

**SUBJECT
MASTER**

CONFIDENTIAL



Filed on:

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 November 1991

Dear Richard,

PRIME MINISTER'S TALKS IN ROME:
WEDNESDAY 27 NOVEMBER

The Prime Minister and the Foreign Secretary held talks and a working lunch in Rome today with Signor Andreotti and Signor De Michelis. The talks lasted about three hours altogether. There was no whiff of the 'offer' from CD Heads of Government reported in the press today. The following were the main points of the discussion.

Signor Andreotti said that he had read the Prime Minister's speech in the Debate which had set out clearly the advantages and sacrifices involved in Community membership and in the proposed Treaties. The Prime Minister said that quite good progress had been made in the negotiations. There was still some way to go. There was a package which could be agreed but there were some things which we could not accept.

Sr. Andreotti said that at the meeting of EPP leaders the previous evening all present had said that they wanted to try to meet each others' needs and Britain's needs especially, given the difficult situation we were in. The Prime Minister would find the same attitude from Chancellor Kohl.

'Federal'

Sr Andreotti said the first problem they might tackle was one of semantics i.e. whether to describe the Community as having a federal vocation or not. Maybe we should use the term union, which embraced many things, including the concept of coming closer and closer together. The Prime Minister said that we could live with the concept of ever closer union among the peoples of Europe. He knew that the idea of a Federal Europe was attractive to many in the Community but in Britain it implied the ever-growing removal of powers from the British Parliament. Right or wrong, that was the perception. If we could change the words in the chapeau to ever closer union as per the Treaty of Rome we would have no difficulty.

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Defence

The Prime Minister said that we and the Italians had devised a joint position and stood by it. If the concepts in the Anglo-Italian paper were incorporated in the Treaty that would be fine. What we could not accept was the idea that an enhanced WEU would be accountable to the European Council. France and Germany already knew that.

Sr. Andreotti raised WEU membership, making the case for Greek membership of the WEU and claiming that Mitsotakis had said that the Greeks would not object to Turkish membership. The Prime Minister said that if that was the case it might change the perception quite dramatically. However, from the subsequent backstage whisperings between De Michelis and Andreotti it appeared that Sr. Andreotti had got it wrong, and he corrected himself to say that maybe Turkey should join WEU as an observer in the first instance.

Foreign Policy

The Prime Minister described the extent to which a binding agreement on joint account would be a considerable move forward for Britain. He cited South African sanctions as one example where our freedom of action would be constrained under what was now proposed. We were prepared to accept that. Implementation by qualified majority vote was, however, an insurmountable difficulty. There was the practical difficulty of drawing a clear distinction between decisions of principle and implementing measures. Nobody had been able to make that distinction. We also saw QMV for implementation as a precursor to QMV on issues of principle as well.

Sr. De Michelis said that we needed to show a clear step forward from the existing pattern of intergovernmental co-operation. Sticking to unanimity risked no decisions being taken at all. A possible compromise would be to give the European Council a chance to decide that QMV could apply to certain implementing modalities. Britain, as a proponent of efficiency, should be in favour of that. The French were ready to make such a move. The Prime Minister repeated our objections. Sr. De Michelis said that the problem might be tackled in two phases. In the first, positions might be less binding. Later, we might arrive at binding common positions. The Prime Minister said he was puzzled by this. He did not want to take a step backwards. We were ready to take binding decisions. We could look at various formulae but if the proposition was that we should agree to something now and commit ourselves to going further in four or five years time, that was not possible.

Sr. De Michelis then redefined his proposal. Some issues, e.g. South Africa as far as Britain was concerned, were sensitive and where we would insist on unanimity on everything. Those like Zaire might be less sensitive. Equally, the modalities of participation in a Middle East Conference might be subject to QMV.

The Prime Minister said that he understood the Italians to be proposing that joint action would be determined by unanimity. Thereafter, there would be a general clause under which the European Council or the Council of Ministers could, in urgent cases, agree to implementation by QMV on a case-by-case basis. If it was the case that this would only arise in instances of urgent need, and if the workings of a subsequent review were genuinely neutral, then this was something we could look at. By genuinely neutral we meant that we must keep open the possibility of reverting to the existing system if any new system did not work satisfactorily.

Sr. De Michelis confirmed that this was the Italian position. They would try to put something on paper.

European Parliament

The Prime Minister said that co-decision was unacceptable. We did not like the alternative of negative assent but we were prepared to consider it in some areas, as the Foreign Secretary had outlined at the conclave. The Prime Minister then described the position as set out by the Foreign Secretary at the last conclave, adding that even this had been extremely controversial at home. There might be one or two other areas we could look at, but only as part of an overall package.

Sr. Andreotti, whose mind seemed to be on competence rather than powers of the European Parliament, talked about culture and implied that it would be useful to codify the competence which already existed in this area. Sr. De Michelis said that the point at issue was that we should agree to apply the negative assent procedure to decisions taken by majority vote. At the conclave, Ministers had discussed increasing the Community's role in some areas, codifying it in others and ruling it out in some areas altogether. This had been done in part to enable Britain to say we had got certain things deleted from the Treaty. As regards the negative assent procedure, he hoped we could agree to the general provision that it should apply to issues decided by majority vote even if there were then some agreed exceptions to the rule. The Prime Minister said he was prepared to look at that presentation but we would insist on a much narrower coverage than Sr. De Michelis was implying.

Competence

The Prime Minister said there were areas such as health and education where we could contemplate some extensions of competence. We understood the Presidency were working on revised texts on industry. We would like to delete culture altogether on expenditure grounds. He could easily think of projects costing £1 billion in the UK alone by the year 2000. If that was true of Britain, how much more might be spent in Italy? Cultural expenditure might be important but it could hardly be called a top priority. We would want unanimity for the research and development framework programme, for networks and for development cooperation - all areas of huge expenditure. Mr. Hurd added that

the Commission would argue that decisions on competence did not carry expenditure implications. But of course the Commission would subsequently argue that extending competence implied an obligation to take action.

Sr. De Michelis said that Italy did not want to create lists of new expenditure but he hoped we could look at the list again, especially in non-ideological areas. It might be possible to devise some formula on expenditure so that competence did not imply new expenditure.

The Prime Minister illustrated our difficulty by reference to the working time directive which showed that, once the Commission was given a foot in the door, it tended to use it for very expensive proposals even if this meant distorting the correct legal base. Indeed, he was surprised that Italy could live with the working time directive given the extent of her tourist industry. We would consider the points which the Italians had made and we would make our position on competence clear at the next conclave.

Sr. Andreotti did not respond to the Prime Minister's question about the working time directive beyond saying rather lamely, that Italy already had to abide by ILO rules in this area.

Social Policy

Sr. Andreotti said that UNICE and the ETUC had agreed a text on management/union rules. But on social policy more generally the text was still open. To judge by the debate in the House of Commons it appeared that Britain wanted the entire section of the treaty deleted. The Prime Minister agreed that that was the position. The Social Charter in fact dealt with employment legislation. No Conservative Prime Minister could get any Conservative MP to vote for that text. To use a Roman analogy that would be tantamount to falling on one's sword. This was the one area where the present draft provisions of the treaty could in no circumstances command majority support in the House of Commons.

Sr. Andreotti wondered whether it was possible to draw a distinction between the social charter as such (by which he meant the social provisions of the treaty) and the issue of having some expression of social policy as a legitimate part of EC business. He thought it should be possible to solve the problem by drawing that distinction. He had been encouraged by yesterday's discussion among EPP Heads of Government. The Dutch were keen to reach a compromise. The Prime Minister said that we were looking for agreement on the treaty, not a breakdown, but this was a very difficult area.

Sr. De Michelis said that EC member countries could not ask one of their fellow governments to commit political suicide. For our part, we should look at the possibility of agreeing clearly defined areas where the Community could act in social affairs. There could be a compromise as between substance and

presentation. The Italian Employment Union had for example come up with some ideas for acceptable EC action.

The Prime Minister said that there were some areas where action in the social field was already taken by the Community but using non-social articles, e.g. working time under the health and safety provisions of the treaty. He was willing to look and see whether some codification of competence could be devised that would block off this misuse of the treaty.

Own Resources

Sr. Andreotti canvassed the notion of progressivity in the own resources decision as put forward by M. Delors. This might be a way round the Spanish Prime Minister's problems over cohesion. The European Council could endorse the concept but it would not be binding since subsequent implementation of the concept would require unanimity.

The Prime Minister said that we understood Spain's problems. They did not do particularly well from the Community in relation to relative prosperity. What we would not accept was Spain's demands for large increases in Community spending. Spain's problems should be discussed in next year's financial negotiations. M. Delors was talking about a re-allocation of existing resources. That was one thing. More resources overall was quite another. We would examine Delors' proposals against two criteria. One, that they should not lead to an increase in overall expenditure. The second was that the UK abatement must be maintained intact. Our net contribution this year was £3 billion.

Sr. De Michelis said that the Delors proposal was for a reallocation of resources, but with the principle of progressivity built into the system. The Prime Minister said that the problem with that approach was that if Spain was to gain by progressivity other Member States would presumably lose and would want to know how they would lose. Sr. De Michelis said that this could be a make or break issue for the Spaniards. It was a real difficulty and the Spaniards could not simply live with a declaration of intent. The rest of the Community had to try to help them, just as it was trying to help Britain.

EMU

Sr. Andreotti said he knew it was not easy in public terms to talk of a reservation for one Parliament only. But a general opt-in clause might mean that some Parliaments would not ratify the treaty. He hoped the treaty could be written so that all duties and rights were held in common under the Treaty, but with the possibility of derogations for those countries which could not abide by the requirements of the treaty. Britain could have a reservation, not in the treaty, but in a separate document.

His real worry was that a general clause could be used as a pretext for not going ahead with EMU. He was particularly worried about Germany - not its present leaders, but the leaders who might be there in eight or ten years' time.

The Prime Minister said that whatever was written in the Treaty could not compel a future German government to go to Stage Three if they did not want to do so. They could plead that the convergence conditions had not been met, or public opinion. Nobody could compel Germany, particularly as they were the largest contributor to the Community budget. That was quite a different proposition from whether a country could come out once it had gone into single currency. He did not envisage how that could happen in practical or political terms as it would be ruinously chaotic.

The Prime Minister said that opinion in Britain on the issue of a single currency had shifted over the last year but not without pain and difficulty and only because of the prospect of a treaty clause of general obligation enabling us to opt in. This was not a matter of being stubborn or difficult. It was a practical question.

Sr. Andreotti said that Chancellor Kohl had told his fellow EPP Heads of Government the previous evening that he had an idea to solve the problem but thought he would keep it to himself until he could talk to Mr. Major about it.

Sr. De Michelis said that it was clear that the British parliament must have the last word as far as Britain was concerned. Exactly the opposite circumstances applied in the Italian parliament. They might not ratify the treaty if the commitment to a single currency was not absolutely clear from the outset. We could write in what the British Parliament wanted. But Britain could not force the other Member States to write in provisions which they did not want. The Prime Minister said there were two issues, that of a general versus a particular opt-in provision and the question of whether the opt-in provision was legally binding. He quite understood that we could not compel other Member States to have an opt-in position for themselves but we must have an opt-in position for Britain in the treaty. Sr. De Michelis said that we had to find something which met Britain's requirement for a legally binding opt-in clause and the fact that other Member States would not accept a general obligation. The Prime Minister said that such an approach was conceivable.

Over lunch, non-EC issues were discussed. I am writing separately about these.

Follow up

The concept of progressivity as a means of improving Spanish needs sounds an expensive one. The idea was mentioned in passing by the Dutch Finance Minister at last Friday's talks. It would be helpful to have a brief on the point for the Prime Minister's talks with Mr. Lubbers on Sunday.

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I am copying this letter to the Private Secretaries to
Members of Cabinet and to Sonia Phippard (Cabinet Office).

*James
Stephe*

(J. S. WALL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office

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Filed on:

cc PC
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From the Private Secretary

28 November 1991

Dear Richard,

PRIME MINISTER'S TALKS WITH SIGNOR ANDREOTTI:
ROME, 27 NOVEMBER

Following the Prime Minister's and Foreign Secretary's talks with Signor Andreotti and Signor de Michelis about IGC issues on the morning of 27 November, discussion over lunch covered internal Italian politics, Yugoslavia and Libya.

Internal Italian Politics

Signor Andreotti talked in general terms about the possibility of changing Italian political practice to help forestall the fragmentation of Italian parties. Until recently reality had belied appearances: despite frequent government crisis (50 since the war) and the emotions of Italian politics, voters' strong party loyalties had provided a stability more usually associated with British phlegmatism. Andreotti had fought ten elections since 1946 in all of which the working class voters in certain Roman suburbs had remained remarkably loyal to him. However, such stability was now under threat: the fragmentation of parties had been evident in the success a few days earlier of the League in Northern Italy. Signor Andreotti did not think that increasing the threshold above which parties secured representation would overcome the danger of fragmentation. He saw a need for what he called new arrangements between government and parliament. So far, however, there was no agreement on the necessary changes.

Signor Andreotti saw strong signs of people wearying of the existing political system. The more vocal opponents were led by President Cossiga himself. He did not believe the government would be able to modify the election system before the coming general election; nor would it be fair to do so. He recalled the black President of Curacao, at a recent meeting of Christian Democrat leaders, saying that while modernisation without tradition could be a killer of men, tradition without modernisation was both a killer and a sign of hypocrisy.

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Yugoslavia

Signor Andreotti said that the Italians wanted to see if a UN peace-keeping force could be sent to Yugoslavia. Although recognition of Slovenia and Croatia would not mean the end of those countries' problems, the Italians were inclined to think that a decision (in favour of recognition) should be reached by Christmas. Signor de Michelis agreed with the Foreign Secretary's gloss on this time table: early recognition would only be a useful option if efforts to introduce a UN peace keeping force stalled.

The Foreign Secretary reported that during the latest exchanges in New York late on 26 November, the non-aligned and the Americans had been reluctant to move quickly to approve a Security Council Resolution, ahead of Mr. Vance's next report. Britain and France were pressing for the passage of the Resolution that day, 27 November; it would encourage the idea of peace-keeping without a formal decision to establish a force. If progress towards a UN peace-keeping force faltered, recognition might become inevitable but it was far from clear that it would be advantageous.

Signor Andreotti said it was unreasonable to claim that pressure for a peace-keeping force was premature given the long period over which the situation on the ground had been degenerating. However the non-aligned still regarded Yugoslavia as a leading member of their Movement and countries such as China and India were frightened at the possible implications for themselves.

Libya

The Prime Minister briefed Signor Andreotti on the UK/US/French declaration and the US/UK statement which would be issued that afternoon. The Americans had already given the Italians the text.

Signor Andreotti said the Italian Government wanted Libya to be discouraged from further terrorist activities. The Libyan Government should be prepared to send the two accused to Scotland and had told them so. At the same time, the Italians were concerned about the possible Libyan reaction, including the threat of violence to Europeans in Libya (he recognised that this was of more direct concern to Britain, with four times as many Britons and Italians living in Libya) and the effects of the issue on the delicate balance with the Maghreb.

Signor Andreotti noted that Abu Nidal were no longer based in Libya; their headquarters there had been dismantled.

Qadafi had told him, early in 1991, that accusations of Libyan help for Abu Nidal were absurd. The organisation was enormously wealthy. Qadafi claimed he could provide lists of Abu Nidal business contacts in what he called moderate countries. Signor Andreotti also said that there was no trace of recent contacts between Libya and the international terrorist Carlos.

An oil embargo on Libya would have severe repercussions for Italy.

The Prime Minister said the case was built on arguably the most outstanding detective work of the 20th century; the evidence was compelling. Britain's intelligence was that Qadafi still funded terrorism in Northern Ireland. There was no way of knowing whether the recent upsurge in IRA terrorist outrages was directly linked to Libyan funding. But both the upsurge and Libyan funding were facts.

The Foreign Secretary said that, if the Libyans ignored beyond a reasonable time the US/UK/French demands, the British Government would be in touch through the Twelve and the G7 about possible measures against Libya. There would be difficulties but there had to be effective measures in response to Libya's action in blowing up the Pan Am 'plane .

Signor de Michelis said that the message delivered in Rome on 26 November by King Hassan of Morocco, about the establishment of a judicial commission, had, in strictly legal terms, some validity. If Britain was seeking the extradition of the two Libyans, for example, she would need to satisfy the Libyans of a prima facie case against them. The judicial commission might be a necessary step. The Prime Minister said he saw huge difficulties with such an idea, which looked to be a Libyan delaying tactic. He thought that King Hassan's message would have to be put to the Lord Advocate. Sir Stephen Egerton said that the evidence against the two was not to be found in Libya itself. Signor Andreotti thought there should be no objection to allowing a Libyan court to examine the evidence against the two Libyan nationals. He, too, favoured the idea of a judicial commission.

Signor de Michelis said the Italians wanted to see major changes in Libya. (He later explained to the Foreign Secretary that he had in mind using the Lockerbie evidence to get rid of Jalloud, with the help of the Egyptians.) North African countries had the same wish but also shared the Italians' fears about Libyan reactions to American and British action. The Italians, on their doorstep, saw the issue vividly: the French, too, were more aware of the difficulty; hence their unwillingness to sign up to the US/UK statement being issued on 27 November. The Foreign Secretary denied this. The reason lay in the difference in the French legal system. However, the Foreign Secretary understood the need for care and concertation before any political measures were taken. He did not agree with the suggestion from Signor de Michelis that the problem should necessarily be put to the UN. The Twelve and G7 could act. We needed to remember that the facts of what the Libyans had done were clear and that they were looking for delay in the hope that feelings in the US, Britain (and France) would cool.

Signor Andreotti returned to the need, as he saw it, to abide by the legal norms. If the Italians were seeking to extradite someone from Britain to Italy the British authorities would ask about the case against him. US military action against Libya would be most unwelcome and would be a form of state

terrorism itself. Signor de Michelis thought that the other Arab countries could be persuaded to ask the Libyans to give up the two accused, provided the judicial commission was allowed to go to Libya first. President Mubarak was very clear on this point. King Hassan of Morocco would join in. Britain, the US and France had to follow the right procedures and react seriously to the North African government's concerns.

I am copying this letter to Simon Webb (Ministry of Defence), Alan Maxwell (Lord Advocate's Department) and Sonia Phippard (Cabinet Office).

*I am very grateful to you for providing
the draft of this record.*

Mr. Stephen

J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office

Nr Wall No 10

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*You may want to
Cut down a bit.*

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DRAFT LETTER FROM STEPHEN WALL TO RICHARD GOZNEY

RS
27/11 *cc PS*

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Libyans handing over the two accused. The case was built on arguably the most outstanding detective work of the 20th century; the evidence was compelling. Britain's intelligence was that Qaddafi still funded terrorism in Northern Ireland. There was no way of knowing whether the recent upsurge in IRA terrorist outrages was directly linked to Libyan funding. But both the upsurge and Libyan funding were facts.

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