

Pat Thirty Four

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Pat 34

Confidential File

European Council Meeting in
Madrid, June 1989.

EUROPEAN

POLICY

Pat 1: July 79

Pat 34: June 89

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
29.6.89							
11.7.89							
17.7.89							
PREM 19/2667							

SPEAKING NOTE

Dr. J. J. J.
a

THE AIM

- THE DEVELOPMENT OF GREATER MONETARY COOPERATION WITHIN THE COMMUNITY IS AN AIM WE SHARE.
- WE HAVE IN LONDON A MAJOR WORLD FINANCIAL MARKET. WE WANT TO KEEP IT, INDEED EXPAND IT.
- SO WE SUPPORT ALL PRACTICAL STEPS WHICH WILL MAKE THE COMMUNITY'S CAPITAL MARKETS, INCLUDING LONDON, WORK BETTER. ABOVE ALL WE SUPPORT GREATER LIBERALISATION.
- WE HAVE DEVELOPED THE EUROBOND MARKET. WE FAVOUR THE DEVELOPMENT OF THE ECU MARKET - AND HAVE IN THE LAST YEAR ACTIVELY ENCOURAGED IT THROUGH THE INNOVATION OF ISSUING ECU TREASURY BILLS.
- WE FAVOUR THE ABOLITION OF EXCHANGE CONTROLS - AND BLAZED THE TRAIL OURSELVES BY ABOLISHING ALL UK EXCHANGE CONTROLS WITHIN WEEKS OF TAKING OFFICE, 10 YEARS AGO.
- IN SHORT WE ARE FULLY BEHIND MOST OF THE PROPOSALS IN STAGE I OF THE DELORS REPORT - INDEED WE HAVE OURSELVES IMPLEMENTED MOST OF THEM.

THE DELORS REPORT

- AT HANOVER WE ASKED FOR A REPORT WHICH WOULD PROPOSE 'CONCRETE STAGES LEADING TOWARDS' ECONOMIC AND MONETARY UNION.
- IN DISCUSSING THE 'PROGRESSIVE REALISATION' OF EMU, IT IS IMPORTANT TO THINK IN CONCRETE, PRACTICAL TERMS.

- WE CAN ALL THANK PRESIDENT DELORS AND HIS COMMITTEE FOR THEIR REPORT. IT IS A VALUABLE ANALYSIS. IT RIGHTLY RECOMMENDS A STEP BY STEP APPROACH. IT SHOWS HOW MOMENTOUS SOME OF THE IMPLICATIONS ARE, PARTICULARLY IN STAGES 2 AND 3.
- WE AGREE THAT THE COMMUNITY SHOULD MAKE PROGRESS. I AM READY TO AGREE HERE AND NOW THAT AN EARLY START SHOULD BE MADE ON THE MEASURES THEY SUGGEST FOR STAGE I.

STAGE I

- INDEED I AM CONTENT THAT STAGE I SHOULD START, AS THEY RECOMMEND, ON 1 JULY 1990.
- I PARTICULARLY WELCOME THEIR CALL FOR THE ESTABLISHMENT DURING STAGE I OF A SINGLE COMMUNITY FINANCIAL AREA, IN WHICH 'ALL MONETARY AND FINANCIAL INSTRUMENTS CIRCULATE FREELY, AND BANKING, SECURITIES AND INSURANCE SERVICES ARE OFFERED UNIFORMLY'.
- AND, OF COURSE, THEIR CALL FOR THE COMPLETION OF THE SINGLE MARKET, TOGETHER WITH A 'STRENGTHENING OF COMMUNITY COMPETITION POLICY'.
- IN SOME PRACTICAL RESPECTS, I HOPE THAT THE COMMUNITY WILL GO FURTHER IN STAGE I THAN THE COMMITTEE HAVE RECOMMENDED. FOR EXAMPLE, IN RESPECT OF THE ECU, THE REPORT MAKES ONLY THE RATHER MODEST SUGGESTION THAT 'ALL IMPEDIMENTS TO THE PRIVATE USE OF THE ECU SHOULD BE REMOVED'. I AGREE; BUT I RATHER HOPE THAT IN ADDITION MORE MEMBER STATES WILL JOIN THE UK IN ACTIVELY PROMOTING THE PRIVATE ECU MARKET. AND HOLDING ECUS IN RESERVES. AND USING THE ECU AS A CURRENCY OF INTERVENTION.

ERM

- YOU WILL I KNOW EXPECT ME TO SAY SOMETHING ABOUT BRITAIN AND THE ERM.
- THE DELORS REPORT SAYS THAT IT WOULD BE IMPORTANT FOR ALL MEMBER STATES TO JOIN THE ERM DURING STAGE I. LET ME JUST REMIND YOU FOR A MOMENT OF THE REASONS WHY WE HAVE NOT JOINED SO FAR.
- BRITAIN HAS FROM THE START PARTICIPATED IN THE EMS. BUT THERE IS NO DOUBT THAT IF STERLING HAD BEEN WITHIN ITS EXCHANGE RATE MECHANISM AT THE TIME OF THE SECOND OIL SHOCK, OR INDEED THROUGHOUT THE PERIOD WHEN THE POUND WAS IN EFFECT A PETRO-CURRENCY, MOVING IN THE OPPOSITE DIRECTION TO THE DM IN RESPONSE TO ANY OIL PRICE MOVE, OR ANY DEVELOPMENT WHICH THE MARKETS THOUGHT MIGHT PRESAGE AN OIL PRICE MOVE, THE RESULT WOULD HAVE BEEN DAMAGING, NOT LEAST FOR ERM.
- WE DON'T KNOW WHAT THE FUTURE OF OIL PRICES WILL BE, NOR WHAT SUDDEN POLITICAL SHOCKS MAY TOUCH OFF ANOTHER INCREASE.
- OUR POSITION IS THAT WE HAVE ALWAYS SAID WE SHALL JOIN THE ERM WHEN THE TIME IS RIGHT.
- BUT PICKING THE RIGHT TIME IS A PRACTICAL MATTER OF WEIGHING RISKS AND BENEFITS. WE NEED TO GET IT RIGHT, FOR GETTING IT WRONG WOULD HARM BOTH BRITAIN AND THE COMMUNITY.
- AS M. DELORS SAID A FEW DAYS AGO, THE PRECISE TIMING COULD NOT FOR OBVIOUS MONEY MARKET REASONS BE ANNOUNCED IN ADVANCE. AND JUDGING IT IS, OF COURSE, A MATTER FOR THE BRITISH GOVERNMENT ALONE.

- I REAFFIRM TODAY THE UNITED KINGDOM'S INTENTION TO JOIN THE ERM. AND I AM SURE YOU WOULD ALL AGREE THAT THIS MUST BE DONE IN CONDITIONS WHICH STRENGTHEN THE ERM ITSELF AND PROVIDE ASSURANCE THAT AN ENLARGED ERM COULD BE SUSTAINED.

- WHAT ARE THESE CONDITIONS?

- THEY ARE IN FACT SPECIFIED IN STAGE I OF THE DELORS REPORT. THAT PROVIDES FOR:
 - COMPLETION OF THE INTERNAL MARKET
 - ABOLITION OF ALL FOREIGN EXCHANGE CONTROLS AND FULL IMPLEMENTATION OF A FREE MARKET IN FINANCIAL SERVICES
 - AND A STRENGTHENING OF THE COMMUNITY'S COMPETITION POLICY

- IN THOSE CIRCUMSTANCES - AND PROVIDED INFLATION IN BRITAIN HAS INDEED BEEN BROUGHT DOWN SIGNIFICANTLY AS WE INTEND - THE CONDITIONS WOULD CLEARLY EXIST FOR STERLING TO JOIN THE ERM.

- I HOPE THIS POSITIVE STATEMENT WILL BE WELCOME TO YOU.

LATER STAGES

- LET ME NOW TURN TO THE LATER STAGES OF EMU ENVISAGED IN THE DELORS REPORT. I HAVE SERIOUS DIFFICULTY WITH SOME ASPECTS OF IT.

- THE REPORT SPELLS OUT THE FUNDAMENTAL NATURE OF ECONOMIC AND MONETARY UNION, AND THE TRANSFERS OF NATIONAL SOVEREIGNTY WHICH WOULD BE INVOLVED. THE REPORT SETS OUT THESE IMPLICATIONS. THEY WOULD INVOLVE AN ENORMOUS SHIFT IN THE CONTROL OF ECONOMIC AND FISCAL POLICY. INDEED AS THEY ARE NOW, THEY WOULD NOT COMMAND THE SUPPORT OF THE BRITISH PARLIAMENT. I WOULD BE SURPRISED IF SOME OTHERS WERE NOT IN FACT IN A SIMILAR POSITION.

- I ALSO HAVE GREAT DIFFICULTY WITH THE REPORT'S TREATMENT OF FISCAL POLICY. IT ASSERTS THAT BINDING RULES FOR THE BUDGETARY POLICIES OF THE VARIOUS MEMBER STATES WOULD BE ESSENTIAL TO SUPPORTING MONETARY UNION. I FIND THAT VERY QUESTIONABLE: EVEN IN FEDERATIONS, CONTROLS OVER THE BUDGETS OF COMPONENT STATES ARE THE EXCEPTION RATHER THAN THE RULE.

- I QUESTION TOO THE REPORT'S ASSERTION OF THE NEED FOR MASSIVE SUBSIDIES TO PERIPHERAL REGIONS. I SHOULD HAVE THOUGHT THAT A BETTER ANSWER WOULD BE TO ENCOURAGE GREATER FREEDOM FOR MARKET FORCES SO AS TO GET RID OF DIFFERENCES IN COMPETITIVENESS.

- I ALSO QUESTION THE ACCEPTABILITY TO COMMUNITY PUBLIC OPINION OF ARRANGEMENTS AS LACKING IN DEMOCRATIC ACCOUNTABILITY AS THE REPORT DESCRIBES. THE SUGGESTED EUROPEAN SYSTEM OF CENTRAL BANKS WOULD BE LESS ACCOUNTABLE THAN THE MOST INDEPENDENT OF OUR PRESENT CENTRAL BANKS - THE BUNDESBANK.

- I RAISE THESE QUESTIONS NOW NOT BECAUSE I SEEK ANSWERS NOW BUT RATHER AS ILLUSTRATIONS OF THE KIND OF ISSUES WHICH WILL HAVE TO BE ADDRESSED IN DUE COURSE IN THE FURTHER WORK ON STAGES II AND III WHICH OUR FINANCE MINISTERS ENVISAGE.

- IN PARTICULAR WE SHALL NEED TO LOOK AND SEE WHETHER THERE ARE OTHER MODELS OF ECONOMIC AND MONETARY UNION WHICH WARRANT CONSIDERATION. WE SHOULD NOT ASSUME THAT STAGES II AND III CONTAIN A MONOPOLY OF WISDOM ON THE SUBJECT.

- THE ISSUES IN STAGES II AND III ARE FUNDAMENTAL, BUT I THINK WE ALL RECOGNISE THAT DECISIONS ON THESE MATTERS ARE SIMPLY NOT ON THE CURRENT AGENDA. WE MUST STICK TO THE PRACTICAL AND GO FORWARD INTO WHAT NEEDS TO BE DONE NOW.

CONCLUSIONS

- OUR FINANCE MINISTERS DEFINED PREPARING FOR STAGE I AS THE PRIORITY TASK WHEN THEY CONSIDERED THE REPORT AT THEIR MEETING IN SPAIN LAST MONTH. I AM SURE THAT THEY WERE RIGHT, AND THAT WE SHOULD TODAY ENDORSE THEIR VIEW.
- THEY SUGGESTED THAT THE WORK SHOULD BE DONE 'AS A MATTER OF URGENCY'. I AGREE.
- IN SHORT, I BELIEVE WE SHOULD TODAY DECIDE THAT:
 - THE WORK OF THE DELORS COMMITTEE HAS BEEN VALUABLE;
 - THEIR DESCRIPTION OF POSSIBLE LONG-TERM ARRANGEMENTS REQUIRES MUCH FURTHER, LONGER-TERM, STUDY TAKING IN OTHER ALTERNATIVES AS WELL: BUT
 - THEIR RECOMMENDATIONS FOR EARLY ACTION ARE RIGHT, AND SHOULD BE IMPLEMENTED.

DRAFT PRESS CONFERENCE STATEMENT

21. Feb
CJ

THIS COUNCIL HAS HAD TO GRAPPLE WITH SOME VERY DIFFICULT ISSUES AFFECTING THE FUTURE OF THE COMMUNITY.

we have made
BUT ~~THERE HAS BEEN A WILL TO MAKE~~ AS MUCH PROGRESS AS WE CAN AT THIS STAGE, WHILE LEAVING LONGER TERM ISSUES FOR FURTHER DISCUSSION.

~~AND WE HAVE~~ THROUGHOUT THE LAST SIX MONTHS - AND PARTICULARLY AT THIS MEETING - HAD THE BENEFIT OF AN EXCELLENT SPANISH PRESIDENCY.

we have
BRITAIN HAS PLAYED A VERY ACTIVE PART IN ARRIVING AT CONCLUSIONS WHICH WE CAN ALL ACCEPT - ~~AND I CONSIDER THESE CONCLUSIONS FULLY SATISFACTORY.~~

LET ME TAKE YOU QUICKLY THROUGH THE MAIN ISSUES:

- WE HAVE A VERY GOOD REAFFIRMATION OF THE PRIORITY IMPORTANCE OF COMPLETING THE SINGLE MARKET, WITH THE EMPHASIS ON THE AREAS OF PARTICULAR INTEREST TO THE UNITED KINGDOM: FINANCIAL SERVICES, TECHNICAL STANDARDS, TRANSPORT, PUBLIC PURCHASING.

- IT IS ACCEPTED THAT THERE WILL NOT BE A WITHHOLDING TAX, WHICH SOME HAD TRIED TO MAKE A CONDITION FOR THE ABOLITION OF FOREIGN EXCHANGE CONTROL. YOU WILL RECALL THAT ~~AS~~ ^{THE} MAIN COUNTRIES ARE COMMITTED TO ABOLITION BY 1 JULY 1990

Palma
- WE HAVE ~~MUCH~~ WIDE ACCEPTANCE OF THE NEED TO KEEP ^{CHECKS} ~~CONTROLS~~ AT FRONTIERS AGAINST DRUGS, TERRORISM AND CRIMINALS, EXPRESSED IN THE REPORT OF THE CO-ORDINATORS GROUP WHICH THE EUROPEAN COUNCIL ACCEPTED, WHILE MAKING FREE MOVEMENT FOR LAW-ABIDING CITIZENS A GREATER REALITY.

ON THE POLITICAL SIDE WE HAVE ALL EXPRESSED OUR UTTER CONDEMNATION OF WHAT HAS HAPPENED IN CHINA AND SET OUT A NUMBER OF MEASURES WHICH WE HAVE ALL AGREED TO TAKE. WE HAVE ALSO REACHED CONCLUSIONS ON THE MIDDLE EAST, INCLUDING LEBANON.

BUT OF COURSE THE MAIN ISSUES HAVE BEEN ECONOMIC AND MONETARY MATTERS AND THE SOCIAL DIMENSION.

ON ECONOMIC AND MONETARY MATTERS THE MAIN PRACTICAL ACHIEVEMENT OF THIS COUNCIL HAS BEEN TO AGREE ON THE EARLY IMPLEMENTATION OF STAGE I OF THE DELORS REPORT.

~~LET ME JUST REMIND YOU WHAT~~ THIS INVOLVES: COMPLETION OF THE SINGLE MARKET, ABOLITION OF ALL FOREIGN EXCHANGE CONTROLS, A FREE MARKET IN FINANCIAL SERVICES AND STRENGTHENING OF COMPETITION POLICY (WHICH MEANS REDUCING SUBSIDIES). THESE ARE ALL THINGS FOR WHICH THE UNITED KINGDOM HAS CAMPAIGNED STRONGLY AND WHERE WE ARE WELL AHEAD OF OTHER MEMBERS OF THE COMMUNITY.

draws attention to the importance of it in all member states
IT ALSO INCLUDES ~~THE COMPLETION OF THE EXCHANGE RATE MECHANISM~~ *of the EMS*. I MADE A STATEMENT ON THAT WHICH WAS RECEIVED POSITIVELY.
ERM 20 EMS

WE HAVE ALSO AGREED TO DO FURTHER WORK ON WHAT MIGHT EVENTUALLY FOLLOW STAGE I. BUT WE HAVE REACHED NO CONCLUSIONS ABOUT THAT. WE HAVE ACCEPTED THE DELORS REPORT AS A GOOD BASIS FOR THIS FURTHER WORK - BUT NOT THE ONLY BASIS.

the progressive IT WILL BE POSSIBLE TO BRING IN OTHER IDEAS AND OTHER APPROACHES *for* TO ECONOMIC AND MONETARY UNION. BUT LET ME EMPHASISE THAT THERE IS ABSOLUTELY NOTHING AUTOMATIC ABOUT GOING BEYOND STAGE I. ALL THAT IS FOR FUTURE DECISION.

THIS FURTHER WORK WILL OF COURSE BE DIFFICULT: THERE ARE SUBSTANTIAL DIFFERENCES OF VIEW. ~~BUT WE GO INTO IT IN GOOD FAITH AND~~ WE SHALL OF COURSE SET OUT BRITAIN'S VIEWS CLEARLY AND VIGOROUSLY.

ON SOCIAL MATTERS, OF COURSE WE ACCEPT THAT THERE IS A SOCIAL DIMENSION TO THE SINGLE MARKET. THE CONCLUSIONS CONTAIN A VERY SATISFACTORY RECOGNITION THAT THE HIGHEST PRIORITY IS *creating* JOB CREATION. *conditions more* WE DO NOT BELIEVE THAT THE PROPOSED SOCIAL CHARTER WOULD HELP JOB CREATION, AND THAT IS WHY WE COULD NOT ACCEPT THE CONCLUSIONS OF THE JUNE SOCIAL AFFAIRS COUNCIL, AND HAVE CONFIRMED THAT REFUSAL HERE.

WE BELIEVE THAT BY IMPOSING EXTRA BURDENS ON BUSINESS IT WOULD MAKE THE COMMUNITY LESS COMPETITIVE. THERE ARE VERY DIFFERENT TRADITIONS OF HOW WE HANDLE THESE THINGS IN DIFFERENT MEMBER STATES AND WE DO NOT ACCEPT THE NEED TO HAVE IT ALL DETERMINED FROM THE CENTRE.

THE CONCLUSIONS DO BRING OUT A VERY IMPORTANT POINT, NAMELY THAT NATIONAL LEGISLATION AND ~~COLLECTIVE BARGAINING~~ ^{and voluntary agreements} ~~HAVE JUST~~ ^{HAVE} ~~AS IMPORTANT A ROLE~~ ^{AS LEGITIMATE ROLE} WE WOULD SAY MORE IMPORTANT - THAN COMMUNITY-LEGISLATION. WE SHALL BE PUTTING THIS POINT OF VIEW VERY STRONGLY IN THE FURTHER DISCUSSIONS WHICH ARE ~~ENVISAGED~~ ^{WILL TAKE PLACE}.

in achieving the Community's social dimension.

TO SUM UP, WE HAVE AGREED AT THIS COUNCIL ON WHAT CAN BE DONE NOW AND WE HAVE SET THE SCENE FOR FURTHER DISCUSSION OF OTHER ISSUES OVER THE ~~NEXT FEW MONTHS~~ ^{AND YEARS AHEAD}. YES, THERE ARE VERY DIFFICULT ISSUES TO BE RESOLVED ON WHICH VIEWS DIFFER WIDELY. BUT LET ME JUST REMIND YOU JUST HOW MUCH BRITAIN HAS CONTRIBUTED TO SHAPING THE COMMUNITY OVER THE PAST FEW YEARS - REFORM OF THE CAP, ESTABLISHING THE SINGLE MARKET, AND GETTING THE BUDGET RIGHT. WE SHALL BE JUST AS ACTIVE AND JUST AS VIGOROUS IN FIGHTING BRITAIN'S CORNER IN FUTURE DISCUSSION.

NOW MAY I HAVE YOUR QUESTIONS.

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~~K.G.~~

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FRAME ECONOMIC

FOREIGN AFFAIRS COUNCIL: 17 JULY 1989
 FOLLOW UP TO EUROPEAN COUNCIL

SUMMARY

1. A LENGTHY TOUR DE TABLE ON FUTURE WORK ON EMU. SOME PRESSURE FOR A STRONG COORDINATING ROLE FOR THE FOREIGN AFFAIRS COUNCIL (FAC). FRANCE ANXIOUS FOR RAPID PROGRESS. THE PRESIDENCY PROMISED PROCEDURAL PROPOSALS, POSSIBLY INVOLVING THE SETTING UP OF A HIGH LEVEL GROUP.

DETAIL

2. DELORS (COMMISSION) RECALLED THE DISCUSSION AT THE ECOFIN COUNCIL. THE WHOLE OF THE 9/10 SEPTEMBER INFORMAL MEETING WAS TO BE DEVOTED TO STAGE I. THEY WOULD NEED TO CONSIDER IN PARTICULAR THE STRENGTHENING OF THE ROLE OF THE COMMITTEE OF GOVERNORS OF CENTRAL BANKS. AS FOR LATER STAGES (HE WOULD NOT CALL THEM STAGES II AND III SINCE THE DELORS REPORT HAD NOT BEEN ADOPTED AS SUCH), THERE WERE SIX QUESTIONS FOR THE FOREIGN AFFAIRS COMMITTEE TO CONSIDER:

(A) SHOULD THERE BE GREATER CENTRALISATION FOR MONETARY THAN FOR ECONOMIC POLICIES AS HIS REPORT HAD SUGGESTED, IN VIEW OF THE SMALL PROPORTION OF PUBLIC EXPENDITURE WHICH WOULD BE CENTRALISED COMPARED WITH TYPICAL FEDERAL STATES?

(B) WHAT BINDING RULES SHOULD THERE BE ON MEMBER STATES AND CENTRAL BANKS? SHOULD THESE FOCUS ON DEFICITS AND THEIR FINANCING?

(C) HOW MUCH COHESION WAS NEEDED?

(D) WAS THE NEW FEDERAL CENTRAL BANK PROPOSED IN HIS REPORT ACCEPTABLE? *No bank.*

(E) SHOULD THE EUROPEAN CENTRAL BANK BE ACCOUNTABLE TO THE EUROPEAN PARLIAMENT AND EUROPEAN COUNCIL?

(F) SHOULD THERE BE SOME DEMOCRATIC QUID PRO QUO FOR THE GROWING ROLE OF THE SYSTEM?

3. DUMAS (PRESIDENCY) NOTED THAT THE MADRID CONCLUSIONS INCLUDED THE FOREIGN AFFAIRS COUNCIL AMONG THE BODIES WHO WERE TO DO FOLLOW UP WORK. ITS ROLE SHOULD BE ONE OF OVERALL COORDINATION AND THE PRESIDENCY WOULD PUT FORWARD SPECIFIC PROPOSALS. EYSKENS (BELGIUM) THOUGHT THE FOREIGN AFFAIRS COUNCIL SHOULD HAVE A CREATIVE ROLE PARTICULARLY ON INSTITUTIONAL ISSUES, IN ADDITION TO ITS COORDINATING ROLE. SOLBES (SPAIN) SAID THE FAC'S ROLE WAS MORE ONE OF PROCEDURE THAN OF SUBSTANCE. MADAME CRESSON (FRANCE) EMPHASISED THE NEED FOR SPEED. THE COMMISSION SHOULD SUBMIT ITS IDEAS AS SOON AS POSSIBLE SO THAT THE TIMETABLE COULD BE ADHERED TO.

4. GENSCHER (GERMANY) SAID IT WAS FOR THE PRESIDENCY TO DECIDE ON THE PRECISE ROLE OF THE FAC WHICH SHOULD COMBINE COORDINATION WITH MAKING ITS OWN CONTRIBUTION. MRS CHALKER REFERRED TO THE CONCLUSIONS OF ECOFIN ON 10 JULY, EMPHASISING THAT THE ECOFIN COUNCIL SHOULD TAKE THE LEAD ON THE BASIS OF THE WORK PROGRAMME WHICH THEY HAD DISCUSSED. THE SIX QUESTIONS POSED BY DELORS WERE NOT EXHAUSTIVE AND WE SHOULD "HASTEN SLOWLY". CALAMIA (ITALY) AND MOLLER (DENMARK) ALSO SUPPORTED THE NEED FOR A SUBSTANTIAL ROLE FOR THE FOREIGN AFFAIRS COUNCIL.

5. POOS (LUXEMBOURG) SUPPORTED THE TIMETABLE PROPOSED BY THE COMMISSION AND PRESIDENCY AT ECOFIN. THE FAC SHOULD HAVE ITS NORMAL COORDINATING ROLE AND SHOULD HAVE EMU PERMANENTLY ON ITS AGENDA. PAPOULIAS (GREECE) EMPHASISED THE IMPORTANCE OF STRUCTURAL POLICY AS PART OF STAGE I AND AGREED WITH THE 10 JULY ECOFIN CONCLUSIONS. COLLINS (IRELAND) AGREED WITH THE PRESIDENCY PROPOSALS FOR THE TIMETABLE. PINEIRO (PORTUGAL) SAID IT WAS IMPORTANT TO AVOID CLASHES WITH ECOFIN AND TO DEFINE CAREFULLY THE RESPECTIVE ROLES OF THE TWO COUNCILS. NIEMAN (NETHERLANDS) SAID IT WAS FOR THE PRESIDENCY TO DECIDE HOW TO SPLIT UP THE WORK BETWEEN THE FAC AND ECOFIN.

6. CHRISTOFFERSEN (COMMISSION) SAID THE COUNCIL AND COMMISSION HAD AGREED ON THE TIMETABLE PRESENTED TO ECOFIN. ECOFIN'S ROLE WAS TO DEAL WITH THE SUBSTANCE OF STAGE I AND THE MACROECONOMIC ELEMENTS OF STAGES II AND III. THE FAC'S ROLE WAS TO MONITOR THE WORK, TO PREPARE FOR THE EUROPEAN COUNCIL, TO DEAL WITH INSTITUTIONAL QUESTIONS AND SOME ASSOCIATED POLICIES AND TO PREPARE FOR THE IGC. THE TIMETABLE AGREED AT ECOFIN WAS A TIGHT ONE. STAGE I MUST BE PREPARED DURING THE FRENCH PRESIDENCY, WITH AGREEMENT IN PRINCIPLE AT THE NOVEMBER ECOFIN SO THAT THE STRASBOURG EUROPEAN COUNCIL COULD

TAKE STOCK OF THE WORK ON STAGE I.

7. DUMAS SAID THAT AT STRASBOURG IT MUST BE POSSIBLE TO SHOW DEFINITIVE PROGRESS ON STAGE I AND USEFUL PROGRESS ON STAGES II AND III. TO MAKE THIS POSSIBLE THE COMMISSION'S PAPER SHOULD BE READY IN THE FIRST HALF OF SEPTEMBER NOT THE SECOND. HE ALSO SUGGESTED THAT ONE WAY OF IMPROVING COORDINATION WOULD BE TO SET UP A HIGH LEVEL GROUP OF PERSONAL REPRESENTATIVES, LIKE THE DONDELINGER GROUP SET UP IN CONNECTION WITH THE SINGLE EUROPEAN ACT. THE PRESIDENCY WERE THINKING OF PUTTING FORWARD PROPOSALS ON THESE LINES.

8. DELORS SAID A PAPER COULD BE PRODUCED BY MID SEPTEMBER BUT IT WOULD BE A PAPER SETTING OUT THE PROBLEMS, NOT GIVING FINAL ANSWERS. THE COMMISSION NEEDED MORE TIME FOR REFLECTION AND TO LISTEN TO MEMBER STATE'S VIEWS.

9. MRS CHALKER SAID ANY PAPER SHOULD BE PREPARED FOR THE SEPTEMBER INFORMAL ECOFIN, RATHER THAN FOR THE FAC. WE WERE DOUBTFUL ABOUT THE IDEA OF A HIGH LEVEL GROUP: THE DONDELINGER GROUP HAD BEEN SET UP AFTER THE CONVOCATION OF THE IGC ON THE SEA. POOS AND NIEMAN SAID THEY WERE NOT KEEN ON A HIGH LEVEL GROUP. GENSCHER SAID HE WAS.

10. DUMAS CONCLUDED THAT THE COMMISSION HAD ACCEPTED HIS PROPOSAL TO PRODUCE A DOCUMENT BY 15 SEPTEMBER AND THAT THE PRESIDENCY WOULD SUBMIT CONCRETE PROPOSALS ABOUT THE FAC'S COORDINATING ROLE.

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11th July, 1989

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12/7

Dear Charles,

I enclose a letter from the President of the Spanish Government to your Prime Minister, in which he thanks her for all her help during the Spanish EEC presidency, and for attending the recent European Council in Madrid.

I should be grateful if you would give it to Mrs Thatcher.

José J. Puig de la Bellacasa

José J. Puig de la Bellacasa

Charles D. Powell, Esq.
Private Secretary to
the Prime Minister
10, Downing Street
London SW1

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T121(1)^(b)189

EL PRESIDENTE DEL GOBIERNO

Madrid, 1 de julio de 1989

SUBJECT CC MASTER
OPS

Excma. Sra. Margaret Thatcher
Primer Ministro del Reino Unido de
Gran Bretaña e Irlanda del Norte
LONDRES

Señora Primer Ministro:

Al término del ejercicio por parte de España de la presidencia del Consejo de la Comunidad Europea, quiero agradecer la colaboración de su Gobierno y la suya personal durante el semestre transcurrido para proseguir la tarea de la construcción europea, muy especialmente a la luz del Acta Unica y de los demás compromisos jurídicos y políticos que nos unen.

Me produjo una gran satisfacción poder recibirle en Madrid hace unos días con motivo del Consejo Europeo, en el que, gracias al esfuerzo de todos y a la actitud globalmente constructiva, pudimos tomar algunas decisiones importantes para el diseño futuro de la Comunidad y de Europa.

Tengo plena confianza en que la Presidencia francesa, recién estrenada, desarrollará los trabajos en marcha con eficacia y con la visión adecuada para afrontar los retos inminentes del proyecto europeo. Por mi parte, puedo reiterar la voluntad de mi Gobierno y de mi país, de seguir participando leal y solidariamente en esa ambiciosa tarea.

Con mi renovado agradecimiento, reciba un cordial saludo de,

Felipe González

Felipe González Márquez
Presidente del Gobierno de España

European Council (Madrid)

3.31 pm

The Prime Minister (Mrs. Margaret Thatcher): With permission, Mr. Speaker, I should like to make a statement about the meeting of the European Council in Madrid on 26 and 27 June which I attended with my right hon. and learned Friend the Secretary of State for Foreign and Commonwealth Affairs.

The full conclusions of the Council have been placed in the Library of the House. Economic and monetary matters were the main item on the Council's agenda. Agreement was reached on four points.

First, the objective of progressive realisation of economic and monetary union was reaffirmed. This objective was first set in 1972 before Britain joined the Community and has subsequently been reaffirmed on numerous occasions, including in the Single European Act passed by this House, but no definition of it was agreed in Madrid.

Second, the report of the Delors committee, which sets out an approach to economic and monetary union by stages, was accepted as a basis for further work, but not the only basis. It will be possible to bring in other ideas and other approaches.

Third, the Council agreed that the measures necessary to achieve the first stage of progressive realisation of economic and monetary union will be implemented from 1 July 1990. These include completion of the single market, abolition of all foreign exchange controls, a free market in financial services and strengthening of the Community's competition policy by reducing state aids. They are all matters for which the United Kingdom has campaigned strongly and where we are well ahead of the great majority of our European partners.

No decisions were reached on what should follow this first stage, and stages 2 and 3 of the Delors report were not endorsed. Indeed, several delegations—not only the United Kingdom—made clear that they had substantial difficulties with them.

Fourth, it was agreed to carry out the preparatory work for the organisation of an eventual intergovernmental conference to lay down subsequent stages, but such a conference would meet only after implementation of the first stage has begun and when there has been full and adequate preparation. Its decisions would have to be reached by unanimity and would require ratification by this House.

In short, we made as much progress as can be made at this stage while leaving longer term issues for further discussion by Finance Ministers and central bank workers over the months and years ahead. We have ensured that there is nothing automatic about the move to subsequent stages.

Very difficult issues remain to be resolved. As my right hon. Friend the Chancellor of the Exchequer has made clear, stages 2 and 3 of the Delors report would involve a massive transfer of sovereignty which I do not believe would be acceptable to this House. They would also mean, in practice, the creation of a federal Europe.

The Government support the objective of closer monetary co-operation, but will work for solutions which leave crucial economic decisions in our own hands. Although Britain's membership of the exchange rate mechanism of the European monetary system was not an

issue at this Council, I reaffirmed our intention to join the ERM, but we must first get our inflation down. We shall look for satisfactory implementation of other aspects of the first phase of the Delors report, including free movement of capital and abolition of foreign exchange control.

The Council also discussed what is called the social dimension. On this the United Kingdom's record is very good, and I took with me to Madrid our own document setting out our substantial achievements in this field. We have also ratified the Council of Europe's social charter, unlike some of our Community colleagues. The Council's conclusions on this subject recognise that the highest priority is to create the conditions for more jobs. The Government do not believe that the Community's proposed social charter would help to achieve this aim. Indeed, we believe that imposing extra burdens on industry would make the Community less competitive. That is the main reason why my right hon. Friend the Secretary of State for Employment was unable to accept the conclusions of the June Social Affairs Council, and I confirmed that refusal in Madrid.

But the conclusions of the European Council brought out a very important point, raised by many Governments during the discussion: that national legislation and voluntary agreements have a legitimate role in achieving the Community's social dimension, and not everything has to be the subject of directives from the European Community. We shall be putting that view very strongly in the further discussions which will take place.

I shall summarise very briefly the outcome of the Council's discussions on the other main issues. The Council reaffirmed the priority task of completing the single market with the emphasis on the areas of particular importance for the United Kingdom—financial services, technical standards, transport and public purchasing. The Council's discussions demonstrated that there will not be a withholding tax on savings—a proposal which the United Kingdom has consistently opposed. The Council welcomed the progress being made in the fight against fraud in relation to the Community budget. The Council showed that there is wide acceptance of our need to keep checks at frontiers against drugs, terrorism and criminals while making free movement of ordinary, law-abiding citizens a greater reality.

In political co-operation, the Heads of State and Government expressed their utter condemnation of what has happened in China and agreed a series of measures which match those that the United Kingdom is already taking. The Council also expressed its understanding of the anxiety which has been caused in Hong Kong by the atrocious happenings in China.

I would like to congratulate the Spanish Government on their presidency of the EC over the past six months, and in particular on the progress made on the single market, with over 60 directives agreed. I also congratulate the Spanish Prime Minister, Señor Gonzales on bringing a difficult European Council to a successful conclusion.

The main outcome of the Council—agreement to implement a first phase of economic and monetary union—is very much in the interests of British industry and the City of London, while fully protecting the powers of this House. Far from being isolated, as some have claimed, the United Kingdom was able to play an important role in bringing the Council to these sensible and practical conclusions. It is in the same spirit of determination to

strengthen co-operation with other members of the European Community, while arguing always for cutting constraints on enterprise and free competition and leaving to member states those decisions which properly belong to them, that we shall approach the undoubtedly difficult discussions of the Community's future which lie ahead.

Mr. Neil Kinnock (Islwyn): I am grateful to the Prime Minister for her statement.

On the important question of British participation in the exchange rate mechanism of the European monetary system, first, do the main conditions for entry into the exchange rate mechanism set down by the Prime Minister mean that she now accepts that exchange rate management must be the essential basis of monetary policy, as her Chancellor of the Exchequer believes?

Secondly, does she concur with her Chancellor's publicly stated view that he is

"certain that participation in the Exchange Rate Mechanism would strengthen both the stability of the pound and efforts to bring down inflation?"

If she does, would not membership of the ERM assist with efforts to bring down the present rate of inflation to European averages?

Thirdly, does the Prime Minister agree with the view of some of her right hon. Friends that participation in the exchange rate mechanism and the exercise of constructive influence in any development of stages 2 and 3 of the Delors report are essential if London is to remain a major financial centre? Does she accept that Britain would be in a better position to modify or remove less acceptable features of stages 2 and 3 if the pound were put into the ERM at an early date?

Fourthly, are not the conditions that the Prime Minister has laid down for participation in the exchange rate mechanism, most notably the condition that British inflation must be at the European average, just her way of saying that under her policies the pound will never join the exchange rate mechanism?

On the social charter, will the Prime Minister tell us why she is the only one of all the Community's Conservative leaders who rejects completely the proposals of the social charter? Does not the support for the charter by so many Governments right across the political spectrum in the Community reveal the Prime Minister's position as being isolationist, backward and disadvantageous to the British people?

Does the Prime Minister recall that after the NATO summit a month ago she said of the communiqué: "wriggle as some people may, that is what they have signed up to"?

As at Madrid she was forced to accept a process that she had set out to stop, will she make an exception to her own rule and, just for once, try not to wriggle out of the commitments she has made?

The Prime Minister: On the exchange rate mechanism, our promise has been that we would go in when the time was right. I put conditions on that and made it much clearer that when those conditions were met we should be able to go in. One condition depends on us, which is that we get inflation well down, but some of the other conditions depend on the other members of the Community. Some of them belong to the exchange rate mechanism, but still protect their currencies by not having freedom of capital movements and by keeping foreign exchange control. It is quite different to stay in an

exchange rate mechanism when one has foreign exchange control from when has abolished that foreign exchange control.

We shall see how the exchange rate mechanism holds up. I hope that it holds up reasonably well. The hands are very different for the particular currencies, but the abolition of foreign exchange controls will be a major event for the exchange rate mechanism.

On stages 2 and 3, many other people share our view that the—

Mr. Tony Banks (Newham, North-West): Name them.

The Prime Minister: Other people share our view that the stages set out in the Delors report are not the right stages.

I will name a person. I gladly respond to the hon. Gentleman's shouting. Karl Otto Poehl, the governor of the Bundesbank, in a speech on 22 June, said:

"I myself doubt whether the time has come for such a comprehensive renunciation of sovereignty, namely the transfer of monetary powers to supranational institutions. I can only repeat what I said a little while ago. Neither a single currency nor a European central bank is necessary for an economic and monetary union to function. What is more important is that the member states pursue a consistent policy."

That is a very effective demonstration.

On the social charter, as I have said, some of the people round that table had not yet ratified the Council of Europe social charter, which we have signed and ratified, and which is here. They also pointed out that if they were to have anything like as good social services as we have they would require large subsidies of money from the bigger nations in the European Community. They again pointed out that the history of social services and membership of trade unions was totally different in many different countries. Therefore, the principle of what was called subsidiarity should come into play—the central Commission should not take unto itself powers that could quite well be carried out at national level—and that was included in the communiqué. We were instrumental in creating that communiqué and we shall be instrumental in carrying it out.

Mr. Julian Amery (Brighton, Pavilion): Does my right hon. Friend agree that one of the most important decisions taken at Madrid was that, in the preparations for the eventual intergovernmental conference, the Delors report, valuable though it is, would not be the only document considered?

Will my right hon. Friend instruct the Treasury and the Bank of England to carry out a detailed review of the operation of the sterling area between 1931 and the 1960s? Sterling was never a single currency; it was a reserve currency. The Bank of England was its heart, but it was never its central bank. The Governments of other countries that were part of the sterling area continued to retain their own central banks and, of course, their own control of budgetary and fiscal policy. Is it not important that the Government should put forward proposals that reflect the British vision of a united Europe?

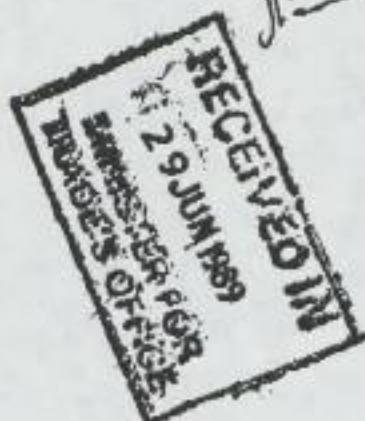
The Prime Minister: My right hon. Friend is absolutely right. The Delors report will not be the only document taken into account in considering how to come to closer monetary and economic union. We shall be able to put up alternative schemes. It is clear that the governor of the Bundesbank thought that there were alternative schemes.

Reference.....

To: PS MFT

From: K Sedman
 PD3
 ECGD
 Export House
 382 7625

29 June 1989



cc PS Sos
 PS CDL
 PS Sir Brian Hayes
 Mr Stephens
 Mr Dell
 Mr Foxell
 Mr Adams
 Mr Hall OT2

EUROPEAN COUNCIL MADRID 26 - 27 JUNE 1989
 DECLARATION ON CHINA

ISSUE

1 Annex II of the communique following the Council meeting said 'the European Council advocates the postponement of the examination of new requests for credit insurance'. As the Minister is aware our current action has been to delay decision making on new project business but to allow essential short term business to flow. The phrase 'credit insurance' could be read to include short term business. We have discussed with Treasury and FCO and have concluded that it was not the intention of the Council to suspend short term business. We are checking with the credit insurance organisations of France, Germany and Spain but it is believed they agree with this.

RECOMMENDATION

2 We therefore suggest that the following supplementary question and answer should be provided for the Prime Minister for use in the House of Commons this afternoon

QUESTION - Will short term credit insurance be suspended?

ANSWER - We believe that other Community governments are interpreting the communique to apply to the important area of new project business and not to the area of continuing day to day business. We are confirming this with our partners.

TIMING - Immediate.

K. Sedman

J K Sedman

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EUROPEAN COUNCIL: MADRID: US MEDIA

1. MUCH OF THE MEDIA HAS REPORTED POSITIVELY ON THE OUTCOME OF THE EUROPEAN COUNCIL, THOUGH THERE ARE SOME STRONG DOUBTS ABOUT THE PRIME MINISTER'S APPROACH.
2. VIRTUALLY ALL THE COVERAGE EMPHASISES THE PRIME MINISTER'S ROLE. THE NEW YORK TIMES SAID THAT SHE HAD MADE, UNUSUALLY, THE CRUCIAL COMPROMISE WHICH ALLOWED THE MEETING TO CONCLUDE SUCCESSFULLY, RETREATING TO DO BATTLE ANOTHER DAY. HER TACTICAL RETREAT ON THE CURRENCY QUESTION CONCEALED SUCCESS IN PREVENTING THE MEETING FROM ADOPTING OUTRIGHT DELORS' THREE STAGE BLUEPRINT. THE WALL STREET JOURNAL CLAIMED THAT POLITICAL MOMENTUM HAD QUOTE FINALLY SWEEPED THE MOST RECALCITRANT MEMBER, BRITAIN, INTO THE NEGOTIATING PROCESS UNQUOTE. ALTHOUGH THE PRIME MINISTER OBJECTED TO MANY DETAILS OF THE DELORS' REPORT QUOTE NONETHELESS, THE LATEST MOVE ADDS A POWERFUL POLITICAL DIMENSION TO THE BORDER-REMOVING PROCESS. UNQUOTE. THE LOS ANGELES TIMES REPORTED THAT THE PRIME MINISTER DROPPED THE DISMISSIVE ATTITUDE THAT HAD CHARACTERISED MANY OF HER RECENT REMARKS ABOUT THE REPORT AND HAD QUOTE REAFFIRMED BRITAIN'S COMMITMENT TO THE IDEA OF MONETARY UNION AND FOR THE FIRST TIME PUBLICLY PRAISED PARTS OF THE REPORT UNQUOTE.
3. THE BALTIMORE SUN THOUGHT THE EUROPEAN COUNCIL INDICATED THAT THE DISTANT PROSPECT OF A UNITED STATES OF EUROPE WAS BECOMING A LITTLE MORE CREDIBLE. BUT THE PROCESS WOULD NOT BE EASY. THE PRIME MINISTER MIGHT BE RIGHT TO DOUBT THAT THE CREATION OF A COMMON BANKING AND CURRENCY SYSTEM WOULD BE ACCEPTABLE TO THE BRITISH AND SOME OTHER PARLIAMENTS. BUT THE MOMENTUM FOR EUROPEAN UNION WAS BUILDING PERCEPTIBLY, AND EVEN BRITAIN MIGHT NOT BE ABLE TO STAND ALOOF FROM THE ECONOMIC DYNAMO ITS CONTINENTAL NEIGHBOURS WERE CREATING.
4. THE WASHINGTON POST SAW QUOTE THE STRAINED COMPROMISE

UNQUOTE IN MADRID AS DEMONSTRATING A CLEAR IDEOLOGICAL SPLIT BETWEEN BRITAIN'S LIMITED DEFINITION OF EUROPEAN UNITY AND A BROADER CONCEPT ESPOUSED BY MOST OTHER EC MEMBERS. IT NOTED THAT THE PRIME MINISTER HAD ROUNDLY DISPUTED PREDICTIONS THAT THE PROCESS TOWARDS EMU WOULD GO FORWARD TO ITS CONCLUSION.

5. IN A HIGHLY CRITICAL ARTICLE FLORA LEWIS (NEW YORK TIMES) SAID THAT THE PRIME MINISTER REMAINED CLEARLY OUT OF STEP WITH THE RENEWED DETERMINATION OF THE OTHER MEMBERS TO COALESCE THEIR ECONOMIC POWER. QUOTE MRS THATCHER, LIKE MANY OTHERS, WORRIES ABOUT THE FUTURE DRIFT OF GERMANY. BUT HER ANTIDOTE IS TO CLING TO AN INCREASINGLY ILLUSORY SPECIAL RELATION BETWEEN BRITAIN AND AMERICA. UNQUOTE. THE DOMINANT CONTINENTAL VIEW WAS TO ANCHOR WEST GERMANY EVER MORE FIRMLY IN A WELL DEFINED ECONOMIC COMMUNITY. THIS WAS A LONG TERM STRATEGY OF GREAT IMPORTANCE TO AMERICA AS WELL. BUT QUOTE MRS THATCHER SEES ONLY IMMEDIATE POLITICAL MANOUVERING. THERE IS A MOVEMENT UNDER WAY BRINGING LONG TERM CHANGE IN THE EUROPEAN ORDER. MRS THATCHER'S LONELY ATTEMPT TO STOP THE TIDE IS MORE EVIDENCE THAT IT IS RUNNING. UNQUOTE.

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UNIVERSITY OF SUSSEX

From the Vice-Chancellor
SIR LESLIE FIELDING KCMG

Falmer
Brighton
BN1 9RH

Tel: Direct Line (0273) 678213
University Switchboard (0273) 606755
Telex: 877159 BHV TSXG
Fax: (0273) 678335

"MAKING THE MOST OF EUROPE"

I enclose a copy of a paper I have written for the European Vice-Chancellors' Conference in Durham in September.

Sir Leslie Fielding.

"MAKING THE MOST OF EUROPE"

9th General Assembly of the CRE

(The Standing Conference of Rectors, Presidents and Vice-Chancellors
of the European Universities)

Durham, 11-15 September 1989

PAPER BY SIR LESLIE FIELDING,
VICE-CHANCELLOR, UNIVERSITY OF SUSSEX

There are many good and high-minded reasons why an expanded, more internationally open and cohesive system of Higher Education is a "must" in tomorrow's Europe: intellectual and cultural; political and social; moral, humanitarian and even religious.

But there is also a utilitarian economic imperative. Whatever else they may be, our Universities are also an investment in the future, made in the national interest to secure each European country's material survival in a changing, competitive and in some ways rather harsh world. We need the best and the most broadly spread system of education and training we can get, in order to help sustain Europe's material wellbeing and economic advancement. In the new global culture, Europeans will have to innovate and respond rapidly to technological change. If not, to quote William Shakespeare (Richard II):

"Let's choose executors, and talk of wills."

In the post-war era, prosperity in the UK has increased steadily, and in other ways the quality of life has happily improved. But the national ability to influence and control its environment has declined. The Empire has long gone; the Commonwealth, while wholly admirable, is not what it used to be; Britannia has no monopoly of rule over the waves; the one pound coins we carry around these days are not the gold sovereigns which our Victorian forebears used to jingle in their breeches pockets. Today, the British live on these small offshore islands, with their relatively dense population, possessing almost no other resources than their own native wits. Coal, where its use pollutes the atmosphere, is of limited use and anyway we can't eat it or even readily sell it to pay for the country's imports. Our North Sea oil will not last much beyond another 25 years. The outside environment is shifting and uncertain; and the world as a whole does not feel that it owes the Kingdom of Great Britain and Northern Ireland a living.

Nor does the world necessarily owe a living to Europe at large, the individual countries of which are in much the same position as the UK. As we all enter the post-industrial society, the one thing certain about it is that such a society will be knowledge-intensive. It will take intelligence, training and diligence on the part of Europeans to generate the resources with which to feed ourselves and care for the old and the sick in an increasingly long lived and indeed also ageing society; to educate our citizens into thinking and acting responsibly and with creative flair; to tackle problems of housing in the inner cities and of unemployment in the regions of decline; to assure minimum dispositions for security and defence. Furthermore, it is only with these hard won resources that Europe will be able to continue to come to the material assistance of countries poorer than we are, or otherwise in need of our assistance; and generally to remain a civilised and constructive force in international affairs.

Meanwhile, the old fixed international assumptions and orientations of the 1950s and 1960s - and even of the dollar-smitten, oil-shocked and economically depressed world of the 1970s - have been replaced by a "New Order" already clearly emergent in the geopolity of the 1980s and likely to be very much in evidence in the 1990s and on into the XXI Century.

The characteristics of this new order seem likely to include a major shift of economic power to East Asia and the Pacific Basin; a new but still undefined political and military balance in East/West relations in Europe; a degree of uncertainty surrounding the continuance of the US as a hyperactive, interventionist and omnipotent superpower; a growing self-confidence in Western Europe, where the "Europessimism" of the 1970s has now yielded almost to "Euro-phoria"; nevertheless, the tendency of certain other parts of the industrialised or industrialising world to move ahead of Europe in science and technology; a continued relative economic decline and even eclipse in much of Africa and Latin America - deplorable in itself and potentially deeply destabilising; a renewed world population explosion (involving a possible doubling of our present five billion); and the growing environmental crisis which now commands international attention (it was H G Wells who wrote that human history becomes more and more a race between education and catastrophe).

To dwell on two of the foregoing developments by way of illustration, I take, first, the prospect of a significant shift in world economic power - of which the foundations have already been clearly laid - towards the Pacific region. Korea and Taiwan, and the two City states Singapore and Hong Kong, have developed impressively. Korean GNP, for example, has increased eight fold in real terms over the past 25 years. Japan is now in economic terms the second ranking country after the United States; her technological base is impressive and innovative. The intelligence, hard work and Confucian ethic of these peoples seem comparable, in their stimulus and example for the West, to the Arab Renaissance in the early Middle Ages. China, despite severe current political setbacks, can be expected to continue to undergo modernisation.

A word, in particular, about Japan. Her GDP has increased at twice the rate of the Community over the past 25 years. In nominal terms, if not in purchasing power, national income per head is half again as large in Japan as the UK's. Seven of the ten world's largest banks are Japanese. Japan is currently the world's biggest lender, accounting for 36% of all cross-border lending by banks in the BIS (Bank for International Settlements) reporting area - which includes all the main banking centres, onshore and offshore. On the London financial market, the assets of the 31 Japanese banks represented have grown from under 10% of the total sterling and foreign currency business in 1975 to around 25% at present. The products of Japan's technology and industry enjoy world-wide markets. Between 1980 and 1987, Japan's index of industrial production and the dollar value of her exports rose respectively by 26% and 78%; in the UK, the figures were 7% and 20%.

Second, science and technology. Until recently the home of all major breakthroughs, Europe can no longer claim the lead in certain of the major areas of research and development which characterise what has been called the "third industrial revolution". In some fields, European research is still in the very first rank. But it has tended to lose ground - a situation to our potential disadvantage in sectors of exceptional economic importance such as electronics, information technology, the life sciences and materials science. A few figures and examples show the scale of the problem. According to an EC study, of 37 identified technological sectors of the future, only two are determined by Europe: software and electronic switching. In 1986, four out of five patent applications for new materials were filed by US or Japanese

companies. Of the 10 leading companies in the world in the computer industry, seven are American and two Japanese while the leading European company is back in tenth place.

Europe's relative performance cannot be put down to a lack of scientific and technical capacity or intellectual potential: the Community, with its 12 Member States, has a GNP slightly higher than that of the United States and well above that of Japan, and a population approaching those of the US and Japan combined. The Community counts 454,000 research scientists and technicians (compared with 723,000 in the US and 435,000 in Japan - admittedly they both have more such people per head of the population than we do in Europe). And the standard of European researchers is also creditable: from 1950 to 1987, Europe claimed 86 Nobel prizes for science compared with 15 for the US and three Japanese laureates. A more dynamic response will be required if the Community and Europe as a whole is not to be marginalised as obsolescent or ineffective in this crucial area.

The emergence of the European Community - with Britain a full member since 1973 - as a major protagonist on the international scene takes its full significance against such a background. There will be no United States of Europe in my lifetime. There is resistance in this country and (less openly) elsewhere to the surrender - or even the pooling - of what remains of national sovereignty in the traditional sense of the word. Nor will all the Community's targets for a "Europe without Frontiers" be reached by the convenient yet in some respects early date of 1992. Yet the elan is there for all to see; and the logic of closer West European cooperation, increasingly clear in the 1980s, seems likely to prove inescapable in the 1990s.

At this point, and as far as Higher Education is concerned, three things need to be said from a British perspective about making the most of Europe. First, the cultivation of links with our other partners in the European Community will not be to the exclusion of, and could even stimulate, other partnerships. 1992 does not imply a "Fortress" mentality, whether in education or in anything else. Second, the Community will (for the UK) nevertheless carry top priority. It looms ever larger in the national economic, financial, commercial, social and foreign policies of each of the Twelve; it is already making an impact on our science and technology; it is bound, for these reasons alone, to constitute an important area for cooperation in Higher and Further Education, if our young people are to profit from a "frontier-free" Community in the 1990s and beyond. Third, "1992" (which is much concerned with free competition and economies of scale) cannot be seen in isolation from certain trends and changes already at work in UK Universities: the search for more students in a deepening demographic trough; the revolutionary impact likely to be made by new technology in communications; the increase in investment scale needed for certain kinds of scientific research; the political pressures to justify part at least of public expenditure on Higher Education in specific economic, social or technological terms. In the upcoming single market, the competition and selectivity to which the foregoing are giving rise will be raised from the national to the European level, in ways for which British Universities may be less well prepared than British financial services or even industry. In the 1960s and 1970s, the civilised practice in this country was for "prizes" to be shared out more or less equally among most Universities; we have had to adapt in the 1980s to the idea of having to run rather half-hearted races with each other; in the 1990s, there will be European "runners" too, and a faster pace.

Let me expand the extra-Community point first. Outside Europe, we enormously value, and will retain, our close association with the English speaking world. Harvard was founded by an emigre from my old College at Cambridge; for

us, student and teacher exchange with the US could not be more natural or long standing. Relations with the Commonwealth countries likewise. We shall not be alone among our major Community partners in continuing to look outward. France and Spain each have strong academic ties throughout the francophone and hispanophone world. Germany, Italy, the Netherlands and others also enjoy established international University links outside Europe. Within Europe, many of our Universities also enjoy quite close relations with their homologues in EFTA countries. (My own University, for example, operates large scale exchanges with Uppsala and has students from all EFTA countries on campus.) These relations will intensify as the EC/EFTA relationship broadens out to include other things than the already achieved free trade area for industrial goods. The Declaration of EFTA Heads of Government meeting in Oslo in March 1989 called for "expanded co-operation in the field of education to facilitate the free exchange of students, teachers and researchers and to provide for mutual recognition of examinations and diplomas." It has since been agreed that EFTA partners may join the Community's COMETT II programme. The Nordics (with Denmark) are already shadowing ERASMUS with their NORDPLUS scheme (a good example of the multiplier or positive knock-on effect of cooperative moves within the Community's borders) and EFTA participation in ERASMUS itself is not to be excluded for the future. As for Eastern Europe, academic exchanges, although initially more modest than with EFTA, seem also likely to develop considerably. The pace will depend on the degree of academic freedom of external intercourse which East European Universities are given by their Governments, and possibly on their own financial constraints - themselves obviously determined by wider political and economic developments. But we in Britain will do what we can to respond positively. Our German colleagues will be particularly well placed to give a lead to the Community as a whole.

Nevertheless, for the UK, the European Community of which we are a member, and into which we must expect to become progressively more integrated, will be the principal European arena for cooperation in higher education. We already experience its academic pull: according to one recent study (1), this country is currently losing three times as many graduates annually to other EC countries (17700 in 1986) as it receives (5200).

Our Achilles heel in Great Britain has always been our mono-lingualism. Foreign languages are mysterious and have been too much the domain of specialist teachers and researchers. In the EC context, all this is now changing. In our secondary schools, the new state curriculum requires one foreign language to be studied by all pupils between the ages of 11 and 16. This will usually be a Community language. Some young people will learn more than one. Exchanges of pupils and teachers, on an interdisciplinary as well as on an exclusively language training basis, will increase. (This, for example, was the conclusion reached by the official Anglo-French Colloquium on educational cooperation held in London in May). Even the secondary Geography curriculum is being redesigned to take greater account inter alia of the European context in which pupils are growing up and in which they will have to earn their living. On this foundation, in British Universities, greater emphasis is likely to be placed in the 1990s on European languages, not only in their own right, but also as a component in an ever wider range of degree courses, as tools for the course or "vectors for learning". Regrettably, the traditional concentrated British "single honours" degree in French or German or Spanish - for specialists in the language, literature, history and general culture of a given European county - is in decline; but happily there is increasing UK student demand for degree courses in which European languages are studied as subsidiaries to a main discipline.

(1) "The Graduate Labour Market in the 1990s", by Pearson and Pike, Institute of Manpower Studies, University of Sussex.

The "Junior Year Abroad" practice, pioneered by American universities, is likely to spread in the UK, in the form of four year "Euro-degrees" for which the University students of biology, engineering, economics or law will spend an extra Euro-Year Abroad pursuing the study of their non-linguistic discipline across the Channel in a sister institution in the language of that country. (In my own not untypical British University, about 6% of the total UK student population at any one time are studying elsewhere in the EC and the same number from the EC are studying with us; around 17% of those graduating have taken 4 year "Euro-degrees" and 20% will do so after 1992). The re-arrangement of degree course curricula in a "modular" form in many of our Universities, will also much facilitate the return flow of students from elsewhere in the EC wishing to do the same thing through the vehicle of the English language. Eventually we must expect the return of the medieval tradition of individual mobility in parallel with, and perhaps ultimately in succession to, institutionalised exchanges and programmes. If a British student needs to take a course in XIV Century Italian History as part of his or her degree, that student will in future be more inclined to do so in Bologna than in lecture theatres in Bradford, Bristol or Brighton.

Credit accumulation and transfer, on a modular basis, will ease the long process of mutual recognition of degrees and diplomas, and encourage the award of joint degrees by Universities and Polytechnics of different EC Member States. Common curricular concerns and research objectives can be expected to emerge naturally at Community level - the jointly funded postgraduate European University Institute at Florence, while small, is a high quality pointer in this respect, notably in Law, Economics and the work of the Institute's European Policy Unit.

The major EC educational programmes such as ERASMUS and COMETT and LINGUA will, "top down", act as a catalyst of change, creating their own momentum and helping to make perfectly ordinary and everyday for 320 million people what today is still out of the ordinary and intermittent beyond the frontiers of the traditional nation state. Big Science seems likely to prove a selective federator; it will be the leading practitioners, much more than the Eurocrats, who will be concentrating expensive activities in European centres of excellence. Resources will in any case need to be pooled, and research selectivity practised, at European as well as national level, if we are to compete effectively with the US and the Pacific Rim. "IT" will also be a unifying force. Traditional pedagogical methods will have to be adapted to the possibilities of networking and distance learning which are now beginning to emerge. Universities will be able to pool their resources, and coordinate their teaching and research activities, in tie ups and even consortia of a cross-border character. Micro computers, data bases and information networks are already much used in individual institutions for administration and research. Their potential is considerable - if as yet largely untapped - for teaching. New educational methods will be devised to accommodate and exploit them, regionally and across Europe.

The Higher Education establishment in the UK can be expected to welcome most of this, provided that allowance is made for a "bottom up" process complementary to the "top down" Community approach; and for some degree of healthy academic pluralism. People will want assurance that the Community will not set rolling a juggernaut of uniformity which could crush the autonomy and diversity of individual institutions.

I hasten to add that there can be no substance to such fears. Opposition would not by any means be confined to the UK. The boot is, if anything, on the other foot, since the Community's resources in these matters, while acceptable manna for a sector of society generally starved of funds, are and will remain

much less significant than those deployed by the Member States or available to European Universities from other sources. COMETT and ERASMUS each provide only around 50 million ECU per annum (about the annual budget of a smallish British University). Even the much more ambitious Framework Programme for Science and Technology, and the three Structural Funds for the assistance of underprivileged regions, together at present command not much more than 4 billion ECU per annum. Strategically, these are still marginal resources, which serve as pump primers rather than as bank-rollers.

Nevertheless, problems of compatibility will arise. In the UK, history has equipped us with a compact, elitist and autonomous University sector, in which selected students leave home to pursue concentrated residential courses of study lasting 3 to 4 years. The failure rate is very low (12-14%); the product is of a fairly high academic calibre and (in his or her early twenties) ready either to enter immediate employment, or serious original research, or a further period of 2-3 years specialised professional training. The holding of a University degree, while becoming a more widespread phenomenon, is still more the exception than the rule. Only 15% of school leavers go on to higher education; despite increasing employer demand, graduates today still form only 6% of the working population (and half of them are under 35). The traditional autonomy and individualism of our Universities is still considerable. They have freedom to teach what and how they wish, if their financial resources permit; they are proud of their diversity.

This profile will undergo modification, but not in order to fall into conformity with some or other putative monolithic EEC paradigm. The forces for change in Britain are in large part autochthonous - pressure for a mass rather than an elite system, more interdisciplinary and better adapted to national economic needs, integrating the technical and technological with the conceptual and creative. We are, for example, well aware that we lag behind our international partners and competitors in Higher Educational enrolment; and participation in Higher Education in the UK will need to be doubled in the longer term. To do this, with the present demography, will require more than has been done so far to admit students with non-traditional qualifications, or outside the normal age bracket, or on short or part-time courses. We shall be competing to some extent with our EC partners in recruitment on their own territory; they also no doubt in the UK. To the same end, cooperation between Universities, Polytechnics and Colleges of Further Education in Britain, already emergent, will develop further. (The "binary line" between Universities and Polytechnics can be artificial and will be increasingly bridged, where partners of equal match so aspire).

Thus, the real challenge faced by the UK in the EC context is how to preserve what is distinctive and best in our own pluralist and autonomous traditions, and to maintain high standards of academic attainment, while nevertheless enlarging our academic interface with our European partners and growing organizationally with them, in the knowledge that, throughout the Community, there is increasing reliance on higher education training and skills to achieve the economic growth on which the future of our part of Western Europe will depend.

In the "Bustan", Shaikh Sa'adi has a couplet urging the reader to:

"Draw out the cotton of negligence from the ear of sense,
so that the advice of the dead may enter thy ear."

He was recommending the cultivation of a sense of history. Soothingly for us, we live in times - whether in or outside the formal boundaries of the European Community - when the European idea has recovered its original vitality and ability to fire the imagination. Europe's past empires and present

international links and associations have helped to make the world the "global village" which it now is. But even village life can be troubled by what a great past historian of Europe, H A L Fisher of Oxford, once termed "the play of the contingent and the unforeseen". And each of today's large powers, the EC included, is grappling with what the British expatriate, Professor Paul Kennedy of Yale, in "The Rise and Fall of the Great Powers", describes as "the age-old dilemmas of rise and fall, with the shifting pace of production growth, with change in the international scene ... with alterations in the power balances". Our European gifts of intellect, curiosity, invention, statesmanship, generosity and worldly wisdom are assets on which we depend for survival in a world of which we constitute much less than 10% of the population and which is itself entering a period of massive realignment and change. These gifts are not, however, and never have been, merely a narrow endowment for use in our European backyard: they will have to continue to be mobilised to help keep the global village straight. If European Higher Education is to have any ultimate relevance, outside some cultural museum of extinct civilisations, it must serve these wider purposes, as well as address our material needs and generally boost our "Euro-Ego". We CRE academics have therefore no option but to "make the most of Europe".

Q. WILL SHORT-TERM CREDIT INSURANCE BE SUSPENDED?

A. WE BELIEVE THAT OTHER COMMUNITY GOVERNMENTS ARE INTERPRETING THE COMMUNIQUE TO APPLY TO THE IMPORTANT AREA OF NEW PROJECT BUSINESS AND NOT FOR THE AREA OF CONTINUEING DAY TO DAY BUSINESS. WE ARE CONCERNING THIS WITH OUR PARTNERS.



DFC

Foreign and Commonwealth Office

London SW1A 2AH

28 June 1989

CDP 29/6

Dear Charles,

European Council Conclusions

There were three errors in the text of the European Council Conclusions circulated by the Council Secretariat in Madrid. Following further discussion in Brussels today a corrigendum is being issued. The changes are all improvements from our point of view.

The changes are highlighted in the enclosed text which is now ready for deposit in Parliament, subject to the Prime Minister's approval. They are:

- a) page 9; the phrase "and provided a good basis for further work" had been omitted;
- b) page 10; an erroneous version of paragraph 4b was at one time in circulation, although the Madrid telegram containing the conclusions reported this accurately, and you may already have the correct text;
- c) page 13; the phrase "taking into account the global measures adopted recently by France and Belgium" has been replaced by a new sentence, at the end of the paragraph: "However, it is recalled that certain Member States have recently adopted global measures".

I am sending a copy of this letter and enclosure to Alex Allan (Treasury) and Roger Lavelle (Cabinet Office).

Yours,

 (J S Wall)
Private Secretary

C D Powell Esq
 10 Downing Street

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MADRID EUROPEAN COUNCIL : DANISH COMMENT

SUMMARY

1 GENERALLY FAVOURABLE COMMENT ON AN OUTCOME SEEN AS SATISFACTORY FOR ALL AND A POSITIVE STEP FORWARD FOR THE COMMUNITY. MRS THATCHER'S PERFORMANCE COMMENDED.

DETAIL

2. ALL THE MAIN DANISH DAILIES TODAY (28 JUNE) CARRY ARTICLES, WITH A FEW EDITORIALS, ON THE MADRID COUNCIL. MOST HAD PREDICTED A STORMY MEETING, WITH THE UK IN DANGER OF BEING ISOLATED, BUT THE OUTCOME AND THE MANNER OF ITS ACHIEVEMENT ARE ROUNDLY WELCOMED. THE MEDIA PRESENT THE MADRID CONCLUSIONS AS A VICTORY FOR COMMON SENSE. THERE IS THE ODD REFERENCE TO A UK 'COMPROMISE' BUT MRS THATCHER'S TACTICAL SKILL AND POLITICAL SENSE ARE PRAISED. PRESIDENT MITTERAND IS PICTURED AS THE ONLY LOSER.

3. BOTH PRIME MINISTER SCHLUTER AND FOREIGN MINISTER ELLEMANN-JENSEN ARE QUOTED AS DESCRIBING THE ATMOSPHERE AT MADRID AS POSITIVE. ELLEMANN-JENSEN ADDED THAT THE OUTCOME PRESENTED NO PROBLEMS FOR DANISH DOMESTIC POLITICS. THE SOCIAL DEMOCRATS, THE MAIN OPPOSITION PARTY, HAVE ALSO COMMENTED FAVOURABLY ON THE MADRID CONCLUSIONS BUT HAVE STRESSED THAT EMPLOYMENT AND ENVIRONMENTAL ISSUES MUST PLAY A CENTRAL ROLE IN THE DEVELOPMENT OF ECONOMIC AND MONETARY UNION. THE LEFT WING (AND ANTI-EC) SOCIALIST PEOPLE'S PARTY AND THE ANTI-EC MOVEMENT, WHICH WON FOUR SEATS AT THE EUROPEAN PARLIAMENTARY ELECTIONS, TAKE THE VIEW THAT DENMARK HAS RELINQUISHED SOME OF HER SOVEREIGNTY BY ACCEPTING STAGE 1 OF THE DELORS REPORT.

4. SCHLUTER IS DUE TO APPEAR BEFORE THE FOLKETING MARKET COMMITTEE ON 30 JUNE TO REPORT ON MADRID. THE SOCIALIST PEOPLE'S PARTY HAVE INDICATED THAT HE CAN EXPECT A ROUGH PASSAGE. OTHERWISE, THE CONSENSUS IN DENMARK WELCOMES THE RESULTS FROM MADRID.

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EC SUMMIT: FRG PRESS REACTION

SUMMARY

1. FRG MEDIA UNANIMOUSLY WELCOME RESULTS OF THE MADRID SUMMIT. FOCUS OF COMMENT IS WAY AHEAD NOW ON EMU. SPECULATION THAT THE ROAD WILL BE ARDUOUS AND SLOW. AWARENESS THAT UK NOT ISOLATED. SOCIAL DIMENSION REPORTED IN LOW KEY.


DETAIL

2. TODAY'S HEADLINES EMPHASISE THE COMPROMISE REGARDING EUROPEAN MONETARY UNION AND THE DECISION TO START THE FIRST PHASE IN JULY 1990.

3. THE MEDIA SEE THE OUTCOME WITH SURPRISE, PLEASURE AND RELIEF. THERE HAD BEEN SPECULATION BEFORE THE SUMMIT THAT A ROW WAS INEVITABLE AND THAT A COMPROMISE, PARTICULARLY ON EMU, WOULD NOT BE ACHIEVED. IN THE AFTERMATH OF THE AGREEMENT, EDITORIALS ANALYSE THE REASONS FOR THE SUCCESSFUL OUTCOME.

4. THE FRANKFURTER ALLGEMEINE (CONSERVATIVE), THE FRG'S MOST IMPORTANT DAILY, WHICH HAS BEEN SYMPATHETIC TO THE PRIME MINISTER'S PRAGMATIC APPROACH TO MONETARY UNION, SUGGESTS THAT THE AGREEMENT WAS A TYPICAL EC COMPROMISE. WHILST THE AIM OF EMU HAS BEEN ACCEPTED, SUBSTANCE AND TARGET DATES HAVE NOT BEEN SETTLED. THE COURSE MATTERS WILL NOW TAKE IS PREDICTABLE: MRS THATCHER WILL STICK TO PRAGMATISM, OTHERS (PARTICULARLY THE FRENCH AND GERMANS) WILL PRESS FOR AN EARLY INTER-GOVERNMENTAL CONFERENCE WITH BINDING DATES AND AIMS. THE PATH AHEAD WILL BE LONG AND ARDUOUS BUT THERE CAN BE NO TURNING BACK, EVEN FOR THE UK. DIE WELT (CONSERVATIVE), THE STUTTGARTER ZEITUNG (LIBERAL) AND OTHERS EVOKE THE IMAGE OF A TRAIN MOVING FORWARDS, ALTHOUGH ONE NEWSPAPER SUGGESTS THE SPEED WILL BE SLOWER THAN SOME WANTED.

5. ONE PROMINENT THEME IS THE SUPPORT FOR THE BRITISH POSITION FROM THE NETHERLANDS, DENMARK AND LUXEMBOURG. THE GENERAL ANZEIGER (INDEPENDENT) AND OTHERS SUGGEST THAT THESE THREE COUNTRIES HAVE

TAKEN UP POSITIONS AIMED AT PREVENTING THE ISOLATION OF BRITAIN IN THE COMMUNITY. THE FRANKFURTER RUNDSCHAU (LEFT OF CENTRE) RELATES THIS TO COMMON RESISTANCE TO FRANCO-GERMAN COLLABORATION. THE NEWSPAPER ALSO SPECULATES THAT THERE IS GROWING COVERT RESISTANCE TO GERMAN DOMINANCE IN THE EC UNDER COVER OF THE FRANCO-GERMAN ALLIANCE. THE FRG'S STRONGER INTERNATIONAL ROLE CREATES UNEASE AMONG PARTNERS. GERMAN PRUDENCE IS THEREFORE ALL THE MORE IMPORTANT. KOHL IS SAID TO HAVE HELD BACK IN ORDER NOT TO ISOLATE THE PRIME MINISTER. 

6. SOME NEWSPAPERS REPORT AGREEMENT BY ALL BUT THE UK TO CONTINUE WORK ON THE SOCIAL CHARTER. THERE IS NO CRITICAL COMMENT. THE FRANKFURTER RUNDSCHAU COMMENTS IN AN EDITORIAL THAT IT WAS THE STRENGTH OF AND PRESSURE FROM FRG TRADES UNIONS WHICH MADE KOHL ALMOST THE ONLY SPOKESMAN FOR THE SOCIAL DIMENSION.

7. THE MEDIA ARE UNANIMOUS IN SEEING THE ATMOSPHERE AT MADRID AS GOOD. THE PRIME MINISTER IS DESCRIBED AS ''RADIATING GOODWILL'', ''PEACEFUL'' AND ''CHARMING''. OPINION IS DIVIDED ON WHO WON: THE SUDDEUTSCHE ZEITUNG SAYS ''THATCHER PREVAILS'' AND ''EC MAKES ACCOMMODATIONS TO THATCHER'S RESERVATIONS''. HOWEVER THE FRANKFURT ALLGEMEINE SAYS KOHL AND MITTERRAND PREVAILED OVER MRS THATCHER AND RELATE THIS TO THE CONSERVATIVE SHOWING IN THE EUROPEAN ELECTIONS.

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SOCIAL PROGRESS: THE UNITED KINGDOM'S RECORD

INTRODUCTION

The United Kingdom has achieved a continuous growth of output over the last seven years. There are more people in the workforce than ever before. The number of jobs has risen by about 3 million since 1983, more than the rest of the European Community together. Unemployment has fallen for 34 consecutive months, and is now considerably below the European Community average.

This economic progress has been secured through the promotion of an enterprise economy. Within a firm framework of financial discipline, the UK Government has reduced taxes; it has reduced public borrowing; it has promoted the free operation of markets, by deregulation and the removal of unnecessary restrictions across industry and commerce; it has returned to private hands many areas of the public sector; and it has stimulated competition across the UK economy and internationally.

The UK's economic progress has been achieved without sacrificing high levels of social protection, as can be seen from the comprehensive systems of social security provision and health care: indeed it has enabled them to be strengthened. The social protection systems are assured partly by legislation, backed up by effective administrative and compliance systems, and partly through voluntary collective or individual arrangements. This approach builds on the history and practice in the United Kingdom, and enables variety and diversity in provision to fit the circumstances and the wishes of workers and citizens. In the UK Government's view, it is important for the Community to retain such diversity.

The following pages outline social progress in the UK in the fields of employment and social protection. The attached fact sheets set out some details to amplify the text.

KEY POINTS

EMPLOYMENT

- * There are over 26.5 million people now in work - the highest number ever.
- * Unemployment has fallen to 1.835 million, and is well below the EC average rate of 9.4 per cent.
- * Industrial peace is widespread, with the lowest number of stoppages for 53 years.
- * The Government is committed to high quality relevant training through life. The Youth Training Scheme and Employment Training currently provide opportunities for over 600,000 people.
- * There is comprehensive and well-enforced legislation protecting people from discrimination.
- * All employees have important statutory rights eg equal pay and anti-discrimination, and may be eligible for other major employment rights eg redundancy payments, unfair dismissal protection, maternity leave.
- * There has been a great expansion in part-time jobs, meeting the needs of an increasing number of workers.
- * The Government fully supports employee involvement on a voluntary basis and the UK has a successful record, leading Europe in encouraging financial involvement of employees in their businesses.
- * The UK has comprehensive health and safety legislation, devised and implemented through a tripartite Commission, and with high standards of enforcement.

KEY POINTS

SOCIAL PROTECTION

- * Social protection in the UK has the following outstanding elements:
 - massive State commitment to social security accounting for £51 billion, equivalent to 10 per cent of GDP or nearly one sixth of the disposable income of the country as a whole;
 - complementing that, extensive occupational and private pensions and sick pay;
 - a comprehensive nationwide scheme of social assistance providing adequate income for all groups living in the UK, including unemployed workers, regardless of nationality; 4.2 million recipients of social assistance have their rent met in full from public funds.
- * The social security system contains a large proportion of non contributory benefits met from general taxation. This leaves a very low burden of contributory insurance on employers and employees alike.
- * Virtually all men receive the full basic rate of contributory State pension. Many women receive their State Pensions on the same basis, alternatively they can receive a 60 per cent pension based on their husbands' contributions if that gives them more.
- * In addition pensioners receive extra pensions from occupational or private pensions or from the State earnings related pension scheme. Fifty per cent of all pensioners and 70 per cent of those recently retired have an occupational pension.
- * For needy pensioners, the comprehensive social assistance scheme ensures an adequate income and meets 100 per cent of rent.
- * Between 1979 and 1986 pensioners' total incomes increased twice as fast as the population as a whole and the proportion in the bottom fifth of the income distribution fell from 38 per cent to 24 per cent.
- * Family Credit is a generous State benefit for all low income families in work in addition to Child Benefit for every child in Britain.
- * The extensive range of benefits for disabled people account for £9 billion. Many of those benefits are paid on the basis of need and do not depend on payment of contributions.

KEY POINTS

HEALTH CARE

- * Gross health expenditure in 1989/90 will be £26.1 billion, a real terms increase of almost 40 per cent since 1978/79.
- * Spending on the NHS is planned to increase to over £28 billion (gross) in 1991-92.
- * Gross capital expenditure has risen by 45 per cent in real terms since 1978-79 and now stands at £1.25 billion.
- * About 500 building schemes with a total value of over £4 billion are at various stages of planning, design and construction. 140 of these, costing about £900 million are planned for completion over the next 3 years.
- * Since 1979, some 350 health building schemes each worth over £1 billion have been started and completed.
- * Gross expenditure on the family practitioner primary health care service has risen by over 50 per cent in real terms since 1978/79 and now stands at some £4.8 billion.
- * Future plans provide for a further real terms increase in primary care of about 10 per cent over the next 3 years to 1991/92.
- * Expenditure on services used mainly by elderly people has increased since 1978 by 21 per cent for social services and 29 per cent for health services.
- * 30 years ago life expectancy was 67 for men and 71 for women. Now it is 72 and 78.
- * The infant mortality rate has fallen from 12.8 per 1000 births in 1979 to 9.2 per 1000 in 1987.
- * More patients with a successful kidney transplant than any other European country.
- * 315 heart transplant operations were carried out in 1987 including 72 heart/lung transplants - almost six times as many as in 1983 when only 1 heart/lung operation was performed.
- * 11,400 coronary artery by-pass grafts were carried out in 1986 - more than three and a half times as many as in 1978.

SOCIAL

PROTECTION

Social protection has been an important element of life in the UK for years. The Government's approach has been one of partnership between State, occupational and private or individual provision. No Government has sought to diminish unnecessarily the opportunity for individuals, and their employers where appropriate, to make the additional provision which meets their wishes and needs. Securing individual rights in this way remains an important Government objective.

At the same time, the UK Government regards it as extremely important that there should be effective social protection for all, easily available as of right. The National Health Service therefore provides health care whatever a person's income, immediately available and free at the point of access, without any other qualifying conditions.

Similarly, the comprehensive State Social Security scheme combines a system of contributory benefits, covering for example age, sickness, unemployment and widowhood with a wide range of non-contributory benefits and a universal income related system guaranteeing an adequate income as of right to all persons legally resident. People are encouraged to choose how to provide for their own needs above the basic Social Security provision and in pensions this is achieved by a mixture of State earnings related pension, occupational and private provision. The State lays down standards and a statutory framework, providing for safeguards by way of regulatory bodies as necessary for those complementary schemes.

NATIONAL HEALTH SERVICE

The National Health Service provides a comprehensive medical service for all residents irrespective of means. The needs of the community are served by family doctors, dentists, pharmacists, health visitors, district nurses, midwives and other professionals such as chiropodists and physiotherapists. This unique primary health care system reduces the need for hospital care. For those who need it, hospitals provide a full range of treatment and diagnostic facilities and many are responsible for pioneering advances in medical technology.

The success of this two tier approach can be seen in the continuing increases in life expectancy among the UK population as a whole and a downward trend in infant mortality. However, the UK system of social benefits is constantly evolving. The management and organisation of the NHS is under review to build on existing success and efficiency, to give people more choice and rights as consumers and to place more emphasis on local management of local services.

THE ELDERLY

People who have reached State pension age (65 for men and 60 for women) can qualify for the contributory flat-rate State pension - 96 per cent of retired men receive the full rate. Women may receive pension in their own right or pension of 60 per cent of their husband's pension if they do not receive more on their own contributions. In addition, people either contribute for an occupational or private pension or contribute for the State earnings-related pension, and about 2½ million pensioners now receive additional pension through this scheme (which was set up in 1978). More than half of the workforce are in occupational or private schemes.

The UK Government is conscious of the social needs of its growing elderly population. Elderly people want to live in their own homes and to be part of their community. The Government's policy is therefore to develop community based health and social services which help to promote independent living.

For those elderly people who for some reason have not been able to contribute sufficient to earn a pension, the Income Support scheme provides a guaranteed adequate income while the Housing Benefit scheme pays 100 per cent of rent for people of this income level.

PEOPLE ON LOW INCOMES

Social assistance in the United Kingdom is a national scheme administered by the Department of Social Security. It provides title to a guaranteed adequate income to all groups including the elderly, the sick, lone parents and the unemployed. Help is available to everyone in need without time restriction and in particular it provides a basic income for long-term unemployed people including those who have exhausted their entitlement to contributory Unemployment Benefit.

For those who are not working full-time, Income Support guarantees an adequate income and this scheme has recently been restructured to give additional help to families with children. Family Credit is a benefit designed to supplement full-time earnings where these are low and there are children in the family.

Housing Benefit provides help of 100 per cent of rent to those receiving Income Support or with the equivalent income level from other sources. As benefit is gradually withdrawn as

income exceeds that level and about 2 million people with incomes above the Income Support level receive help through this scheme with rent and local taxes.

PEOPLE WITH DISABILITIES

The United Kingdom provides a wide range of State benefits for the sick and disabled at a cost of about £9 billion a year. In addition, there is a well developed system of occupational sick pay schemes. Benefits are paid for both short and long term sickness. In the short term, people can receive Sickness Benefit or Statutory Sick Pay (paid through an employer). For long term sickness, Invalidity Benefit is paid. These benefits are contributory. For those who have not been in recent employment a non-contributory benefit - Severe Disablement Allowance - is available.

The extra costs of disability are met by Mobility Allowance for people with walking difficulty and Attendance Allowance for those who need attention or supervision. In addition, Invalid Care Allowance is available to someone looking after a disabled person. All of these benefits, which are for extra needs rather than income replacement, are non-contributory.

Where a disability is due to an industrial accident or occupational disease, benefits are available to compensate for the disablement itself and for resulting loss of earnings capacity.

A wide range of services is provided for people with disabilities in the UK by health authorities, local authorities and voluntary organisations and the Employment Service. They cover a very broad spectrum - medical and nursing care, rehabilitation, therapy, supply of equipment, support services in the home, holidays, relief for carers, access to information about local services and special employment services for employed and unemployed people with disabilities. The objective is to encourage and enable people with disabilities to live independent lives in the community. Local authorities must ensure that young disabled people leaving school receive the services they need.

EMPLOYMENT

COLLECTIVE BARGAINING

In the UK employers and employees are free to decide pay, hours of work, holidays and other terms and conditions of employment by collective bargaining, by individual negotiation or by whatever other means they choose. Employees are generally free to decide for themselves whether or not to join a trade union and are protected by the law against dismissal on grounds either of membership or of non-membership of a union.

Over the last 10 years the Government has carried through a programme of legislative reforms to reduce industrial conflict and to strengthen the democratic rights of trade union members. The number of days lost through strikes has been reduced from an average of over 13 million in each year in the 1970s to less than 3 million in the latest 12 months. Union members are now guaranteed the right of a secret ballot to elect their leaders and to decide whether or not to strike. Legislation also provides that workers cannot be forced against their will to take part in industrial action by picketing by outsiders.

TRAINING

The Government attaches very great importance to achieving a skilled workforce to meet the needs of the labour market of the 1990s, and it is now establishing a structure of industry-led Training and Enterprise Councils geared to local training needs and economic development. It is encouraging provision of relevant training by employers and training organisations throughout the individual's working life. In 1986/7 employers spent some £18 billion on training. The Government spends nearly £3 billion on training programmes, mainly for unemployed and young people.

The major Government training programmes are the Youth Training Scheme for young people and Employment Training for long-term unemployed people over 18. These programmes guarantee training to all school leavers under 18 who do not find jobs; and to anyone aged between 18 and 25 who has been unemployed for between six and twelve months. There are

currently more than 386,000 young people on YTS, and ET can help over half a million long-term unemployed people in a year. Both these programmes aim to provide individuals with high quality training leading to qualifications.

EQUAL OPPORTUNITIES

The UK has comprehensive legislation, which predates EC legislation, promoting equality of opportunity and equal treatment regardless of sex. A system of industrial tribunals, with powers to award compensation and reinstatement, provides individuals with an inexpensive means of redress against discrimination in the employment field. Almost uniquely in the EC, individuals can also turn to the Equal Opportunities Commission for free advice and assistance. This is a statutory, Government-funded body which can also conduct investigations and serve non-discrimination notices, and has issued a Code of Practice, approved by Parliament.

The UK has a better record of employment growth, particularly for women, than any other EC country. Since 1983, 1.8 million more women have entered paid work. The UK has the second lowest female unemployment rate (4.4%) and the second highest female participation rate (69%) in the EC.

Equivalent legislation also exists in Great Britain outlawing discrimination on grounds of race. The Commission for Racial Equality's functions regarding racial equality are similar to those of the Equal Opportunities Commission regarding sex equality.

INDIVIDUALS' RIGHTS IN EMPLOYMENT

All employees, regardless of the hours they work, are covered by legislation dealing with a number of important employment rights. These include equal pay, discrimination on grounds of sex or race, protection against the employer's insolvency and unfair treatment related to trade union activities. In addition, everyone who has worked for at least 16 hours a week for two years for the same employer (63 per cent of all employees) can claim other legal rights. These include redundancy payments, redress against unfair dismissal, and the right to maternity leave. Industrial Tribunals provide an accessible means of dealing with complaints.

SERVICES TO UNEMPLOYED PEOPLE

The Government provides a comprehensive placement service through its network of 2,000 Employment Service offices throughout the country. 1.9 million people, 80 per cent of whom were unemployed, are placed in jobs every year. The offices provide free access to a range of services, mainly for unemployed people, including entry to training programmes (particularly Employment Training), Restart, which last year provided over 2 million individual interviews for long-term unemployed people, jobclubs to help jobsearch and motivation and the Enterprise Allowance Scheme to help unemployed people to set up their own businesses.

PART-TIME WORK

Economic growth and increased labour market flexibility has led to a great expansion of opportunities for part-time work. Since March 1981 over 1.4 million part-time jobs have been created, particularly in the service industries which benefit from the flexibility part-time working affords. The EC Labour Force Survey shows that the vast majority of part-time workers - nine out of ten - have chosen to work part-time because it suits their particular circumstances, by enabling them to combine paid work with other activities.

EMPLOYEE INVOLVEMENT

Employee involvement is one of the major success stories of British industry, and many British employers are among Europe's leading exponents of the best modern practice. This success has developed on a voluntary basis, with the encouragement of Government. One of the most effective ways of increasing commitment is to give employees a direct stake in the ownership and prosperity of the business for which they work, through profit-sharing, employee share ownership (including employee share ownership plans (ESOPs)) and profit-related pay. The Government has directly encouraged the extension of such measures through tax reliefs which have been introduced or extended in 9 out of the last 10 UK Budgets. More generally, 10 million people own shares, and about 450,000 Personal Equity Plans, which provide tax incentives for equity investment, have been taken out.

HEALTH AND SAFETY AT WORK

UK legislation provides a comprehensive framework for maintaining, improving and enforcing standards of occupational health and safety. It provides for the protection of employees, the self-employed and members of the public from risks which arise from work activities, and places compulsory duties on all those involved. Many EC proposals are either derived from this legislation or developed in parallel with it. The legislation is devised and implemented through the tripartite Health and Safety Commission (comprising representatives from employers, unions and local authorities) and its Executive. Standards of enforcement in the UK are among the highest in Europe, and level of accidents among the lowest. The Commission employs over 1200 inspectors, about half of them Factory Inspectors.

FACT SHEET

THE UK LABOUR MARKET

Employment

- * Workforce in employment over 26.5m - highest ever. Since March 1983 number of people in jobs increased by 2.948 million.
- * Over 3m self-employed; up by more than 1.1m since June 1979.
- * Part-time employment at 6.25m - 24% of workforce.

Unemployment

- * Now stands at 1.835m, down by 1.298m since July 1986.
- * Unemployment rate (UK) 6.4% (Male 7.9%, Female 4.4%).
- * OECD standardised rate 6.9% - well below EC average of 9.4%.
- * Falls in all regions of the UK.
- * Long-term unemployment at 744,000 and has fallen faster than total unemployment.
- * Young people's unemployment -18-24's 47% lower than 3 years ago.

Living standards

- * Well into 8th successive year of growth averaging 3%. Real take home pay of married man with 2 children on average earnings up by nearly a third since 1978/9.

Women

- * 43% of labour force are women.
- * 11.4m work or are seeking work
- * Only UK in EC has lower unemployment rate for women than men.

Industrial Disputes

- * Number of stoppages in 1988 lowest for any year since 1935.

FACT SHEET

MAIN SERVICES FOR EMPLOYMENT, TRAINING AND ENTERPRISE

Restart

Counselling interviews for long-term unemployed. In last year 2.2 million interviews carried out and 43,000 people began motivational Restart courses.

Jobstart Allowance

Offers £20 a week for up to 6 months for unemployed people who take lower-paying jobs. 10,700 applications accepted last year.

Jobclubs

Facilities, support and motivation for job-hunting. Currently 1,000 Jobclubs with places for 175,000.

TRAINING

Youth Training Scheme

Broad based vocational education and training for 16 & 17 year old. 386,300 entrants now in training. Place guaranteed to all unemployed school leavers. Cost £1bn a year.

Employment Training

Flexible package of training for long-term unemployed. Will help up to 560,000 in a year at a cost of £1.4bn.

Career Development Loans

Loans to individuals for training or vocational education. £7.5 million worth of lending on over 3,300 applications.

Open Learning

Improved access to training. £2.75 million provided in 1989/90

Small Firms Service

Free management and business information service and counselling by experienced businessmen. 280,000 enquiries in 1988/89.

Enterprise Allowance Scheme

Helps unemployed people to start their own business by providing a weekly allowance of £40 for one year. 90,000 places available per year. 440,000 set up in business since scheme began in 1982.

SPECIAL NEEDS

Help for people with Disabilities

Advice, rehabilitation, training and sheltered employment. Over £310 million spent helping around 200,000 disabled people last year.

Inner Cities

Help for unemployed people and small businesses. Government spends over £3 billion in 57 Urban programme areas.

FACT SHEET
SOCIAL PROTECTION

The Elderly

- * About 10 million individuals are in receipt of basic retirement pension - an increase of one million over the last ten years. Basic pension is increased annually in line with the movement in prices.
- * Basic pension is intended to provide a secure foundation in retirement; the vast majority of pensioners also have income from other sources, eg savings, occupational pensions and earnings. Pensioners' average total net income increased by 23 per cent in real terms between 1979 and 1986.
- * In October 1989 the Government will introduce a new income related benefits package for older and disabled pensioners. It is estimated that over 2.5 million pensioners will gain from this measure.
- * Pensioners' average income from savings increased by over 7.0 per cent a year (64 per cent over the period) in real terms between 1979-86.
- * About 70 per cent of pensioners had savings income in 1986 (compared to 60 per cent in 1979).
- * Pensioners' incomes increased in real terms twice as fast as those of the population as a whole between 1979 and 1986.
- * Expenditure on benefits for the elderly rose by 24 per cent in real terms between 1978/9 and 1988/9.
- * Occupational pension schemes typically provide a pension of 2/3 salary for 40 years service or 1/2 salary plus a lump sum and most also provide widow's benefits.
- * Average income from occupational pension schemes increased by 7.1 per cent per annum in real terms between 1979 and 1985.

The Disabled

Expenditure is now running at almost £9 billion a year - an increase of over 90 per cent in real terms since 1979.

Increase in average numbers of recipients of main benefits

	<u>1978-79</u>	<u>1988-89</u>	<u>Per Cent</u>
Invalidity Benefit	600,000	1,130,000	185
Non-contributory Invalidity Pension/Severe Disablement Allowance	150,000	265,000	176
Attendance Allowance	265,000	760,000	280
Mobility Allowance	95,000	530,000	568
Industrial Injuries Benefits	230,000	290,000	26

Low Income Families

- * Income Support is an income related benefit payable to people not in full-time work whose incomes are insufficient to meet their needs and those of their dependants. It is payable without time limit including to people who are long term unemployed.
- * Family Credit is an income-related benefit payable to working families with modest earnings. The average benefit is £25 a week.
- * Housing Benefit is an income-related benefit to help people with low income in any category with housing costs, ie both rent and rates (local taxes). It meets 100 per cent of rent for people at Income Support levels.
- * The Social Fund provides payments for maternity and funeral costs to people on low incomes, grants to help with caring for people in the community and makes interest-free loans to people on Income Support who are faced with large and necessary items of expenditure.

The Family

- * Child Benefit is a tax-free, non-contributory benefit paid without any income test for all children at the rate of £7.25 a week.
- * One Parent Benefit is an addition to Child Benefit of £5.20 a week where there is only one parent in a family.
- * The value of family support has risen 27 per cent in real terms over the last decade.

Planned Total Social Security Expenditure by Broad Groups of Beneficiaries for 1989/90

	<u>£ millions</u>
Elderly People	24,650
Sick and Disabled People	8,670
Family	8,540
Unemployed People	5,240
Widow and Orphans	1,220
	<hr/>
Total Benefit Costs	48,320
Administration	2,660
	<hr/>
Total	50,980

NB Of the benefit payments, £27 billion are contributory benefits and £21 billion are non contributory.



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bc: PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 June 1989

Dear Steph,

EUROPEAN COUNCIL, MADRID: STATEMENT

I enclose a first draft Statement on the outcome of the European Council in Madrid. I should be grateful for comments in the course of the day - and if possible by 1430 - together with supplementaries.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Clive Norris (Department of Employment), and Trevor Woolley and Roger Lavelle (Cabinet Office).

Yours sincerely,

C. D. POWELL

Stephen Wall, Esq.
Foreign and Commonwealth Office

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PRIME MINISTER

EUROPEAN COUNCIL IN MADRID

You will no doubt want to say a few words in Cabinet about the European Council in Madrid. The points you will want to stress are:

- We succeeded in holding the others back from accepting the Delors Report as a whole. We are committed to Stage 1 only and there is nothing automatic about moving beyond that.
- You reaffirmed our intention to join the ERM once inflation was significantly down and there was satisfactory implementation of the first phase of the Delors Report, including free movement of capital and abolition of foreign exchange control. But you were not under any pressure to set a date or a deadline and did not do so.
- It is clear that other Member States will in due course want to move beyond Stage 1. It is doubtful whether most of them really want Stages 2 and 3 of Delors; and the more they look at them the less they will like them. We need to start to draw up an alternative vision of what might follow Stage 1, which keeps crucial decisions on economic and monetary matters in the hands of national governments. The French Presidency are likely to push ahead rapidly with further work on this subject. It would be helpful for a group to be set up to produce recommendations for Ministers by the early autumn. It should draw on outside expertise as necessary.

*Netherlands
Denmark
Luxembourg*

C.P.

CHARLES POWELL

28 June 1989

[Handwritten signature]

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FOLLOWING FROM HANNAY

MIPT: EUROPEAN COUNCIL: MADRID: 26/27 JUNE: COMMENT

1. THIS WAS AN UNEXPECTEDLY SUCCESSFUL EUROPEAN COUNCIL AT THE END OF A VERY CREDITABLE FIRST SPANISH PRESIDENCY. BILLED IN ADVANCE BY AN OVER-EXCITED INTERNATIONAL PRESS CORPS AS A PREDICTABLE BLOODBATH, WITH BRITAIN ISOLATED ACROSS THE BOARD, IT IN FACT CONSISTED OF AS SERIOUS AND GOOD TEMPERED DEBATES AS MOST OBSERVERS COULD REMEMBER TAKING PLACE AT A EUROPEAN COUNCIL AND IT ENDED IN AGREED CONCLUSIONS ON A WIDE RANGE OF SUBJECTS, THE SOCIAL DIMENSION BEING THE SOLE EXCEPTION TO THAT RULE. GONZALEZ' CHAIRMANSHIP EARNED HIGH PRAISE: AND THE PRESIDENCY/COUNCIL SECRETARIAT/COMMISSION DRAFT CONCLUSIONS CIRCULATED OVERNIGHT WERE PITCHED ALMOST EXACTLY RIGHT TO ACHIEVE CONSENSUS THE NEXT DAY,

2. THE MAIN ISSUE BEFORE THE COUNCIL WAS THE FOLLOW-UP TO THE DELORS GROUP REPORT ON ECONOMIC AND MONETARY UNION. A GENERAL DEBATE ON THE MORNING OF THE FIRST DAY, MARKED BY A CONSTRUCTIVE STATEMENT BY THE PRIME MINISTER INCLUDING A REFERENCE TO OUR INTENTIONS OVER JOINING THE EXCHANGE RATE MECHANISM RAISED HOPES OF AN AGREED OUTCOME WHICH WERE SHARPLY REDUCED BY WIDENING DISAGREEMENTS OVER A PREMATURE PRESIDENCY ATTEMPT TO DRAW CONCLUSIONS THAT AFTERNOON. IN PARTICULAR FRENCH PRESSURE (WITH ITALIAN AND BELIGAN SUPPORT) TO RUSH A DECISION ABOUT AN INTER-GOVERNMENTAL CONFERENCE, LOOKED AS IF IT MIGHT DERAIL THE PRESIDENCY'S ATTEMPTS TO REACH CONSENSUS. BUT WHEN THE DISCUSSION RESUMED ON THE SECOND MORNING ON THE BASIS OF A TEXT WHICH CONTAINED A KHEL SUGGESTION PUSHING THE CONVENING OF AN INTER-GOVERNMENTAL CONFERENCE BEYOND 1 JULY 1990, THE FRENCH WERE QUICKLY ISOLATED AND ONLY GAINED A MINIMAL DRAFTING CHANGE.

3. THE FINAL OUTCOME IS NOT IDEAL FROM OUR POINT OF VIEW, BUT IT IS A GREAT DEAL BETTER THAN AT ONE TIME LOOKED LIKELY. WHILE THE DELORS GROUP REPORT IS COMMENDED, IT IS ONLY TO BE 'A' NOT 'THE' BASIS FOR FURTHER WORK. THE GOSPEL ACCORDING TO PARAGRAPH 39 (IN FOR A PENNY, IN FOR A POUND) DOES NOT APPEAR AND, IN AN OBSCURE MANOEUVRE WHICH NOONE ELSE UNDERSTOOD AND WHICH CAUSED DELORS

CONSIDERABLE CHARGIN, THE FRENCH ACTUALLY MANAGED TO WEAKEN THE REFERENCE TO THE GLOBALITY OF THE EMU PROCESS. THE CONCESSION WE MADE IN ADMITTING THE INEVITABILITY OF AN INTER-GOVERNMENTAL CONFERENCE WAS MORE APPARENT THAN REAL, GIVEN THAT SUCH DECISIONS ARE TAKEN BY A SIMPLE MAJORITY. THE PRIME MINISTER MADE IT CLEAR TO HER COLLEAGUE THAT THERE COULD BE NO AUTOMATICITY ABOUT THE TIMING OF THE CONTENT OF A MOVE TO STAGE 2 FOR WHICH UNANIMITY AND PARLIAMENTARY RATIFICATION ARE NEEDED. MEANWHILE THE PREPARATION OF THE NECESSARY DECISIONS ON STAGE 1 WILL HOLD CENTRE STAGE, AS WE WISHED.

4. THE SOCIAL DIMENSION PLAYED VERY MUCH SECOND FIDDLE TO ECONOMIC AND MONETARY UNION. THE GENERAL DEBATE REVEALED A GOOD DEAL LESS WHOLEHEARTED ENTHUSIASM FOR THE DRAFT SOCIAL CHARTER THAN THE SOCIAL AFFAIRS COUNCIL HAD DISPLAYED ON 12 JUNE. THE PRESIDENCY'S CONCLUSIONS, BY SEEKING OUR AGREEMENT TO A TEXT WE HAD ALREADY REJECTED ON 12 JUNE AND BY AVOIDING ANY ATTEMPT TO COBBLE TOGETHER SOMETHING LESS EASILY REJECTABLE, MEANT THAT WE CAME UNDER NO PRESSURE TO CONCEDE GROUND. THE PRIME MINISTER SET OUT OUR OWN POSITIVE CONTRIBUTION TO THE SOCIAL DIMENSION.

5. MOST SIGNIFICANT OF ALL FOR THE FUTURE HANDLING ON THIS SUBJECT, A DUTCH TEXT CALLING FOR THE RESPECTIVE ROLES IN THE SOCIAL FIELD OF COMMUNITY LEGISLATION, NATIONAL LEGISLATION AND VOLUNTARY AGREEMENTS TO BE CLEARLY ESTABLISHED WAS AGREED. THIS SHOULD GREATLY COMPLICATE FURTHER DISCUSSION OF THE SOCIAL CHARTER AND HAS THE MAKINGS OF A POTENTIAL BULWARK AGAINST EXCESSIVE COMMUNITY LEGISLATION.

6. NONE OF THE OTHER SUBJECTS DEALT WITH IN THE CONCLUSIONS WAS DISCUSSED IN ANY SUBSTANCE BY THE EUROPEAN COUNCIL ITSELF ALTHOUGH THERE WAS SOME DESULTORY REFERENCE TO DEBT AT THE HEADS OF GOVERNMENT DINNER. THE MORIBUND SPANISH PROPOSAL FOR A EUROPEAN FUND TO REPAY DEBT WAS GIVEN ANOTHER AIRING FOR PROPAGANDA PURPOSES. ON THE INTERNAL MARKET WE GOT MOST OF OUR PRIORITIES ENDORSED. THE COORDINATORS REPORT ON FRONTIERS AND THEIR WORK PROGRAMME WAS ENDORSED WITHOUT ANY RE-RUN OF EARLIER DISPUTES BETWEEN ABSOLUTISTS AND PRAGMATISTS. ON THE ENVIRONMENT WE AVOIDED ENDORSING (BUT AGREED TO CONSIDER) THE COMMISSION PROPOSAL FOR AN AGENCY: AND, WITH HELP FROM THE DUTCH, FENDED OFF A HORRENDOUS TEXT INVITING THE COMMISSION TO PROPOSE HOW TO CLEAN UP THE WHOLE OF THE MEDITERRANEAN REGION. A USEFUL TEXT ON FRAUD WAS ADOPTED AT UK SUGGESTION. UNEXCEPTIONAL TEXTS WERE AGREED ON TAX, WITH AN END-YEAR DEADLINE FOR REACHING HEADS OF AGREEMENT ON INDIRECT TAXES. THE INTERNAL

MARKET COUNCIL WAS INVITED TO ADOPT THE BROADCASTING DIRECTIVE, TO THE EVIDENT DISCOMFORT OF THOSE WHO ARE VOTING AGAINST.

7. ON EXTERNAL ECONOMIC POLICY ISSUES, EC/EFTA, THE URUGUAY ROUND, THE LOME RE-NEGOTIATION AND TRANSATLANTIC RELATIONS UNDER THE NEW ADMINISTRATION WERE BLESSED.

8. YOU MAY FEEL THAT THE ABOVE ACCOUNT GIVES A SOMEWHAT ROSE-COLOURED PICTURE OF AN EXTREMELY TRICKY MEETING, THE TWO MAIN SUBJECTS OF WHICH WERE ONES WHERE WE RISKED BEING IN A DANGEROUSLY ISOLATED POSITION. WE HAVE CERTAINLY NOT BANISHED THESE RISKS FOR ALL TIME. BUT I BELIEVE THE INEVITABLE AUTUMN DISCUSSIONS ON A SOCIAL CONTRACT/SOLEMN DECLARATION WILL BEGIN WITH US IN A SIGNIFICANTLY BETTER POSITION THAN WE WERE BEFORE THIS MEETING. AND THE SOOTHSAYERS OF DOOM, DIVISION AND TWO SPEED EUROPE ON ECONOMIC AND MONETARY UNION WILL NOW HAVE TO CAST THEIR NETS TO THE MORE DISTANT WATERS OF 1991 RATHER THAN (AS THE FRENCH WOULD DEARLY HAVE LIKED) BUILDING UP THE EUROPEAN COUNCIL AT THE END OF THE YEAR AS A MAKE OR BREAK AFFAIR.

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Foreign and Commonwealth Office

London SW1A 2AH

28 June 1989

dh.

Jean Charles.

European Council, Madrid

You asked for an early sight of the full record of the Madrid discussions, which UKREP traditionally reconstruct from the Antici briefings, and from the Foreign Secretary's notes.

- / I enclose the record of the first day's discussion. This may still be subject to slight amendment as UKREP double-check all their sources. In the time available, they have not yet been able to produce a text for the
- / second day. The attached reporting telegram (Madrid 645) contains a general report of the second day.

Jaw.
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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17 pages

TRANSCRIPT A: PM - PC - MADRID - 27 JUNE 1989

FROM JAMES LEE FOR COI RADIO TECHNICAL SERVICES

TRANSCRIPT OF PRESS CONFERENCE

GIVEN BY THE PRIME MINISTER, MRS. THATCHER,

IN MADRID, ON TUESDAY, 27 JUNE 1989

TRANSCRIPT A

PRIME MINISTER:

As you know, the Council has had to grapple with some very difficult issues affecting the future of the Community. We have made as much progress as we can at this stage while leaving longer-term issues for further discussion. Throughout the last six months and particularly at this meeting, we had the benefit of an excellent Spanish Presidency.

Britain has played a very active part in arriving at Conclusions which we can all accept. Let me take you quickly through the main issues:

We have had a very good reaffirmation of the priority importance of completing the Single Market with the emphasis on the areas of particular interest to the United Kingdom - financial services, technical standards, transport and public purchasing.

It is accepted that there will not be a Withholding Tax which some had tried to make a condition for the abolition of foreign exchange control. You will recall that the main countries are committed to abolition by 1 July 1990.

-2-

PRIME MINISTER (CONTD):

We have wide acceptance of the need to keep checks at frontiers against drugs, terrorism and criminals, expressed in the report of the Coordinator's Group which the European Council accepted, while making free movement for law-abiding citizens a greater reality.

On the political side, we have all expressed our utter condemnation of what has happened in China and set out a number of measures which we all agreed to take.

We have also reached conclusions on the Middle East and on the Lebanon.

Of course, the main issues have been economic and monetary matters and the social dimension.

On the economic and monetary matters, the main practical achievement of the Council has been to agree on the early implementation of Stage 1 of the Delors Report. This involves completion of the Single Market, abolition of all foreign exchange controls, a free market in financial services and strengthening of competition policy, which of course means reducing subsidies. These are all things for which the United Kingdom has campaigned strongly and where we are well ahead of other members of the Community.

It also draws attention to the importance of all member states joining the European Monetary Exchange System of the EMS. I made a statement on that which was received positively.

We have also agreed to do further work on what might eventually follow Stage 1, but we have reached no conclusion about that.

-3-

PRIME MINISTER (CONTD):

We have accepted the Delors Report as a good basis for this further work but not the only basis. It will be possible to bring in other ideas and other approaches for the progressive realisation of economic and monetary union, but let me emphasise that there is absolutely nothing automatic about going beyond Stage 1. All that is for future decision.

This further work will of course be difficult. There are substantial differences of view. We shall, of course, set out Britain's views clearly and vigorously.

On social matters, of course we accept that there is a social dimension to the Single Market.

The Conclusions contain a very satisfactory recognition that the highest priority is creating conditions for more jobs. We do not believe that the proposed Social Charter would help job creation and that is why we could not accept the Conclusions of the June Social Affairs Council and we have confirmed that refusal here.

We believe that by imposing extra burdens on business, it would make the Community less competitive. There are very different traditions of how we handle these things in different member states and we do not accept the need to have it all determined from the centre.

The Conclusions do bring out a very important point, namely, that national legislation and voluntary agreements have an important role in achieving the Community's social dimension. We shall be putting this viewpoint very strongly in the further discussions which will take place.

-4-

PRIME MINISTER (CONTD):

To sum up: we have agreed at this Council on what can be done now and we have set the scene for further discussion of other issues over the next months and years ahead.

Yes, there are very difficult issues to be resolved on which views differ widely. Let me just remind you how much Britain has contributed to shaping the Community over the past few years: reform of the Common Agricultural Policy; establishing the Single Market; and getting the budget under control. We shall be just as active and just as vigorous in fighting Britain's corner in future discussions.

May I have your questions, Ladies and Gentlemen, please!

(END OF TRANSCRIPT A - CONTINUED ON TRANSCRIPT B) ENNY

TRANSCRIPT B: PM - PC - MADRID - 27 JUNE 89

FROM JAMES LEE FOR COI RADIO TECHNICAL SERVICES

TRANSCRIPT OF PRESS CONFERENCE

GIVEN BY THE PRIME MINISTER, MRS. THATCHER,

IN MADRID, ON TUESDAY, 27 JUNE 1989

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TRANSCRIPT B - (CONTINUED FROM TRANSCRIPT A):

=====

QUESTIONS AND ANSWERS

=====

JOHN DICKIE (DAILY MAIL):

It seems that you have conceded at least one point on accepting the need for an inter-governmental conference which might involve changing legislation in the United Kingdom.

Are there any other concessions you have made and how do you balance the pros and the cons?

PRIME MINISTER:

With regard to an inter-governmental conference, a decision will have to be taken when it is thought that one should be convened. I have been through this before. Let me tell you what it is:

A decision to convene an inter-governmental conference can be taken by a simple majority vote. So we may vote in the minority, but it will not stop an inter-governmental conference from being called. The Conclusions of that inter-governmental conference have

-2-

PRIME MINISTER (CONTD):

to be reached by unanimity and it is quite clear from round that table that they would have a simple majority very very easily, so in fact one is conceding nothing, but of course one has not been convened and our task was to get in words which meant there must be full and adequate proper preparation long before any inter-governmental conference could be called.

I have not the slightest shadow of doubt we shall vote against it at that time; I have equally not the slightest shadow of doubt that we shall be in the minority.

GEORGE JAMES (DAILY TELEGRAPH):

In the House of Commons in May, you said that the Delors Report would effectively mean political union and a United States of Europe and that the Government did not believe there could be future treaty amendments based on that. Is that still your view?

PRIME MINISTER:

Yes. As the Delors Report is on Stages 2 and 3, yes, the number of fundamental issues that will be transferred from national parliament to a rather amorphous group of people whose duties and rights are not specifically defined but who are not publicly accountable, that transfer would be very considerable indeed. It

-3-

PRIME MINISTER (CONTD):

would be the biggest transfer of national sovereignty that we have ever had and I do not think it would be acceptable at all to the British Parliament that we should transfer certain fundamental rights over the Budget, over the Budget Deficit, over economic structure and over monetary policy to another group.

But I think we have to remember - and it is brought in on me very vividly every time I come to these European Councils - that Parliament plays a very central position in the accountability of the Government to the people. I will go and make a statement on Thursday about what happened here. I will be cross-examined on it for about an hour. That does not happen in many other places. I think Mr. Gonzalez goes down to his Parliament about three times a year to make a statement and is not cross-examined. So we really are the Mother of Parliaments and Parliament is central and, of course, central to Parliament itself is control over the Executive as far as finance is concerned, so that goes to the heart of the Delors Report.

QUESTION:

Prime Minister, do you think that your reformulation of our position on the Exchange Rate Mechanism at least allows the possibility of us entering before the next general election?

PRIME MINISTER (CONTD):

I cannot give you a date at all. What I know is that we are ahead of many of our partners in the Community in doing certain things. We have free capital movement; we have abolished exchange controls; we are anxious to get on with the Directives on freeing up investment services and we are very pleased with the recent Banking Directive.

We are very anxious to have freer trade. For example, ships from the continent of Europe can pick up business in our ports - cabotage business - we cannot automatically pick up business in their ports. We are much freer on shipping cabotage than they are. In fact, we have not been able to get reciprocal treatment at all so in the Merchant Shipping Act we have taken provision not to allow freedom of cabotage because they are not doing it.

On transport cabotage, which both Rud Lubbers and I were very keen to have so you go across Europe and you can pick up loads, say, from Rome, across Europe as you come back. We cannot do it at the moment. They will not allow that kind of freedom, so we are way ahead of them in many of the freedoms and what we can do about joining the Exchange Rate Mechanism will to a large extent depend upon how much further they are prepared to go in freeing things up so that we have a fair basis upon which to join.

QUESTION:

Prime Minister, could I ask you a two-part question on Anglo-Irish relations after your meeting with Mr. Haughey and the review of the operation of the Agreement?

Do you foresee any political developments in Northern Ireland in the near future and secondly, what is your present position on the issue of extradition?

PRIME MINISTER:

My position on the use of extradition has not changed. There are some extradition cases which go ahead but we obviously would like more to go ahead.

Secondly, with regard to the Anglo-Irish Agreement, the review is completed as to its working. The review went very well and I do not think there is anything fresh to report at the moment.

I am afraid that does not make very big news for you but it makes good news for the people.

JEFF MEAD (PRESS ASSOCIATION):

In the context of this Summit, it has been suggested that you no longer command wide public support in the wake of the Euro-elections. Would this help to explain your softened tone and your positive approach, particularly on the EMU question?

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PRIME MINISTER:

Bearing in mind that we in fact were instrumental in reforming the CAP, we were instrumental in getting a sound budget, I would not say that my approach has differed at all. On the European Monetary text that we spent such a long time considering, it was not I who was isolated - it was President Mitterrand.

QUESTION:

Prime Minister, you have spoken about the possibility - indeed the probability - that you would be in a minority when a decision comes to be taken convening an inter-governmental conference.

Are there any circumstances in which you might refuse to participate in such a conference if you felt the preparations were not full and adequate?

If I could just add to that, why do you think it was you were not able to secure the support of a single other member state on the question of the social dimension and the Social Charter?

PRIME MINISTER:

With regard to your first question, I think it is never right to leave an empty chair because in fact, last time this happened we went along and took part in the discussions. To leave an empty chair means you have no influence over the discussion. You are right in one respect: it would of course mean that you could not get unanimity from an inter-governmental conference if you did not go, but I think it is bad policy to leave an empty chair.

PRIME MINISTER (CONTD):

On the social dimension, it is extraordinary how much support you get for the ideas which you put - extraordinary how much support. Speech after speech made the point that we are all at different stages of development, we all have a different history with regard to trade union matters or which social service we have encouraged and I think you will find that the text which has come out says that all of these differences must be taken into account and that the principle of subsidiarity must be observe which means, of course, that many things are not suitable at all for the Commission and should be left to the national countries. And so one got in fact in the speeches quite a good deal of support and it was quite clear that some people thought that it was only a solemn declaration which as you know it is not - it is the basis for many Directives.

Some of those nations there have not yet ratified this Charter which, of course, is the European Social Charter of the Council of Europe. We have and implemented it, and so, just to make certain that we were not taken to task about our social policy, I brought ours along because of course it is very much more advanced than some countries. In other respects, some others have advanced in different things. So there is ours - available for everyone. It is an extremely good one. And what emerged from the definition and from the discussion was that many people take a similar view to what we do and I think that because of the view we have taken that

PRIME MINISTER (CONTD):

there is not unanimity. We might find that our view will prevail and it is a very good principle that you leave most of your social services to your national countries and do not have them dominated by Directives from the Commission.

When it comes to employment which of course is part of the social dimension, we actually have created more jobs - 3 million jobs since 1986 - than anyone else in the Community. So we are actually, on practical achievement, well ahead of most.

QUESTION:

Last year, after the Hanover Summit, you mentioned no need for a single currency in Europe. Do you still think so?

PRIME MINISTER:

I think there is no need for a single currency in Europe. You can have your monetary policy by many other means and on the whole, we have gone with monetary and economic policy towards convergence by voluntarily adopting the same sound policies. I do not think there is any need for a single currency.

PETER JENKINS (THE INDEPENDENT):

Prime Minister, do you have any vision of your own of an economic and monetary union but beyond Dalors Phase 1 and different to his vision of it?

PRIME MINISTER:

I think that we shall probably hope to have further papers put in to the further study. I think this week's "Economist" had a very good article pointing out that there had been no discussion at all of precisely what an economic or monetary union was - the various different models.

Normally, if you are asking for a study to be done, you would say: "Look! I want a study of various different models of economic and monetary union, the steps that have to be taken, what can be achieved from each, the drawbacks to each!" None of that was done at all. They did not even consider how to define it, let alone the steps which should be taken towards different models. It was, I thought, a very good article and there have been quite a large number of articles recently which have been much more critical of that Report and which would consider alternative ways.

We shall have to pursue this fairly closely to see if we can get different models put in for a further stage because clearly, Stage 2 is pretty well open and the Delors Report is only one basis on which Stage 2 has to be considered.

I might say straightaway that there are some things in Stages 2 and 3 which most of those people simply would not have. One thing which occurs readily is that one of the Stages says that you have to go absolutely to parity, to a rigid exchange rate - no latitude at all. Well some of them just would not be in it on that basis and also it seems to be quite absurd. You build in a rigidity like

PRIME MINISTER (CONTD):

that then you are building in enormous distortions elsewhere. I come from the Bretton Woods period. I remember only too well in Parliament many times when we just simply could not hold the parity any more and down came Ministers to the House of Commons - we must cut public expenditure, we must cut various social services, we must have a prices and incomes policy and of course with your interest rates you lose a good deal of latitude the more rigid you become and I think that many people would not agree to that straightaway. In fact, I think once we get the discussion you will find a lot of people will disagree with what it proposes and we might try to find a new model. It is an interesting intellectual exercise, economic exercise, monetary policy exercise, but we will have to embark upon it. If you have got any ideas, let us know!

MICHAEL JONES ("SUNDAY TIMES"):

Prime Minister, how do you react to being described as "a brake on Europe" and bearing in mind who said it, how do you look forward to the French Presidency of the Council?

PRIME MINISTER:

It is a bit rich isn't it, someone who has not got freedom of capital movement and has not abolished exchange controls and who wants to put more taxes in order to do it, calling me a brake on Europe? He has scarcely got into the car yet! (laughter)

-11-

CHARLES GRANT ("THE ECONOMIST"):

Prime Minister...

PRIME MINISTER:

I hope you heard what I just said! I shall watch your articles with the greatest possible interest! There were three articles - it was one I was referring to.

CHARLES GRANT:

From your kind comments on our article, would I be right in imagining that having committed yourself today to the long-term goal of economic and monetary union, you would favour it so long as it did not involve central control of budget deficits and other sorts of political superstructure - you would favour a minimalist goal of monetary union?

PRIME MINISTER:

Yes, that is correct but the commitment comes from a phrase in 1972 before we actually joined. The phrase is: "The progressive realisation of economic and monetary union." It goes right back to that.

That particular phrase was repeated in the preamble to the Single Act and what we are committed to is not economic and monetary union but to the progressive realisation and I say the difference, because one has the meaning of stages, namely that you kind of see

-12-

PRIME MINISTER (CONTD):

the necessity for each next stage and absorb that next stage without going pell mall for something which describes itself as "economic and monetary union" which might not suit the twelve member states.

So it comes from that 1972 agreement before we joined.

RAYMOND LLOYD (THE NEW INTERNATIONALIST):

The Queen has just installed Juan Carlos as a Knight of the Garter. Is Britain taking any initiative to invite Spain to become a member of the G7 at the Paris Summit next month?

PRIME MINISTER:

The short answer is: No. It was a marvellous ceremony; we were all delighted with the honour. We have no proposals at the moment to enlarge G7. If and when we ever do, there are a whole lot of people who would like to be considered as the next candidate.

QUESTION (CHANNEL 4 NEWS):

Prime Minister, you spoke earlier of President Mitterrand being isolated in the Community. Does this herald a new era in relations within the Community?

PRIME MINISTER:

No. Let us be accurate! I spoke about him being isolated for a time on the text of Economic and Monetary Union and the real point of battle, if you want to know and if you go and look at it, was 4b of the communique. That was the real point of battle and we went on that for a very long time and he was isolated and said that he could not agree with it unless we changed it.

In the end, we only did one minor change and then he agreed, but it was not I who was isolated. But do not say he was isolated altogether. Of course he was not, but on that point it was really rather nice for me to sit back and say I could accept the text and see other people not being able to!

(END OF TRANSCRIPT B AND END OF WHOLE TRANSCRIPT) ~~XXXX~~

This full
record is
much better
than the
shortest
telegram

Pl. file

EUROPEAN COUNCIL: MADRID: 26/27 JUNE 1989 - DRAFT RECORD

Morning Session 26 June

1. The meeting opened with the usual speech by the President of the European Parliament. Lord Plumb concentrated on the main subjects on the agenda - EMU and the social dimension - but referred also to the success of the co-operation procedure and to the Parliament's intention to produce proposals on the future development of the Community. Gonzalez (Presidency) congratulated Lord Plumb on his leadership of the Parliament and, after Lord Plumb had departed, invited the meeting to discuss economic and monetary union (EMU).

EMU

2. Delors (Commission) said that his Committee had quickly agreed on the method to follow. They had defined the final stage of EMU and then considered the institutional implications and how to get there. There was nothing sacred about a three-stage approach: one could equally well say there should be two or four. The final stage, once achieved, would lead to basic changes in the Community's economic situation with greater competitiveness, increased growth and higher employment. The basis of EMU was monetary stability and this was a logical consequence of the single market. It would in turn increase the potential for economic and social cohesion. The Committee had come to the conclusion that monetary union was a precondition of economic union and that progress on the two must be made in parallel. The basic concept of EMU had been spelt out in the Werner Report. He went on to emphasise the importance of subsidiarity. Member states would wish to retain monetary and economic policies in their hands and compulsory rules should be kept to a minimum. But the extent of budget deficits would need to be governed by compulsory rules. One problem was that the Community's budget amounted to only 2.5% of Government expenditure so there was a limit to what the Community could do to support development in particular parts of the Community. A system of European banks was required for monetary union but national reserve banks should be left room for manoeuvre. The new institution should be independent of national authorities. Its objective should be the creation of monetary stability. A decision should be prepared by an inter-Governmental conference (IGC). As regards the process for reaching the third stage, this should be gradual and pragmatic without strict deadlines and each stage should be decided by the European Council. What was needed today was political commitment to give momentum to the process. Turning to stage one he said that his Committee had considered the idea of a European Monetary Fund to deal with external problems in parallel with national banks. But the Committee had rejected the idea and had preferred to adopt "an institutional" approach. There would be a learning process and precise proposals could be made by the EcoFin Ministers and the Committee of Bank Governors. Much would depend on the economic situation. But there must be a clear

political commitment to the process, accepting that there would be flexibility over deadlines. The European Council should recommend the holding of an IGC and the starting of stage one on 1 July 1990 when the liberalisation of capital movements came into force. Gonzalez recalled that there was already agreement on the objective of economic and monetary union and suggested that discussion should concentrate on procedures, in particular the evaluation of the Delors Report, the decision on stage one and the link with later stages.

3. Lubbers (Netherlands) broadly supported the analysis in the Delors Report including a stage by stage approach. The principle of subsidiarity was important. Community competence should not be handed over unless the need for it was proved. Only if better results could be achieved at Community level should we accept Community competence. He agreed with Delors on the need for parallelism between economic and monetary union. But we should see how much convergence between member states' budgetary policies was needed and only insist on this to the extent necessary.

4. Kohl (Germany) said there were high expectations about EMU. Public interest in 1992 had had an effect in terms of levels of investment. We must send a message that we intended to complete 1992. The Delors Report was his starting point. We should confirm the objective of EMU in accordance with the Single Act. The Delors Report, which had been approved by unanimity, implied a single process and he supported paragraph 39. The first stage should start on 1 July 1990 and all currencies should be included in the EMS. A mandate should be given to EcoFin, the Monetary Committee and the Economic Policy Committee to prepare a decision on the first stage and to prepare concrete proposals for the second stage. These proposals should be considered by an IGC under Article 236 of the Treaty which should start within a foreseeable time.

5. Sartzetakis (Greece) said this his presence at the European Council was due to the exceptional situation in Greece. What he would say was supported by all political forces in Greece, with some nuances. The European Election results meant that it would be necessary to strengthen the European Parliament and to accelerate progress towards 1992. EMU was a necessity to which we were all committed by the Single Act. Europe's role in the world would be strengthened. He could not imagine a single market without a single currency and a central bank. The Delors Report was balanced and reasonable. He agreed with the staged approach but there should be some flexibility. The European Council should set a date to start stage one but decide later on stages two and three depending on the outcome. There should be parallelism between economic and monetary union. But an increase in the structural funds would be needed before the beginning of the second stage. The Community budget was inadequate and changes were needed to permit transfer of funds to less developed regions. They should also allow the possibility of help for balance of payments problems during the transitional period. Greece would need flexibility over the entry of the Drachma into

the EMS. We should prepare the first stage and think about the rest. The Treaty would need to be revised and there would have to be a central bank system whose powers would need careful study. The aim should be to develop a European economic space and to create a Community Reserve Fund which could intervene at the request of a member state. Greece would examine the Delors proposals on the economic side, dealing with budgetary and macro-economic problems. New institutions were needed but national prerogatives should be remembered. The process of democratic control should be enlarged.

6. Schluter (Denmark) welcomed the entry of the Peseta into the EMS. He thanked Delors for his report and emphasised the importance of progress in this area. We should concentrate on procedure and start work soon. The final objective had already been agreed but the Council should consider the measures for achieving it. He could not agree to paragraph 39 without all the details of the later stages having been negotiated in advance. The Committee of Central Bank Governors and the EcoFin Council should be given a mandate to start work immediately. EcoFin had already agreed that work should be started on stage one. It should also clarify stages two and three. There should be discussion on when a decision on an IGC should be taken. He was in favour of deciding on it in due course.

7. Martens (Belgium) congratulated Delors on his unanimously adopted report and recalled the Hannover commitment to EMU. Concrete progress was now needed. He supported the principle of a staged approach. The Report should be taken as a whole - it was an important step towards European union. The European Council could not afford to have a failure on this subject - progress must be 'a douze'. He recalled the success of the internal market and the EMS and underlined the benefit for the Community of having a greater monetary weight in the world. This would make the Community more competitive. The European Council must create the momentum for an immediate start on stage one. He referred to paragraphs 51 and 52 of the Delors Report. The Commission should establish an indicative list of measures to be considered by an inter-Governmental conference. The European Council should hear a report on these two points in December. Stage one should start on 1 July 1990 and the principle of an IGC should be agreed. Work should be started taking account of the position of some member states.

8. De Mita (Italy) said Hannover had already agreed on the principle of a common monetary space. What was needed was decisions on procedure. The Delors Report had set out the process and we must avoid going back on a report approved by twelve Central Bank Governors. It is not necessary to define the stages today but we should decide on the objectives and agree on procedure, as described in the Delors Report. There was already agreement on the first stage. This was the starting point. We should agree to hold an IGC without setting a date. Further work was needed on some aspects of the Delors Report. The Community must not limit itself to the single market but must go on to EMU and increase its weight in the world. This would be an important

accelerator towards political union. The lack of interest in the European Parliament elections was the fault of national Governments who had not sufficiently highlighted the attractions of EMU.

9.7 Cavaco (Portugal) said EMU was important for the future of the Community. It should be seen as a whole and as a part of European union. He agreed in principle with the Delors Report but there were some elements lacking. The process of moving to economic and monetary union must be accompanied by certain guarantees, in view of the financial and social consequences which would flow from it. There must be a means of transferring resources to the poorer countries. Otherwise there was a risk that there would be flows in the opposite direction. There was a need for compensation so as to produce a balance and a symmetrical development. The mechanisms needed to realise EMU would mean some loss of national autonomy. All member states should be treated the same in EMU. The Delors Report implied monetary federalism. Was this compatible with a small Community budget involving only 2% of GNP? The Community budget should be given the means to re-establish balance. In sum he accepted the principle of EMU but the conditions which would avoid destabilisation in certain countries must be further defined. The aim should be stability in all member states.

10.8 The Prime Minister recalled the UK's support for monetary co-operation and the freedom of capital movements and a wider market for the ecu. We were in favour of the abolition of exchange controls. The Hannover European Council had agreed that there should be concrete stages leading to the progressive realisation of EMU and we should be pragmatic. The Delors Report was right to go for a staged approach and the analysis was valuable. It brought out the fundamental implications of stages two and three. We were ready here and now to make an early start on stage one with effect from 1 July 1990. She welcomed the Delors Report's call for a single Community financial area and for the completion of the single market together with the strengthening of Community competition policy. In some respects she hoped the Community would go further in stage one than the Delors Committee had recommended, for example in the use of the ecu. As regards the ERM, she said that had sterling been included at the time it was in effect a petro-currency, the result would have been damaging for the ERM. She had always made clear that we would join the ERM when the time was right but this would have to be carefully judged. She could re-affirm the United Kingdom's intention to join the ERM in conditions which would strengthen the ERM. The timing would depend on progress in the UK against inflation and progress in the Community on a single market and particularly on the abolition of exchange controls. The timing was for HMG alone. Turning to the later stages, we had serious difficulties with some aspects. EMU implied an enormous shift in the control of economic and fiscal policy which would not be acceptable to the British Parliament. She thought others would have similar problems. We, and it would seem others, had great difficulty with the report's treatment of fiscal policy. Control over budgets was the exception rather

than the rule even in federal states. She was also sceptical of the idea of massive subsidies for the periphery. Market forces should be left to get rid of differences in competitiveness. There was also a problem of democratic accountability. These were illustrations of the kind of issues which needed to be addressed. We should consider whether other models of economic and monetary union were possible. We should endorse the conclusions of Finance Ministers who had agreed to undertake preparations for stage one as a priority task. This should be done as a matter of urgency. We should agree that the Delors Committee Report had been valuable, that the long term arrangements needed further study but that their recommendations for early action should be implemented.

11.⁹ Haughey (Ireland) strongly supported EMU. He accepted the process spelt out in the Delors Report. He agreed on the need for a balance between economic and monetary union. The European Council should give the process political impetus. He was in favour of holding an IGC but it must be properly prepared. To be meaningful it must take account of the problems of poorer and peripheral regions. Cohesion could only be promoted if regional divergences were diminished.

12.¹⁰ Santer (Luxembourg) thanked Delors for his report and expressed support for a single currency. The Delors Committee Report was a continuation of the report by M. Werner. Both remained valid and the Council should give momentum to the process. In the monetary field, the framework of EMS already existed. The budgetary side needed to catch up. He was prepared to support the principles of the Delors Report. The European Council should agree on stage one but should not convene an IGC until there was a homogeneous basis for a conference. We should agree on stage one and on the definition of the objective but should study further the Delors Report and other possible alternatives.

13. Mitterand (France) recalled recent progress in the Community including decisions on agriculture, research, the internal market, the social field, the lingua programme and external relations (GATT, Eastern Europe, Middle East). He congratulated the Spanish Presidency on their achievements. We must now go further. We were halfway to 1992 with only three years to go but we must all work together, as agreed in the SEA, for political as well as economic objectives. We were committed to a certain vision of Europe and must decide whether we still wanted it and when. Procedure must be agreed but should not alter the substance. The Delors approach was good and the debate should not be too difficult. A deadline already existed and if we missed it we would not get the Europe we wanted. But a first stage without a second stage would be pointless. We must go further than a deadline for the first stage. Stage two must follow. There must be no failure in Luxembourg and a further deadline should be decided now. He recalled that the Community had not failed in Milan when, as now, failure was expected.

14. Gonzalez thanked speakers and said he would prepare oral conclusions to present after lunch. Political agreement was close and he hoped to finish EMU in an hour and a half after lunch.

Afternoon Session, 26 June

15. González said he thought agreement could be reached on the basis of four fundamental points:

- a. The European Council would ratify the objective of EMU as decided in the Single Act and the Hannover conclusions;
- b. We would accept the Delors Report as the (or a) basis of an overall process by stages towards EMU. We must move toward economic and monetary union in parallel;
- c. We should decide to start the first stage on 1 July 1990. EcoFin should be instructed to make the necessary preparations;
- d. Some delegations thought it desirable for an IGC to be summoned to prepare the second and third stages. Others preferred to give a mandate to the competent organs of the Community to make the necessary preparatory studies in advance of the IGC.

16. Kohl said he agreed to the first three points but (d) was not clear. In his view the European Council should give a mandate to the competent authorities (EcoFin, the Foreign Affairs Council, the Bank Governors, the Monetary Committee, the Economic Policy Committee and the Commission) to put down concrete proposals for the second phase and to take decisions on stage one. The IGC should start work as soon as stage one had started and once the necessary work on stages two and three had gone far enough to serve as a basis for the conference.

17. The Prime Minister said she was not happy with point (b). She thought that the Delors Report was better described as "a tool for further work". The reference to "a step by step process leading to EMU" could be read as implying a transfer of fundamental sovereignty which she and many others, could not accept.

18. Gonzalez said Kohl had correctly interpreted one of the two alternative positions he had described in point (d). But President Mitterand wanted to hold an IGC now. He referred to paragraph 64 of the report. The Prime Minister said she was concerned about paragraph 64. Many member states did not accept stages two and three because of the massive transfer of sovereignty involved. We wanted work done on other ways of achieving EMU and could not accept the report as the basis for further development. She was not alone in thinking that total inflexibility in the ERM would be harmful for a number of people. More work was needed.

19. Kohl repeated that he accepted the first three points but that on the fourth point the appropriate body should take decisions on phase one and should make concrete proposals for phases two and three. We should not be asked to buy a pig in a poke. When the work in hand was finished we would go on to the next stage.
20. The Prime Minister said more work was needed but not on the basis of Delors' stages two and three. Other ways of achieving EMU must be considered. The Delors Report involved a transfer of sovereignty. How could we go ahead with a conference until the further work had been done?
21. Lubbers welcomed the Presidency's four points and suggested adding to the second the statement that the appropriate decisions would be taken, taking account of the need to keep a larger margin of autonomy in each member state (than in the Delors Report) in accordance with the principle of subsidiarity.
22. Delors, speaking personally, said that he had never said his report was the bible. He had drawn attention to some weaknesses in it. He could accept Lubbers' suggestion. Subsidiarity was already discussed in his report and the principle could certainly be mentioned. There could be no decision on individual stages unless the whole was considered as a global process. But each stage would not necessarily be exactly as described in the report.
23. The Prime Minister said that since Delors was present as President of the Commission and Chairman of the Committee, he could hardly speak on a personal basis. The report was a reasonable document which could be considered further but she could not support the whole thing, in particular paragraph 39.
24. Schluter said that several member states had doubts about stages two and three. The conclusions must not provide for automatic transition from one stage to another.
25. Haughey said the conclusions must say explicitly that the report was accepted as a basis of work.
26. Gonzalez said that even the author was not claiming that the report must be accepted in toto. What was needed was a political decision on the basis of his four points, which he repeated. Now that the report was on the table we must go beyond the Hannover conclusions and must take a political decision involving the setting in motion of stage one and complementary studies of stages two and three in preparation for an IGC. He agreed to take up the idea of subsidiarity along with the idea of parallelism of progress towards economic and monetary union.
27. Santer said he could accept the Presidency's draft conclusions with Kohl's gloss. He agreed with Martens that the second stage should be defined.

28. Gonzalez said he was ready to accept Kohl's formulation of point (d).
29. Cavaco said he was worried about EMU. The Presidency compromise was acceptable but he stressed that the Delors Report should be accepted as a and not the base for preparatory studies on stages two and three by the appropriate Community authorities. A decision to call an IGC should be taken after these studies. He could agree to the 1 July 1990 start.
30. De Mita said he could accept the Presidency's conclusions provided point (d) was clarified and provided the four points were accepted as a whole. The important thing, as the French had said, was to decide where we were going. He was reluctant to accept the delay in agreement on the IGC but would accept the formulation proposed if all accepted it. It should be agreed that there would be an IGC and that the date would be decided on the basis of the preparatory work.
31. Martens said he could accept the four points with Kohl's amendment. Paragraph 39 was in his view essential. There should be a commitment to the whole process in parallel with the decision for the start of stage one. Otherwise we would never get beyond stage one. Kohl said we must re-affirm the Hannover objective. The question whether the Delors Report was a base or the base did not matter. If anyone had better ideas than were to be found in the Delors Report they could be fed in at any stage. We should set stage one in motion and instruct the competent bodies to produce concrete proposals for stages two and three with an IGC only after the start of stage one and when preparatory work was sufficiently advanced. Otherwise there was a risk of a serious failure. After two years of "Euro-sclerosis" we must not be afraid to grasp the nettle.
32. Schluter supported Kohl. There should be a careful study of stages two and three. The Delors Report was not the only model.
33. Lubbers said the Presidency text should include the words "on condition of verifying, stage by stage, that the principle of subsidiarity is respected".
34. Sartzetakis said he could accept the Presidency conclusions and the Kohl amendment. There should however be a reference to accompanying policies.
35. The Prime Minister said that EcoFin had agreed that the Delors Report was a valuable basis of work and we could agree to this description. We could also agree that further work should be done on later stages. But we could not agree to go further until we had seen the results of this. She would need to see the draft conclusions in writing before taking a final position on them.
36. De Mita said that if the Kohl formula was adopted and stage one only accepted, the goal of EMU must be accepted.

37. Gonzalez said he could accept Kohl's formulation of point (b). He could also agree to take account of Lubbers' comments on subsidiarity and the point raised by Sartzetakis and Cavaco. It was pointless to worry about "a base" or "the base". We should draft round this point. There was no need to mention paragraph 39. A written text of conclusions would be presented which would: repeat the intention to proceed to EMU, note that there was a basis for work by experts, agree to begin on the first stage and agree to set in hand preparatory work for later stages requiring Treaty change. It would be up to later European Councils to decide when the work had gone far enough to convene an IGC.

38. Mitterand said there was a risk of the discussion going back to zero. The Delors Report should be the basis of discussion. The Hannover conclusions were agreed. If some member states did not want EMU, they should say so now. We could not go ahead if some accepted the Hannover conclusions and others did not. It was not acceptable to go for stage one only. This was a single process and stage one should lead to the general objective. It must be accepted that there would be second and third stages. We could not identify the contents now because this would depend on future decisions, for example on the IGC which would prepare revisions of the Treaty. He would not refuse to compromise but the idea of an IGC could not be left in the far distance. We must agree on the principle of an IGC but not the substance. He could accept the idea of subsidiarity but it should not be regarded as a general principle or we would be going back 15 years in the history of the Community. Sovereignty had been given up ever since 1957. We should agree: to work on the basis of the Delors Report, that Hannover was an acquis, that the first stage should start on 1 July 1990 and that there would be two more stages; and that there would be an IGC to revise the Treaty.

39. Gonzalez said a text covering the four points and including the points made by Kohl and Lubbers would be circulated overnight.

Social Dimension/Internal Market

40. Delors said the work on the internal market was going well and would lead to a major advance in the Community like that in Germany under Erhard. Thirty two texts had been adopted under the Spanish Presidency and half of the required decisions had now been taken. Progress had been made on financial services, but an effort was still needed on insurance. Progress had also been made on public procurement and technical standards. There remained work to be done on a number of fields including tax. On audiovisual he would like to see progress on HDTV and on the Broadcasting Directive which should be adopted before the September deadline. He also supported the audiovisual Eureka. On physical frontiers, the Co-ordinators Group had done well and should be instructed to continue the good work. Some important decisions had been taken on the environment including small cars and the London and Hague Conferences. The European Environment Agency was intended to collect existing data and give scientific

opinions about the environment. It would not have a control function. It would be open to the EFTA countries. Turning to the social dimension he recalled that this was based on a series of articles in the Treaty of Rome. It was nothing new. The implementation should respect subsidiarity and the diversity of practices in member states. Under his Presidency no proposal had been presented which interfered with sovereignty. His priorities were the fight against unemployment and cohesion. Two million jobs had been created. The structural funds proposals were being implemented. Another important aspect was the social dialogue which was useful at the Community level to keep the unions in line on the single market. The dialogue involved such subjects as continuous professional training to make the market more flexible and the prospect of a single labour market especially for the highly-qualified. On the Social Charter, the Community must re-affirm its basic values. This would be important, for example in relation to the Poles and Hungarians. It should not involve any change in the balance of powers between member states and the Community. Subsidiarity should be respected, but the Charter would have great political and symbolic value. It was limited to the area of work (and did not include eg family questions). The conclusions, supported by 11 Social Affairs Ministers, were useful.

41. Andriessen (Commission Vice-President for External Relations) recalled the increasing interest of third countries in the single market. 1992 had increased the Community's prestige and self-confidence. But we must exercise greater responsibility in respect of developing countries, in particular the ACP, Latin America, and Asia and in the field of debt. In the Uruguay Round the Community had made it clear that we wished to be partners, not fortress Europe. We had played a positive role in the MTR. In the US the campaign against fortress Europe was weakening. The US had become more open to the Community as made clear by President Bush's speech in Boston. Some short term problems remained however. The single market was particularly important for the EFTA countries who were starting to look for a more institutionalised relationship. But they were split and we could not be sure of the result but the Community would have to consider whether we were ready to co-operate with them at an institutional level. There had also been important progress in relations with the East European countries. He referred to the Co-operation Agreements with Poland and the USSR. The Russians attached an enormous importance to this negotiation as he had discovered during his recent trip to Moscow. These developments underlined the need for coherence between Community activities and European political co-operation.

42. Gonzalez said that there was only one hour left to discuss the single market, the social dimension and external relations.

43. Lubbers congratulated the Spanish Presidency on their achievements but said that there had been delays in some areas. He cited road transport, especially cabotage and the excise duty on diesel. These points should be covered in the conclusions. On the Social Charter, his views were close to those of the

Commission. The Charter should provide for minimum rights and the question of third country immigrants should not be forgotten.

44. The Prime Minister emphasised the need for more progress on air transport and on road cabotage. There was also a need for progress on freedom of establishment for investment services and insurance as well as on standards and certification and the freeing of public procurement. We must also remember the importance of implementation. There was a risk that some member states would by 1992 have failed to bring the number of agreed Directives into force. We must intensify the fight against state aids. There must be no delay in liberalising capital movements. On the Social Charter she said that each country had its own social policies even if there were common elements, such as the wish to reduce unemployment and improve the quality of life. The adoption of a Social Charter would be used as a basis for proposing Directives. There were some points in the draft which were in direct contradiction with our social legislation. The Council of Europe Charter was a good text. It was preferable for each member state to deal with such matters as the handicapped, the retired and the sick by its own methods. She was opposed to the setting of a minimum wage. It was better for people to work and, if they could not earn enough, to have some compensatory payments depending on family size. A minimum wage would act against the mobility of the labour force. Social action should respect the principle of subsidiarity. Each country had a different history and we should not seek to impose an identical system on all. This would be artificial. She wondered why the proposed charter contained rights but no obligations. The approval of this document would send the wrong signal to public opinion.

45. Cavaco said there had not been enough progress on free circulation of people, particularly the right of residence. The Co-ordinators Group had produced a good report but there appeared to be distinctions between those member states which had signed the Schengen Agreement and the rest. The Social Charter was needed to balance the drive for the internal market. We must not forget the problems of those migrant workers who were nationals of member states. The Charter should be based on a progressive approach, bearing in mind the different conditions in each member state.

46. Martens said the internal market meant that there would be some losers and solutions were needed for them in the context of the Social Charter. Subsidiarity must be respected. The Commission should, as they had proposed, have contacts with member states and the social partners before asking the Council to adopt the solemn declaration. Its value would be political and symbolic and it could be followed up in certain areas such as part-time working and maternity leave. Migrant workers should not be left out. On the Broadcasting Directive, Belgium's opposition was based on a number of general arguments. The lack of a system of quotas meant that there would be no guarantees. Broadcasting companies should be asked to contribute financially.

47. Sartzetakis said the social dimension was important. A social space was essential for the single market. The Charter should not be considered as interfering with the labour market. The single market was a method of achieving prosperity for all, based on our common values. The charter would be a guarantee for all that they would benefit. All levels should be taken into account since their support would be needed. The Commission's draft was balanced and it was important to create a common Community identity. Basic social rights should be converted into obligations for each member state and the Commission should present an action programme. The ideal of a united Europe with common social factors arose from our cultural heritage and presented the human face of the Community.

48. Kohl said he supported the French proposal for an audiovisual eureka. But the inclusion of quotas in the Broadcasting Directive was not reasonable and would create conflict with the US. We needed the support of the US on HDTV. On the social dimension we needed agreement with our social partners. He supported the conclusions of Social Affairs Ministers. We should concentrate on the rights of workers and continue discussion with the social partners. He agreed with the Prime Minister on the importance of national differences. But he saw no objection to a catalogue of the principal rights such as collective bargaining, minimum working age, holidays and flexible working. The Commission should continue its discussions but should avoid political slogans. He was against a centralised approach but we should adopt a common minimum standard.

49. Santer said that the social dimension was crucial for social cohesion. A solemn declaration would be a step in the right direction. He was in favour of binding minimum standards but we must avoid too much regulation. We should identify the measures for a common policy and institute some approximation while avoiding over-regulation.

50. Haughey agreed with the Prime Minister on the need to liberalise air transport. It was important to keep a balance between economic and social progress. He was in favour of progress on the social dimension and the social charter was acceptable provided it took account of each member states' traditions and differences. He agreed with the proposal for a European Environmental Agency. Much progress should be possible on the environment as the European Elections had made clear.

51. Gonzalez said it was difficult to draw conclusions but he was grateful for the tributes to the Spanish Presidency. Not much progress had been made on fiscal matters or the elimination of physical barriers. We must fulfil our commitments in these areas. But the internal market was being achieved and did have a social impact. We must make sure it led to the creation of new jobs. The social dimension was not limited to the Social Charter and the social dialogue was also useful. We should issue a clear signal that we wanted progress on the draft social charter. We should also make clear that it should respect the diversity of national practices as well as the common elements. He hoped that

the agreement of 11 Social Affairs Ministers could be converted into agreement of 12 at the European Council. As regards the Broadcasting Directive it was important to keep up the momentum and to try to reach agreement in September. We should welcome the French proposal to hold a conference on audiovisual matters. The conclusions should include a paragraph on the environment which would cover the European Environmental Agency. This would be discussed tomorrow. On the social charter, he did not expect approval of the Charter but acceptance of the principle. This would be a major step.

52. Lubbers repeated the need for more progress on transport.

53. The Prime Minister said she had a lot to say on the social aspects but would leave it for the time being.

What have you said about ERM?

We have agreed that Stage One of the Delors Committee report will begin on 1 July 1990. The report of the Committee envisages all member states becoming full members of the EMS during Stage One. For obvious money market reasons there can be no question of setting an exact date now. We must get our inflation down, and we would look for clear evidence that satisfactory progress has been made on the single market, including in particular the abolition of foreign exchange controls. My statement was received positively.

Does that mean not before 1993?

No. It means that we shall take a decision based on our practical judgement. And I have described to you the circumstances in which conditions would clearly exist for sterling to join the ERM.

Has the UK accepted the inevitability of Stages 2 and 3?

They are stages. The first step will start next year and decisions on the subsequent stages will be taken only once the first stage has begun and the preparatory work is sufficiently advanced. No one is able to define precisely here and now what the subsequent steps will be. That is the whole point of further work in ECOFIN and other bodies.

Do you agree that a IGC is inevitable?

We have agreed to move stage by stage and not to preempt decisions which have not yet been taken.

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Opening Speaking Note

① - Congratulate Spanish Presidency on six months of excellent progress on the 1992 programmes. Record number of measures agreed - over 60. Completing the Single Market remains the Community's No 1 priority.

- It is work which has caught the world's attention. Our success or failure against the target we have set ourselves is the yardstick by which the world will judge the Community.

② - Progress so far is good, and primarily because the hallmark of the programme has been deregulation, not unnecessary harmonisation.

- Hence the agreement to abolish exchange controls, the "new approach" to standards, last week's "Single Passport" for Banks and the Directive on Mutual Recognition of Diplomas. These measures let people get on with unifying the market. They keep government out of their hair.

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- We have respected the principle of subsidiarity, and we must go on doing so - freeing the market to do what it alone can do: create sustainable prosperity by providing opportunity.

- We must now keep up the momentum. What measures can we agree in the next twelve months to maintain the progress of the last year?

- I suggest 4 priority areas.

Transport
- First, what kind of Single Market will it be if people and goods can't move freely? Transport is the vital underpinning of the freedoms we agreed in the Single European Act.

- Air transport a key sector. Some progress so far. But more needed. Why can it be cheaper to fly from London to Bangkok, than to Athens? Why can it be cheaper to fly 3000 miles across America than 300 miles within the Community?

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- The deregulated Dublin-London fare fell from £125 to £85 (40% in real terms) between 1986 and 1989. If only we could do that between London and Paris or Brussels, where fares per kilometre are more than twice as high.

- Making a reality of the Single Market for the individual citizen means making travel within the Community easier for him. Whether by air, rail or road.

- And improving the efficiency of the Community economy mean removing out-dated restrictions on the transport of goods. Protectionist cabotage rules have no place in a real Single Market.

2

- We need to set markets free. Take financial services. We need to widen choice, and encourage competition. Following the banking success we must now get ahead with the Investment Services Directive, and further liberalisation of insurance.

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③ - Freeing markets also means further progress on standards, and on testing and certification. Vital ways to remove barriers to trade.

④ - And it means reducing government intervention. Early agreement on liberalising procurement in the water, energy, transport and telecommunications sectors should be possible, opening up contracts worth at least 100 ^{by March} ~~becu~~ a year to genuine competition, and so cutting costs and improving efficiency.

- These 4 priorities should, I suggest, be reflected in the work we do over the next year, in building for 1992.

- But having legislated on some 50% of the measures necessary for 1992 we must not forget implementation. Here the Community's collective record so far is less good.

- The Commission are right to remind us that our target is not to secure by 1992 agreements in Brussels on the measures necessary for a Single Market. Rather it is to ensure that by 1992 all such agreements are

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translated into national practice throughout the
Community.

- We must also remember that our goal is to create a level playing field for free competition. Removal of barriers to trade must be accompanied by action against hidden distortions. Welcome Commission's vigorous approach to unfair state aids, and the launching of a study on barriers to takeovers. Hope Commission will extend its work in these areas.

- In an ever more competitive world, and faced with growing challenges from Asia and the Pacific, we as a Community have rightly decided that our economies are not to decline into genteel poverty.

- We have rightly decided that Europe is not to become a quiet backwater, bypassed by the tides of new technology, uncompetitive and inward-looking.

- We have rightly chosen the more courageous course. To go for the free competition within the Community from which will come the new vitality to make the Community more competitive in the wider world.

MADRID EUROPEAN COUNCIL: SOCIAL DIMENSION

SECOND SPEAKING NOTE FOR THE PRIME MINISTER

(1) - Discussion just beginning on idea of Social Charter. First Commission draft circulated last month - clearly many problems with it. First discussion by Social Affairs Ministers only a fortnight ago. Mustn't jump to premature conclusions.

- Need to be clear what we are trying to achieve.

- Cannot believe it is full harmonisation of national law and practice in social field. This is not necessary for Single Market. Indeed, unnecessary new regulation could stifle new competitiveness we all seek. (2)

- And would fly in face of doctrine of subsidiarity. Differences between Member States' traditions cannot be disguised. (3)

- They are well illustrated in the Commission study on Member States' working conditions which was commissioned at Hanover, and which I have just seen. It demonstrates very clearly the three fundamentally different approaches to social provision and regulation, the Roman-Germanic, Nordic and Anglo-Irish traditions.

- It is perhaps not too much of a caricature to describe the essential difference between the main continental tradition and the Anglo/Irish one as the difference between defining rights and defining illegalities.

- In Britain everything is permissible that is not barred by law: I appreciate that in other countries the law may

define what is permissible. Cannot wish away hundreds of years of history.

- So what is answer? As far as UK is concerned, clear that economic progress and development of enterprise culture have been achieved without sacrificing high levels of social protection. Our record and our current provisions are impressive: they are set out in a document which I would be happy to circulate if that would be helpful.

- Would have no objection to our today making clear our *damage to* common determination that there should be no levelling down of social provisions because of 1992. Completion of the Single Market should indeed have the opposite effect.

- Would also have no objection to our reaffirming the intention of all member states to ensure, based on their current practice, that this determination applies in such areas as equal opportunity, freedom of movement, freedom of establishment, and high standards of health and safety at work.

- And that it extends also to social protection - *adlymeti* minimum level of income, pensions, financial help for the low paid, medical care and care for the elderly and disabled.

- But of course the principle of subsidiarity should apply. Whatever statement we make should make clear that, in the areas covered, there ought to be appropriate legal or other provision in each Member State. But should also make clear that it would be up to each Member State to decide how to make such provisions. In some there will be greater central regulation; in others the voluntary approach will dominate.



- And it should be clearly stated that there would be no new follow-up EC legislation (except in areas where Community agreements already exist). It is the idea of a Commission legislative action programme, over-riding subsidiarity and suppressing diversity, which causes me particular concern.

- UK therefore not ready to agree here and now that there should be a social charter. We need to draw breath, consider the aim of the exercise, and see if a text which all could accept could be devised. Need to study the Commission report produced five days ago, and analysis it contains. Need to start from first principles.

- So I am ready to agree that work should continue, but I am not ready to agree to preempt that work today.

• Delors

"So far as it is possible to reach a final stage".

3 stages - could be four, could be two
Work needs to be done on details.

Final Stage - what one can expect:

+ve structural change. - competitiveness & job creation

(Not) accepted by all economists.

"Social Justice" insisted upon

||^{ism} between monetary & economic union.

Ec. convergence. - Single financial services market.

More ahead with monetary co-operation.

Ec. Union - red defⁿ. What should we do about
subsidiarity?

Room for policy manoeuvre -

Constitutional rules - setting

budget deficits now financed



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• or social security

Can't have 1) without budgetary policy.

Comm Budget 25% of (Control on rest of Europe)

Liability Union does not lead to Federal State,

Instⁿ Arrangements — European System of Central
Banks

Totally Independent from Public Powers

Liability objective of

Statutes of Central Banks

Process — NO DEADLINES for going
from one stage to another

To be decided by European Council

1992 Objective —



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● Stage 1

End / lot Exchange
Practical ECU
notional ECU
ECU for Foreign Exchange Inter - Did not find
unofficial agreement

Without some 1stst approval, no movement
Learning on apprenticeship process

Subsequent stages defined in vague terms

1st phase: set up new institutions

Q B

Gradual & Pragmatic.

1992 - Transitional Periods.

Insist on Procedure - Ayrat used as
basis - 1st stage.



Procedure - Accept report as basis

● Conclude proposals on basis of this report

Accept single process - clear Political
Commitment

Preparatory work to start with

W.M. to put into effect Phase 2 -

free capital movements - very important
date.



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Delors - A tool - on a basis

Mr. Lubbers

Can follow analysis

Attitudes will emerge when look at stage 2 stage

Critical Comments

Subsidiarity Principle

- One of Proof should
be "necessary to ensure
Community Computer

Monday Union Economic
Movement

- No point in compelling
countries to achieve
Budgetary convergence
Paris - handle have
more than marginal
to monitor

Kohl

- New dynamic of Community.

1992 objectives

1989 - message - will uphold 1992

objectives. Difficult for
us to understand initiatives



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Delors report - Kohl

Restrain objectives of Mon - EC Union

Delors report adopted unanimously

para 35 important - ?

✓ 1 June 1990 - freedom of capital movement

Council - instructions to relevant bodies

Proposals to implement 2nd stage

Intergovt Conference should commence at

with 1st stage first stage has begun. No

Parli - A Date - do not put

issue off indefinitely

Greece - Accept progress towards

United Kingdom

~~Mon~~

Single European Act - commitment to refer to this

objective

Political Reasons

Due in financial budgetary field -

necessity of working to monetary union

Common Currency

Common Int'l Central Bank

Report Deleue & Doreau



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Step by step approach

2nd & 3rd steps to begin

of decision set ^{aim} - not immediate

Time in program stages, with open

||² but the other down.

Increase funding of Budget before

2nd ~~process~~ stage. Resources transferred to

less prosperous countries.

Flexibility - Mechanism in EMS

Common Currency - Fed. system of

Central Bank

Further development

For Exchange Fund - should be set up.

Pay attention to powers which continue to
be used in Member States.

Paul Schluter

Paris - ESRM



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1 Take real progress - provide

Para 35 - can be answered

How they eye 1 central bank governors
Finance Ministers - LEC top expanded

- excellent idea

Mandate - most important thing for us to do

What content of letter phases?

Dec for 16 conference - needs prep.
- away from Ministers

~~Support interests~~

11. 1.1.1989 - Hansen - Common Market
Action Programme for union stages

~~Related agreement~~

Go in stages - King's Utopia

Can afford = feature

All 12 should move ahead

3 developments - Int. Market
10 year 1 by EMS

~~Can~~ Price stability - Pohl

Signatures - All competent bodies review

1.9. Conclude



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How Monetary Union - Call 1992.

De Mita - ~~President~~

Corner Corbin Hannover Plans

1st stage - as a means to growth

I.G.C. now

Launch starting point - find point

Portugal - Monetary Federation complete

out on budget? 27 Gross National Income

Have bigger budget.

Credit the model & raised the name



Secretary of State

Gonzales 4th Point: (IGC)

1. Gonzales seems to have suggested that the 2 differing views were:-

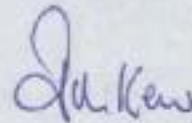
a) Some wanted an IGC to be convoked;

b) others preferred to ask the competent organisations to conduct studies preparatory to an IGC.

2. If (b) purports to summarise S'Agaro, it is wrong - S'Agaro called for work so that a decision can be taken in due course on the convocation of an IGC.

3. The S'Agaro formula envisages that in due course a Yes/No decision could be taken. Gonzales formula (b) assumes that a "Yes, but not yet" decision ^{has been taken} - much less good, and not in fact true.

4. I suggest a reference back to S'Agaro. Of course it is correct that an IGC would be required when a decision to proceed to stage 2 had been taken. But no such decision can be taken today.



J O Kerr

MADRID SUMMIT POSSIBLE QUESTIONS

1. Does my RHF agree that if the party opposite had had its way in 1983 we would not be in the Community at all, and if it had had its wish in 1986, there would have been no Single European Act, and that therefore it is the height of hypocrisy to hear talk of isolation in Europe from them?
2. Will my RHF accept that once again, as at Brussels last month, her Government has secured all its major objectives at a summit, and is this not a major tribute to the skill of herself and her colleagues and to the new standing for Britain they have created?
3. Would my RHF agree that any progress towards economic and monetary union in Europe is wholly dependent upon the completion of the Single European Market and the comprehensive Europe-wide abolition of exchange controls, and that in this area deeds matter far more than fine sounding words?
4. Does my RHF concur with the statement 'the European Council would be better engaged producing jobs than discussing ... gimmicks'? Does she recall that those were the words employed by the Right Hon Member for Islwyn in April 1985? Does she agree that it is curious that the party opposite no longer talk about jobs now that this country has created more of them than the whole of the rest of the Community since 1983?
5. Does my RHF recall the Right Hon Member for Islwyn telling her after the Milan European Council in July 1985 that it would have been 'fitting for the British Prime Minister ... to take the initiative at the summit to try to bring down unemployment'? Is this not what she has done? Would not the social charter supported by the party opposite slow, halt and reverse the record fall in unemployment in this country?
6. Does my RHF accept that the vast majority of people in this House and in this country agree with her statement that we would not accept transfer of decisions over our budget and our taxes to Brussels? Is it not time the front bench opposite made its position on this issue clear?
7. Can my RHF confirm that the European Council agreed that the Delors Report was a contribution to the debate about economic and monetary union and not the end of the debate?
8. Will my RHF agree that progress towards completion of the Single European Market under the Spanish Presidency of the council has been excellent, and that we look to the incoming French Presidency to concentrate upon this rather than upon other matters as its first priority?
9. Will my RHF confirm that over the last ten years the policy of her government - that we would join the EMS when the time was right - has remained clear and consistent throughout? Does she recall that over the same period the party opposite has changed its mind on membership of the Community at least twice and vehemently opposed the abolition of exchange controls?

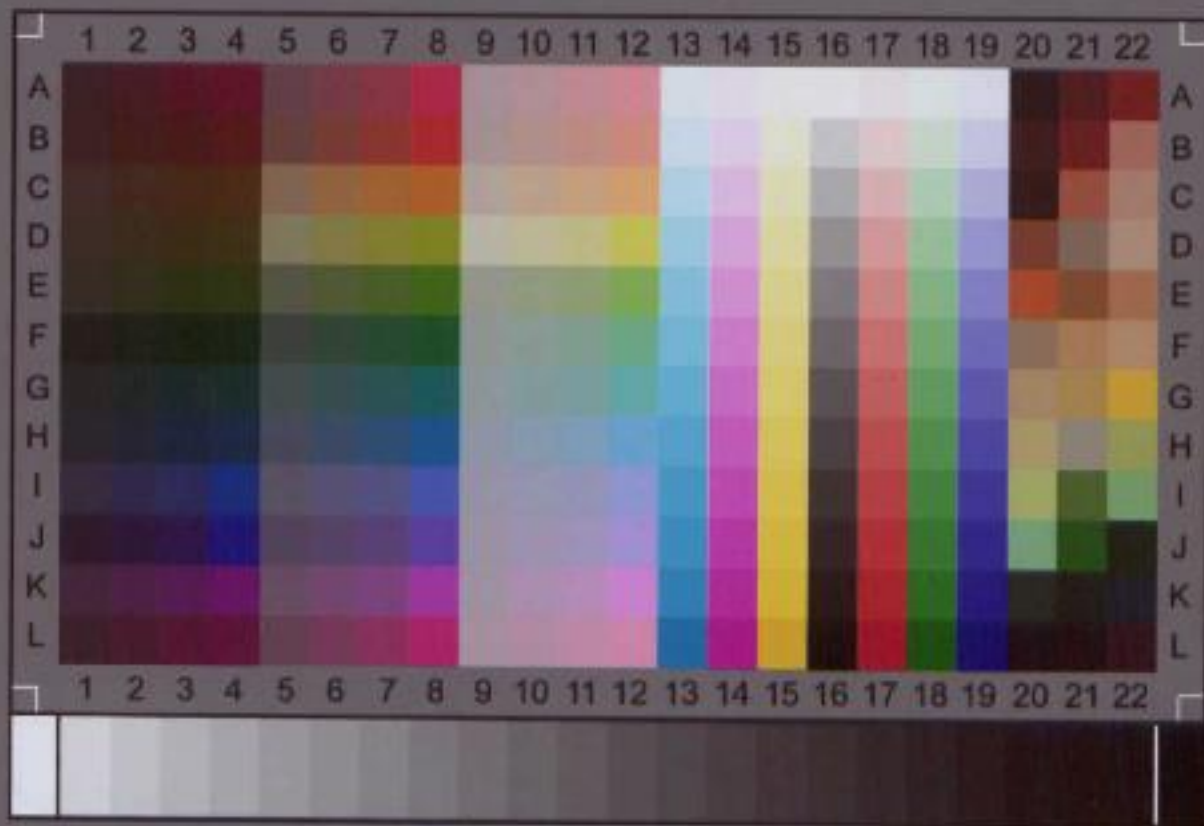
10. Does my RHP agree that the essential precondition for sterling's membership of the EMS is a reduction in the rate of inflation, and that therefore the party opposite - which sent inflation up to 26 per cent - could never ever join the EMS? Are comments from them on the EMS not therefore wholly worthless?

PART 33 ends:-

Madrid Tel 645 27-6.89

PART 34 begins:-

Madrid Summit Poss. Quehian
UD.



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