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PM/89/31

PRIME MINISTER

Madrid European Council

1. You will be seeing the Spanish Prime Minister for lunch on 19 June to discuss plans for the European Council. OD(E) agreed this morning that UK objectives for Madrid should be as set out in OD(E) (89)(13) (attached) - viz: *attached*

- to make the most of our positive contribution on the single market (if possible establishing a new set of priorities, in line with UK thinking);
- to give a 1992-related lead in discussion of external issues, arguing for reaffirming the EC's commitments to improved relations with EFTA, to a balanced approach to relations with the East, and to a liberal Community position in the Uruguay Round;
- to contrive a low-key, business-like discussion of frontiers issues, and the adoption of a sensible work programme;
- to fend off the idea of a Social Charter implemented through EC or harmonised national legislation but to bring out our concept of the social market which is compatible with EC action where appropriate.

/- to work

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- to work for a remit to ECOFIN to work up Stage I measures for economic and monetary cooperation, with work on Stages II and III (and therefore the question of an IGC) put on the back-burner.

General

2. The Spanish have made very good progress on the single market, and are likely to break the German record for measures agreed. Important examples include public procurement (both works directive and compliance); units of measurement; personal protective equipment; and insider dealing (expected on 19 June). This is good reason to reaffirm at Madrid the importance of the single market and to update priorities for the year ahead.

Obvious candidates (as suggested in David Young's paper OD(E) (89)(14), which I also attach) would be transport liberalisation, life insurance, standards and certification, and barriers to takeovers. We need targets where progress will bring tangible and obvious benefits to Europe's citizens: cheaper air fares would be an excellent example. As more and more single market measures are adopted, timely implementation and enforcement by member states also becomes important. The Commission have a useful monitoring role to play here, and should be given backing at Madrid.

3. There is unlikely to be much discussion of fiscal issues at Madrid. We have already won on withholding tax, and are making good progress on indirect tax, on which the latest Commission proposals are far more sensible than the Cockfield ones. But there is no need to raise

/tax

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① Transport  
Liberalisation  
② Life insurance  
③ Standards  
④ Barriers to takeovers



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Frontiers  
Drugs

tax issues with Gonzalez. On frontiers we expect a positive, but low-key outcome at Madrid based on the sensible report by the national "coordinators" appointed after Rhodes. This outlines the work currently in hand, much of it useful practical cooperation on the problem of illegal immigration, terrorism, etc. To the extent that there is discussion, we should focus it on areas where we want greater cooperation, eg combatting cross-border drug trafficking. On fraud, significant progress has been made, with a good Commission work programme which is likely to be endorsed by ECOFIN on 19 June. We shall want to ensure that the Madrid Conclusions text highlights political commitment to effective action.

4. Your line with Gonzalez on these issues might be:

- congratulations on record progress on the 1992 programme. Spain has demonstrably kept this as the Community's top priority. Must mark that success in Madrid Conclusions, and try to ensure that momentum is maintained. Useful to include priorities for coming months - eg transport liberalisation, life insurance - both directly relevant to Europe's citizens - standards and certification, and barriers to takeovers. Important to ensure timely implementation of directives too, and proper enforcement;
- coordinators' review of work on frontiers a valuable exercise: need not require detailed discussion; but important that Council recognises need to combat growing drugs threat to all our countries;

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- important also to record common resolve to tackle problem of fraud against EC budget.

Social

5. Gonzalez faces conflicting pressures over the handling of social issues. On the one hand he is under domestic pressure for high profile conclusions from Madrid, even if we cannot sign up. On the other hand, he will not want his Presidency to conclude with an 11 to 1 split. The indications are that he has not yet decided his tactics. It would be good to stress, as Norman Fowler did in the Social Affairs Council on 12 June, that the UK does not dispute the legitimacy of the social dimension of 1992. We see this primarily in terms of the extra growth, and so more jobs, which Single Market liberalisation will bring; and the UK track record is testimony to the efficacy of liberalisation - a point which Gonzalez himself will not dispute. We also accept Community action where it is necessary, as for example in the recently approved framework directive on Health and Safety at Work. But we see no need for a Social Charter: national practices reflect national traditions which should be respected. While we could therefore subscribe to language expressing common commitment to the social dimension, we could certainly not support a text like the Commission's draft charter, with EC legislative follow-through.

6. With Gonzalez you might therefore like to say:

- we accept that social market issues are an important part of 1992. Securing new jobs through more growth and greater flexibility is the over-riding aim;

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Growth Jobs.  
Training  
Enterprise



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- UK experience of deregulation and a liberal market approach encouraging. 33<sup>4</sup> months of falling unemployment as many new jobs (1983-87) as rest of EC together;
- of course some safety-net measures at EC level appropriate and right - eg on Health and Safety at work;
- but we see no need for a Social Charter on the lines proposed by the Commission: follow-up legislation (as Commission intend) would unacceptably override national practice - and violate the Commission's avowed doctrine of subsidiarity;
- no need for premature decisions on the Charter issue at Madrid. Suggest conclusions can instead note wide areas of agreement on social dimension of 1992.

We are of course working up a full range of material for use at Madrid.

Monetary

7. The Spanish expect Monetary issues (EMU) to dominate the European Council, and intend to devote a whole session to the subject. Their objective is to complete the procedural debate on follow-up to the Delors Report at Madrid, rather than deferring discussion into the French Presidency. That suits us.

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8. We believe that their aim will be to build on the formula reached at the informal ECOFIN meeting at S'Agaro on 19-21 May: separating the measures set out in Stage 1 of the Delors Report - work to begin as a matter of urgency - from those in Stages 2 and 3 - work to define "operational elements" with a decision on an inter-governmental conference (IGC) "in due course". They are likely to propose that Stage 1 should start on 1 July 1990, but without any commitment on the timing of a move to Stage 2. But, following their recent announcement about the Peseta and the ERM, they are likely to raise the question of Sterling's membership: advice on this has been submitted separately.

9. The Spanish line meets our key concerns by sidestepping the assertion at paragraph 39 of the Delors Report that the "decision to enter upon the first stage should be a decision to embark upon the entire process", and by delaying sine die the calling of an IGC. This approach will not please the French, who - with M Delors - may accordingly try to have substantive decisions deferred until their Presidency. But it will be difficult for them openly to advocate delay; and other member states, eager to proceed if possible on the basis of the Twelve acting together, will be reluctant to reject the Spanish line if we buy it.

10. You may wish to emphasise to Gonzalez that:

- our commitment to economic and monetary cooperation is demonstrated by our record; we have already taken the lead in various practical ways (eg abolishing exchange controls, issuing ecu Treasury Bills); and we are genuinely willing to see further progress;

/- focus

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- focus on Stage 1 makes sense, and we see no difficulty about setting a start date. We also favour some measures not in Stage 1, such as the promotion of the private ecu and increased holdings of EC currencies in reserves;
- we believe that the "in for a penny" assertion at paragraph 39 of the Delors Report is divisive and unacceptable; as is the call for an early IGC at paragraph 66;
- there can be no question of the UK Parliament agreeing now to ratify Treaty amendments transferring powers to new institutions at an unknown, but distant, future date; and the Delors Report itself makes clear that no Stage 1 measures require Treaty amendment.

11. On external issues, it would do no harm to congratulate Gonzalez on the Presidency's deft handling of relations with the US in the early months of the Bush Administration, and on their contribution to a successful GATT Trade Negotiating Committee meeting in April. He may mention the case for some discussion in Madrid on China, and on East/West relations, in the light of developments in Eastern Europe, Gorbachev's visit to western capitals and Jaruzelski's to London. The Council will in the usual way issue conclusions on a number of political cooperation subjects, and the Presidency plan a separate, formal statement on the Middle-East, which Foreign Ministers will prepare. None of this should present substantive problems.

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12. On the other hand, you might wish to sound a warning note if he mentions two other likely topics. First, they envisage a common statement on middle-income debt in advance of the G7 summit, and are expected to propose in ECOFIN on 19 June a European fund to support debt reduction. We oppose this, and would not want Madrid conclusions to go beyond general support for activity in other fora (G7, IFIs). Second, the Commission are suggesting a European Environment Agency. We are very sceptical about this: no proposals have yet been made: and we would not wish any advance endorsement from Madrid to prejudge the debate.

13. Copies of this minute go to all members of OD(E), the Home Secretary, the Secretary of State for Environment and Sir R Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
16 June 1989

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