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bcc: ~~De Wall~~
No 10 Darnley St.

FROM: M H Jay

DATE: 6 January 1992

cc: PS/PUS
Mr Bayne
Mr Appleyard
Mr Greenstock
Mr Tait
Mr Goulden
Mr Eaton

(for info.)
PS
PS/Mr Garel-Jones

Hds: ECD(I)
Planners
Economists
WED
SED
EED
Soviet Dept.
Special Advisers
Mr Hadley, Cabinet Office
Sir J Kerr, UKREP BRUSSELS

Mr Jones Parry, ECD(E)

ENLARGEMENT

1. Enlargement will be one of the main Community subjects for 1992, including our Presidency. I should be grateful if you would regard it as one of your top priorities for the months ahead: see also paragraph 5 below on handling enlargement issues over the next few months.

2. There has been a certain amount of activity over the Christmas and New Year break. The position seems to me to be as follows:

- (i) Strategy for 1992. Our main aim for 1992 must be to ensure that the Portuguese make enough progress in their Presidency for the Commission to be instructed by the Council to draw up during our Presidency the negotiating mandates for Austria and Sweden and (if, as expected, she applies early this year) Finland. The Secretary of State is briefed on these lines for his talks in Lisbon tomorrow. In practice this means getting the Commission to come forward quickly with the avis for Sweden (and if necessary Finland) and to get on quickly with the enlargement study commissioned by the European Council at Maastricht. It also means counteracting (perhaps with German help) any French or Commission tendency to argue that we cannot move forward with any enlargement until, say, the Community is agreed on a grand design for the future, including its relations with East and Central Europe and the former Soviet Union, or until the Maastricht agreement on political union and EMU is ratified

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and in force. The Maastricht conclusions should help here. We must also try to avoid the Portuguese or others exploiting the Maastricht conclusions linkage between enlargement and future financing either to put pressure on us to agree to an early and bad future financing agreement, or to seek to delay any work on enlargement, including drawing up mandates, until after the future financing negotiations are complete.

- (ii) The EFTAns. On a bilateral level, we have talks planned between Mr Garel-Jones and his Swedish and Austrian counterparts (in London in February and March) and his Finnish counterpart (in Helsinki next week). The trickier contacts will be with the Norwegians and Swiss. We do not want to discourage them from applying, and if they apply during the next few months we must ensure their applications are processed with the Austrians and Swedes. But nor, I think, should we actively encourage them to apply, since the prospect of four or five, rather than two or three, new members, could cause some other member states and the Commission to argue that there should be a further IGC on institutional questions before any enlargement. This would mean no enlargement until after the 1996 IGC, or bringing that IGC forward. Neither is desirable. We also need agreement in Whitehall on the implications for the UK (e.g. agriculture, fisheries) of Austrian, Swedish (and Finnish) membership so that we can influence the drawing up of the Commission's mandate. We have put a draft paper round Whitehall.
- (iii) The Southern tier. We have received comments from most Whitehall Departments on our paper on the Southern tier. No-one seems disposed to argue for membership for Malta, Cyprus or Turkey, but there are clear reservations about any alternative arrangements for closer links with the EC which may have budgetary implications. These range from a flat "no" from the Treasury to Association Agreements or further financial protocols (clearly unrealistic) to rather subtler replies from the DES and Dept. of Employment to the effect that any budgetary costs from what would essentially be a political agreement should fall on the FCO budget. We now need a revised paper, for discussion in EQS.

/Thereafter,

Thereafter, we shall need a paper for the Secretary of State to put to colleagues, and possibly an OPD(E) discussion.

- (iv) Poland, Hungary and Czechoslovakia. We are committed to the principle of membership for Poland, Hungary and Czechoslovakia when they can meet the criteria. The PUS has suggested, and the Secretary of State approved, the idea that we launch an initiative early this year in favour of enlargement, with a timetable. As I have minuted to the PUS, I have some reservations about this in relation to our objectives for the EFTA countries for 1992. Nor are we clear about the potential budgetary and institutional implications for the Community. We do, however, urgently need a strategy which puts flesh on the bones of our commitment in principle to membership for these countries. Sir John Kerr has suggested this take the form of stronger economic, financial and political links with the countries, plus reforms of certain Community policies, perhaps including the CAP, which could ease and quicken the path to accession. I should be grateful if you would work something up quickly, with ECD(I) and UKREP. We must do more thinking too about the budgetary and institutional implications of a Community of 19 or 20, i.e. including, say, four EFTAs and three Eastern Europeans. Our draft institutions paper needs revising in the light of the discussion with Sir John Kerr on 3 January. I should like to see the Economic Advisers paper on the likely costs of accession as soon as it is ready.

- (v) Other Eastern and Central Europeans. The EC has an agreed policy on Bulgaria and Romania (exploratory talks with a view to Association Agreements), Albania (trade and cooperation agreement), Yugoslavia (suspend the trade and cooperation agreements, and sticks and carrots for the constituent parts) and the Baltic States (trade and cooperation agreements leading, in principle, to Association Agreements). EC membership is an - as yet largely unspoken - wish for most of these countries. We need to ensure that EC policies help entrench democracy and economic reforms without raising unrealistic expectations, and that we continue to be seen by the countries concerned as -

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along with Germany - their staunchest Community supporter.

- (vi) The former Soviet Union. Mr Wall has asked informally for advice on how much of the former Soviet Union might in theory (i.e. in terms of Article 237 of the Treaty of Rome, or Article W1 of the draft political union treaty agreed at Maastricht) be candidates for membership of the Community; and what the practical implications might be of the answer we give. This would be a private assessment, to provide the background against which public statements can be formed. My preliminary answer to the first question is that Belorus, Ukraine and Moldava would qualify; that a big question-mark hangs over Russia (Moscow is European, Vladivostock is not); and that the others do not qualify. The practical implications of membership for any of them for the foreseeable future, and Russia ever, look pretty daunting. The best public line may be to say that the Community needs to develop links with all the countries of the ex-Soviet Union in the way that best suits their needs and the Community's means, and that nothing should be ruled out in the longer term; but the Prime Minister went a bit further than this about Russia in his New Year message. We need a draft letter to No. 10 fairly soon.

3. Many of these issues need self-standing consideration, as indicated above. But the threads need to be drawn together in two ways:

- (i) in the draft minute we have in mind that the Secretary of State should send OPD(E) colleagues. The ECD(E) draft has been cleared with Sir John Kerr, subject to some amendments, and needs to be cleared within the FCO and by the Cabinet Office. I suggest that we do not seek to clear it elsewhere in Whitehall. It follows from earlier Ministerial correspondence, and will refer to more detailed work - e.g. on EFTA and the Southern tier - which will need Whitehall discussion. We should aim to submit a draft to Ministers shortly;
- (ii) as part of the paper on the road to the 1996 political union IGC commissioned by Mr Garel-Jones, of which I am circulating an outline shortly.

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4. There is also Parliamentary business. You will want to look carefully at the draft papers we have prepared for the Lords Sub-Committee following the background briefing you and I gave them before Christmas. Mr Garel-Jones will be invited to give evidence later in their enquiry. We shall also need an agreed line, cleared with Ministers, before Mr Tait, Mr Goulden and I give evidence to the Commons Foreign Affairs Committee on 15 January on Eastern Europe.

5. These enlargement issues form part of a broader policy on European construction which will concern other parts of the FCO. There will also, I imagine, be regular Cabinet Office-led discussion. But enlargement itself has enough content and enough importance over the year ahead to need special handling. Work will be centred in ECD(E), but others will need to be involved. I think it might be helpful if I were to hold a fortnightly meeting to take stock of the issues, to commission further work as necessary, and to make sure we are properly prepared for FAC and other meetings on which enlargement will feature from now on. I hope ECD(I), Policy Planning Staff, Economic Advisers and Legal Advisers will attend regularly. I would much welcome attendance by WED, SED, Soviet Department and East European Department too, plus the European Secretariat of the Cabinet Office. There will need to be an UKREP input. Mr Bevan and Miss Legg might provide the Secretariat. Let us hold the first meeting at the end of this week, to discuss this minute.

MHJ

M H Jay

6 January 1992