute for using available powers properly, as over the GATT. The Foreign Ministers' paper was a miscellany of ideas and the IGC would have to put some order into them. The UK would play a constructive part. The UK was not ready to embark on the federal road, with the Commission as a kind of cabinet and the Council as a senate. The UK would retain its sovereignty which it would use constructively with the other eleven and in NATO. Co-operation over defence should be done in NATO with the USA. As regards security it was important not to unravel Article 5 of the revised Brussels Treaty. We were happy to improve co-operation on foreign policy but each member state had its own view of its national interests and we should not be forced into a single mould. We should continue to work on the basis of unanimity. The UK had made specific proposals on the role of the Parliament in monitoring expenditure and increasing efficiency of some institutions and on ways to ensure better compliance with Community legislation. She hoped these ideas would be followed

up. The principle of subsidiarity should be clearly spelt out in the treaty which would make clear what extra powers the Community would be given. The Community's powers could only derive from what member states were willing to agree the Community should do. Sovereignty was for the member states and the Commission must be kept within the bounds.

9. Martens said the Community was facing a real challenge. He favoured a federal Europe. Strengthening Europe in the monetary and political fields would make it a magnet for the East and Central European countries. The Parliament should have more legislative and monitoring powers. Work on EMU was much further advanced than work on political union and the latter needed to catch up. The two IGCs should conclude their work at the same time. Subsidiarity was a worthy principle but difficult to put in the treaty. Some favoured its inclusion in the preamble, others in the body of the treaty. He supported the German ideas for a regional body. He was in favour of new competence for the Community in the fields of health, energy, social affairs and taxation. The Community should remain a two-headed apparatus, with the Parliament and the Council. The Parliament must scrutinise the executive and exercise democratic control. We must have the courage to tackle the issue of security policy so that the Community could play its role in the world. Ceding power to the Community did not mean losing it but increasing it.

10. Schluter said the recent Danish memorandum contained pragmatic proposals. The institutions did not work badly but could be made more efficient and effective. The IGCs needed to find specific solutions. The Community must remain open to new accessions and to new forms of co-operation. Environmental policy should have a more central role. Political co-operation should be strengthened and broadened. A common security policy must be a genuine expression of common attitudes. Denmark had a pragmatic approach. Defence should not be included, at least not yet. For example, the idea of a common military force would send the wrong signals and would weaken NATO and the trans-Atlantic alliance. NATO should remain the basis of our security policy.

11. Kohl said that EMU was important but not enough. It was indissolubly linked to political union and the aim was to reach both by stages. The reports of Foreign Ministers, Special Representatives and the Commission provided a good basis for work. There was a risk of public opinion getting it wrong: Rome II would not decide on EMU or political union, just the opening of the IGC. This must lead to the strengthening of the powers of the Parliament. He was not prepared to go into the 1994 elections to the Parliament without their powers having been enlarged. What was needed was a pragmatic and progressive solution such as a decision that the Parliament would choose the President and members of the Commission and a move on co-decision. Political union would in itself change the status of the members of the Commission since it was a decisive step towards European government. We could not have political union without a common external and security policy. This could be done in stages. Political union must be based on the principles of subsidiarity and federalism. Nations and regions would remain and we must see how the regions could be given a voice. Political union was a hope for the future as Winston Churchill and Romain Rolland had already seen. The German Government would give all its support to political union.

12. Mitsotakis agreed with Kohl on the linkage between EMU and political union. The Commission's opinion was a good basis for discussion. Political union involved a common security and defence policy. The IGCs should not just improve the present treaties but extend competence to culture, health, the environment, research and education. The IGC must look for ways of making all institutions more effective and of strengthening democratic legitimacy by giving more power to the Parliament. He agreed with Mrs Thatcher that the common external policy should not be at the expense of NATO but should be complementary to it. We should also think about the future of the WEU in defining the common defence policy. The reports on the table contained useful ideas which Greece accepted and we should go forward progressively.

13. Gonzalez said work on Political union had fallen behind that on EMU. The documents contained several options. Spain was particularly concerned about European citizenship and the question of the union having adequate economic resources. The process of moving to European union was comparable to German unification. It involved a common external policy, a single defence policy and a single Parliament. It could be achieved by a progressive process. Member states would not lose sovereignty but would share their sovereignty with others. The external policy of each member state would not be abandoned but would be put in common. The realisation of a common external policy was consistent with the strengthening of trans-Atlantic links. European citizenship should not replace national citizenship but should involve a complementary status, including such matters as the right of residence and the right to vote in municipal and European elections. He was ready to give the Community more competence. He was also willing to see a move to qualified majority voting. But the Community should not have more competence without the means to finance its new activities - and this should be decided by qualified majority. He accepted the need to strengthen democratic legitimacy but it should not be assumed that the operation of the Community was not legitimate already. EMU and the common foreign and security policy would be decided by means of an agreement between sovereign states. He was in favour of keeping EMU and political union in parallel and the basic principles of both should be approved in December. Foreign Ministers should produce reports on three main themes setting out the options on: external and security policy, competences and institutions.

14. Mitterrand said the Foreign Ministers' report was a good basis for further work. It was for the IGC to choose between the options. An important psychological element was that the single market would become a reality while work on political union was continuing. The IGC should deal with the issues of external policy, security policy, citizenship and democracy. On external policy member states would retain a voice. It would need to be decided in which areas the external policy would apply. The Community had in fact already gone some way towards a common

policy in dealing with distant problems such as apartheid, Afghanistan and Central America and was now beginning to get its act together on more immediate and difficult problems involving greater risks. Careful account should be taken of the views of all including Mrs Thatcher. We should remember that the aim was to unite Europe and there was a need for intellectual courage in the IGC. As regards the question of democratic legitimacy, the European Council was too modest about its own role. It was in fact the most democratic of all the Community's institutions and helped to confer democratic legitimacy on the others. He was not excluding increasing the role of the Parliament but the European Council was legitimate in its own right. When Europe became more structured and federated the position would change but we were not there yet.

15. Haughey said both IGCs needed to make progress towards political union. This would be a crucial but not the final step. On the international side we would need to decide what would constitute a common foreign and security policy and spell it out in the treaty. He was willing to participate in a policy of the Twelve. But we should distinguish between security policy and defence. Security should be defined in a broad and general manner. The scope of the treaty articles on cohesion should also be broadened. Assistance to the less prosperous areas of the Community was an integral part of political union. A definition of subsidiarity should be included in the treaty and we needed to be clear about the legal implications. It should not be used to limit the development of the Community. Community citizenship was an attractive concept and the Spanish paper had been extremely helpful. He agreed with Mitterrand about the democratic credentials of the European Council in relation to the European Parliament.

16. Delors said the Commission's views were set out in their Article 236 opinion. He would only add two points: the need for a second SEA and subsidiarity. On the latter, the Commission had ruled out two possible solutions: including subsidiarity only in the preamble which was inadequate and would not give enough guarantees to member states, and establishing three separate

lists of competences (exclusive to member states, exclusive to the Community and mixed) as this would lead to too many conflicts and to government by judges. So the Commission was in favour of an article in the treaty based on the Spinelli draft which should be interpreted by the Court of Justice. Such an article should work both ways. Andreotti said the discussion provided a good basis for Foreign Ministers to continue their work.

EMU

17. Andreotti noted that since the last European Council the Commission had produced their paper, there had been discussion in EcoFin and the Carli Report had been produced. The Presidency had recently been involved in contacts to see if more substance could be injected into the IGC.

18. Santer said the Carli Report did not answer all the questions but did list the problems. The answers were for the IGC to produce. The paper did show that views were converging on certain options. On the transition from Stage 1 to Stage 2 he was prepared to agree to 1/1/94 but the IGC should finish by the end of 1991 so as leave time for ratification. As regards conditions for the transition he agreed to some of those set out but they should not be allowed to lead to postponement of Stage 2 beyond the agreed date. He agreed with those who wanted parallel progress between the two IGCs. As regards the organisation of the IGCs he agreed on the need for a link between the two. He thought that all Finance Ministers would want to lead their delegations in the EMU IGC with representatives of Foreign Ministers present. The text drawn up by Coreper was a good one and should enable consistency between the two IGCs to be assured.

19. Lubbers said the Carli Report was very good and noted that it incorporated Dutch and Spanish ideas.

20. Cavaco also liked the Report. Portugal supported EMU with conviction. This was a major challenge involving substantial risks. Economic union must respect the need for economic cohesion and take account of the special position of some

countries. It must envisage the creation of a new instrument to ensure stability and cohesion. EMU involved heavier demands on some countries than others. Convergence involved deep change and a major effort. He agreed with Gonzalez that the Union must be provided with the means to carry out its policies. He agreed to a 1/1/94 date for Stage 2. But it was more important to get the criteria right. The passage to Stage 3 should follow a political appreciation of the actual extent of convergence realised. The objective of EMU should be realised by twelve member states. This would require structural measures. He could not agree to a two-speed Europe.

21. The Prime Minister said the Carli Report was remarkable. It showed that the process of discussion was not finished but that we were at the beginning of the work. It showed that there were divergences on the final objective. She recognised that the UK view diverged from the majority. She recalled the recent debate in Parliament which had shown that the UK could not accept a single currency. The Pound Sterling had international status and was a symbol of national sovereignty. Parliament could not agree to abandon it. The UK's own proposals did not involve a European Central Bank with no democratic legitimacy. The UK could not renounce control of its economic and monetary policies. They did however involve a European Monetary Fund running the hard ecu, a currency which operators welcomed. Wide use of the hard ecu would represent substantial progress. There must be a solution which all could agree. As regards the date for Stage 2 this could not be fixed until we had defined the contents of Stage 2. At the moment we were involved in preparatory work and the contents of Stage 2 had not yet been defined. There should be an evolutionary process which did not involve forcing the will of Parliaments. It should be possible to increase our co-operation over economic and monetary policy. In joining the ERM we had accepted a discipline on our internal policy which would lead to greater economic convergence, a reduction in inflation and more growth. Major differences between our economies remained and much more convergence was needed. The UK proposals would lead to a Stage 2 in which currencies continued to be administered

nationally. They took account of the current divergences between our economies. Instead of fixing a date we should deepen our thinking.

22. Eyskens said that we must be consistent. The single market would really only work well if there was EMU. EMU required institutional reform ie political union. So it was urgent to take decisions. Monetary sovereignty was disappearing every day and monetary policy becoming increasingly dependent on other countries. When the Bundesbank changed its rates others had to follow. Our monetary sovereignty was now down to 60 minutes. The answer to this problem was a European sovereignty on economic and monetary matters. He was in favour of starting Stage 2 on 1/1/93 but could accept Kohl's proposal for 1/1/94. The main thing was to fix a date - he recalled the political importance of the 1992 date.

23. Schluter said that good work had been done since Madrid and a good basis prepared for the IGC to start work. His country's links with the Nordic countries should be taken into account, as should the possibility of exchange links with non-members of the Community. It was reasonable to fix a date which would provide an impulse as 1992 had and he was in favour of a rapid move to Stage 2.

24. Kohl said there had been a long discussion on Stage 2 and he could support the Spanish/Dutch proposal with a start date of 1/1/94. It was essential to fix a date and there was much to do. But he believed that in the five years from 1994 to 1999 there would be a major opportunity for Europe. If this was lost it would be a long time before there was another. As regards the conditions in the Carli Report, he noted that the details could be decided later. A major shake-up was needed in the next few years. It was in the interests of all to have strict national policies. He was confident of success.

25. Mitsotakis said the Carli Report picked out the key points. Progress had been made and Greece would play its part - the political will was there. EMU implied the participation of all

countries. It must envisage the creation of a new instrument to ensure stability and cohesion. EMU involved heavier demands on some countries than others. Convergence involved deep change and a major effort. He agreed with Gonzalez that the Union must be provided with the means to carry out its policies. He agreed to a 1/1/94 date for Stage 2. But it was more important to get the criteria right. The passage to Stage 3 should follow a political appreciation of the actual extent of convergence realised. The objective of EMU should be realised by twelve member states. This would require structural measures. He could not agree to a two-speed Europe.

21. The Prime Minister said the Carli Report was remarkable. It showed that the process of discussion was not finished but that we were at the beginning of the work. It showed that there were divergences on the final objective. She recognised that the UK view diverged from the majority. She recalled the recent debate in Parliament which had shown that the UK could not accept a single currency. The Pound Sterling had international status and was a symbol of national sovereignty. Parliament could not agree to abandon it. The UK's own proposals did not involve a European Central Bank with no democratic legitimacy. The UK could not renounce control of its economic and monetary policies. They did however involve a European Monetary Fund running the hard ecu, a currency which operators welcomed. Wide use of the hard ecu would represent substantial progress. There must be a solution which all could agree. As regards the date for Stage 2 this could not be fixed until we had defined the contents of Stage 2. At the moment we were involved in preparatory work and the contents of Stage 2 had not yet been defined. There should be an evolutionary process which did not involve forcing the will of Parliaments. It should be possible to increase our co-operation over economic and monetary policy. In joining the ERM we had accepted a discipline on our internal policy which would lead to greater economic convergence, a reduction in inflation and more growth. Major differences between our economies remained and much more convergence was needed. The UK proposals would lead to a Stage 2 in which currencies continued to be administered

nationally. They took account of the current divergences between our economies. Instead of fixing a date we should deepen our thinking.

22. Eyskens said that we must be consistent. The single market would really only work well if there was EMU. EMU required institutional reform ie political union. So it was urgent to take decisions. Monetary sovereignty was disappearing every day and monetary policy becoming increasingly dependent on other countries. When the Bundesbank changed its rates others had to follow. Our monetary sovereignty was now down to 60 minutes. The answer to this problem was a European sovereignty on economic and monetary matters. He was in favour of starting Stage 2 on 1/1/93 but could accept Kohl's proposal for 1/1/94. The main thing was to fix a date - he recalled the political importance of the 1992 date.

23. Schluter said that good work had been done since Madrid and a good basis prepared for the IGC to start work. His country's links with the Nordic countries should be taken into account, as should the possibility of exchange links with non-members of the Community. It was reasonable to fix a date which would provide an impulse as 1992 had and he was in favour of a rapid move to Stage 2.

24. Kohl said there had been a long discussion on Stage 2 and he could support the Spanish/Dutch proposal with a start date of 1/1/94. It was essential to fix a date and there was much to do. But he believed that in the five years from 1994 to 1999 there would be a major opportunity for Europe. If this was lost it would be a long time before there was another. As regards the conditions in the Carli Report, he noted that the details could be decided later. A major shake-up was needed in the next few years. It was in the interests of all to have strict national policies. He was confident of success.

25. Mitsotakis said the Carli Report picked out the key points. Progress had been made and Greece would play its part - the political will was there. EMU implied the participation of all

member states at all levels in all stages. He could agree to 1/1/94 but this was not the most important element - what mattered was the contents. We needed to get convergence of our economies and this would involve bigger reforms for some than others. Greece would do its bit but needed the financial and economic means to do so. He had been encouraged by the popular support for his Government in the recent local elections despite the unpopularity of their economic policies.

26. Gonzalez agreed with other speakers on the importance of economic and social cohesion. Spain would contribute in writing to the debate. The Carli Report was a good basis for the work of the IGC and he was in favour of agreement on the 1/1/94 date.

27. Mitterrand was in agreement with the Presidency's proposals and was in favour of a start date for Stage 2. Some were suggesting that participation of all currencies in the narrow band should be a condition but this should not be accepted. We should also set out the timetable for Stage 3 which was not covered by the Carli Report. In his view four, five or six years should be sufficient. He approved the Presidency's proposals on procedure for the IGCs. France would be represented by its Foreign and Finance Ministers.

28. Haughey said there was a good measure of consensus on the Carli Report and the preparatory work was now finished. Stage 2 should start on 1/1/94 and the institution responsible for monetary policy should be set up. He was concerned about the negative effect of EMU on the peripheral regions of the Community - support measures would be needed.

29. Delors said much work had been done since the Spanish Presidency. The Spanish/Dutch proposals had advanced the work. The Commission's original ideas had been confirmed. Recent studies had shown that a single currency maximised the advantages of a single market. Experience of the EMS showed that nothing would have been achieved if decisions in the '70s had been made conditional on convergence. Some talked as if there was no Stage 1 but in fact the Bank Governors Committee were discussing

monetary policy and anticipating the new institution. Finance Ministers already co-ordinated effectively their national economic policies. Five issues were open for the IGC: the contents of economic union, on which it was necessary to reduce differences between member states on what budgetary constraints they were willing to accept; the compatibility of EMU with economic and social cohesion; the role of the ecu and how it could give the system the necessary dynamism - the UK's proposal had its relevance in this context; the transition to the final stage on which it was important not to mix up a two-speed Europe and the granting of a transitional period to some countries, as had been done in the case of free movement of capital; and the response to EMU in political and democratic terms.

30. Andreotti said the discussion had been useful. He noted a very large majority for setting a 1/1/94 date for Stage 2, though some would have preferred an earlier date. Officials should draw up conclusions on the basis of this discussion. The member state which had expressed substantial disagreements should have its views reflected in the conclusions. Gonzalez had been right to say that the joint exercise of sovereignty did not involve a loss of sovereignty. There was no need for further discussion of the organisation of the IGCs on which a text had been drawn up by Coreper. The Prime Minister noted that the Carli Report brought out the divergences and insisted that UK views must be noted in the conclusions. Andreotti said we should seek to get agreement on the basis of the Presidency's texts which would be looked at tomorrow. If this was impossible it would be a matter for the IGC.

USSR/Eastern Europe

31. Recalling the earlier reference by Chancellor Kohl to Hungary, the Prime Minister said that the second tranche of the Community's loan to Hungary was due to be released in November. In view of their problems over oil supply we should decide to accelerate the release of the loan to 1 November or even sooner. Mitterrand agreed.

32. Delors said Finance Ministers had been asked to deal with this problem. The oil supply problem was one not just for Hungary but for all the East European countries. Turning to the USSR he said that the Commission would work closely with the international financial institutions. The IMF would finalise its report in December. The Soviet Union was faced with 'stagflation', a deteriorating economic situation and a current account deficit. But the black economy was so large that it was hard to be sure of the facts. Some goods were in fact available even if not in the shops, as a result of hoarding. Economic reforms in the last five years had failed for a number of reasons. There was no mechanism for mobilising savings, a battle between the republics and a lack of orderly decentralisation but above all a lack of internal and external confidence. Three plans had been produced - by Ryzkhov, Shatalin and Gorbachev. The latter was the most realistic, providing for decentralisation but some centralised organisation. It was too early to tell what the outcome would be. The Supreme Soviet had recently decided on the superiority of the union and the next day the Russian Parliament had decided to suspend union decisions. The history of Russia had always shown the triumph of facts over law. One worrying issue was yesterday's decision to change the passport regime to enable Soviet citizens to leave the country freely. In case of economic failure there would be a risk of some 5-6 million immigrants to the Community. He would be ready to make proposals for the short and medium term in December. The Prime Minister said the IMF's report should be awaited before proposals were put forward.

33. Andreotti said the European Council must send a message of encouragement to Gorbachev. Kohl agreed. The question of aid should be left to December but decided then. In the meantime work on that decision should continue. Andreotti said the situation in the USSR had not permitted the Delors/IMF studies to be completed so decisions would have to be put off. Gonzalez agreed with Delors and Kohl. Perestroika was causing political problems for all member states and we needed a collective response. Immigration was only one aspect of this. Member states should back central authority in the USSR and not

contribute to its disintegration. Haughey was disappointed that no decision had been taken on aid. Santer agreed with Delors and Gonzalez but hoped the European Council would take a decision on very short term aid. Andreotti said Hungary was the priority. Foreign Ministers should deal with it. On the USSR decisions could be taken even before the December European Council if there were concrete possibilities. So the Commission and Presidency should be given a flexible mandate. A decision on development aid for the Soviet Union should be taken in December.

34. Mitsotakis said we should decide urgently on humanitarian aid for Hungary and the Soviet Union. His contacts with Bulgaria had informed him that the situation was extremely serious - many children would die this winter and a large proportion of the herds would have to be slaughtered because of lack of forage. The Prime Minister said we were repeating the discussion of Dublin and being presented with a bill without proper justification. The Community could end up giving aid to the entire world. We could not manage our finances in this way. If aid was needed the proper procedure should be followed. This was not the way to work and she hoped she had been understood. Andreotti replied that the Prime Minister was always clear. A few years ago the Community had provided the Soviet Union with very cheap surplus food - why could this not be done again? It would not be consistent with our support for human rights for the situation described by Mitsotakis to be allowed to develop. We should follow the situation closely but he accepted that controls were needed and we should not throw money away.

35. Kohl said the conversation was taking a disagreeable turn. He supported the Prime Minister. We must keep cool. The Bulgarians were refusing to cut their defence expenditure or the number of their tanks. They should do this before slaughtering their herds. We should be ready to give aid but on the basis of case by case study. We should decide tonight on Hungary but should think further about aid to the Soviet Union. It could not be decided before Rome II. The US would not take a decision before its forthcoming elections. He agreed with the principle of aid but huge resources would be required and the Soviet Union

must give guarantees that the funds would go into feasible reform. He would not rule out a decision before December but it must be made on a sensible basis. He had always said that Gorbachev must be supported.

36. Lubbers said the situation had changed since Dublin. It would be a long time before there was an overall concept which would enable a plan of aid to be defined. But if there was a case for immediate humanitarian aid, this should be provided.

Foreign Ministers Dinner

37. Discussion at the Foreign Ministers dinner is recorded in the attached note by the Private Secretary.

Heads of State/Government Dinner

38. Discussion at this dinner was mainly about the Gulf and the Middle East.

28 OCTOBER

39. Overnight the Presidency tabled the attached text of draft conclusions (SN304/90 - to which all the references below relate).

Political Union

40. The Foreign Secretary said that the Special Representatives report had enumerated options. The decision between these options was a matter for the IGC. However the language in a number of paragraphs gave the impression that certain options had already been agreed. Since these issues would have to be decided by unanimity this did not seem wise and he proposed a major shortening of this section. Andreotti disagreed and proposed paragraph by paragraph discussion.

41. On paragraph 2 the Foreign Secretary proposed the deletion of the last part of the first sentence reading "and extending its

powers to other supplementary sectors of economic integration which are essential for social cohesion". Delors proposed replacing these words by "the IGC will have to decide on extension of competences to other sectors which are essential for economic and social cohesion". Andreotti and Mitterrand said this was too weak and Andreotti proposed to note a British reserve on this paragraph.

42. The Foreign Secretary said we had several more amendments to propose in this section. Following a long discussion it was agreed to note British reserves indicating our preference not to pre-empt the debate in the IGC at four more points in the text and to make one change. This was the deletion in the penultimate sentence of paragraph 4 of the phrase "for instance by extending qualified majority voting within the Council, delegating implementing powers to the Commission and strengthening the effectiveness of the Court of Justice's action". This deletion was proposed by the Foreign Secretary and supported by Van den Broek. Andreotti said he was ready to accept it because the list of examples was not exhaustive.

43. The other points in the text at which the UK reserve was noted were:

- (a) Paragraph 3, line 4, on the development of the EP's role in the legislative sphere;
- (b) Paragraph 3, line 8, on European citizenship;
- (c) Paragraph 5, line 2 on the objective of a common foreign and security policy;
- (d) Paragraph 7, line 4 on going beyond the present limits in regard to security.

EMU

44. The Prime Minister asked for the insertion of a reference to the views of eleven member states in paragraph 2.

45. At the end of the second sub-paragraph of paragraph Mitterrand asked for the sentence "It will be accountable for its action to the democratic institutions" to be amended to read "It will report to the institutions which are politically responsible".

46. Delors said that in paragraph 3 the reference to "a currency of its own" should be replaced by "a single currency".

47. Delors said that the first four of the conditions set out in paragraph 4 of the text were objective, but the fifth "the greatest possible number of member states have adhered to the exchange rate mechanism" was subjective, as was the next paragraph referring to "real and monetary convergence". These would enable a member state to block Stage 2 and he asked for a Commission reserve to this effect to be noted.

48. In paragraph 5 Lubbers said "further lasting progress" should be replaced by "further satisfactory and lasting progress".

49. In paragraph 7 de Michelis said the reference to a report on the functioning of the second phase should be redrafted to read "the Commission and the Council of the monetary institution will report to the EcoFin Council and to the General Affairs Council on the functioning of the second phase". Cavaco said the words "and in particular on the progress made in real convergence" should be added. At the end de Michelis proposed "the General Affairs Council will submit the dossier to the European Council".

50. The Prime Minister referred to the UK's proposed text for the final paragraph. Andreotti noted the positive points in this paragraph despite the differences of opinion. This would help the pursuit of work jointly. He noted that the text on EMU had been agreed.

USSR

51. In paragraph 2 Delors asked for the addition of the word "institutional" before "political and economic reforms undertaken

by the government of the Soviet Union". The Prime Minister disagreed. Andreotti proposed referring simply to "reforms".

52. In paragraph 3, Lubbers proposed the addition of the words "by means of co-operation in various areas".

53. In paragraph 4, Delors proposed an amendment committing the December European Council to take decisions. After objections by the UK and Netherlands it was agreed to revise the text to read "the Commission was instructed to submit before the next European Council proposals for the decisions to be taken".

54. In paragraph 6 Mitterrand asked for the addition of the sentence "The European Council accordingly asked the Commission to put forward proposals for a major commercial scientific and technical co-operation agreement with the USSR".

Central and East European Countries

55. The Prime Minister proposed the deletion of the last sentence of paragraph 3 about adding to the action of the international financial institutions a specific form of support appropriate to the special needs of these countries in present circumstances. Mitterrand agreed. Andriessen explained the background. Andreotti agreed that the sentence should be dropped since the issue had not been discussed.

56. After paragraph 3 de Michelis proposed adding a new paragraph on Yugoslavia to read "in this context the European Council hope that the economic reforms and democratic developments in Yugoslavia would meet with success within the framework of increased respect for human rights and the preservation of the country's unity and territorial integrity".

57. In paragraph 4 Mitterrand suggested adding at the beginning a reference to the numerous urgent problems arising in Central and Eastern Europe and to the approach to the European Council by the Hungarian Government.

58. In paragraph 5 Mitterrand proposed adding the words "which implies the refusal of violence and respect for equality". Paragraph 7 should be dropped.

Uruguay Round

59. In the course of a lengthy discussion, Lubbers said the European Council should do more than give a political impulse to the Council. It should give them an indication of how they were to solve the problem. He proposed adding the words "on the basis of the draft conclusions discussed by the Council on the previous evening". Mitterrand said he could not accept the current US proposal, nor those of the Commission. Lubbers said France should abstain and not obstruct a decision. Mitterrand said it was not for Lubbers to tell him what the French position should be. It was one of opposition not abstention. Andreotti said the item was not on the European Council agenda and members had not come prepared to discuss the substance. He could agree to giving a political impulse but not to discussing the details. He could give an assurance that he would work personally with de Michelis to find a solution quickly. Genscher, Mitsotakis and Haughey supported Andreotti.

60. Lubbers and the Prime Minister thought it inconceivable that the Community should be unable to decide its position on a matter within its competence after seven meetings of the Council and many hours of discussion. It was an urgent matter. What was the value of reaching agreement on less urgent matters such as the IGCs when agreement could not be reached on this issue? Andreotti said the Presidency was willing to devote all its efforts to getting a result but the European Council could not pronounce on the substance. This was all the more impossible since Kohl had by now left the meeting. Lubbers said he had full confidence in the Presidency but they should at least provide for Ministers in the Council to take a decision by qualified majority. Andreotti said the Council's procedures would be respected. He hoped the situation would be better in December.

61. In the course of discussion no decision was taken on whether or not the reference in the draft text to a further meeting of the Council on 30 October should be deleted. Subsequently the Presidency let it be known that they had decided to postpone this meeting to allow bilateral consultations to take place first. They fully intended to respect the timetable for the Uruguay Round agreed at the Dublin European Council.

Annex I - Organisation of IGCs

62. Fernandez Ordonez called for a reference to be inserted for the need for parallelism between EMU and political union. Samaras proposed that "and parallel progress" be added after "consistency" in the last sentence of paragraph 2.

63. Kohl asked for the inclusion of the phrase "conference on political union and conference on economic and monetary union" in brackets at the end of paragraph 2.

Middle East/Gulf (Annexes II and III)

64. The European Council discussed the draft texts on the Middle East (Annex II) and on foreign hostages held in Iraq and Kuwait (Annex III) and agreed to amalgamate the latter with the paragraphs on Iraq/Kuwait from the former into a new declaration on the Gulf crisis.

65. On the Middle East text it was agreed that the square brackets around the sentence "to this end it repeats once again its support for the principle of the convening at an appropriate time of an international peace conference" could be removed.

66. On the Gulf text it was agreed at Gonzalez' suggestion to add at the end of the first paragraph the phrase "and reaffirm that no solution is possible without the prior implementation of these resolutions".

67. Kohl asked for the addition of the sentence "the Presidency will notify the text of this declaration to the Iraqi Government"

at the end of the statement. The Prime Minister wondered whether this could not be misunderstood. Andreotti said "notify" only meant "inform". There was no question of sending an emissary to Baghdad.

68. Kohl said the word "discourage" really meant dissuade. No change was made in the text.

69. Mitterrand said the words "inspired by alleged political criteria" should be deleted. France had had no dealings with the Iraqis over the hostages who were not yet back in France. Saddam Hussein had explained the Iraqi decision in terms of the former friendly relations with France and Mitterrand's speech at the UN. Mitterrand had never met Saddam Hussein and had simply continued the former policy of supporting Iraq against Iran. France was now making a major military contribution in the Gulf. If he had been asked to send a French Minister to fetch the French hostages he would have refused to do so. If the approach in his speech at the UN was less bellicose than that of others, so be it, but France had supported all the UN Security Council resolutions. Andreotti said the reference should be deleted. Van den Broek said that in putting forward the text Foreign Ministers had not meant to suggest that France had been negotiating with the Iraqis. The phrase was intended to refer to the strong pressure from families of hostages. He suggested instead "inspired by the wish to play off some countries against others". Andreotti said the text reading "the sole and main purpose of trying to divide the international community" already covered this point and there was no need to say it again.

CSCE (Annex IV)

70. The declaration on the CSCE submitted by Foreign Ministers was approved without change. Lubbers said more substance should be given to the work on basket 2.

A

SPEECH BY THE PRESIDENT
OF THE EUROPEAN PARLIAMENT
TO THE EUROPEAN COUNCIL

Rome, 27 October 1990

Mr President:

Since the last meeting of the European Council in Dublin, the attention of the Member States and the Community institutions has been polarized by two very different events.

First, the process of German unity was completed on 3 October 1990. The participation of the President of Parliament and the President of the Commission in the solemn ceremonies celebrating the birth of the new united Germany symbolizes the integration of the unification process into the construction of European Union.

All the representatives of the German people have stressed their commitment to the European ideal. I am therefore convinced that German unity, which we have encouraged and welcomed with satisfaction, will be a dynamic element in the acceleration of the construction of Political Union.

Our common agreement concerning objectives and principles should not prevent debate on the arrangements for adaptation. It would be illogical if German unity had adverse effects on those who have given it the most political support.

Parliament, for its part, has made a continuing effort to follow the process through its "ad hoc" committee and has made every endeavour to adapt to the political rhythm required, modifying all its timetables in order to fulfil its legislative task on time. Having already drawn attention to the need for appropriate representation of the citizens of eastern Germany, Parliament has agreed, as a transitional and exceptional measure, to create an observer status.

These arrangements adopted by Parliament cannot replace the decision by universal suffrage, which is the one and only golden rule of democracy. Personally, I do not consider it satisfactory that over 16 million of our fellow Community citizens should not have elected representatives in Parliament until 1994.

The other major event, of a totally opposite character, has been the invasion and annexation of Kuwait by Iraq, which was condemned by Parliament by an overwhelming majority following the debate opened by President Andreotti on 12 September 1990.

This crisis has had the effect of revitalizing the UN, which has acted promptly and consistently; it has also pointed up the need for continued progress towards European unity in order to create a common foreign policy. It is true that the Community has perhaps shown greater coherence than ever

before, but it is still far from presenting a common position which would enable it to exercise a determining role, as a single entity, in the unfolding of the most important international events. *I declare as resolution*

for the European Parliament

Whatever the outcome of this crisis - and Parliament hopes that it will be peacefully resolved - it appears clear that in the future the dialogue between Europe and the Arab world must be intensified, and that within the framework of the respect for international law which has been and must be demanded, a solution must be found to the Arab-Israeli conflict over Palestine, in accordance with the UN resolutions.

Mr President,

The profound political changes in the Soviet Union and in other countries of Central and Eastern Europe have altered political relations in the world so radically that we may reasonably speak of a new international order based on the values of parliamentary democracy.

The European Council must provide a decisive political stimulus in order to deal with the current challenges: it must define the framework for financial assistance to and cooperation with the Soviet Union and with the other countries in Europe, especially with those who have completed the re-establishment of democratic freedoms; submit proposals for the GATT Uruguay Round; draw up a security plan in the context of transatlantic relations; further develop solidarity with the Third World and Latin America.

This all confirms the new responsibilities incumbent upon the European Community, an essential point of reference in an unstable world.

This is a massive task, and Parliament trusts that it will be possible to present a revitalized image of the Community with greater resources and more joint activity. In order to ensure an effective external profile, it is urgent to settle domestic matters and to pursue the work of construction of our own 'house', that is, to achieve Economic and Monetary Union and Political Union.

Parliament is following, with the closest attention and some degree of anxiety, the preparations for the two Intergovernmental Conferences which are to begin in December 1990. Following our initiative and the recommendation of the European Council in Dublin, two further meetings of the Interinstitutional Conference have recently been held.

This experience has been extremely useful for the convergence of positions, not only between the institutions but also between the governments themselves, since the meeting of 8 October 1990 on Economic and Monetary Union closed with a high degree of consensus concerning the compromise proposals on the transition from the first to the second phase, although the possibility of such a consensus had seemed very remote before the start of the debate.

Parliament therefore welcomes the proposal of the Italian Presidency for a further meeting of this type in the forthcoming month of November and is willing to continue with this procedure during the work of the two intergovernmental conferences.

In this connection, Mr President, I wish to point out that Parliament wishes its participation in the work of the Intergovernmental Conferences to be more

substantial than was the case in the negotiations for the Single Act, in order to establish a system for fluid and permanent dialogue.

I therefore formally request :

- (1) that the texts drawn up by Parliament should be considered as working documents of the conferences and should have the same status on the debating table as the Commission proposals;
- (2) that Parliament participate in the conferences through the presence of its President at ministerial level meetings;
- (3) that the conclusions of the conferences should be submitted in the first place to Parliament with a view to achieving a global agreement, before they are submitted to the Member States for ratification.

With regard to the content, I have no wish to tire you with a long repetition of Parliament's basic positions. I shall therefore simply make some general comments. In our view, the most important factor is that of a common design and political will.

European Union must be constructed on the basis of the resolution of a number of questions: What type of executive do we want? What type of legislature do we want? What should be the relation between the two? How is it possible to transcend the national dimension without blurring the concept of the nation state? What should be the role of the regions?

Rather than listing further questions, I now wish to point out that, at events, Parliament believes that there are a number of indispensable conditions, which are as follows:

→

(1) Parliament must be enabled to elect the President of the Commission, on a proposal from the European Council, and to pass a vote of confidence.

(2) Parliament must have full powers of co-legislation.

(3) The Council must extend the scope for application of the system of majority voting.

(4) A statute of European citizenship must be drawn up to embody and symbolize the fact of belonging to a supra-national political entity. *The right*

Right to citizenship

(5) Progressive moves must be made towards the institution of a common foreign policy and security policy.

All in all, we must work to achieve a genuine Act of European Union, which would consolidate the achievements of the last thirty years, would imply a definite leap towards unity and would not repeat the errors of the past, which we have fortunately overcome.

I also wish to inform you that, taking up the suggestion of President Mitterrand, we shall hold the Conference of the Parliaments of the European Community in Rome at the end of November 1990. This will be a historic event enabling us to discuss the democratic dimension of the Union. This will


certainly be a risky initiative, but it is both timely and necessary in view of the challenge of the Intergovernmental Conferences.

I further wish to stress that, at our meeting of 20 September 1990, my colleagues from the national parliaments insisted on the exceptional and unique character of the meeting. For my part, I think that it would be a most serious mistake to invent hybrid (and unworkable) bodies, which would significantly undermine the balance between the institutions and would imply a return to the predominance of the national dimension.

It would be unthinkable to add further pseudo-legislative bodies to those already in existence unless there was an unspoken intention to neutralise the process of integration and return to a Holy Alliance, which would endanger the evolution of the continent.

The European Parliament exists, and it is the body which should have legislative powers; it is therefore essential that it should operate effectively. Should the European Council intend to reach a decision on the matter of the seat, it must be fully aware that:

- (1) Parliament is one of the fundamental institutions, in accordance with the Treaties, for the exercise of the Community's powers, and it cannot therefore accept that the question of its future seat should be subject to the same type of negotiations as may apply to agencies or offices - however important those may be - which are set up as Community-policies develop;



(2) to fix the seat of Parliament separately from the seat of the Commission and Council is to oblige our institution to work in difficult conditions which are practically incompatible with our function.

Mr President.

Parliament will follow the progress of your work and examine your conclusions with the greatest interest. As the representative body of some 340 million Europeans, it wishes to express its desire to cooperate to ensure the success of the two conferences, and its permanent willingness to contribute ideas and suggestions for the achievement of European Union, an objective which has been freely chosen by all the Member States and is vigorously pursued by Parliament.

Mr Weston

EPC: Discussion among Foreign Ministers at
dinner, 27 October

The following were the main points which came out at the Foreign Ministers' dinner last night:

- Hungary. The Foreign Ministers discussed the attached Presidency text. The French objected to paragraph 3, arguing that we should not treat Hungary as a protectorate. It was agreed that paragraph 3 should be removed. It was also agreed that the text should encourage the process of reform in Hungary without giving specific backing to the Hungarian government. It was agreed that the Prime Minister's proposal of bringing forward the second tranche of help to Hungary should be included in the text. The Germans also put forward a text (attached). I also attach the message addressed to the Presidency and members of the European Council by the Hungarian government.
- Eastern Europe. The Presidency put forward a text. This included a reference to further financial help. Commissioner Andriessen pointed out that the funds under PHARE were already pledged and that available humanitarian funds were low. The Secretary of State said that, if the Commission did not think it had adequate funds, it should come forward with new proposals in the normal way. It was agreed that the text would be redrafted.
- EC/US. It was agreed, on a suggestion from Portugal, that discussion of this text (attached) should be postponed because it would be awkward to bring forward a new text while argument over the GATT was continuing.
- the text on CSCE was agreed.
- hostages. The main discussion was over the passage in the draft reaffirming the determination of the European Community not to send representatives of their government to negotiate with Iraq and not to encourage others to do so. Herr Genscher called for the words "not to encourage" to be changed to "to discourage". Since the majority could agree to this, the Secretary of State did not resist it, though there is an obvious awkwardness in respect of Mr Heath's visit.
- Middle East. Mr Van den Broek argued for the deletion from the text of the passage in square brackets reaffirming the Twelve's commitment to an international peace conference. He was supported by the Dane. Spain and France supported retention of the reference. The Portuguese Foreign Minister

proposed a reference back to the Venice and Madrid Declarations but no specific reference to an international conference. The Secretary of State supported this compromise but no agreement was reached.

- Mr Van den Broek objected strongly to the fact that the Presidency had put their draft texts to Heads of Government at the same time as they went to Foreign Ministers. Mr Van den Broek, who was clearly cross, said it was pointless asking Foreign Ministers to look at the texts and make recommendations if they had already gone to Heads of Government.

28 October 1990

(J S Wall)

cc: Mr Kerr
Mr de Fonblanque
Mr Jay
Mr Mower, News Dept
Mr Tait
EED
Mr Fairweather
Mr Young, EU