



OFFICE OF THE UNITED KINGDOM
PERMANENT REPRESENTATIVE
TO THE EUROPEAN COMMUNITY
ROND-POINT ROBERT SCHUMAN 6
1040 BRUSSELS
TELEPHONE 2306205

FROM THE PERMANENT REPRESENTATIVE

J O Kerr Esq CMG
Assistant Under Secretary of
State
FCO

1. cc Mr Works: HMT.

13 November 1989

Mr Hailley: Cabinet Office

2. cc PS/Mr Naude

PS/PvS

Sc J. Fretwell

Mr Ratford

Mr Jones Perry / Mr Arthur

501C

3. Private Secretary.

Jdk/ew
13/xi.

Dear John

EASTERN EUROPE : STRASBOURG AND BEYOND

1. The Secretary of State's meeting yesterday on the preparations for the Strasbourg European Council has served to concentrate my mind on the handling there of the inevitable (and welcome) discussion of Eastern Europe and on the interface between that discussion and other burning EC issues of the hour (EMU, Single Market, Social Charter). What follows is an untidy mixture of analysis and embryonic "Lines to Take" for Strasbourg. All this is of course also highly relevant to the Secretary of State's forthcoming bilaterals with Genscher and Dumas.
2. I begin from the short term tactical issue we discussed on 10 November; do we need to ensure that Eastern Europe moves centre stage at the Strasbourg European Council? I do not believe we do. It is pretty well there already; and will be more so by the time of the meeting itself, coming as it does just after the Bush/Gorbachev meeting off Malta. We know Delors among others is pushing that way. Moreover, as our credentials for pushing it there are liable to be a bit suspect, with our evident interest in marginalising the issues, we are less happy with (EMU, Social Charter). So I suggest we should just assume it is going to be centre stage and speak and act accordingly.
3. Is discussion of Eastern Europe in the European Council at Strasbourg and thereafter likely to be a divisive or a unifying force? I think it has the potential to be either. We are already seeing the rather over-excited attempts of those like Delors, the French (and Italian) governments and many commentators to argue that developments in Eastern Europe, and in particular the re-emergence of the German question as a live issue, necessitate accelerated progress within the EC with the scarcely, if at all, concealed objective of locking West Germany in. Even if we shared the broad foreign policy analysis behind this approach, which I for one do not, I do not see how, given our views on EMU, we could follow that course. I suspect that the Germans themselves (although Genscher and perhaps Kohl do seem to pay at least lip-service to it) will in the longer run find such an approach unacceptable for a whole range of reasons. The proponents of this approach (and also, from a quite different viewpoint, some commentators in the UK) contrast it with

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the opposite extreme - the EC weakened and perhaps marginalised in a wider Europe where nationalist forces are regaining their force, West Germany (or a re-united Germany) drifting off into a neutralised Mittel Europa etc etc. This latter approach has no governmental proponents in the EC nor I believe will it gain any. If we were ever tempted by it or by aspects of it, we would rapidly find ourselves in a minority of one on that issue too.

4. It seems to me, therefore, that we are compelled both by our interests and by our current situation in the EC to head for the middle ground. If we can define that middle ground in a coherent way and one which takes account not only of our own national interests but of those of the Community as a whole, then I think there is a real prospect of our playing a leading role in defining Community policy in the months and years ahead and of rallying majority support among the member states. In particular we ought to be able to attract the Germans themselves (whether the present governmental constellation or a different grouping after the federal elections in December 1990).

5. So, of what should this middle ground consist? I would suggest two broad propositions, one relating to the Community's external policy and one to its internal development:

- (i) The Community as such must play a prominent and active role in supporting the political and economic reforms in Eastern Europe while developing its external policies in such a way as to favour a whole range of possibilities for cooperation which fall short of actual membership.
- (ii) The Community must push on steadily with its internal development, neither artificially accelerating nor retarding it, giving particular emphasis to such policies as the completion of the single market which will make a direct contribution to breaking down economic barriers on a wider basis throughout Europe.

6. The first of these propositions is not likely to be too controversial. It could, however, be quite expensive. The Community has already begun to take decisions to support the reform programmes in Poland and Hungary. The need for similar (although not necessarily identical) decisions in respect of East Germany is probably only weeks away and some declaration of willingness in principle to go down that road is likely to surface at the November Foreign Affairs Council. Czechoslovakia, Bulgaria and Romania post-Ceausescu will surely follow. Yugoslavia cannot be ignored. The development of a wider and more structured relationship with EFTA which we firmly support on its own merits, is likely to be seen as increasingly relevant to Eastern Europe too, since it could provide a way of extending the four freedoms of the Single European Act beyond the bounds of the Community without posing the condition of full membership. This last caveat is important. Speculation about full

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membership for East European countries, in particular for East Germany, is both premature and likely to be highly divisive. Far better to keep it at bay for the moment.

7. The second proposition, about the further internal development of the Community, will of course be a good deal less plain sailing. It will inevitably be disputed by the "accelerators". But I have the feeling that we shall find that we rather than they, are working with the grain of events, so long, that is, as we are able to concentrate more on the things we want to see done in the Community and less on those we do want to see not done. There should be real scope for re-asserting the primacy of the Single Market programme and for ensuring that it remains deregulatory and outward looking. We can argue that it is the additional economic resources and prosperity which the Single Market is beginning to show signs of generating which will enable us to play a full role in backing up reforms in Eastern Europe; and that it is only by keeping the Single Market outward looking and anti-protectionist that it will be able to contribute to the breaking down of barriers throughout a Europe wider than that of the Community.

8. EMU will, of course, not just go away, nor will the Delors Report advocates give up. I would be rather surprised if the French did not achieve their short term goal of getting an Inter-Governmental Conference called in the latter part of 1990. But if we can play it reasonably cool, if we can avoid polarising the debate too definitively, then I believe we can hope in practice to achieve a long period of evolutionary development of EMU before the case for institutional change is put to the test in a way which could split us from our partners. The attractions of a great leap forward on EMU will, I suspect, wane all the more quickly for for many, most crucially for the Germans, if we play up the practical disadvantages and play down the emotive constitutional and national sovereignty issues.

9. I have concentrated throughout this letter on the EC aspects of developments in Eastern Europe and have kept away from those relating to NATO transatlantic relations and our own relationship with the two key European players, France and Germany which are outside my bailiwick. I do, however, believe that such wider considerations point in much the same direction as I have indicated. The Bush administration certainly seems to take the view that the Community as such has a major and beneficial role to play in the definition of an overall Western strategy to handle developments in Eastern Europe. And keeping West Germany firmly anchored in the Alliance requires keeping it firmly anchored in the EC even if one does not buy the more apocalyptic versions of that proposition currently being peddled by Delors and the French. As to our relationships with France and Germany, I have argued in the Community context that the middle ground will be the best meeting place with the latter; France is clearly more

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problematic, but in the present situation, with the prospect of an increasingly powerful Germany, reunited or not, emerging I suspect they will gradually feel the need to move towards us so long as we pursue a strategy which has the future development of the Community at the centre of it, as it is at the centre of theirs, albeit in a rather different form.

10. I have not copied this letter elsewhere in the FCO, in Whitehall or to our EC posts. But have no objection to your doing so if you thought that useful.

Signed
D H A Hannay

cc: D J E Ratford Esq CMG FCO
Mr Elliott
Mr Pakenham
Mr de Fonblanque

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