cc B/A

PERSONAL AND CONFIDENTIAL

7 June 1991

Dear Stephen,

Prime Minister's meeting with Chancellor Kohl

Christopher Prentice wrote to you yesterday with a brief for the Prime Minister's meeting of 9 June with Chancellor Kohl. As agreed on the telephone, I also now enclose an introductory speaking note on the European Community and particularly the IGCs. In the light of recent reports about Kohl's attitude as he prepares for the meeting with the Prime Minister, the speaking note sounds a deliberately positive - and to some extent personal - note about the Prime Minister's approach to European construction, and his commitment to work with Chancellor Kohl over the next couple of years.

On the IGCs, the speaking note is to a large extent a re-presentation of our agreed line. It would be wrong to reveal too much of our tactical hand at this stage of the negotiations, even to Chancellor Kohl. On the other hand, there is a case at least for hinting where we can at flexibility in our position, particularly if this will raise the chances of Kohl taking a helpful line at what could still be a difficult European Council discussion. The speaking note is cautious for obvious political reasons about any extension of QMV or extension of competence. The Foreign Secretary believes it would be tricky later if the Prime Minister were to hint at concessions in this field which we might in the autumn find it impossible to deliver. On the other hand, he thinks the Prime Minister could indicate how progress might be made on the defence issue. The line sketched in the speaking note is the one now being advocated by the Americans in European capitals. It is clear that the French and Germans have come adrift on this, at least temporarily.

Yours ever,

Richard Gozney

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PERSONAL AND CONFIDENTIAL

PRIME MINISTER TO CHANCELLOR KOHL: EUROPEAN COMMUNITY

- The next two years will be crucial for the Community's internal and external development:
  - IGCs this year
  - completion of the single market next year
  - future financing negotiation and CAP reform next year too
  - enlargement negotiations starting early 1993.

- A challenge and an opportunity to lead Britain through this period of European history, to include the British Presidency.

- Determined that Britain will play and be seen to play a positive and constructive role throughout.

- Convinced that we share much the same vision of Europe:
  - an economically strong Europe based on liberal market principles
  - an open Europe committed to helping others share the political and economic freedoms we enjoy
  - a wish to see freedom and democracy entrenched in eastern and central Europe, ultimately through accession to the Community
  - a belief in the Alliance as the bedrock of Europe's defence.

- Convinced too of the inevitability of closer integration among the member states. Exactly what form that should take is the debate now under way in the IGCs.

- Some hard bargaining to be done. And - for reasons you will understand - a limit to what we can agree at Luxembourg.

- But can see no reason why we should not reach agreement on both IGCs by the end of the year, provided, of course, there is give and take on all sides.

- There are important points in the IGCs on which we agree:
  - commitment to a successful outcome
  - parallelism between EMU and political union
  - importance of subsidiarity, on which officials are collaborating closely
  - overriding commitment to price stability and monetary discipline
  - importance of convergence of economic policy before Stage III
  - an effective European defence identity compatible with the Alliance
  - creation of a common foreign and security policy: 8 April European Council shows what we can do.

- There are also points on which we disagree. We are each responsible to our Parliaments. We cannot ignore their concerns.

- We differ on the ultimate goal. We, the UK, do not believe in a fully federal Europe. But that is not the issue for the IGCs anyway. They must look at the next stage of the Community's development.

- We see less need than you for great change in the European Community. The Community is a success story. In the perspective of European history, the progress achieved in the Community in the last decade is phenomenal. Of course the Community can, and should, be improved. But we do not see a need to rush forward with institutional change. We work well together now; institutional change designed to improve our work together could actually hinder it. That is why it is so important to stick to the structure of the Presidency text.

On political union:

- you want greater increase in the powers of the European Parliament than we shall be able to accept. We have to acknowledge a different perspective here. Transfer of legislative authority is very hard. There would be great resistance to giving the European Parliament the last word. And we think that the changes introduced by the SEA are working pretty well. We shall, however, be ready to see some strengthening of the EP's non-legislative role.

- we differ too over QMV and competence. Here too the implicit transfer of sovereignty will be hard, perhaps impossible, for Westminster to accept. And the SEA moved a long way forward on both issues. The social dossier is especially difficult for us.

- we are prepared to go as far as anyone - and further than most - to give practical expression to Europe's identity in foreign policy and defence. But on CFSP we are genuinely puzzled as to how the machinery in the Presidency text will make the Twelve's foreign and security policy more effective. Nor are we yet clear how a common defence policy for the Twelve could be made compatible with the common defence policy we operate so successfully in the Alliance. The NATO meeting in Copenhagen went well and we are prepared to work for an agreement which will emphasise with equal strength the need for a European defence identity and the continuing need for NATO. Either both ideas should be embodied in Treaty amendment, or neither.

- On <u>EMU</u> some genuinely difficult issues for all of us remain to be resolved:
  - budget deficits
  - the nature of the independence of the central bank
  - the nature and length of Stage II
  - the transition arrangements to Stage III

- But I believe these to be soluble. And I believe too that we can find a formula on UK participation in Stage III which will allow us all to sign the Treaty.

- Against the background of our shared approach, cannot believe that these issues are not soluble between us.