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LONDON SW1A 2AA

From the Private Secretary

19 November 1989

Dear Stephen,

EUROPEAN COMMUNITY HEADS OF GOVERNMENT MEETING IN PARIS 18 NOVEMBER

European Community Heads of Government met in Paris on the evening of 18 November, at President Mitterrand's invitation, to discuss recent developments in Eastern Europe and the Community's response. Heads of Government met alone for a much greater part of the time. The account of their discussion which follows is based on the Prime Minister de-briefing after the meeting and her scribbled notes. You will also have received the transcript of her press conference which of course stands as her report on the discussions.

Immediately she emerged from the meeting, the Prime Minister summarised the main points to us as follows. Everyone was agreed on the need to encourage reform throughout the Soviet Union and Eastern Europe. But the Community must make clear that it wanted full democracy, meaning genuine elections and all the human rights embodied in the Helsinki Final Act. At the same time change and reform in Eastern Europe needed a background of stability and security. NATO's importance must be reaffirmed, together with recognition that both Alliances - NATO and the Warsaw Pact - would remain in existence. The Community should decide at the Strasbourg European Council on further practical measures of help for Eastern Europe. One element would be additional financial assistance, and the particular urgency of Hungary's and Poland's needs were recognised, together with the importance of early agreement with the IMF. Such assistance should be tied to progress towards full democracy. There should also be help with training, particularly in management; and consideration should be given to extending some existing European Community programmes to Eastern Europe. Examples were the ERASMUS and EUREKA programmes as well as the audio-visual initiative. President Mitterrand had tried to conclude that the French proposal for an Eastern Europe development bank had been agreed, but this was contested by the Prime Minister and Chancellor Kohl, with the result that the proposal would be further studied and discussed again at the Strasbourg European Council. It was further agreed that the Commission would report on the various possible forms of agreement between the Community and individual East European countries so that Heads of Government would see the scope for strengthening links with them. The Prime Minister made the point that the Strasbourg European

Council ought also to make clear that no further enlargement of the Community could be considered at least until after completion of the Single Market. There had been no discussion of internal Community matters, such as economic and monetary union or of the need to accelerate the development of the Community.

As you will see this account, which the Prime Minister repeated at her press conference, conflicts with President Mitterrand's account at two points. He claimed at his press conference that a development bank had been accepted in principle by all participants. He also claimed agreement that evolution in Eastern Europe should be balanced by integration in Western Europe. The Prime Minister is adamant that neither point was agreed (and the second not mentioned).

The Prime Minister's more detailed notes give the following picture. Before dinner, President Mitterrand posed a number of questions which needed to be discussed. Should the Community give aid to Eastern Europe before democracy was firmly established? Or should democracy be made irreversible first? Should the question of borders in Europe be for discussion? What more could the Community do in terms of practical help? What would be the implications of additional help to Eastern Europe for the Community's existing programmes for the ACP countries and others? How should these matters be pursued at the European Council in Strasbourg?

Chancellor Kohl then spoke for some 40 minutes through the first part of dinner. He said that people wanted to hear Europe's voice. The Community must assume a leading role in responding to events in Eastern Europe. He assured his colleagues that the FRG's commitment to Europe was in no way diminished by what was happening in East Germany. That was the view of the vast majority in the Federal Republic. The FRG was European and would remain European, as well as a loyal member of NATO. Indeed these events would not have happened had NATO and the EC not existed. Great credit was due also to Mr. Gorbachev. His problems had increased significantly, but it was in the west's interest that perestroika should succeed. There was an urgent need for further economic and financial help for Poland and Hungary. In Poland's case we should all work for agreement with the IMF by the end of the year at the latest. Turning to the GDR, Chancellor Kohl said that some three million people had visited the FRG last weekend and another million were likely to come this weekend. But fewer people now wanted to leave permanently. A new government had been appointed. But political and economic reform would need to go much further than hitherto envisaged. He had urged Herr Krenz to follow the Polish and Hungarian model. The West must not destabilise the GDR. The FRG would be ready to give aid in every area - roads, telephone network, the environment - but only on the basis of genuine and irreversible reform. A date for elections must be set as soon as possible, a proper rule of law established and political prisoners released. Chancellor Kohl continued that there should be no discussion about borders. But the people of Germany must be allowed to determine their future for themselves. The right of self-determination was paramount and he would abide by whatever decision was reached.

Signor Gonzalez spoke next. The only point which the Prime Minister recorded him as making was that the priority must be to see democracy firmly established in Eastern Europe before other questions were addressed.

The Prime Minister then spoke herself. The changes in the Soviet Union and Eastern Europe were historic. For the first time, countries were moving from Communism to democracy and free enterprise. But we must not succumb to euphoria. The changes were only just beginning and getting genuine democracy and economic reform in Eastern Europe would take several years. There was no question of changing Europe's borders, which had been confirmed in the Helsinki Final Act. Any attempt to raise this or the issue of reunification would risk undermining Mr. Gorbachev's position, which could in turn put at risk everything that had been achieved in Eastern Europe. It would also open a Pandora's Box of border claims right through central Europe. It was essential to create a background of security and stability for the changes in Eastern Europe. That meant keeping NATO and the Warsaw Pact. The NATO heads of government meeting on 4 December would be the occasion to reaffirm the Alliance's continuing importance. We must not let public opinion believe that defence was no longer necessary. The Prime Minister agreed that we needed to consider further financial and economic help to Poland and Hungary: the Strasbourg European Council should reach decisions on this. We also needed to consider which of the various forms of association/cooperation envisaged in Article 237 of the Treaty of Rome were most appropriate for relations between the European Community and Eastern Europe in future. That too could be considered further at Strasbourg. But it would be best to do it in the context of making clear that the Community was not prepared to consider new applications for membership, at least until the Single Market had been completed, which would postpone the whole question for several years.

Herr Schluter came in next, commending further aid for Poland and Hungary and suggesting that debt forgiveness might be necessary. He agreed that the condition for help must be that the East European countries were moving towards real democracy. He asked about the French proposal for a development bank. In principle he was favourably disposed towards this.

Signor Andreotti spoke about the practical difficulties of giving aid to Poland. There were simply not the organisations there to cope with it. He agreed that an investment bank to organise investment could be helpful. He also agreed that existing Alliances should be maintained. Developments in Eastern Europe underlined the importance of the CSCE process. He agreed with the Prime Minister that it was vital not to raise the issue of borders: everyone should stick to the Helsinki Final Act.

M. Santer congratulated Chancellor Kohl on the strong stand he had taken in favour of reform. Europe had nothing to fear from a democratic Germany. He wanted to see EC aid for Eastern Europe expanded, and was willing to contemplate a new institution such as a development bank. He agreed that borders were not for discussion. If one started down that road, the whole European structure would collapse.

M. Martens said that European integration must move forward. There was no question of discussing borders. NATO would continue to provide the basis for the West's security. He doubted whether Mr. Gorbachev could survive if the question of borders in Europe were raised openly. He favoured further aid to Eastern Europe.

Senor Cavaco Silva said that aid should be on a case by case basis. He was sceptical about the need for a new institution: the IMF, the World Bank, IFC, the OECD were already available. He noted that there was concern on the part of some of the Lomé countries, particularly in Africa, that they would lose out if the Community gave more assistance to Eastern Europe. He recalled that Portugal had experience of changing from Communism to democracy. It was important that the process should not create destabilisation. We should all reaffirm the importance of NATO and its cohesion, and retain the closest possible relationship with the United States.

Mr. Sartzetakis spoke at great length but the Prime Minister's notes are not very revealing. Greece was the only example in the post war era of a country which had withstood the advance of Communism without any outside help (!!). The unity of Europe must now be preserved. The Community should adopt a clear position on further help to Eastern Europe. Poland's case was the most urgent. It would be a mistake to wait for full democracy to be established before giving aid. He was fearful about Mr. Gorbachev's vulnerability. It was much too early to start talking about borders: they should stay as they were. Nor should we think of adding or shedding members of either of the two Alliances. He liked the idea of a development bank, which would be proof of European solidarity, although he would like to see countries outside the Community participate as well.

Mr. Haughey said that Community aid should not be used to prop up old regimes. But equally it was not possible to wait for full reform.

Mr. Lubbers said there should not be too many pre-conditions to aid. There should be no discussion of borders and we should make clear to Mr. Gorbachev that we did not envisage any change in either NATO or the Warsaw Pact. He was in principle favourable to the idea of a development bank and supported the Prime Minister's suggestion that we should examine different forms of agreement between the Community and Eastern Europe. He attached particular importance to bringing East European countries into the Council of Europe. He claimed there was no discussion in Holland of the German question.

M. Delors reported on his recent visits to Hungary and Poland and said that the Commission would come forward with proposals for further assistance to these two countries. He had been impressed by the readiness of the Hungarian government to take tough economic measures. The Commission would also come forward with a proposal for a trade agreement with the GDR, as well as detailed proposals for a development bank. These should be discussed at Strasbourg. He stressed the importance of the forthcoming meeting of the Group of 24 on 13 December to discuss further help to Poland and Hungary. He was optimistic that agreement would be reached between Poland the IMF by the end of the year. He hoped that Community countries would contribute to the proposed stabilisation fund for Poland and to a bridging loan for Hungary.

Discussion then became rather more general. The Prime Minister and Chancellor Kohl both expressed scepticism about a development bank. Chancellor Kohl said that it was something to be looked at for the future. Both agreed that the proposal should be studied but were not ready to endorse it. Chancellor Kohl urged that particular reference should be made to Yugoslavia's difficulties. He also noted that the FRG had now agreed to contribute $250 million to the stabilisation fund for Poland. With the $250 million already promised by the US, that left $500 million for others to find. More generally he stressed that time was of the essence in both Poland and Hungary and the Community must respond to their needs quickly. He was sceptical whether there would be free elections in East Germany within 12 months.

President Mitterrand then summed up that the Community should encourage reform and democracy throughout Eastern Europe with free elections and full human rights. There was no disposition to raise the question of borders. There should be further discussion of practical help for Eastern Europe at the Strasbourg European Council, as well as of the possibility of extending some existing European Community programmes to these countries. The proposal for a development bank should also be addressed at Strasbourg. The Community was following with sympathy the efforts of Yugoslavia to deal its economic problems and expressed support for reform in Czechoslovakia and Bulgaria. He would make these points at his press conference.

I am copying this letter to John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,

Charles Powell

(C. D. POWELL)

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