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European Council Meeting in  
Strasbourg, December 1989

EUROPEAN

POLICY

PT-1 : October 79

PT-35 : November 89

In attached folder BRIEFING  
Political Cooperation briefing.

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PART 36 begins:-

Standard extract 12/12/89





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Secretary of State

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11 December 1989

Dear Charles

Your letter of 10 December asked for urgent comments on the draft statement for the Prime Minister to report on the outcome of the European Council in Strasbourg.

Our interest is of course in the section of the statement which deals with the social charter. My Ministers have suggested a more positive note might be struck by emphasising our commitment to the social dimension of 1992 and flagging up those areas of the action programme which are likely to be acceptable to us. I attach a revised version of your draft with our suggested additions underlined.

The amended version overcomes the potential ambiguity of the final sentence on page 8 of the statement as drafted, which suggests that there are legally binding proposals on minimum wages (in fact a Commission opinion is proposed) and on worker participation (a Community instrument, type unspecified). I should also draw your attention to the need to change the word "competition" in line 7 of your draft to read "competitiveness".

Copies of this letter go to Stephen Wall (Foreign and Commonwealth Office), John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry) and to David Hadley (Cabinet Office).

Yours sincerely  
Liz Smith

LIZ SMITH  
Private Secretary





Our third main theme was the social charter.

At our last meeting in Madrid, we all agreed that creating jobs should be the Community's top priority. It was all the more disappointing that the social charter which emerged would regulate the labour market in a way which - far from creating jobs - would actually put them at risk, by raising costs and reducing competitiveness. The Government is fully committed to the concept of a social dimension to the single market programme; but the true social dimension is the creation of new jobs, assuring increases in living standards for all our citizens.

Moreover the charter is a cover for an action programme which the Commission is bringing forward containing no less than 43 separate proposals, including 17 legally-binding directives. There are a number of areas covered by the action programme where we support the idea of action at Community level - health and safety at the workplace and freedom of movement are obvious examples. But the programme includes many other matters, such as part-time work, minimum wages and compulsory schemes of worker participation in management which we believe are for national authorities to decide and where we are not prepared to accept dictation from the Community. Nor do we see any need to seek uniformity among social policies which have been developed to suit the varied needs and traditions of the different community countries.

I therefore made clear that we would not endorse the text of the charter - and judging from their comments, I believe many of my colleagues in Europe will have considerable difficulties with the Commission's specific proposals when they come forward.



CONCLUSIONS OF THE PRESIDENCY

EUROPEAN COUNCIL

STRASBOURG, 8 AND 9 DECEMBER 1989

SN441/2/89

At the beginning of its meeting, the European Council heard a statement by Mr Baron, the President of the European Parliament, in which he set out the Parliament's position and priorities with regard to the main Community topics in the light of the current situation.

The European Council thanked Mr Baron for his address which made a valuable contribution to the ensuing discussions.

#### I. TOWARDS EUROPEAN UNION

The European Council is conscious of the responsibilities weighing on the Community in this crucial period for Europe. The current changes and the prospects for development in Europe demonstrate the attraction which the political and economic model of Community Europe holds for many countries.

The Community must live up to this expectation and these demands: its path lies not in withdrawal but in openness and co-operation, particularly with the other European states.

It is in the interest of all European states that the Community should become stronger and accelerate its progress towards European Union.

The European Council adopted the following Conclusions to this end:

#### II. MAKING THE SINGLE ACT A REALITY

The Community is determined to carry out all the commitments contained in the single act in order to continue and extend the process of integration with a view to European Union. This presupposes that the Community must finish off, within the time limits laid down, the completion of the Single Market and that it should apply itself, at the same time, to giving concrete form to large-scale projects which will signify a new stage in its development.



A. An area without internal frontiers

The internal market is beginning to assume its final shape, and its positive effects are being felt in all sectors of economic life. In general, the timetable which was set is being adhered to. Important decisions have been taken during this six-month period: in the area of financial services, decisions have been taken on the co-ordination of legislation enabling banks to offer their services throughout the Community, the prohibition of insider dealing and the co-ordination of motor vehicle insurance. The European Council hopes that this set of decisions will be swiftly supplemented by the adoption of directives, on the basis of Commission proposals, on investment services, regulations on the solvency ratio, takeover bids, company law, in particular the European Company Statute, and the three tax proposals concerning co-operation between companies.

Significant progress has also been made in the Council (Internal Market) on other major topics such as the control of company concentrations, on which a decision is to be taken before the end of this year. The European Council would also like decisive progress to be made regarding testing, standards and certification, the opening of public procurement markets in the telecommunications, energy, transport and water distribution sectors, and the freedom to provide life assurance services.

It is also requesting that rapid progress be made in the veterinary sphere. In the transport sector, it reiterates the importance of the initial decisions taken on road cabotage and the guidelines adopted on air transport. It would like a coherent Community policy to be drawn up in the latter sector and an effective response found to the problem of the congestion of air space, in order to guarantee maximum safety for passengers. Further progress is needed



in the three transport sectors: road transport, air transport and shipping. It notes with satisfaction the progress made in the telecommunications sector.

Special priority should be given to the development and inter-connection of trans-European networks, notably in the area of air traffic control, the linking of the main Community conurbations by broad-band telecommunications networks, the most efficient surface communications links and energy distribution. The European Council asks the Commission to propose the appropriate measures, taking into account the possibility of extending such action to the whole of the Community, paying particular attention to situations arising at the Community's limits in the context of economic and social cohesion.

With regard to the taxation of savings, the European Council notes the progress which has been made since Madrid. It asks the ECOFIN Council to complete its proceedings as soon as possible and, as an accompaniment to the liberalisation of capital movement, to take measures to combat tax evasion effectively, in accordance with earlier decisions.

With regard to indirect taxation, it notes with satisfaction the progress made during the last few months, with the formulation of a transitional system which will lighten the burden on undertakings and administrations and enable border checks to be eliminated.

It considers that these arrangements need to be supplemented by the elements which will be essential in particular to enable the progressive approximation of VAT rates and to resolve the problems connected with the removal, on 1 January 1993, of limits on purchases by private individuals for their personal consumption when travelling within the Community.



The European Council asks the Council to adopt as soon as possible, on a proposal from the Commission, the decisions which will make the process of the complete abolition of fiscal frontiers irreversible.

#### B. Flanking policies

According to the Single Act, completion of the internal market must be backed up by a number of flanking policies. Amongst these measures to achieve closer economic and social cohesion are of particular importance to enable the Community as a whole to reap the benefits expected from the large market. The European Council welcomes the implementation of the reform of the structural policies within the period laid down.

#### C. Environment

An improvement in the quality of life will come from paying greater attention to the problems of the environment. The nature and seriousness of the problems arising in this sphere make more and more necessary a perspective and measures which go beyond the national framework.

The European Council confirms the desire of the Community and its member states to play a greater part in the devising of international strategies for combating the dangers which threaten the environment, in particular by taking an active part in the drafting of a world convention on climate.

The European Council notes with satisfaction the unanimous agreement of the Council on the arrangements for the setting-up of the European Environment Agency as from 1990. This agency, which will be open to non-EEC European countries which wish to join, will constitute a decisive stage on the road towards improved knowledge of the state of the European Environment and will thus help to improve the

strategies for dealing with the problems that arise. The European Council would like the Council (General Affairs) to take an early decision on the Agency's headquarters.

#### D. Research

The European Council would like the Council to reach agreement before the end of the year on the new framework programme for 1990/1994, the implementation of which should enable major progress to be made regarding the competitiveness of key sectors of European industry.

The European Council is pleased with the increased participation by EFTA countries in Community research programmes and hopes that co-operation with these countries and their association will develop further when the new framework programme is implemented.

#### E. Audiovisual

The commitment of citizens to the European idea depends on positive measures being taken to enhance and promote European culture in its richness and diversity. In this context the European Council considers it essential to consolidate recent achievements and capitalise on the guidelines which emerged from the Audiovisual Conference in order to develop Europe's audiovisual capacity: directive on the free movement of televised programmes and competition policy. It hopes that the efforts to produce the European HDTV system will be stepped up, that the Community Action Programme extending MEDIA will receive the necessary financial support and the necessary synergy with audiovisual EUREKA will be ensured.



F. Free movement of persons and People's Europe

All Community policies in the economic and social spheres contribute directly and indirectly to consolidating a common sense of belonging. This movement must be broadened and accelerated by the adoption of concrete measures which will enable European citizens to recognise in their daily lives that they belong to a single entity.

The European Council underlines the importance in this respect of the progressive abolition of formalities at the Community's internal borders which impede the free movement of persons and symbolize division, which means that effective measures need to be taken at the same time to combat terrorism, drug addiction and organised crime. The progressive abolition of border formalities shall not affect the right of member states to take such measures as they consider necessary for the purpose of controlling immigration from third countries, and to combat terrorism, crime, the traffic in drugs and illicit trading in works of art and antiques. The European Council asks the Commission, while taking account of national and Community spheres of competence, to study suitable measures for establishing effective controls at the Community's external frontiers.

The European Council takes note of the progress made within the Co-ordinator's Group as described in the progress report drawn up under the responsibility of the Presidency. The European Council would like the work to be stepped up and accelerated so that progress towards the free movement of persons can keep pace with that achieved on the free movement of goods, services and capital, in accordance with the timetable set out in the Palma document.

The European Council would like an inventory to be prepared of national positions on immigration so that a discussion on this issue within the Council (General Affairs) can be



prepared. In the light of that debate, the European Council calls upon the relevant bodies to conclude as soon as possible, and no later than the end of 1990, the conventions which are under examination on the right of asylum, the crossing of the Community's external frontiers, and visas. In this context, an inventory will be made of national policies on asylum with a view to achieving harmonisation.

The European Council emphasises the need, throughout those proceedings, to ensure that the procedures for co-operation between Administrations first ensure the protection of individuals with regard to the use of personalised data banks.

The European Council calls upon the Co-ordinators' Group on drugs recently set up on the initiative of the President of the French Republic to take all necessary steps to ensure the vital co-ordination of member states' actions in the main areas of the fight against this scourge, namely prevention, health and social policy with regard to drug addicts, the suppression of drug trafficking, and international action. In this context, the European Council warmly welcomes the courageous action taken by certain countries, notably Colombia, and would like everything possible to be done to contribute to the success of their efforts.

The European Council reaffirms in this connection the need for the resumption, as soon as possible, of the negotiations within the international coffee organisation with a view to concluding a new agreement to protect the income of producers in those countries.

The European Council welcomes the significant results obtained by implementing the programmes on exchanges of young persons and students (ERASMUS, COMETT, LINGUA), which contribute to developing European awareness, as will the



forthcoming introduction of a European emergency health card and of a "European Youth Card". Similarly, the European Council particularly welcomes the decisive progress made recently towards agreement on granting all Community nationals the right of residence in the member state of their choice. This important measure, which is scheduled for adoption before the end of the year, represents an important step towards the integration of the peoples of the Community. The European Council indicated its satisfaction at the conduct of the "Europe against cancer" programme and at the agreement of principle reached on adoption of the second Action Programme 1990-1994.

#### G. Social dimension

Establishment of the Single Market has already led to significant results, as evidenced by sustained growth, a considerable increase in investment and in particular by the creation of new jobs, projected at 5 million for 1988-1990.

The European Council considers that this trend, together with the adoption of directives on the Health and Safety of workers, Community Action Programmes relating to the integration of unemployed young persons into working life and the fight against long-term unemployment, and of those relating to vocational training, constitute decisive aspects of the Community social dimension.

The Heads of State and of Government of eleven member states adopted "The Community Charter of the fundamental social rights of workers". This Charter reflects their sincere attachment to a model of social relations based on common traditions and practices. It will serve them as a reference point for taking fuller account in future of the social dimension in the development of the Community.

The European Council takes notes of the fact that the Commission has drawn up an Action Programme on the application of the Charter and calls upon the Council to deliberate upon the Commission's proposals in the light of the social dimension of the internal market and having regard to national and Community responsibilities.

### III. ECONOMIC AND MONETARY UNION

1. The European Council examined the work carried out since the European Council meeting in Madrid with a view to a meeting of the Inter-Governmental Conference.

It noted the agreement reached in the ECOFIN Council and the initiatives of the Governors of the central banks with a view to strengthen the co-ordination of economic policies and improving collaboration between central banks. It notes that these decisions will enable the first stage of EMU as defined in the report from the Delors Committee to begin on 1 July 1990.

2. It took note of the report from the high level working party, which identified the main technical, institutional and political issues to be discussed with a view to a treaty on economic and monetary union.

On this basis, and following a discussion on the calling of an Inter-Governmental Conference charged with preparing an amendment of the Treaty with a view to the final stages of EMU, the President of the European Council noted that the necessary majority existed for convening such a conference under Article 236 of the Treaty. That Conference will meet, under the auspices of the Italian authorities, before the end of 1990. It will draw up its own agenda and set the timetable for its proceedings.



3. The European Council emphasised, in this context, the need to ensure the proper observance of democratic control in each of the member states.

With a view to the new term of the European Parliament which will begin in 1994, it calls for economic and monetary union to comply fully with this democratic requirement.

4. The European Council also took note of the Commission's intention to submit before April a composite paper on all aspects of the achievement of economic and monetary union which will take into account all available analyses and contributions.

The European Council emphasised the need for the Council (General Affairs) and the ECOFIN Council to use the period prior to the opening of the Conference to ensure the best possible preparation.

The proceedings as a whole will be examined by the Council (General Affairs) in preparation for the European Council meeting in Dublin.

#### IV. A COMMUNITY OF RESPONSIBILITY AND SOLIDARITY

In keeping with the principles set out in the Rhodes and Madrid declarations, the Community will develop its role and that of its member states in the international political and economic arena in a spirit of openness, solidarity and cooperation. It will fully meet its responsibilities vis à vis countries with which it maintains all manner of links and relationships, historical and geographical in origin.

#### A. EFTA

The European Council welcomes the progress of the discussions which have taken place since the Madrid Council and hopes that at the Ministerial meeting on 19 December a decision will be taken to begin negotiations so that the Community and EFTA can, at the earliest opportunity, reach a comprehensive agreement strengthening, on the basis of the relevant *acquis communautaire*, their cooperation in the framework of a European economic area of 18 states in complete accordance with multilateral commitments.

The Community hopes that this cooperation will be as close as possible and that it will ensure EFTA's preparations in certain Community activities and in the disciplines and benefits of the internal market, in full compliance with the independent decision-making processes of each organisation and a strict balance of rights and obligations.

The European Council hopes that the negotiations to be opened in the first half of 1990 will produce appropriate, pragmatic arrangements for institutional cooperation which are fully in keeping with the above principles.

This new relationship between the EEC and the EFTA will be in the interests of both parties and meet the expectations of the peoples of Europe.

#### B. COUNTRIES OF CENTRAL AND EASTERN EUROPE

The Community's dynamism and influence make it the European entity to which the countries of central and Eastern Europe now refer, seeking to establish close links. The Community has taken and will take the necessary decisions to strengthen its cooperation with peoples aspiring to freedom, democracy, pluralism and the rule of law. It will encourage the necessary economic reforms by all the means at its disposal, and will continue its examination of the



appropriate forms of association with the countries which are pursuing the path of economic and political reform. The Community's readiness and its commitment to cooperation are central to the policy which it is pursuing and which is defined in the declaration adopted today: the objective remains, as stated in the Rhodes declaration, that of overcoming the divisions of Europe.

1. The Community has concluded trade agreements and, for the most part, cooperation agreements with Czechoslovakia, Hungary and Poland. The agreement with the USSR should be signed by the end of this year. The Council will, as soon as possible, instruct the Commission to negotiate a trade and cooperation agreement with the GDR to be concluded during the first half of 1990. The European Council welcomes the decisions taken by the Council (General Affairs) on 27 November 1989 temporarily granting Poland and Hungary special trade facilities in order to contribute towards solving their political and economic problems.

It noted the decisions taken by the Community to assist economic reform in Poland and Hungary.

The Community took part, in cooperation with its main western partners, in an operation to supply agricultural products to Poland. In view of the scale and urgency of the needs, the European Council would ask the Council to take a decision in the near future on a further such operation.

2. At their meeting in Paris on 18 November 1989, the Heads of State and of Government asked the Troika of Presidencies and the Commission to make progress in discussion and decision-making with regard to the following:

- the European Council approved the principle of granting observer status to the USSR in GATT;



- the Commission has submitted proposals designed to allow nationals of the countries of Central and Eastern Europe to take part in a number of educational and training programmes similar to Community programmes, and European Council requests the Council to take the relevant decisions;

- the European Council calls upon the Council to take, at the beginning of 1990, the requisite decisions for the setting-up of a European vocational training foundation, on the basis of proposals which the Commission is to submit;

- the European Council approved the creation of a European Bank for reconstruction and development. Its aim will be to promote in consultation with the IMF and the World Bank, productive and competitive investment in the states of Central and Western Europe, to reduce, where appropriate, any risks related to the financing of their economies, to assist the transition towards a more market-orientated economy and to speed up necessary structural adjustments. The states of Central and Eastern Europe concerned will be able to participate in the capital and management of this bank, in which the member states, the Community and the European Investment Bank will have a majority holding. Other countries and in particular the other member countries of the OECD, will be invited to participate. The European Council hopes that the European Bank for reconstruction and development will be set up as soon as possible. The European Council requests that the necessary steps be taken to ensure that negotiations are opened in January 1990. The European Investment Bank will play a key role in preparing the way for this new institution.

3. The European Council confirmed the Community's readiness to participate, under the conditions defined at the meeting on 18 November, in the creation of a stabilisation fund for Poland. It emphasised that the combined contributions of the Twelve would provide more than half the resources of the



Fund, which is to receive 1,000 million dollars. The European Council referred to the need to grant Hungary, after agreement with the IMF, an adjustment loan of the same amount.

It called upon the Council to take an early decision on the Commission proposals.

4. The European Council confirmed the key importance it attaches to the fact that aid and cooperation projects decided on by Western countries should be as complementary as possible. It reaffirmed the need to maintain and strengthen the procedure established by the Community. It expects the forthcoming Ministerial meeting of the 24 Western countries on 13 December to take the necessary substantive and procedural decisions to ensure that the efforts undertaken to facilitate the transition taking place in Poland and Hungary and possibly in other countries of Central and Eastern Europe are coordinated and effective.

5. The European Council is following carefully and with interest the important reforms planned in Yugoslavia and confirms the Community's undertaking to examine - once the agreement with the monetary fund is concluded - additional measures in support of the programme for improving that country's economic and financial situation.

#### C. MEDITERRANEAN

The European Council considers that the Community must in the coming months flesh out its policy of neighbourly relations with the Mediterranean states, with which it has long had preferential ties. The specific relationship with Mediterranean countries must be intensified and make it possible to support them in their efforts towards co-operation with Europe, regional integration and economic development.

The Community attaches great importance to the creation of the EMU and will implement the most appropriate cooperation. It will continue the Euro-Arab dialogue at the December meeting.

The European Council calls upon the Council to adapt, on the basis of the Commission communication, the instruments provided for under the current agreements in order to institute the means and methods of cooperation which are best suited to the special nature of the relations which must develop between the Community and these countries, taking into consideration the particular problems of each of them.

D. LATIN AMERICA AND ACP STATES

The Community must strengthen its cooperation with the Latin American countries: in particular it must support the efforts of the Andean pact countries to combat drugs, find substitute crops and improve the outlets for those crops.

The European Council welcomes the conclusion of the 4th Lomé Convention, which deepens and broadens the privileged relations between the Community and the associated African, Caribbean and Pacific states. That Convention will be signed within the coming days.



## II. EUROPEAN POLITICAL COOPERATION

1. The European Council discussed the following subjects of political cooperation:

- Central and Eastern Europe
- Middle East
- Lebanon
- Euro-Arab Conference
- Southern Africa
- Ethiopia
- Chile
- Central America

It approved the statements annexed below.

### 2. Cyprus

The European Council expressed its deep disquiet that the tragic division of Cyprus, a country belonging to the European family, remains unchanged despite the renewed efforts over fifteen months of the Secretary General of the United Nations.

It also reiterated its appeal to all parties to cooperate with Mr Perez de Cuellar and his representative on the spot so as to overcome the obstacles to the pursuit of dialogue. It asked them not to miss this opportunity for a just and lasting settlement that will safeguard the unity, independence, sovereignty, and territorial integrity of Cyprus in accordance with the relevant resolutions of the United Nations.

### 3. Human Rights

The European Council took note of the report of the Political Committee summing up the activity of the Twelve in the field of human rights in the course of 1989. In this connection, it approved the text of a press release.

## DECLARATION ON CENTRAL AND EASTERN EUROPE

Each day in central and eastern Europe change is asserting itself more strongly. Everywhere a powerful aspiration toward freedom, democracy, respect of human rights, prosperity, social justice and peace is being expressed. The people are clearly showing their will to take their own destiny in hand and to choose the path of their development. Such a profound and rapid development would not have been possible without the policy of openness and reform led by Mr Gorbachev.

Expressing the feelings of the people of the whole Community, we are deeply gladdened by the changes taking place. These are historic events and no doubt the most important since the Second World War. The success of a strong and dynamic European Community, the vitality of the CSCE process and stability in the area of security, in which the United States and Canada participate, have contributed greatly to them.

These changes give reason to hope that the division in Europe can be overcome in accordance with the aims of the Helsinki Final Act which seeks, through a global and balanced approach and on the basis of a set of principles which retain their full value, to establish new relations between European countries whether in the area of security, economic and technical cooperation, or the human dimension.

We seek the strengthening of the state of the peace in Europe in which the German people will regain its unity through free self-determination. This process should take place peacefully and democratically, in full respect of the relevant agreements and treaties and of all the principles defined by the Helsinki Final Act, in a context of dialogue and East-West cooperation. It also has to be placed in the perspective of European integration.



Already the hopes which we expressed a year ago in the Rhodes Declaration have begun to take shape. The progress recorded in the negotiations on conventional and chemical disarmament, the greater freedom of movement of persons and ideas, the greater assurance of respect of human rights and fundamental freedoms, and the different agreements concluded between the Community and certain of these countries are substantially changing the climate of relations in Europe.

The European Council is convinced in the present circumstances that all must, more than ever, demonstrate their sense of responsibility. The changes and transitions which are necessary must not take place to the detriment of the stability of Europe but rather must contribute to strengthening it.

Far from wanting to derive unilateral advantages from the present situation, the Community and its member states mean to give their support to the countries which have embarked upon the road to democratic change. They deplore all the more so that in certain countries this process is still hindered.

The Community and its member states are fully conscious of the common responsibility which devolves on them in this decisive phase in the history of Europe. They are prepared to develop with the USSR and the other countries of central and eastern Europe, and with Yugoslavia, in so far as they are committed to this path, closer and more substantive relations based upon an intensification of political dialogue and increased cooperation in all areas. The Community has in particular decided to support the economic reforms undertaken in these countries by contributing - in collaboration with its western partners - to the establishment of healthy and prosperous economies within the framework of appropriate structures.

The European Council has drawn up conclusions which illustrate this intention.

For the future and in accordance with the developments taking place, the Community is willing to implement still closer forms of cooperation with these countries.

At this time of profound and rapid change, the Community is and must remain a point of reference and influence. It remains the cornerstone of a new European architecture and, in its will to openness, a mooring for a future European equilibrium. This equilibrium will be still better ensured by a parallel development of the role of the Council of Europe, EFTA and the CSCE process.

Construction of the Community must therefore go forward: the building of European Union will permit the further development of a range of effective and harmonious relations with the other countries of Europe.

#### DECLARATION ON THE MIDDLE EAST

1. The European Council wishes once more to stress the over-riding need to find a political settlement to the Arab-Israeli conflict. In this regard it recalls that the position of the Twelve is defined in the Madrid Declaration of 27 June, 1989. In all its elements this Declaration remains fully valid.

It is in this spirit and with the guarantees specified in the Madrid Declaration that the Twelve supported the proposal for elections in the Occupied Territories, considered as a step in a process towards an overall settlement. Similarly they encourage efforts which seek to establish dialogue between the parties directly concerned. They recall the efforts they themselves make to this end, while respecting the principles which guide their search for a settlement. An illustration is the recent mission carried



out by the Ministerial Troika.

2. Seriously concerned by violations of human rights in the Occupied Territories and recalling the need for the occupying power to observe strictly its obligations under the 4th Geneva Convention to which it has notably not conformed in such basic areas as education and health, the European Council deplores the continuous deterioration of the situation in the Occupied Territories which seriously affects the living conditions of the people, compromises in a lasting fashion the future of Palestinian society and prevents the economic and social development of the Territories.

The Community and its member states are determined to increase substantially their aid to the inhabitants of these Territories. Within the framework of the new 1990/1992 triennial convention, the Community will continue with and increase its aid to Palestinians through UNRWA which has amounted to more than 388 million ecu since 1971. It wishes to see the activities of UNRWA carried out without hindrance. During the same period, the European Council establishes as an objective the doubling of the Community's direct aid which, since 1981, has amounted to 23 million ecu. The Community thus intends to contribute to the economic and social development of the Occupied Territories and, by its efforts in the area of health and education as well as by support for local Palestinian institutions, to help to preserve the common future of the Palestinian people.

#### STATEMENT ON LEBANON

Deeply concerned at the recent developments in Lebanon which have produced a further threat to the preservation of the country's unity, the European Council reaffirms its commitment to the implementation of the Taif Agreements. It expresses its conviction that in present circumstances there



is no alternative to the process of national reconciliation and peace envisaged under those Agreements.

The European Council therefore calls on all parties concerned to lend their support to these objectives, in such a way that they are furthered through dialogue and consultation to the exclusion of any recourse to violent means, the upholding of the cease-fire being a main priority.

The European Council expresses its support for the constitutional order in Lebanon embodied by the President of the Republic and the Government appointed by him, so that in accordance with the aspirations of the whole population, the sovereignty, independence, unity and territorial integrity of Lebanon can be restored. This process implies the withdrawal of all foreign armed presence, so that the Lebanese people will be fully masters in their own house. The Council recalls the very positive role played by UNIFIL.

#### STATEMENT ON THE EURO-ARAB CONFERENCE

The European Council expresses its desire to make closer the ties which unite the Twelve to the Arab world from one side of the Mediterranean to the other. It is in this spirit that a Conference has been organised which will meet in Paris on 21 and 22 December and whose purpose will be to give a new impetus to the Euro-Arab Dialogue in order to strengthen and develop their cooperation.

#### DECLARATION BY THE TWELVE ON SOUTHERN AFRICA

Southern Africa has, for a year, been the scene of developments of such importance as consistently to demand the attention of the Twelve.

1. The most obvious of these concerns Namibia. Almost a year ago the signature of the New York Agreements opened the



way for implementation of Resolution 435 as the Twelve have constantly wished. Up to now the transitional process has unfolded in a satisfactory manner and the Twelve wish, on this occasion, to express their appreciation of the vital role played by the Secretary General of the UN and his Special Representative for Namibia. The first valid and free elections have permitted the appointment of a Constituent Assembly which truly reflects the wishes of the Namibian people. The foundations of the new state are taking shape before our eyes.

Independent Namibia's needs will be significant. The Community and its member states are already prepared to contribute to meeting these through appropriate aid programmes. This effort will be in addition to the assistance envisaged by all of the member states on a bilateral level. Namibia will also be welcomed into the new Lomé Convention as soon as it expresses a wish to join it. The Troika has already made known this position to the representatives of the ACP States at their recent Ministerial meeting to discuss southern Africa.

2. A measure of progress has also been achieved in the process of national reconciliation in Angola and Mozambique. A favourable international climate has been availed of with courage and determination on the part of those with authority in these two States in order to make significant advances on the road to peace. The recent mission of the Troika of Political Directors to Angola brought out the real will of the leaders of this country to put an end to the conflict which has for too many years encumbered the economic development and well-being of its people.

The Community and its member states are resolved to match these developments by efforts to aid the reconstruction and development of both these countries.



3. Finally, in South Africa, President De Klerk's accession to power has been followed by several acts of clemency and a degree of freedom of expression which the Twelve have welcomed. These measures, however, are still insufficient with respect to the immense task posed by the dismantlement of apartheid. The objective of the Twelve remains the achievement through peaceful means of democratic and multiracial system in South Africa. In this regard they support any process which can lead rapidly to the cessation of violence on all sides and to a dialogue between the parties. Only broad-based negotiations bringing together the true leaders of the different constituent parts of the South African people can result in a lasting settlement. In this respect the Conference for a Democratic Future, which is being held in Johannesburg from 9 to 12 December, is a step in the right direction.

In this context the Community and its member states have recalled their support for the programme of positive measures intended to help the victims of apartheid. With a view to preparing for the developments which are inescapable in South Africa, this programme will be strengthened over the next two years by granting new scholarships for study in Europe and in multi-racial South African universities. The purpose of this action is to facilitate exchanges between the different communities while allowing their least privileged members to attain a better level of education and thus to contribute to the training of the skilled personnel of which a multi-racial South Africa will have crucial need in the medium term.

The Community and its member states have, moreover, decided to maintain the pressure that they exert on the South African authorities in order to promote the profound and irreversible changes which they have repeatedly stood for and to reconsider it when there is clear evidence that these changes have been obtained.



A new South Africa, free from racial discrimination, in which all South Africans can live in peace and harmony and enjoy equal rights, is not a Utopian ideal. Its achievement will also be of vital importance to the peace, stability, security and economic development of the whole region and will allow South Africa once more to find its proper place within the international community.

#### STATEMENT ON ETHIOPIA

The European Council welcomes the steps undertaken to advance towards negotiated solutions and expresses its conviction that only the conclusion of a political agreement between all parties will enable conflict to be brought to an end. They call on the parties concerned to pursue negotiations so as to achieve as soon as possible a settlement acceptable to all, in a spirit of national reconciliation.

The European Council expresses its deep concern at the gravity of the food shortage which affects the northern regions - in Erythraea and Tigre in particular - and threatens the life of millions of persons.

It affirms the determination of the European Community and its member states to come to the assistance of the populations who are victims of famine. It urges all parties concerned, in collaboration with the agencies of the United Nations, the World Food Programme, the International Committee of the Red Cross, and other non-governmental organisations, not to obstruct but on the contrary to facilitate the delivery and distribution of humanitarian assistance and emergency aid in the afflicted areas.

DECLARATION ON THE EVE OF  
GENERAL ELECTIONS IN CHILE, 14 DECEMBER 1989

The European Council, which has constantly expressed its wish for the re-establishment of freedom in Chile, views the situation in that country with hope.

The results of the plebiscite of 5 October 1988 showed clearly the will of its people to put an end to the 16 years of the military regime and to renew its democratic traditions.

The European Council today welcomes the prospects offered by the forthcoming Presidential and legislative elections at the end of a process which should finally permit a return to a state founded on law.

The Community and its member states have already provided the Chilean people with assistance in various sectors. The European Council reiterates its intention to contribute to the economic and social development of a democratic Chile, in particular within the framework of a future cooperation agreement between the Community and that country.

STATEMENT ON CENTRAL AMERICA

The European Council, concerned at the renewal of tensions in Central America and particularly at the recent explosion of violence in El Salvador, considers that a peaceful solution in accordance with the aspirations of the peoples of the region can only come through dialogue, the safeguarding of human rights, and respect for democracy. In this spirit, they call on all parties in the region to strive for a resumption of the regional peace process based on the Esquipulas agreements.



PRESS STATEMENT ON THE ACTIVITY OF THE TWELVE  
IN THE FIELD OF HUMAN RIGHTS

- Cooperation in the field of human rights, which led earlier, in 1986, to a Ministerial declaration and, in 1987, to the setting up of a special working group in accordance with the wishes of the European Parliament, has developed further in 1989.

- This has been a year of contrasts in human rights, marked by progress, particularly in some Eastern European countries, but also by disappointed hopes and the continuation of disturbing situations. Confronted with such events, the Twelve have made their voice heard. The interventions they have made in international fora (CSCE: United Nations - where for the first time last February, the Twelve made a joint intervention in the debate of the Commission on Human Rights), together with the positions they have adopted in the form of declarations, give witness to their will to react to such situations regardless of the continent in which they might occur. In certain cases (Iran, Romania, China, Panama), measures that have been taken have been made public.

- The question of human rights has become an important element in the dialogue and cooperation entered into with the developing countries. Respect of human rights is essential to lasting development.

- Actions in the field of human rights have also been carried out by way of numerous démarchés made during the year to several governments, most often through the Ambassador of the Presidency or Heads of Mission forming the "Troika". For reasons of efficacy, most of these démarchés have remained confidential. The purpose of some of them has been to protect or save persons who were victims of arbitrary treatment or racial discrimination, in particular apartheid.

Others have marked the concern of members of the European Community with regard to certain particularly serious attacks on human rights (summary executions, torture, arbitrary arrests . . .).

The adoption in 1988 within the CSCE framework of a special procedure which both enables attention to be drawn to situations where human rights in Europe are not being respected and contributes to their resolution through dialogue between States, has also led the Twelve to act jointly. Thus the Presidency, making use of this procedure, has intervened on a number of occasions in 1989 in four countries of Eastern Europe.

Coordination between member countries of the Community is accompanied by and relies increasingly upon enhanced on-the-spot cooperation between their Missions in countries where fundamental freedoms are violated.

Particular attention has been paid to questions and resolutions of the European Parliament concerning human rights.

All in all, the actions undertaken by the Community and its member states in 1989 in the area of human rights have marked a new stage in their common commitment to the respect of human rights.



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*act PC*

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

10 December 1989

*Dear John,*

IMF QUOTAS

Just to confirm that, although the Prime Minister and President Mitterrand had a bilateral in Strasbourg, the President did not raise the matter of IMF quotas.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office).

*Yours sincerely,*

CHARLES POWELL

John Gieve, Esq.,  
H.M. Treasury.

RESTRICTED

*No*

CDP

JOINT COMMUNIQUE

The Taoiseach Mr Charles J Haughey and the Prime Minister Mrs Thatcher had a bilateral meeting in Strasbourg on Friday, December 8, 1989 on the occasion of the European Council. [The meeting lasted about half an hour].

During the meeting, they discussed the forthcoming Irish Presidency of the European Community and reviewed some of the major issues which will arise.

They discussed bilateral issues and welcomed the establishment of the Anglo-Irish Parliamentary Group.

They also reviewed the situation in relation to Northern Ireland, and the prospects for political progress. They were agreed in their condemnation of violence, and their determination constantly to strengthen their co-operation against it, as well as the possibilities that would open up if violence were to end.

The meeting was constructive and cordial.

9.12.89



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10 DOWNING STREET

LONDON SW1A 2AA

9 December 1989

*From the Private Secretary*

Dear Sir,

PRIME MINISTER'S MEETING WITH THE TAOISEACH,  
STRASBOURG, 9 DECEMBER

The Prime Minister had a brief meeting with the Taoiseach following the conclusion of the European Council in Strasbourg today. I enclose a copy of the statement which was agreed and issued at the end of the meeting.

Strasbourg Council

The Taoiseach said that the Prime Minister had been extremely reasonable during the Council. The Prime Minister replied that she was a bit surprised that the Irish had been willing to go along with the Social Charter and the action plan which accompanied it. The Taoiseach agreed that the action plan was where the difficulties would be. The Irish would rely on the subsidiarity principle to avoid some of the measures proposed. Several Member States had been willing to accept the Charter because it had no operational significance. But they would not like the action programme.

Birmingham Six

The Taoiseach said that he "had a lot of public opinion" on the Birmingham Six. He just wanted to mention it. He hoped some formula could be found "to bring this damned thing to an end". The Prime Minister said that the case had been referred to the Court of Appeal, which had delivered a very thorough judgement. There was nothing more she could say.

Security Co-operation

The Prime Minister said there was still room for improvements in security co-operation. The Taoiseach said the Irish continued to do the best they could. He thought the RUC were broadly satisfied.

The Taoiseach said the Irish had some indications of talks among the para-militaries about ceasing violence. These were being conducted in prison between members of the UVF and the IRA. But it could be they were only talking about delimiting their respective territories. The Prime Minister said she had no information on this. The basic problem was that far too many terrorist crimes were still taking place and nobody was being caught for them.

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Anglo-Irish Agreement

The Prime Minister said that the Agreement seemed to be functioning well. The Taoiseach said that it was "perfectly all right". The Prime Minister suggested that the time might have come to have a go at devolution again. The Unionists were showing a little more confidence. The Taoiseach said that he had recently met the new Northern Ireland Secretary for the first time. He was clearly a very sincere and fearless person. The Prime Minister said that he had total integrity.

Germany

The Taoiseach said that he was a bit alarmed about some of the things he had heard Chancellor Kohl say over the past couple of days, especially his two long diatribes at dinner the previous evening. There was "a touch of the bulldozer" about Chancellor Kohl.

Irish Presidency

In response to the Prime Minister's question, the Taoiseach said the Irish Presidency would try to pick and choose among proposals in the Commission's action programme stemming from the Social Charter. They would keep closely in touch with us.

The Prime Minister said she hoped the Irish Government would keep up the speed on the single market. They would need to get through another forty or fifty directives.

The Taoiseach asked how the Irish Presidency should take forward the proposed East European Development Bank. There did not seem to him much point in lending to the East European countries. The Prime Minister said that some very thorough work would be needed on the details of the Bank. The basic problem was the lack of good projects to lend to in Eastern Europe.

The Prime Minister said that there would also need to be very careful preparation in ECOFIN for the proposed Inter-Governmental Conference. The Taoiseach said that he took the view that Economic and Monetary Union was a very long way down the road. He had the impression that the Germans were rapidly cooling on it.

I am copying this letter to Stephen Leach (Northern Ireland Office), John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry) and Sonia Phippard (Cabinet Office).

*gum o'arh,*  
  
(C.D. POWELL)

J.S. Wall, Esq.,  
Foreign and Commonwealth Office.



JOINT COMMUNIQUE

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The meeting was constructive and cordial.



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FOLLOWING FROM SIR DAVID HANNAY

MIPT

EUROPEAN COUNCIL: STRASBOURG: 8-9 DECEMBER:  
EVALUATION.

1. THIS LONG (ONE AND A HALF DAYS AND TWO WORKING MEALS) AND COMPLEX EUROPE COUNCIL RAN PRETTY TRUE TO PREDICTION. THERE WERE NO SURPRISES. THE FRENCH PRESIDENCY WILL CLAIM, AND WILL BE CREDITED BY MANY WITH, A STRING OF SUCCESSES. BUT TENSIONS OVER ECONOMIC AND MONETARY UNION AND, TO A MUCH GREATER EXTENT, OVER THE WAY THE FRG IS RESPONDING TO AND HANDLING THE RAPIDLY MOVING EVENTS IN CENTRAL AND EASTERN EUROPE SURFACED AT SEVERAL MOMENTS AND POINTED TO TROUBLED TIMES AHEAD.
2. IT WAS NEVER GOING TO BE AN EASY MEETING FOR US AND THAT TOO RAN TRUE TO FORM. ON TWO (EMU AND THE SOCIAL CHARTER) OUT OF THE FOUR MAIN SUBJECTS WE HAD A DIFFICULT AND DEFENSIVE HAND TO PLAY WITH NO REAL PROSPECT OF AVOIDING BEING IN A MINORITY OF ONE, AT LEAST ON THE PROCEDURAL ASPECTS OF THOSE ISSUES THAT WERE BEFORE THE COUNCIL. BUT THE WAY IN WHICH YOU AND THE PRIME MINISTER HANDLED THAM, BOTH AT THE MEETING ITSELF AND IN THE PRESS INTER-VIEWS AFTERWARDS, DID MUCH TO DRAW THE STING FROM THEM. ON THE OTHER TWO ISSUES (SINGLE MARKET AND EASTERN EUROPE) WE DID WELL IN BRINGING THE SINGLE MARKET RIGHT BACK INTO THE CENTRE OF THE STAGE AND SETTING SHORT AND MEDIUM TERM OBJECTVIES PREPONDERANTLY CONSISTENT WITH OUR OWN PRIORITIES SEMI COLON AND EASTERN EUROPE CONTINUED TO BE AN AREA WHERE WE SET THE PACE AND WHERE THE COMMUNITY AS A WHOLE IS SHOWING REMARKABLE AND ALMOST UNPRECEDENTED UNITY AND SWIFTNES OF RESPONSE TO EXTERNAL EVENTS DESPITE ALL THE UNDERLYING CONCERN OVER THE RE-EMERGENCE OF THE GERMAN PROBLEM.
3. ON ECONOMIC AND MONETARY UNION THE FRENCH ACHIEVED THEIR



ONLY REAL OBJECTIVE, THE SETTING OF A DATE BEFORE THE END OF 1990 FOR THE OPENING OF AN INTER GOVERNMENTAL CONFERENCE. THIS WAS NOT ACHIEVED WITHOUT SOME PRELIMINARY ALARMS AND EXCURSIONS. BUT, WHEN THE GERMANS DID, SOME TWO DAYS BEFORE THE MEETING, EMERGE FROM THE MISTS OF THEIR UNCERTAINTY AND DIVIDED COUNSELS TO OPT FOR DELAY AND FURTHER PREPARATION, AN ENTIRELY CLASSICAL FRANCO-GERMAN POWER PLAY RESULTED IN THE USUAL OUTCOME SEMI COLON BY THE TIME KOHL REACHED STRASBOURG THE FRENCH HAD THEIR PROCEDURAL VICTORY SEWN UP. THE FRANCO-GERMAN TENSIONS OVER OSTPOLITIK AND THE DESPERATE GERMAN DESIRE NOT TO BE THOUGHT TO BE DRIFTING EASTWARDS AND AWAY FROM THE COMMUNITY PROVED MORE THAN A MATCH FOR ANY BURGEONING GERMAN FEELING OF THEIR ECONOMIC STRENGTH. AT THE RISK OF AN ACCUSATION OF SOUR GRAPES, I WOULD MERELY OBSERVE THAT THERE WAS NEVER ANY REALISTIC CHANCE AFTER MADRID OF OUR BEING ABLE TO DELAY THE CONVENING OF AN INTER-GOVERNMENTAL CONFERENCE BEYOND THE END OF 1990. FULL AND ADEQUATE PREPARATION COULD HARDLY HAVE BEEN STRETCHED BEYOND EIGHTEEN MONTHS GIVEN THE DESIRE OF MOST MEMBER STATES TO MAKE RAPID PROGRESS. ALL THE TENSION AND THE TOING AND FROING OF RECENT MONTHS WAS PROVOKED BY FRENCH DETERMINATION TO GET THE CREDIT FOR WHAT WAS GOING TO HAPPEN ANYWAY. THEY DID NOT GENUINELY ACCELERATE THE PROCESS SEMI COLON THEY SIMPLY MADE IT MORE CONTENTIOUS.

4. THE SOCIAL CHARTER WAS THE DOG THAT DID NOT BARK. OUR REFUSAL TO ACCEPT IT HAS ALSO HELPED TO ENSURE THAT IT CAN NOT BITE. THIS HAS BEEN ACHIEVED AT SOME COST TO OUR PUBLIC IMAGE AND OF MUCH UNJUSTIFIED CARICATURE OF OUR ATTITUDE TO THE SOCIAL DIMENSION. BUT THE INTEREST HERE IN TURNING THE KNIFE IN THE WOUND OF OUR ISOLATION WAS SLIGHT AND IT IS CLEAR THAT MOST GOVERNMENTS ARE EITHER BORED, ASHAMED OR APPREHENSIVE ABOUT THIS PARTICULAR BIT OF PAPER AND THE USES TO WHICH IT MIGHT BE PUT.

5. OUR DECISION TO WORK UP A SINGLE MARKET TRIUMPH FOR THE FRENCH PRESIDENCY SEEMS TO BE PAYING CONSIDERABLE DIVIDENDS. FAR FROM BEING THE CINDERELLA OF THIS PARTICULAR SIX MONTHS, THE SINGLE MARKET PROGRAMME IS FORGING AHEAD. A NUMBER OF WELCOME DECISIONS, ON VAT, ON ROAD AND AIR TRANSPORT AND ON TELE COMMUNICATIONS LIBERALISATION HAVE BEEN TAKEN AND MORE ARE IN PROSPECT AT THE DECEMBER INTERNAL MARKET COUNCIL. THE PROBLEM OF THE IMPLEMENTATION OF SINGLE MARKET LEGISLATION AND OUR OWN GOOD RECORD ARE BECOMING BETTER KNOWN AND APPRECIATED. THE PRESSURE ON THE LAGGARDS TO IMPROVE THEIR PERFORMANCE IS MOUNTING.



EVEN OUR ACCEPTANCE OF THE SOMEWHAT SPECIOUS SLOGAN OF 'ACCELERATION' IN FACE OF THE DEVELOPMENTS IN EASTERN EUROPE CAN EASILY BE HARNESSSED TO THE FURTHER PROGRESS ON THE SINGLE MARKET WHICH WE WANT AS TO THE PROCESS OF ECONOMIC AND MONETARY UNION WHICH CAUSES US SUCH DIFFICULTIES.

6. THERE WERE NO GREAT DECISIONS ON EASTERN EUROPE, ALTHOUGH THE FRENCH GOT THEIR WAY ON THEIR DEVELOPMENT BANK PROJECT. A FURTHER TRANCHE OF FOOD AID FOR POLAND WAS SETTLED SEMI COLON THE TRAINING FOUNDATION AND EXCHANGE PROGRAMMES FOR EASTERN EUROPE BLESSED SEMI COLON SUBSTANTIAL CONTRIBUTIONS BY THE MEMBER STATES TO A STABILISATION FUND FOR POLAND AND TO A BRIDGING OR AN ADJUSTMENT LOAN FOR HUNGARY WERE FORESHADOWED. THE BROAD PRINCIPLES OF THE PROCESS OF SUPPORT FOR POLITICAL AND ECONOMIC REFORM IN EASTERN EUROPE, FIRST IDENTIFIED AT THE ELYSEE DINNER ON 18 NOVEMBER, WERE SET DOWN ON PAPER SEMI COLON AND IT WAS MADE CLEAR THAT SIMILAR SUPPORT WOULD BE FORTHCOMING TO THOSE WHO FOLLOWED THE PATH WHICH POLAND AND HUNGARY FIRST TOOK.

7. THE BANQUO'S GHOST AT THIS PARTICULAR FEAST WAS THE HANDLING BY THE FRG OF THE RAPIDLY DISINTEGRATING SITUATION IN EAST GERMANY AND THE REACTION TO THAT HANDLING OF THE OTHER MEMBER STATES, ALMOST ALL OF WHOM ARE A PREY TO THEIR MEMORIES OF THE GERMAN PROBLEM IN ITS PREVIOUS MANIFESTATIONS. KOHL DID LITTLE TO REASSURE HIS PARTNERS EITHER AS TO HIS CLARITY OF THOUGHT OR AS TO HIS WILLINGNESS TO TAKE THEIR INTERESTS INTO ACCOUNT IN THE FORMULATION OF FRG POLICY. IT DOES NOT TAKE A CLAIRVOYANT TO PREDICT A BUMPY RIDE AHEAD.

8. THE PROSPECT OF A FAIRLY PASSIVE IRISH PRESIDENCY AHEAD MEANS THAT, ONCE THE USUAL PRE-CHRISTMAS RUSH IN THE COMMUNITY IS OVER, THERE SHOULD BE A BIT OF A PAUSE FOR BREATH. BUT IT WILL NOT BE LONG SEMI COLON AND WE ARE NOT SO WELL PLACED THAT WE CAN AFFORD SIMPLY TO LET EVENTS TAKE THEIR COURSE. THE SINGLE MARKET IS OF COURSE A CONSTANT SLOG SEMI COLON BUT OUR PRIORITIES ARE WELL PLACED ON THE STARTING GRID AND FURTHER SUCCESSES OUGHT TO FOLLOW. ATTENTION IN THE SOCIAL FIELD WILL SWITCH NOW TO THE ACTION PROGRAMME. WE WILL NEED TO ENCOURAGE THE COMMISSION AND THE IRISH PRESIDENCY TO BRING FORWARD ITS COMPONENT PARTS SEPARATELY AND THUS TO AVOID THE RECURRENCE OF THE SITUATION WHERE OUR UNAVOIDABLE RESISTANCE TO SOME OF ITS PARTS LEADS TO DEADLOCK OVER THE WHOLE. THERE WILL BE TEMPTATIONS TO SOME TO DO JUST WHAT WE DO NOT WANT. IT WILL HELP OUR CASE



IF WE CAN QUICKLY IDENTIFY THE PARTS OF THE PROGRAMME ON WHICH WE CAN TAKE A POSITIVE VIEW OR AT LEAST WHICH WE CAN TOLERATE AND SET ABOUT INFLUENCING THE COMMISSION'S THINKING AND PROPOSALS ON THEM. AS TO ECONOMIC AND MONETARY UNION THIS WILL TAKE UP AN INCREASING PART OF THE COMMUNITY'S TIME AND ENERGY. NO ONE DOUBTS THE SERIOUSNESS AND INDEED INTRACTABILITY OF THE PROBLEMS IT POSES SEMI COLON BUT SO LONG AS WE SEEM TO BE MORE ADEPT AT IDENTIFYING PROBLEMS THAN AT FINDING SOLUTIONS TO THEM, OUR INFLUENCE ON THE NEGOTIATING PROCESS WILL BE SLIGHT. IT WILL BE PARTICULARLY IMPORTANT TO CARRY FORWARD OUR THINKING ON THE EVOLUTIONARY APPROACH AND TO DEVELOP IT IN THOSE AREAS WHERE OUR CRITICS, OR AT LEAST OUR FRIENDLY CRITICS, HAVE POINTED UP WEAKNESSES AND DEFICIENCIES.

9. EASTERN EUROPE WILL BE WITH US, WEEK IN AND WEEK OUT, IN THE PERIOD AHEAD. THE COST OF SUPPORTING THE REFORM PROCESS WILL TOT UP, BUT I DO NOT SEE ANY OF OUR PARTNERS FLINCHING AS YET. THE NEED FOR IMAGINATIVE THINKING ON THE FORMS OF ASSOCIATION AND POLITICAL DIALOGUE BETWEEN THE COMMUNITY AND THE COUNTRIES OF EASTERN EUROPE IS ALREADY EVIDENT AND THE PAPER WE CIRCULATED JUST BEFORE THE EUROPEAN COUNCIL WENT DOWN WELL. WE ARE WELL PLACED TO KEEP TO THE FORE IN THIS AREA OF POLICY.

10. THE STRASBOURG EUROPEAN COUNCIL HAS CONFIRMED THAT THE SIGNIFICANCE OF THE COMMUNITY AS THE FOCUSS OF THE POLICY MAKING OF ITS MEMBER STATES IS STILL ON THE INCREASE. SO IS ITS ROLE IN THE POLICY MAKING OF OTHERS, FROM WASHINGTON TO MOSCOW. THERE ARE PLENTY OF CHALLENGES AND RISKS FOR US IN THAT.

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SECRETARY OF STATE

Declaration on Central and Eastern Europe

The latest version of the draft text which will be the one put to the Council, contains a small modification to the key sentence on German unity (paragraph 4 on page 1 of that text).

The original NATO text was "We seek a state of peace in Europe...". Yesterday this was modified to "We seek the establishment of a state of peace in Europe..." in order to make it read better in French. This is the text I submitted this morning. The new version says "We seek the strengthening of a state of peace in Europe...".

This has no significance in itself: it is if anything an improvement. I draw attention to it only because it might be argued that this is no longer language sanctified by long usage. The answer is that it repeats the original language with a minor emendation to make it read better in a text drafted in French.

A handwritten signature in cursive script, appearing to read "John Fretwell".

JOHN FRETWELL

9 December 1989

cc: Mr Ingham  
Mr Burns



EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

DECLARATION BY THE TWELVE ON CENTRAL AND EASTERN EUROPE

Each day in central and eastern Europe change is asserting itself more strongly. Everywhere a powerful aspiration toward freedom, democracy, respect of human rights, prosperity, social justice and peace is being expressed. The people are clearly showing their will to take their own destiny in hand and to choose the path of their development. Such a profound and rapid development would not have been possible without the policy of openness and reform led by Mr. Gorbachev.

Expressing the feelings of the people of the whole Community, we are deeply gladdened by the changes taking place. These are historic events and no doubt the most important since the Second World War. The success of a strong and dynamic European Community, the vitality of the CSCE process, and stability in the area of security, in which the United States and Canada participate, have contributed greatly to them.

These changes give reason to hope that the division in Europe can be overcome in accordance with the aims of the Helsinki Final Act which seeks, through a global and balanced approach and on the basis of a set of principles which retain their full value, to establish new relations between European countries whether in the area of security, economic and technical cooperation, or the human dimension.

We seek the strengthening of a state of peace in Europe in which the German people will regain its unity through free self-determination. This process should take place democratically and peacefully, in full respect of the relevant agreements and treaties, as well as of all the principles defined by the Helsinki Final Act, in a context of dialogue and East-West cooperation. It has to be placed in the perspective of European integration.

Already the hopes which we expressed a year ago in the Rhodes Declaration have begun to take shape. The progress recorded in the negotiations on conventional and chemical disarmament, the greater freedom of movement of persons and ideas, the greater



assurance of respect of human rights and fundamental freedoms, and the different agreements concluded between the Community and certain of these countries are substantially changing the climate of relations in Europe.

The European Council is convinced in the present circumstances that all must, more than ever, demonstrate their sense of responsibility. The changes and transitions which are necessary must not take place to the detriment of the stability of Europe but rather must contribute to strengthening it.

Far from wanting to derive unilateral advantages from the present situation, the Community and its member States mean to give their support to the countries which have embarked upon the road to democratic change. They deplore all the more so that in certain countries this process is still hindered.

The Community and its member States are fully conscious of the common responsibility which devolves on them in this decisive phase in the history of Europe. They are prepared to develop with the USSR and the other countries of central and eastern Europe, and with Yugoslavia, in so far as they are committed to this path, closer and more substantive relations based upon an intensification of political dialogue and increased cooperation in all areas. The Community has in particular decided to support the economic reforms undertaken in these countries by contributing -in collaboration with its western partners- to the establishment of healthy and prosperous economies within the framework of appropriate structures.

The European Council has drawn up conclusions which illustrate this intention.

For the future and in accordance with the developments taking place, the Community is willing to implement still closer forms of cooperation with these countries.

At this time of profound and rapid change, the Community is and must remain a point of reference and influence. It remains the cornerstone of a new European architecture and, in its will to openness, a mooring for a future European equilibrium. It is obvious that this equilibrium would be still better ensured if there were a parallel development of the role of the Council of Europe, EFTA and the CSCE process.

Construction of the Community must therefore go forward: the building of European Union will permit the further development of a range of effective and harmonious relations with the other countries of Europe.



PRIME MINISTER

YOUR PRESS CONFERENCE

This will be a tricky press conference for three reasons:

- (i) the media are struggling for a story;
- (ii) they still really don't know whether to write that you capitulated, were crushed, are biding your time or are marginalised.
- (iii) They are on the look out for any sign of softening in the light of the leadership vote.

The media questioning is accordingly likely to concentrate on:

- (i) do you still regard German reunification as not being on the agenda—10 - 15 years away—and whether you were among those who had difficulty with the German unity text;
- (ii) your attitude to any strengthening of the European Parliament
- (iii) the strength of your commitment to joining the ERM at the appropriate time (NB - the media felt that in making the point that any IGC would have to take into account the effect of many things, including full membership of ERM, we were softening).
- (iv) Why you didn't fight on Eastern European Development Bank, and do you think you can move its concept your way?

I believe your interests would best be served by making clear what we have consistently stated in briefing this week: namely, that you came to Strasbourg to concentrate on the major issues of the Community's response to events in Eastern Europe and the completion of the internal market. Circumstances require a demonstration of EC unity and stability at this time. You quite deliberately chose not to make an issue of an IGC or the Social Charter when at this stage they are symbolic and the real argument and work has yet to come.

A Speaking Note is attached at Annex I.

Mechanics

I propose that the press conference should last the usual 30 minutes.

Afterwards there is a queue of radio and TV interviews - the usual six plus a special request from Channel 4 which I hope you will be able to do.

The proposed order is:

BBC Radio - Graham Leach (who has been unhelpful)

IRN - Peter Spencer (who is your best interviewer)

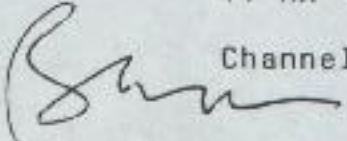
BBC TV - John Simpson

ITN - Michael Brunson

Sky TV - Adam Boulton

TV AM - Maya Even

Channel 4 - Nik Gowing

  
B INGHAM



MR. DE FONBLANQUE

EUROPEAN COUNCIL, STRASBOURG: HEADS OF GOVERNMENT DINNER

You may find it helpful to have a note of the points which Heads of Government discussed over dinner last night.

EFTA

M. Delors set out at some length the options for future relations between the EC and EFTA on lines which will be familiar to you. All wanted the forthcoming negotiations to succeed. Several Heads of Government spoke of the need for EFTA to accept obligations as well as the benefits of the single market. EFTA should be challenged to agree to stronger co-ordination. There was some speculation whether one or more Eastern European countries might join EFTA.

Lome

It was noted that a new Lome Agreement had been concluded and approved.

Yugoslavia

Chancellor Kohl raised the subject of Community assistance to Yugoslavia.

Latin America

Gonzalez made a plea for a strengthening of relations with Latin America. There was mention of the scope for a new International Coffee Agreement, but Delors explained the difficulties. Gonzalez and several others wanted to send a message of encouragement to Aylwin in the forthcoming Presidential elections in Chile. This was contested by the Prime Minister who said we should wait until the results of the election were known before sending any message from the Community.



Middle East

Andreotti spoke at length on the need for the Community to exercise influence on Israel, through its relationship with the EC. President Mitterrand raised the Lebanon. There was general support for the Taif Agreement. President Mitterrand said that President Hrawi enjoyed legitimacy, and was acting with some subtlety. But his legitimacy did not mean he could act to settle Lebanon's problems in a bloodbath. He should offer dialogue. The Soviets claimed to have warned Assad against a further attack on Aoun's forces in East Beirut. Syria should renounce its ambitions.

East/West Relations

There was quite an extensive discussion with general support for confirming and giving concrete form to the conclusions reached at the meeting in Paris of EC Heads of Government on 18 November. Several Heads of Government spoke of the need to put the question of frontiers on one side and be bound by the provisions of the Helsinki Final Act. The Helsinki conclusions must be protected. Lubbers said that one had to be realistic about Chancellor Kohl's 10 point plan: its effect would be to encourage reunification. There were dangers in talking about self-determination, given the very large number of ethnic groups in Europe. It was better not to talk of one German people. The EC's help should be directed to promoting democratization in Eastern Europe, including in a separate East Germany.

Chancellor Kohl claimed that Germany had paid for the last war by losing one-third of its territory. He asserted that the position of Germans in the Soviet Union, Poland, Hungary and Rumania was not in question: they should remain in their homes (although the FRG would continue to 'buy out' Germans from Rumania - there was no other option). In the Soviet Union Gorbachev wanted to restore a German republic on the Volga. Germans in Poland had the possibility of using their own language, although the Catholic Church was



uneasy about this. On the subject of borders, it had been recognised since Adenauer's time that they should be left to a Peace Treaty to settle. The Oder-Neisse line should not become a legal issue. We should let history take its course. Kohl continued that the future architecture of Germany should be related to Europe and to the CSCE. But it must be recognised that anyone was entitled to self-determination. A German must be able to speak of reunification. The next step should be genuinely free elections in East Germany, after which a contractual relationship between the two Germanies could be established. He more than anyone else feared a neutral Germany: Germany must be anchored in the EC and NATO. The current debate was about the future of the two German states and must respect the Helsinki accords. Present frontiers should be respected. (This is not all consistent, but reflects Kohl's rather muddled approach.) Finally he emphasised the importance of EC help to Poland and Hungary. If their efforts to achieve reform collapsed, there would be no hope for the GDR.

#### Eastern Europe Development Bank

There was some quite brief discussion of the Development Bank for Eastern Europe, with the emphasis on extending it beyond Europe, to draw on capital from Japan, Korea and the US. Hence the need to have an institution in addition to the EIB. There was a general disposition to agree to it in principle, while remitting details to ECOFIN to ensure that it was operated soundly and effectively. The Prime Minister did not contest this conclusion (having had to contest many others during the day).

(C.D. POWELL)

9 December 1989

EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

DECLARATION BY THE TWELVE ON CENTRAL AND EASTERN EUROPE

Each day in central and eastern Europe change is asserting itself more strongly. Everywhere a powerful aspiration toward freedom, democracy, respect of human rights, prosperity, social justice and peace is being expressed. The people are clearly showing their will to take their own destiny in hand and to choose the path of their development. Such a profound and rapid development would not have been possible without the policy of openness and reform led by Mr. Gorbachev.

Expressing the feelings of the people of the whole Community, we are deeply gladdened by the changes taking place. These are historic events and no doubt the most important since the Second World War. The success of a strong and dynamic European Community, the vitality of the CSCE process and stability in the area of security, in which the United States and Canada participate, have contributed greatly to them.

These changes give reason to hope that the division in Europe can be overcome in accordance with the aims of the Helsinki Final Act which seeks, through a global and balanced approach and on the basis of a set of principles which retain their full value, to establish new relations between European countries whether in the area of security, economic and technical cooperation, or the human dimension.

We seek (the strengthening of <sup>a</sup>) the state of peace in Europe in which the German people will regain its unity through free self-determination. This process should take place peacefully and democratically, in full respect of the relevant agreements and treaties and of all the principles defined by the Helsinki Final Act, in a context of dialogue and East-West cooperation. It also has to be placed in the perspective of European integration.

Already the hopes which we expressed a year ago in the Rhodes Declaration have begun to take shape. The progress recorded in the negotiations on conventional and chemical disarmament, the greater freedom of movement of persons and ideas, the greater



assurance of respect of human rights and fundamental freedoms, and the different agreements concluded between the Community and certain of these countries are substantially changing the climate of relations in Europe.

The European Council is convinced in the present circumstances that all must, more than ever, demonstrate their sense of responsibility. The changes and transitions which are necessary must not take place to the detriment of the stability of Europe but rather must contribute to strengthening it.

Far from wanting to derive unilateral advantages from the present situation, the Community and its member States mean to give their support to the countries which have embarked upon the road to democratic change. They deplore all the more so that in certain countries this process is still hindered.

The Community and its member States are fully conscious of the common responsibility which devolves on them in this decisive phase in the history of Europe. They are prepared to develop with the USSR and the other countries of central and eastern Europe, and with Yugoslavia, in so far as they are committed to this path, closer and more substantive relations based upon an intensification of political dialogue and increased cooperation in all areas. The Community has in particular decided to support the economic reforms undertaken in these countries by contributing - in collaboration with its western partners - to the establishment of healthy and prosperous economies within the framework of appropriate structures.

The European Council has drawn up conclusions which illustrate this intention.

For the future and in accordance with the developments taking place, the Community is willing to implement still closer forms of cooperation with these countries.

At this time of profound and rapid change, the Community is and must remain a point of reference and influence. It remains the cornerstone of a new European architecture and, in its will to openness, a mooring for a future European equilibrium. It is obvious that this equilibrium would be still better ensured if there were a parallel development of the role of the Council of Europe, EFTA and the CSCE process.

Construction of the Community must therefore go forward: the building of European Union will permit the further development of a range of effective and harmonious relations with the other countries of Europe.

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A. Goan EED  
P. Mumfild HMT  
L. Parker Club. 5/4

PHARE

Mr. E. ...  
Mr. E. ...

1/4

INDICATIVE FINANCIAL AND AID COMMITMENTS AND  
NEAR COMMITMENTS IN FAVOUR OF  
POLAND AND HUNGARY  
(over one to three years)

Updated: 8 December 1989



C O N T E N T S

- Poland	p. 3
- Hungary	p. 9

TABLE 1

P O L A N D

1 FUNDS ALLOCATED TO THE ORIGINAL PRIORITIES OF THE G-24

	Amount actually committed or envisaged in local currency (millions)	ECU equivalent (millions)	Particulars (G: Grant, L: Loan FC: Firm Commitment PC: Possible Commitment)
<b>A. <u>Food supplies</u></b>			All G-FC except Finland and Japan
Australia	5	3.5	
Austria	40	2.0	
Canada	12	0.2	
EC	125	125	a new tranche is being prepared
Finland	33	7.0	FC
Iceland		0.3	
Italy		00	estimated value
Japan			
Norway	50	0.6	
Switzerland	5	2.8	*purchase of Hungarian wheat *a second delivery is being prepared
Turkey	\$1	0.02	
USA	8 125	7.37 112.6	FY88 FY90
		<hr/> 358.09	



**B. Technical Assistance to Agriculture**

	0	5	2.5	G-FC; aid to the Polish Church to promote the private agricultural sector (2 in FY 89 and 3 in FY 90)
Netherlands	3		1.3	G-FC; cooperation actions
Switzerland	30		15.8	FC-G including food processing and distribution

EC will be allocating part of its 300 MECU contribution to the 25 September action plan as well as its food counterpart fund to this end.

A number of countries could be committing resources in this area (Austria, Iceland, Norway, Switzerland, Denmark, Ireland).

Italy: agriculture mission to determine allocation of resources.

**C. Vocational Training (Training and Retraining, Management Training)**

Austria	20		1.4	
Finland	2		0.4	<u>Both countries</u>
France	90		14.4	D-FC; research, training and co-operation programmes in the food industry
D	3.2		1.6	Special training programmes in the fields of science, economics and law (to be completed by scholarships) Democratic institutions.
		2.2	1.1	
Italy	2000			<u>Both countries</u>
Norway	10		1.23	GFC
UK	60		71	"know how fund" (G-FC)
USA	31		25	Cultural/scientific exchanges. Both countries
	24		21.6	Support for democratic institutions. Both countries
Switzerland	30		15.8	FC-G. Both countries (includes cultural cooperation)

Note: Besides these countries, almost all the 24 are involved in this field, with grants in unspecified amounts, either with firm commitments (Austria, Canada, France, Japan, Netherlands, Portugal and Sweden) or with possible commitments (Australia, Belgium, Denmark, Finland, Italy, New Zealand, Switzerland).

D. Investments, joint ventures, industrial development credits

Canada	0.05	0.039	Promotional programmes for joint ventures (G-FC)
	10	7.7	G-FC (both countries)
Denmark	300	37.5	Fund for private investments
	1000	125	
Finland			Investment guarantee scheme
France	900	144	Investment guarantee scheme
D	10	2	*
Italy	50.000		Public corporation to finance joint ventures and to extend support to small businesses
	100.000		(L-FC) Concessionary terms (1.75 %, 20 year loans, with a 5 year grace period).
Netherlands	3	1.3	Cooperation actions
Norway	100	19.8	Export credit guarantee for investment and export of capital goods (FC).
Turkey	\$1	0.92	Grant local currency
USA	240	216.2	"Enterprise fund" to help promote the private sector (G-FC). Both countries
	6	5.4	Trade development Telephone system modernisation
Switzerland	155	85.6	PC-B/L

Note: Italy is considering (PC) entering this field with as yet unspecified commitments; France and the UK are committed (FC) for unspecified amounts.

\* Two year programme (DM 7 M for 1989; DM 3 M for 1990) for the promotion of private agriculture sector (water works) and guarantees for bank credits.



E. The environment

Finland	90	18.4	Over three years, <u>mainly</u> for the environment.
Norway	10	1.3	GFC
Sweden	300	42.5	Three year programme
Switzerland	30	16.8	PC-G. Both countries
USA	15	13.8	G-FC, for Krakow (sulphur dioxide emissions, water quality and supply, air quality).

Note: D, France, Japan, Netherlands and Austria are also involved with firm commitments but for unspecified amounts (in the form of export credit guarantees in the case of D)  
Denmark is examining possible commitments.

Italy: in contact with both countries and in the process of studying steps to take.

F. Energy

USA has authorised \$30 M (27 MECU) for energy activities. Both countries.

G. Others

Italy is pledging 10 billion lire (7-8 MECUS) in medical aid (G-FC).

USA has authorised \$5.5 M (4.9 MECU) for science and technology exchanges.  
USA has authorised \$4 M (3.6 MECU) for medical supplies, hospital equipment and medical training.

II. RECENT DEVELOPMENTS OUTSIDE THE SCOPE OF THE ORIGINAL EXERCISE

A. Export Credit Guarantee Ceilings

Austria	1 billion	69	
Canada	20	15.4	PC
D	2500	1250	FC
France	3000	480	
Italy	(\$400M)	363.6	
Norway	150	19.8	(cf. ID)
USA	200	180	Both countries

N.B. Finland on case by case basis.

B. Project Financing (2)

EIB		1000	Over three years for both Poland and Hungary; principle approved by Council of Ministers; EC budget guarantee
IBRD(1)	(300)	(276)	Two projects are ready; they should be followed by another \$300M project loan and then perhaps by a \$500M SAL; total commitments could reach \$1bn by the end of 1990 (PC)
Austria	5 billion	345	
Turkey	\$1	0.9	N.B. Both countries
UK	15	21	Agricultural project
<u>EEC Action Plan</u>			
EEC	300	300	G-FC (both countries) for various fields
<u>D. Poland's request for a \$1bn Stabilisation Fund</u>			
D	250	125	PC-G (subject to IMF agreement)
France	100	92	PC
USA	200	184	PC-G (subject to IMF agreement)

Notes: Canada is considering a commitment for an as yet unspecified amount.  
 Italy studying allocation.  
 Portugal studying allocation.  
 Japan is considering a commitment of \$150M.

E. Balance of Payments support

IMF(1)		700	544	PC-L (for the time being, a mere request by Poland).
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(1) for information only  
 (1) for information only



Table 2

## HUNGARY

I. FUNDS ALLOCATED TO THE ORIGINAL PRIORITIES OF THE 6-24

	Amount actual- ly committed or envisaged in local curren- cy (millions)	ECU equivalent (millions)	Particulars (G: grant L: Loan FC: Firm Commitment PC: Possible Commitment)
<u>A. Vocational training (training, retraining, management training)</u>			
Austria	20	1.4	G-FC mainly for tourism and services
Finland			Management training (elections) Energy saving, telecommuni- cations, food processing
D	3.2	1.5	Special training programme in the fields of science, economics and law (to be completed by scholarships; Democratic institutions
	2.2	1.1	
UK	25	35.8	G-PC ("know how fund")
Switzerland			see under Poland
USA			see under Poland

Note: Other countries are already involved in this field with firm commitments for unspecified amounts (Norway, Canada, Japan, D, France, Netherlands); and yet another group is studying the possibility of entering into commitments (Australia, New Zealand, Belgium, Denmark).

B. Investment (joint ventures)

USA (see also under Poland)	1 25	0.92 23	PC (would cover a three year period) G-PC (enterprise fund to promote the private sector)
Switzerland	5	2.8	PC-G investment promotion activity

Note: \* Belgium, Denmark, D, France and the Netherlands are also involved in this field with firm commitments for unspecified amounts.

\* Canada is looking into the possibility of entering into commitments.

C. Environment

USA	5	4.6	G-FC creation of a Regional Environmental Centre in Budapest.
	20	18.4	

Note: \* Finland, Austria, the D and the Netherlands are also involved in this field with firm commitments for unspecified amounts.

\* Denmark is looking into the possibility of entering into commitments.

D. Energy

USA			see under Poland
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E. Others

\* Canada has given a 11.7 MECU equivalent credit to the Hungarian National Bank for the purchase of Canadian goods (FC-L).

\* Belgium has earmarked for 1990 a budget of BF 130 M (3 MECUS) for various bilateral projects along the lines of the action plan of the 24.

II RECENT DEVELOPMENTS OUTSIDE THE SCOPE OF THE ORIGINAL EXERCISE

A. Export credit guarantees

D	2000	1000	FC- 1500 DM from the Federal government, 250 from Bavaria, and 250 from Baden Württemberg.
USA			see under Poland
Switzerland			open without ceiling

B. Project financing

EIB			L-FC (as much as 1bn ECUs could be extended as EIB loans to both Hungary and Poland, with a Community budget guarantee)
Finland	400	85	FC Reconstruction Projects
(Turkey	\$1	0.92	See Poland).



## TRADE AND MARKET ACCESS

Country	MFN	QR	GSP	Trade agreement	Export Credit System
AUSTRIA	X	-	X	-	-
FINLAND	X	-	-	1974	(2)
ICELAND	X	-	-	1970	-
NORWAY	X	-	(1)	1984	X
SWEDEN	X	X	-	1992	-
SWITZERLAND	X	-	-	1974	-
TURKEY	X	-	-	1974	X
CANADA	X	-	-	-	X
USA	(3)	-	(1)	-	X
					Trade - Development program worth \$500 000 for regional development
JAPAN	X	-	X	-	X
AUSTRALIA	X	-	(1)	1967	X
NEW-ZEALAND	X	-	X	1970, rev. 1978	-
EC	X	-	X	1988	-

(1) GSP status under consideration.

(2) The extending of credit facilities is under consideration.

(3) Granting of MFN status is under consideration.

TRADE AND MARKET ACCESS

COUNTRY	MFN	QR	GSP	Trade Agreement	Export Credit System
AUSTRIA	X	-	-	-	-
FINLAND	X	-	-	1978	X
ICELAND	X	-	-	1975	-
NORWAY	X	-	-	1981	(2)
SWEDEN	X	X	-	1978	-
SWITZERLAND	X	-	-	1973	-
TURKEY	X	X	-	1974	X
CANADA	X	-	(1)	-	X
USA	X	-	(1)	-	(2)
JAPAN	-	-	(1)	-	X
AUSTRALIA	X	-	(1)	1966	X Revolving A\$ 200 M line of credit to cover raw materials processed for export markets
NEW-ZEALAND	X	-	X	1965	-
EC	-	-	X	1989	-

(1) GSP status under consideration.

(2) Granting of export credit facilities is under consideration.



DRAFT  
REV. I  
08.12.89

EUROPEAN COUNCIL  
(Strasbourg, 8 and 9 December 1989)

CONCLUSIONS

2. EUROPEAN POLITICAL COOPERATION

1. The European Council discussed the following subjects of political cooperation :

- Central and Eastern Europe
- Middle East
- Lebanon
- Euro-Arab Conference
- Southern Africa
- Ethiopia
- Chile

It approved the statements annexed below.

2. Cyprus

The European Council expressed its deep disquiet that the tragic division of Cyprus, a country belonging to the European family, remains unchanged despite the renewed efforts over fifteen months of the Secretary General of the United Nations.

It also reiterated its appeal to all parties to cooperate with Mr. Pérez de Cuellar and his representative on the spot so as to overcome the obstacles to the pursuit of dialogue. It asked them not to miss this opportunity for a just and lasting settlement that will safeguard the unity, independence, sovereignty, and territorial integrity of Cyprus in accordance with the relevant resolutions of the United Nations.

3. Human rights

The European Council took note of the report of the Political Committee summing up the activity of the Twelve in the field of human rights in the course of 1989. In this connection, it approved the text of a press release.

EPC 53/17

EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

DECLARATION BY THE TWELVE ON CENTRAL AND EASTERN EUROPE

Each day in central and eastern Europe change is asserting itself more strongly. Everywhere a powerful aspiration toward freedom, democracy, respect of human rights, prosperity, social justice and peace is being expressed. The people are clearly showing their will to take their own destiny in hand and to choose the path of their development. Such a profound and rapid development would not have been possible without the policy of openness and reform led by Mr. Gorbachev.

Expressing the feelings of the people of the whole Community, we are deeply gladdened by the changes taking place. These are historic events and no doubt the most important since the Second World War. The success of a strong and dynamic European Community, the vitality of the CSCE process, and stability in the area of security, in which the United States and Canada participate, have contributed greatly to them.

These changes give reason to hope that the division in Europe can be overcome in accordance with the aims of the Helsinki Final Act which seeks, through a global and balanced approach and on the basis of a set of principles which retain their full value, to establish new relations between European countries whether in the area of security, economic and technical cooperation, or the human dimension.

We seek the establishment of a state of peace in Europe in which the German people will regain its unity through free self-determination. This process should take place democratically and peacefully, in full respect of the relevant agreements and treaties, and on the basis of all the principles defined by the Helsinki Final Act, in a context of dialogue and East-West cooperation. It has to be placed in the perspective of Community integration.

Already the hopes which we expressed a year ago in the Rhodes Declaration have begun to take shape. The progress recorded in the negotiations on conventional and chemical disarmament, the greater freedom of movement of persons and ideas, the greater



assurance of respect of human rights and fundamental freedoms, and the different agreements concluded between the Community and certain of these countries are substantially changing the climate of relations in Europe.

The European Council is convinced in the present circumstances that all must, more than ever, demonstrate their sense of responsibility. The changes and transitions which are necessary must not take place to the detriment of the stability of Europe but rather must contribute to strengthening it.

Far from wanting to derive unilateral advantages from the present situation, the Community and its member States mean to give their support to the countries which have embarked upon the road to democratic change. They deplore all the more so that in certain countries this process is still hindered.

The Community and its member States are fully conscious of the common responsibility which devolves on them in this decisive phase in the history of Europe. They are prepared to develop with the USSR and the other countries of central and eastern Europe which are committed to this path, closer and more substantive relations based upon an intensification of political dialogue and increased cooperation in all areas. The Community has in particular decided to support the economic reforms undertaken in these countries by contributing -in collaboration with its western partners- to the establishment of healthy and prosperous economies within the framework of appropriate structures.

The European Council has drawn up conclusions which illustrate this intention.

For the future and in accordance with the developments taking place, the Community is willing to implement still closer forms of cooperation with these countries.

At this time of profound and rapid change, the Community is and must remain a point of reference and influence. It remains the cornerstone of a new European architecture and, in its will to openness, a mooring for a future European equilibrium. It is obvious that this equilibrium would be still better ensured if there were a parallel development of the role of the Council of Europe, EFTA and the CSCE process.

Construction of the Community must therefore go forward: the building of European Union will permit the further development of a range of effective and harmonious relations with the other countries of Europe.



EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

DECLARATION BY THE TWELVE ON THE MIDDLE EAST

1. The European Council wishes once more to stress the over-riding need to find a political settlement to the Arab-Israeli conflict. In this regard it recalls that the position of the Twelve is defined in the Madrid Declaration of 27 June, 1989. In all its elements this Declaration remains fully valid.

It is in this spirit that the Twelve supported the proposal for elections in the Occupied Territories, considered as a step in a process towards an overall settlement. Similarly they encourage efforts which seek to establish dialogue between the parties directly concerned. They recall the efforts they themselves make to this end, while respecting the principles which guide their search for a settlement. An illustration is the recent mission carried out by the Ministerial Troika.

2. Seriously concerned by violations of human rights in the Occupied Territories and recalling the need for the occupying power to observe strictly its obligations under the 4th Geneva Convention to which it has notably not conformed in such basic areas as education and health, the European Council deplores the continuous deterioration of the situation in the Occupied Territories which seriously affects the living conditions of the people, compromises in a lasting fashion the future of Palestinian society and prevents the economic and social development of the Territories.

The Community and its member States are determined to increase substantially their aid to the inhabitants of these Territories. Within the framework of the new 1990/1992 triennial convention, the Community will continue with and increase its aid to Palestinians through UNRWA which has amounted to more than 388 million ECU since 1971. It wishes to see the activities of UNRWA carried out without hindrance. During the same period, the European Council establishes as an objective the doubling of the



Community's direct aid which, since 1981, has amounted to 23 million ECU. The Community thus intends to contribute to the economic and social development of the Occupied Territories and, by its efforts in the area of health and education as well as by support for local Palestinian institutions, to protect the common future of the Palestinian people.

EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

STATEMENT ON LEBANON

Deeply concerned at the recent developments in Lebanon which have produced a further threat to the preservation of the country's unity, the European Council reaffirms its commitment to the implementation of the Taif Agreements. It expresses its conviction that in present circumstances there is no alternative to the process of national reconciliation and peace envisaged under those Agreements.

The European Council therefore calls on all parties concerned to lend their support to these objectives, in such a way that they are furthered through dialogue and consultation to the exclusion of any recourse to violent means, the upholding of the cease-fire being a main priority.

The European Council expresses its support for the constitutional order in Lebanon embodied by the President of the Republic and the Government appointed by him, so that in accordance with the aspirations of the whole population, the sovereignty, independence, unity and territorial integrity of Lebanon can be restored. This process implies the withdrawal of all foreign armed presence, so that the Lebanese people will be fully masters in their own house.



EUROPEAN POLITICAL COOPERATION

DRAFT  
8.12.89

EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

STATEMENT ON THE EURO-ARAB CONFERENCE

The European Council expresses its desire to make closer the ties which unite the Twelve to the Arab world from one side of the Mediterranean to the other. It is in this spirit that a Conference has been organised which will meet in Paris on 21 and 22 December and whose purpose will be to give a new impetus to the Euro-Arab Dialogue in order to strengthen and develop their cooperation.

EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

DECLARATION BY THE TWELVE ON SOUTHERN AFRICA

Southern Africa has, for a year, been the scene of developments of such importance as consistently to demand the attention of the Twelve.

1. The most obvious of these concerns Namibia. Almost a year ago the signature of the New York Agreements opened the way for implementation of Resolution 435 as the Twelve have constantly wished. Up to now the transitional process has unfolded in a satisfactory manner and the Twelve wish, on this occasion, to express their appreciation of the vital role played by the Secretary General of the UN and his Special Representative for Namibia. The first valid and free elections have permitted the appointment of a Constituent Assembly which truly reflects the wishes of the Namibian people. The foundations of the new state are taking shape before our eyes.

Independent Namibia's needs will be significant. The Community and its member States are already prepared to contribute to meeting these through appropriate aid programmes. This effort will be in addition to the assistance envisaged by all of the member States on a bilateral level. Namibia will also be welcomed into the new Lomé Convention as soon as it expresses a wish to join it. The Troika has already made known this position to the representatives of the ACP States at their recent Ministerial meeting to discuss southern Africa.

2. A measure of progress has also been achieved in the process of national reconciliation in Angola and Mozambique. A favourable international climate has been availed of with courage and determination on the part of those with authority in these two States in order to make significant advances on the road to peace. The recent mission of the Troika of Political Directors to Angola brought out the real will of the leaders of this country to put an end to the conflict which has for too many years encumbered the economic development and well-being of its people.



The Community and its member States are resolved to match these developments by efforts to aid the reconstruction and development of both these countries.

3. Finally, in South Africa, President De Klerk's accession to power has been followed by several acts of clemency and a degree of freedom of expression which the Twelve have welcomed. These measures, however, are still insufficient with respect to the immense task posed by the dismantlement of apartheid. The objective of the Twelve remains the achievement through peaceful means of a democratic and multiracial system in South Africa. In this regard they support any process which can lead rapidly to the cessation of violence on all sides and to a dialogue between the parties. Only broad-based negotiations bringing together the true leaders of the different constituent parts of the South African people can result in a lasting settlement. In this respect the Conference for a Democratic Future, which is being held in Johannesburg from 9 to 12 December, is a step in the right direction.

In this context the Community and its member States have recalled their support for the programme of positive measures intended to help the victims of apartheid. With a view to preparing for the developments which are inescapable in South Africa, this programme will be strengthened over the next two years by granting new scholarships for study in Europe and in multi-racial South African universities. The purpose of this action is to facilitate exchanges between the different communities while allowing their least privileged members to attain a better level of education and thus to contribute to the training of the skilled personnel of which a multi-racial South Africa will have crucial need in the medium term.

The Community and its member States have, moreover, decided to maintain the pressure that they exert on the South African authorities in order to promote the profound and irreversible changes which they have repeatedly stood for and to reconsider it in the light of clear evidence that these changes are being obtained.

A new South Africa, free from racial discrimination, in which all South Africans can live in peace and harmony and enjoy equal rights, is not a Utopian ideal. Its achievement will also be of vital importance to the peace, stability, security and economic development of the whole region and will allow South Africa once more to find its proper place within the international community.

EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

STATEMENT ON ETHIOPIA

The European Council welcomes the steps undertaken to advance towards negotiated solutions and expresses its conviction that only the conclusion of a political agreement between all parties will enable conflict to be brought to an end. They call on the parties concerned to pursue negotiations so as to achieve as soon as possible a settlement acceptable to all, in a spirit of national reconciliation.

The European Council expresses its deep concern at the gravity of the food shortage which affects the northern regions - in Erythraea and Tigré in particular - and threatens the life of millions of persons.

It affirms the determination of the European Community and its member States to come to the assistance of the populations who are victims of famine. It urges all parties concerned, in collaboration with the agencies of the United Nations, the World Food Programme, the International Committee of the Red Cross, and other non-governmental organisations, not to obstruct but on the contrary to facilitate the delivery and distribution of humanitarian assistance and emergency aid in the afflicted areas.



EUROPEAN COUNCIL  
(Strasbourg, 8-9 December 1989)

DECLARATION BY THE TWELVE ON THE EVE OF  
GENERAL ELECTIONS IN CHILE, 14 DECEMBER 1989

The European Council, which has constantly expressed its wish for the reestablishment of freedom in Chile, views the situation in that country with hope.

The results of the plebiscite of 5 October 1988 showed clearly the will of its people to put an end to the 16 years of the military regime and to renew its democratic traditions.

The European Council today welcomes the prospects offered by the forthcoming Presidential and legislative elections at the end of a process which should finally permit a return to a state founded on law.

The Community and its member States have already provided the Chilean people with assistance in various sectors. The European Council reiterates its intention to contribute to the economic and social development of a democratic Chile, in particular within the framework of a future cooperation agreement between the Community and that country.

EUROPEAN COUNCIL  
(Strasbourg, 8-9 DECEMBER, 1989)

PRESS STATEMENT ON THE ACTIVITY OF THE TWELVE  
IN THE FIELD OF HUMAN RIGHTS

- Cooperation in the field of human rights, which led earlier, in 1986, to a ministerial declaration and, in 1987, to the setting up of a special working group in accordance with the wishes of the European Parliament, has developed further in 1989.
- This has been a year of contrasts in human rights, marked by progress, particularly in some Eastern European countries, but also by disappointed hopes and the continuation of disturbing situations. Confronted with such events, the Twelve have made their voice heard. The interventions they have made in international fora (CSCE; United Nations - where for the first time last February, the Twelve made a joint intervention in the debate of the Commission on Human Rights), together with the positions they have adopted in the form of declarations, give witness to their will to react to such situations regardless of the continent in which they might occur. In certain cases (Iran, Romania, China, Panama), measures that have been taken have been made public.
- The question of human rights has become an important element in the dialogue and cooperation entered into with the developing countries. Respect of human rights is essential to lasting development.
- Actions in the field of human rights have also been carried out by way of numerous démarches made during the year to several governments, most often through the Ambassador of the Presidency or Heads of Mission forming the "Troika". For reasons of efficacy, most of these démarches have remained confidential. The purpose of some of them has been to protect or save persons who were victims of arbitrary treatment or racial discrimination, in particular apartheid. Others have marked the concern of members of the European Community with regard to certain particularly serious attacks on human rights (summary executions, torture, arbitrary arrests ...).



- The adoption in 1988 within the CSCE framework of a special procedure which both enables attention to be drawn to situations where human rights in Europe are not being respected and contributes to their resolution through dialogue between States, has also led the Twelve to act jointly. Thus the Presidency, making use of this procedure, has intervened on a number of occasions in 1989 in four countries of Eastern Europe.

- Coordination between member countries of the Community is accompanied by and relies increasingly upon enhanced on-the-spot cooperation between their Missions in countries where fundamental freedoms are violated.

- Particular attention has been paid to questions and resolutions of the European Parliament concerning human rights.

- All in all, the actions undertaken by the Community and its member States in 1989 in the area of human rights have marked a new stage in their common commitment to the respect of human rights.

Master

DRAFT  
CONCLUSIONS OF THE PRESIDENCY  
EUROPEAN COUNCIL  
STRASBOURG, 8 AND 9 DECEMBER 1989



## I. TOWARDS EUROPEAN UNION

- ✓ The European Council is conscious of the responsibilities weighing on the Community in this crucial period for Europe. The current changes and the prospects for development in Europe demonstrate the attraction which the political and economic model of Community Europe holds for many countries.
- ✓ The Community must live up to this expectation and these demands: its path lies not in withdrawal but in openness and co-operation, particularly with the other European States.
- x It is in the interest of all European States that the Community should become stronger and accelerate its progress towards European Union.

Continue  
to  
build

The European Council adopted the following conclusions to this end:

## II. MAKING THE SINGLE ACT A REALITY

✓ The Community is determined to carry out all the commitments contained in the Single Act in order to continue and extend the process of integration in the run-up to European Union. This presupposes that the Community must finish off, within the time limits laid down, the completion of the single market and that it should apply itself, at the same time, to giving concrete form to large-scale projects which will signify a new stage in its development.

### A. An area without internal frontiers

✓ The internal market is beginning to assume its final shape, and its positive effects are being felt in all sectors of economic life. In general, the timetable which was set is being adhered to. Important decisions have been taken during this six-month period: in the area of financial services, decisions have been taken on the co-ordination of legislation enabling banks to offer their services throughout the Community, the prohibition of insider dealing and the co-ordination of motor vehicle insurance. The European Council hopes that this set of decisions will be swiftly supplemented by the adoption of the Commission proposals on investment companies, regulations on the solvency ratio,

seam?

public procurement offers, company law, in particular the statute of the European company, and the three tax proposals concerning co-operation between companies.

Significant progress has also been made in the Council (Internal Market) on other major topics such as the control of company concentrations, on which a decision is to be taken before the end of this year. It would also like decisive progress to be made regarding testing, standards and certification, the opening of public procurement markets in the telecommunications, energy and transport sectors and the distribution of water and freedom to provide life assurance services. *Mergers*

It is also requesting that rapid progress be made in the veterinary sphere. In the transport sector it stresses the importance of the decisions taken on road cabotage and the guidelines adopted on air transport. It would like a coherent external Community policy to be drawn up in the latter sector and an effective response to the problem of the congestion of air space, in order to guarantee maximum safety for passengers. It notes with satisfaction the progress made in the telecommunications sector.

Special priority should be given to the development and inter-connection of trans-European networks, notably in the area of air traffic control, the linking of the main Community conurbations by broad-band telecommunications networks, training, the most efficient inland communications and energy distribution. The European Council asks the Commission to propose the appropriate measures, taking into account the possibility of extending such action to the whole of the European continent.

With regard to the taxation of savings, the European Council notes the progress which has been made since Madrid. It asks the ECOFIN Council to complete its proceedings as soon as possible and to take measures to avoid tax evasion as an accompaniment to the liberalization of capital movements.

With regard to indirect taxation, it notes with satisfaction the progress made during the last few months, with the formulation of a transitional



✓ system which will lighten the burden on undertakings and administrations and enable border checks to be eliminated.

? | It considers that these arrangements need to be supplemented by the measures which will be essential in particular to bring about the progressive approximation of VAT rates and to resolve the problems connected with the removal, on 1 January 1993, of limits on purchases by private individuals for their personal consumption when travelling within the Community. *plm*

The European Council asks the Council to adopt as soon as possible, on a proposal from the Commission, the decisions which will make the process of the complete abolition of fiscal frontiers irreversible.

#### B. Associated policies

According to the Single Act, completion of the internal market must be backed up by a number of associated policies. Amongst these, measures to achieve closer economic and social cohesion are of particular importance to enable the Community as a whole to reap the benefits expected from the large market. In this respect, the European Council welcomes the implementation of the reform of the structural policies within the period laid down.

#### C. Environment

✓ An improvement in the quality of life will come from paying greater attention to the demands of the environment. The nature and seriousness of the problems arising in this sphere make more and more necessary a perspective and measures which go beyond the national framework. The European Council confirms the desire of the Community and its Member States to play a greater part in the devising of international strategies for combating the dangers which threaten the environment, in particular by taking an active part in the drafting of a world convention on climate.

✓ The European Council welcomes the unanimous agreement of the Council on the arrangements for the setting-up of the European Environment Agency as from 1990. This Agency, which will be open to non-EEC European countries which wish to join, will constitute a decisive stage on the road towards improved knowledge of the state of the European environment and will thus help to improve the strategies for dealing with the problems that arise.

The European Council would like the Council (General Affairs) to take an early decision on the Agency's headquarters.

D. Research

✓ The European Council would like the Council to reach agreement before the end of the year on the new framework programme for 1990/1994, the implementation of which should enable major progress to be made regarding the competitiveness of key sectors of European industry.

The European Council is pleased with the increased participation by EFTA countries in Community research programmes and hopes that co-operation with these countries and their association will develop further when the new framework programme is implemented.

E. Audiovisual

✓ The commitment of citizens to the European idea depends on positive measures being taken to enhance and promote European culture in its richness and diversity. In this context the European Council considers it essential to consolidate recent achievements and capitalize on the guidelines which emerged from the Audiovisual Conclave in order to develop Europe's audiovisual capacity: Directive on the free movement of televised programmes and competition policy. It hopes that the efforts to produce the European HDTV system will be stepped up, that the Community action programme extending MEDIA will receive substantial financial support and that the necessary synergy with audiovisual EUREKA will be ensured.

F. Free movement of persons and People's Europe

All Community policies in the economic and social spheres contribute directly and indirectly to consolidating a common sense of belonging. This movement must be broadened and accelerated by the adoption of concrete measures which will enable European citizens to recognize in their daily lives that they belong to a single entity.

*abolition* The European Council underlines the importance in this respect of the progressive abolition of border formalities which impede the free movement of persons and symbolize division, which means that effective



measures need to be taken at the same time to combat terrorism, drug addiction and organized crime.

The European Council takes note of the progress made within the Co-ordinators' Group as described in the progress report drawn up under the responsibility of the Presidency. The European Council would like the work to be stepped up and accelerated so that progress towards the free movement of persons can keep pace with that achieved on the free movement of goods, services and capital, in accordance with the timetable set out in the Palma document.

The European Council would like an inventory to be prepared of national positions on immigration so that a discussion on this issue within the Council (General Affairs) can be prepared. The European Council accordingly calls upon the relevant bodies to conclude as soon as possible, and no later than the end of 1990, the conventions which are under examination on the right of asylum, the crossing of the Community's external frontiers, and visas. The European Council emphasizes the need, throughout those proceedings, to ensure that the procedures for co-operation between administrations first ensure the protection of individuals with regard to the use of personal data banks.

The European Council calls upon the Co-ordinators' Group on Drugs recently set up on the initiative of the President of the French Republic to take all necessary steps to ensure the vital co-ordination of Member States' actions in the main areas of the fight against this scourge, namely prevention, health and social policy with regard to drug addicts, the suppression of drug trafficking, and international action. In this context, the European Council warmly welcomes the courageous action taken by certain countries, notably Colombia, and would like everything possible to be done to contribute to the success of their efforts. The European Council reaffirms in this connection the need for the negotiations within the International Coffee Organization with a view to concluding a new Agreement to be resumed as soon as possible.

The European Council welcomes the significant results obtained by implementing the programmes on exchanges of young persons and students (ERASMUS, COMETT,

LINGUA), which contribute to developing European awareness, as will the forthcoming introduction of a European emergency health card and of a "young persons" card. Similarly, the European Council particularly welcomes the decisive progress made recently towards agreement on granting all Community nationals unrestricted right of residence in the Member State of their choice. This important measure, which is scheduled for adoption before the end of the year, represents an important step towards the integration of the peoples of the Community. The European Council indicated its satisfaction at the conduct of the "Europe against Cancer" programme and at the agreement of principle reached on adoption of the second action programme 1990-1994.

#### G. Social dimension

Establishment of the single market has already led to significant results, as evidenced by sustained growth, a considerable increase in investment and in particular by the creation of new jobs, projected at five million for 1988-1990.

The European Council considers that this trend, together with the adoption of directives on the health and safety of workers, Community measures relating to the integration of unemployed young persons into working life and the fight against long-term unemployment, and of directives on vocational training, constitute decisive aspects of the Community social dimension.

The Heads of State and of Government of eleven Member States adopted the Community Charter on the fundamental of social rights of workers. This Charter reflects their sincere attachment to a model of social relations based on common traditions and practices. It will serve them as a reference point for taking fuller account in future of the social dimension in the development of the Community.

The European Council takes note of the action programme submitted by the Commission for the practical implementation of the Charter and calls upon the relevant national and Community authorities, in compliance with their respective responsibilities as deriving from the Treaties, to give effect to it in the very near future.



### III. ECONOMIC AND MONETARY UNION

1. The European Council examined the work carried out since the European Council meeting in Madrid with a view to a meeting of the Intergovernmental Conference.  
It welcomed the decisions taken by the ECOFIN Council to improve collaboration between Central Banks and to strengthen the co-ordination of economic policies. It notes that these decisions will enable the first stage of EMU as defined in the report from the DELORS Committee to begin on 1 July 1990.
2. It took note of the report from the High Level Working Party, which identified the main technical, institutional and political issues to be discussed with a view to a Treaty on Economic and Monetary Union.

? On this basis, and following a discussion on a meeting of an Intergovernmental Conference charged with preparing a Treaty on the final stages of EMU, the President of the European Council noted that the necessary majority existed for convening such a conference under Article 236 of the Treaty. That conference will meet, under the auspices of the Italian authorities, before the end of 1990. It will draw up its own agenda and set the timetable for its proceedings.

*abrupt  
starts*

3. The European Council emphasized, in this context, the need to ensure that the transfer of powers to the Community does not result in any weakening of democratic control. With a view to the new legislative body of the European Parliament which will begin in 1994, it calls for the institutional balance of Economic and Monetary Union to comply fully with that democratic requirement.
4. The European Council also took note of the Commission's intention to submit before 1 April a composite paper on all aspects of the achievement of Economic and Monetary Union which will take into account all available analyses and contributions.

✓ The European Council emphasized the need for the Council (General Affairs) and the ECOFIN Council to use the period prior to the opening of the Conference to ensure the best possible preparation.

The proceedings as a whole will be examined by the Council (General Affairs) in preparation for the European Council meeting in Dublin.

#### IV. A COMMUNITY OF RESPONSIBILITY AND SOLIDARITY

In keeping with the principles set out in the Rhodes and Madrid Declarations, the Community will develop its role and that of its Member States in the international political and economic arena in a spirit of openness, solidarity and co-operation. It will fully meet its responsibilities vis-à-vis countries with which it maintains all manner of links and relationships, historical and geographical in origin.

##### A. EFTA

The European Council welcomes the progress of the discussions which have taken place since the Madrid Council and hopes that at the ministerial meeting on 19 December a decision will be taken to begin negotiations so that the Community and EFTA can, during 1990, reach a comprehensive agreement strengthening their co-operation in the framework of a European economic area of eighteen States in complete accordance with multilateral commitments.

The Community hopes that this co-operation will be as close as possible and that it will ensure EFTA's participation in "flanking policies", and in the disciplines and benefits of the internal market, in full compliance with the independent decision-making processes of each organization and a strict balance of rights and obligations.

The European Council hopes that the negotiations to be opened in the first half of 1990 will produce appropriate, pragmatic arrangements for institutional co-operation which are fully in keeping with the above principles.

This new relationship between the EEC and EFTA will be in the interests of both parties and meet the expectations of the peoples of Europe.



## B. COUNTRIES OF CENTRAL AND EASTERN EUROPE

The Community's dynamism and influence make it the European entity to which the countries of Central and Eastern Europe now refer, seeking to establish close links. The Community has taken and will take the necessary decisions to strengthen its co-operation with peoples aspiring to freedom, democracy and progress and with States which intend their founding principles to be democracy, pluralism and the rule of law. It will encourage the necessary economic reforms by all the means at its disposal. The Community's readiness and its commitment to co-operation are central to the policy which it is pursuing and which is defined in the declaration adopted today; the objective remains, as stated in the Rhodes Declaration, that of overcoming the divisions of Europe.

1. The Community has concluded Trade Agreements and, for the most part, Co-operation Agreements with Czechoslovakia, Hungary and Poland. The Agreement with the USSR should be signed by the end of this year. The Council will, as soon as possible, instruct the Commission to negotiate a Trade and Co-operation Agreement with the GDR to be concluded during the first half of 1990.

The European Council welcomes the decisions taken by the Council (General Affairs) on 27 November 1989 temporarily granting Poland and Hungary special trade facilities in order to contribute towards solving their specific political and economic problems.

It noted with satisfaction the decisions taken by the Community to assist economic reform in Poland and Hungary.

The Community took part, in co-operation with its main Western partners, in an operation to supply agricultural products to Poland. In view of the scale and urgency of the needs, the European Council

would ask the Council to take a decision in the near future on a further such operation.

2. At their meeting in Paris on 18 November 1989, the Heads of State and of Government asked the Troika of Presidencies and the Commission to make progress in discussion and decision-taking on the following questions:

- ✓ - the European Council approved the principle of granting observer status to the USSR in GATT;
- ✓ - the Commission has submitted proposals designed to allow nationals of the countries of Central and Eastern Europe to take part in a number of educational and training programmes similar to Community programmes; the European Council requests the Council to take the relevant decisions;
- ✓ - the European Council calls upon the Council to take, at the beginning of 1990, the requisite decisions for the setting up of a European Vocational Training Foundation, on the basis of proposals which the Commission is to submit;
- ✗ - the European Council approved <sup>in principle</sup> the creation of a Bank of Europe. Its aim will be to promote productive and competitive investment in the States of Central and Eastern Europe, to assist the transition towards a more market-orientated economy and to speed up the necessary structural adjustments. The States of Central and Eastern Europe concerned will participate in the capital and management of the Bank, in which the EEC will have a majority holding. The European Council hopes that the Bank of Europe will be created as soon as possible. The European Council requests that the necessary steps be taken to ensure that negotiations are opened in January 1990. The European Investment Bank will play a key role in preparing the way for this new institution.



3. The European Council confirmed the Community's readiness to participate, under the conditions defined at the meeting on 18 November, in the creation of a stabilization Fund for Poland. It emphasized that the Twelve's joint contribution would provide more than half the resources of the Fund, which is to receive 1 000 million dollars. The European Council referred to the need to grant Hungary an adjustment loan of the same amount. It called upon the Council to take an early decision on the Commission proposal and to consult closely with the international monetary authorities on this question.
4. The European Council confirmed the key importance that it attaches to the fact that aid and co-operation projects decided on by Western countries should be as complementary as possible. It reaffirmed the need to maintain and strengthen the procedure established at the Arche Summit. It expects the forthcoming ministerial meeting of the 24 Western countries on 13 December to take the necessary substantive and procedural decisions to ensure that the efforts undertaken to facilitate the transition taking place in Poland and Hungary and possibly in other countries of Central and Eastern Europe are co-ordinated and effective.

#### C. MEDITERRANEAN

The European Council considers that the Community must in the coming months flesh out its policy of neighbourly relations with the Mediterranean States, including Yugoslavia, with which it has long had preferential ties. The specific relationship with Mediterranean countries must be intensified and make it possible to support them in their efforts towards co-operation with Europe, regional integration and economic development.

The Community attaches great importance to the creation of the AMU and will implement the most appropriate co-operation. It will continue the Euro-Arab dialogue at the December meeting.

The European Council calls upon the Council to adapt, on the basis of the Commission communication, the instruments provided for under the current Agreements in order to institute the means and methods of co-operation which are best suited to the special nature of the relations which must develop between the Community and these countries.

#### D. LATIN AMERICA AND ACP STATES

The Community must strengthen its co-operation with the Latin American countries: in particular it must support the efforts of the Andean Pact countries to combat drugs, find substitute crops and improve the outlets for them.

The European Council welcomes the conclusion of the fourth Lomé Convention, which deepens and broadens the privileged relations between the Community and the Associated African, Caribbean and Pacific States.



DRAFT  
CONCLUSIONS OF THE PRESIDENCY  
EUROPEAN COUNCIL  
STRASBOURG, 8 AND 9 DECEMBER 1989

① accelerate ? continue.

② Translation point : French "perspective"  
English should be  
Context



## I. TOWARDS EUROPEAN UNION

The European Council is conscious of the responsibilities weighing on the Community in this crucial period for Europe. The current changes and the prospects for development in Europe demonstrate the attraction which the political and economic model of Community Europe holds for many countries.

The Community must live up to this expectation and these demands: its path lies not in withdrawal but in openness and co-operation, particularly with the other European States.

① It is in the interest of all European States that the Community should become stronger and accelerate its progress towards European Union.

The European Council adopted the following conclusions to this end:

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② The Community is determined to carry out all the commitments contained in the Single Act in order to continue and extend the process of integration in the run-up to European Union. This presupposes that the Community must finish off, within the time limits laid down, the completion of the single market and that it should apply itself, at the same time, to giving concrete form to large-scale projects which will signify a new stage in its development.

### A. An area without internal frontiers

The internal market is beginning to assume its final shape, and its positive effects are being felt in all sectors of economic life. In general, the timetable which was set is being adhered to. Important decisions have been taken during this six-month period: in the area of financial services, decisions have been taken on the co-ordination of legislation enabling banks to offer their services throughout the Community, the prohibition of insider dealing and the co-ordination of motor vehicle insurance. The European Council hopes that this set of decisions will be swiftly supplemented by the adoption of the Commission proposals on investment companies, regulations on the solvency ratio,



(3) E.C.S.

Point of Substance.

We don't except the need for a E.C.S.,  
and we have doubts about the  
legal basis - 100 (A) = Qualified Majority  
we think it should be 235 = Unanimity

Suggest argue that there is no  
need to qualify the general "company  
law" with this particular, contentious,  
reference.

(4) This paragraph is OK except that it

(1) it could be taken as meaning no  
more need be done on road cabotage

(2) it says nothing about shipping  
cabotage

(3) it could give the EC a role in  
the negotiation of air services  
agreements with the outside world

Suggest: (1) add extra sentence

"Further progress on all 3 sectors of  
transport - road, air and sea -  
will be required"

(2) delete external as  
factually incorrect. There was  
no discussion, at this European  
Council of the EC taking over  
new responsibilities for air services  
agreements with the outside world.



3 public procurement offers, company law, [in particular the statute of the European company] and the three tax proposals concerning co-operation between companies.

Significant progress has also been made in the Council (Internal Market) on other major topics such as the control of company concentrations, on which a decision is to be taken before the end of this year. It would also like decisive progress to be made regarding testing, standards and certification, the opening of public procurement markets in the telecommunications, energy and transport sectors and the distribution of water and freedom to provide life assurance services.

It is also requesting that rapid progress be made in the veterinary sphere. In the transport sector it stresses the importance of the decisions taken on road cabotage and the guidelines adopted on air transport. [It would like a coherent [external] Community policy to be drawn up in the latter sector and an effective response to the problem of the congestion of air space, in order to guarantee maximum safety for passengers.] It notes with satisfaction the progress made in the telecommunications sector. L

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With regard to indirect taxation, it notes with satisfaction the progress made during the last few months, with the formulation of a transitional

(5) 'measures' - is unsatisfactory because it implies legislation. But also defective, because it's a translation point - the French is "elements" and we will have it translated as elements. (No need for you to do anything)

'bring about' - is a correct translation of "assurer". We want to give free play to market forces as the means of producing approximation. Not legislation. The word "permit" would convey this better.



system which will lighten the burden on undertakings and administrations and enable border checks to be eliminated.

(5) It considers that these arrangements need to be supplemented by the measures which will be essential in particular to bring about the progressive approximation of VAT rates and to resolve the problems connected with the removal, on 1 January 1993, of limits on purchases by private individuals for their personal consumption when travelling within the Community.

to  
be  
done

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An improvement in the quality of life will come from paying greater attention to the demands of the environment. The nature and seriousness of the problems arising in this sphere make more and more necessary a perspective and measures which go beyond the national framework. The European Council confirms the desire of the Community and its Member States to play a greater part in the devising of international strategies for combating the dangers which threaten the environment, in particular by taking an active part in the drafting of a world convention on climate.

The European Council welcomes the unanimous agreement of the Council on the arrangements for the setting-up of the European Environment Agency as from 1990. This Agency, which will be open to non-EEC European countries which wish to join, will constitute a decisive stage on the road towards improved knowledge of the state of the European environment and will thus help to improve the strategies for dealing with the problems that arise.



(6) You should be aware that the increase in MEDIA funding proposed is from some 12 million pa to some 50 a year. We do not recommend contesting the sentence here: ~~use~~ it doesn't say substantial extra support.

(7) Point of substance - addition should be reduction  
Suggest you point out that ~~remove~~ the text is defective in 2 ways  
- (1) no-one proposes abolishing the external frontier  
(2) we do not agree that non EC citizens, once in the EC, should be treated as EC citizens

If "reduction" proves difficult, a fallback would be to <sup>add to</sup> ~~strengthen~~ the sentence at x with "in accordance with Article 8A of the Treaty"

The Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992, in accordance with the provisions of this Article and of Articles 8b, 8c, 28, 57 (2), 59, 70 (1), 84, 99, 100a and 100b and without prejudice to the other provisions of this Treaty.

The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty.

\* Article added by Article 13 of the SEA.



The European Council would like the Council (General Affairs) to take an early decision on the Agency's headquarters.

D. Research

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(8) unrestricted is factually inaccurate —  
The EC is now agreeing on tests ~~and~~  
how to ~~ensure~~ <sup>check</sup> that students, pensioners  
etc have sufficient resources before  
they get right of residence.

(9) It isn't a Community text — since adopted  
only by 11. The thing's title has  
been quoted here: ~~the~~ nearest  
Slovak might simply be inserting  
Quotable Points. We shall try  
that as a Translation Point —  
there are Q's in the French.

(10) This isn't too bad — because ~~for~~ of the  
"respective responsibilities". But we  
can try to get "give effect" changed  
to "take it up" as a Translation  
Point "y donne suite" is the French



(8) LINGUA), which contribute to developing European awareness, as will the forthcoming introduction of a European emergency health card and of a "young persons" card. Similarly, the European Council particularly welcomes the decisive progress made recently towards agreement on granting all Community nationals unrestricted right of residence in the Member State of their choice. This important measure, which is scheduled for adoption before the end of the year, represents an important step towards the integration of the peoples of the Community. The European Council indicated its satisfaction at the conduct of the "Europe against Cancer" programme and at the agreement of principle reached on adoption of the second action programme 1990-1994.

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Establishment of the single market has already led to significant results, as evidenced by sustained growth, a considerable increase in investment and in particular by the creation of new jobs, projected at five million for 1988-1990.

The European Council considers that this trend, together with the adoption of directives on the health and safety of workers, Community measures relating to the integration of unemployed young persons into working life and the fight against long-term unemployment, and of directives on vocational training, constitute decisive aspects of the Community social dimension.

u The Heads of State and of Government of eleven Member States <sup>approved</sup> <sup>done</sup> <sup>in this</sup> adopted the Community Charter on the fundamental of social rights of workers. This Charter reflects their sincere attachment to a model of social relations based on common traditions and practices. It will serve them as a reference point for taking fuller account in future of the social dimension in the development of the Community.

good  
ask  
wants  
to The European Council takes note of the action programme submitted by the Commission for the practical implementation of the Charter and calls upon the relevant national and Community authorities, in compliance with their respective responsibilities as deriving from the Treaties, to give effect to it in the very near future.



(11) ~~The~~ The point here is not to imply, in the language, that a decision has been taken on a separate Treaty, rather than amending the existing Treaty.

We can meet it by amending both references to use Dadral Conclusions language

viz: "laying down subsequent stages (A)  
and "to lay down . . . . . (B)

(a) to adopt the provisions necessary for the launch of the first stage on 1 July 1990;

(b) to carry out the preparatory work for the organization of an intergovernmental conference to lay down the subsequent stages; that conference would meet once the first stage had begun and would be preceded by full and adequate preparation.

(12) First sentence probably OK, but better if "the"  
need "any"

Second sentence important to KJHL - who  
may indeed want to strengthen  
it.

We will deal with the translation part  
- body / terms.



### III. ECONOMIC AND MONETARY UNION

1. The European Council examined the work carried out since the European Council meeting in Madrid with a view to a meeting of the Intergovernmental Conference.  
It welcomed the decisions taken by the ECOFIN Council to improve collaboration between Central Banks and to strengthen the co-ordination of economic policies. It notes that these decisions will enable the first stage of EMU as defined in the report from the DELORS Committee to begin on 1 July 1990.

(11) 2. It took note of the report from the High Level Working Party, which identified the main technical, institutional and political issues to be discussed with a view to [a Treaty on Economic and Monetary Union.] A

(11) On this basis, and following a discussion on a meeting of an Intergovernmental Conference [charged with preparing a Treaty on the final stages of EMU], the President of the European Council noted that the necessary majority existed for convening such a conference under Article 236 of the Treaty. That conference will meet, under the auspices of the Italian authorities, before the end of 1990. It will draw up its own agenda and set the timetable for its proceedings. B

(12) 3. The European Council emphasized, in this context, the need to ensure that the transfer of powers to the Community does not result in any weakening of democratic control. With a view to the new legislative [body] of the European Parliament which will begin in 1994, it calls for the institutional balance of Economic and Monetary Union to comply fully with that democratic requirement.

4. The European Council also took note of the Commission's intention to submit before 1 April a composite paper on all aspects of the achievement of Economic and Monetary Union which will take into account all available analyses and contributions.

The European Council emphasized the need for the Council (General Affairs) and the ECOFIN Council to use the period prior to the opening of the Conference to ensure the best possible preparation.

No problems.



The proceedings as a whole will be examined by the Council (General Affairs) in preparation for the European Council meeting in Dublin.

#### IV. A COMMUNITY OF RESPONSIBILITY AND SOLIDARITY

In keeping with the principles set out in the Rhodes and Madrid Declarations, the Community will develop its role and that of its Member States in the international political and economic arena in a spirit of openness, solidarity and co-operation. It will fully meet its responsibilities vis-à-vis countries with which it maintains all manner of links and relationships, historical and geographical in origin.

##### A. EFTA

The European Council welcomes the progress of the discussions which have taken place since the Madrid Council and hopes that at the ministerial meeting on 19 December a decision will be taken to begin negotiations so that the Community and EFTA can, during 1990, reach a comprehensive agreement strengthening their co-operation in the framework of a European economic area of eighteen States in complete accordance with multilateral commitments.

The Community hopes that this co-operation will be as close as possible and that it will ensure EFTA's participation in "flanking policies", and in the disciplines and benefits of the internal market, in full compliance with the independent decision-making processes of each organization and a strict balance of rights and obligations.

The European Council hopes that the negotiations to be opened in the first half of 1990 will produce appropriate, pragmatic arrangements for institutional co-operation which are fully in keeping with the above principles.

This new relationship between the EEC and EFTA will be in the interests of both parties and meet the expectations of the peoples of Europe.

(13) It would be good to get in a reference to our ~~per~~ ideas on framework of Association. To press for a reference to our paper would be too much, but we could go for a future study; eg "... " and will consider further the appropriate forms of association with countries pursuing the path of economic and political reform."



## B. COUNTRIES OF CENTRAL AND EASTERN EUROPE

(13) The Community's dynamism and influence make it the European entity to which the countries of Central and Eastern Europe now refer, seeking to establish close links. The Community has taken and will take the necessary decisions to strengthen its co-operation with peoples aspiring to freedom, democracy and progress and with States which intend their founding principles to be democracy, pluralism and the rule of law. It will encourage the necessary economic reforms by all the means at its disposal. The Community's readiness and its commitment to co-operation are central to the policy which it is pursuing and which is defined in the declaration adopted today; the objective remains, as stated in the Rhodes Declaration, that of overcoming the divisions of Europe.

1. The Community has concluded Trade Agreements and, for the most part, Co-operation Agreements with Czechoslovakia, Hungary and Poland. The Agreement with the USSR should be signed by the end of this year. The Council will, as soon as possible, instruct the Commission to negotiate a Trade and Co-operation Agreement with the GDR to be concluded during the first half of 1990.

The European Council welcomes the decisions taken by the Council (General Affairs) on 27 November 1989 temporarily granting Poland and Hungary special trade facilities in order to contribute towards solving their specific political and economic problems.

It noted with satisfaction the decisions taken by the Community to assist economic reform in Poland and Hungary.

The Community took part, in co-operation with its main Western partners, in an operation to supply agricultural products to Poland. In view of the scale and urgency of the needs, the European Council

(14) ? worth an attempt to get in "in principle"?

(15) Non-European participation has slipped out:  
~~would~~ maybe in error. worth getting back in



would ask the Council to take a decision in the near future on a further such operation.

2. At their meeting in Paris on 18 November 1989, the Heads of State and of Government asked the Troika of Presidencies and the Commission to make progress in discussion and decision-taking on the following questions:

- the European Council approved the principle of granting observer status to the USSR in GATT;
- the Commission has submitted proposals designed to allow nationals of the countries of Central and Eastern Europe to take part in a number of educational and training programmes similar to Community programmes; the European Council requests the Council to take the relevant decisions;
- the European Council calls upon the Council to take, at the beginning of 1990, the requisite decisions for the setting up of a European Vocational Training Foundation, on the basis of proposals which the Commission is to submit;

(14)

- the European Council approved <sup>the</sup> the creation of <sup>a</sup> Bank of Europe. Its aim will be to promote productive and competitive investment in the States of Central and Eastern Europe, to assist the transition towards a more market-orientated economy and to speed up the necessary structural adjustments. The States of Central and Eastern Europe concerned will participate in the capital and management of the Bank, in which the EEC will have a majority holding. The European Council hopes that the Bank of Europe will be created as soon as possible. The European Council requests that the necessary steps be taken to ensure that negotiations are opened in January 1990. The European Investment Bank will play a key role in preparing the way for this new institution.

(15)

(16) The EC as such doesn't participate.  
So "noted the readiness of all member states"  
would be right.

(17) Hungary . (i) Not true — no discussion.  
(ii) prejudicial . Suggest  
"considered the question of granting"



16

3. The European Council confirmed the Community's readiness to participate, under the conditions defined at the meeting on 18 November, in the creation of a stabilization Fund for Poland. It emphasized that the Twelve's joint contribution would provide more than half the resources of the Fund, which is to receive 1 000 million dollars. The European Council referred to the need to grant Hungary an adjustment loan of the same amount. It called upon the Council to take an early decision on the Commission proposal and to consult closely with the international monetary authorities on this question.

(17)

4. The European Council confirmed the key importance that it attaches to the fact that aid and co-operation projects decided on by Western countries should be as complementary as possible. It reaffirmed the need to maintain and strengthen the procedure established at the Arche Summit. It expects the forthcoming ministerial meeting of the 24 Western countries on 13 December to take the necessary substantive and procedural decisions to ensure that the efforts undertaken to facilitate the transition taking place in Poland and Hungary and possibly in other countries of Central and Eastern Europe are co-ordinated and effective.

C. MEDITERRANEAN

The European Council considers that the Community must in the coming months flesh out its policy of neighbourly relations with the Mediterranean States, including Yugoslavia, with which it has long had preferential ties. The specific relationship with Mediterranean countries must be intensified and make it possible to support them in their efforts towards co-operation with Europe, regional integration and economic development.

The Community attaches great importance to the creation of the AMU and will implement the most appropriate co-operation. It will continue the Euro-Arab dialogue at the December meeting.

No problems.



The European Council calls upon the Council to adapt, on the basis of the Commission communication, the instruments provided for under the current Agreements in order to institute the means and methods of co-operation which are best suited to the special nature of the relations which must develop between the Community and these countries.

#### D. LATIN AMERICA AND ACP STATES

The Community must strengthen its co-operation with the Latin American countries: in particular it must support the efforts of the Andean Pact countries to combat drugs, find substitute crops and improve the outlets for them.

The European Council welcomes the conclusion of the fourth Lomé Convention, which deepens and broadens the privileged relations between the Community and the Associated African, Caribbean and Pacific States.

Draft

Joint Communiqué

The Taoiseach Mr. Charles J. Haughey and the Prime Minister Mrs. Thatcher had a bilateral meeting in Strasbourg on Friday 8 December 1989 on the occasion of the European Council. [The meeting lasted about half an hour].

During the meeting, they discussed the forthcoming Irish Presidency of the European Community and reviewed some of the major issues which will arise.

They discussed bilateral issues and welcomed the establishment of the Anglo-Irish Parliamentary Group.

They also reviewed the situation in relation to Northern Ireland, and the prospects for political progress. They were agreed in their condemnation of violence and the possibilities that would open up if violence were to end.

The meeting was constructive and cordial.



SUBJECT a MASTER

SECRET



File  
DA  
PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 December 1989

Dear Stephen,

SITUATION IN GERMANY

The Prime Minister had some discussion this morning with the Netherlands Prime Minister and Foreign Minister, at which the Foreign Secretary was also present, about developments in Germany. A good deal of common ground emerged. Subsequently the Prime Minister spoke to Signor Andreotti and the Foreign Secretary to Herr Genscher. This letter summarises those discussions. You will want to ensure that Sir John Fretwell sees it as soon as possible.

The Prime Minister and Mr. Lubbers were both concerned about the speed of developments in East Germany, the risk that the situation might rapidly get out of hand, and the signal which should issue from the European Council. They took the view that it would be useful for a meeting of the four Berlin powers plus Germany reasonably soon, to anchor all the main participants and classify their intentions. The Prime Minister recalled that she had floated the idea of a Berlin Four meeting at the time of the NATO Summit but the United States had thought it risked being divisive. However the situation had moved on since then. Mr. Lubbers thought that such a meeting would be useful but suggested it might be best to persuade the Germans to ask for it, so it did not look as though it was imposed upon them. It was agreed that the Foreign Secretary would mention this to Herr Genscher.

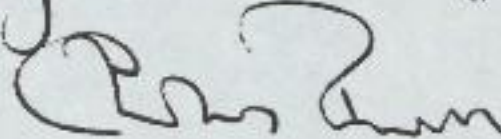
The Prime Minister subsequently mentioned the idea to Signor Andreotti who expressed support, provided that it was clear that the technical grounds for summoning the meeting was the responsibility of the powers concerned for Berlin (so as to avoid the appearance of a directoire) and that broader matters continued to be considered within NATO. Herr Genscher's reaction when the Foreign Secretary raised it with him was more cautious. He confirmed that the Russians were worried about developments in East Germany, particularly the risk to the families of Soviet soldiers. But he thought that summoning such a meeting could increase the sense of crisis. It was something which should be kept in reserve. The Prime Minister intends to take an early opportunity to discuss this further with President Mitterrand, possibly at lunch-time.

SECRET



Meanwhile Mr. Lubbers and Mr. van den Broek also expressed great concern about the sentence which the Germans had proposed on German reunification for the draft political declaration. The Dutch would be very unhappy with any such sentence, which they thought would give quite the wrong signal. They would prefer to omit it altogether or, less satisfactory, have an expanded reference which hedged any statement with qualifications and conditions. The Prime Minister said that we shared these doubts and did not want to see the declaration contain the sentence proposed by the Germans. One alternative would be to have a much more general reference simply recalling existing statements, precedents and legal obligations affecting Berlin and Germany. The Prime Minister subsequently mentioned this point to Signor Andreotti who agreed that the present sentence was unacceptable. I understand that the French Presidency have now proposed a much blander reference, but the Prime Minister and Foreign Secretary have not yet seen this.

I am copying this letter to Brian Hawtin (Ministry of Defence) and Sonia Phippard (Cabinet Office).

Yours sincerely,  


(C.D. POWELL)

J.S. Wall, Esq.,  
Foreign and Commonwealth Office.



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SUBJECT cc MASTER



file  
JA  
PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 December 1989

Dear Stephen,

PRIME MINISTER'S MEETING WITH THE NETHERLANDS PRIME MINISTER:  
EUROPEAN COMMUNITY SUBJECTS

The Prime Minister and the Foreign Secretary had a talk this morning with Mr. Lubbers and Mr. van den Broek. I have recorded separately what they had to say on Germany. This note deals briefly with other aspects of the European Council in Strasbourg.

The Prime Minister observed that the Community was not so far forward as it ought to be on the Single Market and the French Presidency had so far been disappointing. The European Council should press for faster progress and, in particular, for a further package of measures at the Internal Market Council on 21 December. Mr. Lubbers agreed that there was stagnation in the Internal Market and that the United Kingdom and the Netherlands should urge the Commission and the Council to get to work with more vigour. (This produced some protest from Mr. van den Broek who claimed that progress was better than the two Prime Ministers were prepared to concede.) Mr. Lubbers continued that he hoped he and the Prime Minister would both make a public plea to the Community to increase the speed of achieving 1992. The Prime Minister said that the Council's conclusions should be precise on this point, making clear that this was the practical way forward towards greater integration.

Mr. Lubbers said that he thought that only a relatively minor decision was required at Strasbourg on Economic and Monetary Union. The French Presidency did not appear to envisage a discussion of substance. The Prime Minister said that it was absurd to hold an IGC before full and adequate preparation had been completed. There must be discussion of substance before people started to talk about new institutions or Treaty amendments. But she recognised that a majority probably existed for setting a date for an IGC, in which case it would be important to put conditions on it. The most important of these was that an IGC should not start until there had been full and adequate preparation by competent bodies, by which she meant ECOFIN and Central Bank Governors. Mr. Lubbers indicated that he agreed with this approach.

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Mr. van den Broek, however, was inclined to argue that, against the background of the present tumultuous developments in Europe, the Council would be seen as a failure if the Community did not demonstrably take an immediate step forward towards closer integration. It was vitally important that Britain should be a full participant in this. The Netherlands wanted Britain more than ever in the Community to balance the power of Germany. The Prime Minister said she would have to make clear that we thought an IGC was untimely and unnecessary, and that our Parliament would not accept Stages 2 and 3 of the Delors plan. But if an IGC were held, we would of course play a full part in the discussions and in preparation in other bodies.

The Prime Minister summed up that both Britain and the Netherlands wanted strong and precise conclusions from the European Council on taking forward the Single Market; they did not think that full and adequate preparation on Economic and Monetary Union had yet been done and that this should be the condition of an IGC; and that there must be a full discussion of co-operation between the Community and Eastern Europe, building on the conclusions of the meeting of EC Heads of Government on 18 November. With so much happening in Eastern Europe, public opinion in all our countries would surely expect the Community to be concentrating on this rather than on its internal housekeeping.

I am copying this letter to John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry) and Sonia Phippard (Cabinet Office).

*Yours sincerely,*  
*Charles Powell*

(C.D. POWELL)

J.S. Wall, Esq.,  
Foreign and Commonwealth Office.





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*upc*  
DC

FCO/89/215

HOME SECRETARY

Frontier Control Issues

1. Thank you for your letter of 24 November.
2. As you suggest, the odds are that any discussion of frontiers issues as Strasbourg will be sensible and low key, including a useful initiative on drugs. This certainly was the message from the Foreign Affairs Council last Monday and Delors' talks here on Friday.
3. I agree that we must soon look at the status of airports within the Community after 1992. We can expect renewed pressure from the CAA as word of the Schengen arrangements gets round. I suggest we take this in OD(E) once officials have prepared the ground. I welcome also your intention to write round soon about immigration checks on Channel Tunnel trains.
4. I agree with your proposed handling of the "Euro-visas" issue.

/5.

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5. We may face renewed interest in our commitment to freer movement when the Schengen Treaty is signed on 15 December. I suggest our officials should prepare a line which could form the basis of our public reactions. We would want to argue that the limited and slow progress of the Schengen countries shows the validity of our contention, now widely shared, that progress on frontier relaxation has to be linked with progress on security matters. We should argue that this is a major indication of our stance.

6. Copies of this minute go to the Prime Minister, Members of OD(E) and Sir Robin Butler.

*DH.*

(DOUGLAS HURD)

Foreign and Commonwealth Office

7 December 1989

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Foreign and Commonwealth Office

London SW1A 2AH

7 DECEMBER 1989

*ch*

*Dear Charles,*

EUROPEAN COUNCIL: MONETARY ISSUES

THE PRIME MINISTER MAY WISH TO HAVE A SECOND SPEAKING NOTE FOR USE IN DISCUSSION ON MONETARY ISSUES. I ENCLOSE A DRAFT WHICH HAS BEEN SEEN BY THE FOREIGN SECRETARY.

*Jans.*  
*Stephen Wall*

(J S WALL)  
PRIVATE SECRETARY

C D POWELL Esq  
10 DOWNING STREET

PRIME MINISTER

BILATERAL WITH MR. LUBBERS

You are to have a bilateral with Mr. Lubbers and Mr. Van Den Broek shortly before the opening of the European Council, in the Dutch delegation offices. You will want to go through the agenda rapidly with him to see where we can join forces. That should be easy on the Single Market where the Dutch are as determined as we are to liberalise transport, telecommunications and financial services. You will want to seek his support for encouragement to the French Presidency to include a package of further Single Market measures at the Internal Market Council on 21 December.

On EMU you will want to see whether the Dutch have any more information on Chancellor Kohl's intentions. The Dutch are ready to accept an IGC in the second half of 1990. But there are suggestions that they may table a compromise saying that this date depends on adequate preparatory work having been done in the meantime and that the IGC could if necessary be postponed. It is not much help but it could be better than nothing. You might like to seek his explicit support for the conditions on an IGC which we would like to see in the Council's conclusions and, in particular, a reference to the need to take full account of the effects of Stage I of EMU before moving to any subsequent stages.

Finally, Lubbers should be a good ally on the question of a Bank for Eastern Europe. He will probably be ready to accept it in principle but will support further study against strict criteria, cost effectiveness, conditionality, private sector involvement and no overlapping with other multi-lateral institutions.

A fuller note by the FCO is in the folder.

C.D.P.

(C. D. POWELL)

7 December 1989

a:\foreign\Lubbers





Foreign and Commonwealth Office

London SW1A 2AH

7 December 1989

*Dear Charles,*European Council: Bilateral with Mr Lubbers

The following covers some of the issues which may be discussed with Mr Lubbers on Friday morning.

On the French proposal for a new European Bank for Eastern Europe, Mr Lubbers will probably agree the principle of a new institution, but may prove an ally in calling for further study against searching criteria. The Prime Minister might take the following line:

- need to ensure that any bank would add to the efficiency of our response to Eastern Europe's needs. French proposal should be further considered by experts in the Monetary Committee to see if it is consistent with:
  - differentiation between Eastern Europeans;
  - avoidance of duplication and undermining of IMF programmes;
  - targeting on the private sector, and involving the Western private sector;
  - cost effectiveness;
  - sound financial principles.

On EMU, Mr Lubbers favours an end-1990 start-date for an IGC. But he has indicated to his parliament that this should be conditional on full preparation in the interim, and on France and Italy meeting the July 1990 deadline for the abolition of their exchange controls. He may at Strasbourg float the idea of a specific checkpoint, at which these conditions would have to be seen to be met, before an IGC went ahead. The Prime Minister might like to draw his attention to the need to take full account of the effects of Stage I before turning to subsequent stages. In practice, Mr Lubbers may be helpful, provided he remains confident that we stand by our commitment to all elements in Stage I.

Mr Lubbers is a good ally on Single Market issues, and the Dutch share our determination to liberalise transport, telecoms and financial services. The Prime Minister might like to mention:



- the case for reaffirming the Madrid priorities, particularly financial services and transport; and
- our suggestion to the French of a package for the 21 December Internal Market Council, including merger control, public purchasing in excluded sectors, and testing and certification.

I enclose a copy of The Hague telno 502.

I am copying this letter to John Gieve (HMT), Neil Thornton (DTI) and David Hadley (Cabinet Office).

*Jans.*  
*Stephen Wall*  
(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street



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FRAME GENERAL

STRASBOURG EUROPEAN COUNCIL: DUTCH OBJECTIVES

SUMMARY

1. THE DUTCH HOPE THAT THE STRASBOURG EUROPEAN COUNCIL CAN BE USED TO REINFORCE THE COHESION OF THE COMMUNITY. THEY ARE READY TO SUPPORT HOLDING AN IGC ON EMU IN 1990 UNDER CERTAIN CONDITIONS. THEY AGREE TO THE SOCIAL CHARTER. CONDITIONAL SUPPORT FOR THE IDEA OF A EUROPEAN DEVELOPMENT BANK.

DETAIL

2. LUBBERS AND VAN DEN BROEK WILL BE GOING TO STRASBOURG PREOCCUPIED BY THE SITUATION IN EASTERN EUROPE AND ITS SIGNIFICANCE FOR THE DEVELOPMENT OF THE EC. THIS WILL CONDITION THEIR ATTITUDE TO THE SUBJECTS ON THE EUROPEAN COUNCIL AGENDA. IN RECENT WEEKS THEY HAVE EXPRESSED THEMSELVES MORE CLEARLY IN FAVOUR OF THE VIEW THAT DEVELOPMENTS IN EASTERN EUROPE NECESSITATE REINFORCING THE POLITICAL AND ECONOMIC COHESION OF THE EC. AT THE SAME TIME THEY HOLD STRONGLY THAT THE PRINCIPLE OF SUBSIDIARITY SHOULD UNDERLIE EC POLICY-MAKING.

EMU

3. VAN DEN BROEK MADE CLEAR AT A MEETING TODAY WITH EC AMBASSADORS THAT THE DUTCH SUPPORT THE PROPOSAL FOR HOLDING AN IGC AT THE END OF 1990, BUT ON CONDITION THAT IT IS THOROUGHLY PREPARED. THEY SEE SUCH A DECISION AS PROVIDING AN IMPORTANT SIGNAL THAT THE EC WISHES TO PRESS AHEAD WITH ECONOMIC AND POLITICAL INTEGRATION. THIS MEANS THAT VAN DEN BROEK'S BELIEF IN THE SYMBOLIC IMPORTANCE OF FIXING A DATE HAS PREVAILED OVER THE MORE CAUTIOUS LINES ADVOCATED BY THE TWO SUCCESSIVE MINISTERS OF FINANCE, RUDING AND KOK.

4. LUBBERS MADE IT CLEAR TO THE DUTCH PARLIAMENT ON 27 NOVEMBER THAT DUTCH SUPPORT FOR AN IGC WAS CONDITIONAL ON THE COMPLETE LIBERALISATION OF CAPITAL MOVEMENTS, AND ON AGREEMENT THAT THE COMMUNITY WOULD WORK OUT THE VARIOUS ELEMENTS OF EMU BEFORE AN IGC



BEGAN. THE DUTCH ALSO WANT TO SEE COMPLETED A FULL STUDY OF THE MODALITIES OF AN INDEPENDANT CENTRAL MONETARY AUTHORITY, WHICH THEY BELIEVE SHOULD BE AUTONOMOUS, AND SHOULD HAVE PRICE STABILITY AS ONE OF ITS EXPLICIT OBJECTIVES.

#### SOCIAL EUROPE

5. THE DUTCH ARE READY TO AGREE TO THE PROPOSED SOCIAL CHARTER. ONCE AGAIN THE SYMBOLIC IMPORTANCE OF AGREEING THE DOCUMENT OUTWEIGHS CONCERNS THEY MAY HAVE OVER ITS FOLLOW-UP. ON THE LATTER, THEY STAND READY TO FIGHT THEIR CORNER WITHIN THE EC MACHINERY ON THE SEPARATE PROPOSALS TO BE PUT FORWARD BY THE COMMISSION. THEY UNDERSTAND OUR DIFFICULTIES BUT DO NOT SHARE OUR OBJECTIONS TO THE DOCUMENT. WITH THE DUTCH LABOUR PARTY NOW IN GOVERNMENT, MINISTERS ALSO TAKE THE VIEW THAT A DEMONSTRATION IS NEEDED THAT THE SINGLE MARKET IS NOT BEING CREATED ONLY WITH BUSINESS INTERESTS IN MIND.

#### SINGLE MARKET

6. THE DUTCH ARE ANXIOUS TO MAINTAIN THE MOMENTUM AND WOULD I BELIEVE BE SYMPATHETIC TO THE IDEA OF AGREEING A FURTHER PACKAGE OF SINGLE MARKET MEASURES. THEY ARE ALSO ANXIOUS TO SEE PROGRESS OVER A COMMON TRANSPORT POLICY AND MAY RAISE AT STRASBOURG THE GERMAN PROPOSALS FOR A NEW ROAD TAX (IF THE ISSUE IS NOT ADEQUATELY RESOLVED AT THE TRANSPORT COUNCIL) AS AN ILLUSTRATION OF THE NEGATIVE CONSEQUENCES OF THE ABSENCE OF A COMMON POLICY.

#### EC/EASTERN EUROPE

7. THE DUTCH BELIEVE THAT THERE IS AN URGENT REQUIREMENT FOR THE EC TO GIVE ECONOMIC ENCOURAGEMENT TO ECONOMIC AND POLITICAL REFORM IN EASTERN EUROPE. THEY HAVE AN OPEN MIND AS TO WHETHER THE FRENCH IDEAS FOR A EUROPEAN DEVELOPMENT BANK ARE NECESSARILY THE BEST VEHICLE FOR THIS. WHILE THEY MAY BE READY TO ENDORSE THE PRINCIPLE OF CREATING A NEW INSTITUTION FOR THE PURPOSE OF CHANNELLING FUNDS TO EASTERN EUROPE, THEY BELIEVE THAT ALL OPTIONS SHOULD BE EXAMINED BY A HIGH LEVEL GROUP AS SOON AS POSSIBLE AFTER THE EUROPEAN COUNCIL. THEY HAVE SOME CONCERN THAT A NEW FULL-BLOWN BANK WOULD TAKE MONTHS TO SET UP.

8. ON THE WIDER ISSUE OF RELATIONS BETWEEN THE EC AND THE COUNTRIES OF EASTERN EUROPE, DUTCH THINKING REMAINS NECESSARILY TENTATIVE. THE DUTCH TOOK A LEAD LAST YEAR IN SUGGESTING THAT FURTHER USE SHOULD BE MADE OF THE COUNCIL OF EUROPE IN THIS CONTEXT. THEY BELIEVE THAT THE COUNCIL COULD BE USED AS AN INTERIM MEANS OF DEVELOPING RELATIONS WHILE FURTHER CONSIDERATION IS GIVEN TO THE EC/EAST EUROPEAN OVERALL RELATIONSHIP. THEY ALSO THINK THAT THE ARRANGEMENTS BEING DEVELOPED



BETWEEN THE EC AND THE EFTA COUNTRIES COULD SERVE AS A MODEL FOR THE FUTURE. MEANWHILE THEY REMAIN VERY CAUTIOUS OVER THE POSSIBILITY OF FURTHER EC ENLARGEMENT THROUGH AUSTRIAN ACCESSION, OR EVEN THE ACCESSION OF EAST EUROPEAN STATES.

## SUPPORT FOR CONSENSUS

9. LUBBERS INSTINCT TO AIM FOR AS MUCH CONSENSUS AS POSSIBLE AT STRASBOURG WILL BE REINFORCED UNDER THE PRESENT CIRCUMSTANCES. A STRONG BELIEF IN THE PRINCIPLE OF SUBSIDIARITY, HIS STRESS ON THE NEED FOR CONDITIONALITY IN RESPECT OF AN IGC, AND HIS CONCERNS OVER SETTING UP A EUROPEAN DEVELOPMENT BANK MAY GIVE US SOME SCOPE FOR WORKING WITH THE DUTCH AT THE EUROPEAN COUNCIL.

JENKINS

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ADDITIONAL 1

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Foreign and Commonwealth Office

London SW1A 2AH

7 December 1989

Dear Charles,

European Council: Political Texts

Officials of the Twelve have been working on a number of political declarations for Strasbourg. Further work will be done on them before they are submitted to Heads of State and Government on 9 December. You may wish to see the major texts as they now stand with an indication of the changes we shall be seeking.

/// I enclose those on Eastern Europe, the Middle East and Southern Africa. Work so far has been entirely on the basis of drafts in French; and the translations enclosed are our own. The officials translations which will be available at Strasbourg may look slightly different.

In the Eastern European text, the Germans have proposed language on unity through self-determination in the standard formula last used in the NATO Summit communique of May 1989, ie "We seek the establishment of an order of peace in Europe in which the German people regains its unity through free self-determination". Since we have subscribed to this language more than once in the past, the Germans are resisting any challenge to the substance now. On the other hand, the impact of such a statement now is very different from six months ago. It would be right to let the French Presidency, who also have serious doubts about it, make the running, though we are also looking for possible alternative formulations.

In the last paragraph of the text, the reference to European Union (to which some of the Twelve attach great importance) overstates its significance in this context. We shall argue for a form of words such as "progress towards European Union will contribute to the development...".

The Middle East text is broadly agreed at official level, though a number of member states joined the UK in reserving their position on the financial commitments. We are urgently considering whether to subscribe to them: we expect other member states to lift their reserves at Strasbourg. It is national and Community policy to focus on the plight of the Occupied Territories.

I outlined in my letter of 30 November how we would approach the French proposal for a declaration on Southern Africa at Strasbourg. The enclosed text embodies a number of improvements which we have secured, but we shall continue to argue for

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language in paragraph 7 which offers a clear prospect of relaxation of sanctions in response to further change in South Africa, along the lines of the UK statement at Kuala Lumpur. This is likely to meet continuing opposition from others. If our proposal makes no headway, it may be better to secure the deletion of the entire sentence on restrictive measures.

The famine in Ethiopia did not come up at the Malta Summit despite our efforts with both the Americans and the Russians. The European Council meeting offers an opportunity for a high-level statement on this issue. The Twelve have already been considering joint action following discussion at the Development Council and the Foreign Affairs Council, initiated by Mrs Chalker. The prospects of a favourable response to such a proposal are therefore encouraging.

I enclose a draft of a possible statement. This highlights the key issue of getting the Ethiopian Government and the rebels to permit food aid to be brought across the lines into the areas at risk in Tigray and Eritrea. It also urges a negotiated settlement of the longstanding conflicts within Ethiopia which have compounded the problems caused by nature. Sir John Pretwell will table this draft at the meeting of Political Directors in Strasbourg on 8 December.

The European Council will also be invited to endorse a short, uncontroversial statement on Chile on the eve of democratic Presidential elections. The French will probably propose a statement on Lebanon to take account of the latest developments. In a change from earlier plans, there will be no formal statement on human rights by the Council, but a Presidency press release summarising the Twelve's activity. The French have decided not to pursue their proposal for a statement on non-proliferation, having concluded (despite encouragement from us and others) that the differences among the Twelve are too wide to bridge.

Jaws,  
  
 (J S Wall)  
 Private Secretary

C D Powell Esq  
 10 Downing Street



Unofficial translation  
of Presidency draft of  
1/12/89

**STRASBOURG EUROPEAN COUNCIL: DRAFT DECLARATION ON EASTERN  
EUROPE**

1. Change is daily established in Central and Eastern Europe with ever greater strength. A powerful aspiration to liberty, democracy, respect for human rights, prosperity, social justice and peace is asserting itself everywhere. People are demonstrating clearly their will to take their own destiny in hand and to choose the course of their own development. Such complete and rapid change would not have been possible without the policy of opening and reconstruction conducted by Mr Gorbachev.

2. Speaking for the entire population of the Community, we rejoice wholeheartedly at the transformations in train. These are historic events, without doubt the most important since World War II, to which both the emergence of a strong and dynamic European Community and the CSCE process have widely contributed.

3. These changes give rise to the hope that Europe's divisions can be overcome, in conformity with the objectives of the Helsinki Final Act which, through a comprehensive and balanced approach and on the basis of a range of principles which remain entirely valid, aims at the establishment of new relations between European countries in the fields of security, economic and technical cooperation and in the human dimension.

3. [We seek the establishment of an order of peace in Europe in which the German people regains its unity through free self-determination.] (German proposal.)



4. The hopes that we expressed a year ago in our declaration at Rhodes have already begun to be realised. The progress achieved in the negotiations on conventional and chemical disarmament, the freer circulation of people and ideas, the better guarantees of respect for human rights and fundamental liberties, and the different agreements reached between the Community and certain of these countries have substantially altered the climate of relations in Europe.

5. The European Council is convinced that in present circumstances a sense of responsibility must, more than ever, be shown. Change and the necessary transitions must not work to the detriment of the stability of Europe.

6. It is in this spirit that the Community and its member states intend to lend their support to countries which have embarked on the course of democratic change. They regret all the more the fact that certain regimes continue to stifle the aspirations of their people for more liberty.

7. The Community and its member states are fully aware of the joint responsibility which falls to them in this decisive phase in Europe's history. They are ready to develop with the Soviet Union and other countries of Central and Eastern Europe closer and richer relations, based on strengthened political dialogue and growing cooperation in all fields. In particular the Community is resolved to support economic reforms undertaken in these countries, and to offer assistance via the appropriate bodies towards the establishment of healthy and prosperous economies, in collaboration with other western partners.

8. This resolve is displayed in the European Council's agreed conclusions.



9. For the future, and in response to further changes, the Community is ready to establish even closer cooperation with these countries.

10. At this moment of reform and rapid change, the Community constitutes and must remain a beacon of reference and influence. It is still the cornerstone of European architecture and, through its openness, the focal point for a future balance in Europe. This balance would of course be still better guaranteed if there were parallel development of the roles of the Council of Europe, EFTA and the CSCE process. One of the merits of the latter is its position as a forum for a joint enterprise between 33 European states, the United States and Canada, two countries to which our peoples are bound by close solidarity.

11. The construction of the Community must therefore continue to go forward: European Union will permit development of a range of effective and harmonious relationships with the other European countries.\*

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\* British reserve on this paragraph



Unofficial translation  
of the Presidency draft  
of 1/12/89

**STRASBOURG EUROPEAN COUNCIL: DRAFT DECLARATION ON THE MIDDLE EAST**

1. As the Palestinian uprising in the West Bank and Gaza begins, today, its third year, the European Council wishes anew to underline the imperative need for a political solution to the Arab-Israel conflict. It recalls in this respect the position of the Twelve defined in the Madrid Declaration of 27 June 1989, which called for a comprehensive, just and lasting settlement to the conflict based on the right to security of all states in the region, including Israel, that is to say to live within secure, recognised and guaranteed frontiers, and for justice for all the peoples of the region, which includes recognition of the legitimate rights of the Palestinian people, including their right to self-determination with all that this implies.

2. These objectives should be achieved in the framework of an international peace conference under the auspices of the United Nations, as the appropriate forum for the direct negotiations between the parties concerned. The PLO should participate in this process.

3. It is in this spirit that the Twelve have supported the proposal for elections in the Occupied Territories, as a step in the process towards a comprehensive settlement. It is in the same spirit that they encourage efforts aimed at establishing dialogue between the parties directly concerned. They recall efforts they themselves have made in this sense, consistent with the principles that guide their actions in the search for a settlement, most recently through the mission undertaken by the Ministerial Troika.



4. The European Council, greatly concerned by attacks on human rights in the Occupied Territories and recalling the need for the occupying power to respect strictly its obligations arising from the fourth Geneva Convention, which have been particularly neglected in key fields such as education and health, deplores the continued deterioration of the situation in the Occupied Territories. This gravely affects the living conditions of the population, inflicts long term damage on the future of Palestinian society and impedes economic and social development in the Territories.

5. The Community and its member states are determined to increase substantially their aid to the population of these Territories. In the framework of a new triennial convention for 1990/1992, the Community will maintain and increase aid to Palestinians via UNRWA. Since 1971, this has totalled more than 388 mecu. At the same time, the European Council sets the objective of doubling direct Community aid, of which the total granted, since 1981, has been 23 mecu. The Community also intends to contribute to the economic and social development and the collective well-being of the population of the Occupied Territories by action in the fields of health and education and also by support for local Palestinian institutions.

6. In the context of this action, the Community intends to pursue and increase its support to the productive sector which creates employment in the Occupied Territories. Apart from the financing of productive projects, including stronger financial support for inward investment, the Community will promote expansion of exports of Palestinian products to the Community and will seek to ensure that these suffer no discrimination in comparison with analogous products from neighbouring countries.



7. The Community and its member states have expressed their concern on several occasions at the severe difficulties facing the education system in the Occupied Territories. Faced with the closure for 24 months of all institutions of higher education and with periodic hindrance to the functioning of schools, high schools and colleges, they reiterate the appeal made in their declaration of 6 October 1989 to the Israeli government to bring an end without delay to the closure of universities and institutes of higher education in the West Bank and Gaza and insist on the need to guarantee education at all levels. The Community is determined to develop its aid towards the proper functioning of schools and universities.

8. The Community has moreover decided to contribute to the establishment of an overall analysis of the needs of the health care system in the Occupied Territories, in order better to direct future action by the Community and the member states. These needs are important, given the consequences of the uprising and the deterioration in essential public services.

9. In addition, the European Council expresses its willingness to re-establish the links that unite the Twelve and the Arab world across the Mediterranean. It is in this spirit that the conference to be held in Paris on 21 and 22 December has been organised, bringing together the representatives of the two sides with the object of giving new impetus to the Euro-Arab Dialogue so as to reinforce and develop cooperation between the two sides.



Unofficial translation of  
the Presidency draft  
1 December 1989

STRASBOURG EUROPEAN COUNCIL: DRAFT DECLARATION ON SOUTHERN  
AFRICA

1. Southern Africa has been, for the past year, the scene of very important developments which have constantly commanded the attention of the Twelve.

2. Most evident among these is Namibia. The signing almost a year ago of the New York accords opened the way to the implementation of Resolution 435. The Twelve had constantly made it clear that this was their wish. The transition process has, so far, taken place in a satisfactory manner and the Twelve wish to express on this occasion their appreciation for the key role played by the UN Secretary General and by his Special Representative for Namibia. Now that the first free and fair elections have enabled the formation of a Constituent Assembly genuinely reflecting the wishes of the Namibian population, the foundations of the new state are being laid before us. The needs of an independent Namibia will be important. The Community and its member states have always been ready to contribute with programmes of aid upon independence. This effort will be additional to the assistance envisaged by all the member states in a bilateral capacity. Namibia will also be welcome within the new Lomé Convention whenever she wishes to accede to it. This position was set out by the Troika to representatives of the ACP states during the recent ministerial meeting on the subject of Southern Africa.

3. Some progress has also been achieved in the processes of internal reconciliation in Angola and Mozambique. A favourable international climate has been used with courage and determination by the leaders of these two countries in order to achieve some significant advances on the way to



peace. The mission carried out by Troika Political Directors to Angola attested to the real willingness of the leaders of that country to bring an end to the conflict which has for many years been a burden to the economic development and well-being of the population.

4. The Community and its member states have decided to mark these developments with a particular effort in aid for the reconstruction and development of these two countries.

5. Finally, in South Africa, the accession to power of President de Klerk has led to several gestures of clemency and a certain liberty in expression which the Twelve have not failed to welcome. These measures, however, are as yet insufficient in relation to the immense task of dismantling apartheid. The establishment in South Africa of a democratic and multi-racial regime through peaceful means remains the objective of the Twelve. They support in this respect all processes which could lead rapidly to a dialogue between the parties. Indeed, only negotiations on a wide basis bringing together authentic representatives of the different sections of the South African population can lead to a lasting settlement. In this respect, the Conference for a Democratic Future which will take place in Johannesburg from 9-12 December is a step in the right direction.

6. In this context, the Community and its member states recall the importance they attach to a programme of positive measures designed to aid the victims of apartheid. In order to prepare for inevitable developments in South Africa, this programme will be strengthened over the coming two years by the creation of new scholarships for study in Europe and multi-racial South African universities. The objective is to facilitate exchanges between the different communities and to permit to their most disadvantaged members the chance of enjoying a better level of education and also to



contribute to the training of the manpower which a multi-racial South Africa will certainly need in the medium term.

7. The Community and its member states have, moreover, decided to maintain the pressure that they exert on the South African authorities for as long as profound and irreversible change has not been achieved. A new South Africa relieved of racial discrimination, in which all South Africans can live in peace and harmony enjoying equal rights is not a utopian dream. Its establishment will be of vital importance for peace, stability, security and economic development in the entire region and will permit South Africa to recover its proper place within the international community.



EUROPEAN COUNCIL : ETHIOPIA

DRAFT STATEMENT



The European Council discussed the situation in Ethiopia and expressed grave concern at the threat of renewed famine. Heads of State and Government agreed on the urgent need to get food supplies to the hungry. They appeal to the parties to the conflict to allow food to be transported across the lines with the help of the international community. They note that the internal conflicts in Ethiopia have seriously compounded an already grave situation, and urge the parties to redouble their efforts to negotiate peaceful solutions.

PO7ABR



Foreign and Commonwealth Office

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London SW1A 2AH

7 December 1989

*Dea Charles.*

European Council: Bilateral with the Taoiseach

You have spoken to Dermot Nally about a bilateral meeting with the Taoiseach in Strasbourg. In the absence of bilateral issues (including Northern Ireland) which we wish to see discussed at Prime Minister level, it might be useful to concentrate initially on Community matters. However some discussion of bilateral points is inevitable; Mr Haughey will almost certainly wish to mention the Birmingham Six.

Community issues

The Prime Minister may wish to discuss with the Taoiseach the prospects for the Irish Presidency. The main Irish interest in EMU is the possibility of significant resource transfers to facilitate "economic convergence", as proposed in the Delors Report. Apart from that, they do not have strong views, but will not want to be accused of doing nothing. They are receptive to the proposition that full account must be taken of the scale of Stage 1 changes; they agree that there must be full and adequate preparation before any IGC; and they believe that the Monetary Committee should take the lead, not special ad hoc groups. The Prime Minister might reaffirm our commitment to Stage I and, in the light of the Strasbourg EMU discussion, stress the importance of further thorough, substantive Monetary Committee analysis before any IGC, taking account of the UK as well as other approaches.

On social issues, the Irish may usefully shift the focus away from social rights and benefits to measures for the unemployed, particularly the long-term unemployed. Their concern not to push up labour costs or curtail flexibility may be useful in handling new Commission proposals, but they will not resist majority views. The Prime Minister might want to counsel caution on "Action Programme" measures, particularly those directly threatening jobs and competitiveness.

The Irish are generally liberal on Single Market issues. We have been stressing the importance of their Presidency making its mark on financial services (particularly investment services and insurance) and transport liberalisation, and they seem receptive. It would be helpful if the Prime Minister could make the same point.

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Among Community external issues during the Irish Presidency, Eastern Europe will continue to dominate. The Irish have kept a low profile in Community discussions so far. The Prime Minister may wish to rehearse the principles we wish the EC to follow in handling relations with Eastern Europe:

- differentiation according to degree of economic reform achieved;
- no bloc to bloc approach;
- political responses to political reform;
- dynamic development of institutional association with individual countries as economic and political reforms take root;
- no enlargement at least until 1993.

The Prime Minister might also note the need to keep in close touch with the Commission to ensure they can carry out their role of coordinating EC and broader G24 assistance to Poland/Hungary (particularly to monitor Poland's food needs).

Negotiations between the EC and EFTA are likely to begin during the Irish Presidency. Substantial areas of agreement have been identified but many difficult areas remain, particularly on legal/institutional aspects. The Prime Minister might underline the importance we attach to this process.

Bilateral (including Northern Ireland)

On Northern Ireland issues the Intergovernmental Conference has fully aired a number of problems, including those arising from the leak of security materials and the Irish criticism of the UDR. The Prime Minister might note that recent meetings of the Conference have demonstrated the effectiveness of the Anglo-Irish Agreement and its mechanisms as a forum for conducting Anglo-Irish relations on Northern Ireland matters.

Mr Haughey will have been fully briefed about where matters stand on the UDR and the Stevens enquiry into allegations of collusion between members of the security forces and loyalist paramilitaries. If he mentions the Irish proposal for a commission of enquiry, the Prime Minister will need to reiterate that this will not be necessary.

On security cooperation generally the Prime Minister might say that, while very considerable progress has been made within the framework of the Agreement, there will always be scope for improvement and that we must continue to search for ways of intensifying cooperation against the common enemy.

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The terrorist campaign shows no sign of slackening.

It is, however, important to stress that efforts in the security field must be accompanied by progress on the political front. Mr Haughey's speech in the Dáil on 23 November underlined his lack of enthusiasm for devolution and his preference for direct talks with the unionists. There were, however, elements in the speech which we can regard as constructive, and the Prime Minister might therefore say that our soundings of Northern Ireland political parties suggest that there are signs that there may be scope for progress on which we will seek to build in the weeks ahead. Progress is most likely through efforts to establish a functioning devolved structure of government in Northern Ireland in which both communities can learn to work together.

In his speech Mr Haughey reaffirmed the Irish Government's support for the British Government's policy for promoting devolution, set out in Article 4 of the Anglo-Irish Agreement and emphasised the importance of making "whatever progress we can now, for its own sake", despite the ultimate Irish objective of a united Ireland.

Mr Haughey is almost certain to raise the case of the Birmingham Six. His first priority may be recategorisation of the status of the prisoners, but the Foreign Secretary has told Mr Collins that there may be more to say on this very soon. The Prime Minister might ask Mr Haughey not to take a strong public line on categorisation since that will make it more difficult for the Home Secretary in an area within his responsibilities. The Prime Minister may also need to remind Mr Haughey that there is no evidence at present to justify a further reference to the Court of Appeal, although the Home Secretary will of course consider any recommendations which Sir John May may make in his enquiry into the Guildford Four verdict. While the enquiry into the West Midlands Serious Crime Squad is looking into its actions since January 1986, it is not precluded from following lines of enquiry before that date. The Prime Minister might remind Mr Haughey again that no democratic government can substitute political considerations for the verdict of the Court, which in this case went into the evidence recently at great length.

If Mr Haughey were to raise the question of Paul Hill, one of the Guildford Four, the Prime Minister might say that she is unable to comment on the appeal against his conviction for murder in Northern Ireland until the courts in Belfast have heard it: it is not possible to say how long this might take. Meanwhile he is on bail.

There are no points to raise on extradition. But there are problems ahead, and the Prime Minister might remind Mr Haughey that we are still awaiting a response to the papers we passed to the Irish in December 1988 and January 1989,

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proposing a number of changes in their extradition arrangements. In particular we want early progress on a more practical alternative to the point of departure question, since the use of the single border handover point raises considerable security difficulties.

Press line

You will no doubt wish to agree on the spot a brief press notice. It would be useful if this could concentrate so far as possible on the discussion of Community issues.

I am copying this letter to Colin Walters (Home Office) and Stephen Leach (NIO).

*James,  
Stephen Wall*

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street

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PRIME MINISTER

BILATERAL WITH THE TAOISEACH

You are to have a bilateral with the Taoiseach in the margins of the European Council. I have not yet set a time.

It may be as well this time to devote most of it to EC matters and the forthcoming Irish Presidency. We hope they will make a further very strong push on the Single Market, particularly financial services and transport. We think that relations in Eastern Europe will continue to be a prominent concern and one to which the Community should devote particular attention. The Irish will also have to handle the opening of negotiations between the EC and EFTA. The way ahead of economic and monetary union will depend on what is agreed in Strasbourg and you will want to emphasise the need for real through discussion of the substance of the issues by the bodies which actually know something about them i.e. the monetary committee and ECOFIN.

There will have to be some discussion also of bilateral affairs and it probably won't be very happy. Better cross-border security cooperation remains our main concern. It is quite likely that Mr. Haughey will raise the case of the Birmingham Six in two respects. First he may refer to the re-categorisation of the status of the prisoners. This is entirely a matter for the Home Secretary and we very much hope Mr. Haughey won't say anything publicly about it which would complicate the Home Secretary's task. (We think the Home Secretary is probably going to take action on this.) Second, he may ask for the case of the Birmingham Six to be referred once again to the Court of Appeal. You will want to make clear that there is no evidence to justify this and the Court of Appeal has already been through the case very meticulously. But I would not be too emphatic. It is not impossible that some recommendation affecting the Birmingham Six may emerge from Sir John May's enquiry into the Guildford Four verdict. You might remind Mr. Haughey of his commitment in the Anglo-Irish Agreement to support devolution. We are beginning to see some signs of reviving interest among the Unionists in

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- 2 -

discussion of a devolved structure of government. This needs to be nurtured and it will not be helpful if Mr. Haughey instead pursues his own ideas on direct contacts between the Irish government and the Unionists.

A fuller note by the FCO is in the folder together with a copy of the Anglo-Irish Agreement.

C.D.P

(C. D. POWELL)

7 December 1989

a:\foreign\Taoiseach

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Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

7 December 1989

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

*Dear Charles,*

**ECONOMIC AND MONETARY UNION: VIEWS OF THE EUROPEAN COMMITTEE OF  
THE BRITISH INVISIBLE EXPORTS COUNCIL (BIEC)**

The Chancellor saw Sir Michael Butler, Chairman of the European Committee of the British Invisible Exports Council (BIEC) on Tuesday 5 December. Sir Michael was accompanied by Sir Michael Franklin (Deputy Chairman of the Committee), and Sir Jeremy Morse. The Financial Secretary, Mr Wicks, Mr R I G Allen and Mr Tyrle were also present.

Sir Michael outlined the Committee's fears that London's position as the main financial centre in Europe might be damaged by the perception in the EC and elsewhere that movement towards economic and monetary union in Europe might go ahead without Britain. They felt it was important for the UK to be seen to be playing a constructive role, not least so as to be able to influence developments. His Committee was concerned that the Government's paper setting out the UK's evolutionary approach did not go far enough to be regarded by other member governments as a sufficient alternative to Stages II and III of the Delors plan. To be taken seriously in Europe it was urgently necessary to develop the ideas in the paper on what should happen after Stage I of the Delors plan into firmer proposals. In particular, he suggested that the UK should work up a more detailed scheme for the development of the private ecu. On this basis, it would be easier for the UK to





argue that the substance of EMU had to be fully considered before the case for institutional change could be considered.

The Chancellor said that he recognised these concerns. However the fact was that there would be substantial pressure at Strasbourg to initiate processes designed to lead to institutional change. Given that the UK would not support the calling of an IGC he thought it would be difficult to make headway in presenting a case on the lines suggested by Sir Michael.

Sir Michael Butler said that, in the EC context, there was always a temptation to talk in terms of institutions rather than substance. He felt the UK's negotiating objective should be to ensure that the terms of reference for any IGC reflected and built on the ideas in the UK's paper. But we would need to offer a view on the objectives for monetary policies and exchange rates in the Community by the end of Stage I and what the next set of issues would be. The aim should be to lay out in the Strasbourg conclusions a suitable basis for further work, to put alongside the Guigou questionnaire.

The Chancellor said that the term EMU had never been given a precise meaning. He saw a need to gain acceptance in other member states that the interpretation implicit in the Delors Report was not the only one. Sir Michael Butler thought that it would be counter-productive to open this question. In particular, any suggestion that EMU did not imply fixed exchange rates would run into considerable opposition.

Sir Jeremy Morse said that a possible "market" definition of EMU which respected the principle of subsidiarity might require only as much fiscal and monetary harmonisation as was necessary to underpin permanently fixed exchange rates.

Sir Michael Franklin agreed that there would be no mileage in questioning the meaning of EMU. It would be easier, and more productive, to pursue our objectives in the context of the answers to the Guigou questionnaire. He also saw dangers in insisting too strongly on the contrasts between an "institutional" and an "evolutionary" approach. While this made sense to financial practitioners, it lacked political appeal in Europe. We should refer instead to phases, stages etc. Other member states would accept that the process should be gradual. They would not accept, however, that there should be no progress at all beyond Stage 1.

The Chancellor asked what the consequences would be for the City if EMU went ahead without the UK. Sir Michael Butler said there was a risk that business would be lost to Paris and other European financial centres, such as Frankfurt, Amsterdam and Luxembourg. London had reaped the benefits of early deregulation, but others were now following suit. He accepted that, whatever the outcome



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on EMU, we would face increasing competition. At present, London exerted a strong attraction for financial institutions. But this could change if there was a perception that London would be left on the sidelines. The Financial Secretary wondered whether the City would not in fact profit most from being offshore from a centralised, over-regulated, single financial area with no exchange controls. We might then be able to benefit in the same way as we had on eurodollars as a result of the US "Regulation Q". Sir Michael Butler thought that it was dangerous to rely on the European market remaining more highly regulated than the City. The Financial Services Act had already changed the relative advantage of London.

Sir Jeremy Morse agreed there was a risk that the City would lose some of its power to attract financial businesses. He thought there might also be some impact on the Bank of England's standing among bank regulators, eg at Basle, where the Bank's skill and experience were highly regarded. This was one area where the Bank, rather than the Bundesbank, was the recognised leader. A second worry concerned the instruments through which monetary policy was conducted. The Delors Report recognised that the principle of subsidiarity should apply, but he doubted whether, under a co-ordinated monetary policy, that would be feasible in practice. He thought we should aim to get the Bank's methods adopted as the technical basis for co-operation in money market management.

The Chancellor asked what the City felt would be the desirable outcome in the longer term. Sir Michael Butler thought that we should aim to take co-operation on interest and exchange rates and fiscal policy further, under a "system" of central banks which need be no less accountable than at present, and which could retain the existing division of powers and responsibilities. The aim should be to make Stage I work. Beyond that there should be progress towards fixed parities. Sir Jeremy Morse added that, with the UK's financial experience, we should be aiming to play a leading role within the Community on these matters.

The Chancellor thanked Sir Michael and his colleagues, and noted the views put forward. However, the UK remained committed to the approach set out in his paper, which rejected Delors Stages 2 and 3, or indeed the possibility of envisaging now what might be feasible or desirable after Stage 1.

I am copying this letter to Stephen Wall (FCO).

Handwritten signature of T. Tarkowski in cursive script.  
T TARKOWSKI



CONFIDENTIAL  
FM THE HAGUE  
TO DESKBY 070930Z FCO  
TELNO 505  
OF 070915Z DECEMBER 89  
INFO IMMEDIATE UKREP BRUSSELS  
INFO PRIORITY EC POSTS

FRAME GENERAL

MY TELEGRAM 502: EUROPEAN COUNCIL : EMU

1. DUTCH COMPROMISE PROPOSAL OVER EMU AND AN IGC.

DETAIL

2. TODAY'S DUTCH PRESS REPORTS THAT LUBBERS AND VAN DEN BROEK WILL HAVE IN THEIR POCKETS FOR THE EUROPEAN COUNCIL QUOTE A COMPROMISE PROPOSAL UNQUOTE IN RESPECT OF EMU, AND IN PARTICULAR AS REGARDS AGREEMENT TO AN IGC. THIS WOULD BE AN AGREEMENT IN PRINCIPLE TO HOLDING AN IGC IN THE AUTUMN OF 1990, BUT SUBJECT TO A NUMBER OF CONDITIONS BEING SPECIFIED AND SUBSEQUENTLY FULFILLED BEFORE AN IGC COULD ACTUALLY BE CALLED. IF THE CONDITIONS WERE NOT FULFILLED, THE IGC WOULD BE POSTPONED.

3. MERCKELBACH (DIPLOMATIC ADVISOR TO LUBBERS) TOLD ME YESTERDAY EVENING THAT A MINISTERIAL MEETING HELD EARLIER IN THE DAY TO PREPARE THE DUTCH POSITION FOR THE EUROPEAN COUNCIL, HAD AGREED THAT LUBBERS SHOULD FLOAT THE IDEA OF THEIR BEING A CHECK POINT BEFORE AN IGC WENT AHEAD, AT WHICH CERTAIN CONDITIONS WOULD BE SEEN TO HAVE BEEN MET. LUBBERS WOULD NOT NECESSARILY SEEK AGREEMENT AT STRASBOURG TO WHAT THOSE CONDITIONS SHOULD BE. NOR WOULD HE INSIST ON THE CONCEPT BEING INCLUDED IN THE EUROPEAN STATEMENT: THE AIM WAS TO SECURE AN UNDERSTANDING ABOUT THE CONDITIONS UNDER WHICH AN IGC WOULD BE HELD OF A KIND WHICH MIGHT MAKE A CONSENSUS EASIER TO REACH. I REMINDED MERCKELBACH OF THE REASONING BEHIND OUR STRONG VIEW THAT AN IGC IN 1990 WOULD BE PREMATURE.

4. THE DUTCH MINISTER OF FINANCE, KOK, HAS SENT A NOTE TO PARLIAMENT IN WHICH HE HAS SET OUT 4 KEY QUESTIONS ON WHICH THE GOVERNMENT BELIEVE THERE MUST BE GENERAL AGREEMENT FOR AN IGC TO BE HELD SUCCESSFULLY. ALTHOUGH THESE POINTS WERE DRAFTED WITHIN THE FINANCE MINISTRY, OFFICIALS THERE HAVE TOLD US THAT FOLLOWING MUCH DISCUSSION AMONG MINISTERS, THEY NOW REPRESENT GOVERNMENT POLICY. THE POINTS ARE: PRICE STABILITY AND INDEPENDENCE AS THE BASIS OF OPERATION OF A



CENTRAL MONETARY AUTHORITY: AGREEMENT OVER HOW BUDGETARY POLICIES AND BUDGETARY DEFICITS ARE TO BE HANDLED: AGREEMENT OVER THE TRANSFER OF NATIONAL COMPETENCE: AND PARLIAMENTARY ACCOUNTABILITY. THE LAST POINT IS OF INTEREST IN THAT IT HAS NOT SO FAR BEEN ONE WHICH THE DUTCH HAVE TENDED TO STRESS.

5. FCO PLEASE ADVANCE KERR, HADLEY (CABINET OFFICE)

JENKINS

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From: D A HADLEY  
7 December 1989

Mr Powell, No 10

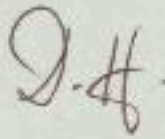
SOCIAL CHARTER

The Prime Minister asked for a UK draft of a Social Charter which we could use in Strasbourg with the press to show what sort of text we could have accepted.

A clean version of the text attached to my minute of 17 November is included in the Prime Minister's background brief for Strasbourg. (Brief 2D, reference F). This text was designed as a possible basis for negotiation: there is now no prospect of this.

\* The brief (para 3) therefore refers to a summary text, which might be more useful with the press. I attach this (it has been agreed between the Departments concerned). You will however have noted that the brief advised that it might be best to release no text, and treat the Charter as yesterday's story. A final judgement on this will depend on what actually happens in Strasbourg.

I am copying this minute to Graham Reid (D/Employment) and John Kerr (FCO).

  
D A HADLEY

DECLARATION ON JOBS, PROSPERITY AND INDIVIDUAL OPPORTUNITY

We, the Heads of State or Government of the Member States of the European Communities meeting within the European Council

Declaring that the Single Market, by promoting efficiency and economic expansion, offers the best prospect of continuing growth in jobs and prosperity for the benefit of all Community citizens;

Convinced that they must aim to improve living and working conditions through action which sustains economic and employment growth, maintains competitiveness and combats unemployment;

Recognising the need to respect the diversity of practice and legal tradition among Member States;

Resolved to uphold the respective competences of the Community and of Member States, and stressing that in accordance with the principle of subsidiarity action should only be taken at Community level when the objective cannot be achieved through action at the level of individual Member States;

Reaffirming that the Community's top priority in the social field is to create jobs;

DECLARE our commitment to promote job growth, prosperity and individual opportunity by:

- ensuring that our employment policies help to improve the efficiency and competitiveness of our firms and industries, and so secure a firm basis for job growth and lower unemployment;



- promoting the development of more flexible ways of working, such as part-time and temporary work, which improve efficiency and provide workers with new opportunities and the freedom to organise their working lives as they wish;
- reducing unnecessary restrictions on business and enterprise and avoiding new restrictions;
- helping young people to prepare for work;
- taking action to help unemployed people, particularly the longer-term unemployed, into jobs;
- promoting enterprise, encouraging self-employment and recognising the potential in small and medium-sized businesses for creating jobs.

REAFFIRM our commitment, through action at Community level or within each country as appropriate to promote:

- equal opportunities and equal treatment for men and women in matters of employment, pay and access to training;
- the right to look for work or take a job in any Community country;
- the right to set up in business or provide services in any Community country;
- recognition throughout the Community of professional and vocational qualifications recognised in each individual Member State;
- freedom for the individual to pursue the occupation or job or his or her choice;
- satisfactory standards for health and safety at work;
- access to continuing vocational training;
- measures to help those with disabilities to join in working life;

FURTHER REAFFIRM our shared commitment to promote within our own countries, in accordance with national custom and practice:

- adequate social protection for every citizen;
- adequate resources for the elderly in their retirement;
- freedom for employers and workers to form and to join any professional or trade union organisation of their choice; and freedom not to join such organisations;
- freedom for employers and workers, or their representatives, to negotiate and to reach agreements if both wish to do so;
- the involvement of employees in the success of the companies they work for, for example through share ownership schemes and profit-related pay;
- employment protection rights for workers, according to conditions laid down by each country, including unfair dismissal, redundancy and maternity absence;
- the education and development of children and young people, and their health and safety at work.

WE CONFIRM our determination to promote these rights and freedoms in accordance with Community law and with national laws, practices and traditions.



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DC



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

Prime Minister

6 December 1989

You will want to  
be aware of the  
possibility that  
President Mitterrand  
may raise this.

CBM  
b/xi

Charles Powell Esq  
PS/Prime Minister  
10 Downing Street  
LONDON  
SW1

Dear Charles

mt

**IMF QUOTAS**

We understand that President Mitterrand may raise the issue of IMF quotas and rankings in the IMF with the Prime Minister in the margins of the European Council. In particular, he may make an "offer" that the French should go fourth equal in the rankings with the UK.

Line to take

We suggest that the Prime Minister should make it perfectly clear that this outcome would not be acceptable to the UK. The issue is still being discussed in the Fund Board but it is quite clear that, under any normal method of distributing the increased quota, the UK will remain well ahead of the French. The special quota increase for Japan will push the UK from second place either to third place or, more likely, to fourth place behind the Germans. But we are not prepared unilaterally to renounce quota in order to accommodate French wishes. Japan's promotion up the rankings may push the UK down two places; if it pushes the French down one place that is something they should accept.

Background

The Chancellor's minute of 7 November set out the background to the current discussion on IMF quotas. In the event, progress has not been as rapid as seemed likely: the US has only just unveiled





their position on the size of the quota increase they are ready to accept: their opening shot is 35 per cent, but they are likely to be pushed up to something around or just over 40 per cent. The French are still arguing strongly for a much larger increase. Discussions in the Fund Board and elsewhere are likely to drag on at least until the end of the year and quite possibly into January.

There has not been any substantive discussion of rankings, but it is becoming increasingly clear that the others in the G7 (and some outside) are looking to us to "solve" the problem of the special quota increase for Japan by giving up quota share and moving down the rankings to fourth equal with France - as opposed to our preferred solution of the Japanese increase being accommodated by scaling down the quota share of all other members.

We do not think it would be possible - or sensible - for us to stand firm and try to insist on third place, above the Germans. We continue, however, to feel that our sticking point should be fourth in our own right, ahead of the French. Even on the "calculated quotas" (based on relative size of each country's economy etc) which are one element in quota distribution, the UK's ranking comes out at fourth, ahead of the French, on the 1985 data being used for this quota review (though we are just behind the French on 1986 data).

The French "offer" of fourth equal comes with an assurance that these positions would be maintained for the next quota review and perhaps beyond, so that we would not slip to fifth even if that was the ranking shown by "calculated quotas" then. We do not believe that that assurance is bankable: once we were level with the French, the movement in calculated quotas would tend to push us below them in the next quota review, and to offset this would require an - implausible - special quota increase for the UK. And in any case, if we remain above the French after this review, the process of moving from present to "calculated" quotas is a slow one and there is no reason to suppose we should not be able to retain fourth place for a long time.

We have devised a proposal for quota distribution which meets our objectives, and which the Chancellor has authorised our Executive Director to put to the Fund Board - the precise timing will depend on the progress of Board discussions. This proposal is for the UK to offer to "pay" for the developing countries' share of Japan's special quota increase, with the remainder being shared among industrial countries. The effect would be to move us to fourth place, just behind the Germans but well ahead of the French. It should also win considerable support from developing countries, who are concerned about their potential loss of share.



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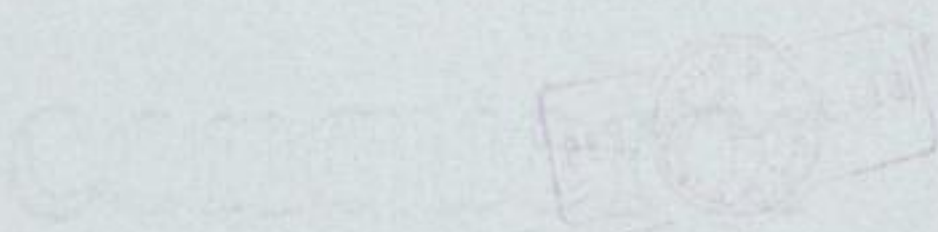
We do not suggest the Prime Minister should discuss this proposal with President Mitterrand. The line for a discussion with him should simply be that the UK is not prepared to accept the French "offer".

I am copying this letter to Stephen Wall (FCO) and to Paul Tucker (Bank of England).

Yours

JSG

JOHN GIEVE



*rebacktop*

PRIME MINISTER

CABINET: EUROPEAN COUNCIL, STRASBOURG

You agreed that there should be a discussion in Cabinet tomorrow of the forthcoming European Council in Strasbourg. The Foreign Secretary's factual minute (attached) has been circulated to all members of Cabinet.

I suggest that you say that you, the Foreign Secretary and the Chancellor have discussed the agenda and are in agreement on the line we should take on the main issues. So far as possible, your aim will be to emphasise the subjects which show the Community to be united and constructive: that is, the response to events in Eastern Europe, and the completion of the Single Market.

①

②

③

We shall vote against the Social Charter: this is widely expected, our position has good support in this country, and there is unlikely to be any serious dispute. You will explain our reasons for rejecting it at the subsequent press conference.

④

On EMU, you have agreed with the Chancellor and Foreign Secretary that we will oppose setting a date for an IGC, which we regard as unnecessary. The German position remains unclear, but the odds must be that Kohl will support Mitterrand. Since an IGC requires only a simple majority, we cannot stop it, and there is no point in making a great fuss so that we appear to incur a significant defeat. The real difficulties of Stages 2 and 3 of the Delors proposals will become more apparent as they are discussed; and you will of course make clear that Parliament has rejected them, with the backing of all parties. We shall try behind the scenes to get conditions on an IGC written into the conclusions, so as to constrain it so far as possible.

You might then invite:

- the Foreign Secretary to speak on the general aspects of Strasbourg.

- the Chancellor on EMU.

*Kohl is now pressing to defer the opening of an IGC, but wants agreement to conclude it & implement the results by 1994.*



- the Employment Secretary on the Social Charter.
- the Trade and Industry Secretary on the Single Market.

You will want to conclude that Cabinet agreed that we should work for as harmonious an outcome at Strasbourg as possible, consistent with our refusal to accept the Social Charter and Parliament's rejection of Stages 2 and 3 of Delors.

C.D.P.

CDP

6 December 1989

jd c:cabinet



Foreign and Commonwealth Office

London SW1A 2AH

6 December 1989

*John Gieve*  
*Neil Thornton*

*Dear Charles,*

*CDP 6/12/89*

Strasbourg: President Mitterrand's Agenda Letter

Thank you for your letter of 6 December. *Step end*

President Mitterrand's agenda letter (translation enclosed) contains no surprises, and shows that he has accepted Delors' advice that the Single Market should be the first Strasbourg subject, and our advice against waiting until the dinner before starting to discuss Eastern Europe. The reference to French ideas for a new Development Bank for Eastern Europe is implicit rather than explicit - but we can be sure that these ideas will nevertheless be pursued. The reference to the Social Charter is low-key, while the references to a decision on an IGC start-date are as expected.

The French can be in no doubt about our views on all these issues, and the Foreign Secretary sees no need for the Prime Minister to reply to President Mitterrand, and possible disadvantage in doing so. We last replied to such a letter in the rather more dramatic circumstances of February 1988.

I am copying this letter to John Gieve (HMT), Neil Thornton (DTI), Clive Norris (Dept. of Employment) and David Hadley (Cabinet Office).

*John,*  
*Stephe Wall*

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street



Dear Friend,

In a few days time we shall have the pleasure of meeting again in Strasbourg where I shall have the honour of welcoming you to the formal meeting of the European Council under French Presidency.

Everyone is aware that the European Council at Strasbourg is taking place at a time when the history of our continent is beginning to evolve to an extent and with implications which are as yet difficult to perceive.

It does however seem very clear that the changes taking place owe much to the attraction exerted by the model provided by Community Europe both on the economic and political front. It is therefore in the interest of all Europeans for the Community to strengthen its position and step up progress towards European Union. We will be called upon in Strasbourg to take decisions on these matters. By the end of this Council, the Community will also have to put forth the message of confidence and openness which our public opinion, European partners and the rest of the world are waiting for.

I propose that we tackle the various items on our agenda in the following order:

The meeting will commence on Friday, 8 December at 11.00 hours. In accordance with what is by now well-established tradition, we shall start by welcoming Mr Enrique Baron, President of the European Parliament, who will speak on behalf of that institution on the main topics to be covered at our meeting.

Then will shall begin our discussions properly speaking by holding a general exchange of views on the state of work on

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implementation of the Single European Act, on the basis of a report from President Delors. I hope that this time we shall be able to say that the rate of progress towards the single market is satisfactory but also that efforts must under no circumstances be allowed to slacken if we are to meet the 1993 deadline.

I suggest that we should then go on, during a working lunch with Foreign Ministers, to tackle the question of economic and monetary union. This is a fundamental question for the future of our Community and the preparatory work carried out pursuant to the mandate given in Madrid has clearly highlighted the questions to which the intergovernmental conference needs to reply in order for a treaty to be drawn up. We need to decide now on the date for convening a conference. That decision is already perceived as being the clearest indication that we can give that we have the will to enter a new phase in the Community.

When work resumes in the afternoon, we shall first of all study the Social Charter and the ways in which the rights which it contains can be effectively implemented. We shall then review other matters such as freedom of movement of persons, the fight against drugs, the environment, radio and television. These subjects are important if we are concerned that Europe should not, in the eyes of our fellow citizens, be reduced to an abstract and bureaucratic construction and that it should also stand for solidarity, progress and well-being in the everyday life of all our citizens.

Before having dinner, I suggest that we discuss the economic aspects of our relations with Eastern Europe. We have already begun tackling this question when we met recently at the Elysée Palace. At the end of that meeting a number of initiatives were made and various ideas put forward. It is now time for taking decisions in principle on the action which needs to be taken in order to prolong and channel the



wave of solidarity which has manifested itself towards those countries, especially in the field of financial assistance.

Finally, the working dinner with Heads of State and of Government will enable us to continue discussion on these themes and in particular to make closer study of all their political implications. The dinner will also provide an opportunity for reviewing our relations with certain other countries with which we have close connections either for geographical or historical reasons, notably the EFTA, Lomé Convention and Mediterranean countries.

For their part, over dinner, Foreign Ministers will raise questions mainly with regard to the Middle East, South Africa and Latin America.

They will prepare draft declarations for us on all these subjects.

On Saturday morning, we shall devote ourselves as usual to the final wording of the conclusions, reflecting all our discussions, on the basis of a draft prepared by the Presidency.

Courtesy close: signed François Mitterrand.



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FRAME GENERAL  
THE STRASBOURG EUROPEAN COUNCIL: THE FRENCH APPROACH

## SUMMARY

MITTERRAND'S SUMMIT AT THE END OF MITTERRAND'S YEAR. STRONG DESIRE FOR AGREEMENT ON EMU, SOCIAL CHARTER (IF NECESSARY A ONZE) AND EASTERN EUROPE, BUT WITH TOO MUCH EMPHASIS ON SYMBOLS NOT SUBSTANCE. SUPPORT FOR OUR INTERNAL MARKET PACKAGE ON THE CARDS. LAST MINUTE SURPRISES CAN NEVER BE RULED OUT.

## DETAIL

1. FOR MITTERRAND THE EUROPEAN COUNCIL AT STRASBOURG WILL BE THE CULMINATING POINT OF A YEAR THAT HAS SEEN THE BICENTENARY CELEBRATIONS, THE ECONOMIC SUMMIT IN PARIS AND THE FRENCH PRESIDENCY.
2. MITTERRAND'S AIM FOR THE PRESIDENCY, APART FROM DESPATCHING NECESSARY AGENDA ITEMS SUCH AS LOME AND THE 1990 BUDGET, HAS ALWAYS BEEN TO GIVE A SUBSTANTIVE PUSH TO EUROPEAN INTEGRATION, FOCUSING ON EMU AND THE SOCIAL DIMENSION, BACKED UP BY ISSUES WHICH MITTERRAND HIMSELF HOLDS DEAR - SUCH AS AUDIOVISUAL AND THE ENVIRONMENT - THEREBY ADVANCING A PROCESS IN WHICH HE BELIEVES DEEPLY, AND ASSURING HIS OWN PLACE IN THE HISTORY BOOKS.
3. EVENTS HAVE KNOCKED MITTERRAND OFF COURSE, BUT HAVE NOT DERAILED HIM. TO START WITH, THE AGREEMENT ON EMU AT THE MADRID SUMMIT REMOVED ANY OBJECTIVE NEED FOR SUBSTANTIVE PROGRESS - OR AT LEAST DECISIONS - UNDER THE FRENCH, AND THEIR REACTION - TO FORCE THE PACE AND IN CALLING FOR AN IGC TO CONTRIVE A DECISION - HAS PUT THEM AT ODDS NOT JUST WITH US BUT WITH MANY IN GERMANY TOO. SUBSEQUENTLY, ON THE SOCIAL CHARTER, MITTERRAND UNDERESTIMATED THE STRENGTH OF OUR OBJECTIONS TO THE ORIGINAL DRAFT, AND CONSEQUENTLY OVERESTIMATED HIS OWN ROOM FOR MANOEUVRE IN GETTING US INTO LINE. AND FINALLY DEVELOPMENTS IN EASTERN EUROPE ADDED AN UNEXPECTED DIMENSION TO THE PRESIDENCY. THE ELYSEE DINNER WAS A PROPER AND SUCCESSFUL RESPONSE, THE CALL FOR QUICK DECISION ON A NEW BANK LESS SO. MORE SERIOUSLY,



BY RESURRECTING FEARS OF A UNITED GERMANY, DEVELOPMENTS IN THE EAST HAVE PUT FURTHER STRAIN ON FRANCO-GERMAN RELATIONS AND CAUSED THE FRENCH TO ARGUE FOR EVEN QUICKER PROGRESS TOWARDS INTEGRATION.

4. AS A RESULT, MITTERRAND APPROACHES STRASBOURG MORE CONVINCED THAN EVER OF THE NEED FOR BOTH REAL AND SYMBOLIC PROGRESS TOWARDS EUROPEAN INTEGRATION, BUT NOT WHOLLY CONFIDENT OF SUCCESS ON ANY OF THE MAIN ISSUES AS HE HAS DEFINED THEM: KOHL MAY NOT YET BE ON BOARD ON AN IGC, AGREEMENT OF THE TWELVE ON THE SOCIAL CHARTER DOES NOT LOOK ON THE CARDS, DOUBTS REMAIN ABOUT AGREEMENT ON THE EUROPEAN DEVELOPMENT BANK.

5. MITTERRAND WILL COME TO STRASBOURG WITH HIS DOMESTIC POSITION SECURE. BOT HE AND HIS PRIME MINISTER ARE RIDING HIGH IN THE OPINION POLLS. ROCARD'S POLICY OF BALANCING ECONOMIC EFFICIENCY AND SOCIAL DIALOGUE IS GENERALLY POPULAR. PUBLIC SECTOR PRESSURE OVER PAY HAS SO FAR BEEN MANAGEABLE. IMMIGRATION ISSUES WHICH HAVE BEEN THE FOCUS OF DOMESTIC ATTENTION OVER PAST WEEKS, FOLLOWING UNEXPECTEDLY HIGH IMMIGRATION FIGURES AND A CONTINUING ROW OVER THE WEARING OF ISLAMIC HEADSCARVES IN FRENCH SCHOOLS, ARE A SERIOUS CONCERN FOR THE GOVERNMENT. BUT IN THE SHORT TERM THEY ARE MAINLY DAMAGING THE MODERATE RIGHT, OUTMANOEUVRED BY THE EXTEMIST FRONT NATIONAL, THOUGH THE LEFT IS DIVIDED TOO. THE ECONOMY CONTINUES TO DO WELL.

6. MITTERRAND WILL BE WELL AWARE OF FRENCH WORRIES ABOUT THE IMPLICATIONS OF CHANGE IN EASTERN EUROPE AND IN THE GERMANIES, CONSCIOUS OF OPPOSITION ACCUSATIONS THAT HE IS NOT MAKING ENOUGH USE OF THE PRESIDENCY TO KEEP FRANCE CENTRE STAGE IN EUROPE AND CONSCIOUS TOO OF CONTINUING CONCERN ON THE LEFT THAT THE SINGLE MARKET IS HELPING BUSINESS, NOT LABOUR. MITTERRAND'S SENSE OF HISTORY, AND OF THE DESTINY OF EUROPE, THE DOMESTIC POLITICAL IMPERATIVES AND HIS DESIRE FOR A PERSONAL TRIUMPH TO CROWN BICENTENARY YEAR, WILL LEAVE HIM DETERMINED FOR A SUCCESS AT STRASBOURG. THE FEAR MUST BE THAT BY MEASURING SUCCESS IN SYMBOLS RATHER THAN SUBSTANCE HE MAY RISK DISSENSION ON SOME KEY ISSUES WHEN UNITY IS CALLED FOR.

#### EMU

7. SETTING A DATE FOR AN IGC IS A CASE IN POINT. THERE IS A SERIOUS UNDERLYING FRENCH INTEREST IN SECURING RAPID PROGRESS TOWARDS EMU: REGAINING SOME OF THE CONTROL OVER ECONOMIC DECISION MAKING THAT HAS BEEN LOST THROUGH THE POLICY OF A STRONG FRANC PEGGED TO THE DEUTSCH MARK - THE DOWNSIDE OF A POLICY THAT HAS BROUGHT BENEFITS IN TERMS OF LOW INFLATION - AND GETTING A STRONGER UNDERPINNING FOR THE



FRANC WHEN REMAINING CONTROLS ARE REMOVED. THESE OBJECTIVES DO NOT REQUIRE A DATE TO BE SET NOW. THE CALL FOR AN IGC IS INTENDED TO SYMBOLIZE MEMBER STATES' CONTINUING COMMITMENT TO EUROPEAN CONSTRUCTION, AND HAS BECOME FOR THE FRENCH A LITMUS-TEST OF GERMAN READINESS TO MAKE A POLITICAL COMMITMENT TO EUROPEAN INTEGRATION IN THE FACE OF COMPETING ATTRACTIONS. THE FRENCH ARE PUTTING GREAT PRESSURE ON KOHL TO AGREE TO A DATE. IF THEY FAIL, OR AGREEMENT IS HEDGED AROUND WITH CONDITIONS, IT WILL BE A DISAPPOINTMENT AND A WORRY TO THE FRENCH HOWEVER SATISFACTORY THEY MAY PROFESS TO FIND WHATEVER FALLBACK ARRANGEMENT IS AGREED.

#### THE SOCIAL CHARTER

8. MITTERRAND ESPOUSED THE SOCIAL CHARTER AS A SIGN OF THE COMMUNITY'S COMMITMENT TO THE INTERESTS OF EMPLOYEES AS WELL AS OF EMPLOYERS IN CONSTRUCTING THE SINGLE MARKET. EVER SINCE THE FRENCH SOCIALISTS RETURNED TO POWER IN MAY 1988 THE GOVERNMENT HAS BEEN UNDER PRESSURE FROM RANK AND FILE TO RESOLVE THE CONTRADICTION BETWEEN SOCIALIST PRINCIPLES AND A MACRO-ECONOMIC POLICY THAT IS ESSENTIALLY LIBERAL. HE PLUMPED FOR THE CHARTER AS A PAINLESS WAY OF DEFUSING CRITICISM. BUT THE IDEA ONCE LAUNCHED TOOK HOLD, AND DOMESTIC PRESSURE, PARTICULARLY AS FACTIONS IN THE SOCIALIST PARTY JOCKEY FOR POSITION IN ADVANCE OF THE BIENNIAL PARTY CONGRESS AT RENNES IN MARCH, HAS REDUCED HIS SCOPE FOR WATERING IT DOWN FURTHER, WHATEVER HIS INTENTIONS MAY HAVE BEEN WHEN HE SAW THE PRIME MINISTER ON 1 SEPTEMBER. AGREEMENT AMONG ELEVEN, WITH THE 'ULTRA-LIBERAL' UK REFUSING TO SIGN, WHILE A DISAPPOINTMENT IN EC PRESIDENCY TERMS COULD INDEED SUIT HIM DOMESTICALLY.

#### EUROPEAN DEVELOPMENT BANK

9. OBJECTIVELY THE CASE FOR A NEW INSTITUTION TO CHANNEL FUNDS TO EASTERN EUROPE MAY BE WEAK (THOUGH THE FRENCH ARE POINTING TO THE DIFFICULTY OF ASSOCIATING NON-EUROPEAN G24 COUNTRIES WITH EXISTING INSTITUTIONS LIKE THE EIB) AND CERTAINLY NEEDS MORE STUDY THAN THE FRENCH ARE PROPOSING. BUT FOR MITTERRAND THESE CONSIDERATIONS ARE SECONDARY. HERE TOO HE WANTS A SYMBOL OF THE COMMUNITY'S ABILITY TO TAKE THE LEAD IN RESPONDING TO THE ECONOMIC NEEDS OF EASTERN EUROPE. HE ALSO WANTS TO DEMONSTRATE (NOT LEAST TO THE EASTERN EUROPEANS THEMSELVES) THAT THE GERMANS ARE NOT BEING LEFT TO MAKE ALL THE RUNNING. A GOOD DISCUSSION OF POLICY TOWARDS EASTERN EUROPE, AND A REAFFIRMATION OF THE COMMUNITY'S READINESS TO HELP ECONOMICALLY, WILL BE ESSENTIAL BUT NOT SUFFICIENT.

#### THE SINGLE MARKET

10 FURTHER PROGRESS ON THE SINGLE MARKET IS FOR MITTERRAND A



SECONDARY THEME THOUGH THE FRENCH WILL BE ABLE TO CLAIM CREDIT FOR THEIR WELCOME LATE BURST ON TRANSPORT ISSUES. FOR HIM 1992 IS LARGELY YESTERDAY'S SYMBOL. THE NOTION OF A FREE, COMPETITIVE, UNPROTECTED MARKET IS ANTIPATHETIC TO FRENCH HISTORICAL TRADITIONS, WHICH (VIZ. EMU) ARE MORE IN ACCORD WITH THE ESTABLISHMENT OF NEW CENTRALIZED INSTITUTIONS. HOWEVER, FRENCH OFFICIALS HAVE RESPONDED POSITIVELY TO THE UK SUGGESTION THAT HEADS OF GOVERNMENT SHOULD GIVE A PUSH TO THE ADOPTION OF A RAFT OF MEASURES AT THE LAST INTERNAL MARKET COUNCIL OF THE FRENCH PRESIDENCY ON 21 DECEMBER, AND THERE IS A GOOD CHANCE THAT MITTERRAND WILL ACCEPT THIS. HE WILL NO DOUBT ALSO BE READY FOR THE STRASBOURG CONCLUSIONS TO PICK OUT AREAS IN WHICH A SPECIAL EFFORT SHOULD BE MADE DURING THE IRISH PRESIDENCY. BUT HE IS UNLIKELY TO WANT TO DEVOTE MUCH TIME TO THIS THEME.

11. FINALLY, THIS BEING FRANCE, LAST MINUTE SURPRISES CAN NEVER BE RULED OUT.

#### CONCLUSIONS

12. IF MITTERRAND LEAVES STRASBOURG WITH AGREEMENT ON AN IGC, AN EDB AND (EVEN AMONG ELEVEN) A SOCIAL CHARTER HE WILL FEEL THAT HE HAS MADE PROGRESS TOWARDS HIS CONCEPT OF EUROPE AT A TIME WHEN EVENTS DEMAND FIRM LEADERSHIP. A MAJORITY OF THE FRENCH PEOPLE IS LIKELY TO FEEL THAT NATIONAL PRIDE HAS BEEN SATISFIED. HISTORIANS (OTHERS TOO) WHO GIVE MORE WEIGHT TO THE SUBSTANCE THAN SYMBOLS MAY BE MORE DOUBTFUL OF THE EXTENT OF THE ACHIEVEMENT.

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FRAME ECONOMIC

STRASBOURG EUROPEAN COUNCIL: EMU

1. THE GERMAN PERMANENT REPRESENTATIVE TOLD ME ON 6 DECEMBER THAT THE FRANCO-GERMAN DEBATE ON EMU WAS REALLY HOTTING UP. KOHL HAD SENT A WRITTEN MESSAGE TO MITTERRAND ON 5 DECEMBER. THERE HAD SUBSEQUENTLY BEEN A TELEPHONE CONVERSATION BETWEEN THE TWO OF THEM EARLY ON 6 DECEMBER.

2. TRUMPF WAS A LITTLE COY ABOUT THE PRECISE CONTENTS OF KOHL'S MESSAGE BUT IT SEEMS TO HAVE CONTAINED THE FOLLOWING ELEMENTS:

[Cont] (I) THE CONCEPT THAT AN EMU TREATY SHOULD HAVE BEEN NEGOTIATED, SIGNED AND RATIFIED BY THE TIME OF THE NEXT EUROPEAN PARLIAMENT ELECTION (JUNE 1994) AT THE LATEST. SOME PIOUS WORDS ABOUT HOW NICE IT WOULD BE IF THE PROCESS COULD BE COMPLETED IN TIME FOR THE COMPLETION OF THE SINGLE MARKET (JANUARY 1993).

[Bad] (II) A RATHER FAR-REACHING PROPOSAL ABOUT EXTENDING THE POWERS OF THE EUROPEAN PARLIAMENT GOING BEYOND THE EXTENSION OF POWERS REQUIRED TO COPE WITH THE DEMOCRATIC ACCOUNTABILITY ASPECTS OF EMU.

[Good] (III) A CLEAR INDICATION THAT THE GERMANS WERE NOT PREPARED TO TAKE A DECISION AT STRASBOURG ON THE TIMING OF AN IGC.

(IV) A REQUEST FOR A SUBSTANTIAL WORK PROGRAMME TO BE UNDERTAKEN AFTER STRASBOURG AS PART OF THE "FULL AND ADEQUATE PREPARATION" FOR AN IGC.

3. TRUMPF SAID THAT THE POINT UPPERMOST IN KOHL'S MIND NOW WAS HOW TO AVOID THE IGC ISSUE COMPLICATING THE GERMAN FEDERAL ELECTIONS IN NOVEMBER 1990. TO ACHIEVE THIS IT WAS NOT ONLY NECESSARY TO AVOID THE ACTUAL MEETING OF AN IGC BEFORE THAT DATE BUT ALSO TO AVOID THE FINAL DECISION TO SUMMON THE IGC BEING TAKEN BEFORE THEN. IN REPLY TO MY QUESTION, TRUMPF SAID THAT, TAKEN AT FACE VALUE, KOHL'S



POSITION APPEARED TO BE THAT THE DECISION TO CALL AN IGC COULD BE TAKEN NEITHER AT STRASBOURG NOR AT DUBLIN BUT ONLY AT THE ITALIAN EUROPEAN COUNCIL IN DECEMBER 1990.

4. TRUMPF SAID IT WAS NOT SURPRISING THAT THE FRENCH WERE FINDING HIS MESSAGE DISTINCTLY UNPALATABLE. HE DID NOT EXCLUDE SOME WORDS BEING FOUND IN STRASBOURG TO MASK THE PROBLEM. BUT HE DID NOT BELIEVE THAT KOHL WOULD BE PREPARED AT STRASBOURG TO CONCEDE THE ACTUAL SUMMONING OF AN IGC, WHETHER FOR A FIXED DATE OR FOR A SLIGHTLY VAGUER TIME-FRAME.

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ADDITIONAL 1

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Foreign and Commonwealth Office

London SW1A 2AH

6 December 1989

2/0  
C.M.  
Dear Charles,

European Council, Strasbourg

I enclose three papers which will be on the table at Strasbourg.

(a) Council Secretariat Paper on "People's Europe"

This report, which responds to a remit from the Madrid Council, is a factual account of recent activity in the "People's Europe" area. There is welcome recognition that measures such as abolition of exchange controls, mutual recognition of qualifications, abolition of fiscal frontiers and the liberalisation of the insurance market make a direct contribution in this area. The section on culture focuses on recent audiovisual developments and the October Paris Conference, whose outcome we welcomed. But the report also refers, again briefly and factually, to EC activity, eg the proposed Social Charter and the tobacco directives, which we oppose. It also refers to the draft Rights of Residence Directives, on which discussions covering both the legal base and the question of adequate resources are continuing.

We expect no substantive Strasbourg discussion of this paper, though the Presidency are likely to propose Conclusions on some aspects of "People's Europe".

(b) Commission note on Audiovisual Cooperation

This Commission note suggests various initiatives on "audiovisual cooperation", including continuing discussions on copyright, competition, and abolishing barriers to distribution; and an action plan to promote the European HDTV standards. It acknowledges that Community action cannot directly support production activities, but suggests that the MEDIA (Measures to Encourage the Development of the Industry of Audiovisual Production) programme can help indirectly, eg over training and distribution, acting as a catalyst for private investment. The Commission envisage quadrupling the 1990 level of MEDIA Funding (12 mecu).

Any spending programme on this scale would be difficult to contain within the Financial Perspective (Brief 2N). Both Delors and the EP have made clear that they wish to see an increase in the Perspective to permit higher spending on audiovisual programmes. If funding were discussed at





Strasbourg, it would be as well to emphasise the need to respect the existing Perspective - the only amendment we believe would be in order concerns aid to Eastern Europe.

(c) Commission Paper on relations with Mediterranean Countries

This paper usefully highlights the striking demographic facts that, whereas by 2025 the EC population will still be some 320 million, the population of countries on the Mediterranean's southern shore will have doubled, to 400 million. Its general approach, that the EC should help these countries help themselves, is the right one. It correctly underlines the importance of free market policies in overcoming their economic problems, and puts forward practical solutions (such as the provision of technical expertise and promotion of investment). However, the paper leans heavily towards EC increased aid, whereas it says little about measures aimed at increasing trade: Southern EC member states are resistant to further liberalisation of trans-Mediterranean trade. The Presidency may try to secure general endorsement of the paper's analysis and recommendations. We would prefer a remit for further study; and a defensive line is included in Brief No 2L.

*J. S. Wall*  
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EUROPEAN COMMUNITIES  
THE COUNCIL

Brussels, 5 December 1989  
10379/89

RESTRICTED

REPORT by the General Secretariat of the Council

Subject: A PEOPLE'S EUROPE

1. Introduction

Further to the conclusions of the Madrid European Council, this report, which was drawn up by the Council Secretariat at the request of the Presidency, reviews the progress achieved in building up a people's Europe.

2. General observations

The idea of "a people's Europe" embraces a large number of Community actions which share the common aim of making the citizens of the Member States actively aware that they belong to a common economic and social unit.

A review of the sixty or so concrete proposals drawn up by the ad hoc "ADONNINO" Committee in 1985 paints an encouraging picture: two thirds of those proposals have already been implemented, and the next section of this report covers the most important of them.

But it must not be forgotten that very many actions taken by the Community in a whole series of other areas (eg air transport, legislation on animal and plant health, environmental protection, consumer protection, freedom of establishment for financial services, measures to support small and medium-sized undertakings, health and safety at work, etc ...), even though they would seem to lie outside the strict scope of the ADONNINO report, each make an important contribution - directly or indirectly - to the



well-being of the European citizen.

Similarly, the discussions culminating in the draft Social Charter were set against a backcloth of membership of a community based on common values as regards the fundamental social rights of its citizens.

### 3. The experience of the last few years

#### a) Free movement of persons and their property

As a result of the impetus given by the Rhodes European Council, considerable results have been achieved on the vast complex of questions relating to the "free movement of persons" (an area given priority by the ADONNINO Committee); they form the subject of a separate report to the European Council.

As regards the "free movement of property", although much still remains to be done, the Council has spared no effort in adopting a whole series of measures in line with the ADONNINO report. These include the 1986 Resolution on a new form of signs at "internal" Community frontiers, the Regulation adopted last year on the abolition of certain customs exit formalities and the increase to 390 ECUs in December 1988 of the duty-free allowances for travellers (this subject will in future be covered by the in-depth debate on the future system of general indirect taxation currently underway). In addition to those decisions, the Internal Market Council adopted decisions in November 1989 on the elimination of controls performed at frontiers in the field of road and inland waterway transport and on the abolition of frontier transit notes. The important decisions taken in June 1988 on the liberalisation of capital movements and the successful outcome of the work on exemption from tax on the final importation of personal property should also be noted in this context. The recent adoption of a new directive on third party liability



insurance for cars will also have the effect of facilitating movement within the Community.

b) Right of residence and special rights

It is likely that agreement will soon be reached on the "right of residence" proposal which has been on the table since 1979 and which can be said to be one of the most important elements of the ADONNINO plan.

As regards "special rights", although it has not so far been possible to follow up all the recommendations of the ADONNINO report, it should be noted that an important step forward has been achieved as regards the right of petition. The Council approved a text on 11 April 1989, which then formed the subject of a ceremonial exchange of letters between the Council, the European Parliament and the Commission on 12 April in Strasbourg. In so doing, the Presidents of the three Institutions wanted to acknowledge the right of petition of European citizens and they emphasised the special role of the European Parliament in implementing that right.

c) Young people and education

Considerable results have been achieved in this area, which is also a central element of the ADONNINO plan. Of particular note are the ERASMUS programme adopted in 1987 (which is currently being revised and extended), the COMETT programme which has just been readopted until 1994 and the LINGUA programme. The decision of December 1987 on an action programme for the vocational training of young people and the "YES for Europe" programme (adopted in May 1988) to promote youth exchanges in the Community are also worthy of attention. More recently (6 October 1989) the Council gave political impetus to the work to introduce a "youth card" for young European citizens.



As far as the mutual recognition of diplomas is concerned (an area which was singled out as a priority as early as the Hague European Council of 1986), the directive of December 1988 marks an important success, as it establishes a general system for the recognition of higher-education diplomas awarded on completion of studies of at least three years' duration.

d) Health

The work carried out over the last few years by the Council and the Health Ministers has covered several areas directly related to the well-being of European citizens: the fight against cancer, cardiovascular disease, AIDS and drugs. At its most recent meeting (13 November 1989), the Council approved a resolution and an action programme for the fight against AIDS and also the conclusions on the coordination of action to prevent drug addiction. At that same meeting, in the context of its policy on the fight against cancer, it adopted a common position on the maximum tar content of cigarettes and formally adopted the directive on the labelling of tobacco products.

Let us also draw attention to two other important actions which are a direct consequence of the ADONNINO plan: the "European immediate treatment card" (conclusions of 29 September 1989) and the "European emergency health card" (conclusions of 13 November 1989).

Finally, as regards improving the living conditions of handicapped and socially disadvantaged persons, attention should be drawn to the recent Resolution of the Council and Ministers of Social Affairs (29.9.89) on combatting social exclusion and the conclusions drawn on that occasion with regard to starting work on drafting an overall policy to benefit handicapped persons and the casualties of life.



e) Culture

In the audio-visual sphere - to which the ADONNINO Committee devoted particular attention - the Community has achieved considerable progress in the three areas of technology (decision on the European standard for high-definition television (HDTV), the free movement of televised images (directive of 3 October 1989) and encouragement of production.

The audiovisual conference held in October 1989 at the invitation of the President of the French Republic reviewed all the efforts which have been made and culminated in a "joint declaration on audio-visual Eureka" signed by 26 European states and the President of the Commission. That declaration calls on all parties to cooperate to develop and support the audio-visual sector and advocates setting up a loose structure to implement joint initiatives.

Brussels, 5 December 1989

AUDIOVISUAL/COMMISSION NOTE FOR THE STRASBOURG EUROPEAN  
COUNCIL

Through the impetus given by the Rhodes European Council, Community action in the audiovisual sector has developed in three complementary and indissociable directions in 1989. In the sphere of legislation, the adoption of the directive on "Television without frontiers" has created an initial framework for the free movement of programmes. In the sphere of technology, the Council has adopted a strategy on high-definition television (HDTV). The Media pilot programme has helped to promote audio-visual works and the Audiovisual Conference, by listening to professional opinion, has provided a means of drawing up a list of outstanding requirements and problems.

The adoption of a "Joint Declaration" by 26 European countries has paved the way for the launching of Audiovisual Eureka.

We should consolidate our achievements and give a concrete shape to our policies in the light of the lessons learned at the Conference by retaining the existing close links between the legislative framework, technological progress and the development of the programme industry. Our aims for 1990 should therefore be as follows:

1. In the sphere of legislation, efforts must continue to finalise the directive and improve the flexibility and structures of the market. As a matter of priority, measures must be laid down on copyright, improving the position of independent producers and abolishing existing barriers between the distribution systems of the various countries.

As regards competition, the rules of the game must be clearly laid down. A system of limiting aid to the



audiovisual sector will provide a means of confirming that such aid is compatible with the Treaty as long as it complies with certain provisions, in particular as regards freedom of movement and freedom to provide services. Similarly, guidelines should be drawn up on combatting abuse of a dominant position, in particular in the field of co-production agreements and film distribution licences.

2. In the sphere of new technologies applied to audiovisual programmes and HDTV in particular, joint action should be taken both in the competent legislative bodies to obtain recognition for the European standard and also to introduce HDTV services. The European Economic Interest Grouping (EEIG) which will be set up in early 1990 will have an essential role to play in this regard. A global action plan should be implemented mobilising all the interested parties in order to promote European HDTV by drawing on the major media events over the next few years.

3. A substantial effort must be made in the sphere of the programme industries in accordance with the recommendations made at the Conference. But a clear distinction must be drawn in this regard between Community action, which will in the main continue as part of the Media programme, and action in the context of Audiovisual Eureka.

- Community action cannot directly support production activities. The Media pilot programme will therefore develop new methods and set up new procedures which will come into play either prior to production (script-writing, training, financial arrangements, ...) or after production (film distribution, encouraging independent productions, multilingualism, ...). The injection of Community funds acts as a lever and precipitates private investment in a ratio of 1 to 4. Projects receiving aid should eventually become self-financing which will enable the Community to cease its financial support.



- Audiovisual Eureka has a structure based on that of Technology Eureka (Committee of Coordinators, Secretariat) to help the professionals draw up and implement transnational projects. Designers, directors, distributors etc from the 26 States which participated in the Paris Conference are invited to cooperate within that framework in accordance with the objectives and criteria of the Joint Declaration.

- The Media programme could be incorporated into the framework of Audiovisual Eureka in several ways: either by extending certain existing initiatives to include non-Community partners or by its involvement in (or even initiation of) certain Eureka projects, such as the development of new technologies applied to programmes.

In order to ensure the effective indirect promotion of these programme industries at Community level, it is essential to mobilise appropriate budgetary resources as part of an action programme over several years making use of the experience gained under the Media pilot programme. The financial input required will probably be an annual sum of at least four times that provided for in the Community budget for 1990.



# COMMISSION OF THE EUROPEAN COMMUNITIES

SEC (89) 1961 final

Brussels, 23 November 1989

REDIRECTING THE COMMUNITY'S MEDITERRANEAN POLICY

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(Communication from the Commission to the Council)

### Redirecting the Community's Mediterranean policy

Current economic and political trends in the non-Community countries of the Mediterranean afford new opportunities but carry also considerable risks which should not be underestimated. The interests at stake on the Community's southern flank call for in-depth political debate.

The momentum gathered by the Community's economic and political development on the one hand and the changes which are taking place in the countries bordering the Mediterranean on the other demand that relations between these two regions be subjected to serious scrutiny.

The aim of this communication is to assess what is at stake for the Community and to propose the guidelines of an overall strategy that the Community should adopt in its dealings with the non-Community countries of the Mediterranean. Naturally the Commission is not setting out here to discuss each of these countries individually, but simply the main thrust of the Community's specific relations with them, or with certain groups of countries.

#### 1. Developments in the Mediterranean

##### 1.1. Figures (see Annex I)

Two hundred million people live in the fourteen Mediterranean non-Community countries (MNC), as compared to the Community's 320 million and EFTA countries' 32 million. By 2025 the Community's population will not have grown, whereas that of the MNC will be nearing 400 million.

Jointly these countries are the Community's third largest customer and fourth largest supplier. The trade surplus in favour of the Community (ECU 5 400 million) is comparable to the surplus registered by the Community in its trade with EFTA countries. MNC provide some 20% of the energy imported by the Community.

Five million immigrants from these countries are legally resident in the Community.



### 1.2. A deteriorating economy

The overall economic situation of the MNC has deteriorated in recent years owing to the cumulative effect of the following factors:

- fast growing population: 6 million more inhabitants each year;
- inadequate economic growth which makes it impossible to improve the standard of living and reduce significantly the development gap which separates these countries from the Community;
- high unemployment rate (more than 20% of the working population);
- disequilibrium in the balance of payments, caused by the fall in oil prices and the burden of debt servicing (total foreign debt of the area in excess of US\$ 190 000 million). Income from tourism and emigrants' remittances - normally items on the plus side of the balance of payments - are two rather unstable sources;
- growing difficulties in the countries of the southern and eastern littoral in ensuring food supplies to a fast growing population (imports of cereals in 1987: 18 million tonnes, equivalent to 12% of Community production).

Finally, it should be stressed that there is one complaint from which most MNC suffer to some extent, and that is a resource allocation mechanism which does not always respond sufficiently to market forces.

Economic reforms have progressed to different extents in different countries, and in some countries their implementation runs up against serious difficulties. In spite of obvious commitment to structural adjustment policies, on the whole serious problems persist, owing to inertia and social and political factors.

### 1.3. Environmental strain:

From an ecological standpoint, the Mediterranean faces very serious problems: marine pollution resulting from the discharge of industrial and household sewage and hydrocarbons; deterioration of arable land (erosion, increasing desertification) and marine resources; inefficient solid-waste management (500 000 m<sup>3</sup> of urban waste each day); air pollution in the urban areas; diminishing reserves of drinking water.

Given the geographical situation, the resources of the Mediterranean Basin are common to the Community and to its neighbours. This is true not only ecologically but for other reasons as well. Thus, 100 million tourists, for the most part European, visit the coastal areas of the Mediterranean each year.



This figure is expected at least to double by 2025. The exploitation of the Mediterranean as a tourist resource imposes further strain on the environment.

#### 1.4. Completion of the internal market

The fact that the MNC sell some 50% of their exports to the Community is enough to show the importance that the completion of the internal market has for them. The single market is causing some concern, notably in view of the anticipated impact of a common policy governing the granting of visas.

The prospect of much closer economic integration between the Community of 1992 and the EFTA countries, and the likelihood that privileged trade links will be established with the countries of Eastern Europe, all contribute to fuel those fears.

#### 1.8. Political factors

Demographic and economic pressures already contribute to the area's marked instability. Repercussions would hit the Community both economically and politically.

For certain Mediterranean countries, the possibility of serious social crisis cannot be ruled out, and on the eastern shores of the Mediterranean the continuing Arab-Israeli conflict adds to the area's overall instability.

Recent developments in several countries, however, show that civil liberties, free elections and political pluralism are being strengthened or restored. These developments, still incomplete in certain countries, have yet to prove their viability and are at the mercy of economic and social instability.

## 2. The Community and the Mediterranean non-Community countries

### 2.1. The challenge of a Mediterranean policy

In the Commission's opinion, the key political question is this: can the Community - at a time when it is strengthening its own political cohesion and economic vitality - afford to let such an economic and social gap open up between itself and its southern neighbours?

Should it not rather strive to minimize the risk represented by such instability right on its doorstep? Should it not endeavour to support the trend towards economic liberalism and democracy wherever the need arises?



Furthermore, there is the question of the balance to be struck in the Community's relations with the different groups of immediate neighbours (EFTA countries, Eastern Europe, Mediterranean) at a time when the expectations of the MNC are quite obviously influenced by the Community's new developments.

Lastly, the potential gains for the Community should not be overlooked; opening up of trade outlets at a time when competition from other industrialized countries, and even some developing countries, is growing fiercer; security of energy supplies (in particular gas); economic opportunities for the Mediterranean Member States; stability and peace in the whole region.

### 2.2. Inadequate Community and multilateral arrangements

The Community has agreements with 12 out of the 14 non-Community countries bordering on the Mediterranean (no agreement exists with Albania or Libya). They enjoy (with a few exceptions) free access for their industrial goods and preferential access for agricultural products, and loans and grants from the EIB and the budget. Their relations with the Community have been institutionalized.

Yet these arrangements, set up in the 1970s, were not followed up with the new instruments and procedures that would have made it possible to meet the needs of the 1990s.

Contributions from the Community and the Member States, jointly, account for only 17% of total official funding for the MNC (official development aid and other flows), whereas 48% of these countries' imports comes from the Community.

Multilateral arrangements, of course, have recognized limits. To date, the IMF has implemented programmes in only a handful of MNC. As for the World Bank, its lending programme for the region is substantial. On the whole, the back-up measures to the economic adjustment programmes, needed to stave off social tensions, are often inadequate.

### 2.3. A strategy for the Community and the Mediterranean

Politically the Community is bound to support the progress towards democracy being made in several MNC. Around the Mediterranean as elsewhere, the smooth operation of pluralist political systems goes hand in hand with economic liberalism. In this respect, the economic reforms which are being implemented in certain MNC are a prerequisite not only for these countries' economic prosperity, but also for their political stability.



From an economic standpoint, renewed growth, improvement of the food situation in certain countries and a steady rate of job creation can be achieved only by far-reaching economic reform programmes, financed on terms appropriate to each case.

Overall, then, the only way ahead is to continue and enhance the economic reform process and ensure that more funds are provided on improved terms to finance the process and economic growth.

The Community and its Member States should therefore continue to support the work of the international financial institutions in defining economic reform programmes with the countries concerned.

However, in the Commission's opinion, the extent of the structural adjustment needed, the social tensions that result from it and the necessity to bring about economic growth, call for an increase in external funding as a pre-condition for the success of such reforms. This view is shared by the IMF and the World Bank.

Thus, within the context of a strategy to be implemented by the parties concerned, it would be desirable to achieve:

- (i) the continuation or resumption of commercial bank lending in those middle-income countries which have managed to continue servicing their debt without rescheduling arrangements;
- (ii) the continuation of current experiments to reduce the debt-servicing burden for certain highly indebted countries;
- (iii) a substantial increase in the official flow of external finance on suitable terms;
- (iv) increased private-sector investment, from both domestic and European sources;
- (v) a more effective mobilization of domestic savers' and emigrant workers' savings, to finance capital investment.

The harshness of structural adjustment programmes calls for back-up measures, which may be of two kinds: technical support for adjustment - in the form of consultancy and expert services financed from concessional funds - and appropriate financing arrangements for food supplies, to prevent disruption and difficulties and reduce the social costs of adjustment.

Strengthening of food self-sufficiency, development of small and medium-sized businesses (whether or not in conjunction with European undertakings), and financial institutions, the environment and the development of human resources are among the priorities for investment.



Support for regional integration, both institutionally and in terms of infrastructure etc., is an obvious area in which the Commission can work with the sub-regional groups (Arab Maghreb Union, Arab Cooperation Council) which are currently being established.

Continued access to the markets of the industrialized countries, the Community's in particular, is vital for the economic stability - indeed the survival - of the MNC. In this respect, agriculture and the textile sector are particularly important for these countries, while the necessary diversification of their economies is being carried out.

Finally, without going as far as setting up a new institutional framework, the economic and political dialogue between the MNC and the Community should be strengthened at all levels and in all suitable sectors.

### 3. Conclusions

The Commission believes that current trends in the Community and the Mediterranean non-Community countries would quickly make a worsening of the economic and social imbalance between the two regions virtually unmanageable.

Owing to its proximity and the volume of trade generated, the stability and prosperity of the Mediterranean region are essential to the stability and prosperity of the Community. In a wider sense, the security of the Community is at stake (local or regional conflicts, political instability, terrorism, drugs, environment).

The Commission considers that it is the Community's duty to encourage the moves towards democracy and political pluralism and the strengthening of market forces now continuing or gathering momentum in the MNC.

Overall, the Commission considers that the relations between the Community and the MNC must be broadened and strengthened to meet the region's political, economic and social challenges, its expectations vis-à-vis the Community and the latter's responsibilities in this part of the world.

The Commission feels action is urgently required and proposes that the Council should organize the Community's approach around a renewed Mediterranean policy. To meet the challenge spelled out above, such policy should comprise six aspects: back-up to the structural adjustment programmes; incentives for private-sector investment; increased bilateral and Community financial support; continued or improved access to the Community market; closer involvement in the Community's progress towards the single market; strengthened economic and political dialogue. The possible outlines for these six facets are discussed further in Annex 2.



Part of this policy would be in place by 1990 and the remainder in 1991, when the majority of the new financial protocols with the MNC will come into force. At this stage, no new institutional arrangements are envisaged.

It goes without saying that this initiative, necessarily general in terms of its political considerations, its objectives and the types of Community operation envisaged, will be adapted to the characteristics of each sub-region and country at the implementation stage and will take availability of funds into account.

The Commission requests the Council to state its views on the Commission's analysis of the situation and the importance it attaches to the strengthening of relations between the Community and the MNC, and to adopt the principle of a renewed Mediterranean policy.

Assuming the Council is in favour, the Commission is ready to flesh out these outlines in an operational document and to provide the basis for a Council decision within a short time.



## MAIN ECONOMIC INDICATORS FOR THE MEDITERRANEAN NON-COMMUNITY COUNTRIES

	Population (million)		Popul. growth rate	1988 GDP (USD thous. million)	GDP growth rate 1984-88	1988 GNP per capita (USD)
	1988	2025				
Morocco	23.8	47	2.5	18.4	4.2	600
Algeria	24.1	58	3.1	84.0	1.2	2 500
Tunisia	7.9	14	2.5	10.1	3.0	1 300
Egypt	52.5	99	3.0	28.3	4.8	500
Jordan	3.0	9	3.8	5.0	2.4	1 700
Syria	11.4	37	3.6	14.3	3.5	1 300
Israel	4.5	7	1.6	39.8	2.3	8 500
Cyprus	0.5	0.7	0.7	4.3	5.5	8 000
Malta	0.4	0.5	0.9	1.6	4.0	4 500
Turkey	54.2	90	2.5	61.9	8.5	1 300
Yugoslavia	23.7	27	0.8	53.1	0.0	2 000
Mediterr. total	205.8	387		300.8		1 480 (average)
EFTA total	32	30		587.3		
EEC total	323	519		4 142.8		

## COMMUNITY-MEDITERRANEAN TRADE, 1988 (thous. million ECU)

	Imports	Exports	Trade balance
Total non-EC	387.0	362.6	- 24.4
idem MNC	30.0	35.4	+ 5.4
idem EFTA	90.5	98.4	+ 5.9
idem East Europe	29.8	20.7	- 4.1
idem USA	65.3	71.8	+ 3.5
idem Japan	41.6	17.0	- 24.6

## 1987 FINANCIAL FIGURES

	Trade Balance mil. USD	Food balance mil. USD	Balance of payments mil. USD	Expat. workers mil. USD	Income fm tourism mil. USD	Net Off. flows mil. USD	Debt serv. as a % of exports
Morocco	- 1 050	+ 202	+ 185	+ 1 011	+ 950	+ 812	33
Algeria	+ 2 413	- 1 728	- 879	+ 522	...	+ 553	55
Tunisia	- 784	+ 10	- 188	+ 354	+ 543	+ 215	25
Egypt	- 5 177	- 4 000	- 1 300	+ 2 000	+ 1 000	+ 513	26
Jordan	- 1 782	- 394	- 382	+ 743	+ 287	+ 15	34
Syria	- 305	- 600	- 530	...	...	+ 287	15
Israel	- 3 803	- 32	- 997	...	+ 1 300	- 28	39
Cyprus	- 777	- 84	+ 92	+ 27	+ 667	...	15
Malta	- 393	- 100	+ 6	+ 30	+ 322	...	2
Turkey	- 3 229	+ 1 071	- 978	+ 2 025	+ 1 476	+ 1 441	34
Yugoslavia	- 1 238	+ 191	+ 1 248	+ 1 000	+ 1 700	- 583	45

Sources: Eurostat, International financial institutions. Figures not available for Albania, Lebanon or Libya.



A new direction in Mediterranean policy

A renewed Mediterranean policy would comprise six aspects or fields, outlined here by way of example:

- (i) back-up measures to the economic reform process being implemented by the MNC concerned with the assistance of the international financial institutions. These measures should take two main forms: technical support for the necessary economic, tax and financial policy reforms for which these institutions do not provide concessional financing, and the financing of certain measures aimed at reducing the generally high social costs of adjustment policies, notably in terms of food supplies;
- (ii) use of limited budget resources to encourage significant private-sector investment based on both the mobilization of domestic savings and direct European investment. The provision of risk capital, either directly through the EIB or indirectly through specialized financial institutions in the Member States and the EC International Investment Partners, is of paramount importance, as are initiatives to facilitate investment (legislation, mobilization of savings, search for European partners, management training, etc.);
- (iii) investment finance on a larger scale, with greater regard for the regions' economic and financial problems. Here, the establishment of small and medium-sized businesses, the environment and regional integration projects (such as communications) are priority areas. The projects and programmes already financed from the budget with the aim of improving food self-sufficiency should be pursued;
- (iv) continued access to the Community market, allowing improved access for industrial goods wherever the internal situation permits, and maintenance of traditional flows of agricultural imports in accordance with existing undertakings. Technical support for the improvement of the MNC's export capabilities should be stepped up;
- (v) closer and more direct involvement of the MNC in the development of the Community. Here, a programme of measures to inform the MNC about and associate them with certain aspects of the single market of particular significance to them (standards, customs, transports, etc.) and enable them to participate on an ad-hoc basis in certain Community programmes or policies would be particularly useful from a technical point of view and extremely desirable from a political standpoint. Implementing such a programme in the field of human resources (participation by universities, students, researchers and managers in Community activities) is of particular significance for the future;
- (vi) strengthening of the economic dialogue already established on an ad-hoc basis with certain countries on agriculture, energy and taxation. Proliferation of such dialogue and its extension to new sectors (businesses, transport, macro-economic policies, emigration, population, environment and others) would play a significant role in encouraging the MNC to adopt a more open economic system. Such dialogue could, in some cases, take place at regional level (Arab Maghreb Union, Arab Cooperation Council).



*In the bag.  
EPP 9/Kii*

IMPLEMENTATION OF SINGLE MARKET MEASURES: THE UK'S RECORD

The Commission has just produced an updated checklist of Member States' implementation records. This puts the UK in an even better light than the earlier, inaccurate data the Commission published in September. And our actual record is even better than the Commission gives us credit for.

The Commission's analysis is based on a list of 88 measures. On this basis the main scores are as follows:

	<u>Implemented</u>	<u>Not Implemented</u>	<u>(Not Applicable)</u>
Denmark	73	10	5
<b>UK</b>	<b>69</b>	<b>11</b>	<b>8</b>
France	67	16	5
FRG	67	17	4

Italy, by contrast, has 32 not implemented plus 23 Court of Justice decisions not implemented (we have none).

THE UK'S OWN ANALYSIS

DTI have confirmed that our actual record is much better. Their analysis is based on a list of 77 measures. (The rest are either not binding or not requiring separate national implementation).

Of these, the Commission accepts that we have implemented 65.

As for the remaining 12, 4 have in fact been implemented but not recorded by the Commission. Another 5 will be implemented by the end of this month (ie no delay to agreed timetables).

That leaves 3 on which we are slightly behind schedule. These are on:

- Liquid Fertilisers : )
- Household Appliances Noise : ) implementation will be in January
- Intra EC-trade in fresh meat : most provisions implemented already. The remainder will be implemented in 1990 with 2 similar directives which require amendment to the same UK legislation.

### Conclusion

On the basis of the DTI's list of 77 relevant measures, the UK is 2nd equal with France, with only Denmark ahead. This revised evidence enables you to argue with even greater confidence about the UK's excellent Single Market record.

*John Mills*

JOHN MILLS



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## STRASBOURG EUROPEAN COUNCIL: KOHL'S PREOCCUPATIONS

## SUMMARY

1. AN IMPORTANT SUMMIT FOR KOHL. GERMANY NOW AT CENTRE OF WORLD STAGE. THIS IS GRATIFYING, BUT A GREAT DEAL IS AT STAKE FOR KOHL PERSONALLY. HE KNOWS THAT HE NEEDS TO MANAGE POLICY ON THE GERMAN QUESTION SO AS TO HAVE HIS PARTNERS' SUPPORT.
2. EMU AND DEVELOPMENTS IN EASTERN EUROPE ARE THE TWO SUMMIT TOPICS THAT MATTER TO HIM. BOTH ARE TRICKY. ON EMU, FACES CONFLICTING POLICY INTERESTS. HE MAY OR MAY NOT AGREE TO AN INTER-GOVERNMENTAL CONFERENCE (IGC): HE WILL NOT DO SO UNCONDITIONALLY. HE WOULD LIKE TO SEE THE UK ON BOARD.
3. ON EASTERN EUROPE, HE WILL BE PRIMARILY INTERESTED IN PRACTICAL ASSISTANCE ESPECIALLY TO THE GDR. HE WANTS THE COMMUNITY TO REMAIN OPEN TO EASTERN EUROPE BUT FOR NOW HE IS LIKELY TO WANT TO AVOID SPECULATIVE - AND POSSIBLY DIFFICULT - DEBATES ABOUT LONG-TERM INSTITUTIONAL RELATIONSHIPS.
4. HE WILL SIGN UP TO THE SOCIAL CHARTER AND WILL BE INSTINCTIVELY RECEPTIVE TO A SINGLE MARKET PACKAGE.

## DETAIL

5. KOHL IS ON THE HIGHEST WIRE OF HIS LIFE. IF HE HANDLES THE GERMAN QUESTION WELL HE SHOULD WIN THE GENERAL ELECTION IN ONE YEAR'S TIME. THAT WOULD GIVE HIM A CHANCE OF GOING DOWN IN HISTORY AS THE MAN WHO ENSURED GERMAN UNITY. BUT PUTTING A FOOT WRONG ON THE GERMAN QUESTION COULD LOSE HIM THE ELECTION. THE NEXT FEW MONTHS - OR POSSIBLY WEEKS - COULD MAKE OR BREAK HIS PROSPECTS. HE KNOWS IT. THE INTERNATIONAL LIMELIGHT IS GRATIFYING YET SOMEWHAT ALARMING. THE FEDERAL REPUBLIC IS NOT ACCUSTOMED TO ACTING ON ITS OWN IN PURSUIT OF GOALS NOT SHARED BY OTHERS AND, THE HANDLING OF KOHL'S TEN POINTS SHOWED THE LACK OF DEFTNESS AND EXPERIENCE. KOHL WANTS TWO THINGS THAT MAY NOT BE ENTIRELY COMPATIBLE: TO BE THE



ONE TO MAP THE ROUTE TO UNITY AND ALSO TO RETAIN THE SUPPORT AND COMFORT AT ALL STAGES OF HIS ALLIES AND PARTNERS. THE BUSH ADMINISTRATION HAS BEEN ASSIDUOUS IN ITS PUBLIC SUPPORT. BUT THE EUROPEAN NEIGHBOURS, NOT EXCLUDING FRANCE, ARE TRICKIER FOR KOHL TO HANDLE.

#### EMU

6. CHANGE IN EASTERN EUROPE AND THE PROCESS OF GERMANY COMING TOGETHER POSE LONG-TERM DILEMMAS FOR THE FEDERAL REPUBLIC'S POLICIES IN THE COMMUNITY, BUT FOR THE TIME BEING KOHL WISHES TO MINIMISE THIS TENSION. THE CONSENSUS IN BONN IS THAT EVENTS IN EASTERN EUROPE AND THE GDR MAKE PROGRESS AND INTEGRATION IN THE COMMUNITY ALL THE MORE IMPORTANT AND URGENT, AS A FACTOR FOR STABILITY IN EUROPE AND AS A BEACON OF SUCCESS, PROSPERITY AND FREEDOM SHINING EASTWARDS - A PROPOSITION WHICH THE GERMANS CONSIDER BUSH TO HAVE ENDORSED. THE FEDERAL GOVERNMENT ACCEPTS EMU AS THE NEXT MAJOR GOAL AFTER THE SINGLE MARKET. KOHL IS FEARFUL THAT ANY HINT OF GERMAN RELUCTANCE ABOUT GOING STRAIGHT FOR EMU WILL BRING FORTH FROM FRANCE THE MORTIFYING REPROACH THAT GERMANY IS DRIFTING EASTWARDS. POLITICAL CONSIDERATIONS POINT STRONGLY TOWARDS AGREEING TO AN IGC AT STRASBOURG.

7. BUT KOHL CANNOT DO SO UNCONDITIONALLY. POEHL, WAIGEL AND OTHERS HAVE CONVINCED HIM THAT THERE ARE RISKS FOR PRICE STABILITY, THE VALUE OF THE DMARK AND THE INDEPENDENCE OF THE BUNDESBANK IN A RUSHED IMPLEMENTATION OF DELORS STAGES 2 AND 3. SO KOHL'S INSISTENCE ON COMPLETION OF STAGE 1 AND PROPER PREPARATION OF STAGES THEREAFTER WILL BE GENUINE. HE NEEDS TO SHOW DOMESTIC OPINION THAT THE INTEGRITY OF GERMAN ECONOMIC MANAGEMENT AND INSTITUTIONS HAS BEEN SAFEGUARDED AND THE INTERESTS OF GERMAN BUSINESS PROTECTED. FAILURE ON THIS SCORE COULD OPEN UP A SERIOUS SPLIT WITHIN THE CDU/CSU AND AFFECT THE ELECTION.

8. THESE CONFLICTING INTERESTS HAVE CAUSED KOHL TO SEEK TO ATTACH CONDITIONS TO GERMAN ASSENT TO AN IGC. HE HOPES TO AVOID SAYING NO TO MITTERRAND WHILE WINNING TIME FOR PREPARATION FOR AN IGC THAT WILL BE CREDIBLE IN THE EYES OF HIS FINANCE MINISTER, THE BUNDESBANK AND THE GERMAN FINANCIAL AND BUSINESS COMMUNITY GENERALLY. HE WILL HIMSELF DECIDE EXACTLY WHAT COMPROMISE TO PLUMP FOR AT STRASBOURG, AND IS KEEPING HIS CARDS HIDDEN EVEN FROM HIS OWN ADVISERS. IT LOOKS AS THOUGH HE MAY SEEK TO AVOID SETTING A DATE FOR AN IGC. BUT HE WILL REMAIN ACUTELY SUSCEPTIBLE TO FRENCH PRESSURE. (DAMAGING LEAKS FROM THEM, TO THE EFFECT THAT HE IS WAVERING, WOULD FOR



INSTANCE GIVE HIM SHIVERS). HE WILL WANT TO AVOID THE ISOLATION OF THE UK AND WILL BE INTERESTED IN COMMON CAUSE ON THE MODALITIES OF PREPARATION FOR AN IGC PROVIDED THESE APPEAR TO FACILITATE RATHER THAN BLOCK THE COMMUNITY'S SUBSTANTIVE ABILITY TO MOVE TO EMU.

9. IN ORDER TO HELP IN AVOIDING A DECISION NOW ON A DATE FOR AN IGC, HE MAY TRY HIS PLOY OF PROPOSING INSTEAD AN END DATE FOR COMPLETION OF THE WHOLE PROCESS BRINGING IN 1994, THE DATE OF THE NEXT EUROPEAN ELECTIONS, HAS OTHER ADVANTAGES FOR KOHL. HE MEETS THE ACCUSATION THAT A EUROPEAN CENTRAL BANK WOULD BE UNACCOUNTABLE BY PROPOSING AN INCREASE IN THE POWERS AND RESPONSIBILITIES - ESPECIALLY FINANCIAL - OF THE EUROPEAN PARLIAMENT. AN IGC, HE ARGUES, SHOULD STRENGTHEN THE POLITICAL UNION AS IT CREATES THE FRAMEWORK FOR THE ECONOMIC AND MONETARY UNION.

#### EASTERN EUROPE

10. THE OTHER BIG AGENDA ITEM FOR KOHL WILL BE DEVELOPMENTS IN EASTERN EUROPE. HE WILL WANT THEM GIVEN DUE TIME BUT NOT AT THE EXPENSE OF GETTING EMU SORTED OUT. FOR HIM THERE WILL BE TWO ASPECTS: LONG-TERM COMMUNITY STRATEGY TOWARDS EASTERN EUROPE (WITH EMPHASIS ON PRACTICAL HELP RATHER THAN SPECULATION ABOUT INSTITUTIONAL ARRANGEMENTS) AND THE POLITICAL - AND EMERGING ECONOMIC - CRISIS IN THE GDR. IN RELATION TO THE FIRST, MY GUESS IS THAT HE WILL AGREE TO MITTERAND'S EUROPEAN DEVELOPMENT BANK, BUT ONCE AGAIN TRY TO CLAW BACK SOME SUBSTANCE THROUGH SETTING CONDITIONS. ON THE SECOND, HE WILL SEE THE FRG AS BEING PRIMARILY RESPONSIBLE FOR COMING TO THE AID OF THE POPULATION OF THE GDR, BUT HE WILL WANT EARLY PROGRESS TOWARDS AN EC/GDR AGREEMENT AND MAY WELL SEEK AN ASSURANCE THAT THE COMMUNITY WILL RESPOND QUICKLY AND GENEROUSLY WITH EMERGENCY AID SHOULD THE NEED ARISE THIS WINTER. THINKING HERE ON THE FUTURE ECONOMIC RELATIONSHIP BETWEEN THE TWO HALVES OF GERMANY IS STILL EMBRYONIC AND KOHL MAY NOT BE ESPECIALLY ENLIGHTENING. BUT THIS WOULD BE A GOOD MOMENT TO EXTRACT A PLEDGE THAT ECONOMIC OPENING UP BETWEEN THE FRG AND THE GDR WILL BE DONE ON A BASIS THAT GIVES ALL COMMUNITY PARTNERS THE SAME CHANCE AS THE FRG IN THE ENLARGED GERMAN MARKET.

#### SOCIAL CHARTER AND SINGLE MARKET

11. KOHL FAVOURS THE SOCIAL CHARTER AND WILL SIGN UP HAPPILY. HE PROBABLY WILL NOT HAVE THOUGHT MUCH ABOUT THE SINGLE MARKET RECENTLY. THERE IS A CABINET DECISION TO INSIST ON GERMAN RESERVED RIGHTS IN THE EC MERGER REGULATION. IF THE PRESIDENCY FLOATS THE PACKAGE OF SINGLE MARKET MEASURES WE HAVE PROPOSED TO THEM, KOHL'S INSTINCT WILL BE TO WANT TO AGREE AND TO TRY TO FIND A WAY ROUND HIS



DIFFICULTY ON MERGER CONTROL.

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PRIME MINISTER

EUROPEAN COUNCIL: STRASBOURG

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(1)

I attach the main briefs for the Strasbourg European Council, in case you want to start on them tonight. You are in fact familiar with most of the subject matter.

The Single Market will come first and you will want to make sure it receives adequate prominence in the Council's conclusions. It is this which makes the Community attractive to Eastern Europe.  
On specific points:

- you can welcome and take credit for the measures just agreed on liberalisation of air fares;
- you will want to urge adoption of a package of measures at the Internal Market Council on 21 December including mergers, public purchasing in excluded sectors, testing and certification and life insurance (a first step);
- you will want to get a clear statement in the Council's conclusions on priorities for the future: investment services, life insurance, lorry quotas, shipping cabotage;
- you will want to stress the importance of rapid and effective implementation of Single Market measures (we hope to have an up-to-date note of performance by the time of Strasbourg);
- while you will probably want to mention the need to reduce State aids, and point to the huge discrepancy between the performance of member states, you need to be careful not to leave yourself open to counter-attack on Rover.

On the Social Charter, there is a lot to be said for avoiding a great debate in the Council itself. The general expectation is there will be an 11:1 split, and most are reconciled to this. It is no longer regarded as a jewel in the Strasbourg Crown. You will not want to plunge in, but wait and see how others want to handle it. If they want a debate or even - most unlikely - to

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negotiate a revised text of course you will respond. But the best time to deploy our views will be at the subsequent press conference. You will find in the folder an annotated copy of the Social Charter: our own draft of a Charter: and a note by the Policy Unit setting out arguments which you can use against the EC Charter.

We discussed EMU yesterday. All depends on Chancellor Kohl who has not yet made up his mind how to play this. You will want to use him as a stalking horse. If he does argue for delay and further work before a decision on an IGC, you will want to come in behind him. But the chances are that he will be less helpful and try to set a timetable which includes work leading up to an IGC, an IGC itself and a target date for completing it. He will present this as a dramatic commitment by Europe to take a major step towards integration. You will therefore need to make clear that we think an IGC is unnecessary, and ensure that our opposition is properly recorded in the Council conclusions. At the same time, we shall want to work behind the scenes to attach conditions to an IGC designed to constrain it as much as possible. (The conditions are in the folder, and you can give them to David Williamson when he comes to see you on Thursday evening.) It seems likely that others will argue for the scope of an IGC to be widened to include subjects such as the powers of the European Parliament. We cannot stop this: but you might suggest that, if the IGC does go beyond economic and monetary cooperation, then you too will have ideas to inject such as those in the recent IEA pamphlet.

The other main subject is Eastern Europe, although the French seem to want to relegate this to the sidelines. You may like to argue at the very beginning of the Council that there needs to be substantive discussion in the meeting itself. Opinion in Europe will judge the Community by how it responds to developments in Eastern Europe. There are important practical decisions to be taken on further food aid to Poland, a European Training Foundation, a programme of youth and student contacts and a Euro-Polish Bank. You may want to float our own idea for a European Development Council to provide technical advice and expertise to

Commission



the private sector in Eastern Europe. There is also the French proposal for an East European Regional Bank: the French will press very hard for agreement in principle and it may be difficult to resist this in the end (the Germans tell me they will agree, since it will be sited in Berlin). If so, the key will be to get the details remitted to the Monetary Committee to study, where it may well be possible to emasculate it or at least ensure that its activities are constrained by sound banking principles. (I suspect the French will lose interest once their Presidency is over and they have a headline). In addition we have our paper on UK relations with Eastern Europe to feed in the discussion: and there will be a general political declaration on relations with Eastern Europe, where the Germans are proposing repetition of the language in NATO's Summit Communiqué on reunification. It is hard to see how all this can be dealt with satisfactorily over a meal.

On other issues, frontiers and drugs are likely to come up but should not cause any difficulty. You will want to ensure that your views on enlargement are properly represented in the conclusions. The Chancellor has warned that we have to be on the look-out for traps on indirect tax approximation and research and development: there may be an attempt to instruct ECOFIN to reach conclusions within a fixed time-scale. There are separate briefs on these points. In political cooperation there could conceivably be trouble over the proposed declaration on South Africa.

What the press and the House will be watching out for most of all is the overall impression which emerges from Strasbourg. Obviously there must be no impression that your attitude, priorities and tactics have changed as a result of the leadership election. You will be as determined as ever to ensure both that the Community continues to make progress in desirable directions - the Single Market and its influence in Eastern Europe - but not in ways which lead to greater central control, bureaucracy and protectionism.

You will want to bear in mind that there are no great victories



to be won at Strasbourg, unlike on some previous occasions. It will be above all a tactical battle, in which we manoeuvre for future victories. This will require lots of talking up of the Community and our attachment to it, while remaining absolutely firm on the direction in which we want it to go. We want to avoid the sort of "Angry Thatcher side-lined in Strasbourg battle" stories and try to work for "Thatcher restates Britain's commitment to Europe and urges priority for drawing together East and West Europe in broad association of democratic countries with Community as its driving force" stories. It will mean playing down attack on the proposals of others and talking up the Community's potential to direct the future development of Europe as a whole at a turning point in the continent's history. Your vision is quite simply on a grander scale than that of the others.

C. D. P

(C. D. POWELL)

6 December 1989

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PRIME MINISTER

DAVID WILLIAMSON

I have provisionally arranged for David Williamson to come to see you the evening we arrive in Strasbourg at about 10 pm.

CDP

(C. D. POWELL)

6 December 1989

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*ms*

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COPY NO

DECEMBER 1989

*Prime Minister*  
*I have now obtained*  
*a copy of the*  
*Foreign Secretary's draft*  
*paper for Cabinet.*

THE EUROPEAN COUNCIL: STRASBOURG: 8-9 DECEMBER 1989

Note by the Secretary of State for Foreign and Commonwealth Affairs

*It is mainly factual,*  
*& I see no need to*

1. President Mitterrand has yet to circulate his agenda for the European Council in Strasbourg, but the main subjects are likely to be:

*raise any points on*

- (a) Eastern Europe;
- (b) Economic and Monetary Union; and
- (c) the proposed Social Charter.

*it.*

*CDP*

We shall wish to ensure that:

- (d) the 1992 Single Market programme remains the Community's No 1 priority.

*3/12/89*

Our views on (a) and (d) are widely shared. Although some of our concerns about the underlying issues on (b) and (c) are also widely recognised, we may well be on our own on the particular decisions sought at Strasbourg. But neither decision would be a watershed; and our interest - and the Community's - lies in avoiding, at a time of dramatic change in wider Europe, exaggerated talk of 'crisis in the Community'.

2. We aim to ensure that the recent rapid political change in Eastern Europe, and the right Community reaction to it, is properly explored at Strasbourg. Discussion should cover general Western and specific EC assistance to support reform in Eastern Europe; the question of the GDR; the need to



encourage democracy without promoting destabilisation; and the appropriate structure for future EC relationships with Eastern Europe (at Annex A is a short paper on our ideas, which we have given to the Commission and the French). The French may argue that the right response to change in Eastern Europe is acceleration of the Community's internal development: we shall wish to make clear our view that the breach in the Berlin Wall neither reduces the need to press ahead with sensible (eg Single Market) proposals, nor justifies pressing ahead with unsatisfactory proposals (eg Delors Stages II/III). The French will press their unwelcome proposal for a new European Regional Development Bank. This would be costly; many of its functions could be done by existing institutions; and, as presently defined, it does not match the real needs of Eastern Europe. Poland's requirements, for example, are for the involvement of the Western private sector, for free food, and for extensive training in managerial/entrepreneurial skills: the last thing the Poles need is more debt. We shall want to secure a remit for further technical work against sensible criteria.

3. The European Council is likely to confirm that Stage 1 of the Delors Report's prescription for Economic and Monetary Union will start on schedule on 1 July 1990; and to discuss the content and timing of an Inter-Governmental Conference (IGC) to consider subsequent stages. We shall want to emphasise the importance and scale of Stage 1 (all elements of which we accept); the case for adopting an evolutionary approach (as recommended in the Chancellor's 2 November paper) to later developments; and the all-party Westminster concern at the rigidly dirigiste structure recommended in the Delors Report. These views on substance will need to be emphasised, and separated from the discussion on procedure. On this, the French are likely to seek a decision to start an IGC in late 1990. The Germans hold the key; and an IGC date is virtually certain to be set unless Kohl, rejecting Genscher's advice and



strong pressure from Paris, were to come down against it. Both Waigel and Pöhl, who welcome UK ideas on the substance of post-Stage 1 developments, expect an IGC decision at Strasbourg. We shall explain that in our view such a decision would be premature; but we shall work to ensure that any IGC remit covers not only the Delors Report's proposals, but also our alternative approach; that the right conditions are attached; and that the importance of the IGC taking full account of the effects of Stage 1 measures is accepted.

4. The Presidency want agreement on a Social Charter. The UK alone opposes the draft Presidency/Commission text considered at the October Social Affairs Council. Following opposite pressures from Germany and Benelux, the European Parliament, and his own party in France, President Mitterrand has confirmed that he does not propose to pick up the Prime Minister's suggestion of negotiating a more general declaratory statement, avoiding the regulatory detail of the present version, and accurately reflecting the prescription from the Madrid European Council. So the odds are that there will be little or no Strasbourg negotiation, and that the existing draft will be agreed by the others, though not - given our position - as a Community document. We can again explain our objections to it, and have an alternative text which could be deployed as necessary. But the optimal outcome, an agreed Charter text which met our desiderata, is not obtainable given the Presidency's attitude; and the next best outcome is to draw a line under the ill-conceived Charter exercise with minimum fuss. Delors has rightly described an 11:1 split on this issue as "no tragedy".

5. The Single Market has not been a high priority for the French. Their Presidency tally of measures agreed is so far only 35, cf 56 in the German, 54 in the Greek, and 68 in the Spanish Presidencies. To rebuild momentum we want Strasbourg to reaffirm the Community's commitment to Single Market basics, and to the sectoral priorities agreed at



Madrid, particularly those on which progress has been poor - financial services (especially insurance) and transport (especially air transport liberalisation and cabotage). We shall also aim for endorsement of Commission efforts to improve implementation and enforcement, and to tackle excessive state aids, eg in Italy. And we are seeking impetus from Strasbourg for a package of Single Market agreements at the Internal Market Council on 21 December, and have given the French, and the Commission, a list of suggestions for such a package.

6. Other 1992-related issues likely to be touched on at Strasbourg include:- (i) frontiers issues, on which the French have made steady and uncontroversial progress, and a welcome initiative to improve the Community's handling of drugs issues; (ii) fiscal issues: the Madrid Council called for end-1989 outline agreement on the post-1992 VAT and excise duty regime, and we can hope to consolidate recent advances in ECOFIN, notably on retention of the destination principle for VAT; and (iii) Audiovisual issues, to which the French have attached priority. We can continue to support industry-led cooperation, but will have to look out for Commission bids for major increases in Community expenditure.

7. Among non-1992-related issues which might come up the most important could be:

- (i) EC budget discipline: The constrictions of the 1988 Budget/CAP reforms are working well. Reduced CAP spending, and the watertight compartments which prevent use for other purposes of the funds thus released, means that total EC expenditure foreseen for 1990 is some £6 billion below the ceiling. This has led the Commission to argue that the regime is too rigid; and that it should be possible to use a surplus in one area to fund expenditure in another. If this comes up at Strasbourg we shall insist on no change;



- (ii) R & D: the French are unlikely to try to foreclose, but may try to accelerate, discussion of the 1990-1994 R & D Framework Programme. A new remit to the Research Council seems the probable outcome: we shall wish to ensure that its terms do not prejudice our position on funding;
- (iii) European Environment Agency: Strasbourg will presumably be asked to confirm the decision to establish the Agency, and may be invited to consider the choice of site, though the French have to make an awkward choice between pressing as Presidency for a decision now, and advancing a national bid for the site to be in Strasbourg itself. On balance, a decision is unlikely, given the number of bids on the table. But we shall want to advance ours.

#### Conclusions

8. While we have allies on the substantive issues of economic and monetary cooperation, and against excessive regulation/harmonisation of social and labour market policies, we may well be in a minority of one on the two particular issues on which the Strasbourg debate may crystallise: the start-date for an Economic and Monetary IGC, and the issue of a Social Charter. The gap on the Social Charter is highly unlikely to be bridged; but we can demonstrate that we were willing to make the attempt. On the IGC date we may be able to contrive useful conditionality, and should be able to ensure that our "evolutionary approach" remains on the table. On the other two key Strasbourg subjects - maintaining the momentum of the Single Market programme, and ensuring that the EC's relationships with Eastern Europe are well designed to encourage and support emerging democracies - the UK interest marches with the Community interest, and our line cannot be criticised as uncommunautaire.

9. For the domestic audience it will be important to bring



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out the fact that the 1992 and Eastern Europe issues are substantively much more significant than the procedural decisions being sought on an IGC date and on the Social Charter.

FCO

Douglas Hurd

5 December 1989

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THE COMMUNITY'S RELATIONS WITH EASTERN EUROPE: A FRAMEWORK

1. The Community is concerned to encourage the drive for real democracy in Eastern Europe, within a framework of stability. Just as political reform goes together with economic liberalism, so the Community's encouragement must entail both political and economic support.
2. In respect of economic support, the Community has long followed a policy of differentiation between the countries of Eastern Europe according to the degree of economic reform already achieved. The scope of the Community's bilateral trade and cooperation agreements with individual Eastern European countries has been tailored to reward and encourage economic reform. This principle should plainly apply also to political reform.
3. The Community should not therefore treat Eastern Europe as a bloc, or envisage new regional, multilateral structures. While it is right to lay down principles of general applicability to all Eastern Europe, particular arrangements should be on a country-by-country basis, reflecting individual circumstances.
4. None of the existing models of Community relationships with European neighbours:
  - "Association Agreements", as with Turkey, Cyprus and Malta;
  - "Cooperation Agreements", as with Yugoslavia and other Mediterranean countries;
  - Free Trade Agreements, as with the EFTA countries now;  
or
  - the broader EC/EFTA relationship now being exploredis necessarily exactly right for the relationship with emerging Eastern European democracies. New forms of association, including appropriate elements from several



existing ones, may be required.

5. Such arrangements will in principle be open to all Eastern European countries. The speed and scale of development of each arrangement will reflect the particular needs and new circumstances of the individual country in question, and the degree of reform achieved.

6. A general principle applicable to all should be that political reform justifies a political response. As democracy and respect for human rights takes root in Eastern Europe, so the countries in question should be encouraged to accede to the European Convention of Human Rights and should be welcomed as full members of the Council of Europe. The Community should be ready for full political dialogue with them; and links between member state Parliaments - and the European Parliament - and East European legislatures should be strengthened. The extent of such dialogue should reflect the scale of political reform.

7. In developing closer economic links, the aim should be to reinforce reform in Eastern Europe. This will mean:

- (a) pursuing closer trade relations with Eastern Europe and the opening up of trade within Eastern Europe;
- (b) providing emergency short-term assistance, as necessary - coordinated in the Group of 24, under Commission auspices;
- (c) encouraging the development of local technical and entrepreneurial skills, which could involve extending relevant existing programmes - e.g. ERASMUS and EUREKA - to Eastern Europe;
- (d) encouraging the development of structures favourable to inward investment in Eastern Europe; and



- (e) extending appropriate long-term financial assistance, in the context of programmes agreed with the IMF.

In all cases, the scale of Community economic support should be proportionate to the degree of economic and political reform achieved.

8. Where economic and political reforms are successfully sustained, closer institutional association of the individual East European countries with the Community, as envisaged under Article 238 of the EEC Treaty (with regular meetings at the political level), may make sense. In addition, following the introduction of market mechanisms, the development of economic and institutional relationships similar to those now existing between the Community and the EFTA countries could become appropriate. Particular arrangements will reflect the degree of reform achieved, the needs of the specific country in question, and the increasing depth of its relationship with the Community.

9. Eventual applications for Community membership cannot, under the Treaty, be excluded. But this is not a question to be addressed now, for the Community cannot envisage any accession negotiations before 1993, and no Eastern European country is currently ready, politically or economically, to meet the obligations of Community membership. Appropriate forms of association for the short to medium term should therefore neither lead automatically to, nor automatically exclude, eventual EC enlargement.

10. The development of the Community's relationships with Eastern Europe within this framework should be dynamic and incremental: progress should be reviewed, and further steps charted, at successive European Councils.



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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

6 December 1989

EUROPEAN COUNCIL: STRASBOURG

I enclose President Mitterrand's letter about the forthcoming European Council which arrived late this morning. I should be grateful if you could arrange for it to be translated rapidly and let me have an English version in time for the Prime Minister to see this evening. It would also be helpful to have at the same time any particular observations on it.

I am copying this letter and enclosure to John Gieve (H.M. Treasury), Neil Thornton (Department of Trade and Industry), Clive Norris (Department of Employment) and David Hadley (Cabinet Office).

Charles Powell

Stephen Wall, Esq.,  
Foreign and Commonwealth Office.

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cc/c.

AMBASSADE DE FRANCE  
LONDRES

L'AMBASSADEUR

6 December 1989

Dear Mr Powell,

I have just received by telegramme the text of a letter addressed to the Prime Minister by Monsieur François MITTERRAND, President of the French Republic relating to the European Council he will chair in Strasbourg on December 8 and 9.

Please find it herewith.

Yours sincerely

pp. 

Luc de La Barre de Nanteuil

Charles POWELL Esq.,  
Private Secretary to the Prime Minister  
10, Downing Street  
LONDON SW1A 2AA

Enc. 1



CHERE AMIE,

DANS QUELQUES JOURS, NOUS AURONS LE PLAISIR DE NOUS RETROUVER A STRASBOURG OU J'AURAI L'HONNEUR DE VOUS ACCUEILLIR POUR LA REUNION FORMELLE DU CONSEIL EUROPEEN SOUS LA PRESIDENCE FRANCAISE.

CHACUN EST CONSCIENT QUE LE CONSEIL EUROPEEN DE STRASBOURG SE TIENT A UN MOMENT OU S'AMORCE UNE EVOLUTION DANS L'HISTOIRE DE NOTRE CONTINENT DONT IL EST DIFFICILE ENCORE DE PERCEVOIR TOUS LES RESSORTS ET TOUTES LES IMPLICATIONS.

IL APPARAIT TRES CLAIEMENT CEPENDANT QUE LES CHANGEMENTS EN COURS DOIVENT BEAUCOUP A L'ATTRAIT QU'EXERCE LE MODELE DE L'EUROPE COMMUNAUTAIRE SUR LE PLAN ECONOMIQUE COMME SUR LE PLAN POLITIQUE. IL EST DONC DE L'INTERET DE TOUS LES EUROPEENS QUE LA COMMUNAUTE SE RENFORCE ET QU'ELLE ACCELERE SA MARCHE VERS L'UNION EUROPEENNE. A STRASBOURG, NOUS AURONS A PRENDRE DES DECISIONS DANS CE SENS. LA COMMUNAUTE DEVRA AUSSI, AU TERME DE CE CONSEIL, FAIRE ENTENDRE LE MESSAGE DE CONFIANCE DE SOLIDARITE ET D'OUVERTURE QUE NOS OPINIONS PUBLIQUES, NOS PARTENAIRES EUROPEENS ET LE RESTE DU MONDE ATTENDENT.

JE PROPOSE QUE NOUS ABORDIONS LES DIFFERENTS POINTS DE NOTRE ORDRE DU JOUR SELON LE PROGRAMME SUIVANT:

LA REUNION DEBUTERA LE VENDREDI 8 DECEMBRE A 11 H. NOUS RECEVRONS D'ABORD, SELON UNE TRADITION MAINTENANT BIEN ETABLIE, M. ENRIQUE BARON, PRESIDENT DU PARLEMENT EUROPEEN, QUI S'EXPRIMERA AU NOM DE SON INSTITUTION SUR LES PRINCIPAUX THEMES QUI SERONT EVOQUES LORS DE NOTRE REUNION.

PUIS, NOUS COMMENCERONS NOS DEBATS A PROPREMENT PARLER PAR UN ECHANGE DE VUES DE CARACTERE GENERAL SUR L'ETAT DES TRAVAUX RELATIFS A LA MISE EN OEUVRE DE L'ACTE UNIQUE EUROPEEN, SUR LA BASE D'UN EXPOSE DU PRESIDENT DELORS. J'ESPERE QUE NOUS POURRONS CONSTATER, A CETTE OCCASION, QUE LE RYTHME DES PROGRES VERS LE MARCHE UNIQUE EST SATISFAISANT MAIS AUSSI QUE L'EFFORT NE DOIT EN AUCUN CAS SE RELACHER SI NOUS VOULONS RESPECTER L'EACHEANCE DE 1993.

JE PROPOSE QUE NOUS ABORDIONS ENSUITE, AU COURS D'UN DEJEU-NER DE TRAVAIL AVEC LES MINISTRES DES AFFAIRES ETRANGERES, LA QUESTION DE L'UNION ECONOMIQUE ET MONETAIRE. IL S'AGIT D'UN DOSSIER FONDAMENTAL POUR L'AVENIR DE NOTRE COMMUNAUTE ET LES TRAVAUX PREPARATOIRES EFFECTUES CONFORMEMENT AU MANDAT DONNE A MADRID ONT BIEN MIS EN EVIDENCE LES QUESTIONS AUXQUELLES LA CONFERENCE INTER-GOUVERNEMENTALE DEVRA APPORTER DES REPONSES POUR ELABORER UN TRAITE. NOUS DEVONS MAINTENANT NOUS PRONONCER SUR LA DATE DE LA CONVOCATION DE LA CONFERENCE. CETTE DECISION EST D'ORES ET DEJA PERCUE COMME LA PREUVE LA PLUS CLAIRE QUE NOUS PUISSIONS APPORTER DE NOTRE VOLONTE DE FAIRE FRANCHIR UNE NOUVELLE ETAPE A LA COMMUNAUTE.

A LA REPRISE DES TRAVAUX, DANS L'APRES-MIDI, NOUS EXAMINERONS D'ABORD LE PROJET DE CHARTE SOCIALE ET LES CONDITIONS DANS LESQUELLES POURRONT ETRE EFFECTIVEMENT APPLIQUES LES DROITS QUI Y SONT INSCRITS. NOUS FERONS ENSUITE LE POINT SUR D'AUTRES QUESTIONS TELLES QUE LA LIBERTE DE CIRCULATION DES PERSONNES, LA LUTTE CONTRE LA DROGUE, L'ENVIRONNEMENT, L'AUDIOVISUEL. CES SUJETS SONT IMPORTANTS SI NOUS VOULONS QUE L'EUROPE NE SE REDUISE PAS, AUX YEUX DE NOS CONCITOYENS, A UNE CONSTRUCTION ABSTRAITE ET BUREAUCRATIQUE MAIS QU'ELLE AIT AUSSI LE VISAGE DE LA SOLIDARITE, DU PROGRES, ET DU MIEUX-ETRE DANS LA VIE QUOTIDIENNE DE CHACUN.



AVANT LE DINER, JE SUGGERE QUE NOUS DISCUTIONS DES ASPECTS ECONOMIQUES DE NOS RELATIONS AVEC LES PAYS DE L'EST. NOUS AVONS DEJA ABORDE CES QUESTIONS LORS DE NOTRE REUNION RECENTE A L'ELYSEE, A L'ISSUE DE LAQUELLE UN CERTAIN NOMBRE D'INITIATIVES ONT ETE PRISES ET UN CERTAIN NOMBRE D'IDEES ONT ETE LANCEES. IL EST TEMPS MAINTENANT PRENDRE LES DECISIONS DE PRINCIPE SUR LES ACTIONS QUI S'IMPOSENT POUR PROLONGER ET STRUCTURER L'ELAN DE SOLIDARITE QUI S'EST MANIFESTE ENVERS CES PAYS, NOTAMMENT DANS LE DOMAINE DE L'ASSISTANCE FINANCIERE.

ENFIN, LE DINER DE TRAVAIL QUI REUNIRA LES CHEFS D'ETAT ET DE GOUVERNEMENT NOUS PERMETTRA DE POURSUIVRE LA DISCUSSION SUR CE THEME ET EN PARTICULIER D'EN APPROFONDIR TOUTES LES RETOMBEES POLITIQUES. LE DINER SERA EGALEMENT L'OCCASION DE PASSER EN REVUE NOS RELATIONS AVEC UN CERTAIN NOMBRE D'AUTRES PAYS QUI NOUS SONT PROCHES POUR DES RAISONS TENANT A LA GEOGRAPHIE OU A L'HISTOIRE, ET EN PARTICULIER LES PAYS DE L'AELE, LES PAYS DE LA CONVENTION DE LOME ET LES PAYS MEDITERRANEENS.

LES MINISTRES DES AFFAIRES ETRANGERES DE LEUR COTE EVOQUERONT AU DINER LES QUESTIONS TOUCHANT LE MOYEN-ORIENT, L'AFRIQUE AUSTRALE, L'AMERIQUE LATINE NOTAMMENT.

ILS PREPARERONT A NOTRE INTENTION DES PROJETS DE DECLARATIONS SUR TOUS CES SUJETS.

LE SAMEDI MATIN SERA CONSACRE, COMME C'EST LA TRADITION, A LA REDACTION FINALE DES CONCLUSIONS REFLETANT L'ENSEMBLE DE NOS DEBATS SUR LA BASE D'UN PROJET ELABORE PAR LA PRESIDENCE.

TRES CORDIALEMENT A VOUS: SIGNE : FRANCOIS MITTERRAND.



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FRAME GENERAL

STRASBOURG EUROPEAN COUNCIL: DUTCH OBJECTIVES

SUMMARY

1. THE DUTCH HOPE THAT THE STRASBOURG EUROPEAN COUNCIL CAN BE USED TO REINFORCE THE COHESION OF THE COMMUNITY. THEY ARE READY TO SUPPORT HOLDING AN IGC ON EMU IN 1990 UNDER CERTAIN CONDITIONS. THEY AGREE TO THE SOCIAL CHARTER. CONDITIONAL SUPPORT FOR THE IDEA OF A EUROPEAN DEVELOPMENT BANK.

DETAIL

2. LUBBERS AND VAN DEN BROEK WILL BE GOING TO STRASBOURG PREOCCUPIED BY THE SITUATION IN EASTERN EUROPE AND ITS SIGNIFICANCE FOR THE DEVELOPMENT OF THE EC. THIS WILL CONDITION THEIR ATTITUDE TO THE SUBJECTS ON THE EUROPEAN COUNCIL AGENDA. IN RECENT WEEKS THEY HAVE EXPRESSED THEMSELVES MORE CLEARLY IN FAVOUR OF THE VIEW THAT DEVELOPMENTS IN EASTERN EUROPE NECESSITATE REINFORCING THE POLITICAL AND ECONOMIC COHESION OF THE EC. AT THE SAME TIME THEY HOLD STRONGLY THAT THE PRINCIPLE OF SUBSIDIARITY SHOULD UNDERLIE EC POLICY-MAKING.

EMU

3. VAN DEN BROEK MADE CLEAR AT A MEETING TODAY WITH EC AMBASSADORS THAT THE DUTCH SUPPORT THE PROPOSAL FOR HOLDING AN IGC AT THE END OF 1990, BUT ON CONDITION THAT IT IS THOROUGHLY PREPARED. THEY SEE SUCH A DECISION AS PROVIDING AN IMPORTANT SIGNAL THAT THE EC WISHES TO PRESS AHEAD WITH ECONOMIC AND POLITICAL INTEGRATION. THIS MEANS THAT VAN DEN BROEK'S BELIEF IN THE SYMBOLIC IMPORTANCE OF FIXING A DATE HAS PREVAILED OVER THE MORE CAUTIOUS LINES ADVOCATED BY THE TWO SUCCESSIVE MINISTERS OF FINANCE, RUDING AND KOK.

4. LUBBERS MADE IT CLEAR TO THE DUTCH PARLIAMENT ON 27 NOVEMBER THAT DUTCH SUPPORT FOR AN IGC WAS CONDITIONAL ON THE COMPLETE LIBERALISATION OF CAPITAL MOVEMENTS, AND ON AGREEMENT THAT THE COMMUNITY WOULD WORK OUT THE VARIOUS ELEMENTS OF EMU BEFORE AN IGC



BEGAN. THE DUTCH ALSO WANT TO SEE COMPLETED A FULL STUDY OF THE MODALITIES OF AN INDEPENDANT CENTRAL MONETARY AUTHORITY, WHICH THEY BELIEVE SHOULD BE AUTONOMOUS, AND SHOULD HAVE PRICE STABILITY AS ONE OF ITS EXPLICIT OBJECTIVES.

#### SOCIAL EUROPE

5. THE DUTCH ARE READY TO AGREE TO THE PROPOSED SOCIAL CHARTER. ONCE AGAIN THE SYMBOLIC IMPORTANCE OF AGREEING THE DOCUMENT OUTWEIGHS CONCERNS THEY MAY HAVE OVER ITS FOLLOW-UP. ON THE LATTER, THEY STAND READY TO FIGHT THEIR CORNER WITHIN THE EC MACHINERY ON THE SEPARATE PROPOSALS TO BE PUT FORWARD BY THE COMMISSION. THEY UNDERSTAND OUR DIFFICULTIES BUT DO NOT SHARE OUR OBJECTIONS TO THE DOCUMENT. WITH THE DUTCH LABOUR PARTY NOW IN GOVERNMENT, MINISTERS ALSO TAKE THE VIEW THAT A DEMONSTRATION IS NEEDED THAT THE SINGLE MARKET IS NOT BEING CREATED ONLY WITH BUSINESS INTERESTS IN MIND.

#### SINGLE MARKET

6. THE DUTCH ARE ANXIOUS TO MAINTAIN THE MOMENTUM AND WOULD I BELIEVE BE SYMPATHETIC TO THE IDEA OF AGREEING A FURTHER PACKAGE OF SINGLE MARKET MEASURES. THEY ARE ALSO ANXIOUS TO SEE PROGRESS OVER A COMMON TRANSPORT POLICY AND MAY RAISE AT STRASBOURG THE GERMAN PROPOSALS FOR A NEW ROAD TAX (IF THE ISSUE IS NOT ADEQUATELY RESOLVED AT THE TRANSPORT COUNCIL) AS AN ILLUSTRATION OF THE NEGATIVE CONSEQUENCES OF THE ABSENCE OF A COMMON POLICY.

#### EC/EASTERN EUROPE

7. THE DUTCH BELIEVE THAT THERE IS AN URGENT REQUIREMENT FOR THE EC TO GIVE ECONOMIC ENCOURAGEMENT TO ECONOMIC AND POLITICAL REFORM IN EASTERN EUROPE. THEY HAVE AN OPEN MIND AS TO WHETHER THE FRENCH IDEAS FOR A EUROPEAN DEVELOPMENT BANK ARE NECESSARILY THE BEST VEHICLE FOR THIS. WHILE THEY MAY BE READY TO ENDORSE THE PRINCIPLE OF CREATING A NEW INSTITUTION FOR THE PURPOSE OF CHANNELLING FUNDS TO EASTERN EUROPE, THEY BELIEVE THAT ALL OPTIONS SHOULD BE EXAMINED BY A HIGH LEVEL GROUP AS SOON AS POSSIBLE AFTER THE EUROPEAN COUNCIL. THEY HAVE SOME CONCERN THAT A NEW FULL-BLOWN BANK WOULD TAKE MONTHS TO SET UP.

8. ON THE WIDER ISSUE OF RELATIONS BETWEEN THE EC AND THE COUNTRIES OF EASTERN EUROPE, DUTCH THINKING REMAINS NECESSARILY TENTATIVE. THE DUTCH TOOK A LEAD LAST YEAR IN SUGGESTING THAT FURTHER USE SHOULD BE MADE OF THE COUNCIL OF EUROPE IN THIS CONTEXT. THEY BELIEVE THAT THE COUNCIL COULD BE USED AS AN INTERIM MEANS OF DEVELOPING RELATIONS WHILE FURTHER CONSIDERATION IS GIVEN TO THE EC/EAST EUROPEAN OVERALL RELATIONSHIP. THEY ALSO THINK THAT THE ARRANGEMENTS BEING DEVELOPED



BETWEEN THE EC AND THE EFTA COUNTRIES COULD SERVE AS A MODEL FOR THE FUTURE. MEANWHILE THEY REMAIN VERY CAUTIOUS OVER THE POSSIBILITY OF FURTHER EC ENLARGEMENT THROUGH AUSTRIAN ACCESSION, OR EVEN THE ACCESSION OF EAST EUROPEAN STATES.

## SUPPORT FOR CONSENSUS

9. LUBBERS INSTINCT TO AIM FOR AS MUCH CONSENSUS AS POSSIBLE AT STRASBOURG WILL BE REINFORCED UNDER THE PRESENT CIRCUMSTANCES. A STRONG BELIEF IN THE PRINCIPLE OF SUBSIDIARITY, HIS STRESS ON THE NEED FOR CONDITIONALITY IN RESPECT OF AN IGC, AND HIS CONCERNS OVER SETTING UP A EUROPEAN DEVELOPMENT BANK MAY GIVE US SOME SCOPE FOR WORKING WITH THE DUTCH AT THE EUROPEAN COUNCIL.

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Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

5 December 1989

Charles Powell Esq  
PS/Prime Minister  
10 Downing Street  
LONDON  
SW1

*De. Charles*

**EUROPEAN COUNCIL**

... When he was at the Commonwealth Finance Ministers' meeting, Alex Allan discovered the attached cuttings in which the Jamaican Daily Record confused pictures of Hans Deitrich Genscher and Sam Nujoma! I am sure you can make good use of it.

I am copying this letter to Stephen Wall (FCO).

*Yours*

*J.G.*

**JOHN GIEVE**  
Principal Private Secretary





PM/89/064

PRIME MINISTEREuropean Council, Strasbourg: 8-9 December 1989

1. We are to discuss preparations for the European Council at Cabinet on 7 December.
2. President Mitterrand has yet to circulate his agenda for the Council, but the main subjects are likely to be:
  - (a) Eastern Europe;
  - (b) Economic and Monetary Union; and
  - (c) the proposed Social Charter.

We shall wish to ensure that:

- (d) the 1992 Single Market programme remains the Community's No 1 priority.

Our views on (a) and (d) are widely shared. Although some of our concerns about the underlying issues on (b) and (c) are also widely recognised, we may well be on our own on the particular decisions sought at Strasbourg. But neither decision would be a watershed; and our interest - and the Community's - lies in avoiding, at a time of dramatic change in wider Europe, exaggerated talk of 'crisis in the Community'.

3. We aim to ensure that the recent rapid political change in Eastern Europe, and the right Community reaction to it, is properly explored at Strasbourg. Discussion should cover general Western and specific EC assistance to support reform in Eastern Europe; the question of the GDR; the need to encourage democracy without promoting destabilisation; and the appropriate structure for future EC relationships with



Eastern Europe (at Annex A is a short paper on our ideas, which we have given to the Commission and the French). The French may argue that the right response to change in Eastern Europe is acceleration of the Community's internal development: we shall wish to make clear our view that the breach in the Berlin Wall neither reduces the need to press ahead with sensible (eg Single Market) proposals, nor justifies pressing ahead with unsatisfactory proposals (eg Delors Stages II/III). The French will press their unwelcome proposal for a new European Regional Development Bank. This would be costly; many of its functions could be done by existing institutions; and, as presently defined, it does not match the real needs of Eastern Europe. Poland's requirements, for example, are for the involvement of the Western private sector, for free food, and for extensive training in managerial/entrepreneurial skills: the last thing the Poles need is more debt. We shall want to secure a remit for further technical work against sensible criteria.

4. The European Council is likely to confirm that Stage 1 of the Delors Report's prescription for Economic and Monetary Union will start on schedule on 1 July 1990; and to discuss the content and timing of an Inter-Governmental Conference (IGC) to consider subsequent stages. We shall want to emphasise the importance and scale of Stage 1 (all elements of which we accept); the case for adopting an evolutionary approach (as recommended in the Chancellor's 2 November paper) to later developments; and the all-party Westminster concern at the rigidly dirigiste structure recommended in the Delors Report. These views on substance will need to be emphasised, and separated from the discussion on procedure. On this, the French are likely to seek a decision to start an IGC in late 1990. The Germans hold the key; and an IGC date is virtually certain





to be set unless Kohl, rejecting Genscher's advice and strong pressure from Paris, were to come down against it. Both Waigel and Pöhl, who welcome UK ideas on the substance of post-Stage 1 developments, expect an IGC decision at Strasbourg. We shall explain that in our view such a decision would be premature; but we shall work to ensure that any IGC remit covers not only the Delors Report's proposals, but also our alternative approach; that the right conditions are attached; and that the importance of the IGC taking full account of the effects of Stage 1 measures is accepted.

5. The Presidency want agreement on a Social Charter. The UK alone opposes the draft Presidency/Commission text considered at the October Social Affairs Council. Following opposite pressures from Germany and Benelux, the European Parliament, and his own party in France, President Mitterrand has confirmed that he does not propose to pick up the Prime Minister's suggestion of negotiating a more general declaratory statement, avoiding the regulatory detail of the present version, and accurately reflecting the prescription from the Madrid European Council. So the odds are that there will be little or no Strasbourg negotiation, and that the existing draft will be agreed by the others, though not - given our position - as a Community document. We can again explain our objections to it, and have an alternative text which could be deployed as necessary. But the optimal outcome, an agreed Charter text which met our desiderata, is not obtainable given the Presidency's attitude; and the next best outcome is to draw a line under the ill-conceived Charter exercise with minimum fuss. Delors has rightly described an 11:1 split on this issue as "no tragedy".

6. The Single Market has not been a high priority for the French. Their Presidency tally of measures agreed is so far



only 35, of 56 in the German, 54 in the Greek, and 68 in the Spanish Presidencies. To rebuild momentum we want Strasbourg to reaffirm the Community's commitment to Single Market basics, and to the sectoral priorities agreed at Madrid, particularly those on which progress has been poor - financial services (especially insurance) and transport (especially air transport liberalisation and cabotage). We shall also aim for endorsement of Commission efforts to improve implementation and enforcement, and to tackle excessive state aids, eg in Italy. And we are seeking impetus from Strasbourg for a package of Single Market agreements at the Internal Market Council on 21 December, and have given the French, and the Commission, a list of suggestions for such a package.

7. Other 1992-related issues likely to be touched on at Strasbourg include:- (i) frontiers issues, on which the French have made steady and uncontroversial progress, and a welcome initiative to improve the Community's handling of drugs issues; (ii) fiscal issues: the Madrid Council called for end-1989 outline agreement on the post-1992 VAT and excise duty regime, and we can hope to consolidate recent advances in ECOFIN, notably on retention of the destination principle for VAT; and (iii) Audiovisual issues, to which the French have attached priority. We can continue to support industry-led cooperation, but will have to look out for Commission bids for major increases in Community expenditure.

8. Among non-1992-related issues which might come up the most important could be:

- (i) EC budget discipline: The constrictions of the 1988 Budget/CAP reforms are working well. Reduced CAP spending, and the watertight compartments which prevent use for other purposes of the funds thus





released, means that total EC expenditure foreseen for 1990 is some £6 billion below the ceiling. This has led the Commission to argue that the regime is too rigid; and that it should be possible to use a surplus in one area to fund expenditure in another. If this comes up at Strasbourg we shall insist on no change;

(ii) R & D: the French are unlikely to try to foreclose, but may try to accelerate, discussion of the 1990-1994 R & D Framework Programme. A new remit to the Research Council seems the probable outcome: we shall wish to ensure that its terms do not prejudice our position on funding;

(iii) European Environment Agency: Strasbourg will presumably be asked to confirm the decision to establish the Agency, and may be invited to consider the choice of site, though the French have to make an awkward choice between pressing as Presidency for a decision now, and advancing a national bid for the site to be in Strasbourg itself. On balance, a decision is unlikely, given the number of bids on the table. But we shall want to advance ours.

#### Conclusions

9. While we have allies on the substantive issues of economic and monetary cooperation, and against excessive regulation/harmonisation of social and labour market policies, we may well be in a minority of one on the two particular issues on which the Strasbourg debate may crystallise: the start-date for an Economic and Monetary IGC, and the issue of a Social Charter. The gap on the Social Charter is highly unlikely to be bridged; but we can demonstrate that we were willing to make the attempt. On the IGC date we may be able to contrive useful



conditionality, and should be able to ensure that our "evolutionary approach" remains on the table. On the other two key Strasbourg subjects - maintaining the momentum of the Single Market programme, and ensuring that the EC's relationships with Eastern Europe are well designed to encourage and support emerging democracies - the UK interest marches with the Community interest, and our line cannot be criticised as uncommunautaire.

10. For the domestic audience it will be important to bring out the fact that the 1992 and Eastern Europe issues are substantively much more significant than the procedural decisions being sought on an IGC date and on the Social Charter.

11. I am copying this minute to other members of Cabinet and to the Cabinet Secretary.

(DOUGLAS HURD)

Foreign and Commonwealth Office  
5 December 1989



THE COMMUNITY'S RELATIONS WITH EASTERN EUROPE: A FRAMEWORK

1. The Community is concerned to encourage the drive for real democracy in Eastern Europe, within a framework of stability. Just as political reform goes together with economic liberalism, so the Community's encouragement must entail both political and economic support.
  
2. In respect of economic support, the Community has long followed a policy of differentiation between the countries of Eastern Europe according to the degree of economic reform already achieved. The scope of the Community's bilateral trade and cooperation agreements with individual Eastern European countries has been tailored to reward and encourage economic reform. This principle should plainly apply also to political reform.
  
3. The Community should not therefore treat Eastern Europe as a bloc, or envisage new regional, multilateral structures. While it is right to lay down principles of general applicability to all Eastern Europe, particular arrangements should be on a country-by-country basis, reflecting individual circumstances.
  
4. None of the existing models of Community relationships with European neighbours:
  - "Association Agreements", as with Turkey, Cyprus and Malta;
  - "Cooperation Agreements", as with Yugoslavia and other Mediterranean countries;
  - Free Trade Agreements, as with the EFTA countries now;  
or
  - the broader EC/EFTA relationship now being exploredis necessarily exactly right for the relationship with emerging Eastern European democracies. New forms of association, including appropriate elements from several

existing ones, may be required.

5. Such arrangements will in principle be open to all Eastern European countries. The speed and scale of development of each arrangement will reflect the particular needs and new circumstances of the individual country in question, and the degree of reform achieved.

6. A general principle applicable to all should be that political reform justifies a political response. As democracy and respect for human rights takes root in Eastern Europe, so the countries in question should be encouraged to accede to the European Convention of Human Rights and should be welcomed as full members of the Council of Europe. The Community should be ready for full political dialogue with them; and links between member state Parliaments - and the European Parliament - and East European legislatures should be strengthened. The extent of such dialogue should reflect the scale of political reform.

7. In developing closer economic links, the aim should be to reinforce reform in Eastern Europe. This will mean:

- (a) pursuing closer trade relations with Eastern Europe and the opening up of trade within Eastern Europe;
- (b) providing emergency short-term assistance, as necessary - coordinated in the Group of 24, under Commission auspices;
- (c) encouraging the development of local technical and entrepreneurial skills, which could involve extending relevant existing programmes - e.g. ERASMUS and EUREKA - to Eastern Europe;
- (d) encouraging the development of structures favourable to inward investment in Eastern Europe; and



- (e) extending appropriate long-term financial assistance, in the context of programmes agreed with the IMF.

In all cases, the scale of Community economic support should be proportionate to the degree of economic and political reform achieved.

8. Where economic and political reforms are successfully sustained, closer institutional association of the individual East European countries with the Community, as envisaged under Article 238 of the EEC Treaty (with regular meetings at the political level), may make sense. In addition, following the introduction of market mechanisms, the development of economic and institutional relationships similar to those now existing between the Community and the EFTA countries could become appropriate. Particular arrangements will reflect the degree of reform achieved, the needs of the specific country in question, and the increasing depth of its relationship with the Community.

9. Eventual applications for Community membership cannot, under the Treaty, be excluded. But this is not a question to be addressed now, for the Community cannot envisage any accession negotiations before 1993, and no Eastern European country is currently ready, politically or economically, to meet the obligations of Community membership. Appropriate forms of association for the short to medium term should therefore neither lead automatically to, nor automatically exclude, eventual EC enlargement.

10. The development of the Community's relationships with Eastern Europe within this framework should be dynamic and incremental: progress should be reviewed, and further steps charted, at successive European Councils.



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10 DOWNING STREET  
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*C.D.*

*From the Private Secretary*

5 December 1989

*See Stephen.*

STRASBOURG EUROPEAN COUNCIL: ECONOMIC AND MONETARY UNION

The Prime Minister had a talk this evening with the Chancellor, the Foreign Secretary and the Governor of the Bank of England about the handling of the debate on Economic and Monetary Union at the Strasbourg European Council.

The Foreign Secretary reported on his discussions with M. Dumas, the French Foreign Minister, earlier in the day. The French Presidency would start the Council with a discussion of the Single Market and then go on to EMU and the Social Charter. They proposed that further discussion of Eastern Europe would be held over lunch or dinner. On EMU, the Presidency would press for a commitment to start an IGC in the second half of 1990, leaving the Italian Presidency to set the precise date. The German position was still unclear and would be decided by Chancellor Kohl personally. It was possible that he would argue against setting a date for an IGC before there had been further detailed consideration of the substance. He might prefer to avoid an IGC before the German elections. The Foreign Secretary continued that the French did not envisage a reference to the Delors Report as such in connection with an IGC, but would simply refer to economic and monetary union. They did not want a great argument at Strasbourg and did not expect anyone to commit themselves on the substance.

In discussion it was noted that a decision to hold an IGC was not purely a procedural one, since it implied acceptance of the need for Treaty amendment (although it would of course be possible to argue against such amendment at an IGC). There was also the risk that an IGC might be extended to cover other issues such as the powers of the European Parliament, which was an additional reason for caution. We should let Chancellor Kohl speak first in Strasbourg, in case he was ready to argue for delay. But the odds were that he would defer to President Mitterrand's desire to set a date for an IGC. In that event, it must be absolutely clear in the Council's conclusions that we regarded an IGC as unnecessary, and opposed much of the substance of Delors Stages 2 and 3. But we should also try - through the Secretary-General of the Commission and the Secretary-General of the Council - to feed into the Presidency's conclusions a number of conditions which would have the effect of constraining an IGC. (In essence, these would be the conditions proposed in John

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Gieve's letter of 24 November to me.) It would be important to try to secure acceptance that nothing would be implemented as a result of an IGC, until the Community had gained proper experience of Stage 1 of Delors and the operation of the Single Market. In the event that we were able to get worthwhile conditions, we could claim a success. Further down the road, an IGC would in any case force other member states to face up to the fundamental difficulties involved in Delors Stages 2 and 3.

The Chancellor cautioned that there might be an attempt at Strasbourg to raise the issues of tax approximation and abolition of fiscal frontiers, which could be difficult for us.

The Prime Minister concluded that we should continue to argue at Strasbourg against an IGC, and should be ready to support the Germans if they sought a delay. In the event that there was a clear majority in favour of setting a date in the second half of 1990, we should record our dissent and work behind the scenes to have conditions imposed which would so far as possible constrain an IGC.

I am copying this letter to John Gieve (HM Treasury), Paul Tucker (Bank of England) and Trevor Woolley (Cabinet Office).

*Yours sincerely,  
C.D. Powell*

C.D. POWELL

J.S. Wall, Esq.,  
Foreign and Commonwealth Office.





PM/89/063

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Prime Minister

This sets out what we shall  
be able to offer in Strasbourg. It is  
a good hand for you to play.  
The UK initiative to establish a European  
Development Commission seems a worthwhile  
idea. On the Bank there seems

PRIME MINISTER

Economic Support for Eastern Europe

no point in being isolated. I think we shall  
have to accept

1. In my minute to you of 24 November about help for  
Poland, I promised to send you views on the wider subject of  
economic support for Eastern Europe generally, in the  
context of the forthcoming discussion at the European  
Council on 8-9 December. You have also asked to be armed  
for Strasbourg with inter-departmentally agreed options  
which would enable the UK to make commitments on further  
aid, either bilaterally or multilaterally, should the need  
arise in discussion there.

it is  
in principle, e  
study it  
to death  
in the  
Monetary  
Committee.

2. There should be a substantive discussion on Eastern  
Europe, and there is a lot of good material for a powerful  
declaration by Heads of Government. At the Elysee on 18  
November it was agreed that the Commission would report to  
Strasbourg on the various possible forms of agreement  
between the Community and individual Eastern European  
countries. You have already given M. Delors a copy of  
our "framework" paper on the EC's relations with Eastern  
Europe. An East-West declaration at Strasbourg is also  
envisaged, with work in hand among Political Directors on  
the basis of instructions from Foreign Ministers in Brussels  
on 27 November. That discussion went well and showed that  
other member states and the Commission are in general  
agreement with our approach. The Strasbourg statement

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/should





should therefore be substantive and resonant, encouraging and welcoming political and economic reform, re-affirming basic Western values without triumphalism, suggesting increased political links with Western Europe, and proposing a new overall framework for relations.

3. You stressed at the Heads of Government meeting on 18 November that the Community should decide at Strasbourg further practical measures of help for Eastern Europe. Much of course has already been done, and Section A of the enclosed paper by officials demonstrates the generous response of the Community and the United Kingdom. We should maximise the credit for the effort already made. Other member states will wish to do the same. The paper also brings out the very sizeable further assistance which will be made available to Poland and Hungary, once they have concluded IMF agreements.

4. Officials have also considered what further measures should be supported at Strasbourg, and have examined some of the ideas which have been raised by others. The attached paper was prepared by FCO, including ODA, and Treasury officials. They conclude, and I agree, that we might support the following (as set out in Section B of the paper):

- a) a second tranche of free food for Poland for quick disbursement to the needy;
- b) a Training Foundation for Eastern Europe, which would provide EC help for the establishment of training courses geared to restructuring and privatising East European firms, in industry, commerce, banking and other financial services. It should involve only a modest financial provision which is already available in the 1990 EC budget;





- ?
- c) a Euro-Polish bank, operating in the private sector, which would encourage enterprise and would be matched by parallel bodies in other reforming East European countries;
- d) student exchanges and Eastern European involvement in areas covered by existing Community exchange programmes.

*Another body?*

5. Officials have also considered a possible UK initiative to establish a body, the "European Development Commission" (EDC), which would make available economic advice to East European governments undertaking reforms. These governments have no reliable statistics. They lack accurate cost and pricing mechanisms; at present they do not know what costs and prices are. Their instruments for macroeconomic policy and supply-side reform are defective. The proposed EDC would aim to show the East Europeans how to correct these failings. It would become a specialist source of economic expertise on dismantling command economies and introducing market principles. Advice would cover a range of practical policies, and it would bring together representatives of East and West in a way not possible in the OECD. This could have a useful political impact while providing a real service at little cost to public funds. This policy advice would complement the help with training courses which would be provided by the EC Training Foundation. Our policy of differentiation between Eastern European countries could be maintained, and we would be encouraging the private sector.

6. These ideas, together, form a sound package of practical assistance, and one which would permit us to maintain our role in ensuring the right positive response to the changes in Eastern Europe.





7. The Presidency are determined to force a decision at Strasbourg on the principle of their proposal for a new Development Bank for Eastern Europe. This is considered in Section C of the attached paper, which brings out the serious disadvantages of the proposal. However, you will be able to point out that all member states, including the French, share the common aims on Eastern Europe set out in the preamble to the proposal. We can readily endorse the wish that Eastern European countries move towards our political and economic system; that we should demonstrate our commitment to facilitate ongoing reform, that there is a need for coordinated efforts to help the transition to market-oriented economies; and a need to mobilise appropriate financial resources. But we do not believe that a development bank would be a cost-effective way of proceeding.

8. Most member states will be attracted by the French proposal, and will welcome a Community initiative going beyond the help already offered to Poland and Hungary, to encompass all those countries embarking on reforms. They will argue that the bank would be a useful channel to coordinate Western investment effort along the lines of existing regional banks elsewhere.

9. The French proposal is firmly on the agenda of the European Council, and David Williamson has warned me that he does not believe that it will be possible to secure agreement that the idea should be dropped. If so, the best achievable outcome may be that the proposal should be remitted for careful scrutiny by the Monetary Committee. Our chances of success there - and of bringing out the advantages of the EDC - will be much enhanced if the

/European



European Council Conclusions laid down as the criteria for that scrutiny those identified in the officials' paper; differentiation, complementarity, help for enterprise, cost effectiveness and sound finance. We should look for support for this approach, principally from Chancellor Kohl and Mr Lubbers, although Italy, Portugal and Luxembourg have also shown some hesitation over the French proposals.

10. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Minister of State for Overseas Development, the Governor of the Bank of England and Sir Robin Butler.

A handwritten signature in dark ink, consisting of the initials 'D.H.' in a cursive, stylized script.

(DOUGLAS HURD)

Foreign and Commonwealth Office

4 December 1989



## AID FOR EASTERN EUROPE

Introduction

1. The 8-9 December Strasbourg European Council will conclude a major declaration on Eastern Europe, including a new overall framework for the Community's relations with it. The message will be substantive, and designed to encourage and aid political and economic reform. The Prime Minister stressed at the Heads of Government meeting on 18 November that the Community should decide at Strasbourg further practical measures of help for Eastern Europe on top of the Council decisions on 27 November on a trade package, economic aid regulation, and EIB guarantees for Poland and Hungary.

2. The Prime Minister has asked to be armed for the Strasbourg European Council with interdepartmentally agreed options which would enable the UK to make commitments on further assistance either bilaterally or multilaterally, should the need arise in discussion there. The Presidency, who have proposed a Regional Development Bank for Eastern Europe, envisage that the substantive new measure for Eastern Europe should be approval in principle of the new bank.

3. This note is in three parts:

a) Section A - a summary of the UK contribution to date, both bilateral and contributions to multilateral efforts, together with an assessment of further multilateral support which will result from the conclusion of IMF agreements,

b) Section B - those elements which we should support/propose at Strasbourg as a positive Community response;

c) Section C - the merits and disadvantages of the French proposal for a Regional Development Bank for Eastern Europe.



A1. UK CONTRIBUTIONS TO POLAND AND HUNGARY

DECISIONS ALREADY TAKEN

Bilateral

Poland - A "Know-How Fund" of £25 million over 5 years (40 projects under way). This fund has now been doubled to £50 million. In addition we will be financing an agricultural project worth £15 million.

- Contribution of \$100million to the \$1 billion Stabilisation Fund.

Hungary - "Know-How Fund" announced on 12 October, £25 million over 5 years.

Multilateral

European Community

- 100 mecu of free food for Poland (this will certainly be followed by a further tranche in 1990 of about 200 mecu).
- 300 mecu package for Poland/Hungary in 1990 covering agricultural reform, environmental protection and manpower/vocational training.
- EIB lending to Poland and Hungary of 1,000 mecu over 3 years. Some \$200 million is assured to Poland in 1990.
- A substantive package of trade measures including the abolition or suspension of all quantitative restrictions for Hungary and Poland from 1 January 1990, the granting of GSP to both countries, covering inter alia reduced tariffs and levies on certain agricultural products.

Paris Club

- The postponement of certain Polish debts up to early 1990.



A2. ASSISTANCE WHICH SHOULD FOLLOW THE CONCLUSIONS OF  
IMF AGREEMENTS WITH POLAND AND HUNGARY

Poland

- IMF Stand-by Arrangement worth \$700 million.  
Intensive negotiations in progress. Agreement hoped for by Christmas.
  
- IBRD support worth \$300 million.
- Paris Club substantive rescheduling of Polish debts, likely to cover all arrears from 1988 and 89 as well as future maturities at least for 1990 and possibly longer. ECGD could account for about \$200 million of about \$2 billion of interest payments rescheduled for Poland. In addition, the Paris Club will reschedule substantial arrears from 1988 and 89, as well as principal repayments due in 1990.
- A \$500 million bridging facility for Poland, to be funded by the BIS with the support of central banks. The Bank of England will need an indemnity from the Treasury.

The total amount of official international finance for Poland in 1990 seems likely to reach \$5 billion, or about 6% of GDP, including the effects of rescheduling Paris Club interest. Any drawdown of export credits would be additional to this.

The UK will be contributing very substantial financial support for Poland in 1990. This will include our contribution to the Stabilisation Fund, our rescheduling of ECGD's claims in the Paris Club, disbursements from the Know-How Fund and expenditure on the agricultural project. We shall also be contributing directly to food aid and to the EC action plan. The total amount involved is about £250 million. In addition, the UK is of course providing support indirectly through its membership of the major international institutions - the IMF, IBRD and EIB - where it is a major shareholder, and Paris Club rescheduling of arrears and principal. The numbers are as follows:



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New UK financial help for Poland in 1990

	<u>£m</u>	<u>\$m</u>
Stabilisation fund	64	100
Paris Club rescheduling of interest	140	220
Know-How Fund	10	16
Agricultural project	15	19
UK share of EC action plan on agricultural reform, environment and training	<u>30</u>	<u>15</u>
	259	370

Memorandum items

UK share in IFI operations		
IMF	31	49
World Bank	13	21
EIB	24	38
Paris Club rescheduling of principal	112	176
arrears	223	350

Hungary

- Bridging finance from the BIS will only be sought if the timing of payments makes this necessary. Instead Hungary is seeking a balance of payments loan from the EC. Different figures have been mentioned, the range is \$500 million - \$1 billion. Western support depends critically on Hungary reaching agreement on a new programme with the IMF, and this is proving very difficult.

G24 contributions: Also annexed is a summary of current pledges by other G24 countries to Hungary/Poland.



## B. PROPOSALS WHICH THE UK CAN ENDORSE

Additional Free Food for Poland

Commission have promised an early proposal for a second tranche of free food, probably at about 200 mecu. We should support, but insist that it be efficiently and directly targetted at the needy.

Training Foundation for Eastern Europe

A Presidency proposal now being developed by the Commission. It responds to precise needs in Poland and Hungary, and would concentrate on management, education and training. Cooperation would be designed to facilitate the transfer and application of know-how and expertise to Eastern European countries. There would be an important role for information and documentation. It would encourage training, both in Eastern Europe and through students/managers/trainees being placed in the EC, and might provide assistance with training equipment and materials in Eastern Europe. A foundation could serve as a clearing house, and bring together existing needs and means of meeting them, both in the member states and through Community programmes. Adequate financing is already available in the Community budget for 1990. The Commission and Germany argue that the European Centre for the Development of Vocational Training, based in Berlin could be adapted for this purpose. We should support the principle of a Foundation, but its location need not be decided in Strasbourg.

Euro-Polish Bank and parallel banks in other reforming East European countries

The Commission are working on ideas to strengthen the banking sector in Poland and to encourage private banks from EC member states to expand their operations there. This



would serve to strengthen the private financial infrastructure in Poland, which is very weak, and matches one of the purposes identified for our own Know-How fund. But the main investment would come from the private banks involved. Similar arrangements could be considered for other reforming East European countries, since strengthening the private sector is an essential element in the transition from state-controlled to market based economies. We should encourage the Commission to work up a proposal.

Youth and Student Exchanges and Eastern European Interest in the Content of Existing Community Programmes

We can welcome the Commission's intention to propose a framework for encouraging student mobility and a scheme to cover reforming Eastern European countries interest in the content covered by existing Community programmes such as ERASMUS.

Additional UK proposal

The above proposals are on the table and can be supported. Officials have also identified a possible UK initiative which at modest cost would make a useful contribution to the reform process in East European countries. It might be called a European Development Commission (EDC). This would be a new pan-European institution which would:

- a) analyse and appraise the economic policies and performance of East European member economies, with particular emphasis on medium term and structural issues; eg policies on labour market, tax, monetary, energy market issues
- b) provide expert advice and technical assistance to these countries, including policy advice;



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- c) serve as a channel for member states and EC contributions for technical assistance funding as appropriate;
- d) liaise with and encourage institutes and academics specialising in the particular problems of state monopolies, and their gradual conversion to Western-style economic systems;
- e) provide a forum for representatives of Eastern European governments to meet their opposite numbers to discuss concrete issues.

Membership would be open to all OECD countries, and all reforming East European countries, including Yugoslavia and the Soviet Union. The EDC should be closely associated with the OECD so that it can draw on its expertise. It would work closely with the IMF and World Bank for countries who are members of these Institutions. The OECD dimension would be very useful (and much more attractive than the moribund Council of Europe Resettlement Fund, advocated by Luxembourg, the membership of which is more disparate, and does not include the United Kingdom. If we were to join, we would be expected to make an accumulative contribution of about \$25 million, together with a pledge of a further \$25 million.)



## C. EASTERN EUROPEAN DEVELOPMENT BANK.

The French envisage that this bank would be designed to stimulate and coordinate international aid efforts. It would have a share capital of 10 becu, of which 20% would be called up in four equal tranches. The uncalled capital would be available as security for loans raised by the new bank. The French now accept that participation should be broadened to include not only the member states, the EEC itself, and the EIB, but EFTA and non-Europeans such as the US and Japan. Europeans should hold about 65% of the shares and the EC at least 51%. The bank would cover all Eastern European countries, and the size of capital reflects this. Eastern European countries themselves would also be subscribers. The bank would be targetted at the private sector through a range of interventions; investment loans, technical assistance, etc.

As the Prime Minister said in her letter of 28 November to Chancellor Kohl, there appears to be no shortage of resources available to Poland and Hungary; many existing institutions were already helping; and the proposed bank would be too bureaucratic and would make international coordination more difficult.

A test of whether any new institution is required is whether it, rather than the existing Institutions and Instruments, would add to the efficiency of our response to the new situation in Eastern Europe, and indeed whether a response on the scale proposed is necessary. Any arrangement would also need to permit continued close political control to ensure that the Community can continue to differentiate in favour of reforming countries of Eastern Europe.

The sponsors of the proposed bank argue that it would



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- be a visible sign of Western, particularly EC, support for reform in Eastern Europe,
- coordinate Western investment efforts in Eastern Europe,
- appraise investment projects and ensure conditionality,
- develop expertise in the reform of state trading countries,
- attract additional non-EC support, especially from the US and Japan,
- reduce competition among creditor countries,
- enjoy preferred creditor status,
- be able to deal flexibly among recipient countries, eg countries with high debts such as Poland might receive only technical assistance while more credit-worthy countries would get loans at either market or concessionary rates.

Our own reservations about the proposals include

- there appears to be no shortage of funds becoming available to Poland and Hungary,
- both Poland and Hungary are already overburdened with debt; they need the equity and expertise of the private sector,
- a regional bank with full East European involvement in management, would not easily lend itself to the political direction required by our policy of differentiation,
- existing institutions have both the expertise and the resources for both structural lending and imposing conditionality. The EIB specialises in project loans. The IFC is best placed to catalyse private equity investment,
- these existing institutions are more likely to be able to marshal support from non-European creditors, eg the US and Japan,



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- the new bank would take 18 months to 2 years to create, and longer still to develop expertise,
- it risks being over-bureaucratic and not flexible enough to meet the needs of a growing private sector,
- the scale of the proposed operation is enormous (£7 billion) and the cost of the UK's paid-up share could be about £140 million (assuming the EC had half the shares),
- the narrow spread of the bank's assets in a small number of politically and economically vulnerable countries, including both soft loans and equity investment, would make it an unattractive borrower on international capital markets. The inclusion of Eastern European shareholders would also undermine its creditworthiness, placing an undue burden on Western creditor governments to guarantee its liabilities.
- it might be subject to more pressure to support lending on soft terms to prop up newly democratic but essentially uncreditworthy borrowers.

Although we share the Presidency's general objectives on Eastern Europe, the disadvantages of the proposed bank outweigh its merits.

CONCLUSIONS

- a) At Strasbourg we should seek to obtain maximum credit for the aid which the Community and member states have already provided and that which will be made available when Hungary and Poland conclude agreements with the IMF.
- b) We should advocate and support the existing proposals specified in Section B, and if appropriate, table the proposal for an EDC.
- c) We should continue to adopt a questioning attitude on the need for a European Bank along the lines proposed by France. We should bring out the real disadvantages set out



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in Section C, and seek to avoid any commitment in principle to this proposal. If further consideration is necessary, it should be carried out by experts, notably the Monetary Committee. The disadvantages would be best brought out if the technical study were established according to the following criteria:

- i) application of differentiation, and strict political conditionality in treating East European countries;
- ii) avoidance of duplication with the efforts of existing multilateral institutions, and/or undermining IMF programmes;
- iii) assistance should be targetted at encouraging the private sector, and should primarily draw on the efforts of the Western private sector;
- iv) cost effectiveness of the assistance;
- v) sound financial principles.

In subsequent consideration, it will be important to consider how far we can build on existing institutions, IFC, IBRD and EIB, to provide further help to Eastern Europe. We should be ready to consider creating a new affiliate of the IFC (the private sector arm of the IBRD) to catalyse private sector investment if this would effectively deploy additional resources. We could also consider co-financing by interested creditor governments (or commercial banks) along side the IBRD or EIB for either policy-based loans or specific projects thus securing both conditionality and good project appraisal. The possible role for the EDC would also be relevant.



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FRAME ECONOMIC

STRASBOURG EUROPEAN COUNCIL : DANISH VIEWS

SUMMARY

1. SCHLUTER AND ELLEMANN-JENSEN GO TO STRASBOURG IN GOOD HEART AFTER RECENT POLITICAL SUCCESSES. DENMARK WILL SUPPORT THE ADOPTION OF THE SOCIAL CHARTER AND THE CALLING OF AN IGC WITH A WIDE (OR ELSE OPEN) MANDATE.

DETAIL

2. NEAR THE END OF A YEAR IN WHICH HIS ROOM FOR MANOEUVRE SEEMED TO BE STEADILY CONTRACTING (AND AFTER CHAIRING 57 INTER-PARTY MEETINGS), SCHLUTER ACHEIVED A BREAK-THROUGH ON 1 DECEMBER WHEN HE PUT TOGETHER A NON-SOCIALIST MAJORITY FOR THE FINANCE BILL DUE FOR ADOPTION ON 14 DECEMBER. THE SPECTRE OF A JANUARY ELECTION WHICH HAD LOOMED FOR SOME TIME HAS THEREFORE DISAPPEARED. ELLEMANN-JENSEN'S PARTY, VENSTRE, PUT UP A GOOD SHOWING IN LAST MONTH'S LOCAL ELECTIONS (UNLIKE SCHLUTER'S CONSERVATIVES) AND IS DOING BETTER THAN THE OTHER GOVERNMENT PARTIES IN THE OPINION POLLS.

EMU

3. IT IS ASSUMED IN DENMARK THAT A DECISION TO CALL AN IGC WILL BE TAKEN AT STRASBOURG. SCHLUTER HOPES THERE WILL BE CONSENSUS ON THIS. THE FOLKETING HAS INSTRUCTED THE GOVERNMENT TO WORK FOR A BROAD MANDATE INCLUDING RELATIONS WITH EFTA AND EASTERN EUROPE AS WELL AS QUALIFIED MAJORITY VOTING ON ENVIRONMENT AND LABOUR MARKET MINIMUM STANDARDS. ELLEMANN-JENSEN TOLD COMMUNITY AMBASSADORS TODAY (5 DECEMBER) THAT DENMARK WOULD SUGGEST THAT THE ENTIRE SOCIAL DIMENSION SHOULD BE ON THE AGENDA, THOUGH MORE OPTICAL EFFECT THAN WITH A VIEW TO WIDE-RANGING TREATY CHANGES. THE ALTERNATIVE TO A WIDE MANDATE WOULD BE AN OPEN ONE. ALLOWING ALL COUNTRIES TO PURSUE SUBJECTS DEAR TO THEM AT THE IGC. THE GOVERNMENT MAY HAVE PROBLEMS



IN THE FOLKETING IF THE EVENTUAL MANDATE DOES NOT ALLOW FOR DEBATE ON THE ABOVE ELEMENTS. ELLEMANN-JENSEN THOUGHT A MANDATE CONFINED TO EMU WOULD CONVEY THE WRONG SIGNAL AT THE PRESENT TIME.

4. WHILE DENMARK REJECTS ANY AUTOMATIC COMMITMENT TO THE LATER STAGES OF THE DELORS PLAN, THERE IS A WIDESPREAD PERCEPTION HERE THAT THE COUNTRY HAS LITTLE SOVEREIGNTY IN THE MONETARY AREA TO LOSE AND THAT NEW COMMUNITY INSTITUTIONS COULD GIVE IT A VOICE IN DECISIONS AFFECTING IT WHICH THE BUNDESBANK CURRENTLY TAKES ON ITS OWN. THE UK PAPER ON AN ALTERNATIVE APPROACH TO EMU IS REGARDED AS BEING ON THE TABLE. BUT THE GOVERNMENT DOES NOT SEE IT AS REPRESENTING A TRUE ALTERNATIVE TO DELORS.

#### SOCIAL CHARTER

5. DANISH MINISTERS SEE THE CHARTER AS A BROAD POLITICAL STATEMENT AND FIND IT ACCEPTABLE ALTHOUGH 'NOT (NOT) TAILORED FOR DANISH CONDITIONS' (AS THE NEW LABOUR MINISTER PUTS IT), THEIR ENDORSEMENT OF IT IS AN IMPORTANT PART OF THEIR STRATEGY FOR BRINGING THE SOCIAL DEMOCRATS TO ACQUIESCE IN FURTHER DEVELOPMENT OF THE COMMUNITY. DANISH UNIONS NOW THINK THEY CAN USE THE COMMUNITY TO STRENGTHEN THEIR HAND AGAINST BOTH EMPLOYERS AT HOME AND CHEAP LABOUR ABROAD. THERE IS LESS RESISTANCE HERE THAN THERE USED TO BE TO THE OCCASIONAL EXTENSION OF COMMUNITY COMPETENCE IF IT SEEMS THAT PRACTICAL ADVANTAGE COULD BE DERIVED FROM IT.

#### SINGLE MARKET

6. DENMARK (WHICH HAS AN EXCELLENT RECORD ON IMPLEMENTATION) WOULD BE LIKELY TO FAVOUR OUR IDEA OF A PACKAGE DEAL. NONE OF THE ELEMENTS WE ENVISAGE CAUSES DENMARK SERIOUS PROBLEMS.

#### EASTERN EUROPE

7. FOR HISTORICAL AND GEOGRAPHICAL REASONS DENMARK TAKES A CLOSE INTEREST IN EASTERN EUROPE (ESPECIALLY IN THE BALTIC REPUBLICS). THEY HAVE SET UP THEIR OWN FUND TO PROMOTE DANISH INVESTMENT AND HAVE PUBLICLY SUPPORTED THE FRENCH PROPOSAL FOR A EUROPEAN DEVELOPMENT BANK.

WILLIAMS

YYYY

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CCPC



Foreign and Commonwealth Office

London SW1A 2AH

4 December 1989

Dear Charles,

ED  
S/Kir

European Council, Strasbourg

I enclose a copy of the note which the Foreign Secretary proposes to put to Cabinet. He aims to issue it after his bilateral with the Prime Minister tomorrow.

John Wall  
Stephen Wall

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street

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PRIME MINISTER

STRASBOURG EUROPEAN COUNCIL:  
ECONOMIC AND MONETARY UNION

You have a meeting with the Chancellor, the Foreign Secretary and the Governor of the Bank of England tomorrow afternoon to discuss the handling of EMU at the European Council in Strasbourg.

Ostensibly the only decision being sought at Strasbourg is on whether to start an IGC in the second half of 1990. As you have pointed out this is not a purely procedural decision. Agreeing to an IGC implies acceptance that Treaty amendment is necessary: we do not agree that it is.

The situation is clouded by uncertainty over exactly what Chancellor Kohl intends to propose. he seems to be saying that there should be consensus on the aims and contents of EMU before an IGC starts. This is not in practice helpful since:

- it assumes an IGC is necessary;
- he appears to think such consensus can be reached in time for an IGC to start in the second half of 1990;
- worse still, he envisages a finishing date, to enable the results of an IGC to be implemented by 1994.

In short, he is unlikely to be much help.

You have agreed to the Chancellor's approach which accepts that we will be out-voted on the starting date for an IGC but tries to attach conditions to it. These would:

- reiterate the steps which need to be taken before an IGC (continued analysis of all the options, full and adequate preparation, liberalisation of capital movements);

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- 2 -

- ensure that our ideas would be taken into account during an IGC and that it would not deal only with the Delors' proposals: also that experience with implementing Stage I would be taken into account: and that the principle of subsidiarity would be given full weight:
- confirm the need for a high degree of convergence of economic performance.

At tomorrow's meeting you might:

- ask the Chancellor what success we have had with floating these conditions privately (we cannot do it openly ourselves, since we shall vote against an IGC altogether);
- ask the Foreign Secretary for his latest assessment of the German position;
- consider whether we can get agreement now to the proposition that no subsequent stage of EMU should be implemented until Stage I has been completed and in action for a reasonable period (the Governor's proposition);
- commission any further work on the Speaking Note which has been provided for your use at Strasbourg (copy in folder).

On another matter, I have heard this evening that the Foreign Secretary has it in mind to do a paper for Cabinet on Thursday on Strasbourg. You might ask him what he intends this should cover: and suggest you see it in draft (it is after all you who represents the UK at European Councils).

You will find in the folder:

- the draft Speaking Note for Strasbourg

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- the conclusions of the Madrid Council on EMU (plus your conditions on ERM)
- the Chancellor's minute on conditions to the attached to EMU
- the Foreign Secretary's note on Chancellor Kohl's current position
- the Governor's letter.

C.D.I

CHARLES POWELL

4 December 1989

*Spencer*  
PRIME MINISTER

STRASBOURG: ECONOMIC AND MONETARY UNION

You have a meeting on Tuesday afternoon to discuss how to handle the economic and monetary union debate at Strasbourg with the Chancellor and the Foreign Secretary. Would you like to add the Governor of the Bank of England (in the light of his letter to you this weekend)?

*C.D.P.*  
CHARLES POWELL  
3 DECEMBER 1989

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EHG(S) (89) 1E

*Rawlin*

1 December 1989

EUROPEAN COUNCIL, STRASBOURG

8/9 DECEMBER 1989

FREE MOVEMENT OF PEOPLE

*from*

*Drugs -*

*from heroin money*

Brief by Foreign and Commonwealth Office

UK Objectives

- To reaffirm practical approach to frontiers issues.
- To endorse Presidency impetus for more effective handling of drugs issues.

BR2AAJ/1/AR

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Opening Speaking Note

- Since our discussions at Rhodes, Community has made real progress in identifying priorities and seeking ways to reinforce cooperation between member states over cross-border movement of people.
  
- Freer movement is rightly seen as important objective for 1992. Some 30m overseas visits made by UK nationals each year - five times the level when we joined the EC. Must reduce travel hassle where possible.
  
- But public opinion also wants confidence that we are not neglecting security.
  
- So our approach to these problems must be a practical one. Presidency are to be congratulated on just such an approach.
  
- Welcome Presidency initiative to give higher profile to the threat from drugs and the need for more effective Community action. Cannot overstate the potential menace of drugs to fabric of Community society. We all have heavy responsibility for ensuring



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that free movement within Community does not mean greater freedom for drug traffickers; a real People's Europe is a Community which is not in grip of drugs.

- Evidence suggests that drugs threat will grow as a result of 1992 and freer movement of people. European street prices about double those in America. This, combined with determined enforcement action in the US, means that the European market is increasingly attractive for traffickers, particularly of cocaine. Cocaine seizures at UK ports for first 10 months of 1989 were 385 kg, compared to 273 kg for the whole of 1988. Similarly for heroin: provisional figures so far for 1989 are 287 kg, compared to 212 kg for whole of 1988.

- This year almost 70% of drugs seized at our frontiers by UK authorities have come from or via other member states. The new Customs group has calculated that 200 tonnes of drugs (including 5 tonnes of hard drugs) were seized by EC customs services in 1988. So drugs are very real threat to us all.

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- Community drug problems cannot be seen in isolation from global problem. Twelve must, jointly, pay more attention to international aspects, particularly relations with drug producers and transit countries. Must tackle drugs problem at source as well as at home. Crisis in Colombia and in Latin America generally has heightened the need for prompt and effective action in helping producer countries. UK already a major donor, and provided substantial package of practical assistance for Colombia (training and equipment). Would welcome greater coordination of member states' bilateral efforts.

- French proposals for institutional changes, including establishment of a steering group of drugs coordinators, are a welcome step. Existing work by specialised groups now needs to be brought together: success of Rhodes "Coordinators" on frontiers issues now needs to be emulated in drugs area. And we need practical action by all member states.



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- For all of us to establish National Drugs Intelligence Units, as UK has done, is an important further step. Could lead to creation of a European Drugs Intelligence Unit, to collect and distribute intelligence.

BR2AAJ/5

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43  
17 Presidents

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EHG(S) (89) 1D

1 December 89

Rep. the Progress

Progress on health & safety  
Free movement of people  
Freedom of establishment  
Training for jobs - Social Funds

Feb 1988 -  
Spend more money  
'86  
(1st & 2nd Council)

EUROPEAN COUNCIL, STRASBOURG

8/9 DECEMBER 1989

SOCIAL ISSUES

More Commission  
Western Europe than  
in Eastern Europe  
at the moment

Brief by Foreign and Commonwealth Office

Signing up to non-convergence

UK Objectives

- To emphasise that social policies must sustain job creation and growth, and allow for labour market flexibility.

Conclusions - Social Fund  
should be  
work  
Any future proposal  
escaped  
social  
needs  
not

- To make clear that UK, while not opposed to any Social Charter, cannot accept Presidency version.

- To underline need to respect subsidiarity in future work on the Commission's Action Programme.

RM1APM/1 /AR

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Opening Speaking Note

- In our Madrid Conclusions we reaffirmed our joint view that job creation and action against unemployment was the Community's top social priority.
  
- Madrid Conclusions also stressed the continuing role of national and voluntary arrangements alongside action at Community level. Delors has christened this the principle of subsidiarity. A very good principle which he has developed wisely.
  
- Madrid Conclusions also rightly acknowledged the diversity of tradition and practice among Member States. It exists for good reasons; and it must not be called into question. Community action is desirable only where it is necessary. We respect other Member States' traditions and preferences in social policy: but in return we ask other Member States to respect ours.
  
- I regret that recent discussions on how to address the social aspects of the Single Market have been dominated by efforts to agree a Social Charter. It's deeds, not words, that matter; and declarations create no jobs.

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17 divisions

- Regret too that the text which has emerged does not match the prescription we agreed at Madrid. The thrust of the document is to invite the Community to displace the policies and measures already in place in Member States, to over-regulate the work-place, and to increase costs. That wouldn't create jobs - it would cut them.

- Our commitment to job creation as our top priority should mean a commitment to ensuring the continuing competitiveness of Community business and industry in international markets. With unemployment in the Community at over 14 million, can it really make sense for a Charter to say nothing about unemployment, and for an Action Programme merely to restate what is already being done about unemployment?

- Believe Member States' efforts better channelled towards the 30 Single Market measures for which proposals have still to be tabled, than towards the Action Programme's 43 new proposals.

+ 17 divisions.



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- Will not disguise the fact that the Charter draft is particularly inappropriate for the UK.

- Over the last 10 years, we have deliberately set about reducing the role of the state and establishing a better balance between employers and unions. We have deliberately given priority to measures designed to free up the labour market, and to allow individual employees to make their own choices. These policies have been controversial in the UK, but the sad history of the UK labour market in the 60's and 70's had convinced us that they were right, and indeed essential.

- And they have worked. We have seen 39 consecutive months of falling unemployment, nearly 3 million jobs created since 1983, and a UK unemployment rate now down to 6%. 1,600 small businesses start up in the UK every week.

- One of most important developments in UK in 80's has been increase in flexible patterns of work. More people are working part-time or at home, or for short periods. They do so because it suits their life style.

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We do not regard this as 'atypical'. There are over 6 million part-time workers in the UK, and surveys show that 90% want to work part-time. Employers therefore have had to respond by offering flexibility in work arrangements.

- Not saying that what works in the UK would necessarily work elsewhere. Not saying that policies we've followed should necessarily be followed elsewhere. We had particular problems to overcome in labour relations, and we have overcome them - but recognise that some others didn't have them.

- But if I were to agree the Social Charter draft, and that agreement were to mean anything, it would mean changing policies which I believe are right for the UK, and working in the UK. Since I can't do that, I can't in good faith agree the text.

- Repeat what we have said all along. We do not oppose the principle of a Social Charter. A broad declaratory and general statement, free of detail and regulatory promises, would have been acceptable to us. I would have greatly preferred that, for it would have



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enabled us to display a united Community, united in working for more jobs. If others are content with the present text, I won't press my point. But nor can I agree the present text.

RM1APM/6

CONFIDENTIAL

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We do not regard this as 'atypical'. There are over 6 million part-time workers in the UK, and surveys show that 90% want to work part-time. Employers therefore have had to respond by offering flexibility in work arrangements.

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# CONDITIONS FOR AN ECU

DRAFT

*More democratic accountability -  
through the relevant Parliament*

The European Council:-

*Full  
propn*

(a) noted that the provisions necessary for the launch of Stage I, the full implementation of which would bring substantial benefits to the Community and constitute a major step towards Economic and Monetary Union, were now ready for adoption, and accordingly confirmed that Stage I would start on 1 July 1990;

*Propn  
study*

*All  
possibilities*

(b) noted that all member states now agreed that further measures in addition to those outlined in the Delors Report's prescription for Stage I would be required; and noted that the documents before the Council, including the UK's paper entitled 'An Evolutionary Approach to Economic and Monetary Union', identified a number of questions and issues which would require further analysis both before and during an Inter-Governmental Conference;

(c) in the light of (b) above, invited the competent bodies to continue their analysis of the questions and issues raised by these documents; and confirmed the need for full and adequate preparation for such a Conference;

*Full  
effort  
members*

*- experience  
stage 2*

*Improved  
competition  
policy*

(d) noted the need to take full account during an Inter-Governmental Conference of progress in implementing Stage I measures, and the effects of these measures, including liberalisation of the insurance, banking and investment services sectors, and strengthening of competition policy; recalled that progress towards Economic and Monetary Union requires a high degree of convergence of economic performance between member states; recalled also the need to take full account of the principle of subsidiarity; and agreed that the effects of Stage I measures would be relevant to subsequent decisions on the timing of later moves;

*(c) See overpage.*

d

(e) on the above basis, and on the assumption that actions required by then on the Capital Movements Liberalisation Directive 1988 would have taken place, agreed in principle that it would then be appropriate to convene such a Conference.



EMU: STATEMENTS BY KARL OTTO PÖHL

Statements helpful to UK line

1. The President of the Bundesbank has made a number of recent statements helpful to the UK line on EMU:

- Article in Handelsblatt, 30.12.88: "Economic and Monetary Union cannot be achieved by revolution, but by an evolutionary process [which, although it will not be without its setbacks, is already irreversible]."

"Today, however, the creation of supra-national institutions able to make binding decisions in the most important areas of economic and monetary policy appears visionary. This includes the goal of a European Central Bank System."

"The next steps towards a new European future do not require drastic institutional changes [nor should they lead to dangerous detours such as a parallel currency]."

- Interview in "Le Figaro", 11-12 March: "To move from the EMS to a new monetary Europe will require Treaty change. But the road will be long, and it will be wholly premature to expect the creation of a European Central Bank in the near future."

- Press Conference, 18.4.89: "In Germany and some other countries capital movements have been free of restrictions for a long time. Other countries, however, still impose considerable restrictions on money and capital movements. Before one considers a European monetary union, all existing restrictions should first be lifted. I find it somewhat astonishing that the countries which are making the strongest calls for an economic and monetary union.... are the very countries which are unable to observe the comparatively easy rules of the European Monetary System."



Central Bank Governors, EMS Treaty). No new Treaty and no new institutions are required for the time being."

- Speech in Munich, 22.6.89: "I myself doubt whether the time has come for such a comprehensive renunciation of sovereignty, namely the transfer of monetary powers to supra-national 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... As I see it, there are two risks associated with a premature and badly prepared "Inter-Governmental Conference" on such a Treaty: it could lead to considerable tension and conflict within the EC. Worse still is the possibility of failure."

- Interview in FT, 1.7.89: "I think one should not start on such a venture [an IGC/Treaty change] unless there is a good chance of finishing the process. If the danger of failure was judged relatively great - and it is my view that it is relatively great, to start with, at least - then it would be better to wait."

- Speech in Frankfurt on 7.11.89: Pöhl repeated his criticism of pressure for an IGC in the second half of 1990 and said that in the view of the Bundesbank there was no obvious reason to move quickly to a common EC monetary policy. He said he was very sympathetic towards the British paper, which he described as "a realistic and sensible description of what monetary policy should concentrate on in future years."

#### Others Statements

2. M Delors commented during his meeting with the Prime Minister on 1 December that Herr Pöhl tended to make conflicting statements. There is some truth in this:

- In a speech on 26 January, Pöhl said: "I am wholly in favour of the creation of a European Central Bank and a



My thoughts in the this connection go particularly to Italy and Spain."

"In the interest of European integration, which I personally advocate most strongly and which I gladly support, one should warn against false expectations. Failure would be the worst thing that could happen to us. You know what became of the Werner Report and similar expert reports."

- Interview in Le Monde, 23.5.89: "Whether or not there will one day be a decision-making institution involving, as Mrs Thatcher rightly said, a far-reaching transfer of sovereignty, is a political decision."

- Speech to German Saving Banks' Congress, 8.6.89: "The British Government is not the only one which has difficulties in accepting the transfer of sovereign rights to supra-national institutions. That goes for the Federal Republic too. For example, the creation of a European Central Bank System equipped with real monetary policy powers... would require far-reaching changes to the Bundesbank and I do not know whether there would be broad agreement for such changes in the Federal Republic in the foreseeable future."

"In my opinion, it would be a serious mistake to begin inter-Governmental negotiations on this at an early stage as some people have suggested... if we advise caution, this does not mean we are against economic and monetary union, but that we assess the chances realistically."

"More important than amendments to the EC Treaty and the creation of new institutions is the need to expand existing developments towards an economic and monetary union and to implement those decisions which have already been taken.... The institutional prerequisites for closer economic, financial and monetary cooperation among EC member states already exist (ECOFIN, Monetary Committee, Committee of EC

European currency". He went on, however, to say that "the enormous practical and political difficulties involved are obvious to anyone who is familiar with the material. A European Reserve Bank and a European currency would also, as the British Chancellor of the Exchequer has recently pointed out, involve Governments giving up important areas of financial sovereignty. This may be desirable, but it is for the foreseeable future impracticable."

- At his press conference on 18 April, Pöhl said: "One can only enter the first stage if it is agreed that at the end of the first stage there is the second and then the third stage. One cannot start a journey without knowing the destination."

3. Herr Pöhl is also a leading advocate of UK membership of the ERM, for which he called in virtually all of the statements listed above.



Others' Objectives

- France, supported by most other states: to secure agreement that an IGC will start in autumn 1990; and not to constrain the work of that conference by setting advance conditions.
  
- Germany: to ensure that there is thorough preparatory work for an IGC by the competent ECOFIN organisations, with the aim of achieving a consensus before an IGC begins. Germany may also seek agreement on a date by which any Treaty amendments should be ratified at both Community and national level (possibly the June 1994 European Parliament elections).
  
- Some member states: may seek a wider remit for an IGC: for example to introduce qualified majority voting on environmental and social issues (Denmark); and to strengthen further the powers of the European Parliament (Germany and some southern states).
  
- Various member states: may put pressure on the UK to join the ERM at an early date.

Order of Peace  
in Europe is what  
the Korean people  
require as well

through

free

self-determin.

---

les machineries  
les machinorage



A sufficient majority  
emitted for the calling of IGC  
(which will establish its agenda -  
the calendar for it work).

Our Response

- As stated, the UK does not believe that Treaty change is necessary. The approach explained in our paper does not require this. It is therefore premature to call an Inter-Governmental Conference until all approaches have been thoroughly analysed.

- Repeat that UK could not vote in favour of a decision to call an IGC. But welcome any recognition that further work is needed, both before and during any Conference. Strongly agree that work should take place in the ECOFIN-based bodies, especially the Monetary Committee. Reject any suggestion that an end-date should be set for an IGC or ratification by national parliaments. Cannot and should not pre-judge that now. No need for rush: Stage I has not even started yet.

- It would certainly not be appropriate to broaden the remit of an IGC. Institutional matters were fully discussed at the time of the Single European Act: it is far too soon for further change. [If a second IGC in 3-4 years' times on non-EMU matters is suggested: premature to take such a decision now.]

BR6AHT/15

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- The UK will join the ERM when the level of UK inflation is significantly lower, when there is capital liberalisation in the Community and when real progress has been made towards completion of the single market, freedom of financial services and strengthened competition policy.

BR6AHT/16

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FRAME GENERAL

SUMMARY

1. ELYSEE BRIEFING ON HANDLING OF STRASBOURG EUROPEAN COUNCIL.

DETAIL

2. MME GUIGOU AND HENNIKINE (ELYSEE) BRIEFED EC AMBASSADORS THIS MORNING ON PRESIDENCY PLANS FOR HANDLING THE EUROPEAN COUNCIL AT STRASBOURG. MADAM GUIGOU SAID THAT PROPOSALS FOR THE AGENDA WERE NOW WITH MITTERRAND, WHOSE LETTER TO FELLOW HEADS OF STATE AND GOVERNMENT WOULD ISSUE NEXT WEEK. EVENTS OVER THE NEXT FEW DAYS MIGHT CAUSE A CHANGE IN PLANS, BUT PRESENT PRESIDENCY THINKING WAS THAT THE SINGLE MARKET, EMU AND THE SOCIAL CHARTER WOULD BE HANDLED DURING THE MORNING, LUNCH AND AFTERNOON SESSIONS ON 8 DECEMBER, WITH DISCUSSION OVER DINNER ON
- DRUGS (DEPENDING ON THE OUTCOME OF TODAY'S COORDINATORS, MEETING IN BRUSSELS),
  - DEVELOPMENTS IN EASTERN EUROPE, INCLUDING THE PROPOSED EASTERN EUROPEAN BANK, ALTHOUGH THERE WOULD BE NO NEED TO GO OVER AGAIN ALL THE GROUND COVERED AT THE 18 NOVEMBER ELYSEE DINNER. (HENNIKINE ADDED THAT TODAY'S POCO DISCUSSION WOULD OF COURSE HAVE A BEARING ON THE STRASBOURG DISCUSSION TOO)
  - (PERHAPS) THE FUTURE DEVELOPMENT OF THE COMMUNITY MORE GENERALLY, INCLUDING ENLARGEMENT EC/EFTA/ AND EC/EASTERN EUROPE.
3. DISCUSSION ON 9 DECEMBER WOULD CENTRE ON THE COUNCIL CONCLUSIONS, TO BE FOLLOWED BY LUNCH AND THE FINAL PRESS CONFERENCE, WITH THE COUNCIL FINISHING BY 4PM.
4. MADAME GUIGOU ALSO WENT BRIEFLY OVER THE SUBSTANCE OF THE MAIN AGENDA ITEMS. SHE SAID LITTLE NEW, BUT THE FOLLOWING POINTS MAY BE WORTH NOTING.
5. I. SOCIAL CHARTER. THE PRESENT TEXT WAS WELL BALANCED, AND WOULD NOT ENHANCE COMMUNITY COMPETENCE OR CONSTRAIN ACTIVITY



- BY MEMBER STATES. IT WAS A NECESSARY POLITICAL SIGNAL THAT THE SINGLE MARKET DID NOT JUST BENEFIT BUSINESS. ELEVEN MEMBER STATES WERE PREPARED TO ACCEPT IT. THE FRENCH HOPED WE WOULD TOO.
- II. EMU. MITTERRAND WANTED AGREEMENT THAT AN IGC SHOULD BE CALLED UNDER THE ITALIAN PRESIDENCY. THIS WOULD BE AN IMPORTANT POLITICAL SIGNAL, AND WAS THE MOST IMPORTANT SINGLE DECISION FOR STRASBOURG. THE NECESSARY PREPARATION FOR AN IGC HAD BEEN COMPLETED, SINCE ONLY THE IGC ITSELF COULD ANSWER THE QUESTIONS POSED IN THE GUIGOU REPORT. AN IGC COULD LAST TWO TO THREE YEARS OR EVEN LONGER. IN ANSWER TO MY DANISH COLLEAGUE, MADAME GUIGOU SAID THAT THE SCOPE OF AN IGC WOULD BE FOR THE IGC ITSELF TO DECIDE. AT NO TIME DURING THE MEETING DID SHE SUGGEST THAT THE PRESIDENCY MIGHT WANT TO WIDE-RANGING DISCUSSION AT STRASBOURG OF INSTITUTIONAL DEVELOPMENT. (COMMENT: THIS TIMETABLE FOR AN IGC IS CONSISTENT WITH KOHL'S PROPOSAL THAT AN IGC BE COMPLETED AND RATIFIED BY THE TIME OF THE 1994 EUROPEAN PARLIAMENTARY ELECTIONS: BONN TELNO 1160. THE GERMAN EMBASSY TOLD US SEPARATELY TODAY THAT THE FRENCH WERE PUTTING STRONG PRESSURE ON THE GERMANS TO AGREE TO A DATE FOR AN IGC AT STRASBOURG AS A DEMONSTRATION OF THEIR COMMITMENT TO THE COMMUNITY, THAT GENSCHER HAD APPEARED CONFIDENT YESTERDAY THAT THEY WOULD FALL IN WITH THIS, BUT THAT THE FINAL DECISION WOULD BE TAKEN BY KOHL AND HIS IMMEDIATE ENTOURAGE.)
- III. EAST EUROPEAN DEVELOPMENT BANK. MITTERRAND WANTED AGREEMENT TO THIS PROJECT TOO FOR POLITICAL REASONS. THERE WOULD BE NO (NO) OBJECTION TO PARTICIPATION BY THE US AND JAPAN. CONCESSIONARY LENDING WOULD NOT BE ON SOFTER TERMS THAN CURRENTLY OFFERED BY THE EIB, AND CERTAINLY NOT AS CONCESSIONARY AS AID TO THE DEVELOPING WORLD.

FERGUSSON

YYYY



*She*

*SUBJECT CC MASTER*



10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

1 December 1989

*Dear Hugh,*

EUROPEAN COUNCIL, STRASBOURG

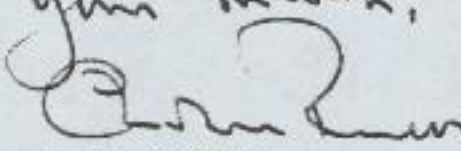
The Prime Minister had a talk this morning with Sir David Hannay and Mr Hadley about the forthcoming European Council in Strasbourg. A number of points emerged which you will wish to note:

- the Prime Minister said that our undeclared aim should be to move the focus of the Strasbourg Council away from EMU and the Social Charter and towards the more urgent and vital question of the Community's response to developments in Eastern Europe. This was an issue on which the Community was much more united. She agreed with Sir David Hannay that events themselves would propel the Council in this direction.
- the Prime Minister said that we should underline that the Social Charter had been thoroughly debated in Parliament, with a substantial majority opposed to it. We should have to hand - for briefing the press - an example of the sort of Social Charter we could have accepted. She would also need a crisp statement of our objections to the existing draft. She agreed that our tactical objective should be to minimise discussion in the Council, and leave the Charter to be quickly forgotten.
- the Prime Minister hoped that we could get into the conclusions of Strasbourg a clear statement that further enlargement of the Community was not on the agenda at least until after 1993.
- the Prime Minister would like a clear and staccato speaking note on our practical objections to the French proposal for an Eastern European Development Bank. She agreed with Sir David Hannay that the main argument against it should be the impossibility of imposing political conditionality through an institution in which the Eastern European countries themselves were represented. She accepted that we should have to agree to further study of the proposal after Strasbourg, but should avoid any attempt to reach a definitive decision to have such a bank.



- the Prime Minister agreed that we should try to bring the Single Market back to centre stage and seek the European Council's backing for a package of measures at the Internal Market Council on 18 November. Sir David Hannay said the Prime Minister might underline the relevance of the Single Market to Eastern Europe: both in terms of generating the resources to help the Eastern European countries, and of providing a market for their exports. The Prime Minister said that her briefing should provide a concise statement of the number of directives already agreed and the number outstanding: the latest state of play on implementation: and the particular directives which we wanted to see agreed over the next twelve months.
  
- the Prime Minister said that we should not be lured into thinking that the date of an IGC was a purely procedural decision. There was no point in having an IGC to discuss Treaty amendment until we knew exactly what the Community intended to achieve with economic and monetary union. Nor were Chancellor Kohl's ideas for a timetable which would include a finishing date for an IGC helpful. We would need to make clear that we could not accept Stages 2 and 3 of the Delors plan. Her speaking note should explain the thinking behind our proposal for an evolutionary approach. She would also like to draw on some of the specific arguments advanced by Herr Poehl (it would be helpful to have a compendium of them, drawn from his various speeches and statements). The Prime Minister acknowledged that arguments about lack of democratic accountability in the Delors' proposals would need to be handled carefully, to avoid giving ammunition to those who wanted to strengthen the powers of the European Parliament.

I am copying this letter to John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry), Clive Norris (Department of Employment) and David Hadley (Cabinet Office).

*Yours sincerely,*  
  
C. D. POWELL

Stephen Wall, Esq.  
Foreign and Commonwealth Office



Bank of England  
London EC2R 8AH

The Governor

ms

1 December 1989

The Rt Hon Margaret Thatcher MP  
Prime Minister  
10 Downing Street  
London  
SW1A 2AL

Dear Prime Minister,

Prime Minister  
In the light of  
this, one asks why  
on earth he signed  
up to the Delors  
Report. CAD 1/xii

Since John Major published his paper on an evolutionary approach to economic and monetary union last month, I have had the opportunity to hear some reactions to it from my central banking colleagues in the Community. Several of them are far from keen to rush headlong into full EMU and they have welcomed the paper, not as an alternative to Stages 2 and 3, but as establishing that Stage 1 will necessitate massive changes in the European economy which will not come about quickly. I think they also agree, as I most definitely do, with the three fundamental principles of price stability, subsidiarity and market forces.

They are however inclined to ask what might happen after Stage 1 and how the notion of "competing monetary policies" could deliver the benefits to European industry and individuals that they believe would flow from some form of economic and monetary union. Moreover those who find objectionable the present dominance of the Bundesbank over other member states' monetary policies are puzzled



that the United Kingdom should seem to be advocating a continuation of this state of affairs.

I think that we should build on the agreement that does exist on the desirability of achieving closer monetary co-operation in the Community and of a free market in capital, labour, goods and services. Rather than suggest that we or anyone else can say with any confidence how long Stage 1 will last or what should follow, we should concentrate on stressing that it is a massive undertaking and encourage agnosticism as to what will be desirable or feasible thereafter. As the Chancellor's paper suggests, the changes to be wrought by the establishment of a free internal market will take time - possibly a long time - to show through and the scale of their effects cannot be predicted. In addition, the impact on the exchange rate mechanism of sterling's eventual membership remains to be seen.

There will be lessons to be learnt over the next few years and we can legitimately question the wisdom of President Mitterrand and others in being determined to move rapidly to negotiate treaty change and establish institutional structures for the long term before Stage 1 is well underway and its effects can be better foreseen. Given the scale and importance of the issues involved, it is right that we should have a much clearer understanding of the options before taking these decisions.

I was not alone in the Delors Committee in arguing that consideration of treaty change, or the establishment of new Community institutions, should wait until the Community is ready, in the light of experience with Stage 1, to take further steps. And of course this is also pretty much what you have already said in Madrid when you insisted on "full and adequate preparation" before an IGC is called.

In sum, there are other member states which have misgivings about making a firm commitment at this stage to new institutional arrangements and definitive long-term plans. We need to play on their concerns, underline the real uncertainties which lie ahead and, while not excluding any particular outcome, rather emphasise



the need for an evolutionary process. This suggests that we should build on the strengths of the Treasury paper as it has been received in other member states.

I am sure we should try to defer an IGC until we have experience of the changes that Stage 1 will bring. However, it seems likely that a majority of the other member states may be willing to embark on an early IGC irrespective of whether they are in a position to resolve the fundamental issues. In that case, the best course may be to concentrate on ensuring that its terms of reference are such that it has to take account of all the changes Stage 1 will bring and, in particular, has to defer any recommendations/decisions on later stages - including specifically institutional and Treaty changes - until that experience can be properly assessed. This could also have the benefit of helping to avoid charges that the UK's evolutionary approach is not intended to extend much beyond Stage 1.

I should be glad to discuss these issues further with you if you would find it useful.

I am copying this letter to John Major and Douglas Hurd.

Yours ever,  
Robin



cc/c  
BI  
②

Foreign and Commonwealth Office

London SW1A 2AH

30 November 1989

Ria Amin

C. J. M. M.

Dear Charles,

Statement on Southern Africa at European Council

The Prime Minister will wish to be aware that the French Presidency have launched a proposal for a statement on Southern Africa at the European Council. (They are also pushing ahead with ideas for statements on other Political Cooperation subjects, including East/West and the Middle East.)

The Presidency have circulated an outline which is for the most part unobjectionable. It begins with a passage on Namibia along acceptable lines (transition process going well, appreciation of UN Secretary General's role, elections a true reflection of Namibian people's wishes, EC aid for an independent Namibia). After a short piece on Angola and Mozambique, the text covers South Africa. This refers in rather grudging terms to recent positive changes there, restates EC objectives of a peaceful negotiated end to apartheid and refers to the positive measures programme.

Foreign Ministers discussed the Presidency outline at the EPC meeting on 27 November. There was no possibility of dissuading the Presidency from the idea of a statement altogether. The Foreign Secretary emphasised that any statement on South Africa should be constructive and forward looking. He suggested that it should recognise that significant change in South Africa should lead to a relaxation of international measures. He proposed that, in calling for negotiations, the statement might include a positive reference to the Commonwealth Eminent Person's Group 'negotiating concept'. He also insisted that an unhelpful sentence referring to the impact of 'pressure' in changing attitudes in South Africa should be deleted.

There were notably helpful interventions from the Portuguese (who spoke first and argued that the statement should include an incentive for change) and the Dutch (who agreed that the sentence on the impact of sanctions was unhelpful). Happily the Dutch did not mention their "statement of Principles", despite having done so to the Foreign Secretary during his recent bilateral with Mr Van den Broek and at a recent meeting of officials.

On the basis of this discussion, Political Directors will meet on 30 November to agree a draft. We would prefer not to have a statement, but the French are clearly committed to the





idea. We expect to be able to avoid language which raises suspicions in South Africa of outside intervention. The inclusion of a reference to incentives and to the EPG 'negotiating concept' would usefully commit the Community to a realistic approach to negotiations on South Africa. It would be helpful in the UN Special Session on Apartheid in New York, which begins three days after the Strasbourg Council. The Africans are expected to try to have the UN endorse the ANC/OAU 'Harare Declaration' on negotiations, which conflicts with the EPG negotiating concept.

*James,*  
*Stephen Wall*

(J S wall)  
Private Secretary

C D Powell Esq  
10 Downing Street



6a-c

CCCP  
2



Ria Amin

Foreign and Commonwealth Office

London SW1A 2AH

CCCP

30 November 1989

Not really very

helpful - except letter

under Kohl; plan on IGC

Dear Charles, would end after the next election in this country

European Council, Strasbourg: EMU

CCCP

30/11

As you know, the Foreign Secretary believes that the strongest general argument which we need to deploy between now and Strasbourg is that it would be a great mistake to allow disagreement on the procedural question on how the EMU discussion should be carried forward to obscure the main task of the Council, which is to carry forward the work begun in Paris and present a united and emphatic response to the historic events in Eastern Europe. Before she sees M. Delors tomorrow, the Prime Minister might like to have a joint assessment by HMT, Cabinet Office and FCO officials of Kohl's current position, and of the EMU section of his Bundestag speech on 28 November (Bonn telno 1160).

???

whose?  
but if there is no consensus there is no point in I.G.C.  
No

The British officials talked about the speech to the Bonn Chancellery on 29 November. They noted that Kohl had referred to a "concrete work programme" which he had put to Mitterrand; to the need for "consensus on the aims and content of EMU" before an IGC starts; and to the need to complete the processes of negotiation and ratification of Treaty amendment in good time before the EP elections in mid-1994. (They also noted that Kohl envisaged that Treaty amendment should not be confined to the economic and monetary area, but should increase the EP's role. They made it clear that this point would be particularly unwelcome in London.) Kohl's officials confirmed that he thought it best to work back from a 1994 deadline, and that he envisaged three interim stages of EMU work:

but no consensus

- (a) preparation by the competent ECOFIN-based organisations, designed to produce a consensus; *and if a consensus is not on IGC is not necessary?*
- (b) an IGC to negotiate consequent Treaty amendments; and
- (c) the period (of about a year) necessary for ratification by national legislatures.

Very much needed thinking

They were not to be drawn on - and gave a convincing appearance of not knowing - whether Kohl would propose a timetable for the interim stages, though it was clear that he would want (a) to start soon after Strasbourg. Mitterrand is, of course, likely to press for (b) to start by end-1990: Kohl's officials said yesterday only that this would be a matter for decision on the day at Strasbourg. Our team made clear, as in your letter of 27 November, that we oppose the French idea as wholly premature.

at hand





Several of the ideas in the enclosure to John Gieve's letter of 24 November were touched on in the discussion. In particular: —

- but you cannot have convergence with the Solid Charter*
- Kohl's officials agree that the timing of any actual move beyond Stage I would depend on the prior completion of all Stage I measures, and a satisfactory prior convergence of member states' economic performance;
  - "full and adequate" preparation before an IGC remains their theme, as at Madrid, and their stress on analysis and preparation by the competent organisations - not ad hoc groups - is welcome;
  - they agree that before and during any IGC account should be taken of progress with Stage I, and its effects - but they do not see completion of an IGC as depending on the completion of Stage I, because the Chancellor wants Treaty amendments necessary for a Stage II to be ready, and ratified, in advance;
  - they think the Chancellor would support the Dutch, who have referred to the need for the European Council to stress the importance of the 1990 stage in the agreed (1988) timetable for removal of exchange controls. Like us, the Germans are confident that the French will remove their controls: they may indeed do so quite soon. But it is less certain that the Italians will meet the July 1990 deadline;
  - they took note of our view - and appeared to accept - that any reference to an IGC in the Strasbourg Conclusions text would have to make clear that its purpose would not be to draft Treaty amendments to implement the Delors Stages II/III prescription, but would have to make clear that other ideas, including those in our "Evolutionary Approach" paper, would also be on the table.

Over dinner with the Foreign Secretary on 29 November, Genscher was less than clear about German intentions. He said he assumed that the Chancellor would be saying at Strasbourg that an IGC should be initiated by the time of the Rome European Council. Personally, he believed the UK could reasonably agree to an IGC before the end of 1990 and then feed in views as it proceeded. His reasons were selfish: he believed that, on the substance of EMU, British and German attitudes were identical and the FRG wanted the UK firmly in the process.

Kohl's ideas will no doubt continue to evolve, but it is useful that we have fed in ours to his office, as something of a counterweight to pressure from Paris. It may be appropriate to consider a possible message to him next week. His ideas on





the EP's role are obviously highly unwelcome, and may well be presented at Strasbourg in equally unwelcome federalist terms. But the idea of a 1993 timing for the completion of an IGC has some potential, particularly if it could be given a post-1992 (Single Market) rather than pre-1994 (EP elections) rationale. It contrasts with Mitterrand's public line that the IGC must end by end-1991, to permit ratification by end-1992. The current joint assessment is that, while we should not give up trying to persuade Kohl otherwise, it still seems implausible that Kohl will take Mitterrand head on, on the issue of the end-1990 IGC start-date; it may be more likely that he sees proper advance preparation as a condition for starting an IGC late next year, rather than a reason for setting a later date, or no date.

I am copying this letter to John Gieve (HMT) and David Hadley (Cabinet Office).

John Gieve

Richard Sney

for

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street



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FRAME ECONOMIC

CHANCELLOR KOHL'S SPEECH : ECONOMIC AND MONETARY UNION

## SUMMARY

1. KOHL SAYS THAT HE HAS PUT TO MITTERRAND A CONCRETE PROGRAMME OF WORK WHICH ENVISAGES COMPLETING ALL NECESSARY DECISIONS BY 1994. HE HAS LINKED THIS WITH A PROPOSAL FOR INCREASING THE RIGHTS OF THE EUROPEAN PARLIAMENT.

## DETAIL

2. KOHL INTERRUPTED THE PREPARED TEXT OF HIS SPEECH TO THE BUNDESTAG THIS MORNING WITH A SHORT PASSAGE ON ECONOMIC AND MONETARY UNION. AFTER REFERRING TO THE AGREEMENT TO BEGIN STAGE I OF EMU ON 1 JULY 1990 TOGETHER WITH THE LIBERALISATION OF CAPITAL MOVEMENTS, HE SAID THAT A DECISION WOULD BE NEEDED ON HOW TO PROCEED WITH FURTHER STAGES. HE EMPHASISED THAT THE EUROPEAN COUNCIL IN MADRID HAD DECIDED THAT AN IGC SHOULD BE CALLED AS SOON AS IT HAD BEEN COMPREHENSIVELY AND PROPERLY PREPARED. SINCE THIS WAS A SENSITIVE AREA INVOLVING THE BUNDESBANK AND THE STABILITY OF THE CURRENCY, EVERY STEP WOULD HAVE TO BE CAREFULLY CONSIDERED IN THE LIGHT OF THE GOVERNMENT'S RESPONSIBILITY BOTH TOWARDS THE FEDERAL REPUBLIC AND TOWARDS THE FUTURE OF THE EC. HE SAW IT AS A SUCCESS THAT THE PREPARATORY WORK SO FAR HAD BEEN BASED ON THE FRG'S OWN PROVEN STRUCTURE OF MONETARY MANAGEMENT. THE GERMANS WOULD HOLD FAST TO THIS IN THE YEAR AHEAD IN STRIVING FOR A CONSENSUS ON THE AIMS AND CONTENT OF EMU BEFORE BEGINNING THE ACTUAL NEGOTIATIONS ON A TREATY AMENDMENT.

3. KOHL SAID THAT HE HAD RECENTLY SUGGESTED A CONCRETE PROGRAMME OF WORK TO PRESIDENT MITTERRAND. HIS AIM WHICH HE SAID HE WANTED UNDERSTOOD WAS THAT THE NEGOTIATIONS AND NECESSARY PARLIAMENTARY RATIFICATIONS BY THE MEMBER STATES SHOULD BE COMPLETED IN GOOD TIME FOR THE NEXT EUROPEAN PARLIAMENTARY ELECTIONS IN 1994. HE WOULD ALSO WANT TO DISCUSS IN STRASBOURG HOW THE RIGHTS OF THE EUROPEAN PARLIAMENT COULD BE EXTENDED. IT WAS OUT OF THE QUESTION TO GO INTO



THE 1994 ELECTIONS ON THE BASIS OF THE PRESENT RIGHTS OF THE EUROPEAN PARLIAMENT, WHICH WERE A LONG WAY BEHIND THE EXPECTATIONS OF THE EUROPEAN VOTING PUBLIC.

## COMMENT

4. THIELE (CHANCELLERY) IS EITHER UNABLE OR UNWILLING TO GIVE DETAILS OF THE WORK PROGRAMME KOHL SUGGESTED TO MITTERRAND. WE SHALL PURSUE THIS FURTHER. HE DID NOT DISSENT FROM THE PROPOSITION THAT TO MEET KOHL'S OWN DEADLINE OF 1994, IT WAS NOT NECESSARY TO CALL AN INTER-GOVERNMENTAL CONFERENCE IN 1990, NOR TO AGREE TO DO THIS AT STRASBOURG. THE PHRASE "IN THE YEAR AHEAD" (PARA 2 ABOVE) WHICH HAS BEEN SUBSTITUTED IN THE WRITTEN TRANSCRIPT FOR SOME OTHER PHRASE, CONVEYS THE IMPRESSION THAT AT STRASBOURG, KOHL WILL GIVE HIS AGREEMENT TO AN IGC IN 1990. THIS MAY WELL BE HIS INTENTION, JUST AS IT MAY ALSO BE DELIBERATE THAT HE HAS NOT COMMITTED HIMSELF IN TERMS. A CONVERSATION BETWEEN THE MINISTER AND HARTMANN (CHANCELLERY) THIS MORNING, AND BEFORE DELIVERY OF THE SPEECH, CONVEYED THE IMPRESSION THAT KOHL'S DECISION DEPENDS UPON WHETHER (UNSPECIFIED) GERMAN CONDITIONS WERE MET.

5. IT HAS ALWAYS BEEN A PART OF THE GERMAN GOVERNMENT'S POSITION THAT THEY WANTED TO KNOW THE WHOLE STORY BEFORE EMBARKING. HARTMANN WARNED THE MINISTER THAT KOHL WOULD RAISE THE POWERS OF THE PARLIAMENT AT STRASBOURG. HARTMANN ARGUED THAT EMU WOULD BE DISCREDITED IF EUROPEAN VOTERS CONTINUED TO TREAT THE EUROPEAN PARLIAMENT WITH THEIR CURRENT DEGREE OF INDIFFERENCE. THE ONLY WAY TO REMEDY THIS WAS TO INCREASE THE IMPORTANCE OF THE PARLIAMENT BY INCREASING ITS POWERS AND RESPONSIBILITIES. PROBING REVEALED THAT GERMAN THINKING HAD GONE NO FURTHER THAN THIS GENERAL PROPOSITION.

6. IT IS NOT CLEAR WHY KOHL CHOSE TO GO PUBLIC NOW. IT COULD BE ARGUED THAT HE IS FLYING A KITE TO ASSESS REACTIONS. HE MAY BE SOFTENING DOMESTIC OPINION UP FOR A DECISION. BY SETTING A TARGET DATE FOR THE END OF THE PROCESS, HE MAY BE PUTTING PRESSURE ON THE FRENCH TO ACQUIESCE IN HIS WORK PROGRAMME. OR, BY INTRODUCING THE PARLIAMENTARY FACTOR, HE COULD BE DELIBERATELY OVER LOADING THE BARQUE. THIS LAST SEEMS LESS PROBABLE THAN THE OTHER HYPOTHESES, WHICH ARE NOT MUTUALLY EXCLUSIVE. WE SHALL INVESTIGATE FURTHER.

7. FCO PLEASE ADVANCE TO ARTHUR ECD(I), MRS BROWN TREASURY, ARROWSMITH BANK OF ENGLAND

MALLABY



Euro bank:



Euro meet  
Strasbourg  
1985

PRIME MINISTER

STRASBOURG EUROPEAN COUNCIL

You have a meeting tomorrow morning with David Hannay and David Hadley (Cabinet Office) as part of the preparation for the European Council in Strasbourg next week. The purpose is to talk you through the agenda. You will be seeing M. Delors straight afterwards, so it will be an opportunity to go over any points which you need to raise with him.

The main items for the Council are:

- Relations with Eastern Europe.

It will serve our interest to try to make this the main positive theme of the Council. The task will be to give substance to the general guidelines set at the Heads of Government Meeting in Paris on 18 November. There will need to be a political declaration and a decision on what the Community is prepared to do in terms of further aid. We shall want to get a clear statement of the options for closer association between the Community and the Eastern European countries. The French will want a decision in principle on their idea for an Eastern European Development Bank: the chances are that everyone else will fall in with this. You will want to consider whether - if this happens - it will be worth holding out against it and giving the impression that we are against everything which Europe is doing. If we are isolated on this, it might be better to accept it in principle, and concentrate on constraining and restricting its activities as far as possible in the technical discussions which will follow over the next few months.

- Single Market.

We shall want a clear and resounding commitment to further progress on the Single Market, which also mentions our particular priorities for the future: telecommunications, financial services, lorry quotas,



air fares and insurance. This is the most pressing task facing the Community.

- Social Charter

Since there seems virtually no chance of a text to which we can agree, we have interest in minimising discussion and simply putting on record the reasons why we are unwilling to sign the Charter. All the points in it will eventually come forward in the form of detailed proposals and draft directives from the Commission, and it is on these that the battle will be fought. I have asked Departments to finalise the draft of the sort of Charter we could have accepted, which we could use to demonstrate to the press and others how reasonable our position is.

- Economic and Monetary Union.

You will have seen the separate papers on this. We want to get over two points: first, all that is required at Strasbourg is a procedural decision about how to take work forward - and on this Kohl's ideas would suit us better than the Presidency's proposal for IGC in the second half of 1990 (but will Kohl actually stand up for his own ideas?) Second, you want to leave no one in any doubt that we shall not be able to accept stages 2 and 3 of Delors as they are. Again, we have no great interest in making a meal of this subject at Strasbourg: the real battles will be fought later.

There will be a number of lesser subjects which David Hannay will be able to take you through. You will also want his advice on how to handle Chancellor Kohl's intention to demand that an IGC should also consider extension of the powers of the European Parliament. He is apparently determined to press this at Strasbourg.

CDP

CDP

30 November 1989

jd c:strasbourg



CC *[initials]*  
*[initials]*

*no*



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

30 November 1989

C D Powell Esq  
Private Secretary  
10 Downing Street  
LONDON  
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*[Handwritten initials]* } to all  
*[Handwritten initials]* 30/11

*Dr. Charles*

**ECONOMIC AND MONETARY UNION: FURTHER WORK**

It seems likely that whatever is decided at the European Council in Strasbourg, the questions identified in the Report of the High Level Group on EMU (the Guigou Report) will be addressed in some or other Community forum, for example the Monetary Committee, another high level group or an Intergovernmental Conference if one is called. The Chancellor has arranged therefore for the Treasury EMU Working Party to be reconvened, with representation from the Bank of England, FCO, Cabinet Office and Professor Griffiths from the No 10 Policy Unit, as well as the Treasury, with the task of making a detailed examination of the questions raised in the Guigou Report. Any other question which is relevant should also be examined. The purpose of this work would be to strengthen our position and to inform our contribution in the forthcoming debate.

I am sending a copy of this letter to Stephen Wall (FCO) and Trevor Woolley (Cabinet Office).

*[Handwritten signature]*  
*[Handwritten initials]*

**JOHN GIEVE**  
Principal Private Secretary





*CEPC*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

30 November 1989

*CDP 2074*

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

*Dear Charles,*

**EUROPEAN COUNCIL: STRASBOURG: ECONOMIC AND MONETARY UNION**

Thank you for your letter of 22 November enclosing Sir Michael Butler's paper on EMU. The Chancellor thinks it is probably not necessary for the Prime Minister to see Sir Michael herself unless she is particularly inclined to since he has, as you will know, already agreed to see Sir Michael about this on Tuesday, 5 December.

Sir Michael wrote the paper as Chairman of the European Committee of the British Invisible Exports Council (BIEC), and it was briefly discussed at a recent meeting of the Committee attended by Treasury officials. It is far from clear to us that the paper reflects the views of other City institutions: to a large extent it appears to contain Sir Michael's personal view on UK tactics in the EMU debate.

The paper's theme is that the UK needs to put forward more positive ideas if its evolutionary approach is to be taken seriously in Europe. In that way he believes we could keep the focus of discussion on questions of substance, not institutions.

Our comments on Sir Michael's main suggestions are:

Development of the ecu (paragraph 6)

Sir Michael does not distinguish between developing the ecu in its present form - ie. a basket of other currencies which are the responsibility of individual governments and their



central banks; and creating a separate currency, with a separate mechanism for creating new money. Sir Michael's suggestions for removing impediments to the private use of the ecu (a) and freezing the composition of the ecu (d) fall in the first category, and are already proposed in the UK's paper on EMU. His other suggestions fall into the second category and are much more problematical. They amount to a proposal to create the ecu as a separate and parallel currency. That is not a feature of the UK's approach, based on competition between the currencies and monetary policies of each member state.

Coordination of monetary and economic policy after Stage I  
(paragraphs 7-8)

Sir Michael suggests that the UK paper could discuss more fully the conditions in which ERM bands might be narrowed and ways of coordinating monetary and economic policies and monetary supply in the Community as a whole after Stage I. We do not believe it is possible to anticipate developments beyond Stage I in detail. Our approach is based on "learning by doing". Nor do we agree that Community-wide money supply will be "of major concern to all member states": our approach rests on maintaining separate monetary and economic policies in each member state. However, we fully agree with Sir Michael's overall conclusion that steps beyond stage 2 need not necessarily involve further institutional changes.

I hope these points are helpful.

I am sending copies of this letter to Stephen Wall (FCO) and David Hadley (Cabinet Office).

*Tomasz Tarkowski*

**T TARKOWSKI**  
Private Secretary



Eric Pol: Strasbourg

Eric me...

B.35



COMPINGEOT

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BILAN DE L'ACTION DES DOUZE DANS LE DOMAINE  
DES DROITS DE L'HOMME AU COURS DE L'ANNEE 1989

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L'action commune des douze Etats membres de la Communauté européenne en matière de droits de l'homme s'est exercée essentiellement selon les formes suivantes :

- suites données aux demandes du Parlement Européen,
- déclarations et décisions,
- démarches,
- déclarations des Douze dans le cadre de la CSCE et démarches des Douze dans le cadre du mécanisme sur la dimension humaine de la CSCE,
- action au sein des Nations Unies,
- divers.

I. SUITES DONNEES AUX DEMANDES DU PARLEMENT EUROPEEN1 - Suivi des Résolutions

Avril - aide-mémoire de la Présidence pour le Parlement Européen sur les actions des Douze en 1988 pour la défense des droits de l'homme ;

Avril - observations de la Présidence sur la résolution du Parlement Européen sur la politique des Douze en matière de droits de l'homme (18 janvier 1989).

2 - Réponse aux questions :

a) - La Présidence a été amenée à répondre, au nom des Douze, à 19 questions écrites et 43 questions orales des députés au Parlement Européen au cours de l'année 1989. La liste détaillée de ces questions figure en annexe du présent rapport.

b) - Parmi les questions qui ont été posées au cours de l'année écoulée, 15 ont porté sur des cas nominatifs, 15 sur la situation des droits de l'homme en général dans un pays.

- Un certain nombre d'entre elles ont exprimé des préoccupations sur les violations des droits de l'homme suivantes :

- 12 sur les prisonniers politiques et d'opinion,
- 5 sur les disparitions, la torture et les exécutions,
- 4 sur des arrestations.



c) - Les questions ont porté également, dans l'ordre décroissant de fréquence, sur les régions suivantes : Europe, Amérique centrale et du Sud, Asie, Maghreb et Moyen-Orient, Afrique.

d) - Les pays les plus souvent mis en cause sont les suivants : Turquie, Roumanie, Chili, Chine, Afrique du Sud, Iran.

## II. DECLARATIONS ET DECISIONS

20 février - décision des Douze de rappeler temporairement en consultation les chefs de mission diplomatique en Iran et de suspendre les contacts à haut niveau en réponse aux menaces de mort proférées contre l'écrivain Salman Rushdie par l'Imam Khomeini ;

24 février - déclaration des Douze sur la censure de la presse en Afrique du Sud ;

9 mars - déclaration des Douze sur la situation au Soudan, notamment au regard des droits de l'homme ;

20 mars - déclaration finale du Conseil Affaires Générales sur L'Iran, à la suite de la déclaration du 20 février ;

24 avril - décision en Conseil des Affaires Générales de Luxembourg de suspendre les négociations entre la Communauté et la Roumanie pour un accord de coopération économique et commercial ;

5 mai - déclaration des Douze lançant un appel aux autorités panaméennes dans la perspective des élections du 7 mai pour que celles-ci se déroulent de manière libre et honnête ;

8 mai - déclaration de la Présidence condamnant l'appel au meurtre lancé par M. Rafsandjani (Iran) à propos de l'affaire Salman Rushdie ;

11 mai - déclaration des Douze condamnant l'annulation des élections par les autorités panaméennes ainsi que les nombreux recours à la force et à la violence qui ont eu lieu durant le processus électoral, en particulier à l'encontre des dirigeants de l'opposition ;

31 mai - déclaration des Douze exprimant leur inquiétude au sujet de la fermeture, par les autorités israéliennes, des écoles dans les Territoires Occupés ;

5 juin - déclaration de la Commission réprouvant la répression brutale en Chine opérée à l'égard de la population de Pékin ;

6 juin - déclaration des Douze condamnant fermement la répression brutale exercée en Chine ;

12 juin - déclaration ministérielle sur L'Afrique du Sud déplorant notamment la prolongation de l'état d'urgence ;

26-27 juin - déclaration du Conseil Européen condamnant la répression exercée en Chine et préconisant un certain nombre de mesures ;

30 juin - communiqué de la Présidence concernant l'expulsion de huit Palestiniens des Territoires Occupés ;

26 juillet - déclaration de la Présidence sur la Birmanie appelant à la levée des obstacles à la réalisation des aspirations démocratiques du peuple birman ;

29 août - déclaration de la Présidence exprimant l'indignation des Douze à la suite de nouvelles expulsions de douze Palestiniens des Territoires Occupés ;

2 septembre - déclaration des Douze constatant l'absence de légitimité institutionnelle du nouveau gouvernement nommé à Panama le 31 août et réservant en conséquence leur attitude à l'égard du nouveau régime panaméen ;

6 septembre - déclaration des Douze sur l'Afrique du Sud : loi sur le financement des organisations anti-apartheid et sort du Kagiso Trust ;

8 septembre - déclaration des Douze sur la situation des droits de l'homme en Birmanie exprimant la préoccupation des Douze à l'égard de la politique répressive en Birmanie et demandant qu'il soit donné suite aux aspirations démocratiques du peuple birman ;

20 septembre - publication des mesures de distanciation à l'égard du régime panaméen adoptées par les Douze le 6 septembre ;

6 octobre - déclaration des Douze manifestant leur préoccupation devant le maintien de la fermeture des universités dans les Territoires Occupés ;

2 novembre - déclaration des Douze sur la violence dans la communauté rurale de Peleton (Afrique du Sud), qui a fait l'objet d'une intégration forcée au Ciskei ;

10 novembre - déclaration des Douze sur la situation au Soudan, notamment au regard des droits de l'homme (appel au respect des droits de l'homme, concernant en particulier les personnes déplacées, les prisonniers de guerre et autres détenus) ;

10 novembre - déclaration des Douze sur la RDA, se félicitant de la décision des autorités d'autoriser leurs ressortissants à sortir librement du pays ;

16 novembre - déclaration des Douze exprimant leurs préoccupations devant les événements sanglants au Salvador et appelant les parties au conflit à renoncer à tout recours à la violence et à respecter la population civile ;

17 novembre - déclaration des Douze sur le Salvador condamnant l'assassinat du Père Ellacuria, recteur de l'Université centraméricaine et de cinq pères jésuites, et les atteintes portées à la population civile ;



20 novembre - déclaration des Douze sur la Roumanie, reaffirmant leur préoccupation persistante au sujet de la situation des droits de l'homme ;

21 novembre - déclaration des Douze sur la Tchécoslovaquie condamnant les violences commises par la police à l'encontre de manifestants et appelant le Gouvernement tchécoslovaque à honorer ses engagements pris dans le cadre de la CSCE.

### III. DEMARCHES

#### A - ASIE (8 démarches)

##### Birmanie

31 janvier - démarche au nom des Douze par l'Ambassadeur de la Présidence ;

7 août - démarche de l'Ambassadeur de la Présidence pour protester contre les violations des droits de l'homme en Birmanie et réclamer la libération de Mme Aung San Suu Kyi et de M. Aris, son époux.

##### Chine

19 mars - démarche des Ambassadeurs de la Troïka sur la situation au Tibet et l'imposition de la loi martiale à Lhassa ;

15 juin - convocation par la Présidence de l'Ambassadeur de Chine à Madrid pour exprimer la consternation et la préoccupation des Douze au sujet des détentions et autres actes de répression ;

17 juin - démarche des Ambassadeurs de la Troïka au sujet des trois condamnations à mort de Shanghai ;

20 juillet - démarche des Ambassadeurs de la Troïka demandant que des observateurs indépendants soient autorisés à assister aux procès et à visiter les prisons.

##### Singapour

20 octobre - remise d'une note verbale par l'Ambassadeur de la Présidence à propos du cas de M. Cheng et de Mme Teo.

##### Vietnam

9 janvier - démarche au nom des Douze par l'Ambassadeur de la Présidence, pour demander que la sentence de mort prononcée à l'encontre de M. Tran Van Luong ne soit pas exécutée et pour marquer la préoccupation des Douze pour le cas de M. Doan Quoc Si.

## B - EUROPE (6 démarches)

### Bulgarie

12 octobre - démarche de l'Ambassadeur de la Présidence pour demander aux autorités bulgares de prendre les mesures nécessaires pour assurer les droits fondamentaux de la communauté musulmane et exprimer le souhait des Douze de les voir engager sans délai des négociations bilatérales avec la Turquie ;

26 et 31 octobre - au cours de la réunion CSCE de Sofia sur la protection de l'environnement, démarches de l'Ambassadeur de la Présidence (avec des représentants d'autres pays, occidentaux et neutres) auprès des autorités bulgares en faveur de la liberté d'accès et de contact des représentants d'organisations écologistes dissidentes (telles qu'"Ecoglasnost") (démarches hors mécanisme CDH).

### Roumanie

9 février - convocation par la Présidence de l'Ambassadeur de Roumanie à Madrid concernant la participation de citoyens roumains à la réunion (21 février) de la sous-commission des droits de l'homme de la commission politique du Parlement Européen ;

14 février - démarche de l'Ambassadeur de la Présidence à Bucarest concernant la systématisation et la situation de Mme Cornea.

### Yougoslavie

16 juin - démarche de la Présidence auprès du Secrétaire Général adjoint pour les Affaires étrangères de Yougoslavie au cours de conversations à Madrid, sur l'évolution de la situation au Kosovo.

## C - AMERIQUE CENTRALE ET AMERIQUE DU SUD (13 démarches)

### Chili

Janvier - démarche des Ambassadeurs de la Troïka auprès du Vicariat de la solidarité pour lui témoigner leur soutien face aux demandes du Gouvernement chilien de "mettre la main" sur les dossiers du Vicariat ;

Juin - démarche du Représentant à Genève de la Présidence concernant le renouvellement du Rapporteur spécial sur le Chili et demandant la prolongation de la mission de M. Volio-Jimenez ;

30 juin - démarche de l'Ambassadeur de la Présidence auprès du Ministre chilien des Relations extérieures au sujet de la coopération des autorités chiliennes avec le Rapporteur spécial ;



30 octobre - nouvelle démarche de l'Ambassadeur de la Présidence afin d'obtenir des autorités chiliennes un changement de leur position à l'égard du Rapporteur spécial et leur rappeler l'importance que les Douze accordent au principe de la coopération des Etats avec les Rapporteurs spéciaux.

#### Cuba

13 octobre - démarche des Ambassadeurs de la Troïka au sujet des droits de l'homme à Cuba (suivi de la résolution n° 89/113 de la Commission des droits de l'homme des Nations Unies).

#### Guatemala

24 mai - démarche de l'Ambassadeur de la Présidence pour affirmer le soutien des Douze aux institutions démocratiques après l'échec du coup d'état du 9 mai ;

29 août - démarche des Ambassadeurs de la Troïka pour exprimer la préoccupation des Douze face à la montée de la violence au Guatemala, notamment à l'encontre de personnes ou d'institutions appartenant à des secteurs politiques, de la presse ou d'organisations de défense des droits de l'homme ;

28 novembre - démarche des Ambassadeurs de la Troïka auprès du Président Cerezo pour exprimer la préoccupation face à la montée de la violence et demander au Gouvernement de prendre les mesures nécessaires pour faire respecter les droits de l'homme.

#### Panama

20 juin - démarche des Ambassadeurs de la Troïka en faveur de la libération des prisonniers politiques arrêtés à la suite des événements qui se sont produits après les élections du 7 mai ;

27 juillet - démarche des Ambassadeurs des Douze auprès du Ministre des Relations extérieures en faveur de la libération des détenus politiques.

#### Salvador

1er août - démarche des représentants des Douze auprès du Ministre de la Justice concernant l'arrestation de Mme Reina Isabel Hernandez, Présidente d'association (CRIPDES) ;

13 novembre - démarche de l'Ambassadeur de la Présidence pour exprimer la condamnation par les Douze des graves attentats perpétrés la semaine précédente contre des civils et des organisations syndicales, quels qu'en soient les auteurs, et demandant à ce que la lumière soit faite sur ces actes ;

28 novembre - démarche des Ambassadeurs de la Troïka auprès du Président Cristiani pour exprimer à nouveau l'émotion des Douze et leur condamnation de l'assassinat de six pères jésuites, et pour demander l'ouverture d'une enquête.

## D - MOYEN-ORIENT (6 démarches)

### Irak

23 juillet - démarche de l'Ambassadeur de la Présidence pour appeler l'attention des autorités irakiennes sur les entraves à la liberté de circulation dans les zones frontalières, notamment pour les diplomates et les journalistes, et manifester les préoccupations des Douze quant à la situation des Kurdes et les déplacements de populations dans cette région.

### Iran

10 janvier - démarche à Madrid de la Présidence auprès du Vice-Ministre iranien des Affaires étrangères sur l'importance de compléter l'échange de prisonniers de guerre avec l'Irak.

### Israël

22 juin - démarche des Ambassadeurs de la Troïka auprès des autorités israéliennes concernant l'expulsion de treize Palestiniens ;

29 août - démarche en Troïka auprès des autorités israéliennes exprimant l'indignation des Douze à la suite de nouvelles expulsions de douze Palestiniens des Territoires Occupés ;

11 octobre - démarche des Ambassadeurs de la Troïka auprès des autorités israéliennes concernant la situation des universités dans les Territoires Occupés et demandant leur réouverture ;

3 novembre - démarche des Ambassadeurs de la Troïka concernant les agissements d'Israël contre des installations et du personnel de L'UNRWA.

## E - AFRIQUE (21 démarches)

### Afrique du Sud

26 janvier - démarche de l'Ambassadeur de la Présidence concernant l'interdiction d'activités politiques d'organisations politiques anti-apartheid ;

9 février - démarche de l'Ambassadeur de la Présidence relative à la censure imposée à la presse et à certaines publications ;

16 février - démarche de l'Ambassadeur de la Présidence sur la situation des prisonniers politiques et la loi sur le financement des organisations anti-apartheid ;

6 mars - démarche de l'Ambassadeur de la Présidence à la suite de la publication de la loi sur le financement étranger des organisations anti-apartheid ;

20 avril - démarche de l'Ambassadeur de la Présidence sur la levée de l'état d'urgence et la peine de mort ; ;



11 mai - démarche de l'Ambassadeur de la Présidence concernant les déplacements forcés de populations, notamment du peuple Mogopa ;

24 mai - démarche de l'Ambassadeur de la Présidence sur la peine de mort ;

25 mai - démarche de l'Ambassadeur de la Présidence à la suite des modifications territoriales visant à l'incorporation forcée de populations dans de nouveaux territoires ;

20 juillet - démarche de l'Ambassadeur de la Présidence concernant l'intégration forcée au Bophutatswana de certaines populations ;

24 août - démarche de l'Ambassadeur de la Présidence en faveur de M. Robert Mac Bride condamné à mort ;

5 septembre - démarche de l'Ambassadeur de la Présidence au nom des Douze appelant les autorités sud-africaines à faire preuve de retenue dans leur attitude vis-à-vis des mouvements anti-apartheid, à la suite d'un appel de Mgr Tutu à plusieurs chefs d'Etat et de Gouvernement des Douze.

11 septembre - démarche de l'Ambassadeur de la Présidence pour remettre aux autorités sud-africaines le texte de la déclaration des Douze du 6 septembre relative au financement des organisations anti-apartheid ;

25 octobre - démarche de l'Ambassadeur de la Présidence pour remettre aux autorités sud-africaines les déclarations faites par la Présidence au nom des Douze concernant la mise en liberté des prisonniers politiques en Afrique du Sud.

#### Burundi

10 août - démarche de l'Ambassadeur de la Présidence pour encourager les autorités burundaises dans la poursuite de leur politique d'apaisement.

#### Ethiopie

12 mai - démarche de l'Ambassadeur de la Présidence à la suite du rapport des Représentants des Douze pour interroger le gouvernement éthiopien sur le sort des prisonniers politiques et sur les accusations de conscription forcée ;

24 octobre - démarche de l'Ambassadeur de la Présidence pour manifester aux autorités éthiopiennes la satisfaction des Douze à la suite des mesures d'amnistie prises en faveur de nombreux détenus politiques qui ont été libérés et demander la libération de tous ceux qui demeurent incarcérés.

#### Mauritanie - Sénégal

30-31 juillet - évocation, à l'occasion des démarches des Ambassadeurs de la Troïka concernant le différend entre ces deux pays, du problème des expulsions.

### Namibie

18 septembre - démarche de l'Ambassadeur de la Présidence auprès du Représentant spécial du Secrétaire Général des Nations Unies pour la Namibie et de l'Administrateur Général suite à l'assassinat de Maître Anton Lubowski.

### Sierra Leone

5 octobre - démarche des Ambassadeurs de la Troïka pour la grâce des condamnés à mort.

### Soudan

20 mars - démarche des Ambassadeurs de la Troïka relative à la situation des populations du Sud-Soudan affectées par la guerre et la famine ,

(... novembre - démarche des Douze concernant les violations des droits de l'homme)

### Au total

54 démarches des Douze ont été effectuées au cours de l'année 1989 dont 49 au niveau des Ambassadeurs.

- Les pays ayant été l'objet du plus grand nombre de démarches sont, dans l'ordre décroissant : Afrique du Sud, Chine, Chili, Israël, Guatemala, Salvador.

## IV. CSCE : DECLARATIONS DES DOUZE ET DEMARCHES EFFECTUEES DANS LE CADRE DU MECANISME SUR LA DIMENSION HUMAINE DE LA CSCE

### 1. DECLARATIONS : (4 déclarations)

28 mars - déclaration à la presse (Madrid et Bruxelles) de la Présidence au nom des Douze sur le refus des autorités roumaines de se conformer aux dispositions du mécanisme sur la dimension humaine.

- Conférence de Paris sur la Dimension Humaine (29 mai - 23 juin) : discours d'ouverture (30 mai) et de clôture (23 juin) de la Présidence des Douze - discours de la Présidence au nom des Douze (1er juin) comportant une évaluation du fonctionnement du mécanisme CDH, telle qu'appliquée par les Douze (avec mention de la RDA, de la Roumanie et de la Tchécoslovaquie).

### 2. DEMARCHES : (13 démarches)

### Bulgarie

31 août 1989 - démarche de l'Ambassadeur de la Présidence (au titre du point 1 du mécanisme CDH) pour exprimer leur préoccupation devant le sort réservé à un certain nombre de citoyens bulgares qui ont fait usage du droit d'expression. Cas de M. Trentchev et autres dissidents.



## RDA

12 avril - démarche de l'Ambassadeur de la Présidence (point 1 du mécanisme CDH) à propos des incidents tragiques au mur de Berlin (5 et 14 février ; 10 mars) ;

25 mai - démarche supplémentaire de l'Ambassadeur de la Présidence pour rappeler la démarche du 12 avril et les engagements souscrits par la RDA dans le cadre de la CSCE ;

27 octobre - démarche de l'Ambassadeur de la Présidence (point 1 du mécanisme CDH) à la suite des manifestations qui se sont déroulées les 8 et 9 octobre touchant les conditions de travail des journalistes.

## Roumanie

20 mars - démarche de l'Ambassadeur de la Présidence (point 1 du mécanisme CDH), à propos de Mme Cornea et de 22 signataires de la lettre ouverte d'août 1988 à M. Ceaucescu contre le processus de systématisation ;

17 avril - en application du point 3 du mécanisme CDH, la Présidence a envoyé, au nom des Douze, une note verbale aux 22 autres membres de la CSCE concernant la situation des signataires d'une lettre à M. Ceaucescu contre le processus de systématisation ;

17 avril - convocation de l'Ambassadeur de Roumanie au Ministère des Affaires étrangères de la Présidence (au titre du point 1) concernant la situation de Mme Cornea et des 22 signataires de la lettre ouverte à M. Ceaucescu contre le processus de systématisation ;

25 mai - note verbale remise par l'Ambassadeur de la Présidence contestant la réaffirmation par la Roumanie de ses réserves à l'égard de la dimension humaine de la CSCE ;

10 novembre - démarche de l'Ambassadeur de la Présidence (point 1 du mécanisme de la CDH) demandant des informations, d'une part sur la situation de M. Mazilu, et d'autre part sur la suite donnée par les autorités roumaines à la précédente démarche de la Présidence (20 mars 1989), sur la situation de Mme Cornea et des 22 signataires de la lettre ouverte à M. Ceaucescu contre le processus de systématisation.

## Tchécoslovaquie

10 mars - convocation de l'Ambassadeur de Tchécoslovaquie à Madrid (point 1 du mécanisme CDH) pour lui faire part de la préoccupation des Douze au sujet de M. Havel et exprimer l'espoir que la réunion bilatérale avec les Pays-Bas du 16 mars (point 2) aura un résultat positif ;

18 avril - démarche de l'Ambassadeur de la Présidence (point 1 du mécanisme CDH) en faveur de M. Vaclav Havel et des autres Tchèques emprisonnés ;



13 septembre - démarche de l'Ambassadeur de la Présidence (point 1 du mécanisme CDH), à propos des violations des droits de l'homme, notamment lors des manifestations du 21 août (arrestations et condamnations) ;

2 novembre - démarche des Ambassadeurs de la Troïka (point 1 du mécanisme CDH) pour demander des informations sur les arrestations des dernières semaines et à l'occasion de la manifestation du 28 octobre. Les Ambassadeurs ont exprimé l'émotion et la préoccupation des Douze à propos de ces événements.

Enfin, il y a lieu de préciser que les Douze ont élaboré un premier "mode d'emploi" du mécanisme visant à coordonner les actions nationales et les initiatives de la Présidence agréées par les Douze. Leur réflexion se poursuit sur les perspectives à plus long terme qu'offre le mécanisme dont toutes les potentialités doivent être exploitées (dénonciations des violations, critiques des insuffisances mais aussi recherche d'actions positives, de domaines de coopération). En ce qui concerne le bilan des actions entreprises à ce jour, il est plutôt encourageant en ce qui concerne la Tchécoslovaquie et la Bulgarie qui ont accepté la procédure du mécanisme même si les problèmes sont loin d'être réglés. La situation demeure en revanche entièrement négative pour la Roumanie tant sur le fond que sur la forme (rejet du mécanisme et du rôle de la Présidence).

#### V. NATIONS UNIES

- 45ème session de la Commission des Droits de l'Homme :

- . Discours prononcé au nom des Douze par le Ministre espagnol des Affaires étrangères, M. Ordóñez;
- . Coparrainage des Douze du projet de résolution sur l'Iran (1989/66).

Le discours prononcé au nom des Douze par M. Ordóñez à la Commission des Droits de l'Homme constitue une innovation importante. D'une manière générale, cette session a été marquée par un approfondissement de la coopération politique des Douze concernant les travaux de la Commission.

Mai - première session de l'ECOSOC - discours des Douze prononcé par la Présidence espagnole;

Juillet - deuxième session de l'ECOSOC - déclaration de la Présidence condamnant la répression exercée par les autorités chinoises;

Juillet - Août - évocation à l'occasion d'une démarche de la Présidence auprès de la Colombie, de l'Inde, de l'Egypte et du Mexique des préoccupations des Douze à l'égard d'un éventuel élargissement de la Commission des Droits de l'Homme.



3 octobre - démarche de l'Ambassadeur de la Présidence à Bogota pour tenter d'obtenir de la Colombie qu'elle ne dépose pas, à la prochaine Assemblée Générale, de projet de résolution visant à l'élargissement de la Commission des Droits de l'Homme.

20 novembre, 44ème Assemblée Générale des Nations Unies - discours prononcé au nom des Douze par l'Ambassadeur de la Présidence.

## VI. DIVERS

### Afrique du Sud

Février - rapport des Ambassadeurs des Douze sur la peine de mort;

Mars - rapport des Ambassadeurs des Douze sur le "Disclosure of Foreign Funding Bill";

Mars - réflexion sur la situation en Afrique du Sud et sur les moyens pour faire avancer une solution pacifique ; contribution écrite de la Présidence.

### Bulgarie

Août - rapport des Ambassadeurs des Douze à Sofia sur la situation des droits de l'homme en Bulgarie évoquant la question de la minorité musulmane d'origine turque;

Septembre - rapport des Ambassadeurs des Douze à Ankara sur le conflit bulgare-turc et sur la situation des réfugiés provenant de Bulgarie.

### Chili

Novembre - rapport des Ambassadeurs des Douze sur la situation au Chili comportant une appréciation sur la situation des droits de l'homme dans le pays.

### Chine

Rapport des Ambassadeurs des Douze sur la situation des droits de l'homme (en cours d'élaboration - prévu pour décembre)

### Cuba

Février - rapport des Ambassadeurs des Douze sur la situation des droits de l'homme.

### Ethiopie

Mars - rapport des Ambassadeurs des Douze sur la situation du pays et rappelant l'attachement des Douze au respect des droits de l'homme en Ethiopie.

### Guatemala

Octobre - rapport des Ambassadeurs des Douze sur la situation des droits de l'homme.

### Irak

Juin - rapport des Ambassadeurs des Douze sur la situation des droits de l'homme et sur les allégations de deportations de Kurdes.

### Panama

Mars - rapport des Ambassadeurs des Douze sur la situation des droits de l'homme.

### Paraguay

Novembre - rapport des Ambassadeurs des Douze sur leur pays de résidence, comportant des appréciations sur la situation des droits de l'homme.

### Roumanie

Août - rapport des Ambassadeurs des Douze sur la situation des droits de l'homme.

### Salvador

Septembre - rapport des Ambassadeurs des Douze sur le cas de Mme Reina Isabel Hernández.

### Somalie

Mars - rapport des Ambassadeurs des Douze sur la situation en Somalie, notamment au regard des droits de l'homme;

Août - deuxième rapport des Ambassadeurs des Douze sur le même objet.

### Soudan

Octobre - rapport des Ambassadeurs des Douze à Khartoum sur la situation au Soudan, notamment au regard des droits de l'homme.

### Sri Lanka

Novembre - rapport des Ambassadeurs des Douze sur la situation de leur pays de résidence, comportant des appréciations sur la situation des droits de l'homme.

### Syrie

Juin - rapport des Ambassadeurs des Douze sur la situation des droits de l'homme, complété en septembre par une recommandation.



ANNEXE

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REPONSES DE LA PRESIDENCE  
AUX QUESTIONS DES DEPUTES AU PARLEMENT EUROPEEN  
AU COURS DE L'ANNEE 1989

(Les dates indiquées sont celles  
des réponses de la Présidence)

-oOo-

A. AFRIQUE (4 questions)

Afrique du Sud

12 septembre - Question orale de M. DESSYLAS sur les droits de l'homme en Afrique du Sud;

12 septembre - Question orale de M. LOMAS sur les travailleurs sociaux emprisonnés en Afrique du Sud;

21 novembre - Question orale de M. DESSYLAS sur l'exécution de militants noirs en Afrique du Sud.

Burundi

21 avril - Question écrite de M. WILLY KUIJPERS sur les arrestations au Burundi (Six cas d'emprisonnement et allégations de torture)

B. AMERIQUE CENTRALE ET AMERIQUE DU SUD (11 questions)

Brésil

1er avril - Question orale de M. ALAVANOS sur la destruction du biotope de L'Amazone et du mode de vie des Indiens de la région;

6 avril - Question de M. WILLY KUIJPERS sur le projet CARAJAS.

Chili

11 janvier - Question orale de M. PAPOUTSIS sur la rélegation illégale des syndicalistes au Chili (plusieurs cas cités);

13 janvier - Question orale de M. EPHREMIDIS sur les arrestations au Chili (cas de quatre dirigeants du PC chilien);

15 février 1989 - Question de M. Carlo ALBERTO GRAZIANI sur la détention de l'alpiniste chilienne KAREN EITEL VILLER;

12 septembre - Question orale de M. PAPOUTSIS sur l'anniversaire du coup d'Etat au Chili.

#### Colombie

14 mars - Question orale de M. EPHREMIDIS sur les actes de violence des organisations paramilitaires en Colombie.

#### Nicaragua

7 février - Question orale de M. ROBLES PIQUER sur les prisonniers politiques au Nicaragua;

27 avril - Question écrite de M. SEAN FLANAGAN sur les personnes disparues au Nicaragua (cas de deux personnes emprisonnées).

#### Paraguay

20 mars - Question écrite de M. ARBELOA MURU sur les arrestations au Paraguay (deux cas de personnes emprisonnées).

#### Salvador

21 novembre - Question orale de M. BRU PURON sur les violations des droits de l'homme au Salvador.

### C. ASIE (11 questions)

#### Birmanie

20 juin - Question écrite de Mme EWING sur la persécution des étudiants de Birmanie.

#### Chine

2 mars - Question orale de M. HUTTON (blessure d'un ressortissant de la Communauté Européenne lors d'une manifestation à Lhassa);

12 septembre - Question orale de Mme EWING sur le massacre de manifestants non armés par la troupe de Pékin;

12 septembre - Question orale de Mme DURY sur la pression des Douze sur le Gouvernement chinois;

12 septembre - Question orale de M. LALOR sur les mesures prises par les Douze pour faire suite à la Déclaration sur la Chine du 26 juin.

#### Corée du Sud

20 juin - Question écrite de M. FORD sur le prisonnier de conscience SOH SUNG soumis à 18 ans de détention et à la torture.

#### Fidji

20 juin - Question écrite de M. ARBELOA MURU sur le décret sur la sécurité intérieure à Fidji.



### Indonésie

20 juin - Question écrite de Mme EWING sur des violations des droits de l'homme en Indonésie (détention et torture de M. BAMBANG NUGROHO).

### Philippines

20 juin - Question écrite de M. ARBELOA MURU sur le cas de cinq enfants assassinés;

### Singapour

21 novembre - Question orale de M. VISSER sur les prisonniers politiques à Singapour, notamment les cas de M. CHENG et de Mme TEO.

### Vietnam

21 novembre - Question orale de M. CASSIDY sur les persécutions religieuses au Vietnam.

## D. EUROPE (26 questions)

### Bulgarie

30 mars - Question orale de M. DESAMA sur les violations des droits de l'homme en Bulgarie (assimilation forcée de minorités turque et tzigane).

### Chypre

4 avril - Question orale de M. EPHREMIDIS sur l'arrestation et le matraquage des femmes chypriotes grecques dans les territoires occupés de Chypre.

### Roumanie

3 janvier - Question écrite de MM. DEPRez et HERMAN sur les droits de l'homme en Roumanie et notamment sur la situation de Mme CORNEA;

7 mars - Question additionnelle de M. DEPRez sur Mme CORNEA;

31 mars - Question orale de Mme EWING sur les droits de l'homme en Roumanie (référence à la systématisation et à 23 personnes persécutées);

4 avril - Question orale de M. NEWTON DUNN sur les violations des droits de l'homme en Roumanie;

10 mai - Question orale de M. NEWTON DUNN sur la situation des droits de l'homme en Roumanie;

juin - Question écrite de Mme EWING sur la destruction des villages en Roumanie;

12 septembre - Question orale de M. NEWTON DUNN sur les droits de l'homme en Roumanie.

### Tchécoslovaquie

3 février - Question orale de M. SELVA sur la répression lors des manifestations à la mémoire de JAN PALACH.

### Turquie

3 janvier - Question orale de M. TZOUNIS sur les discriminations persistantes à l'encontre des ressortissants grecs en Turquie;

8 février - Question orale de M. KOLOKOTRONIS sur Amnesty International et les droits de l'homme en Turquie;

7 mars - Question orale de Sir James SCOTT-HOPKINS sur la Turquie;

14 mars - Question orale de M. FORD sur les droits de l'homme en Turquie (cas de M. ILKER DEMIR, en prison militaire depuis le 3 avril 1984);

30 mars - Question orale de M. FILINIS sur l'expulsion d'un membre du Parlement turc de son parti;

30 mars - Question orale de M. SELIGMAN sur le code pénal turc;

4 avril - Question orale de M. WURTZ sur un projet de loi sur la presse en Turquie;

4 avril - Question orale de M. GRIFFITS sur le droit d'accès des parents et des avocats aux prisonniers;

12 mai - Question orale de M. MAVROS sur la question de la journaliste turque FAJMA YAZILCI, condamnée à 14 ans de détention;

20 juin - Questions écrites de Mme BROOKES, M. SIMPSON, M. MORRIS, Mme EWING sur les violations des droits de l'homme;

20 juin - Question écrite de Mme Nicole PERY et M. SABY sur le génocide perpétré contre le peuple arménien et le Comité des historiens proposé par la France;

21 juin - Question écrite de M. SABY, de M. SUTRA DE GERMA, de M. EYRAUD, de M. BESSE, de M. COT et de M. SEEFELD sur les droits de l'homme en Turquie (cas Mehdi ZANA, ancien maire de DIYARBAKIR (KURDISTAN), condamné à 20 ans de prison);

21 juin - Question écrite de Mme d'ANCONA sur la libération de MEHDI ZANA;

12 septembre - Question orale de M. EPHREMIDIS sur les droits de l'homme en Turquie.



21 novembre - Question orale de M. EPHREMIDIS sur l'extradition vers la Turquie d'un prisonnier politique turc en fuite et sur le Groupe TREVI;

21 novembre - Question orale de M. CHEYSSON sur la reconnaissance de l'identité et des droits du peuple arménien.

#### URSS

21 novembre - Question orale de Mme DALY sur l'interdiction des classes d'hébreu à la synagogue d'Odessa.

#### E. MAGHREB ET MOYEN-ORIENT (7 questions)

##### Algérie

24 février - Questions écrites sur la situation en Algérie.

##### Iran

10 janvier - Question orale de M. FORD sur les exécutions massives en Iran ;

27 janvier - Question orale de Mme QUIN sur les prisonniers politiques en Iran (Cas de six Iraniens exécutés);

juin - Question écrite de M. JACKSON sur les membres de la religion Bahai en Iran.

##### Israël

21 novembre - Question orale de M. David MARTIN sur l'expulsion de femmes palestiniennes et démembrement de familles.

##### Maroc

28 février - Question orale de M. CABEZON-ALONSO sur l'échange de prisonniers de guerre entre le Maroc et le Front Polisario.

##### Syrie

5 mai - Question orale de M. HINDLEY sur les droits de l'homme en Syrie (cas de M. MUTAZ AUTLABI et résolution du Parlement Européen d'octobre 1988 sur les droits de l'homme en Syrie).

#### F. DIVERS (3 questions)

20 juin - Question écrite de M. NEWTON DUNN sur les Pactes des Nations Unies relatifs aux droits de l'homme;

20 juin - Question écrite de Mme HEDY d'ANCONA sur les violences exercées sur les femmes réfugiées;

21 novembre - Question orale de Mme DURY sur la ratification de la Convention sur les Droits de l'Enfant.



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FRAME GENERAL

THE FRENCH PRESIDENCY AND THE STRASBOURG EUROPEAN COUNCIL

1. YOU AND THE PRIME MINISTER WILL BE SEEING THE PRESIDENT OF THE COMMISSION ON 30 NOVEMBER/1 DECEMBER. YOU WILL BE MEETING GENSCHER THIS WEEK AND DUMAS ON 5 DECEMBER. THERE MAY BE OTHER BILATERAL CONTACTS IN THE RUN-UP TO THE STRASBOURG EUROPEAN COUNCIL ON 8/9 DECEMBER. AN ATTEMPT AT AN OVERVIEW OF THE EC SCENE MAY THEREFORE BE USEFUL.

2. THE FRENCH PRESIDENCY IS REACHING ITS CLIMAX AMIDST A FLURRY OF INTERNATIONAL MEETINGS WHICH ARE TRANSFORMING THE COMMUNITY'S EXTERNAL RELATIONS AND AMIDST MUCH RUMOUR OF SPLITS OVER THE INTERNAL DEVELOPMENT OF THE COMMUNITY, PARTICULARLY OVER EMU AND THE SOCIAL CHARTER.

3. WHILE SOME OF THE FRENCH EXTERNAL ACTIVITY IS GRATUITOUS AND UNWELCOME SELF-GRATIFICATION (THE EUROP-ARAB MEETING IS THE PRIME EXAMPLE OF THIS), MUCH OF IT CONSISTS OF A REASONABLY EFFECTIVE AND WELCOME RESPONSE TO EXTERNAL DEVELOPMENTS LARGELY IN LINE WITH OUR OWN POLICY OBJECTIVES (THE 13 DECEMBER MEETING AT MINISTERIAL LEVEL OF THE G24 COORDINATING GROUP ON ASSISTANCE TO POLAND AND HUNGARY, THE 19 DECEMBER MEETING WITH THE EFTA MINISTERS TO DECIDE ON THE LAUNCHING OF NEGOTIATIONS FOR A WIDER APPLICATION OF THE SINGLE MARKET AND OTHER EC POLICIES ARE CLEAR CASES IN POINT).

4. THE FRENCH PRESIDENCY ALWAYS PROMISED TO BE A DIFFICULT ONE FOR US ON THE INTERNAL FRONT AND IT HAS INDEED PROVED TO BE SO. THEIR SINGLE-MINDED DETERMINATION TO FIX A DATE FOR AN INTER GOVERNMENTAL CONFERENCE ON EMU HAS BROUGHT THEM INTO SHARP CONFLICT WITH OUR EVOLUTIONARY APPROACH. OVER THE SOCIAL CHARTER THEY (AND OTHER MEMBER STATES) HAVE PREFERRED TO PLAY TO THEIR DOMESTIC GALLERIES RATHER THAN TO GET TO GRIPS WITH THE COMPLEX ISSUES OF HOW MUCH OF THE SOCIAL DIMENSION REALLY NEEDS TO BE DONE AT COMMUNITY LEVEL AND HOW MUCH SHOULD BE LEFT TO MEMBER STATES. THEIR POSTURING



OVER AUDIO-VISUAL POLICY STRIKES NO CHORD WITH US. A SOMEWHAT ERRATIC SINGLE MARKET PERFORMANCE LOOKS LIKE PROVING LESS DAMAGING AND DISAPPOINTING THAN MIGHT HAVE BEEN EXPECTED, ALTHOUGH THERE HAVE BEEN SOME STRIKINGLY PARTISAN PERFORMANCES ON TELECOMMUNICATIONS LIBERALISATION AND ROAD HAULAGE CABOTAGE.

5. WITH TEN DAYS TO GO TO THE STRASBOURG EUROPEAN COUNCIL THE PROSPECTS FOR OUR PRESENT AND FUTURE POLICY OBJECTIVES LOOK RATHER LESS GLOOMY THAN I WOULD HAVE PREDICTED A FEW MONTHS AGO. THIS IS PRINCIPALLY BECAUSE THE TURMOIL IN EASTERN EUROPE AND THE COMMUNITY'S SO FAR RATHER EFFECTIVE AND CONSTRUCTIVE RESPONSE TO IT ARE SETTING THE INTERNAL TENSIONS IN A NEW AND WIDER PERSPECTIVE.

6. THE STRASBOURG MENU LOOKS ROUGHLY AS FOLLOWS:

(I) ECONOMIC AND MONETARY UNION

THIS IS A FINE EXAMPLE OF THE CAPACITY OF THE COMMUNITY TO REDUCE EVEN THE MOST FUNDAMENTAL POLITICAL AND ECONOMIC ISSUES TO QUESTIONS OF PROCEDURE. THE SUCCESS OR FAILURE OF STRASBOURG FROM THE FRENCH POINT OF VIEW NOW TURNS ON WHETHER OR NOT THEY MANAGE TO GET SUFFICIENT SUPPORT TO SET A DATE (OR A PRECISE TIME FRAME) FOR CALLING AN INTER GOVERNMENTAL CONFERENCE OR WHETHER, AS A RESULT LARGELY OF GERMAN DOUBTS, THEY ARE COMPELLED TO FUDGE THAT ISSUE. FAILURE WILL NOT IN FACT MEAN THAT AN IGC WILL NOT MEET BEFORE THE END OF 1990: THE ITALIAN PRESIDENCY IN THE SECOND HALF OF NEXT YEAR IS LIKELY TO BE QUITE INGENUOUS ENOUGH, AS THEY WERE IN 1985, TO BRING THAT ABOUT IN DUE COURSE. BUT NOR WILL SUCCESS MEAN THAT FRANCE AND THE COMMISSION'S MAXIMALIST OBJECTIVES OF NEGOTIATION OF AN EMU TREATY, WITH OR WITHOUT THE UK, AND ENTRY INTO FORCE OF THAT TREATY BY 1 JANUARY 1993 ARE ON THE HIGH ROAD TO ACHIEVEMENT. THE REAL PROBLEMS AND THE REAL DIFFERENCES BETWEEN MEMBER STATES WILL REMAIN TO BE RESOLVED: THE IMPLICATIONS FOR EMU OF THE DEVELOPMENTS IN EASTERN EUROPE AND OF THE OUTCOME OF AN UNPREDICTABLE GERMAN FEDERAL ELECTION IN LATE 1990 REMAIN OBSCURE: OUR OWN EVOLUTIONARY APPROACH IS LIKELY TO PROVE MORE RELEVANT AND MORE WIDELY APPRECIATED IN THE SUBSTANTIVE WORK IN THE YEARS AHEAD THAN IT HAS DONE IN THE CONTEXT OF THE NARROW ARGUMENT OVER WHETHER AND WHEN TO CALL AN IGC.

OUR OWN OBJECTIVES AT STRASBOURG, IF WE FAIL TO PREVENT AN IGC DECISION, SHOULD I SUGGEST BE TO MINIMISE THE DAMAGE TO OUR OWN POSITION AND FUTURE CREDIBILITY OF SUCH AN OUTCOME, TO KEEP OUR OWN EVOLUTIONARY APPROACH FIRMLY ON THE TABLE, TO ATTACH SUCH CONDITIONS AS WE CAN, IN PARTICULAR THE ABOLITION OF EXCHANGE CONTROLS BY FRANCE AND ITALY, TO ANY SUCH DECISION AND TO MAKE IT CLEAR THAT OUR



PARTICIPATION IN AN IGC DOES NOT IMPLY THAT WE HAVE ACCEPTED THE PRINCIPLE OF TREATY CHANGE AT AN EARLY DATE.

(II) SOCIAL CHARTER

THIS MISERABLY ILL-CONCEIVED VENTURE IS GOING TO BE PUT TO REST AT STRASBOURG EITHER BY ELEVEN OR BY TWELVE MEMBER STATES. IT LOOKS AS IF THE FRENCH HAVE NOW CONCLUDED THAT THE GAME OF RE-DRAFTING THE TEXT TO GET OUR ACCEPTANCE IS NOT WORTH THE CANDLE. IF SO, IT WILL BE ELEVEN. THAT IS NO GREAT DISASTER FOR ANYONE. THE MAIN SPONSORS OF THE CHARTER ARE UNDER INCREASING ATTACK FROM THOSE THEY INTENDED TO PLEASE FOR ITS INADEQUACIES IN THEIR EYES. A TEXT NOT SUBSCRIBED TO BY ALL MEMBER STATES IS OF LITTLE PRACTICAL USE AS A BASIS FOR FUTURE POLICY AND LEGISLATIVE PROPOSALS. ATTENTION WILL QUICKLY SWITCH AFTER STRASBOURG TO THE COMPONENT PARTS OF THE COMMISSION'S PROPOSED SOCIAL ACTION PROGRAMME. SOME OF THESE ARE MANAGEABLE FROM OUR POINT OF VIEW, SOME OF THEM ARE DISTINCTLY TROUBLESOME. BUT WE WOULD HAVE HAD TO FACE THESE PROPOSALS ANYWAY: THEY ARE NOT A CONSEQUENCE OF THE SOCIAL CHARTER. AND WE SHOULD FIND MORE ALLIES IN THE DISCUSSION OF ACTUAL LEGISLATIVE PROPOSALS THAN WE HAVE DONE OVER THE DECLAMATORY RHETORIC OF THE CHARTER. OUR OWN LINE COULD CONTINUE TO BE THAT WE COULD HAVE ACCEPTED A CHARTER BUT NOT THIS CHARTER: THAT WE MADE A FIRM OFFER TO CONTINUE WORK TO FIND COMMON GROUND AFTER THE 30 OCTOBER SOCIAL AFFAIRS COUNCIL BUT THE PRESIDENCY DID NOT CHOOSE TO TAKE IT UP: AND THAT WE WILL TREAT EACH OF THE COMPONENT PARTS OF THE SOCIAL ACTION PROGRAMME ON ITS MERITS, ACCEPTING THOSE WHICH PASS THE SUBSIDIARITY TEST AND GENUINELY CONTRIBUTE TO HEALTH AND SAFETY AT WORK AND MORE JOBS AND OPPOSING THOSE THAT WOULD UNDERMINE THE COMPETITIVITY OF EUROPEAN INDUSTRY AND WHICH DEAL WITH SUBJECTS BETTER HANDLED AT NATIONAL LEVEL OR BY PRIVATE AGREEMENT WITHIN INDUSTRY.

(III) SINGLE MARKET

FRENCH PRESIDENCY RHETORIC AND THE UNENDING REPETITION OF THEIR TRILOGY OF INTERNAL OBJECTIVES (EMU, SOCIAL CHARTER, AUDIO-VISUAL) HAS UNDERMINED THE PUBLIC IMAGE OF THE SINGLE MARKET AS THE COMMUNITY'S TOP PRIORITY, EVEN IF IT HAS NOT IN FACT RESULTED IN ANY MARKED SLOWING DOWN OF THE SINGLE MARKET PROGRAMME OR ANY DIVERSION OF IT FROM THE DEREGULATORY AND OPEN COURSE ON WHICH THE COMMISSION AND PREVIOUS PRESIDENCIES HAVE SET IT. ONE OF OUR MAIN OBJECTIVES AT STRASBOURG SHOULD BE TO BRING IT BACK INTO THE CENTRE OF THE STAGE. THE DECEMBER INTERNAL MARKET COUNCIL IS IN FACT WELL PLACED TO TAKE DECISIONS ON A SUBSTANTIAL PACKAGE OF MEASURES WE SUPPORT. ENDORSEMENT OF THAT CONCEPT BY THE EUROPEAN COUNCIL WOULD THUS INCREASE THE LIKELIHOOD OF SUCCESS AND RAISE THE PROFILE OF THE



SINGLE MARKET FOR THE NEXT PRESIDENCIES. WE SHOULD ALSO AIM TO GET A BLESSING IN THE CONCLUSIONS FOR AS MANY OF OUR MEDIUM TERM SINGLE MARKET OBJECTIVES AS POSSIBLE. IT MAY BE WORTH MAKING THE POINT THAT THE SINGLE MARKET IS THE INTERNAL COMMUNITY POLICY MOST RELEVANT TO WHAT WE ARE ALL TRYING TO DO TOGETHER IN EASTERN EUROPE, SINCE IT WILL HELP US TO HAVE SUFFICIENT RESOURCES TO ASSIST REFORM PROGRAMMES THERE AND PROVIDE AN OPEN AND GROWING MARKET FOR THE GOODS OF THOSE COUNTRIES AS THEY MAKE THE PAINFUL TRANSITION TO MARKET ECONOMIES.

(IV) EASTERN EUROPE

THE PACE OF DEVELOPMENTS ON THE GROUND IN EASTERN EUROPE AND THE JUXTAPOSITION OF THE BUSH/GORBACHEV MEETING WILL ENSURE THAT A FURTHER DISCUSSION OF EASTERN EUROPE FOLLOWING THE ELYSEE DINNER IS INEVITABLE AND NOT SOMETHING FOR WHICH WE HAVE TO STRIVE. STRASBOURG WILL ALSO BE AN OCCASION TO WRITE DOWN ON PAPER IN THE PRESIDENCY CONCLUSIONS SOME OF THE BROAD PRINCIPLES ADUMBRATED BY PRESIDENT MITTERRAND AFTER THAT DINNER. MOST OF THE IMMEDIATE PRACTICAL DECISIONS ON TRADE AND AID, TO HELP POLAND AND HUNGARY IN PARTICULAR, WILL ALREADY HAVE BEEN TAKEN BY THEN, ALTHOUGH A FURTHER TRANCHE OF FOOD AID FOR POLAND COULD BE DECIDED AT STRASBOURG IF WE SO WISHED. THE FRENCH WILL PUSH HARD FOR APPROVAL IN PRINCIPLE FOR THEIR DEVELOPMENT BANK PROJECT AND LOOK LIKELY TO HAVE SUBSTANTIAL SUPPORT FOR THAT. WE MAY HAVE SOME TROUBLE OVER THE RATHER FUTILE ARGUMENT ABOUT WHETHER EVENTS IN EASTERN EUROPE CALL FOR ACCELERATION OR DECELERATION OF THE COMMUNITY'S OWN DEVELOPMENT. STEADY AS SHE GOES OUGHT TO WIN THE DAY, ALTHOUGH ONE CAN NEVER UNDERESTIMATE THE CAPACITY OF EUROPEAN COUNCILS TO SQUABBLE OVER SUCH ABSTRACT VERBAL CONCEITS.

7. THERE WILL BE PLENTY OF OTHER MINOR ITEMS JOCKEYING FOR A PLACE IN THE CONCLUSIONS BUT THE MAIN ONES ARE REVIEWED ABOVE. THE COMMUNITY ARRIVES AT STRASBOURG WITH ITS ROLE IN INTERNATIONAL EVENTS CONSIDERABLY ENHANCED BY RECENT DEVELOPMENTS IN EASTERN EUROPE. NOT FOR THE FIRST TIME THE CREW ARE SOMEWHAT AT ODDS ABOUT WHICH DIRECTION THEY ARE SAILING IN BUT NOT FOR THE LAST TIME MOST ARE MORE LIKELY TO AGREE THAT THESE DIFFERENCES ARE LESS IMPORTANT THAN WHAT UNITES THE COMMUNITY THAN THEY ARE TO FALL OUT DEFINITELY.

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*From the Private Secretary*

27 November 1989

Dear John.

EUROPEAN COUNCIL, STRASBOURG: EMU

Thank you for your letter of 24 November about possible conclusions we might aim for at Strasbourg on an Inter-Governmental Conference on EMU. Stephen Wall also wrote the same day with the Foreign Secretary's views.

The Prime Minister has considered this and thinks that the elements of our position should be as follows:

- we think an IGC in 1990 premature and we could not support it, with its presumption of Treaty change, on the timescale envisaged.
- we give notice that, if an IGC is nonetheless agreed the next year, we shall not then or later accept stages two and three of the Delors Report.
- we should work behind the scenes to secure the inclusion in any text adopted at Strasbourg of the points in your letter and the enclosure to it.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office).

Yours sincerely

C. D. POWELL

John Gieve, Esq.  
H.M. Treasury

SECRET



PRIME MINISTER

EUROPEAN COUNCIL STRASBOURG: EMU

I understand your reluctance to agree at all that there should be a IGC. But if we just stand pat on that, we cannot on our own stop one happening and we shall lose any opportunity to attach conditions and qualifications to it. The latter is likely to be the approach adopted by the Germans, and there may be scope to find common ground with them.

It seems to me it would be better to state publicly that:

- (i) we think an IGC premature and unnecessary;
- (ii) if one is nonetheless held next year, we give advance notice that we shall not - then or later - accept Stages II and III of the Delors Report;
- (iii) in addition, we would wish to see the conditions set out in the Chancellor's letter fulfilled.

C.D.P.

(C. D. POWELL)  
27 November 1989  
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Agreed mt



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ccfol.



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

I am reluctant to agree at all that we should convene such a conference. We know that we can never agree to agree to it. ∴ we shall have to be overruled on

24 November 1989

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Prime Minister

This replies to your request to see spelled out the conditions which we might try to attach to an IGC. The Foreign Secretary's views are at the back. Are you generally

Dear Charles

EUROPEAN COUNCIL, STRASBOURG: EMU

The Prime Minister has asked (your letter of 14 November) for urgent work to be done on the conditions which might be attached to a decision in Strasbourg to set a date for an intergovernmental conference (IGC). This is on the assumption that we ourselves would not be in a position to float such conditions at Strasbourg (since we have said that we shall vote against an IGC) but that we should try to persuade others to do so.

The Chancellor considered the UK's objectives for Strasbourg and the types of conditions we might seek. The attached draft of possible conclusions for Strasbourg is the sort of outcome he thinks we could aim for if, as seems likely, a majority will be reached in Strasbourg both for convening an IGC and for setting a date on which it should start work.

In that event, he thinks our main objectives should be:

- (i) to establish the need for further analysis, both before and during an IGC, to allow maximum time for differences on key issues to emerge;
- (ii) to keep the UK paper on table;
- (iii) to maintain the momentum of the single market programme and other policies which the UK favours;

content with this approach?  
COP27/xi





- (iv) to ensure that no end date for an IGC is specified;
- (v) to ensure that there remains a choice between sequential treaty amendments and an all-in-one change;
- (vi) to secure, if possible, recognition that there should be conditions for moving beyond Stage 1, especially the achievement of real progress on economic convergence; and
- (vii) to insert a reference to subsidiarity, which may be a useful peg if arguments about political accountability develop during an IGC.

There are broadly three categories of conditions: (i) those which should be met before an IGC begins, (ii) those which should be taken into account during an IGC, and (iii) those which should be satisfied before moving beyond Stage 1.

In category (i), the proposed draft provides: in clause (a), for Stage 1 to have started on 1 July 1990; in clauses (b) and (c), for continued analysis of the questions and issues raised by the documents before the Council, including the UK's paper; in clause (c), for full and adequate preparation for an IGC; and, in clause (e), for France and Italy to liberalise capital movements, as they are required to do, by 1 July 1990.

In category (ii), the draft provides: in clauses (b) and (c), for continued analysis of the issues raised by all documents before the Council, including the UK's paper; in clause (d), for full account to be taken both of progress in implementing and the effects of Stage 1 measures; also in clause (d), for the principle of subsidiarity to be given full weight.

In category (iii), the draft provides: in clause (d), for attaining a high degree of convergence of economic performance, and for taking into account the effects of Stage 1 measures.

It would be helpful to have the Prime Minister's agreement that the text may be used in very selective and informal contacts before Strasbourg.

I am copying this letter to Stephen Wall (FCO).

V...

Jsr.

JOHN GIEVE  
Principal Private Secretary



C

## DRAFT

The European Council:-

(a) noted that the provisions necessary for the launch of Stage I, the full implementation of which would bring substantial benefits to the Community and constitute a major step towards Economic and Monetary Union, were now ready for adoption, and accordingly confirmed that Stage I would start on 1 July 1990;

(b) noted that all member states now agreed that further measures in addition to those outlined in the Delors Report's prescription for Stage I would be required; and noted that the documents before the Council, including the UK's paper entitled 'An Evolutionary Approach to Economic and Monetary Union', identified a number of questions and issues which would require further analysis both before and during an Inter-Governmental Conference;

(c) in the light of (b) above, invited the competent bodies to continue their analysis of the questions and issues raised by these documents; and confirmed the need for full and adequate preparation for such a Conference;

(d) noted the need to take full account during an Inter-Governmental Conference of progress in implementing Stage I measures, and the effects of these measures, including liberalisation of the insurance, banking and investment services sectors, and strengthening of competition policy; recalled that progress towards Economic and Monetary Union requires a high degree of convergence of economic performance between member states; recalled also the need to take full account of the principle of subsidiarity; and agreed that the effects of Stage I measures would be relevant to subsequent decisions on the timing of later moves;



d

(e) on the above basis, and on the assumption that actions required by then on the Capital Movements Liberalisation Directive 1988 would have taken place, agreed in principle that it would then be appropriate to convene such a Conference.

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Foreign and Commonwealth Office

London SW1A 2AH

24 November 1989

Dear Charles,

European Council, Strasbourg: EMU

The Foreign Secretary has seen John Gieve's letter of 24 November, and its enclosed text. He is generally content, subject to the following points.

First, condition (d) may be more than the market will bear; and the first five lines on Single Market measures are unlikely to be negotiable in full. But the Foreign Secretary sees no harm in having some negotiating room in our text.

Second, we have yet to solve the mystery of Kohl's Paris remarks (Bonn telno 1135) about a mandate. But we patently cannot rely on his holding out against French pressure for setting a starting date at Strasbourg. If he were to suggest that what should start by end 1990 was not an IGC but the preparation of a mandate for an IGC, that would obviously be better for us, but our "Conditions" would still, in the Foreign Secretary's view, be relevant to such preparations. So we cannot afford to wait for Kohl to make up his mind before deciding ourselves on appropriate "Conditions" for a Strasbourg decision.

Third, the Foreign Secretary thinks it very important that in our contacts with e.g. the Dutch and Danes we should leave them in no doubt that we consider the calling of an IGC premature, and will not vote for it. Our position in an IGC would be weakened if others could maintain that we had voted for it, and had thus accepted the principle of Treaty amendment. The Foreign Secretary envisages that, even if we were at Strasbourg confronted by a draft Conclusions text which incorporated our key Conditions, the Prime Minister should still make clear that she could not vote for an IGC, with its presumption of Treaty change, on the time-scale envisaged: she might, however, go on to say that, provided our position was clearly understood, she would not oppose the adoption of the Conclusions.

I am copying this letter to John Gieve (HMT).

Jan,  
Stephe Wall

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street

Euro Rd - Euro Council Pr 35





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Foreign and Commonwealth Office

London SW1A 2AH

22 November 1989

*Tim Austin*  
CDD  
77k

*Jean Charles,*

EC/Eastern Europe

Work is in hand here on the paper for Strasbourg which was commissioned at the Prime Minister's meeting with the Foreign Secretary on 14 November. In the meantime, you might find it useful to have the enclosed factual note describing the current situation.

*James*  
*James Wall*

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street

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## FRAMEWORK FOR THE COMMUNITY'S RELATIONS WITH EASTERN EUROPE

### CURRENT SITUATION

#### Mediterranean Cooperation and Association Agreements

1. The EC has, under Article 238 EEC, concluded Cooperation or Association agreements with Turkey (1963), Malta (1971), Cyprus (1973), Yugoslavia (1980), Morocco, Algeria, Egypt and Israel (1976), Tunisia, Jordan, Syria and Lebanon (1977), ie all the countries of the Mediterranean littoral except Albania and Libya. The Association Agreements with Turkey, Cyprus and Malta have customs union as their ultimate objective; only in the case of Cyprus is real progress being made towards that objective. Otherwise Cooperation and Association Agreements are essentially the same. They provide Mediterranean countries with:

- Preferential trade access:

(i) duty-free access to the EC for industrial products, (except for some textiles which are subject to voluntary restraint agreements and certain sensitive industrial products from Yugoslavia which are subject to duty-free ceilings).

(ii) Varying degrees of preferential access for agricultural products.

- These trade concessions are not reciprocal ie. the EC receives only Most Favoured Nation treatment in return except in the case of Israel where both sides enjoy duty-free trade in industrial products and Cyprus where transitional arrangements towards customs union in industrial products began in 1988.



- Economic and technical cooperation covering a wide range of fields (eg industry, agriculture, energy, technology, training).
  
- Financial Assistance in the form of additional protocols which provide grants from the EC budget and loans from the EIB. (Israel receives only EIB loans).
  
- Cooperation/Association Councils which meet at Ministerial level, in principle once a year, though in most cases less frequently, to review the operation of the agreements. In practice these tend to be routine exchanges of position; mechanisms exist at official level to resolve problems, but are not always fully effective.

2. Only the Association Agreement with Turkey contains a clause which refers to the possibility of membership once Turkey is in a position to accept the obligations of the EC Treaties.

3. It may be interesting to detail the Yugoslavian Cooperation Agreement:

(a) Trade - Agreement more advantageous than the benefit which Yugoslav receives from the Generalised Scheme of Preferences. 90% of Yugoslav industrial exports enter the EC duty free; the other 10% have ceilings above which duty can be payable if demanded by a member state. Preferential access for specific agricultural products.

(b) Economic - cooperation in energy, agriculture, environment, transport, fisheries, tourism, science and technology, industry, training and standards.



(c) Financial - 2 protocols have provided Yugoslavia with 260 mecu [in grants] and 550 mecu in EIB loans.

B. EFTA Agreements

The EC concluded individual agreements with the six EFTA members (1972, 73) though the agreements are virtually identical. They provide for:

- Free trade in industrial products and a limited range of (mainly processed) agricultural products
- Joint Committees which are held regularly at official level. EC/EFTA Ministerial meetings are held on an ad hoc basis.

4. The Free Trade area provided for under the agreements was achieved in early 1984. The EC and EFTA cooperate closely on the elimination of technical barriers to trade. In April 1984 EC and EFTA Ministers agreed the Luxembourg Declaration which called for:

- Cooperation on harmonisation of standards, elimination of technical barriers, simplification of border formalities and rules of origin.
- Cooperation in the field of research and development, working conditions, culture, consumer protection, the environment, tourism, social protection and intellectual property.

The overall aim was to create "a dynamic European economic space". Some progress has been made over the past five years to implement these objectives.



5. Since the Brussels EC/EFTA Ministerial meeting in March 1989, the Commission has explored with EFTA ways to extend the Single Market to EFTA ie free movement of goods, services, capital and persons, plus some flanking policies such as energy, environment, research. The Joint Ministerial on 19 December will review progress and formal negotiations on these objectives is likely during 1990. Decision making (how EFTA should be able to shape decisions which it will subsequently apply) and compliance by EFTA with appropriate elements of Community law will be the most difficult issues.

#### C. EC Relations with Eastern Europe

6. Agreements follow one of three models: limited sectoral; trade and commercial cooperation alone; or trade, commercial and economic cooperation. The Community seeks to reflect in each the extent of political and economic reform in the country concerned; the more the reform achieved, the more extensive the cooperation envisaged. Each agreement also provides benefit to the EC eg better access for business.

#### 7. (i) CMEA/EC

- Joint Declaration June 1988: Principally a statement of mutual recognition, plus some provision for possible cooperation activities. A face saving formula which was followed by requests from all East European countries except Romania to establish diplomatic relations with the Community. Negotiation of bilateral agreements then followed in most cases.



(ii) Poland

- Trade, Commercial and Economic Cooperation Agreement; 1989 valid for 5 years: Community undertakes to remove trade discriminatory quantitative restrictions. Poles to improve business conditions for Community operators. Economic cooperation in a large range of sectors.

Following that agreement, extensive further measures followed rapidly:

- Bilateral MFA textiles agreement
- GSP to be granted for five years
- 105 mecu in food aid
- Access to EIB loans granted
- (With Hungary) to share 300 mecu budget line for 1990 covering agricultural reform, environmental measures, and manpower training.

(iii) Hungary

- As for Poland, except food aid, but bilateral Agreement valid for ten years.

(iv) USSR

- Negotiations in final phase on a trade, commercial and economic cooperation agreement. On the same lines but less favourable than for Poland and Hungary, bearing in mind state of reform and non-membership of GATT. Agreement also to cover Euratom.



- Negotiations under way on a bilateral MFA textiles agreement.

- Negotiations stalled on a fisheries agreement.

(v) GDR

- Mandate prepared by Commission on a trade and commercial cooperation agreement (ie more than Czechoslovakia, less than Hungary/Poland). Not yet submitted to Member States, Commission now likely to propose economic cooperation as well.

- Subject to autonomous Community regime for textiles. Contacts on a possible textiles agreement.

- Specialised agreement covering trade in sheepmeat.

- In addition under a protocol to the EEC Treaty, trade in manufactured, and some processed agricultural goods, between the Germanies is free of import duty. However a VAT refund is repayable if the same good is then re-exported to another member state. The Protocol provides that other member states may take safeguard action in case of unfair disruption of their markets. The FRG has been reminded of the need to ensure that risks of leakage post 92 must be minimised.

(vii) Czechoslovakia

- Agreement on trade in industrial products, limited scope and commitment (1988). Community to make progress in removing discriminatory QRs, Czechoslovaks to improve business conditions.

- Bilateral MFA textiles agreement.

(viii) Romania

- Existing trade agreement (1980).
- Stalled negotiations on a trade and commercial and economic cooperation agreement.
- Bilateral MFA textiles agreement.
- GSP beneficiary.

D. Council of Europe

No Eastern European membership but Hungary formally applied on 16 November 1989 - Poland will do so. Hungary and Poland are parties to some Council of Europe Conventions. Soviet Union has proposed extensive cooperation. Parliamentary Assembly has accorded special status for Hungary, Poland, Yugoslavia and the Soviet Union. The main criteria for membership are democracy and respect for human rights.

E. Membership of GATT, IMF/IBRD

Hungary, Poland, Yugoslavia and Romania are members of the GATT and IMF/IBRD, Czechoslovakia is a member of GATT, and Bulgaria has applied for GATT membership.

F. The State of Reform in Eastern Europe

1. The Reformers: USSR, Hungary, Poland and Yugoslavia

- Soviet Union: wide freedom of expression. Free, but not pluralistic, elections in March 1989 resulted in an increasingly independent Supreme Soviet. Massive legislative programme includes human rights. Economic reforms have scarcely begun to bite; economy deteriorating.



- Hungary a pluralist system, free elections spring 1990. The Communist Party has become the Hungarian Socialist Party. Other political reform in train. Much of the legal basis for a market system is in place, but budgetary subsidies continue and state-run industries need reform. Trade and exchange controls have been liberalised (contributing to a mounting balance of payments deficit).

- Poland A pluralist system: semi-free elections have been held, coalition government in place, completely free local elections due in 1990, and the Communist Party reforming. Some legal framework to dismantle the command economy is in place; the Government is committed to reform monetary, fiscal and incomes policies, and to privatise the economy, but its pace is undecided.

- Yugoslavia A moribund one-party system with elements of pluralism in Croatia and Slovenia. The least dirigiste of the East European economies, but widespread inefficiency and indebtedness (and rampant inflation). Plans for political and economic reform hampered by inter Republican rivalries and lack of central authority.

## 2. Reluctant reformers: GDR, Bulgaria

- Bulgaria No political reform. Much confused tinkering with economic system, but still a pure command economy. Implications of recent leadership changes not yet clear.

- GDR. The GDR leadership is moving towards political reform. Free elections are promised, but Communist party retains leading role under constitution. Own variant of economic management but is still a command economy. Economic reform is promised but will take a long time.

C. Potential reformer: Czechoslovakia

Less antagonistic handling of dissidents in recent months, but Party completely in control. Tinkering with economic mechanisms but still a command economy.

D. Anti-Reform: Albania and Romania

Both maintain a rigorously Communist system and oppose current developments in Eastern Europe. Only recent improvement is Albania's desire for better relations with Western Europe. Romanian isolation within the Warsaw Pact continues.

Foreign & Commonwealth Office

22 November 1989

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

22 November 1989

*Dear John.*

**EUROPEAN COUNCIL: STRASBOURG:  
ECONOMIC AND MONETARY UNION**

I enclose a paper on discussion of EMU at the European Council in Strasbourg which has been sent in by Sir Michael Butler. It would be helpful to have any comments which you and the Foreign and Commonwealth Office would like to offer. Sir Michael has asked for a meeting with the Prime Minister and I shall be consulting her about this.

I am copying this letter and enclosure to Stephen Wall (Foreign and Commonwealth Office) and David Hadley (Cabinet Office).

*C. D. Powell*  
(C. D. POWELL)

John Gieve, Esq.,  
HM Treasury.

Discussion of EMU at the Strasbourg European  
Council in December

Paper by the Chairman of the European Committee

It looks as though the December European Council may again have a difficult discussion on EMU. The French Presidency and the Commission seem intent on forcing a decision on the holding of an intergovernmental conference (IGC) on EMU during the Italian Presidency in the second half of 1990.. Though this seems premature (given that Stage 1 will only begin next July) and probably undesirable, experience in Milan in June 1985 showed that it is not easy to block a procedural decision of this kind if the majority of Member States are in favour.

Though the Germans may want to delay the IGC until after their elections in December 1990, there seems little doubt that there will be the necessary majority in favour of holding it early in Stage 1.

2. The European Committee has consistently taken the view that it would be contrary to the interests of the City for the U.K. to be isolated in discussions of EMU and that the British Government and the Bank of England ought to be seen to be at the centre of the discussion and playing a constructive role. We should, therefore, consider whether (as before Madrid in June) there is any advice on this subject which we could usefully offer to the Prime Minister before Strasbourg. The situation will no doubt have evolved considerably before 8th/9th December. But the broad outline of the likely situation is already discernible.

/The



The position already reached

3. The Prime Minister has agreed:-

- (a) on the aim of progressive realization of EMU;
- (b) to implement Stage 1 of the Delors plan including (once certain conditions are fulfilled) the entry of sterling into the exchange rate mechanism.

These matters should not, therefore be at issue in Strasbourg.

4. The British Government published on 2nd November a paper on an evolutionary approach (circulated separately). Whether or not the other member Governments regard some or all of these ideas as constructive, they are unlikely to regard them as a sufficient alternative to Stages 2 and 3 of the Delors Plan. They will note that the paper only speaks of "a system of more or less fixed exchange rates", whereas almost everyone in the Community, ever since the early 1970s has regarded permanently locked exchange rates as the essential aim of EMU and most of them regard a single currency as a more durable and advantageous option. Many of them argue that the "progressive realization of EMU" will only be possible if the IGC agrees on what should be done after Stage 1, lays down appropriate stages and provides the institutional framework which is capable of managing these stages. The French Government are determined to seek agreement on a list of practical questions, going beyond the rather fuzzy picture of Stage 2 painted in the Delors report, as a basis for the work of IGC.

5. The British Government will presumably wish to maintain the line that progress towards EMU should be evolutionary and that

/institutional



institutional changes should only be made as and when the situation makes such changes necessary. If other Member Governments do not, however, regard the November 2nd British paper as an adequate starting point two questions will arise:-

- (a) what other options could the British Government put forward as possible lines of advance after Stage 1 without abandoning their evolutionary approach;
- (b) can discussion of the substance best be carried on by resisting the procedural decision to hold the IGC or by acquiescence in it as the forum for that discussion, but with acceptable terms of reference

Whether or not the British Government can get support for an evolutionary approach will depend on whether other Heads of Government think that the Prime Minister is approaching the problem in a constructive spirit.

#### Possible Developments after Stage 1

6. One possible line of progress towards EMU which is played down by the Delors report (at the behest, no doubt, of the Bundesbank, though it would be popular with others such as the Italians and Belgians) and which is only touched on in three lines in paragraph 22 of the November 2nd paper is the development of the ECU. In the real world there have been a number of significant developments such as the issue of ECU Treasury bills by the Bank of England, the use of the ECU for intervention on the foreign exchanges, the ECU contract on LIFFE, and a

/gradual



gradual increase in its use by companies for internal pricing, external invoicing, denomination of bond issues or equity capital and so on. Evolutionary progress seems likely to continue in this direction. The British Government might suggest (without necessarily recommending any of them) that options to be considered for Stage 2 could include:-

- (a) removal of all impediments to the use of the private ECU by companies or individuals (this is under study in the Association for the Monetary Union of Europe) and, possibly, encouragement to companies to use it to finance and pay for intra-Community trade;
- (b) possible ways of moving towards eliminating the distinction between the official and the private ecu;
- (c) agreement by the twelve central banks to act as lenders of last resort in ecus (and how to ensure that any creation of ecus is controlled);
- (d) further down the road, a decision to freeze the composition of the ECU (though what about potential new members of the E.C.);
- (e) an alternative to (d) would be to cease to define the ECU as a basket and to allow it to continue as a currency in its own right;
- (f) a decision as to whether the ECU should at some stage officially be regarded as one of the "competing currencies" in accordance with the Mr. Lawson's ideas.



7. Another possible line of advance would be the further development of the co-ordination of monetary and exchange rate policy after Stage 1. A subsequent British paper could raise some of the questions about which all members of the ERM would need to satisfy themselves before they could safely abandon the option of realignments from time to time, even if they could in future take place rarely and on a small scale. It could, for example, discuss the pros and cons of a further narrowing of bands as a step in that direction. It might cast some doubt on the practicality of moving, at the end of Stage 2, from 12 currencies to one without passing through a stage with a parallel currency. As regards monetary policy and the supply of money in the E.C. as a whole, it is difficult for an outsider to offer suggestions, given the lack of public knowledge of the work of the Monetary Committee and Central Bank Governors. It is clear that the money supply in the E.C. as a whole will be a matter of major concern to all Member States in a Community without exchange controls. The Treasury or the Bank of England could no doubt sketch out how they expect monetary co-ordination to be working at the end of Stage 1 and put forward some options for controlling the money supply in the E.C. (both practical and, possibly, at present impractical) which could be considered for Stage 2. These need not necessarily involve further institutional changes.

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/fiscal



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9. The purpose of putting forward substantive ideas about what might be done after Stage 1 would be to focus the minds of our partners on practical issues rather than institutional blue-prints for the future. This would reinforce us in arguing that the Community should first decide what it wants to do in Stage 2 and then consider whether this requires either:-

(a) additional powers for existing institutions;

or (b) new institutional developments.

The lesson of the European Monetary Co-operation Fund devised as a result of the Paris Summit of October 1972 is instructive. The Institution was set up in Luxembourg as an embryo central bank after much argument (Mr. Heath wanted it in Brussels for this reason) and has done virtually nothing since. Creating institutions does not necessarily lead to substantial progress.

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/towards



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Conclusions

12.

- (a) discussions on EMU at Strasbourg will be difficult and careful tactical preparation will be important; for example, the F.C.O. could mount a major campaign on the theme "substance first, institutions second";
- (b) our interest is to put forward as many substantive ideas for consideration for Stage 2 as possible, even if at the same time we argue that some of them will not be practical for a considerable number of years;
- (c) the ideal place to discuss such ideas would be the Stage 1 institutions;
- (d) but if it does not prove practical to persuade a majority of member Governments to accept conclusion (c), it will be desirable to concentrate discussion at Strasbourg on getting acceptable terms of reference for the IGC which ensure that it considers the option of deciding first what substantive progress might be possible after Stage 1 and relating institutional developments to whatever may be agreed on substance.

MDB/MNL

3rd November, 1989



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Classdocs/Foreign  
Strasbourg Jan

cc PC

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

SIR ROBIN BUTLER

PREPARATIONS FOR STRASBOURG

The Prime Minister has considered your note of 16 November about preparations for Strasbourg. On reflection, the Prime Minister has reached the conclusion that it probably will not be possible to fit in a full OD before Strasbourg. There would be no point in a meeting until after the Foreign Affairs Council on 27/28 November and the Social Affairs Council on 30 November, at which the preparations for the European Council will be completed. But she will now have to be in Brussels on 4 December for the NATO Heads of Government meeting, and the remainder of that week is already very full.

On reflection, the Prime Minister would therefore prefer to have a general discussion in Cabinet on 7 December on the approach which she and the Foreign Secretary will take at the European Council. This would not be a substantive item, but would be raised under EC affairs, and would enable colleagues to raise any points they may wish to make.

If, rather against the odds, President Mitterrand were to respond positively to the Prime Minister's message about the Social Charter, we might have to fit in an ad hoc meeting of Ministers to consider our tactics. The Prime Minister suggests that we cross that bridge when we come to it.

CHARLES POWELL  
20 November 1989

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10 DOWNING STREET

Amade

M. great -

can we do this

or to know

after her return

in Munich?

a



Prime Minister

Ref. A089/3005

MR POWELL

We shall  
be at NATO

Agreed:

to hold OD on  
4 December? This is really  
the earliest practicable  
date, when we shall know

Preparations for Strasbourg

for sure how the  
issues will be resolved.

to invite the Ministers listed

In the business note of last week, it was proposed that a meeting of OD should be held at the end of the month to discuss the line to be taken on matters likely to arise at the European Council in Strasbourg, particularly the Social Charter and EMU. I also warned that it might be necessary to hold an earlier meeting to discuss the line to be taken on the Social Charter if a reply was received from President Mitterrand proposing negotiations. The Prime Minister said that she would be prepared to have an earlier meeting of OD covering both the Social Charter and EMU.

in  
par.  
4?  
CDP  
14/11

2. In practical terms, there does not look to be much to be gained from discussing the approach to Strasbourg until after the agenda is finalised by the Foreign Affairs Council on 27-28 November. On the Social Charter, the Foreign Secretary has agreed that rather than discuss this in OD(E), the Cabinet Office should submit papers to you and that, together with any comments that the Secretary of State for Employment may have, they should be discussed either in the meeting of OD or in a separate meeting chaired by the Prime Minister following a reply from President Mitterrand.

3. Provided that the Prime Minister is prepared to wait until the end of the month for a discussion of the general approach to Strasbourg, all this seems satisfactory. Given that the Foreign Affairs Council is meeting on 27-28 November and there is a meeting of the Social Affairs Council on 30 November which Mr Fowler is attending, it may not be practicable to arrange this OD



meeting until Monday 4 December, but this should still give reasonable time before the European Council on 8-9 November. *December*

4. The remaining issue is the question of those who should be asked to the meeting of OD in addition to its regular members, who are the Prime Minister, the Lord President, the Foreign Secretary, the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for Trade and Industry and the Lord Privy Seal. I suggest that we should invite additionally:-

Secretary of State for Employment  
 Secretary of State for Social Security  
 Home Secretary  
 Attorney General and  
 Chancellor of the Duchy of Lancaster.

Depending on how the Strasbourg agenda develops, one or more of the following may also be needed:

Secretary of State for Transport  
 Secretary of State for the Environment  
 Secretary of State for Health  
 Minister of Agriculture

Could you let me know whether the Prime Minister would be content for us to invite additional Ministers to OD on this basis.

*R.B.*

ROBIN BUTLER

16 November 1989



SECRET

1

SUBJECT CC MASTER



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(cc: Foreign / Euro Council  
docs)

10 DOWNING STREET

LONDON SW1A 2AA

bc: PC  
a

From the Private Secretary

14 November 1989

Dear Sir,

EUROPEAN COUNCIL, STRASBOURG

I should record a point which came up in the Prime Minister's discussion with the Foreign Secretary and the Chancellor today about the handling of EMU at the European Council in Strasbourg. The Chancellor's assessment following the ECOFIN on 13 November was that the chances of preventing the Strasbourg Council from setting a date for an IGC are very limited indeed. But there is interest on the part of some governments in attaching conditions which would need to be fulfilled before the IGC actually meets. An example would be that the Monetary Committee and ECOFIN should have worked through fully the questions set out in the paper produced by the High Level Group and produced answers (no doubt alternative answers in some cases) to them. It would not be practicable for us to float such conditions at Strasbourg, but we might try to persuade others to do so. It was agreed that this approach needed to be worked up very rapidly and proposals put to Ministers.

The Prime Minister subsequently raised a further point about Strasbourg in her talks with the Foreign Secretary, relating to enlargement of the Community. She suggested that the European Council ought to issue a general statement making clear that further enlargement of the Community was not on the agenda even for consideration until after successful completion of the Single Market. This would avoid discrimination between countries who had made applications or might be considering them, and would push the whole problem off into the middle distance without administering a direct rebuff. The Prime Minister recalls that President Mitterrand seemed open to an approach on these lines when they discussed the matter at Chequers in September. In her view, it would be preferable to dispose of this matter during the French Presidency than let it run through the subsequent Irish and Italian Presidencies. You will wish to consider the merits of this.

I am copying this letter to John Gieve (HM Treasury).

*C. D. Powell*  
C. D. POWELL

Stephen Wall, Esq.  
Foreign and Commonwealth Office

SECRET





OFFICE OF THE UNITED KINGDOM  
 PERMANENT REPRESENTATIVE  
 TO THE EUROPEAN COMMUNITY  
 ROND-POINT ROBERT SCHUMAN 4  
 1040 BRUSSELS  
 TELEPHONE 2306205

2

FROM THE PERMANENT REPRESENTATIVE

J O Kerr Esq CMG  
 Assistant Under Secretary of State  
 FCO

1. cc Mr Works: HMT. 13 November 1989

Mr Hailey: Cabinet Office

2. cc PS/Mr Maule  
 PS/PuS  
 Sir J. Fretwell  
 Mr Ratford  
 Mr James Patten / Mr Arthur

*Prime Minister*  
*A thought*

*letter.*  
*CB*  
*15/11*

*Dear John*

EASTERN EUROPE : STRASBOURG AND BEYOND

3. Private Secretary. *John Kerr*  
 13/11.

1. The Secretary of State's meeting yesterday on the preparations for the Strasbourg European Council has served to concentrate my mind on the handling there of the inevitable (and welcome) discussion of Eastern Europe and on the interface between that discussion and other burning EC issues of the hour (EMU, Single Market, Social Charter). What follows is an untidy mixture of analysis and embryonic "Lines to Take" for Strasbourg. All this is of course also highly relevant to the Secretary of State's forthcoming bilaterals with Genscher and Dumas.

2. I begin from the short term tactical issue we discussed on 10 November; do we need to ensure that Eastern Europe moves centre stage at the Strasbourg European Council? I do not believe we do. It is pretty well there already; and will be more so by the time of the meeting itself, coming as it does just after the Bush/Gorbachev meeting off Malta. We know Delors among others is pushing that way. Moreover, as our credentials for pushing it there are liable to be a bit suspect, with our evident interest in marginalising the issues, we are less happy with (EMU, Social Charter). So I suggest we should just assume it is going to be centre stage and speak and act accordingly.

3. Is discussion of Eastern Europe in the European Council at Strasbourg and thereafter likely to be a divisive or a unifying force? I think it has the potential to be either. We are already seeing the rather over-excited attempts of those like Delors, the French (and Italian) governments and many commentators to argue that developments in Eastern Europe, and in particular the re-emergence of the German question as a live issue, necessitate accelerated progress within the EC with the scarcely, if at all, concealed objective of locking West Germany in. Even if we shared the broad foreign policy analysis behind this approach, which I for one do not, I do not see how, given our views on EMU, we could follow that course. I suspect that the Germans themselves (although Genscher and perhaps Kohl do seem to pay at least lip-service to it) will in the longer run find such an approach unacceptable for a whole range of reasons. The proponents of this approach (and also, from a quite different viewpoint, some commentators in the UK) contrast it with

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- 2 -

the opposite extreme - the EC weakened and perhaps marginalised in a wider Europe where nationalist forces are regaining their force, West Germany (or a re-united Germany) drifting off into a neutralised Mittel Europa etc etc. This latter approach has no governmental proponents in the EC nor I believe will it gain any. If we were ever tempted by it or by aspects of it, we would rapidly find ourselves in a minority of one on that issue too.

4. It seems to me, therefore, that we are compelled both by our interests and by our current situation in the EC to head for the middle ground. If we can define that middle ground in a coherent way and one which takes account not only of our own national interests but of those of the Community as a whole, then I think there is a real prospect of our playing a leading role in defining Community policy in the months and years ahead and of rallying majority support among the member states. In particular we ought to be able to attract the Germans themselves (whether the present governmental constellation or a different grouping after the federal elections in December 1990).

5. So, of what should this middle ground consist? I would suggest two broad propositions, one relating to the Community's external policy and one to its internal development:

- (i) The Community as such must play a prominent and active role in supporting the political and economic reforms in Eastern Europe while developing its external policies in such a way as to favour a whole range of possibilities for cooperation which fall short of actual membership.
- (ii) The Community must push on steadily with its internal development, neither artificially accelerating nor retarding it, giving particular emphasis to such policies as the completion of the single market which will make a direct contribution to breaking down economic barriers on a wider basis throughout Europe.

6. The first of these propositions is not likely to be too controversial. It could, however, be quite expensive. The Community has already begun to take decisions to support the reform programmes in Poland and Hungary. The need for similar (although not necessarily identical) decisions in respect of East Germany is probably only weeks away and some declaration of willingness in principle to go down that road is likely to surface at the November Foreign Affairs Council. Czechoslovakia, Bulgaria and Romania post-Ceausescu will surely follow. Yugoslavia cannot be ignored. The development of a wider and more structured relationship with EFTA which we firmly support on its own merits, is likely to be seen as increasingly relevant to Eastern Europe too, since it could provide a way of extending the four freedoms of the Single European Act beyond the bounds of the Community without posing the condition of full membership. This last caveat is important. Speculation about full

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/membership





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- 3 -

membership for East European countries, in particular for East Germany, is both premature and likely to be highly divisive. Far better to keep it at bay for the moment.

7. The second proposition, about the further internal development of the Community, will of course be a good deal less plain sailing. It will inevitably be disputed by the "accelerators". But I have the feeling that we shall find that we rather than they, are working with the grain of events, so long, that is, as we are able to concentrate more on the things we want to see done in the Community and less on those we do want to see not done. There should be real scope for re-asserting the primacy of the Single Market programme and for ensuring that it remains deregulatory and outward looking. We can argue that it is the additional economic resources and prosperity which the Single Market is beginning to show signs of generating which will enable us to play a full role in backing up reforms in Eastern Europe; and that it is only by keeping the Single Market outward looking and anti-protectionist that it will be able to contribute to the breaking down of barriers throughout a Europe wider than that of the Community.

8. EMU will, of course, not just go away, nor will the Delors Report advocates give up. I would be rather surprised if the French did not achieve their short term goal of getting an Inter-Governmental Conference called in the latter part of 1990. But if we can play it reasonably cool, if we can avoid polarising the debate too definitively, then I believe we can hope in practice to achieve a long period of evolutionary development of EMU before the case for institutional change is put to the test in a way which could split us from our partners. The attractions of a great leap forward on EMU will, I suspect, wane all the more quickly for for many, most crucially for the Germans, if we play up the practical disadvantages and play down the emotive constitutional and national sovereignty issues.

9. I have concentrated throughout this letter on the EC aspects of developments in Eastern Europe and have kept away from those relating to NATO transatlantic relations and our own relationship with the two key European players, France and Germany which are outside my bailiwick. I do, however, believe that such wider considerations point in much the same direction as I have indicated. The Bush administration certainly seems to take the view that the Community as such has a major and beneficial role to play in the definition of an overall Western strategy to handle developments in Eastern Europe. And keeping West Germany firmly anchored in the Alliance requires keeping it firmly anchored in the EC even if one does not buy the more apocalyptic versions of that proposition currently being peddled by Delors and the French. As to our relationships with France and Germany, I have argued in the Community context that the middle ground will be the best meeting place with the latter; France is clearly more

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- 4 -

problematic, but in the present situation, with the prospect of an increasingly powerful Germany, reunited or not, emerging I suspect they will gradually feel the need to move towards us so long as we pursue a strategy which has the future development of the Community at the centre of it, as it is at the centre of theirs, albeit in a rather different form.

10. I have not copied this letter elsewhere in the FCO, in Whitehall or to our EC posts. But have no objection to your doing so if you thought that useful.

*Stifford*  
pp. D H A Hannay

cc: D J E Ratford Esq CMG FCO  
Mr Elliott  
Mr Pakenham  
Mr de Fonblanque

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*me lhm  
c:/morrell*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

7 November 1989

*BM*  
Further to my telephone call last week,  
I am writing to confirm that Sir David's  
meeting with the Prime Minister will be at  
1030 on Friday 1 December. It should last  
approximately one hour.

I am copying this letter to David Hadley  
(Cabinet Office).

AMANDA PONSONBY (Mrs)

Miss Sue Morrell,  
Office of the United Kingdom Permanent  
Representative to the European Community.

*16*



Euro Council - Strasbourg



me from  
O: diary  
Phillips - fm

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

7 November 1989

BAH

Further to my telephone call, I am writing to confirm that the pre-Strasbourg trilateral will be held at 0930 on Tuesday 5 December. I have allowed an hour for this meeting.

I am copying this letter to Julie Thorpe (H.M. Treasury).

AMANDA PONSONBY (Mrs)

Miss Sandra Phillips,  
Foreign and Commonwealth Office.

*[Handwritten mark]*

Discussion of EMU at the Strasbourg European  
Council in December

Paper by the Chairman of the European Committee

Feb, Prime Minister  
Michael Baker  
has sent this  
in.  
CDD  
24 xi

It looks as though the December European Council may again have a difficult discussion on EMU. The French Presidency and the Commission seem intent on forcing a decision on the holding of an intergovernmental conference (IGC) on EMU during the Italian Presidency in the second half of 1990.. Though this seems premature (given that Stage 1 will only begin next July) and probably undesirable, experience in Milan in June 1985 showed that it is not easy to block a procedural decision of this kind if the majority of Member States are in favour.

Though the Germans may want to delay the IGC until after their elections in December 1990, there seems little doubt that there will be the necessary majority in favour of holding it early in Stage 1.

2. The European Committee has consistently taken the view that it would be contrary to the interests of the City for the U.K. to be isolated in discussions of EMU and that the British Government and the Bank of England ought to be seen to be at the centre of the discussion and playing a constructive role. We should, therefore, consider whether (as before Madrid in June) there is any advice on this subject which we could usefully offer to the Prime Minister before Strasbourg. The situation will no doubt have evolved considerably before 8th/9th December. But the broad outline of the likely situation is already discernible.



The position already reached

3. The Prime Minister has agreed:-

- (a) on the aim of progressive realization of EMU;
- (b) to implement Stage 1 of the Delors plan including (once certain conditions are fulfilled) the entry of sterling into the exchange rate mechanism.

These matters should not, therefore be at issue in Strasbourg.

4. The British Government published on 2nd November a paper on an evolutionary approach (circulated separately). Whether or not the other member Governments regard some or all of these ideas as constructive, they are unlikely to regard them as a sufficient alternative to Stages 2 and 3 of the Delors Plan. They will note that the paper only speaks of "a system of more or less fixed exchange rates", whereas almost everyone in the Community, ever since the early 1970s has regarded permanently locked exchange rates as the essential aim of EMU and most of them regard a single currency as a more durable and advantageous option. Many of them argue that the "progressive realization of EMU" will only be possible if the IGC agrees on what should be done after Stage 1, lays down appropriate stages and provides the institutional framework which is capable of managing these stages. The French Government are determined to seek agreement on a list of practical questions, going beyond the rather fuzzy picture of Stage 2 painted in the Delors report, as a basis for the work of IGC.

5. The British Government will presumably wish to maintain the line that progress towards EMU should be evolutionary and that

/institutional

institutional changes should only be made as and when the situation makes such changes necessary. If other Member Governments do not, however, regard the November 2nd British paper as an adequate starting point two questions will arise:-

- (a) what other options could the British Government put forward as possible lines of advance after Stage 1 without abandoning their evolutionary approach;
- (b) can discussion of the substance best be carried on by resisting the procedural decision to hold the IGC or by acquiescence in it as the forum for that discussion, but with acceptable terms of reference

Whether or not the British Government can get support for an evolutionary approach will depend on whether other Heads of Government think that the Prime Minister is approaching the problem in a constructive spirit.

#### Possible Developments after Stage 1

6. One possible line of progress towards EMU which is played down by the Delors report (at the behest, no doubt, of the Bundesbank, though it would be popular with others such as the Italians and Belgians) and which is only touched on in three lines in paragraph 22 of the November 2nd paper is the development of the ECU. In the real world there have been a number of significant developments such as the issue of ECU Treasury bills by the Bank of England, the use of the ECU for intervention on the foreign exchanges, the ECU contract on LIFFE, and a

/gradual



gradual increase in its use by companies for internal pricing, external invoicing, denomination of bond issues or equity capital and so on. Evolutionary progress seems likely to continue in this direction. The British Government might suggest (without necessarily recommending any of them) that options to be considered for Stage 2 could include:-

- (a) removal of all impediments to the use of the private ECU by companies or individuals (this is under study in the Association for the Monetary Union of Europe) and, possibly, encouragement to companies to use it to finance and pay for intra-Community trade;
- (b) possible ways of moving towards eliminating the distinction between the official and the private ecu;
- (c) <sup>each of</sup> agreement by the twelve central banks to act as lenders of last resort in ecus (and how to ensure that any creation of ecus is controlled);
- (d) further down the road, a decision to freeze the composition of the ECU (though what about potential new members of the E.C.);
- (e) an alternative to (d) would be to cease to define the ECU as a basket and to allow it to continue as a currency in its own right;
- (f) a decision as to whether the ECU should at some stage officially be regarded as one of the "competing currencies" in accordance with the Mr. Lawson's ideas.



7. Another possible line of advance would be the further development of the co-ordination of monetary and exchange rate policy after Stage 1. A subsequent British paper could raise some of the questions about which all members of the ERM would need to satisfy themselves before they could safely abandon the option of realignments from time to time, even if they could in future take place rarely and on a small scale. It could, for example, discuss the pros and cons of a further narrowing of bands as a step in that direction. It might cast some doubt on the practicality of moving, at the end of Stage 2, from 12 currencies to one without passing through a stage with a parallel currency. As regards monetary policy and the supply of money in the E.C. as a whole, it is difficult for an outsider to offer suggestions, given the lack of public knowledge of the work of the Monetary Committee and Central Bank Governors. It is clear that the money supply in the E.C. as a whole will be a matter of major concern to all Member States in a Community without exchange controls. The Treasury or the Bank of England could no doubt sketch out how they expect monetary co-ordination to be working at the end of Stage 1 and put forward some options for controlling the money supply in the E.C. (both practical and, possibly, at present impractical) which could be considered for Stage 2. These need not necessarily involve further institutional changes.

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/fiscal



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#### Conclusions

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MDB/MML

3rd November, 1989



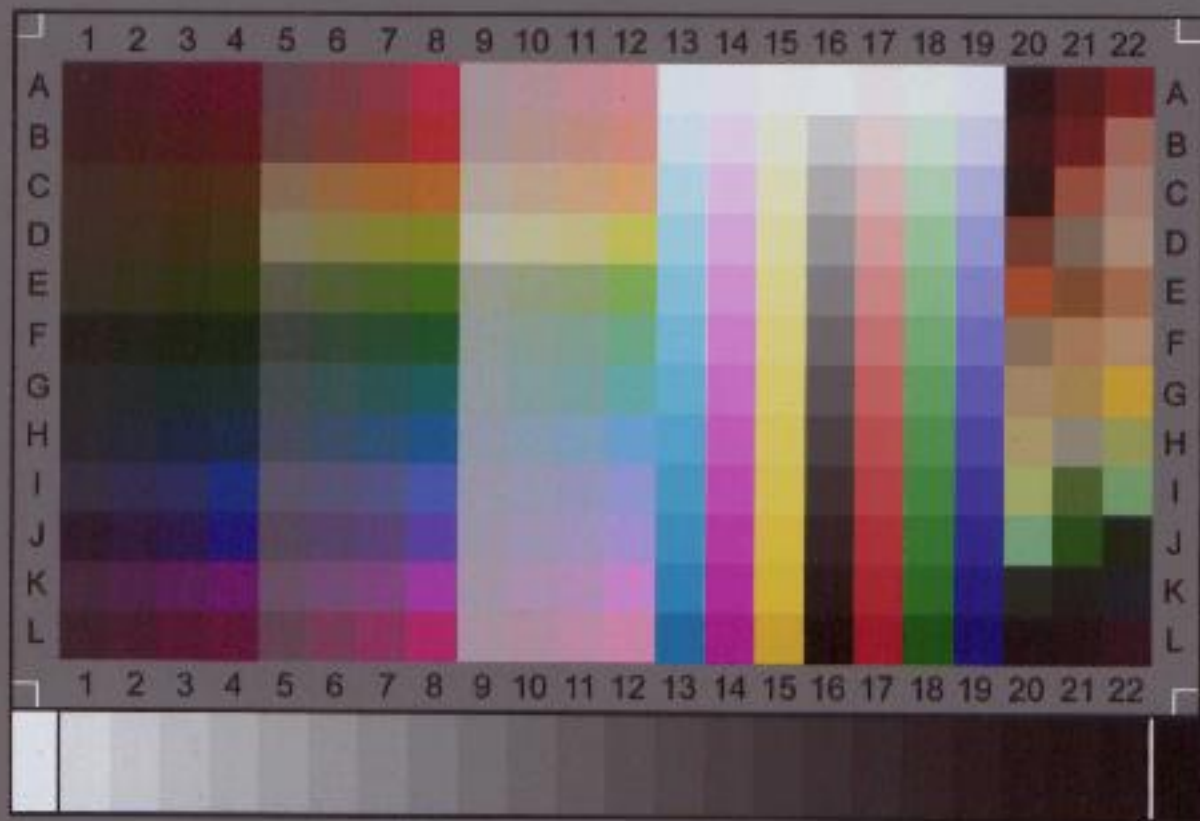
PART

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PART 35

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Butter's Paper on EMU 3.11.89  
~~AP TO FCO 7/11/89~~



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