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NOTE FOR RECORD

cc Mr Powell
Mr Appleyard
Mr Hadley
Mr Kerr

European Summit

Mr Dermot Nally and Mr Noel Dorr called on Sir Robin Butler on Friday 16 February; Mr Kerr (Foreign and Commonwealth Office) was also present.

2. Mr Nally said that the Taoiseach had written that day to EC Heads of Government proposing an informal meeting of Heads of State, to be held in Dublin in April. He suggested that the meeting should take a full day, but would otherwise be run on the same lines as the informal meeting at the Elysée in November. It would not be a European Council meeting. There would be two items on the agenda: developments in Eastern and Central Europe, especially in the two Germanies; and preparations for the CSCE Summit later in the year. It had earlier been suggested that the meeting might discuss the proposal to bring forward the date of the IGC on EMU; this proposal had now been dropped. It was possible, although it was not mentioned in the letter, that if discussions elsewhere on the European Bank for Reconstruction and Development (EBRD) had not concluded where the Bank should be located, who should head it, and the EC approach to Soviet access and to the US attitude to this issue, this might be picked up in the context of other Eastern European issues. The two dates currently being canvassed for the meeting were the weekend of 7-8 April and 28-29 April.

3. Sir Robin Butler said that the United Kingdom would welcome informal discussions on the model of the November Elysée meeting,

and were content with the proposed agenda. The UK was not in favour of reopening discussion of the dates of the IGC. The issues which had led to the decision at Strasbourg still, in the UK's view, applied. The UK Government expected that the EBRD issues would be settled by the date of the meeting, but if not, was content that these should be raised. He emphasised that there should be no expectation that the informal meeting would make decisions on issues such as the incorporation of the GDR within the EC, or expenditure on the GDR. A good deal of detailed work was needed by the Commission, on the EC aspects of German reunification, before such decisions could be taken. This work was important and urgent and should be started as soon as possible. An informal discussion of Ministers in April could push it along but would not be a suitable forum for reaching decisions. On CSCE, the United Kingdom welcomed the Ottawa decision that security aspects should be taken in the 2+4 forum leading up to CSCE. He recognised that the 2+4 nations did not cover all those who had an interest; other countries which bordered on East or West Germany had legitimate concerns, which would need to be considered separately.

4. Mr Kerr said that there had been a valuable meeting on the EBRD in Paris last week, chaired by the Presidency, which had made good progress on shareholding. It should be possible to reach an EC agreed position in ECOFIN at the end of March. Discussions at Mr Williamson's meeting had been less satisfactory; however, Mr Kerr thought that there was a good prospect of resolving the EBRD issues before the proposed dates for the informal meeting. He underlined the case for locating the Bank in London.

5. Mr Nally said that the Irish thought that, on German issues, the informal meeting might enable Heads of Government to exchange views on the effect of the Ostmark on EMS, and on individual EMS members; the effect of German integration on the German approach

to the EC; the practical issues of East German integration; and security issues, including the Soviet attitude to a united Germany and Polish concerns. Sir Robin Butler emphasised the intricacy of the issues which arose for the EC as East and West Germanies came together. The effect of adding a highly subsidised economy to the European market would need careful consideration. At present, although East German goods had reasonably free entry into West Germany, they were not allowed to disrupt the markets of the rest of the EC. At present, the bulk of East German exports currently went eastwards; if the Common Customs Tariff were to apply, this would have a very marked effect on trade with other COMECON countries. Agriculture would present particular problems, since the GDR would provide an increased source of production; and there was also the question of access to structural funds. East Germany would be required to meet Community environmental standards, which would involve substantial cost (and would put up their production costs). Traditionally, such costs had been met by individual EC states. Some derogation and transitional arrangements would need to be worked out. Mr Nally asked the United Kingdom to keep the Presidency in touch with their thinking on the detailed issues arising. He recognised the complexity of the issues and the importance of preventing expectations that Heads of Government would be able to reach decisions quickly.

6. Mr Nally asked whether the United Kingdom had views on the timing of the CSCE Summit, particularly in relation to the 2+4 discussion. Mr Kerr said that this year's CSCE Summit should not take place before CFE agreement had been reached. It was important that the 1990 Summit was not seen as the completion of the process but rather as setting the framework for a 1992 Summit. He emphasised the importance of the EC policy of differentiation towards Eastern European countries; political and economic rewards should be related to the progress of political

and economic reform in individual countries. There was no reason to think that the 2+4 timetable would delay the CSCE Summit.

7. Sir Robin Butler thanked Mr Nally and Mr Dorr for calling. In reply to a question from Mr Nally, he said that he thought that the Prime Minister's preference would be for a meeting on 7-8 April rather than on 28-29 April; but emphasised that he had not had a chance to consult about this. While there were arguments for letting the picture settle after the East German elections, it was important to make an early start on Heads of Government discussion of these issues.

Louisa Phippard

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