

Confidential File

The Community Budget



Developments in the European Community.

EUROPEAN

POLICY

Part 1: May 1979

Part 43: Oct 1989

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2-10-89							
9-10-89							
11-10-89							
19-10-89							
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7-12-89							
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PREM 19/2664

● PART 43 ends:-

SS/ Employment Press statement

30 November 1989

PART 44. begins:-

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PRESS STATEMENT

SOCIAL CHARTER: ACTION PROGRAMME

Following today's meeting of the Social Affairs Council meeting in Brussels, Norman Fowler, Secretary of State for Employment issued the following statement.

"There was a discussion of the Action Programme which accompanies the Social Charter. It is now clear that there will be a whole series of measures affecting employment brought forward over the next two years. According to Commissioner Papandreu there will be 45 measures involving 17 directives.

"No-one should be under any doubt about the impact of what is proposed. The directive proposed will include hours of work; holidays and rest periods; part-time and temporary work.

"All these measures will add to labour costs. Our concern remains that the proposals, which will be taken under the Social Charter, will cost jobs.

"We agree that Europe should have a very firm commitment to social progress. We should re-affirm the priority of job development and creation. We also need to recognise that many matters are best left to member states, and we must build on progress already made in member states with their different traditions.

"We welcome work to take forward at Community level those major principles on which we are working together: freedom of movement; mutual recognition of

qualifications; equal treatment for men and women in employment; and health and safety at the workplace.

"But the most urgent social issue in Europe today is unemployment. There are 14 million unemployed people throughout the Community. We will not create jobs by regulations. We will not reduce unemployment by new restrictions. The Action Programme takes us in the wrong direction.

"The European Single Market must be about improving working and living standards. 1992 will provide opportunities for business. Business growth will create new jobs, and bring down unemployment, and therefore improve living standards".

copy
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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

CDD 302ki

30 November 1989

Dear Nick,

STATE SUBSIDIES IN THE EUROPEAN COMMUNITY

WILL REQUEST IF AGREE

I have seen a copy of your letter of 13 November to Douglas Hurd and a copy of his reply.

I strongly support your proposal to develop a better articulated and more pro-active strategy on EC state aids. Now is an ideal time both to publicise our own record more positively and to work up detailed proposals for influencing the Commission's thinking.

The reduction of barriers to trade in the Single Market and on the wider international front run the risk that countries will step up rather than reduce subsidies as a covert means of protectionism. So our pro-Community stance on state aids, backed by the Commission's own figures in their White Paper demonstrating the UK's good record in the industrial sector, should be seen as an important part of our support for the completion of the Single Market and a successful Community.

I endorse your three priority areas of reducing (and making more transparent) subsidies in the field of the financial relationship between governments and state and other industries close to the public sector; in the field of regional subsidies, for example, by reducing maximum subsidy limits; and in the field of subsidies in the energy and transport sectors. Just as we are rigorously pursuing downward pressure on subsidies domestically, so we should also encourage a complementary approach at EC level. I hope that your strategy will go beyond your three priority areas where appropriate, for example, where subsidies to R and D or civil aerospace involve anti-competitive elements. As regards agricultural subsidies, on which the UK record in the EC White Paper in contrast to industrial subsidies is poor compared to other Member States, I too hope that John Gummer will seek a complementary and supportive approach.

You draw attention to the need for work on subsidies in the OECD and Uruguay Round. I support this strongly. In particular, the recent launching of a new round of negotiations in the OECD Consensus on export credits gives us an ideal opportunity. We need to obtain the early abolition of interest subsidies on export credits where the UK itself is one of the main countries still giving subsidies. We also need to get better discipline over the use of tied aid which distorts export competition and where Community countries are among the guilty. The Commission represents EC members on these issues so I trust that UK representatives in Brussels will ensure that the Community takes a robust line against subsidies.

Finally, I fully agree with you that colleagues should feature the UK's pro-Community stance on subsidies strongly in future public statements, and that this should be couched primarily in terms of supporting the Commission rather than sniping directly at other Member States. Perhaps our officials could cover this presentational issue in their work along with working up a detailed EC State Aids strategy.

I am copying this letter to the Prime Minister, to Members of OD(E), to Geoffrey Howe, Peter Walker, Malcolm Rifkind, Peter Brooke, John Wakeham, Cecil Parkinson and to Sir Robin Butler.



*Yours truly
Malcolm*

THE EARL OF CAITHNESS

AMBASSADE DE FRANCE
LONDRES

R 30/10

L'AMBASSADEUR

30 November 1989

CDP 30/10

Dear Prime Minister,

I have just received through the diplomatic bag a letter addressed to you by Monsieur François Mitterand, Président de la République.

I enclose it herewith.

Yours ever

Luc de La Barre

Luc de La Barre de Nanteuil

The Rt. Hon. Margaret Thatcher, FRSE, MP
Prime Minister
10 Downing street
London, SW1

CONFIDENTIAL



FILE
etc

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 November 1989

See paper.

SOCIAL CHARTER

The Prime Minister said to the Foreign Secretary this morning that she thought we ought to have our own draft of a Social Charter to hand in Strasbourg so that we could demonstrate to the press and others what we would have been prepared to sign up to, if others had agreed. The work already done on this should now be finalised, therefore, and a text put to Ministers as soon as possible.

I am copying this letter to Clive Norris (Department of Employment) and David Hadley (Cabinet Office).

Charles Powell

Stephen Wall Esq
Foreign and Commonwealth Office

CONFIDENTIAL

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Ref. AO89/3120

PRIME MINISTER

Cabinet: Community Affairs

1. The Foreign Secretary may report on the Foreign Affairs Council on 27 November. Main points were:

- the Council agreed the trade and financial package for Poland and Hungary, including agricultural concessions under the Generalised Scheme of Preferences (GSP), suspension of quantitative restrictions on imports, an economic aid regulation and European Investment Bank guarantees;
- the Presidency confirmed that the agenda for the Strasbourg European Council would include discussion of Eastern Europe, including the proposal for a Development Bank; EMU (on which a Presidency note would be circulated shortly); the Social Charter (which Dumas implied would be open for signature at Strasbourg); plus EC/EFTA relations and EC/Mediterranean policy;
- the EC/ACP Ministerial meeting, which ran partly in parallel, finally settled the terms of Lomé IV, with 10.84 becu for EDF VII plus 1.225 becu of EIB lending. Signature is expected in Lomé on 11 December.

2. The Secretary of State for Trade and Industry may report on the Internal Market Council on 23 November. Main points were:

- substantial progress on the EC merger control regulation, on which there are reasonable prospects of agreement at the 21 December Internal Market Council. The main outstanding problem is a German demand that would undermine the principle of the 'one-stop shop' (that companies seeking clearance for mergers should be required to apply either to national authorities or to the Commission, but not both);
 - the Commission made a helpful statement on the need to remove barriers to takeovers in the Community, and undertook to produce specific recommendations by the end of March 1990. This is a good outcome, stemming from our efforts to link this issue with progress on the merger control regulation.
3. The Secretary of State for the Environment may report on the 28 November Environment Council. The main points were:

- political agreement on the terms of the regulation to set up the European Environment Agency. The choice of site was not discussed;
- UK successfully resisted Italian pressure for conclusions on environmental taxation; Mr Patten underlined that substantive decisions on tax issues were a matter for ECOFIN;
- also discussed were habitats; nitrates; tropical forests; and freedom of access to environmental information.

But Mr. Patten was told of your preference for London or Cambridge. CDB.

RJB

ROBIN BUTLER

29 November 1989



ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

CEPC

The Rt Hon Nicholas Ridley MP
Secretary of State for Trade & Industry
Department of Trade & Industry
1 - 19 Victoria Street
LONDON
SW1H 0ET

CD 29 L:

29 November 1989

Dear Nicholas,

STATE SUBSIDIES IN THE EUROPEAN COMMUNITY

with request of 18/1/89

Thank you for copying to me your letter of 13 November to Douglas Hurd.

I fully share your concern about the need to ensure greater transparency in the provision of state subsidies to industry within the Community and about the need to secure reductions in the high levels of support offered by some Member States. Not only do these subsidies distort competition between companies within the Community but they also distort competition between Member States in the attraction of internationally mobile inward investment projects - usually to our disadvantage. I agree therefore that we should do what we can to secure improvements in transparency and a general ratcheting down of aid ceilings with the overall objective of creating a truly level playing field. Such a course of action is however fraught with difficulty and I think it is essential that we recognise these difficulties, and take them into account in planning our tactics, before we commit ourselves to any particular course of action.

I see 3 main difficulties which I have outlined below.

First, it will be essential to ensure that any moves to increase transparency and reduce aid ceilings are applied uniformly and consistently across the Community. If we are to make reductions in our existing armoury of state aids it must be in the context of a multi-lateral disarmament rather than, as has sometimes happened in the past, a unilateral disarmament. In this context, I was struck by Leon Brittan's recent speech to the CBI's National Conference, which drew attention to the fact that in 1981 France, the UK and Germany all gave approximately the same absolute amount of state aid (ie +/- £2.8 billion) while Italy gave nearly double that amount. Over the period 1981-86, however, the amount given by the UK fell sharply to an annual level of £1.9 billion, while France, Germany and Italy all recorded substantial, in Italy's case very substantial, increases. These figures give me as much cause for

thought as they gave Leon. In particular, there is little evidence to date that our partners have followed our example, quite the contrary.

Secondly, it will be important to ensure that any reduction in state aids is achieved in a way which does not constrain our ability to operate an effective regional policy. While the objective must be to secure a level playing field between member states, we must ensure that we retain the ability to deal with the problems of those areas in this country which have suffered from industrial decline and continue to have unacceptable levels of unemployment.

Thirdly, it will be important to ensure that due regard is paid to the distorting effects of other measures which may not formally be state aids - and which may indeed not even fall within the EC's competence - but which can have a similar effect. (I have here particularly in mind the Irish Corporation Tax concessions for manufacturing industry.) There is no point in seeking to level the playing field if one of the teams is going to field 12 players!

In your letter you refer specifically to certain types of subsidy and I would like to comment briefly on 3 of them

First, regional assistance. The continuation of an effective regional policy in the United Kingdom is a matter to which I attach the utmost importance and I should find it difficult to agree to anything which restricted our ability to operate such a policy. Whilst it is arguable that a more level playing field might be desirable in terms of our ability to compete effectively for inward investment, we must be fully aware of the presentational difficulties which would arise - certainly in Scotland - if a tightening of controls were to result, for example, in a reduction in the coverage of the assisted areas map.

You have of course now written to me separately about the regional policy aspects of your proposals and I shall be replying to that letter shortly.

Secondly, on transport subsidies, you identified British Rail as a special case. Equally important, if on a much more modest scale, are the subsidies my Department provides firstly to both public and private sector operators in support of shipping services to the remote communities off the north and west coasts of Scotland, and secondly to Highlands and Islands Airports Limited, the CAA subsidiary which owns and operates 8 airports in the Highlands and Islands. These subsidies not only help to support the fragile economies within these communities but in many cases they are vital to the maintenance of lifeline services which could not operate commercially. Any move to withdraw these subsidies would run directly counter to our Manifesto commitment to continue such support.

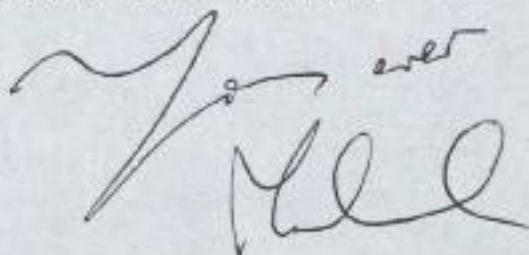
Finally, on the energy industries, I understand that John Wakeham will be giving you comments but, for Scottish interests, I am confident that we can justify the position of the non-nuclear electricity companies which are about to be privatised.

I am, however, anxious to avoid drawing attention unnecessarily at this stage to the proposed nuclear arrangements, particularly when the implications of retaining the nuclear power stations in the public sector, as we announced on 9 November, are still under consideration. While greater transparency in the energy field generally is to be welcomed in principle there are certain sensitive areas where considerable care would

need to be taken in presenting any proposals for further action to the Commission. This strongly emphasises the need for close consultation with the Departments responsible.

In conclusion, therefore, I fully support your aims in bringing forward these proposals but consider that we must plan our tactics very carefully if we are to ensure that the proposals do not backfire on us and that the end result is the creation of a playing field which is level both in theory and in practice. So far as regional policy is concerned, I would want consideration of your proposals to proceed in parallel with consideration of the question of whether the achievement of a level playing field might also be assisted by some adjustment in the restrictions we impose upon ourselves. I agree therefore that officials from the relevant Departments - including my own - should get together to discuss your proposals with a view to reporting back to us with detailed recommendations on both the policies to be pursued and the tactics to be employed.

I am copying this letter to the Prime Minister, to members of OD(E), to Geoffrey Howe, Peter Walker, Peter Brooke, John Wakeham, Cecil Parkinson and to Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Malcolm Rifkind', with a stylized flourish above the name.

MALCOLM RIFKIND

THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
London SW1E 5HE
01 238 3290

The Rt Hon Nicholas Ridley MP
Secretary of State for Trade
and Industry
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H 0ET

29 November 1989

Dear Nick

STATE SUBSIDIES IN THE EUROPEAN COMMUNITY

Thank you for sending me a copy of your letter of 13 November to Douglas Hurd.

I welcome your initiative. We have long been conscious of the malignant effect of state subsidies in other Member States. Indeed we have persistently identified them as a principal barrier to achieving the level playing field which must be an integral part of a single market.

My officials are writing to yours to provide assistance with the work you outlined and I, and Department of Energy colleagues, intend to focus on this problem in public statements. In doing so we will refer also to the related, insidious practice of providing strategic marketing information on a discriminatory basis.

I am copying this letter to recipients of yours.

John Wakeham

JOHN WAKEHAM

CC: [unclear]

[Handwritten signature]

all obtained if required

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FM BONN

TO IMMEDIATE FCO

TELNO 1160

OF 281937Z NOVEMBER 89

INFO IMMEDIATE UKREP BRUSSELS, PARIS

INFO ROUTINE EUROPEAN COMMUNITY POSTS

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



FCS/89/207

SECRETARY OF STATE FOR TRADE AND INDUSTRY

State Subsidies in the European Community

Will (BEST) ALGAV

1. Thank you for your letter of 13 November.
2. I welcome your initiative. We have a good story to tell on State Aids, and it is very much in our interest to support the Commission in persuading others to reduce theirs. I am glad that a tough Community position on subsidies was recently agreed for the GATT Round.
3. Achieving greater transparency is obviously the first step in such difficult areas as energy and transport, where the subsidisers will claim all kinds of justification.
4. In pursuing regional policy subventions, we shall need to think carefully about the relationship between State Aids and the Structural Funds - we do not want to provoke renewed Commission concern about additionality.
5. I am copying this minute to the Prime Minister, the members of OD(E), the Lord President, and to the Secretaries of State for Wales, Scotland, Northern Ireland, Energy and Transport, and to Sir Robin Butler.

DH

(DOUGLAS HURD)

Foreign and Commonwealth Office

28 November 1989

CONFIDENTIAL
FM BONN
TO IMMEDIATE FCO
TELNO 1155
OF 281506Z NOVEMBER 89
AND TO IMMEDIATE UKREP BRUSSELS
AND TO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

EUROPEAN DEVELOPMENT BANK : GERMAN VIEWS

SUMMARY

1. AT THE MEETING IN BRUSSELS THE GERMANS WILL TRY TO STEER A MIDDLE COURSE BETWEEN THE DESIRE OF THE AUSWAERTIGES AMT TO SUPPORT THE FRENCH PROPOSAL AND THAT OF THE FINANCE MINISTRY TO QUESTION THE NEED FOR A NEW INSTITUTION.

DETAIL

2. WE UNDERSTAND THAT THE FRG'S POSITION FOR THE MEETING IN BRUSSELS CALLED BY ATTALI WAS CO-ORDINATED AT A MEETING OF OFFICIALS HELD IN THE FINANCE MINISTRY ON 27 NOVEMBER. THE MEETING BASED ITSELF ON CHANCELLOR KOHL'S INSTRUCTION THAT THE FRENCH PROPOSAL SHOULD BE CONSIDERED 'BENEVOLENTLY, CAREFULLY AND THOROUGHLY'. THE AUSWAERTIGES AMT PLACED MORE EMPHASIS ON 'BENEVOLENTLY' WHILE THE FINANCE MINISTRY ATTACHED IMPORTANCE TO CAREFUL CONSIDERATION OF ALL THE ISSUES, INCLUDING WHETHER A NEW INSTITUTION IS NEEDED AT ALL. OUR CONTACTS WITH THE TWO MINISTRIES TODAY SUGGEST THAT THE CO-ORDINATING MEETING DID NOT FULLY RESOLVE THIS DIFFERENCE. THE AUSWAERTIGES AMT SAY THAT THE GERMAN POSITION WILL BE TO GIVE A BROAD WELCOME TO THE FRENCH PROPOSAL WHILE ASKING QUESTION ABOUT THE DETAILS. THE FINANCE MINISTRY, ON THE OTHER HAND, STRESS THAT THEIR POSITION IS CLOSE TO THAT OF THE TREASURY, WITH WHOM THEY HAVE ALREADY CO-ORDINATED BY TELEPHONE; THEY INTEND TO QUESTION THE NEED FOR A NEW INSTITUTION. BOTH MINISTRIES WILL BE REPRESENTED IN BRUSSELS (BY VON KYAW AND KOEHLER RESPECTIVELY.)

3. THE CHANCELLOR'S OFFICE HAVE TOLD US THAT THEY HAVE NOT BEEN DIRECTLY INVOLVED SO FAR. A DECISION ON WHETHER THE ISSUE NEEDS TO GO TO CABINET WILL NOT BE TAKEN UNTIL AFTER THE BRUSSELS MEETING. IT IS THOUGHT UNLIKELY THAT MINISTERS COULD CONSIDER IT THIS WEEK. ONE PROPOSAL PUT FORWARD UNOFFICIALLY BY A MEMBER OF THE CHANCELLOR'S STAFF AS A POSSIBLE COMPROMISE WAS TO SET UP A SPECIAL BODY UNDER THE AUSPICES OF THE EUROPEAN INVESTMENT BANK. IT IS NOT

CLEAR WHETHER THIS PROPOSAL HAS BEEN INCLUDED IN THE GERMAN POSITION
FOR BRUSSELS

4. PLEASE ADVANCE TO WALL, PRIVATE OFFICE, AND JONES-PARRY ECD(E)

MALLABY

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OF 271925Z NOVEMBER 89

FRAME ECONOMIC

1990 BUDGET : DELORS APPEARANCE AT PARLIAMENT'S BUDGETS COMMITTEE

SUMMARY

1. DELORS TODAY TOOK THE UNUSUAL STEP OF APPEARING BEFORE THE PARLIAMENT'S BUDGETS COMMITTEE. HE SAID THAT THE COMMISSION'S LONG TERM OBJECTIVES FOR COMMUNITY SPENDING WERE VERY SIMILAR TO THOSE OF THE PARLIAMENT, AND THAT THE TWO INSTITUTIONS SHOULD FORM AN ALLIANCE TO PERSUADE THE COUNCIL TO ACCEPT A SIGNIFICANT REVISION TO THE FINANCIAL PERSPECTIVES FOR 1991 AND 1992, (WHICH MIGHT HAVE TO BE RESOLVED AT THE DUBLIN EUROPEAN COUNCIL) AND A RADICAL OVERHAUL OF COMMUNITY SPENDING BEYOND 1992. BUT HE URGED THE PARLIAMENT NOT TO START A BATTLE OVER THE 1990 BUDGET, WHICH SHOULD BE ADOPTED IN DECEMBER, WITHOUT A REVISION TO THE FINANCIAL PERSPECTIVES. THE UNANIMOUS RESPONSE FROM MEP'S WAS TO EXPRESS SUPPORT FOR DELORS' VIEWS ON 1991 AND BEYOND, BUT TO PRESS FOR AN IMMEDIATE REVISION TO THE PERSPECTIVS FOR 1990 TO COVER POLAND AND HUNGARY.

DETAIL

2. APPEARANCE BY DELORS, ACCOMPANIED BY BUDGET COMMISSIONER SCHMIDHUBER, DOMINATED PROCEEDINGS IN PARLIAMENT'S BUDGETS COMMITTEE. DELORS IDENTIFIED THREE STAGES IN THE COMMUNITY'S FINANCIAL TIMETABLE:

- DEALING WITH UNFORESEEN EXPENDITURE NEEDS, AND POLAND AND HUNGARY IN PARTICULAR, BOTH IN 1990 AND BEYOND.

- REVISIONS TO PRIORITIES FOR POLICIES ARISING FROM THE SINGLE EUROPEAN ACT - AS PRIORITIES DEVELOP THE STRAIGHTJACKET IMPOSED BY THE CEILINGS IN THE FINANCIAL PERSPECTIVE HAD TO BE RELAXED SOMEWHAT.

3. THE NEED FOR A RADICAL REVIEW OF COMMUNITY EXPENDITURE PRIORITIES IN THE PERIOD BEYOND 1992.

3. THE BEST WAY TO DEAL WITH POLAND AND HUNGARY WAS TO PUT 300

MECU ASIDE FOR AID IN 1990, WITH 200 MECU FOR FOOD AID: THIS COULD BE AGREED WITHOUT AN IMMEDIATE REVISION TO THE PERSPECTIVE, WHICH SHOULD BE LEFT UNTIL SPRING 1990, WHEN IT WOULD BE POSSIBLE TO TAKE A FIRMER VIEW OF THE OVERALL EMERGING NEEDS OF EASTERN EUROPE, WHICH MIGHT REQUIRE ADDITIONAL RESOURCES IN 1990. HE URGED THE PARLIAMENT TO AGREE THE 1990 BUDGET AND TO LEAVE THE MAJOR BATTLE WITH THE COUNCIL UNTIL THE SPRING 1990 REVISION OF THE FINANCIAL PERSPECTIVES.

4. AS FAR AS THE REVISION OF THE PERSPECTIVES FOR 1991/92 DELORS SAW THE ENVIRONMENT, THE AUDIO VISUAL SECTOR, AND TRANSPORT INFRASTRUCTURE AS EXAMPLES OF AREAS WHERE ADDITIONAL RESOURCES WERE NEEDED. BUT HE STRESSED THAT ALL THE INSTITUTIONS WOULD HAVE TO COMPLY WITH THE SPIRIT OF THE BUDGET DISCIPLINE DECISIONS: BY THIS HE APPEARED TO MEAN THAT THE ARTICLE 12 REVISION TO THE PERSPECTIVES SHOULD NOT INVOLVE AN INCREASE IN THE OVERALL CEILING FOR EXPENDITURE. HE NOTED THAT HE HAD RAISED, AT THE INFORMAL FOREIGN AFFAIRS COUNCIL, THE POSSIBILITY OF GREATER FLEXIBILITY BETWEEN CATEGORIES OF THE PERSPECTIVES, BUT HAD GOT A NEGATIVE RESPONSE.

5. DELORS THEN SKETCHED OUT A TENTATIVE AGENDA FOR BUDGET DISCIPLINE BEYOND 1992. THE OVERALL FOCUS MUST BE ON THE BALANCE BETWEEN THE CAP AND THE REST OF THE BUDGET, AND THE RESULTS OF CAP REFORM WOULD HAVE TO BE PUT IN THE BUDGETARY BALANCE. IT WOULD ALSO BE NECESSARY TO REVIEW PROGRESS IN THE STRUCTURAL FUNDS, TO SEE WHETHER FURTHER EFFORTS WERE NEEDED ON RESEARCH AND DEVELOPMENT, TO LOOK AT THE COMMUNITY'S COMMITMENTS TO THE OUTSIDE WORLD (NOT EXCLUSIVELY EASTERN EUROPE) AND TO LOOK AT OTHER INTERNAL POLICY PRIORITIES. THESE NEGOTIATIONS WOULD BE JUST AS DIFFICULT AS THOSE IN 1988.

6. SCHMIDHUBER MADE A SHORT INTERVENTION IN WHICH HE EXPLAINED THAT THE COMMISSION HAD PUT FORWARD A PACKAGE OF 200 MECU FOR POLAND AND HUNGARY BECAUSE THAT WAS THE BEST OPTION AT THE TIME, BUT THAT ON BEHALF OF THE COMMISSION, HE COULD SAY THAT IT WAS PREPARED TO MAKE ITS CONTRIBUTION TO FINDING A SOLUTION TO THE DIFFERENCE OF VIEW BETWEEN THE COUNCIL AND THE PARLIAMENT ON THE 1990 BUDGET, BUT ANY SUCH CONTRIBUTION MUST ENSURE THE EARLY ADOPTION OF THE 1990 BUDGET. THE COMMISSION STILL HAD GOOD REASON TO HOLD BACK ON AN ARTICLE 12 REVISION, 'AT THIS STAGE IN THE BUDGET PROCEDURE' (WITH THE CLEAR IMPLICATION THAT SUCH A REVISION MIGHT BE APPROPRIATE BEFORE THE END OF THE BUDGET PROCEDURE). BUT THE COMMISSION BELIEVED THAT, SINCE THE SITUATION IN EASTERN EUROPE WAS IN A STATE OF FLUX, IT WOULD BE BETTER TO WAIT UNTIL FEBRUARY TO ASSESS THE BUDGETARY

BF 1/12

dti

the department for Enterprise

ccpc

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

The Rt Hon Douglas Hurd CBE, MP
Foreign and Commonwealth Office
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Dear Douglas

SINGLE MARKET STRATEGY

As part of the preparations for Strasbourg, I have approved the attached paper on Single Market strategy, which has already been discussed inter-Departmentally at official level. Paragraphs 1-3 and 18 and 19 summarise the main conclusions and recommendations and I do not think I need repeat them.

The Internal Market Council which I attended on 23 November showed that it may, in the end, be possible to maintain the programme's momentum under a French Presidency which has, until recently, rather neglected day-to-day business in this area. It also showed, on a number of items - particularly life insurance - that we can continue to take the high ground at Strasbourg as the member state which is most prepared to live up to the commitment to a genuinely open Single Market.

I therefore welcome Sir David Hannay's idea of a UK-inspired 'package' for the December IMC, which could be given endorsement at Strasbourg (in addition to the usual list of priorities for next year). As he says, this will help to underline the continuing priority of the Single Market programme, and give us a very useful platform at Strasbourg. I support the proposal that you should raise the idea at the Foreign Affairs Council. Our officials should then keep closely in touch on the details.

I am copying this letter to the Prime Minister, other OD(E) members, Sir Robin Butler and Sir David Hannay.

Jones
Nanda



Recycled Paper

CONFIDENTIAL

UK STRATEGY ON THE SINGLE EUROPEAN MARKET

Memorandum by the Secretary of State for Trade and Industry

SUMMARY

1. This paper provides an assessment of progress so far under the French Presidency on Single Market issues; looks forward to likely developments under the Irish and Italian Presidencies; and suggests priorities for which we should seek endorsement at the Strasbourg Summit.
2. The Single Market must remain our top internal EC priority. Our markets are already open and deregulated; it is strongly in our economic interests that other member states open their markets similarly. This can only be achieved by action at EC level. It is also in our political interest to show that the UK leads the way on this key aspect of EC policy, success in which is a precondition for progress in the economic and social areas. The paper concludes that, despite some slowing down under the French Presidency, the programme remains on track. We continue to win the main policy battles for liberalisation and against protectionism or excessive harmonisation. The next 18 months will however be crucial: we need conclusions from the Strasbourg Summit which provide firm pointers for the priorities ahead.
3. As the legislative work is completed at EC level, we will need to pay more and more attention to the need for fair and effective enforcement of, and compliance with, EC rules across the member states. This is not just a question of eliminating remaining discriminatory practices, but also of tackling subsidies which distort competition. In both areas we will have to rely heavily on the Commission: they are keen to increase their activities here, and I intend to give them every support.

ASSESSMENT OF THE FRENCH PRESIDENCY

4. In his paper OD(E)(89)14, discussed by the Committee on 16 June, my predecessor warned of a dangerous assumption in other member states that the Single Market was now 'acquis', and that political attention - particularly under the French Presidency - would be diverted to longer term issues i.e. EMU and the social dimension. He also noted that the UK vision of the way the Single Market should develop still held the field - but was under some counter-attack from the more regulatory-minded member states.

5. These warnings have been borne out by events. The French Presidency has indeed devoted virtually all its high-level political attention to the Social Charter and EMU. On the Single Market, their count of agreed measures looks likely to be comparatively meagre. So far, they have achieved agreement on only one significant measure - the Broadcasting Directive. After the IMC on 23 November, they now have a very good chance of reaching a deal on the Merger Control Regulation and have got agreement on the technical aspects of the Rights of Residence proposals. They have also made good progress on public procurement in the excluded sectors, though a common position by the end of the year may elude them. The same may be true on testing and certification. In the financial services area, they may get a political agreement on the Life Insurance Directive, but are no longer pressing hard on Takeovers. They have however dragged their feet on Investment Services, an important UK priority. They have also made useful and welcome progress on technical aspects of indirect tax. On direct tax, our arguments against an EC withholding tax have prevailed although agreement has yet to be reached (because of Luxembourg's opposition) to alternative proposals on mutual assistance. Finally on frontier controls over people, they can take credit for the solid work they have launched, though conclusions are still distant. If most of these reach some sort of conclusion by the end of the year, they will legitimately be able to claim that they have achieved a good result in terms of quality if not quantity. Annex A gives a fuller assessment.

6. On some other issues, the Presidency has gone out of its way to sabotage an open markets approach. This is particularly true on liberalisation of telecommunications services, and of road haulage cabotage (despite the fact that this latter issue was singled out as a priority by the Madrid Summit). On cabotage, at least, they now seem to have realised that they have pushed their luck too far and may yet achieve agreement on a useful liberalisation measure. But on telecommunications, their manoeuvring is likely to continue up to the 7 December Council. So far the Commission and a liberal alliance led by the UK have stood firm.

7. Some dogs have not barked very loudly. The Presidency have not made much progress on their efforts to get the food quality issue, with its protectionist undertones, back on the agenda; and though they have made a lot of political noise about consumer protection, their actions have (with the possible exception of product safety) been fairly harmless. (Indeed, in their anxiety to show some sort of progress, they have been willing to make some significant concessions e.g. on package travel and in the reference to food quality in the resolution on consumer policy). Finally, French efforts to stress the external dimension in an unhelpful way have also made little headway.

8. The picture then is mixed. Not all the slackening of progress can be laid at the Presidency's door. The successful Spanish Presidency had swept up most of the Single Market measures ripe for agreement, and the more difficult issues in the Single Market programme have been left to the end for decision. But a lot of the damage on their Presidency is self-inflicted: indifferent chairmanship, breaking of Council rules of procedure, pursuit of pet projects. However, they have organised a weighty programme of work; there are still 6 weeks of their Presidency left; and the pace is now perceptibly quickening.

9. Given that real progress has been slow, it is difficult to comment on whether the broad policy thrust has changed. On the whole, I think not. The Commission - particularly Leon Brittan and Martin Bangemann - have continued to give strong support to the open-market, deregulatory approach. And we have continued to win some significant victories:

- further watering down of the effect of the quotas in the Broadcasting Directive
- Council agreement to an approach very like our own on the mechanics of dealing with indirect tax
- growing recognition that the public purchasing Directive must not impose new burdens on genuinely competitive business

10. On the other hand, the French have been more prone than most recent Presidencies to gesture politics, to which they have given specious Single Market legitimacy. Examples include an unnecessary but harmless resolution on distribution; a lot of activity on co-operatives; the stress on consumer protection, mentioned above; and an ambitious effort on infrastructure networks. These have been mostly harmless, though they have wasted time. Fortunately, discussion of their possibly expensive initiative on infrastructure has been crowded out - but we are likely to hear more of this next year and possibly at Strasbourg.

CURRENT POSITION ON THE SINGLE MARKET

11. The real cause for concern is therefore not so much in the policy content, but in the slackening of progress. Over 50% of the White Paper programme has now been agreed and over 90% of the programme has now been put forward by the Commission. Work on technical barriers to trade and - to a lesser extent - on financial services, remains on track (with the exception of insurance). But much remains to be done on other key issues such as transport and plant and animal health. Forthcoming Presidencies will need a more single-minded attention to the detail of these issues than the French have shown if the

programme is to be substantially completed over the next 18 months - 2 years (necessary if the programme is to be in force by end - 1992).

12. This raises the further point of implementation of Single Market measures. In August the Commission brought out a report on progress on this. They concluded in rather alarmist manner that only 7 of the 68 measures which should have been implemented by mid 1989 had in fact been implemented. We came out rather well in the member states' league table on this issue, with 57 out of the 68 measures implemented. However, further analysis showed that the Commission's figures were out of date. We discovered that the UK had in fact implemented all but 3 of the measures and we suspect that other member states also have a better record than the Commission credit them with. (It is worth noting here that this mis-recording was partly our own fault for not notifying some implemented measures to the Commission). It is useful that the Commission have elevated implementation to political level, as a reminder to the less punctilious member states. Further reports will be produced at six-monthly intervals. Our good record on implementation is invaluable in rebutting suggestions that we are not good Europeans, and it is important that Departments keep up the good record.

13. Implementation is not, of course, just a matter of transposing EC legislation into national law. In the standards area a major task lies ahead for the European standards bodies in drawing up European standards to supplement the New Approach Directives. More generally, it is vital that legislation is not just implemented, but fairly and effectively enforced. I intend to monitor this aspect more closely in future, and to tackle cases of non-compliance vigorously. In minor cases this can be done bilaterally. But I will invoke Commission support and action whenever necessary. In selected cases, we may also wish to stoke up concern in the European Parliament, which, on the whole, is a good ally on enforcement and compliance issues. I also intend to support the Commission more actively in its drive to reduce state subsidies. Leon Brittan is pressing hard to tackle existing subsidies in areas like nationalised industries and state holding companies. We should give him full support.

FUTURE PRIORITIES

14. The next 18 months or so are therefore crucial to the success of the whole Single Market initiative. Unfortunately, the two Presidencies ahead may not, for different reasons, be equal to the task. The Irish, in the first half of the year, will be sympathetic to most of our concerns and anxious to press on with liberalisation in some key areas - particularly transport. It is fortunate that it will fall to them to deal with the major second air transport package, and we hope we can persuade them to tackle liberalisation of passenger road transport.

largely share our views on frontiers and on company law issues, although they envisage an ambitious programme of work on the European Company Statute. They seem somewhat overwhelmed with the prospects on financial services, (though they are keen on life insurance liberalisation). We will have to press them quite hard to get on with the Investment Service Directive (though fortunately, the Italians may be helpful on this too). But their instincts should be in the right place. This should also be true on public procurement where they can expect to achieve adoption of the excluded sectors Directive, and to start work on compliance in these sectors and perhaps services. They are, however, anxious to see the French Presidency solve the problem of telecommunications liberalisation. All this demonstrates that the real problem they will face is one of resources. We will need to encourage them to focus their efforts on the real key issues, and to give them all the help we can in pursuing these. Nevertheless, their Presidency is a real window of opportunity, and we must take maximum advantage of it.

15. The Italian Presidency is more likely to feel like a re-run of the French. The Single Market is likely to be fairly low on their list of priorities, and their instincts on many of the major issues will be opposite to ours. We are likely therefore to want to play for time on some of the outstanding questions, leaving them to the safer hands of the subsequent 'Liberal Northerner' Presidencies. Of course this may be too gloomy. The Italians will not want to be blamed for slowing the momentum. If they do not go slow then neither should we - provided they are going in the right direction.

OUTLOOK FOR THE STRASBOURG SUMMIT

16. The Single Market will not be a major item on the agenda of this Summit. The spotlight will be on the Social Charter and EMU, and on developments in East Europe. Nevertheless, we will want to point out that a precondition for progress in all three of these areas is successful completion of the Single Market. This remains the underpinning for social progress - particularly job creation; it is a central part of Stage 1 of Delors; and it is partly what attracts the East Europeans (and certainly the EFTA countries) to develop closer relations with the EC. It must remain the Community's top priority.

17. It has become a tradition for European Summits to produce in their conclusions a set of priorities for future work on the Single Market. These are useful in guiding future work and can be used against difficult Presidencies. The priorities agreed at the Madrid Summit were public procurement, technical standards, financial services and transport (especially cabotage). Progress on the first two

has been satisfactory under the French Presidency. But the other two should certainly be reaffirmed now. In particular, we should press for explicit references to liberalisation of

insurance and investment services and to air and road

passenger transport and cabotage. More broadly, we should press for a recognition that effective and timely implementation and enforcement is essential to success of the Single Market programme, and that a genuine Single Market will not be created unless distortions arising from state subsidies are tackled vigorously.

CONCLUSIONS AND RECOMMENDATIONS

18.

i) The French Presidency has been something of a disappointment on Single Market issues - though they still have a chance of claiming real progress in qualitative terms.

ii) The programme remains on track in terms of policy content, but will be perceived as beginning to slip behind if the French do not secure agreement on their main targets.

iii) The Irish Presidency offers a real window of opportunity, whereas the lower priority likely to be accorded the Single Market by Italy may be a blessing in disguise.

19. I therefore recommend that we should:

i) emphasize at the Summit the need to continue to give top priority to the Single Market, as the essential underpinning for future progress in the Community.

ii) Warn that our credibility will be at stake if we do not make significant progress over the next year and argue for specific references in the conclusions to insurance, investment services, transport (particularly air and road passenger transport and cabotage), state aids and implementation and enforcement.

iii) Maintain close contacts, at Ministerial and official level, with the incoming Irish Presidency, and develop contacts with the Italians. As both will rely fairly heavily on the Commission, we must also keep up our already close relations with key Commissioners (especially Bangemann and Brittan) and their services.

iv) Continue to work for a Single Market based on the themes of deregulation, open competition and subsidiarity, emphasising that these make economic and political sense, and that this is the only way, in practice, in which progress can be made.

v) Continue to ensure that our own record on implementation, enforcement and compliance remains one of the best, so strengthening our hand against the backsliding of others.

vi) Continue to emphasise, in our domestic presentation that

the Single Market is a highly positive development in EC policy; that we are in the lead on it; and that British business must be prepared for it - and not be diverted by the controversy over other EC issues.

vii) Review progress at official level in early 1990.

ANNEX A

SINGLE MARKET: MAIN ISSUES IN 1990/91

1) MADRID PRIORITIES

a) Standards: most of the major standards directives are now agreed. The main current issue is testing and certification, which should be agreed in the French Presidency. The weighing machine directive has now been agreed, and gas appliance directives should follow by the end of the year. In the health area, agreement is expected on active implantables, the first of the medical devices directives.

b) Public procurement: the French aim to get a common position on the excluded sectors directive. Good progress has been made, but there are still a large number of technical points to be settled. The UK will benefit from getting a common position, provided issues of reciprocity and coverage are cleared up. Future work is likely to focus on a Services Directive and a directive on compliance in the excluded sectors.

c) Financial services: the French have done little to push the Investment Services directive, which is a UK priority, though they have recently agreed to hold meetings on it in return for UK co-operation on tax on savings. The Irish appeared unaware of its importance till recently, and we will need to push them. Fortunately, the Italians have similar interests to ours here (ensuring a level playing field with the German universal banks), so that final adoption by the end of 1990 should be achievable. The UK would also like to see early progress on the associated Capital Adequacy Directive, which the Commission intends to put to the Council in January. The French have made reasonable progress on the Life Services Directive, which should be agreed under their Presidency, but, as the European Parliament have not yet begun work on their opinion, the most that may be secured by December is a political agreement. However, we are still a long way from a genuinely open insurance market. Further proposals from the Commission are needed on group life services; a "mass risks" directive to liberalise the market in non-life services; and a directive to do the same for life services. Again, the Italians are unlikely to be helpful, but in view of German intransigence on this issue, a realistic aim would be for a start under the Irish Presidency, to be followed by substantive progress under the Luxembourg and Netherlands Presidencies in 1991.

The French have put a lot of effort into the Mergers Regulation and now look likely to secure agreement. They have abandoned hope of agreement on the Takeovers Directive, which gives us a useful breathing space to try to get the proposal right. Barriers to takeover, and the November IMC conclusions commit the Commission to producing proposals on this by next Spring. We will not have many allies in forthcoming Presidencies and will have to continue to make most of the

running ourselves. The Commission have informally suggested splitting the 5th Company Law Directive to make progress on this issue. This has both attractions and dangers, depending on how the worker participation issue would be handled.

d) Intellectual property: the French have called a conference in December on the Community Patent Convention. The Spanish are using their ratification of the CPC as a bargaining chip for their bid for Madrid to be the site of the Community Trade Mark Office. The Irish may be in a better position to make progress on the CTMO than the French, although Dublin remains on the table. Agreement may be reached on the protection of computer software under the French Presidency.

e) Transport: both the French and the Italians belong in the restrictive camp on transport. On road haulage cabotage the French originally tried to suppress a reasonable Spanish proposal in favour of their own more restrictive "compromise". More recently the French have started to show greater sensitivity to the wishes of the majority, and an agreement on road haulage cabotage is now possible. On shipping, they again started by playing up the restrictive elements of the Positive Measures for Shipping, but the recent package of proposals selected for political discussion is in general helpful to us. There has been little progress on a second liberalising package on air transport: development of Civil Aviation in the Community. We should be looking for substantial progress under the Irish Presidency, who can be expected to be sympathetic to our concerns.

OTHER UK PRIORITIES

f) State Aids: not strictly part of the Single Market programme, but the UK will want to give full support to Sir Leon Brittan's efforts to tackle existing subsidies and control new ones. He has indicated that his priorities will be general investment aids and nationalised industries.

g) Food law: directives on nutrition, labelling and possibly food irradiation are expected to be agreed under the French Presidency. Despite the fact that the major framework directives have been agreed, a number of important measures are still to be tabled - e.g. on quantitative declaration of ingredients, claims, novel foods, food hygiene, as well as a considerable volume of secondary legislation. We are pressing the Irish Presidency to keep up the momentum on food law.

h) Telecommunications: the Commission have on the table an

Article 90 directive on liberalising the European telecommunications services market, and one on Open Network Provision. The Article 90 directive is controversial, as it allows the Commission to act under their own initiative. The French and the Italians fall into the restrictive camp on this issue. The French Presidency have mounted a concerted campaign

against the Article 90 directive, breaking the Council rules of procedure in the process. The key date of April 1990, when the Commission have said they will implement the Article 90 directive if agreement is not reached on ONP, falls under the Irish Presidency. We should aim for progress on telecommunications under the Irish, as the Italians are likely to take a similarly unhelpful line to the French. But the Irish are keen to avoid this hot potato.

OTHER MEASURES

i) Tax: useful progress on broad outlines of VAT and excise technical procedures after 1992. Agreement was reached under the French Presidency that VAT should for a limited period continue to be collected according to the "destination principle" as opposed to the "origin principle", as the UK had consistently argued. Agreement also that commercial movement of excise goods should take place under a duty-suspension regime. On the substance of tax approximation, the French Presidency are still pushing for an overall agreement in 1989, though the odds are probably against them. Some progress can be expected under the Irish, but probably more on technical issues than on tax and duty rates.

In the field of direct taxation, we have seen our arguments on the Community withholding tax have prevailed. We have been able to co-operate in formulating mutual assistance proposals which would have safeguarded all the UK's main interests, but met the anxieties of France about the effects of the capital liberalisation directive. These proposals also had some value in their own right. Largely owing to Luxembourg's opposition, these are stymied at present. The Presidency has threatened to raise the failure to reach agreement at the Strasbourg summit, although some discount the possibility. In return for our support on the mutual assistance issue, the French are to help by scheduling meetings on the Investment Services directive, a UK priority.

j) Animal and plant health: progress depends on the Commission producing a coherent set of proposals. Likely to come to a head in 1991 rather than 1990. The veterinary checks directive may be agreed under the French Presidency.

k) Free movement of people: the Co-ordinators' Group will be reporting at Strasbourg on progress since Madrid. The French Presidency will report progress on their recent initiative to improve co-ordination and effectiveness in the fight against drugs, and will be able to note agreement on police co-operation in the Trevi forum (a Declaration is expected to be announced at a Trevi Ministerial on 15 December). The French

Presidency have succeeded in distilling and putting onto paper the complex and sensitive issues which need to be discussed over the next two Presidencies at least. Overall, progress is expected to be slow in this difficult area.

l) European Company Statute: the French intend debate at

political level on the worker participation elements, to which the UK is opposed. The Irish are preparing a heavy programme of work on the detailed company law elements, which may stretch beyond the Irish Presidency. This sits rather oddly with their lack of enthusiasm for the Statute, but is at least better than tackling the "political" elements first. The slower things go, the better for us.

m) Pharmaceuticals: Commission proposals are imminent on six measures: defining arrangements for a Community licensing system; warehousing; advertising; classification of pharmaceuticals into OTC and prescribed items; patents; and patient information. There will be further consultation on some of these before proposals are made to the Council and submission is likely to be delayed until March.

n) Consumer issues: not a UK priority. The regulatory instincts of the Consumer Services in the Commission clash with the UK approach to consumer matters. The French will probably achieve a common position agreement on package travel, and will press hard for faster progress on the product safety directive. This will fall to the Irish to complete.

o) Broadcasting: the French achieved agreement on the Trans-frontier Broadcasting Directive. The Audio-visual "assises" in Paris in October endorsed a number of measures to strengthen Europe's film and television programme-making industries, including an audio-visual EUREKA framework. The French are likely to seek European Council endorsement for these activities in Strasbourg. The Commission will pitch for a Community programme of 250 mecu to carry the work forward. This would cause difficulties for the UK.

p) Rights of Residence: the French are optimistic that agreement will be reached under their Presidency on the three directives for students, pensioners and other economically inactive persons. All the technical issues have been cleared up, but questions of legal base and competence remain.

q) Mutual Recognition of Qualifications: negotiations on the second diplomas directive, designed to extend the mutual recognition of professional qualifications, have started under the French. The Irish Presidency should be helpful. UK supports the principles behind the directive, but has difficulty with some points of detail. The Commission are hoping for agreement under the Irish Presidency, but this is unrealistic. It is not clear which of the future Presidencies would be most helpful to our concerns: none have the same approach as us to vocational qualifications.

SOCIAL CHARTER : MINIMUM WAGES

Brian Griffiths passed to the Prime Minister this morning, for possible reference in the PANORAMA interview, Patrick Minford's note which has just been published.

To complete the picture, he suggested the Prime Minister may also care to see a recent article in the FINANCIAL TIMES by Richard Layard on the same subject. If anything, it is even bolder in its hostility to minimum wages. And Layard is certainly not right-wing.

It should be noted that a statutory minimum wage is now Labour Party policy. In its Action Programme, the Commission calls only for a non-binding Council Recommendation on the subject, but there will be pressure to toughen this up, not least from the language of the Social Charter itself.

One other piece of ammunition against the Social Charter has just come to light. The most contentious part of it - the right to strike and the right to collective bargaining - has a let out clause for the armed forces, the police and the civil service. (This is mainly because it is illegal in Germany for civil servants to strike.)

But in France and Germany, the range of the "civil service" is much wider than here. For example, it includes all workers in telecommunications and in France, I believe, teachers. Thus the obligations proposed in this part of the Charter would, if accepted by us, be of much wider effect in the UK where virtually all the public sector is not civil service. A small but telling illustration of an unlevel playing field.

John Mills
JOHN MILLS

A cautionary tale of north and south

By Richard Layard

In the 1950s, trade unions in the northern US campaigned for equal wages for southern workers. Had they succeeded, the industrial blossoming of the south would have been nipped in the bud.

Today, most northern European countries support "upward harmonisation" of wages in the rest of Europe. If this happens, the industrial blossoming of the European south will likewise be blighted.

Yet this is the implication of the European Community's Social Charter. In this context, Britain is part of the south.

The situation is made worse by the threat of an EC directive on minimum wages. Worse still, the British Labour Party has now been converted to a statutory minimum wage (of one-half male median earnings, rising to two-thirds).

A change of this kind could have a devastating effect on the employment of less-skilled people. Countless studies show the effect of wages on employment. The most compelling collection is that done for the US Minimum Wage Study Commission. Of course, not every study there found the same effect, but most evidence pointed in the same direction. The conclusions of the various studies were found to be unconnected with the political opinions of the authors.

It is absurd to assert that competitiveness matters (as all do) and then to pretend that only the productivity element in competitiveness matters, and not the element of labour costs. But even more serious than the average wage is the structure of wages. Technical change is moving rapidly against the less skilled workers. So long as we have unskilled workers, the only way they will remain in work is if their relative wages adjust. It is horrible to see the fall in unskilled relative wages both in the US and in Britain, but without it unemployment could not have fallen as it has in both these countries. Indeed, there may well be a connection between continued high unemployment in continental Europe and the rigidity of relative wages in those countries.

Advocates of a statutory minimum wage for Britain point to the existence of uni-

versal minimum wages in Belgium, Holland, France and Spain. But have they looked at unemployment in those countries, especially of women and young people? In Belgium, Holland and France, the minimum wage is, in fact, at Labour's target level (two-thirds). By contrast, the US and Japanese minimum wages are about one-third of the average wage, and thus affect the job opportunities of many fewer people.

There is only one major episode in British history that appears to deny that wages affect employment. This is the Equal Pay Act. In 1974-6, the relative wages of women rose by 15 per cent, and the relative employment of women in each industry was apparently unaffected. However, another measure was introduced at the same time. This was the Sex Discrimination Act, which outlawed discrimination by gender in employment. The Act tended to raise the relative job opportunities for women, offsetting the negative effect of equal pay.

There are of course countries where pay is much more equal than in Britain and yet unemployment is lower. Sweden is the clearest example. But there massive resources have been devoted to raising the skill levels of the less able, and further major efforts are made to help the unemployed. In consequence, unemployment is only 1 1/4 per cent. When we have devoted the same resources to reducing unemployment and have got unemployment down to Swedish levels, we might begin to think about wage equalisation. But it would be quite unfair to the unemployed if we did so before then.

Of course, there are those who say that unemployment does not matter. If people cannot be employed at a reasonable wage, they say, it is better that they be unemployed, living on benefit. This argument is misleading on at least four grounds.

First, it involves economic waste. Second, it overlooks the effect on a person's self-respect of a prolonged job search while being dependent on benefits. It is bad for people to be in a market where jobs are rationed. In a healthy society, the worker does the employer

as big a favour by working for him as the employer does by providing a job. Third, it assumes that the same people remain on low wages indefinitely, while in fact there is substantial mobility.

Fourth, and most serious, it greatly exaggerates the relation between poverty and low pay. This is because a person's poverty depends on the earnings of all family members relative to the family's size. Thus, it does not necessarily follow that the families of the low paid are poor. Neither is the reverse true.

Suppose, for example, that we define as working poor those workers whose families are in the bottom 10 per cent of income per family member. And we define as low-paid those workers in the bottom 10 per cent of hourly earnings. What is the overlap between these two groups? Very little. Only one in five of the working poor are low-paid, and vice versa.

It follows that reducing low pay will have quite small effects on the overall distribution of income. Some poor people will gain, but some will lose through increased unemployment.

Poverty has to be attacked by fiscal measures and not by a minimum wage, which will leave it largely untouched. There has to be a much more generous Family Credit. Furthermore, the take-up of Family Credit has to be made universal through an automatic system of taxes and benefits paid through the wage packet.

Those who advocate a minimum wage point out that many employers favour it. Of course they do. But which employers? Those who favour it are operating with a skilled workforce and would gain by eliminating "unfair competition" from those who give jobs to the unskilled. This is the same problem as the US northerners who were happy to eliminate "unfair competition" from the south.

Any warm-hearted person is bound to favour minimum wages until he thinks of all their effects. There is yet time to think these through.

The author is Professor of Economics in the London School of Economics

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A national minimum wage

This government has done more than any since the industrial revolution to increase dependency on state support for people in work. Yet these people should not have to turn to the DSS for subsistence. It should be the responsibility of the employer and not the taxpayer to pay a decent working wage.

Low wages are not efficient — as the Conservatives might claim — but inefficient. They encourage employers to compete by cutting costs rather than by improving the quality of the goods they produce or the skills of the people they employ. This undermines our competitiveness and reduces standards in industry to the lowest common denominator.

A national minimum wage is not only vital to our economic performance. It is a key "pathway out of poverty". Three-quarters of the low paid are women. Ethnic minorities, people with disabilities and other groups disadvantaged in the labour market are disproportionately found among the low paid. Combined with policies to promote equal opportunities and equal pay and breaking down women's job segregation in low paid undervalued employment, a minimum wage is an important measure for reducing economic inequality.

Some employers, and the government itself, have made absurd claims about the likely effect of a national minimum wage. Their threat of higher prices and lost jobs are reminiscent of the introduction of the Equal Pay Act, when many employers argued that raising women's wages would mean reducing the number of women's jobs. The reverse has happened: most of the jobs created in the last ten years have in fact been taken by women. In France, an OECD study found that, after several years, the minimum wage had had no significant effect on wage inflation or unemployment, even though it had been regularly uprated by more than inflation.

Raising low-paid workers' wages would not only be relatively cheap. It would also have beneficial economic effects. Unlike highly-paid workers, who spend a large part of any extra income on foreign imports, low-paid workers spend a far higher proportion of their income on housing, heating, transport and similar items which involve little or no foreign imports. Raising the incomes of poorer families is part of our strategy for a more balanced economy.

Labour will introduce a national statutory minimum wage starting at a level of 50% of male median earnings, equivalent to £2.80 per hour (in 1989 terms). This starting figure is set at just over the minimum rates set by Wages Councils in Britain's lowest paying industries. Even at this level, the minimum wage will have a major impact on poverty pay. Some 4 million employees — 80% of them women — will directly benefit from its introduction.

Our aim is to raise low wages in Britain to a better standard — a level closer to the Council of Europe's "decent threshold" for pay. To this end we will increase the minimum wage over time as a proportion of earnings with the objective that the lowest-paid worker will receive an hourly rate not less than two-thirds of that received by the male median full-time worker.

This national minimum wage together with fairer taxes, National Insurance, Housing Benefit and increases in Child Benefit will work to spring some of Britain's poorest families from the poverty trap.

We believe that in the longer term the only solution to the poverty trap will be the provision of decent wages which lift people off dependence on means tested benefits.

We propose to establish a Fair Wages Commission, responsible not only for implementing the minimum wage but for the promotion and encouragement of fair wages policy more generally. It will for example, work with the Equal Opportunities Commission on women's rights and will cover homeworkers and others whose needs and problems are too often ignored. Work will include a consideration of the work traditionally carried out by Wages Councils.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 November 1989

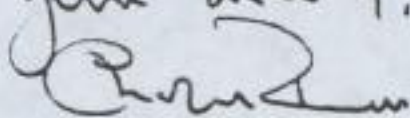
Dear Stephen,

SOCIAL CHARTER

The Prime Minister has now read Mr Hadley's note dated 17 November about the Social Charter together with the annotated text of the Charter (but not yet our alternative draft). I am sending you under separate cover the - not at all promising - reply which we have received from President Mitterrand to the Prime Minister's message.

The Prime Minister is particularly concerned that we should do everything we can to explain our view of the implications of some of the Charter's provisions to public opinion in other Community countries. She thinks this could best be done by some telling examples of the consequences of, for instance, introducing a minimum wage or restrictions on part-time work. The Prime Minister recognises that time is now short before the European Council. But if it were possible to place any articles or arrange Ministerial interviews, that would be helpful.

I am copying this letter to Clive Norris (Department of Employment), John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry) and David Hadley (Cabinet Office).

Yours sincerely,

Charles Powell

Stephen Wall Esq
Foreign and Commonwealth Office

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 November 1989

Dear Stephen,

SOCIAL CHARTER

I enclose a copy of a letter addressed to the Prime Minister by President Mitterrand about the Social Charter. It is not at all promising although you will see that he offers a meeting between M. Dumas and the Foreign Secretary. I should be grateful for advice in due course.

I am copying this letter and enclosure to Clive Norris (Department of Employment), John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry) and David Hadley (Cabinet Office).

Yours sincerely,

Charles Powell

Stephen Wall Esq
Foreign and Commonwealth Office

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cep/c



QUEEN ANNE'S GATE LONDON SW1H 9AT

24 November 1989

CD
L7/K:

Dear Foreign Secretary,

FRONTIER CONTROL ISSUES

I thought it might be helpful, in the run-up to the Strasbourg Council and the meeting of TREVI and EC Immigration Ministers on 15 December to let you and other members of OD(E) know how I see the present state of play on frontier control issues. There is, I think, no need for fresh decisions or for a formal discussion.

I shall be separately approaching you and other colleagues on our position on the draft Directives on Rights of Residence now under consideration and on an announcement concerning our proposed methods of working in relation to inter-capital trains using the Channel Tunnel. There is no reason to expect either of these matters to surface at the Strasbourg Council or at the meeting of TREVI and Immigration Ministers.

General state of play

On the home front, since OD(E) last considered this subject on 13 April we have had the Commons debate on the Commission's Communication to the Council, in which as Home Secretary you again put firmly on the record the UK's position on the need to retain checks at "internal" as well as external frontiers; and we have placed before Parliament the report of the new Co-ordinators' Group to the Madrid Council, which after a difficult start under the Spanish Presidency we managed to steer away from the basic divide on "internal" frontiers towards measures of practical co-operation.

We now understand that the report on "Border Control of People" by the House of Lords European Communities Committee (Sub Committee E), which takes under consideration the Commission's Communication and the Palma document together

/with the latest

The Rt Hon Douglas Hurd, CBE MP
Foreign & Commonwealth Office

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with the latest draft Directive on firearms, will be published on 8 December. We understand that, in general, it will offer a helpful endorsement of the Government's position on the interpretation of the Single European Act and on the retention of frontier-checks both in the immigration and the crime-control contexts, but that it will also expose in some depth the problem of the possible impact of developments on frontier-controls within the Community on the layout and operating arrangements of airports. This is a problem which I already had in mind to share with colleagues but I suggest that the Home Office should take it forward at official level in the first instance so that we can settle a Government line in advance of any debate on the report.

In the Community framework, the French Presidency has continued to keep alive the rhetoric concerning freedom of movement, in general terms, but has quite clearly set itself against bringing to a head the specific issue of the abolition of internal frontiers.

Prospects for Strasbourg and Paris

I would expect this position to continue so far as the forthcoming Strasbourg Council and meeting of TREVI and Immigration Ministers are concerned. The account given by the French Co-ordinator himself to the FAC on 6 November was itself a reasonably straightforward recital of work under way in which we are participating fully.

Matters likely to fall under examination

TREVI/Immigration Ministers meeting

The French will rightly want to take credit for work which they have launched, and impart some impetus to carry through to the succeeding Irish Presidency, but seem unlikely to be putting any major substantive issues up for decision. The main matters which they will be putting to the Council and/or the TREVI/Immigration Ministers' meeting are as follows:

- (i) they will propose for adoption a common Declaration on co-operation between Member States in police matters. We have had a little difficulty with the French over the precise wording, insofar as the Declaration is founded on an assumption about the imminent abolition of internal frontiers, and with the Germans on their wish to go firm on the development of a joint police computer system, which in our

/view

view requires further study. In broad substance, however, the proposed Declaration fully accords with our stance on improving practical co-operation with other Member States;

- (ii) on the immigration side, the French have launched two draft Conventions, one on the issue of which country should be responsible for asylum applications and the other on the crossing of the "external" frontiers of Member States. The declared object of both is to put into concrete form agreements reached previously by EC Immigration Ministers. Neither will reach fruition during the French Presidency, but they will want to take credit for launching them and secure agreement that work on them should continue. The issue for us will be the precise terms of the commendation. On the asylum agreement (which has value irrespective of the abolition or retention of "internal" frontiers), we are completely comfortable and in favour of early completion, our only care being not to strain our relationship with the Danes (who are the principal laggard on the asylum Convention but, of course, one of our small band of allies on the key issue of the abolition of frontier controls). The Convention on External Frontiers is a more far-reaching project. It contains concrete proposals for a common approach towards the admission of third-country nationals which in broad terms accord well with our basic position on strengthening the external frontier and on which we shall want to make a strong input. It also contains, however, proposals for recognition of short-stay visas issued by other Member States. I go into this a little further below. Discussion on the draft Convention is slow and it is pretty clear that it will not come to fruition even under the Irish Presidency.

The Council will precede the TREVI/Immigration Ministers' meeting but will receive a parallel account of these matters, and of other relevant developments, in the form of a second

/-stage report

-stage report from the Co-ordinators' Group. This is similarly expected to be a straightforward and broadly uncontentious document which the Council will have no difficulty in endorsing. Colleagues may, however, care to note in particular that the Report will be the vehicle for bringing before the Council the French initiative for a new group of drugs Co-ordinators. This is something to which President Mitterrand will personally attach significance. There is certainly work to be done on reviewing and improving the EC machineries for dealing with drugs matters, and when the proposal comes to the Council I hope we will be able to register a positive accord.

"Eurovisas"

The proposal that each Member State should recognise short-stay visas issued to third-country nationals by any of the other member States has been to some extent implicit in earlier discussions but has not previously been brought into the open or addressed head-on. The basic idea is that a short-stay visa issued by one Community State (there is no proposal as yet for a common approach to settlement cases) should be valid for all other Member States, but that visas should be issued according to a common standard and that an objection by any one state should suffice to prevent the issue of a 'Eurovisa'. The latter feature of the scheme will be supported by the development of a common list of persons to whom visas are to be refused.

For those states which espouse the complete abolition of "internal" frontier controls, involving freedom of movement in the fullest sense between Member States within a strong outer perimeter, the concept is of course a very natural one. We, on the other hand, have to decide whether idea is fundamentally incompatible with our position on the retention of checks at "internal" frontiers or is consistent with it. Provided that we obtain satisfactory terms on certain key points concerning the operation of the scheme, I take the view that it could be consistent with our position. The most important point is that we must retain the ability to examine and if necessary refuse entry to Eurovisa-holders at our ports. In that event, a "Eurovisa" issued by another Member State would clearly be less than equivalent to a visa issued by a UK post, but it would still offer a real if limited facility for the genuine traveller; and it may be that a consensus would develop on these lines.

Even then the proposed scheme is not without possible disadvantages for the UK. If large numbers of passengers arrived at our ports who had been issued with visas by other

/Member States

Member States but whom we would not ourselves be prepared to admit, this could threaten the smooth running of the immigration control; and there are some detailed points about the scrutiny of visa applications for counter-espionage purposes to which we need to give further careful consideration in consultation with the Security Service. Another relevant consideration is that punitive visa regimes, like that imposed on Libya because of that country's support for terrorism, would lose their effect unless supported by all member states. But, one is bound to acknowledge, however, that there are factors weighing in the other direction.

In practical terms, the idea of a common visa agreement is difficult to "unpick" from the general idea of strengthening the common external frontier of the Community, which is something which we favour; and the proposition that a bona fide traveller planning a European tour should not have to incur the cost and trouble of separate visa applications has merit.

For the present, pending the full development of the draft Convention of which it forms a part, I propose to keep in place the full reserve which we have entered on the "Eurovisa" proposal. We would certainly need to be sure, before we signed up to it, that the essential ingredient of ability to refuse visa-holders at our ports was satisfactorily secured and that the arrangements for consultation were sufficiently sound to accommodate our security interests. If we completely fail to achieve these objectives, we shall necessarily have to break off the discussions. But these are early days and we are not anywhere near that point. To break off the discussions now would be contrary to our agreed strategy of going along with Community initiatives in the frontier-control field to the maximum extent we can within the framework of our basic position.

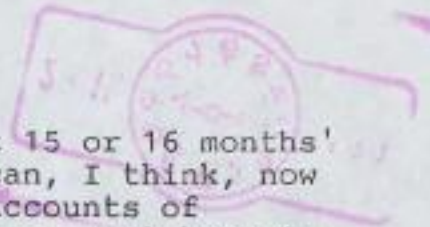
We do not need a firm decision now, but I would like colleagues to be aware that this is how I propose to approach the negotiations.

Schengen agreement

We have resolved on a number of occasions to keep abreast of developments pursuant to the Schengen agreement. These questions are to be discussed in EQO on 27 November. The Schengen partners are now reported to have reached final agreement on outstanding questions such as "hot pursuit", and a new Treaty embodying their decisions is to be signed in December. It is envisaged that the new procedures will come into operation along with the Schengen information system, and

/after

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after ratification of the agreement, in about 15 or 16 months' time (possibly an optimistic estimate). We can, I think, now expect the Schengen partners to give fuller accounts of developments to the Community as a whole, but we must keep in mind that they will inevitably tend to close ranks around the agreements which they have themselves reached, and that the situation for the Community as a whole will differ in a number of respects from that of five contiguous land-frontier States. I also propose that we should ourselves approach the Schengen countries for a fuller account of their proposed information system, given the likelihood that this will be regarded as a model for developments in the Community.

I am copying this letter to the Prime Minister, to members of OD(E) and to Sir Robin Butler.

Yours sincerely,

Pein Starr.

Approved by the Home Secretary
and signed in his absence.

CONFIDENTIAL

AMBASSADE DE FRANCE
LONDRES

L'AMBASSADEUR

24 November 1989

See Sir Lister

I have just received the text of
a message addressed to you by Monsieur Roland Dumas,
Ministre d'Etat, Ministre des Affaires Etrangères.

I enclose it herewith.

You see

Luc de La Barre

Luc de La Barre de Nanteuil

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister
10 Downing street
London, S.W.1

*SUBJECT cc member
OPS*

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T207129

MADAME LE PREMIER MINISTRE,

LORS DE NOTRE CONVERSATION A CHEQUERS, SUR LA CHARTE SOCIALE, JE VOUS AVAIS PROPOSE D'ADOPTER UNE DEMARCHE PRATIQUE AFIN D'ELIMINER LES SOURCES DE MALENTENDUS ET DE RECHERCHER LES TERRAINS D'ENTENTE. C'EST A CET EFFET QUE NOUS AVIONS CHARGE NOS COLLABORATEURS DE SE RENCONTRER. ILS L'ONT FAIT ET ONT PROCEDE A UN EXAMEN POINT PAR POINT DES DROITS INCLUS DANS LE PROJET DE CHARTE. LES TRAVAUX ULTERIEURS MENES PAR LES MINISTRES DES AFFAIRES SOCIALES ONT TENTE, DANS LA MESURE DU POSSIBLE, DE PRENDRE EN COMPTE LES DEMANDES DU ROYAUME-UNI COMME CELLES DES AUTRES ETATS MEMBRES, L'OBJECTIF ETANT DE PARVENIR A UN TEXTE ACCEPTABLE PAR TOUS MALGRE LA DIVERSITE DES PRATIQUES ET DES LEGISLATIONS.

JE PENSAIS QUE LE PROJET DE CHARTE, SOUMIS LE 30 OCTOBRE AU CONSEIL AFFAIRES SOCIALES, Y ETAIT RAISONNABLEMENT PARVENU.

A LA DEMANDE DE NOMBREUSES DELEGATIONS, LE PREAMBULE DU PROJET DE CHARTE AFFIRME AVEC FORCE LA PRIORITE A LA CREATION D'EMPLOIS.

POUR REpondre A VOS PREOCCUPATIONS, LA VERSION INITIALE DU PROJET A ETE MODIFIEE SUR PLUSIEURS POINTS :

- LE PRINCIPE DE SUBSIDIARITE EST CLAIREMENT POSE, D'ABORD COMME UNE REGLE GENERALE DANS UN CONSIDERANT, QUI REPREND EXPRESSEMENT LES CONCLUSIONS DU CONSEIL DE MADRID SUR LA NECESSITE D'ETABLIR CLAIREMENT LE ROLE RESPECTIF DES NORMES COMMUNAUTAIRES, DES LEGISLATIONS NATIONALES ET DES RELATIONS CONVENTIONNELLES. ENSUITE, LA PLUPART DES ARTICLES SE REFERENT AUX ''MODALITES PROPRES A CHAQUE PAYS'' (ARTICLE 5 SUR LA REMUNERATION DE L'EMPLOI, ARTICLE 9 SUR LES CONDITIONS DE TRAVAIL, ARTICLE 10 SUR LA PROTECTION SOCIALE, ARTICLES 24 ET 25 SUR LES PERSONNES AGEES), AUX ''PRATIQUES NATIONALES'' (ARTICLE 12 SUR LES CONVENTIONS COLLECTIVES, ARTICLE 13 SUR L'EXERCICE DU DROIT DE GREVE, ARTICLE 21 SUR LA REMUNERATION DES JEUNES) OU AUX ''PRATIQUES EN VIGUEUR DANS LES DIFFERENTS ETATS MEMBRES'' (ARTICLE 17 SUR L'INFORMATION, LA CONSULTATION ET LA PARTICIPATION DES TRAVAILLEURS).

- ENFIN, UN CONSIDERANT DU PREAMBULE PRECISE QUE LA ''MISE EN OEUVRE DE LA CHARTE NE SAURAIT ENTRAINER UNE EXTENSION DES COMPETENCES DE LA COMMUNAUTE TELLES QU'ELLES SONT DEFINIES PAR LES TRAITES''. IL EST AUSSI CLAIREMENT INDIQUE, DANS LA DERNIERE PARTIE, QUE LA MISE EN OEUVRE DE LA CHARTE RELEVE ''PLUS PARTICULIEREMENT... DE LA RESPONSABILITE DES ETATS MEMBRES CONFORMEMENT AUX PRATIQUES NATIONALES...'', ET QUE LA COMMUNAUTE AGIT DANS LE CADRE DES 'COMPETENCES PREVUES AUX TRAITES...''.

AUSSI, CE PROJET DE CHARTE, LOIN DE VOULOIR SURREGLEMENTER, EST UNE DECLARATION POLITIQUE QUI RECONNAIT UN CERTAIN NOMBRE DE DROITS. LA MISE EN OEUVRE DE CES DROITS RELEVE, DANS DE NOMBREUX CAS, DE MESURES OU DE PRATIQUES NATIONALES OU, LORSQUE LE TRAITE ACTUEL LE PERMET, DE MESURES COMMUNAUTAIRES.

.../...

IL ME SEMBLE AINSI QUE NOUS SOMMES ALLES LE PLUS LOIN
POSSIBLE A LA RENCONTRE DE VOS PREOCCUPATIONS. DE NOMBREUX ETATS
MEMBRES CONSIDERENT D'ORES ET DEJA LE PROJET ACTUEL COMME UN
MINIMUM.

M. ROLAND DUMAS EST TOUT A FAIT DISPOSE A S'ENTREtenir AVEC
M. DOUGLAS HURD DE CE SUJET, A L'OCCASION DU PROCHAIN CONSEIL
AFFAIRES GENERALES.

J'ESPERE VIVEMENT QU'IL SERA POSSIBLE DE TROUVER SUR CES
BASES UN ACCORD UNANIME A STRASBOURG ET QUE LA COMMUNAUTE
MONTRERA AINSI SA VOLONTE DE DONNER UNE REELLE DIMENSION SOCIALE
A LA CONSTRUCTION EUROPEENNE, L'OBJECTIF PRIORITAIRE ETANT,
COMME LE SOULIGNE LA CHARTE, DE CONTRIBUER AU DEVELOPPEMENT DE
L'EMPLOI.

JE VOUS PRIE DE CROIRE, MADAME LE PREMIER MINISTRE, A
L'EXPRESSION DE MA HAUTE CONSIDERATION ET MES FIDELES
SENTIMENTS. SIGNE : FRANCOIS MITTERRAND.



CONFIDENTIAL



cc/ps
Bj

Treasury Chambers, Parliament Street SW1P 3AG

The Hon Francis Maude MP
Minister of State
Foreign and Commonwealth Office
King Charles Street
LONDON
SW1A 2AL

ED/23/x

23 November 1989

Dear Francis

EUROPEAN SOCIAL FUND: OBJECTIVES 3 AND 4 *— will request of need*

I fully support Tim Eggar's suggestion, in his letter to you dated 9 November, that there should be a more general approach to the Commission to back up the approaches that have been made about our prospects for support from the Structural Funds.

2. As I said in my letter of 16 October to Douglas Hogg, about the Objective 2 Frameworks, it is indefensible that there should be a reduction in UK receipts associated with a doubling of the Structural Funds. It would be equally indefensible if we were to let the argument about the level of support for the UK go by default - but particularly so when we have a written assurance from Delors that support would not fall below the 1988 levels.

3. Of course, Delors' written (as opposed to verbal) assurance was in relation to the five year period 1989-93 whereas the Community Support Frameworks for the Objective 2, 3 and 4 regions will run for three years. But I think that we are entitled to be sceptical about the assurance being met if there is significant shortfall over the three years immediately ahead. I remain of the view, therefore, that we should take every opportunity to exploit the assurances which Delors gave, using all means available to maximise our receipts. The more general approach that Tim Eggar suggests may not immediately secure 1988 levels of support. But it may keep the present shortfall to the minimum and it will also signal that we do not intend to let the matter of the assurances (or, indeed, of the merits of our case generally) drop, which may be important when we come to the Frameworks that will apply after 1991.

4. I am copying this letter to members of E(A) and OD(E) and to Sir Robin Butler.

[Signature]
NORMAN LAMONT



FROM THE SECRETARY OF STATE

The Earl of Caithness
Paymaster General
HM Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

Dear Malcolm,



2 MARSHAM STREET LONDON SW1P 3ER
TELEPHONE 01-276 3000

My Ref: C/PSO/15337/89

Your Ref:

CP 28/21

22 NOV 1989

EC PUBLIC PROCUREMENT: EXCLUDED SECTORS *gap*

Your letter of 14 November to Douglas Hurd helpfully set out the latest position on key aspects of this draft Directive.

While I agree that the UK must continue to give wholehearted support to the broad objective of the Directive there is a danger that complex and bureaucratic procedures will hamper efforts by British Rail and other transport industries to streamline their purchasing arrangements and thereby improve financial performance. It is disappointing that it has not so far proved possible to secure agreement to exempting concerns who submit their procedures to independent audit from the detailed rules proposed in the draft Directive.

Nevertheless I understand that some progress has been made at recent meetings in making the application of the draft Directive more flexible. Following the meeting due to take place between your and my officials and British Rail at the end of this month I shall need to decide whether the concerns we have voiced have been sufficiently met so that the UK no longer needs to maintain a reserve on this aspect of the proposal.

I am sending copies of this letter to the Prime Minister, members of OD(E), David Waddington, Chris Patten and John Wakeham and to Sir Robin Butler.

*Yours Sincerely,
Cecil*

CECIL PARKINSON

Auto POR: Budget pt 43



Ref. A089/3076

PRIME MINISTER

Cabinet: Community Affairs

1. The Minister of Agriculture, Fisheries and Food may wish to report on the Agriculture Council on 20-21 November. Key points were:

- agreement on a 1% increase in milk quotas with an offsetting levy increase and price cuts designed to ensure budget neutrality. The UK abstained in the vote on the grounds that while the quota increase would take place this year, most of the offsetting savings would not occur till next year;
- satisfactory agreement on an adjustment mechanism for the cereals coresponsibility levy for future years;
- decision in principle on reform of agricultural structures regulations. Main issue for UK was the introduction of a limit per farm on EC financial contribution to payments on livestock in less favoured areas. There will be no ceiling to number of livestock on which payments may be made, merely to the sum attracting a contribution from Brussels. Although the limit was raised during negotiation, the Minister voted against on the grounds that the discrimination affected only the UK. (Denmark also voted against, for other reasons).

2. The Secretary of State for Employment may wish to comment on the Commission's social action programme, which was announced earlier this week. Although there are some helpful elements

(eg no proposals on rights of trade unions; and a clear statement that minimum wage levels are exclusively a matter for member states) the broad thrust of the programme still runs counter to the Government's economic and employment policies and would extend Community competence to areas where it has not yet been exercised. The UK will have to make clear its initial views on the action programme at the Social Affairs Council on 30 November, which Mr Fowler plans to attend.

3. Forthcoming meetings are:

- Internal Market Council (23 November)
- Fisheries Council (27 November)
- Foreign Affairs Council (27-28 November)
- Environment Council (28 November)
- Social Affairs Council (30 November)

R.R.B.
—

ROBIN BUTLER

22 November 1989

Madame le Premier Ministre,

Lors de notre conversation à CHEQUERS, sur la Charte Sociale, je vous avais proposé d'adopter une démarche pratique afin d'éliminer les sources de malentendus et de rechercher les terrains d'entente. C'est à cet effet que nous avons chargé nos collaborateurs de se rencontrer. Ils l'ont fait et ont procédé à un examen point par point des droits inclus dans le projet de Charte. Les travaux ultérieurs menés par les Ministres des Affaires Sociales, ont tenté, dans la mesure du possible, de prendre en compte les demandes du Royaume-Uni comme celles des autres Etats membres, l'objectif étant de parvenir à un texte acceptable par tous malgré la diversité des pratiques et des législations.

Je pensais que le projet de Charte, soumis le 30 octobre au Conseil Affaires Sociales, y était raisonnablement parvenu.

A la demande de nombreuses délégations, le préambule du projet de Charte affirme avec force la priorité à la création d'emplois.

Pour répondre à vos préoccupations, la version initiale du projet a été modifiée sur plusieurs points :

- le principe de subsidiarité est clairement posé, d'abord comme une règle générale dans un considérant, qui reprend expressément les conclusions du Conseil de Madrid sur

Madame Margaret THATCHER
Premier Ministre du Royaume-Uni

la nécessité d'établir clairement le rôle respectif des normes communautaires, des législations nationales et des relations conventionnelles. Ensuite, la plupart des articles se réfèrent aux "modalités propres à chaque pays" (article 5 sur la rémunération de l'emploi, article 9 sur les conditions de travail, article 10 sur la protection sociale, articles 24 et 25 sur les personnes âgées), aux "pratiques nationales" (article 12 sur les conventions collectives, article 13 sur l'exercice du droit de grève, article 21 sur la rémunération des jeunes) ou aux "pratiques en vigueur dans les différents Etats membres" (article 17 sur l'information, la consultation et la participation des travailleurs).

- Enfin, un considérant du préambule précise que la "mise en oeuvre de la Charte ne saurait entraîner une extension des compétences de la Communauté telles qu'elles sont définies par les traités". Il est aussi clairement indiqué, dans la dernière partie, que la mise en oeuvre de la Charte relève "plus particulièrement... de la responsabilité des Etats membres conformément aux pratiques nationales...", et que la Communauté agit dans le cadre des "compétences prévues aux Traités..."

Aussi, ce projet de Charte, loin de vouloir surréglementer, est une déclaration politique qui reconnaît un certain nombre de droits. La mise en oeuvre de ces droits relève, dans de nombreux cas, de mesures ou de pratiques nationales ou, lorsque le traité actuel le permet, de mesures communautaires.

Il me semble ainsi que nous sommes allés le plus loin possible à la rencontre de vos préoccupations. De nombreux Etats membres considèrent d'ores et déjà le projet actuel comme un minimum.

M. Roland DUMAS est tout à fait disposé à s'entretenir avec M. Douglas HURD de ce sujet, à l'occasion du prochain Conseil Affaires Générales.

J'espère vivement qu'il sera possible de trouver sur ces bases un accord unanime à STRASBOURG et que la Communauté montrera ainsi sa volonté de donner une réelle dimension sociale à la construction européenne, l'objectif prioritaire étant, comme le souligne la Charte, de contribuer au développement de l'emploi.

Je vous prie de croire, Madame le Premier Ministre, à l'expression de ma haute considération.

*or de mes
fidèles sentiments*

François Mitterrand



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

en.

21 November 1989

Dea Nick,

with ass / will report if agreed.

EC PUBLIC PROCUREMENT: EXCLUDED SECTORS

I have seen your letter to Douglas Hurd of 17 November.

I am glad that our officials have been able to agree on a line to take on reciprocity at the Internal Market Council on 23 November. This is designed to keep all of the options - including the German plea of a declaration - open at this stage.

It will clearly be necessary for the subject to be considered again in the light of the Council, and before we commit ourselves to any form of provision.

John Wakeham also wrote on the excluded sectors on 17 November. In discussion last week in an Advisory Committee, it became clear that getting any conditions for not applying the rules to the exploration and extraction of oil and gas will not be easy, and that others will try to use the conditions to get other activities exempted. I believe this makes it important that officials should talk urgently to the Commission about any changes to the conditions which may be needed.

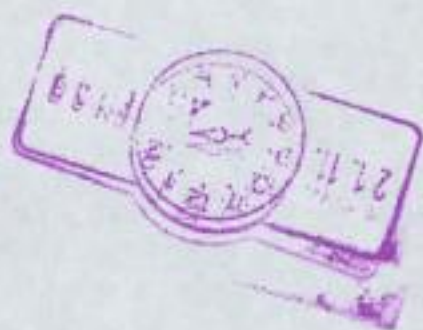
John also mentioned general aspects of the proposal on which officials need to assess progress. We will need to form a judgement ourselves in the light of their work as soon as the issues are clear.

I am sending copies of this letter to the Prime Minister, members of OD(E), Cecil Parkinson, Chris Patten and John Wakeham and to Sir Robin Butler.

*Yours
The Earl of Caithness*

THE EARL OF CAITHNESS

EURO POL: Budget 1943



PRIME MINISTER

mt

20 November 1989

Richard
Woodrow Wyatt
but the poll in
at the week-end
you read it on
the way to Paris!

OPINION SURVEY ON EUROPE

On Saturday the Independent published a Harris poll on attitudes towards the Community in Britain, W.Germany, France and Spain. The results are summarised in the attached chart.

CBM

The results are good news for your own stance in Europe. British opinion is behind you on

- backing the single market
- caution on EMU
- keeping social and employment policy in national hands

And there was no discernible difference between the attitudes of Conservative and Labour supporters on these.

Attitudes in the other countries are however much more 'communitaire'.

On the key question "have changes in your country as a result of membership been for the better or worse", the findings are

	<u>Britain</u>	<u>W.Germany</u>	<u>France</u>	<u>Spain</u>
Better (%)	28	51	52	55
Worse (%)	34	16	16	12

Only on the environment is there a significant British majority (72%:24%) in favour of Community action.

Other key findings not in the table

- from a list of 6 possible benefits from membership, only one registered with more than 4 out of 10 Britains: "a lower risk of war with other countries" (55%)

- only on a single European currency were the views of Conservative and Labour supporters different:

	<u>For</u>	<u>Against</u>
Conservative (%)	35	54
Labour (%)	41	41

- If opinion on the future direction of the Community remains divided, there are strong majorities in France and Germany for going ahead without Britain

	<u>For</u>	<u>Against</u>
France (%)	59	13
Germany (%)	65	15

The British poll was done in early October on a sample of 1000. This was before the recent intensification of debate on ERM.

John Mills
JOHN MILLS

The Independent/Channel Four questionnaire

	Great Britain %	West Germany %	France %	Spain %
1) The member states of the European Community are planning to complete the single European market by the end of 1992. In general, do you favour or oppose this plan as a means of making progress towards European union?				
Favour	46	62	66	58
Oppose	24	11	7	5
Neither/don't know	30	27	27	37
2) The member states of the EC are considering a plan that could lead to the eventual replacement of national currencies by a single European currency. How do you view this plan?				
Favour	37	46	65	58
Oppose	46	31	13	8
Neither/don't know	17	23	22	34
3) Would you say that the changes that have occurred (in your country) as a result of its membership of the EC have generally been changes for the better or changes for the worse?				
Better	28	51	52	55
Worse	34	16	16	12
Some better, some worse	30	26	21	19
Don't know	9	7	11	14
4) For each of these topics, please tell me whether you think that decisions should be made by the EC as a whole, or whether you think such decisions should be made by each country independently?				
a) Laws regarding pollution				
EC as a whole	72	86	83	62
Each country independently	24	8	15	20
b) Chemicals used in food production				
EC as a whole	71	81	61	64
Each country independently	25	13	35	18
c) Quality of drinking water				
EC as a whole	63	79	76	46
Each country independently	34	16	21	35
d) Defence policy				
EC as a whole	45	74	63	45
Each country independently	49	16	31	29
e) Laws regarding the rights of people at work				
EC as a whole	41	45	61	54
Each country independently	53	47	35	29
f) Laws regarding welfare rights, such as pensions and child benefits				
EC as a whole	35	31	45	46
Each country independently	60	62	51	39
g) Subjects taught in schools				
EC as a whole	24	50	55	53
Each country independently	70	42	40	29
h) Income tax rates				
EC as a whole	13	28	37	24
Each country independently	82	65	57	58

The minimum number of test subjects who participated in this survey is 30 or more. M... be referred to by...
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CONFIDENTIAL

efc

*Prime Minister
CDD*

Qz 06489

MR POWELL

SOCIAL CHARTER

Flap.

1. If the French respond positively to the Prime Minister's message to President Mitterrand, an early Ministerial meeting under the Prime Minister's chairmanship is likely to be needed to establish our negotiating line. The Foreign Secretary and the Secretary of State for Employment have agreed that, as background for that discussion, I should minute you with an account of the present state of work in Whitehall.

THE FRENCH PRESIDENCY TEXT

2. The Presidency text which emerged from the Social Affairs Council on 30 October remains modelled on the Commission's wholly unacceptable draft. The French have introduced some improvements in an attempt to meet certain of our objections; but changes to meet some others' concerns have gone in the opposite direction. I attach (Annex A) a copy of the Presidency's text, annotated by the Department of Employment to indicate the main points of difficulty. In essence, these are that it runs counter to the Government's overall approach to effective economic management, in particular by envisaging the regulation of pay and working conditions; that it would undermine established policy objectives in the social and employment field; and that it envisages Community activity which would be unacceptable to the United Kingdom in both scale and content, as well as raising some problems of competence.

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ALTERNATIVE APPROACH

3. In her letter to President Mitterrand, the Prime Minister canvassed an alternative approach based on a shorter, broader, declaration of principles, and indicated certain areas which might be covered. I attach (Annex B) a full list of possible areas identified by officials, divided into those where we recognise that there is some legitimate scope for Community activity, and those which we consider should be reserved exclusively for action by Member States. Subject to Ministerial discussion of substance and tactics, something like this list would need to form the basis for any discussion with the French of an alternative approach. To give a better picture of what this might mean in practice, I attach (Annex C) an illustration of the kind of text we might aim to extract from the French. This is the product of work by officials from the Departments concerned, under the guidance of their respective Ministers: it has not yet been the subject of collective Ministerial discussion. Two paragraphs are in square brackets, as departments are divided over whether they should be included.

4. The text closely follows the headings in Annex B. The chances of the French accepting something on these lines, and successfully selling it to other member states, are not high: but we need to await their response to the Prime Minister's letter.

5. As background to the Annexes, and in particular to how the text at Annex C has been constructed, it may be helpful to comment briefly on:

- competence considerations;
- policy impact of a declaration; and
- parallels with the Council of Europe Social Charter.

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COMPETENCE

6. Although the Presidency's text refers to the Madrid conclusions that "the role to be played by Community standards, national legislation and contractual relations must be clearly established" it does not in practice draw such distinctions. It is still drafted as a blueprint for action, and in a way that implies that virtually all the matters it covers could involve Community activity.

7. The alternative text at Annex C attempts to illustrate what would be needed to overcome these difficulties, by:

a. confining the content strictly to what would as a matter of policy be acceptable to the United Kingdom;

b. dividing the material into two distinct categories: firstly those issues which are matters for action by the Community and the member states, subject to the principle of subsidiarity; and secondly those which we consider should remain exclusively for the member states (this division is nailed down by the last two paragraphs of the text);

c. expressing individual principles in broad terms designed to minimise the scope for the Commission to argue that it should bring forward detailed implementing proposals;

d. subjecting all the principles to an explicit reference to the laws, practices and traditions of individual member states;

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e. including in the preamble a reference to the need to uphold existing competences of the Community and the member states.

8. Even with a text such as Annex C, there would remain some residual risk that the European Court would look to it as evidence of what member states regarded as basic rights and levels of protection in the employment and social field, and that this could influence its interpretation of the scope of particular Treaty provisions. This risk would however need to be balanced against the advantages in policy terms if all twelve member states could be brought to agree to a text along the lines of Annex C.

Policy impact of a declaration

9. If, against expectation, member states could be brought to agree to a declaration on the lines of Annex C, it would strengthen our hand in arguing that the Commission should not press ahead with detailed proposals in areas which it would regard as within the scope of the Treaty but which we had identified as reserved for action by member states alone; in particular, it would strengthen our hand in arguing that other member states should join us in resisting proposals for Community action which went beyond what all had agreed.

10. The impact of a declaration by 11 member states only (ie on the basis of the Presidency's text) is harder to assess. It would clearly lack the political authority of a document agreed by all 12; and the Court would have much less scope for relying on it as evidence of member states' intentions. But it would still encourage the Commission to come forward with the wide

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range of implementing measures likely to be identified in its forthcoming action programme (which is not now expected to emerge before 20 November). The prospect of root and branch UK opposition to many of these proposals could encourage the increased use of questionable legal bases in order to permit majority voting. There would therefore be risks for the United Kingdom in any declaration by 11 member states on the Presidency's present lines, even though we had not subscribed to it.

Council of Europe

11. In these and indeed in a number of other areas we have signed up to the provisions of the Council of Europe Social Charter. Commitments accepted in that Charter however cannot simply be transposed into Community legislation, because:

i. signatories to the Council of Europe Charter are free to implement in their own way: there is no question of implementation being in the hands of any supra-national body, or subject to Court scrutiny;

ii. signatories have flexibility from time to time to review their commitments when circumstances change. For example, we are in the process of revoking our commitment to prohibition on night work for young people.

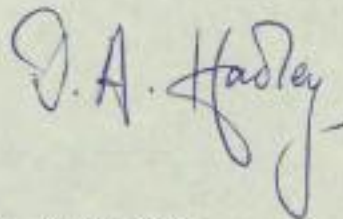
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Future handling

12. The issues that Ministers are likely to need to consider include:

- the prospects of inducing the French - and other member states - to look seriously at an alternative approach;
- if our efforts fail (which seems likely) and it becomes clear that the Presidency will persevere with their existing text, whether there are any further steps we can take to get it improved before other member states sign up to it;
- how to maximise the positive impact of our own approach, both at Strasbourg and in terms of domestic presentation.

13. I am sending copies of this minute to the Private Secretaries to the Chairman and members of OD(E), the Secretary of State for Social Security, and the Chancellor of the Duchy of Lancaster.



D A HADLEY

17 November 1989

ANNEX A

CONFIDENTIAL

COMMUNITY CHARTER OF FUNDAMENTAL SOCIAL RIGHTS
OF WORKER^S

ANNOTATED VERSION

CONFIDENTIAL

DRAFT

COMMUNITY CHARTER OF THE FUNDAMENTAL SOCIAL RIGHTS
OF WORKERS

THE HEADS OF STATE AND GOVERNMENT OF THE MEMBER STATES OF THE
EUROPEAN COMMUNITY MEETING AT
ON

Whereas, under the terms of Article 117 of the EEC Treaty, the Member States have agreed on the need to promote improved living and working conditions for workers so as to make possible their harmonization while the improvement is being maintained;

Whereas following on from the conclusions of the European Councils of Hanover and Rhodes the European Council of Madrid considered that, in the context of the establishment of the single European market, the same importance must be attached to the social aspects as to the economic aspects and whereas, therefore, they must be developed in a balanced manner;

Having regard to the Resolutions of the European Parliament of 15 March 1989 and 14 September 1989 and to the Opinion of the Economic and Social Committee of 22 February 1989;

Whereas the completion of the internal market is the most effective means of creating employment and ensuring maximum well-being for all Community citizens; whereas employment development and creation must be given absolute priority in the completion of the internal market, whereas it is for the Community to take up the challenges of the future with regard to economic competitiveness; taking into account, in particular, regional imbalances;

Whereas the social consensus contributes to the strengthening of the competitiveness of undertakings, of the economy as a whole and to the creation of employment, whereas in this respect it is an essential condition for ensuring sustained economic development;

Whereas the completion of the internal market must favour the approximation of improvements in living and working conditions, as well as economic and social cohesion within the European Community while avoiding distortions of competition;

Whereas the completion of the internal market must offer improvements in the social field for workers of the European Community, especially in terms of freedom of movement, living and working conditions, health and safety at work, social protection, education and training;

Whereas, in order to ensure equal treatment, it is important to combat every form of discrimination, including discrimination on grounds of sex, colour, race, opinions and beliefs, and whereas, in a spirit of solidarity, it is important to combat social exclusion;

COMMENTARY

ACCEPTABLE: already agreed

ACCEPTABLE: already agreed

ACCEPTABLE: only commits. Council to "have regard", not to accept

ACCEPTABLE: in line with UK policy, and the Employment Growth Resolution agreed under the UK Presidency

BROADLY ACCEPTABLE: consensus desirable, if not "essential"

BROADLY ACCEPTABLE: (a quotation from an earlier agreed text)

BROADLY ACCEPTABLE

UNACCEPTABLE: exceeds competence of Community (Treaty confined to equal treatment of men and women); also "spirit of solidarity" is meaningless

Whereas it is for Member States to guarantee that workers from non-Member countries and members of their families who are legally resident in a Member State of the European Community are able to enjoy, as regards their living and working conditions, treatment comparable to that enjoyed by workers who are nationals of the Member State concerned;

Whereas inspiration should be drawn from the Conventions of the International Labour Organisation and from the European Social Charter of the Council of Europe;

Whereas the Treaty, as amended by the Single European Act, contains provisions laying down the powers of the Community relating, inter alia, to the freedom of movement of workers (Articles 7, 48-51), the right of establishment (Articles 52-58), the social field under the conditions laid down in Articles 117-122 - in particular as regards the improvement of health and safety in the working environment (Article 118a), the development of the dialogue between management and labour at European level (Article 118b), equal pay for men and women for equal work (Article 119), the general principles for implementing a common vocational training policy (Article 128), economic and social cohesion (Article 130a to 130e) and, more generally, the approximation of legislation (Articles 100, 100a and 235); whereas the implementation of the Charter must not entail an extension of the Community's powers as defined by the Treaties;

Whereas the aim of the present Charter is to consolidate the progress made in the social field, through action by the Member States, the two sides of industry and the Community;

Whereas its aim is also to declare solemnly that the implementation of the single European Act must take full account of the social dimension of the Community and that it is necessary in this context to ensure at appropriate levels the development of the social rights of workers of the European Community, especially employed workers and self-employed persons;

Whereas, in accordance with the conclusions of the Madrid European Council, the respective roles of Community rules, national legislation and collective agreements must be clearly established;

Whereas, by virtue of the principle of subsidiarity, responsibility for the initiatives to be taken with regard to the implementation of these social rights lies with the Member States or their constituent parts and, within the limits of its powers, with the European Community; whereas such implementation may take the form of laws, collective agreements or existing practices and whereas it requires in many spheres the active involvement of the two sides of industry;

Whereas the solemn proclamation of fundamental social rights at European Community level may not, when implemented, provide grounds for any retrogression compared with the situation currently existing in each Member State,

UNACCEPTABLE: Community has no competence over third country nationals, therefore has no role in deciding where policy responsibility lies

ACCEPTABLE

UNACCEPTABLE: suggests that these Articles provide an acceptable legal base and therefore competence in all the areas mentioned, and for all the measures proposed in the declaration. In a number of areas we would want to challenge this

ACCEPTABLE

BROADLY ACCEPTABLE: but believe Single Market is route to improved living and working conditions. Must avoid any suggestion that Charter proposals are necessary for the completion of the Single Market, because this could concede Qualified Majority Voting for such measures

ACCEPTABLE: in line with UK policy

BROADLY ACCEPTABLE: would prefer that implementation of a number of the measures listed was clearly left to member states with no responsibility falling to the Community except in those areas already agreed

BROADLY ACCEPTABLE: though strictly speaking it is impossible to guarantee that there will be no deterioration in any area

HAVE ADOPTED THE FOLLOWING DECLARATION CONSTITUTING THE
"COMMUNITY CHARTER OF THE FUNDAMENTAL SOCIAL RIGHTS OF WORKERS":

TITLE 1
FUNDAMENTAL SOCIAL RIGHTS

FREEDOM OF MOVEMENT

1. Every worker of the European Community shall have the right to freedom of movement throughout the territory of the Community, subject to restrictions justified on grounds of public policy, public security or public health.
2. The right to freedom of movement shall enable any worker to engage in any occupation or profession in the Community in accordance with the principles of equal treatment as regards access to employment, working conditions and social protection in the host country.
3. The right of freedom of movement shall also imply:
 - Harmonization of conditions of residence in all Member States, particularly those concerning family reunification;
 - Elimination of obstacles arising from the non-recognition of diplomas or equivalent occupational qualifications;
 - Improvement of the living and working conditions of frontier workers.

EMPLOYMENT AND REMUNERATION

4. Every individual shall be free to choose and engage in an occupation according to the regulations governing each occupation.
5. All employment shall be fairly remunerated.

To this effect, in accordance with arrangements applying in each country:

- workers shall be assured of an equitable wage, ie a wage sufficient to enable them to have a decent standard of living;
- workers subject to terms of employment other than an open-ended full time contract shall receive an equitable reference wage;
- wages may be withheld, seized or transferred only in accordance with national law; such provisions should entail measures enabling the worker concerned to continue to enjoy the necessary means of subsistence for himself and his family.

6. Every individual must be able to have access to public placement services free of charge.

IMPROVEMENT OF LIVING AND WORKING CONDITIONS

7. The completion of the internal market must lead to an improvement in the living and working conditions of workers in the European Community. This process must result from an approximation of these conditions while the improvement is being maintained, as regards in particular the duration and organization of working time and forms of employment other than open-ended contracts, such as fixed-term contracts, part-time working, temporary work and seasonal work.

The improvement must cover, where necessary, the development of certain aspects of employment regulations such as procedures for collective redundancies and those regarding bankruptcies.

8. Every worker of the European Community shall, have a right to a weekly rest period and to annual paid leave, the duration of which must be progressively harmonized in accordance with national practices.
9. The conditions of employment of every worker of the European Community shall be stipulated in laws, a collective agreement or a contract of employment, according to arrangements applying in each country.

SOCIAL PROTECTION

According to the arrangements applying in each country:

10. Every worker of the European Community shall have a right to adequate social protection and shall, whatever his status and whatever the size of the undertaking in which he is employed, enjoy an adequate level of social security benefits.

Persons who have been unable either to enter or re-enter the labour market and have no means of subsistence must be able to receive sufficient resources and social assistance in keeping with their particular situation.

- Art. 6 **BROADLY ACCEPTABLE** in policy terms: must be clear that individuals applies to jobseekers only, not employers. But possible competence problem; and could foreclose policy options later
- Art. 7 **UNACCEPTABLE:** invites unnecessary intervention in the labour market, introducing rigidities into labour market. In UK, these matters left to bargaining between employers and employees
- Art. 8 **UNACCEPTABLE:** conflicts with UK policy of non intervention: settlement of working conditions other than health and safety should be agreed between employers and employees; outside competence
- Art. 9 **UNACCEPTABLE:** conflicts with UK policy and practice; should be left to member states to decide; ignores UK legal tradition of common law contracts
- Art. 10 **BROADLY ACCEPTABLE:** in line with UK policy and practice; but Community competence should be restricted to social security matters as they affect free movement of workers.

FREEDOM OF ASSOCIATION
AND COLLECTIVE BARGAINING

11. Employers and workers of the European Community shall have the right of association in order to constitute professional organizations or trade unions of their choice for the defence of their economic and social interests.

Every employer and every worker shall have the freedom to join or not to join such organizations without any personal or occupational damage being thereby suffered by him.

12. Employers or employers' organizations on the one hand and workers' organizations on the other, shall have the right to negotiate and conclude collective agreements under the conditions laid down by national legislation and practice.

The dialogue between the two sides of industry at European level which must be developed, may, if the parties deem it desirable, result in contractual relations in particular at interoccupational and sectoral level.

13. The right to resort to collective action in the event of a conflict of interests shall include the right to strike, subject to the obligations arising under national practices and collective agreements.

In order to facilitate the settlement of industrial disputes the establishment and utilization of conciliation, mediation and arbitration procedures should be encouraged in accordance with national practice.

14. The internal legal order of the Member States shall determine under which conditions and to what extent the rights provided for in Articles 11 to 13 apply to the armed forces, the police and the civil service.

VOCATIONAL TRAINING

15. Every European Community worker must be able to have access to vocational training and to undergo such training throughout his working life. In the conditions governing access to such training there may be no discrimination on grounds of nationality.

The competent public authorities, undertakings or the two sides of industry, each within their own sphere of competence, shall set up continuing and permanent training systems enabling every person to undergo retraining more especially through leave for training purposes, to improve his skills or to acquire new skills, particularly in the light of technical developments.

- Art. 11 **BROADLY ACCEPTABLE:** in line with UK policy: would prohibit the closed shop; but arguably exceeds the competence of the Community
- Art. 12 **UNACCEPTABLE:** conflicts with UK policy as no compulsion on UK employers to recognise unions for purpose of negotiation; not appropriate for Community action
- Art. 13 **UNACCEPTABLE:** no right to strike with impunity has ever existed in UK law - would create gross imbalance in our legislation; not compatible with governments industrial relations reforms (eg. ballots, secondary picketing etc.); not appropriate for Community action
- UNACCEPTABLE:** conflicts with Government policy on intervention in industrial disputes
- Art. 14 **INADEQUATE:** does not reflect UK policy and practice which restricts rights of groups other than those cited and provides no protection from dismissal for anyone taking industrial action (unless dismissal is "selective")
- Art. 15 **UNACCEPTABLE:** UK disagrees with blanket entitlement to training. However, have accepted exhortation to encourage training and to improve access to training

Particularly **UNACCEPTABLE** is implied right to "leave for training purposes".

EQUAL TREATMENT FOR MEN AND WOMEN

16. Equal treatment for men and women must be assured. Equal opportunities for men and women must be developed.

To this end, action should be intensified to ensure the implementation of the principle of equality between men and women as regards in particular access to employment, remuneration, social protection, education, vocational training and career development.

Measures should also be developed enabling men and women to reconcile their occupational and family obligations.

INFORMATION, CONSULTATION AND PARTICIPATION FOR WORKERS

17. Information, consultation and participation for workers must be developed along appropriate lines, taking account of the practices in force in the various Member States.

This shall apply especially in companies or groups of companies having establishments or companies in several Member States of the European Community.

18. Such information, consultation and participation must be implemented in due time, particularly in the following cases:

- when technological changes which, from the point of view of working conditions and work organization, have major implications for the workforce are introduced into undertakings;
- in connection with restructuring operations in undertakings or in cases of mergers having an impact on the employment of workers;
- in case of collective redundancy procedures;
- when transfrontier workers in particular are affected by employment policies pursued by the undertaking where they are employed.

Art. 16 BROADLY ACCEPTABLE:

BUT:

do not accept need for further legislation at Community level

UNACCEPTABLE:

Issues such as child-care are for national governments, not the Community.

Art. 17 INAPPROPRIATE: entirely matter for employers and employees, and must be voluntary

Art. 18 UNACCEPTABLE: UK policy that information and consultation is of constant importance - not for Government to specify circumstances.

HEALTH PROTECTION AND SAFETY
AT THE WORKPLACE

19. Every worker must enjoy satisfactory health and safety conditions in his working environment. Appropriate measures must be taken in order to achieve further harmonization of conditions in this area while maintaining the improvements made.

These measures shall take account in particular, of the need for the training, information, consultation and balanced participation of workers as regards the risks incurred and the steps taken to eliminate or reduce them.

The provisions regarding implementation of the internal market shall help to ensure such protection.

PROTECTION OF CHILDREN AND ADOLESCENTS

20. Without prejudice to such rules as may be more favourable to young people, in particular those ensuring their preparation for work through vocational training, and subject to derogations limited to certain light work, the minimum employment age must not be lower than the minimum school-leaving age and, in any case, not lower than 15 years.
21. Young people who are in gainful employment must receive equitable remuneration in accordance with national practice.
22. Appropriate measures must be taken to adjust labour regulations applicable to young workers so that their specific development and vocational training and access to employment needs are met.

The duration of work must, in particular, be limited - without it being possible to circumvent this limitation through recourse to overtime - and night work prohibited in the case of workers of under eighteen years of age, save in the case of certain jobs laid down in national legislation or regulations.

23. Following the end of compulsory education, young people must be entitled to receive initial vocational training of a sufficient duration to enable them to adapt to the requirements of their future working life; for young workers, such training must take place during working hours.

Art. 19 **BROADLY ACCEPTABLE:** in line with UK policy and with Health and Safety Framework Directive already agreed

Art. 20 **UNACCEPTABLE:** decisions on access to the labour market must be for member states in the light of domestic priorities

Art. 21 **UNACCEPTABLE:** implies government regulation of pay (see Article 5)

Art.22 **UNACCEPTABLE:** matter for member states, not Community;

conflicts with UK policy, and incompatible with recent repeal of all unnecessary restrictions on young people's employment; ignores subsidiarity

Art. 23 **UNACCEPTABLE:** disagree with automatic right to training - must be in light of labour market needs; insistence that training should be within working hours introduces **UNACCEPTABLE** rigidity. Could accept exhortation to improve training for young people

ELDERLY PERSONS

According to the arrangements applying in each country:

24. Every worker of the European Community must, at the time of retirement, be able to enjoy resources affording him or her a decent standard of living.
25. Any person who has reached retirement age but who is not entitled to a pension or who does not have other means of subsistence, must be entitled to sufficient resources and to medical and social assistance specifically suited to his needs.

DISABLED PERSONS

26. All disabled persons, whatever the origin and nature of their disablement, must be entitled to additional concrete measures aimed at improving their social and professional integration.

These measures must concern, in particular, according to the capacities of the beneficiaries, vocational training, ergonomics, accessibility, mobility, means of transport and housing.

TITLE II IMPLEMENTATION OF THE CHARTER

27. It is the responsibility of the Member States to guarantee the fundamental social rights in this Charter and to implement the social measures indispensable to the smooth operation of the internal market as part of a strategy of economic and social cohesion and in accordance with national practices, notably through legislative measures or collective agreements.
28. The European Council invites the Commission to submit initiatives which fall within its powers, as provided for in the Treaties, with a view to the adoption of legal instruments for the effective implementation, as and when the internal market is completed, of those rights which come within the Community's area of competence.
29. The Commission shall establish each year, during the last three months, a report on the application of the charter by the Member States and by the European Community.
30. The report of the Commission shall be forwarded to the European Council, the European Parliament and the Economic and Social Committee.

- Art. 24 BROADLY ACCEPTABLE IN POLICY TERMS, but action for Member States.
- Art. 25 BROADLY ACCEPTABLE decisions on pensions and benefit entitlements must be for national governments.
in policy terms
- Art. 26 BROADLY ACCEPTABLE: but must confine itself to measures which affect the integration of people with disabilities into the labour market (and not cover eg. housing and transport)
- Art. 27 UNACCEPTABLE: invites binding legislation at national level and possibly Directives at Community level to ensure that Member States honour their commitments;

conflicts with UK policy and practice of leaving many areas to voluntary action by employers and employees.
- Art. 28 UNACCEPTABLE: i) conflicts with UK policy of voluntarism; ii) declaration of principle should not deal with method and call for action
- Art. 29 UNACCEPTABLE: Community, and therefore Commission, has no role in many of these areas
- Art. 30 UNACCEPTABLE: as Article 29.

This annex sets out a list of possible areas which might be covered by a declaration acceptable to the UK, as suggested by the Prime Minister's letter to President Mitterand.

The list is divided in to two groups:

- A those areas where we recognise that there may be legitimate scope for action at Community level based on precedent;
- B those areas which we believe should be reserved exclusively for action by Member States, where there has been no or limited action by the Community;

Group A

- i) Employment Growth
- ii) Enterprise and Small Firms
- iii) Freedom of Movement
- iv) Freedom to engage in an occupation
- v) Freedom of Establishment
- vi) Health and Safety at Work
- vii) Vocational Training
- viii) People with Disabilities
- ix) Equal Opportunities for women and men

Group B

- i) Social Protection
- ii) The Elderly
- iii) Freedom of Association/Negotiation
- iv) Employee involvement
- v) Minimum Employment Age

Draft

17 November 1989

DRAFT DECLARATION: EMPLOYMENT RIGHTS, FREEDOMS AND RESPONSIBILITIES

THE HEADS OF STATE OR GOVERNMENT OF THE MEMBER STATES OF THE EUROPEAN COMMUNITIES MEETING WITHIN THE EUROPEAN COUNCIL

Recalling past Resolutions of the Council, their conclusions in Hanover in June 1988 and in Rhodes in December 1988, and their commitment in Madrid in June 1989 to accord the same importance to social and economic aspects in the construction of the Single European market;

Reaffirming their shared commitment to social progress and to the acceptance of a broad range of rights, freedoms and responsibilities in the Member States;

Reaffirming their determination that job development and creation and the promotion of labour market flexibility must be given top priority in the achievement of the Single Market;

Underlining the need for social policies to complement the commitment to enhance the Community's competitiveness, and contribute to economic growth and the fight against inflation, while respecting the diversity of national practices and legal and constitutional traditions with regard to workers' rights, freedoms and responsibilities;

Confirming that, in giving expression to the social as well as economic aspects of the Single Market, the respective roles to be played by Community standards, national legislation and contractual relations must be clearly established;

Recognising that in relation to matters within the competence of the Community any action to implement such rights, freedoms and responsibilities should always be carried out at the lowest possible level in accordance with the principle of subsidiarity;

Resolved to uphold the respective competences of the Community and of the Member States; recognising that Member States alone have competence in the social field except in so far as the EC Treaties make specific provision for Community action;

DECLARE THEIR RESOLVE TO GIVE EFFECT TO THE FOLLOWING RIGHTS, FREEDOMS AND RESPONSIBILITIES IN RESPECT OF NATIONALS OF THE MEMBER STATES AND IN ACCORDANCE WITH THEIR RESPECTIVE LAWS, PRACTICES AND TRADITIONS:

Employment Growth

- 1 The employment policies of Member States and the Community, in particular those directed towards the completion of the internal market, shall assist employers of both large and small enterprises to improve their competitiveness and thus to create employment and reduce unemployment.
- 2 In the light of the need to restructure traditional industries and given the speed of technological change, Member States agree on the need to: ensure flexible patterns of work; provide ready access to the labour market of all those seeking a job; meet the desires of individuals for flexible working patterns; and develop all forms of work, including part-time and temporary work, fixed-term contracts and job sharing.
- 3 To this end, Member States shall take steps to remove obstacles to the development of all forms of work with the aim of competitiveness and of meeting the changing needs of employment.

4 Member States and the Community recognise that unemployed people - particularly the long-term unemployed - are a resource on which employers can and should draw; consequently, Member States commit themselves to the identification and implementation of means of helping long-term unemployed people into jobs.

[5 In particular, Member States invite the Commission to produce an estimate of the effects on employment of any proposals in the field of labour and social affairs, which shall be transmitted to the Council before any decisions are taken on the adoption of any measure; and to take full account of the effects on employment in any proposal they put forward in this area.]

Enterprise

6 Member States recognise the very substantial potential for employment growth which lies with small and medium sized enterprises.

7 Member States therefore reaffirm their commitment to reduce administrative, legal and other constraints on the creation and expansion of enterprises.

8 To this end, Member States shall in particular encourage and promote self-employment.

Freedom of movement

9 Every worker has the right to freedom of movement throughout the territory of the Community to seek or take work, subject to restrictions on the grounds of public policy, public security or public health.

10 To this end Member States and the Community shall work: to eliminate remaining barriers to the mobility of labour

throughout the Community; to extend and simplify mutual recognition of qualifications; and to encourage improved information about employment opportunities and conditions in all Member States.

Freedom to engage in an occupation

- 11 Every individual shall be free to choose and engage in an occupation according to the regulations governing each occupation.
- 12 To this end, Member States shall ensure that people seeking work have access to placement services; shall encourage competition in recruitment and placement services; and shall promote vocational guidance services for the unemployed.

Freedom of establishment

- 13 Nationals of Member States have the right to take up and pursue activities as self-employed persons and to set up and manage undertakings anywhere in the Community, subject to restrictions on the grounds of public policy, public security or public health.
- 14 To this end Member States and the Community shall ensure that Community obligations on the rights of establishment are actively observed and implemented.

Health and safety at the workplace

- 15 Every worker has the right to enjoy satisfactory health and safety conditions in his working environment. Appropriate measures must be taken in order to achieve further harmonisation of conditions in this area while maintaining the improvements made.

- 16 Member States shall take account of the need for the training, information, consultation and participation of workers as regards the risks incurred and the steps taken to eliminate or reduce them.

Vocational training

- 17 All European Community workers should have access to continuing vocational training in the light of requirements and free of discrimination on the basis of nationality.
- 18 To this end Member States shall encourage the development of progressive training systems for employed and unemployed people based on public or private provision. In particular Member States shall aim to improve levels of skill in the workforce; to increase the number of workers holding relevant qualifications, based on standards of competence recognised by employers; and to promote vocational training for unemployed people under the age of 18 to assist their integration into the labour market.

People with Disabilities

- 19 People with disabilities, whatever the origin and nature of their disability, should have access to appropriate vocational training and rehabilitation to assist them to participate as fully as possible in working life.

Equal opportunities

- 20 Men and women shall be entitled to equality of opportunity and treatment as regards employment, remuneration and vocational training.

- 21 To this end, Member States and the Community shall ensure that Community obligations on the equal treatment for men and women are actively observed and implemented.

Social protection

- 22 Workers shall have access to social protection at a level determined by each Member State and subject to the conditions and obligations imposed by that State.
- 23 To this end, Member States shall ensure both that appropriate social security schemes are available and that these unemployed or low paid workers who have inadequate means of subsistence have access to resources, where appropriate by way of social assistance, housing assistance and medical care.

The elderly

- 24 Workers should have adequate resources for their retirement.
- 25 To this end, Member States shall ensure that workers have access to suitable pension schemes, whether public, occupational or private, including arrangements for transferring accrued rights from one scheme to another. Those retired workers who have inadequate means of subsistence shall have access to resources, including medical care and social and housing assistance, appropriate to their circumstances.

Industrial relations

- 26 Employers and workers shall be free to constitute and join any professional or trade union organisation of their

choice, subject to any limitations imposed by national legislation or for national security reasons and subject to the freedom of professional and trade union organisations to determine their own membership.

- 27 Employers and workers shall also be free not to join such organisations.
- 28 Individual employers or employers' organisations on the one hand and individual workers or workers' organisations on the other, shall be free to negotiate and conclude agreements if both parties wish to do so, in accordance with Member States' legislation, traditions and national practice.

Employee involvement

- 29 Member States shall encourage in accordance with national traditions and practice the involvement of employees in the companies for which they work. This may include the use of either statutory or voluntary arrangements for the consultation of workers or their direct involvement through share ownership schemes according to national practice.

[Individual employment rights

- 30 Member States shall provide, in accordance with conditions determined by each Member State, for appropriate protection for workers in the following areas: unfair dismissal; redundancy¹; maternity absence; minimum periods of notice of termination of employment, redress in cases of unlawful deductions of wages and employers' insolvency.]

¹ Already within Community competence - covered by Transfer of Undertakings Regulations

Minimum employment age

31 The minimum age for full-time permanent employment shall be the statutory school leaving age applicable in each Member State. Employment below that age shall be subject to Member States' restrictions to safeguard a child's health, welfare and education.

The rights, freedoms and responsibilities set out in paragraphs 1-31 of this Declaration are matters for Member States and for the Community, each acting within their respective spheres of competence and in accordance with the principle of subsidiarity.

The rights, freedoms and responsibilities set out in paragraphs 22-31 of this Declaration are matters for Member States in accordance with their national laws, traditions and practices.



Euro 201 Budget

PT-403

THE RT HON JOHN WAKEHAM MP

CCPD
CCPC



Department of Energy
1 Palace Street
London SW1E 5HE
01 238 3290

ed 17/11

The Earl of Caithness
Paymaster General
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

17 November 1989

Dear Paymaster General,

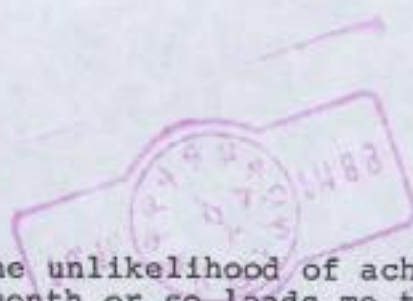
EC PUBLIC PROCUREMENT: EXCLUDED SECTORS

Thank you for sending me a copy of your letter of ~~14~~¹⁷ November to Douglas Hurd.

Satisfactory resolution of the issues you mention will indeed be central to whether we would recommend adoption of a common position. I am particularly concerned with the provisions on exempting oil and gas. As at present drafted, they would permit AGIP to give advance information to Italian engineering companies about its procurement intentions in the UKCS but preclude us from ensuring that it gave that information to British suppliers at the same time. That discrimination against the UK offshore industry would be politically intolerable. They would prevent us from checking that AGIP's procurement was designed to give best value for money rather than use British taxpayers' money to prop up Italian industry. The Commission will have to find acceptable amendments and that, I fear, will not be easy. Other amendments to the exemption provisions will also be needed before the UK could take advantage of them.

There are also other issues which are either of key importance to us or concern details which could add significantly to UK costs unless the current provisions are amended. Our officials have been discussing them for some time. The latest reports I have heard of negotiations in Brussels suggest that a least on some of them we still have quite a way to go while, on others, we have seen no more than negligible progress. Among the issues I have in mind are our concerns about state industries, standards, real progress on compliance, definitions of supplies and works and revision to thresholds.

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The importance of these matters and the unlikelihood of achieving solutions on all of them in the next month or so leads me to doubt whether there is any real prospect of the UK supporting adoption of a common position during the French Presidency. There will be an opportunity to discuss this at OD(E) on Monday

I am sending a copy of this letter to recipients of yours.

Yours sincerely
T. Neilson

ff JOHN WAKEHAM

(Approved by the Secretary of State
and signed in his absence)

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PRIME MINISTER

15 November 1989

THE SOCIAL CHARTER

We have just received a copy of Mrs Papandreou's draft Action Plan. It is likely to be approved by the Commission without any amendment. As drafted it confirms our worst fears.

First, the philosophy is centralist and dirigiste.

For example, the Action Plan talks of the labour market in terms of the need for the "management of human resources at all levels". To achieve this an elaborate new bureaucracy is proposed. At the centre will be a so-called "observatory" with a remit to forecast, analyse and monitor employment trends. It will be supported by a network throughout the Community of "social information offices". There is a supposition that Trade Unions should participate in the drafting of directives which affect their interests.

Second, the Action Plan is not underpinned by any sensible economic analysis. For example, part-time work is denigrated as having "grown considerably in recent years, often in a quite anarchical manner". It seems not to have occurred to the Commission that this growth may have occurred as a result of individual preference, rather than for want of regulation! In any event no attempt has been made to assess the cost-benefits.

Third, the Action Plan is politically dangerous because it makes the Commission appear to have acted with self-restraint:

- The Commission have gone out of their way to accommodate would-be waverers (with the exception

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of the UK). The concerns of West Germany and Portugal have, in particular, been taken into account. If the UK opposes the Social Charter, the Commission want to make sure we are isolated.

- they have not proposed directives in a number of sensitive areas (social protection, minimum wages, child care and the trade unions). This can be of little comfort: the language in these areas is such that it leaves open the prospect of legislation at a future date.
- they have been careful to pay lipservice to the principle of subsidiarity. But their interpretation of what this implies seems to be a long way from our own.
- they have been careful not to indicate the legal bases on which proposals will be founded. But it is evident from their draft Social Charter that they will attempt to push all this through under qualified majority voting.

Conclusion

If this Action Plan is implemented it would sound the death knell for much of what the Government has tried to do in the last ten years. Attached in the Annex is a list of some of the worst features of the Action Plan.

At least the appearance of this document will make the issues at Strasbourg more clear-cut; and it will make it possible for you to argue against signing-up to the principle of anything before it has been fully considered by the Council. It will however be essential to ensure that the language

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of a UK alternative Charter could not in any way be used by opponents to argue that we support any unsatisfactory proposals in the Action Plan. We are not at this stage convinced that the "alternative draft" now in preparation (before the Action Plan became available) meets this test

John Mills

JOHN MILLS

Andrew Dunlop

ANDREW DUNLOP

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ACTION PLAN PROPOSALS

The following are a sample of the proposals within the Action Plan. The headings correspond to the relevant sections of the Action Plan.

A. Employment and Remuneration

1. Equitable wage: Acceptance that "wage policy is a matter for the Member States and the two sides of industry alone". A Council Recommendation is proposed, rather than a Directive. But this, if Member States endorse it, could well be used as the pretext for future action.
2. Part-time work: A directive is proposed establishing minimum Community requirements for the working conditions and social protection of those in part-time work. The sole justification is that existing (market-led) conditions are "anarchic". This would extend existing statutory employment rights in the UK, increase unnecessarily the regulation of the labour market and cut across areas currently for negotiation between employers and employees. A real disincentive to job creation.

B. Improvement of living and working conditions

1. Hours of work: A directive is proposed laying down "maximum duration of work, rest periods, holidays, night work, weekend work and overtime". Goes further than the existing draft Social Charter. (Eg Commission

could prescribe a 35 hours working week). Implications are a less flexible labour market, increasing employer costs and jobs destroyed. This is no doubt the kind of measure the Commission has in mind to ask the Trade Unions to help draft.

2. Right to a written contract: A directive is proposed to give all workers a right to a written contract, setting out terms and conditions. Designed particularly to encompass part-timers. A departure from existing UK practice, this could impose heavy additional burdens on small firms.

C. Social Protection

This area is wholly outside Community competence. The Commission has been careful, therefore, not to propose any directives. Two policy recommendations are however made:

- to bring about a "convergence of the objectives" pursued by Member States in this area, to reduce barriers to free movement;
- to combat "social exclusion" by ensuring "sufficient resources and social assistance".

This will of course give the Community a locus in this area, which the Commission can easily exploit at a later date. If discussion alone failed to bring about the desired 'convergence', the Commission would easily be able to justify a legislative measure to the same end.

An indication of the Commission's ambitions in this area is contained in the conclusion to this section. It states:

"The Commission considers that it would be worthwhile establishing certain basic common principles for the Community in this field so that, alongside the many activities which it carries out in the economic and social area ... the Community, in a spirit of solidarity, should at least take an initiative to assist the least advantaged citizens of the Community and the elderly in particular ..."

D. Freedom of Association and Collective Bargaining

Another sensitive area in which the Commission are treading carefully. No initiatives are proposed in the immediate future. But the Action Plan scarcely conceals the Commission's ultimate ambitions. There is explicit reference to their intention to secure the support of the industrial partners to legislation in this area.

For example the Action Plan states:

"With the two sides of industry the Commission will also examine the extent to which and under what terms the former would agree to participate in the framework of the social dialogue, in preparing certain legal instruments which the Commission would subsequently submit to the Community bodies concerned.

The Commission are, therefore, merely "keeping their powder dry". Endorsement of the Action Plan would help merely to legitimise future Commission activity in this area.

E. Information, Consultation and Participation

As bad as feared. This is one of the areas of greatest difficulty for us. The Commission proposes regulations which would require:

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- the establishment of a system of worker representation in all large companies;
- the provision of information to and consultation with worker representatives before major decisions, affecting employees, are taken;
- the introduction of employee share ownership.

These regulations would undermine the UK's existing voluntary arrangements and impose additional burdens on business. For example, the requirement to consult before major decisions are taken could affect sensitive take-over negotiations. Shop stewards could use any information gained to thwart bids to which they objected. Likewise a statutory requirement to run an employee share scheme could be administratively burdensome to smaller firms.

F. Training

The whole thrust of the Commission's proposals goes against the Government's voluntary approach to training. For example, regulations are proposed to:

- give every worker the right to training leave;
- require that every young person in a job receives complementary vocational training during working hours.

More regulation and control - goes in the opposite direction to present Government policy which has, for example, almost completely dismantled the system of statutory Industrial Training Boards.

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 FROM: PAYMASTER GENERAL
 DATE: 15 NOVEMBER 1989

PRIME MINISTER

EC BUDGET COUNCIL, 14 NOVEMBER

Summary

The outcome of yesterday's Budget Council meeting in Brussels was broadly satisfactory in most respects, though the mandate which the Presidency was given for negotiations with the European Parliament is less restrictive than I would have liked.

Detail

The main issue was economic aid for Poland and Hungary. The Council agreed a declaration to the effect that it would adopt a supplementary budget next year in order to provide additional aid of 100 mecu on top of the 200 mecu agreed at ECOFIN on 9 October. I argued that part of this extra amount should be financed without recourse to a supplementary budget. But I received no support and, given the exceptional circumstances, did not stand out against the option which all other member states favoured.

As regards other non-compulsory expenditure (DNO), the Council rejected amendments totalling around 300 mecu for which the Parliament had voted at its first reading. By doing so, the Council stayed comfortably within the maximum rate of growth for non-privileged DNO.

It was also encouraging that the Council imposed its will on a recalcitrant Commission by deciding to budgetise virtually all of the expected underspending on agriculture in 1989. This means that member states will contribute nearly 2 becu less to the 1990 budget than would otherwise have been the case. (There is a possibility that the Commission will take the Council to Court on this.)

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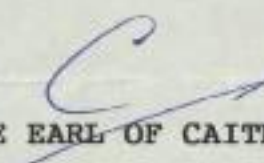
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 A satisfactory
 outcome
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The revised draft budget will be given a second reading by the Parliament in mid-December. The Parliament is in combative mood and, although its spokesmen repeatedly swear fidelity to the letter and spirit of the Inter-Institutional Agreement (IIA), the final stages of this year's procedure could prove awkward. With this in mind, the Council underlined the need for genuine negotiations (co-decision) with the Parliament; and gave the Presidency a quantified mandate which places a limit of 163 mecu on the level of provision which the Parliament can be offered over and above the revised draft budget. This limit, though fully consistent with the IIA, is around 60 mecu higher than the level which I thought prudent (and higher still than the figure for which the Dutch argued) and I therefore voted against it. Nevertheless, the position is an advance on last year, when the President's mandate was effectively open-ended.

Copies of this go to Douglas Hurd and members of OD(E) and to Sir Robin Butler.



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COMMISSION DECISION ON RENAULT

SUMMARY

1. COMMISSION TOOK DECISION TODAY TO REQUIRE THE REPAYMENT OF FF 12 BILLION PAID IN AID TO RENAULT, IN THE ABSENCE OF ANY SATISFACTORY PROPOSALS FROM THE FRENCH GOVERNMENT IN THE NEXT THREE MONTHS. SIGNIFICANT VICTORY FOR SIR L BRITTAN.

DETAIL

2. THE COMMISSION DECIDED UNANIMOUSLY TODAY THAT ITS AUTHORIZATION OF AID TO RENAULT WAS NULL AND VOID IN THE LIGHT OF NON-COMPLIANCE BY THE FRENCH AUTHORITIES. THE FRENCH GOVERNMENT ARE REQUESTED TO PROPOSE MEASURES TO COMPLY WITH THIS DECISION WITHIN THREE MONTHS. IN THE ABSENCE OF SUCH PROPOSALS, OR IF THESE ARE DEEMED UNSATISFACTORY, THE FRENCH GOVERNMENT WILL BE REQUIRED TO RECOVER FF12 BN FROM RENAULT UNDER THREAT OF COURT ACTION.

COMMENT

3. THIS IS A HIGHLY SATISFACTORY OUTCOME. AFTER THE DEFEAT ON PECHINEY, BRITTAN'S CABINET WERE NERVOUS THAT RENAULT MIGHT SUFFER THE SAME TYPE OF DEFEAT IN THE COMMISSION. IN THE EVENT, THE ONLY CONCESSION HAS BEEN TO GIVE THE FRENCH GOVERNMENT THREE RATHER THAN THE NORMAL TWO MONTHS IN WHICH TO RESPOND. SIR L BRITTAN IS REPORTED TO BE HIGHLY CONTENT.

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Andrew Durlap cc Charles Paves ✓
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I am now quite
sure we are not going to get
any talks. On balance this may be
a good thing. X is entirely predictable!
Jfm

SOCIAL CHARTER: PRIME MINISTER'S LETTER TO PRESIDENT MITTERRAND

1. IN THE COURSE OF A DISCUSSION ON EC BUSINESS WITH THE MINISTER ON 14 NOVEMBER MME GUIGOU, MITTERRAND'S EC ADVISER, SAID THAT THE PRESIDENT HAD NOT YET DECIDED HOW TO REPLY TO THE PRIME MINISTER'S LETTER ABOUT THE SOCIAL CHARTER. HE HAD ASKED MME GUIGOU TO LOOK AT THE LETTER IN RELATION TO THE COMMISSION'S REVISED DRAFT OF THE CHARTER. SHE WAS IN THE PROCESS OF DOING THIS. SHE GAVE NO INDICATION THAT SHE THOUGHT THE PRESIDENT WAS LIKELY TO PICK UP THE SUGGESTION MADE BY MRS THATCHER THAT THERE SHOULD BE FURTHER TALKS EITHER BETWEEN MINISTERS OF FOREIGN AFFAIRS OR BETWEEN OFFICIALS WITH A VIEW TO SEEING WHETHER AN ACCEPTABLE, GENERAL, BROAD STATEMENT COULD BE DEvised. SHE COMMENTED THAT HER FIRST READING OF THE PRIME MINISTER'S LETTER SUGGESTED THAT SEVERAL OF THE POINTS MADE IN IT WERE ALREADY TAKEN INTO ACCOUNT IN THE COMMISSION'S REVISED DRAFT. SHE WAS UNABLE TO SAY WHEN A REPLY WAS LIKELY TO ISSUE, BUT IT WAS PRETTY CLEAR FROM THE WAY SHE SPOKE THAT SHE HAS NOT YET GOT ROUND TO DRAFTING.

2. A CAGEY PERFORMACE: WE TOOK NOTE WITHOUT PRESSING, WHICH MIGHT HAVE GIVEN THE IMPRESSION OF RUNNING AFTER THE FRENCH.

FERGUSSON

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Ref. A089/2974

PRIME MINISTER

Cabinet: Community Affairs

1. The Chancellor of the Exchequer may report on the ECOFIN Council which he attended on 13 November. Key points were:

- on EMU Stage I legal texts, satisfactory common positions were reached on the revisions required to the 1964 and 1974 texts. Formal adoption is planned for the December ECOFIN;
- on subsequent stages of EMU, there was an exchange of views based on reports from the high level (Guigou) group and the Monetary Committee. The Chancellor introduced the UK paper: most delegations said it merited serious study, but did not offer a genuine alternative to the Delors report; but there was some support from Germany, Luxembourg and the Netherlands for consideration of later stages not to be hurried. The Presidency's summing up made clear that the UK's paper would be among the documents forwarded for preparation of the Strasbourg European Council; but also that the European Council would have to decide whether to convene an inter-governmental conference;
- satisfactory Council conclusions on abolition of fiscal frontiers, including agreement on future systems for VAT and excise duty administration. Limits on travellers' allowances for private purchases to be abolished by 1993, subject to possible derogations for Denmark, Ireland and Greece. Wide divergence of views remain on tax rates: no decisions reached;

- general discussion of recent developments in Eastern Europe and possible financial implications for the Community. Monetary Committee to draw up inventory of existing bilateral and multilateral commitments to countries concerned.
2. The Secretary of State for Health may report on the Health Council held in Brussels on 13 November. The Minister for Health, Mrs Bottomley, represented the United Kingdom. Main points were:
- Tobacco Labelling Directive and common position on draft Tar Yield Directive both adopted, with United Kingdom abstaining. Mrs Bottomley explained our support for health aims of the directives, but emphasised the progress achieved in the United Kingdom through voluntary agreements. Commission floated a general statement that voluntary agreements could in principle contribute to the implementation of Directives: helpful but does not fully meet United Kingdom's concerns;
 - agreement in principle to successor to the cancer programme agreed under the last United Kingdom Presidency. Mrs Bottomley secured clause acknowledging that public health policy was a matter for member states;
 - resolution on the fight against AIDS agreed. UK amendments were accepted; Commission agreed that all appropriate research items would come within the R & D Framework Programme;
 - satisfactory conclusions on drug addiction agreed, on basis that they did not extend competence, and on health cards.

3. The Secretary of State for Trade and Industry may comment on the Industry Council which Mr Hogg attended on 14 November. The outcome will be reported by telegram overnight. The agenda includes further discussion of state aids to the Italian steel industry, and informal discussion of imports of Japanese cars after 1992.

4. The Chancellor of the Exchequer may wish to comment on the Budget Council which the Paymaster General attended on 14 November. The Paymaster minuted the Prime Minister on 9 November about his proposed line for this Council, at which the sole item is a second reading of the 1990 draft Budget. The outcome will be reported by telegram overnight.

5. The Secretary of State for Employment may wish to mention that the Commission's action programme in the social field is likely to be published on 15 November, as part of the preparations for discussion of the Social Charter at the Strasbourg European Council. We do not yet know precisely what will be included in the final text. But on the evidence so far it is likely to be unwelcome from our point of view, both in terms of broad thrust and specific content. Other member states are however likely to regard it as relatively moderate.

F.E.R.B.

ROBIN BUTLER

14 November 1989



~~CCP~~
~~CCP~~

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Secretary of State
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

R 14/11

14 November 1989

EC PUBLIC PROCUREMENT: EXCLUDED SECTORS

The Presidency has told Member States that it will try to achieve a common position next month on the so-called "excluded sectors" directive. This is intended to open up competition for procurement by the water, energy, telecommunications and transport sectors. The Government has strongly supported the directive but has a number of aims it needs to secure before a common position is adopted. I am writing about our tactics concerning these in the next week or two.

Reciprocity

Under the Commission's proposal, purchasers would be required to prefer offers of mostly EC content if they came within 3 per cent of others on price. They would also be able to reject at their discretion any offers that did not have more than 50 per cent EC content. France, Belgium and Italy would like to make these provisions more stringent. (In both cases, the Council could decide otherwise following an agreement with a non-member country.)

Germany, however, has approached the Netherlands and ourselves with a view to opposing both provisions. I strongly believe that we should join in opposing them. At official level all departments are clear that we should oppose the proposal for mandatory preference and I am sure this is right. It has however been suggested that we should accept the facility for purchasers to reject offers with less than 50 per cent EC content. This would be on the grounds that to do so would help get the common position adopted and because it would provide a lever in negotiations to broaden the GATT Agreement on Government Procurement.

If we accepted this facility, some of our suppliers could lose the benefits of the directive because of the effect on their business of the 50 per cent provision. BICC, Plessey and ICL have told us of their fears. More importantly, it could also become more difficult for us to oppose reciprocity against third countries in other proposals by the Commission. I endorse very strongly the importance of opening up procurement in the GATT, but suggest that the EC is more likely to achieve this by willingness to respond to calls by the US and others to agree machinery on enforcement.

It is most important that in promoting aspects of the single market we do not lose sight of wider principles. This means that we should not let barriers be erected against third countries. The risk in this case is that even a facility for purchasers to reject offers with more than half third country origin could help in establishing a drift towards reciprocity. This is a drift which we have resisted strongly in the past (successfully in the case of the 2nd Banking Directive) and will need to do so again in the future (eg in the context of the proposed investment services directive). There is certainly no need to take this risk when the Presidency is applying pressure to get a common position.

I understand that the Netherlands may consider it unrealistic to aim simply to remove the provision. In the absence of support other than from ourselves, the Germans may decide to offer a declaration in its stead. I suggest that if necessary officials should be ready to discuss a possible declaration on German lines, namely that the Community had acted to open up procurement in the expectation that our partners in the GATT Agreement would take similar action.

The Germans have also spoken of a provision allowing offers to be rejected if the outcome of the Uruguay Round is unsatisfactory. I believe there are considerable dangers in going as far as this.

Exclusion of oil and gas

OD(E) decided last year that one of our objectives on the Commission's proposal should be to secure the exclusion of the exploration and extraction of oil and gas. In my letter of 17 October to Peter Morrison, I reported that the Commission seemed willing to agree to exempting the sector provided Member States fulfilled certain conditions, intended to ensure that they did not interfere in companies' procurement. These conditions have now been provided to us in the form of a draft article.

It will be necessary to consider the conditions very carefully before we can say that we accept them. If we decided that coverage by the directive was better than exemption on the terms proposed by the Commission, or any modification of them likely to be acceptable to other Member States, we would have to explain to the industry why we were prepared to accept the disadvantages we have said the directive will bring. If, on the other hand, we wish to negotiate on the basis of the Commission's terms, we must recognise that the Commission may withdraw them if other Member

States show themselves to be unsatisfied. This makes it important not to prejudice our position by statements about the policy of full and fair opportunity and the role of the Offshore Supplies Office, since our Community partners will need to be convinced that there will be real changes.

Reduction of bureaucracy

We have not so far obtained support from other Member States for providing a derogation for detailed rules for purchasers who submit their systems to independent tests and perform satisfactorily in them. We should not give up on this, but may need to accept for the moment that improvements being made to the directive make it more acceptable as a framework for procurement. Officials will be consulting on the degree to which our objective of reducing bureaucracy has been achieved, and on the position on standards, where we have opposed mandatory application except in particular circumstances. They will be trying in discussions in Brussels to reduce the amount of information which must be provided to the Commission. They will also be having initial discussions on a draft proposal for enforcing the directive. This will need careful study but I suggest we can take it as answering our call for the subject to be considered before the main directive is adopted.

Conclusion

I hope that colleagues will be content with the approach I have outlined. If there are any difficulties, perhaps we could discuss them under the "forward look" at OD(E) on Thursday.

I am sending copies of this letter to the Prime Minister, members of OD(E), Cecil Parkinson, Chris Patten and John Wakeham and to Sir Robin Butler.

pp *W. M. Gable*
THE EARL OF CAITHNESS
*Approved by the Paymaster
General & signed in his
absence*

CONFIDENTIAL



*Mr. Sw
CP*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 November 1989

Dear Malcolm,

BUDGET COUNCIL

The Prime Minister was grateful for the Paymaster General's minute of 9 November concerning the draft Budget discussions at tomorrow's meeting of the Council. She is content with the approach he proposes to take.

I am copying this letter to the Private Secretaries to members of OD(E) and to Trevor Woolley (Cabinet Office).

Paul

(PAUL GRAY)

Malcolm Buckler, Esq.,
Paymaster General's Office.

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Paul

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COMMISSION INTERNAL SEMINAR, 10-11 NOVEMBER: RELATIONS WITH THIRD COUNTRIES, AND EMU

SUMMARY

1. DISCUSSION DOMINATED BY EVENTS IN EASTERN EUROPE, ESPECIALLY GDR. COMMISSION READY TO LOOK WITH GREATER OPENNESS AT PROSPECTS FOR ENHANCING RELATIONS WITH THIRD COUNTRIES. GDR A POSSIBLE EXCEPTION TO PRINCIPLE THAT NO ENLARGEMENT BEFORE 1993.

DETAIL

2. COMMISSIONERS HELD ONE IN THEIR REGULAR SERIES OF INTERNAL SEMINARS ON 10-11 NOVEMBER, TO TAKE A LONGER TERM VIEW OF MAJOR ISSUES, ESPECIALLY EMU AND EC RELATIONS WITH THIRD COUNTRIES. PREDICTABLY, MUCH OF THE TIME WAS DEVOTED TO THE LATTER, AND IN PARTICULAR TO EVENTS IN THE GDR. CABINET, SECRETARIAT AND DGI SOURCES HAVE GIVEN US THE FOLLOWING ACCOUNT OF WHAT WAS A WIDE-RANGING AND LOOSELY STRUCTURED DEBATE.

3. DELORS HAD IDENTIFIED THREE PARTICULAR RISKS TO THE COMMUNITY FROM CURRENT EVENTS IN EASTERN EUROPE:

- (A) THOSE COUNTRIES MIGHT NOT SUSTAIN THEIR DRIVE TOWARDS GREATER DEMOCRACY
- (B) THERE WOULD BE INCREASING TENSIONS AND INSTABILITIES WITHIN AND BETWEEN THOSE COUNTRIES AND
- (C) THE COMMUNITY ITSELF MIGHT FIND ITS OWN PROGRESS TOWARDS GREATER UNION BEING SLOWED DOWN.

IN THESE CIRCUMSTANCES, THE PREVIOUS APPROACHES ADOPTED TO THIRD COUNTRIES - THE PROXIMITY POLICY, THE POSSIBLE 'THIRD WAY' FOR EFTA COUNTRIES, THE USE OF ASSOCIATION AGREEMENTS AS AN 'ANTE-CHAMBER' FOR POTENTIAL EC APPLICANTS - HAD BEEN OVERTAKEN. FROM NOW ON THE COMMUNITY HAD TO LOOK AT ITS RELATIONS WITH EACH COUNTRY IN TERMS OF THE SPECIFIC CIRCUMSTANCES, NOT OF A GENERAL APPROACH. THE BASIC PRINCIPLES OF ARTICLE 237 OF THE ROME TREATY, WHEREBY DEMOCRATIC EUROPEAN COUNTRIES COULD APPLY TO JOIN THE COMMUNITY,

SHOULD NOT BE PUT IN DOUBT, NOR THE POSSIBILITY OF NEW ACCESSIONS EXCLUDED. HOWEVER, BEFORE THAT STAGE THE COMMUNITY SHOULD TAKE A COMPREHENSIVE LOOK AT ITS OWN INSTITUTIONS AND THE IMPLICATIONS FOR THEM OF NEW MEMBERS, AND THE NEED FOR POSSIBLE REFORM. THE CASE OF THE GDR WAS HOWEVER AN IMPORTANT EXCEPTION TO THE BASIC PRINCIPLE THAT NO NEW ACCESSIONS PRIOR TO 1993 SHOULD BE CONSIDERED.

4. IN THE ENSUING DISCUSSION IT WAS GENERALLY AGREED THAT THE GDR SHOULD BE TREATED AS A SPECIAL CASE. BANGEMANN MADE THE POINT THAT IF THE GDR BECAME A PLURALIST DEMOCRACY AND WANTED TO JOIN THE EC, OR IF IT BECAME PART OF THE FRG, THERE COULD BE NO QUESTION OF ENTRY TO THE COMMUNITY BEING REFUSED. THERE WAS ALSO A WIDESPREAD VIEW THAT IF THE GDR WERE ADMITTED, AUSTRIA WOULD HAVE TO BE ADMITTED TOO. SIR L BRITTAN ARGUED THAT THE COMMUNITY HAD A MAJOR ROLE TO PLAY IN DEALING WITH CENTRAL EUROPEAN PROBLEMS. BUT IT WOULD NOT BE ACCEPTABLE FOR THE COMMISSION SIMPLY TO PROPOSE TO THE COUNCIL TO THROW MONEY AT THESE IN THE FORM OF THE SORT OF AID ALREADY OFFERED TO POLAND AND HUNGARY.

5. THE OVERALL CONCLUSION WAS THAT IN THE MEDIUM TERM THE COMMISSION NEEDED TO COMBINE ITS RESPONSIBILITIES FOR DEEPENING THE COMMUNITY, IN ACCORDANCE WITH THE SINGLE ACT, WITH A RATHER BROADER VIEW THAN IN THE PAST OF ITS "CONTINENTAL" RESPONSIBILITY FOR EUROPE AS A WHOLE. THIS WOULD REQUIRE THE COMMISSION TO LOOK AGAIN AT ITS EARLIER CONCLUSION THAT THERE SHOULD BE NO BROADENING OF THE COMMUNITY UNTIL DEEPENING WAS COMPLETED.

6. ON THE GDR SPECIFICS, DELORS URGED THE NEED FOR WORK TO RESUME ON A MANDATE FOR A NEW AGREEMENT WITH THE COMMUNITY, WITH THE ADDITION OF A COOPERATION ELEMENT. DELORS ALSO SCHEDULED A FURTHER DEBATE ON POLAND AND HUNGARY FOLLOWING HIS OWN VISITS THERE, AND INTENSIVE ACTIVITY ON THE SOVIET DOSSIER (ON WHICH ANOTHER COMMISSION SEMINAR WAS PROMISED). THROUGHOUT THE DEBATE, THE CASE FOR CAUTION IN APPROACHING THE NEW RELATIONSHIP WITH EASTERN EUROPE WAS MADE MAINLY BY ANDRIESEN, WHILE DELORS AND BANGEMANN ARGUED THAT THE COMMISSION NEEDED TO ESPOUSE A WIDER VISION. THE GERMAN COMMISSIONERS SPOKE MOSTLY ABOUT THE NEED FOR SELF-DETERMINATION FOR THE GDR, WHEREAS THE NON-GERMANS MAINLY REFERRED TO THE REUNIFICATION OF GERMANY.

7. THERE WAS ALSO SOME DISCUSSION OF RELATIONS WITH THE MEDITERRANEAN COUNTRIES. IT WAS POINTED OUT THAT THE POPULATION OF THE 14 COUNTRIES WITH WHICH THE COMMUNITY HAS SPECIAL RELATIONSHIPS WOULD AMOUNT TO 400 MILLION BY THE YEAR 2025. IT WAS ESSENTIAL TO

MAKE A BIGGER EFFORT TO BOOST ECONOMIC COOPERATION WITH THESE COUNTRIES, PARTICULARLY AGAINST THIS DEMOGRAPHIC BACKGROUND AND THE RISK OF MASSIVE PRESSURES FOR MIGRATION.

8. THERE WAS A BRIEF EXCHANGE ON THE RELATIONSHIP WITH THE ACP WHICH CONCLUDED THAT NO RADICAL CHANGES WERE REQUIRED. THERE WAS ALSO SOME DISCUSSION ON THE POSSIBLE INSTITUTIONAL FORMS OF FUTURE RELATIONSHIPS WITH EFTA BUT NO SUBSTANTIVE CONCLUSIONS WAS REACHED.

9. THERE WAS SOME DISCUSSION OF THE AGENDA FOR AN INTER-GOVERNMENTAL CONFERENCE ON THE EMU WITH SUGGESTIONS FOR VARIOUS ITEMS WHICH IT MIGHT COVER, SUCH AS NEW FORMS OF COOPERATION/ASSOCIATION. BUT THE MAJOIRTY WERE INCLINED TO GO ALONG WITH SIR LEON BRITTAN'S VIEW THAT THE WIDER THE AGENDA WAS MADE THE LESS THE CHANCES OF AGREEMENT.

10. SOME COMMISSIONERS SUGGESTED THAT THE NEW REPONSIBILITIES WHICH WOULD FALL ON THE COMMUNITY INVOLVED A NEW LOOK AT THE BUDGET. IT WAS POINTED OUT THAT THE COMMISSION WILL THIS WEEK BE TAKING A FIRST LOOK AT THE FINANCIAL PERSPECTIVES.

11. AS REPORTED IN TODAY'S ''FINANCIAL TIMES'', DELORS SPOKE ABOUT THE CONCLUSIONS REACHED BY THIS MEETING ON THE GDR ON SUNDAY ON FRENCH AND GERMAN TELEVISION. WE WILL FAX THE TRANSCRIPTS OF HIS REMARKS. AT TODAY'S PRESS CONFERENCE THE COMMISSION SPOKESMAN CONFIRMED HIMSELF TO A FORMAL STATEMENT THAT THIS HAD BEEN AN EXCELLENT MEETING WHICH HAD BEEN ARRANGED SOME TIME IN THS PAST AND DECLINED TO REPLY TO QUESTIONS.

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Prime Minister
 Contact with this
 approach?



FROM: PAYMASTER GENERAL
 DATE: 9 NOVEMBER 1989

PRIME MINISTER

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The Budget Council meets on 14 November to consider the European Parliament's amendments and modifications to the Draft Budget established in July.

2. This year's budget procedure has been complicated by the question of economic assistance for Poland and Hungary. The aid package of 200 mecu agreed at ECOFIN in October will require an upward revision of the relevant expenditure ceiling in the Inter Institutional Agreement (IIA). ECOFIN agreed that this revision should be deferred until next February. But the Parliament has attempted to force an earlier and bigger revision by voting for an increase of 100 mecu in the aid package and for expenditure on new policies around 185 mecu in excess of the ceiling.

3. There is likely to be a majority at the 14 November Council to reject the excess expenditure and, in line with the conclusions of the February 1988 European Council, to stick to the maximum rate of growth for so-called non-privileged, non-obligatory expenditure (NPDNO). The most difficult issue will be Poland/Hungary. Objectively, it makes little sense to consider extra expenditure until the existing tranche has been allocated. But, given the political sensitivities, I do not intend to oppose the 100 mecu root and branch. Instead, I propose to argue that, if the Parliament believes additional spending can be justified, then provision should (and could) be made within the relevant ceiling in the IIA (and preferably within the maximum rate for NPDNO). The Presidency may go further than this and seek a mandate to negotiate a deal whereby the Council would undertake to provide more money for Poland/Hungary in a supplementary budget next year, in exchange for the Parliament dropping some of its other amendments. I would need to decide during the meeting

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whether, and on what terms, the UK could go along with any such deal in the light both of its precise contents and of the attitude of other member states. A key consideration will be the means by which the Presidency proposes to reach agreement with the Parliament on the growth of non-obligatory expenditure as a whole. I shall want to make clear that this must involve a process of genuine co-decision.

Copies of this go to Douglas Hurd and members of OD(E) and to Sir Robin Butler.


THE EARL OF CAITHNESS

CONFIDENTIAL



THE DEPARTMENT
OF TRANSPORT



FROM THE SECRETARY OF STATE

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-276 3000

The Rt Hon Nicholas Ridley MP
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

My Ref: C/PSO/14430/89

Your Ref:

*CC PH
10/2/89*

9 NOV 1989

EUROPEAN COMMUNITY STRUCTURAL FUNDS: "OBJECTIVE 2"

I very much share the concerns you expressed in your letter of 27 October to Douglas Hurd about the Commission's proposals to change the purposes for which European Regional Development Fund grants may be used.

It has long been our position that the ERDF is the proper means of channelling EC funds to support transport infrastructure projects. This has been our principal argument in the Transport Council in resisting Commission attempts there to establish a separate Transport Infrastructure Fund: so far we have been successful, with only small grant programmes being approved on an individual and ad-hoc basis, but the Commission continue to put forward ever more ambitious ideas for a more permanent arrangement.

I therefore support the negotiating objectives which you propose on the structural funds, and the steps you suggest to bring pressure to bear on the Commission's intransigence. We should press the Commission very strongly to reinstate ports and airports as eligible for ERDF grants. It is also important to seek to alter the Commission's proposals both to limit transport infrastructure spending to 15% of our total ERDF allocation, and to set a maximum grant rate of 25% for certain types of transport investment.

If you are to win concessions from Mr Millan on these points, and others, when you meet him next week, I accept that we may need to be able to give something in return. I therefore suggest - with some reluctance - that you could offer that motorways, peripheral distributor trunk routes and other major trunk roads that do not contribute to facilitating productive investment should not be priorities for these particular Community Support Frameworks - so



long as it is made clear to the Commission that this should not be regarded as setting a **general** precedent for constricting the scope for using ERDF for transport infrastructure projects.

I am sending copies of this letter to the Prime Minister, to colleagues on OD(E) and E(A), to Sir Patrick Mayhew, Nicholas Lyell, Alan Rodger, Peter Carmyllie and to Sir Robin Butler.

CECIL PARKINSON

Euro 100 Budget
P43



Ref. A089/2911

PRIME MINISTER

Cabinet: Community Affairs

1. The Foreign Secretary will wish to report on the 6 November Foreign Affairs Council. Main points were:

- EMU: Mr Hurd introduced UK's paper; Presidency and Commission accepted that it should be taken into account in future work; to be discussed further by ECOFIN alongside Presidency report from High Level Group. Commission promised for April 1990 a further paper on advantages and disadvantages of EMU. Most member states clearly expect decision at Strasbourg on timing of intergovernmental conference;
- Poland and Hungary: agreement to abolish discriminatory quantitative restrictions (QRs) and to extend GSP benefits to Poland and Hungary. Next Council (27 November) will consider Commission proposals for improved GSP benefits on agricultural products of special interest to Poland and Hungary; as well as a Commission paper (not yet produced) for action on non-discriminatory QR's.
- EC/GDR: agreement to defer decision on mandate for EC/GDR negotiations (Genscher particularly opposed to opening negotiations with GDR in present circumstances);
- Lome IV: UK, with support from Spain, Germany and Netherlands, successfully resisted Presidency/Commission efforts to reach premature agreement on the overall level of the EC's aid offer to the ACP;

- EC/US: steel agreement formally adopted.
2. The Secretary of State for Trade and Industry may report on the 7 November Telecommunications Council. Mr Forth represented the United Kingdom. Key points were:
- provisional agreement on a common position on the Pan European Radio Paging Directive; common position on a High Definition Television production standard;
 - discussion of a single market for telecommunications services; no agreement possible on Presidency's draft conclusions, with member states sticking to their widely differing views on the desirability of liberalisation;
 - Presidency conclusions on external aspects underlining importance of opening up third country markets (UK having successfully resisted a Council Resolution as unnecessary and premature).

F.R.B.

ROBIN BUTLER

8 November 1989

THE RT HON JOHN WAKEHAM MP



Department of Energy
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CCPC
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e

The Rt Hon Nicholas Ridley MP
Secretary of State for Trade
& Industry
Department of Trade & Industry
1-19 Victoria Street
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8 November 1989

See Nil

EUROPEAN COMMUNITY STRUCTURAL FUNDS: "OBJECTIVE 2"

I have seen your letter of 27 October to Douglas Hurd concerning the line you propose to follow with the Commission over its new policy on ERDF grants. Energy is one of the sectors which would be affected by the Commission's proposals, although I suspect the practical effect might not be great. I am content with the negotiating objectives you propose.

I am copying this letter to recipients of yours.

John Wakeham

JOHN WAKEHAM

EMBARGO

8.30 P.M.

TUESDAY 7TH NOVEMBER 1989

PLEASE CHECK AGAINST DELIVERY

THE GRANADA LECTURE

ADDRESS BY THE RT.HON. SIR LEON BRITTAN, QC

VICE PRESIDENT

COMMISSION OF THE EUROPEAN COMMUNITIES

LONDON - TUESDAY 7TH NOVEMBER 1989

"EUROPE: OUR SORT OF COMMUNITY"

THE GRANADA LECTURE

BY THE RT.HON. SIR LEON BRITTAN, QC

VICE PRESIDENT,

COMMISSION OF THE EUROPEAN COMMUNITIES

LONDON - 7th NOVEMBER 1989

"EUROPE: OUR SORT OF COMMUNITY?"

Many in Britain used to ignore the European Community as a foreign irrelevance. More recently it has been caricatured as a kind of elaborate continental plot. Its detractors have inveighed against the faceless men of Brussels as doctrinaire, self-important, interfering, petty, bureaucratic, sanctimonious, undemocratic, pampered, power-hungry, and even corrupt. The peddlers of dangerous utopianism. Protectionist to their fingertips.

True believers have been equally extravagant in their enthusiasm, seeing in the Community a symbol and an instrument of Europe's common aspirations. A vision bequeathed to us by the Founding Fathers, and in danger of being betrayed by those who hesitate, even for a moment, at the immediate prospect of total European Union.

To me it seems quite extraordinary that a debate in such terms should still linger on. But it does: like superannuated Sumo-wrestlers, the protagonists circle each other. It is an extraordinary spectacle in a country which prides itself on its pragmatism.

And because it is so distracting, it prevents us from making the impact we could on the issues that matter: the actual policies that the Community should be pursuing.

The European Community has never been just another inter-governmental organisation. It has from the outset had institutions specifically designed to provide the dynamism of a constitution, rather than the bureaucracy of a Treaty Secretariat. But for as long as decisions had to be taken by all the Member States acting unanimously, stagnation was the result. In the Single European Act of 1986 all the Member States, including Britain, decided to end that stagnation. They did so by bringing to the fore the system of decision-making by majority voting. They decided that their interests were better served by allowing themselves to be outvoted on occasions than by continuing to make only snail-like progress towards a genuine Single Market.

They were implicitly agreeing with the wise observation that sovereignty is not something that you either have or do not have, like a family heirloom, which you take out and dust down every now and then, to make sure that it is still in your possession and still intact. Sovereignty is, rather, in today's world a severely

practical concept. There is no single decision-making power, the existence of which can be regarded today as the touchstone of sovereignty. Re-interpreted today, sovereignty should be regarded as the ability to have the maximum possible say in determining one's own future, in the circumstances that actually exist. The concept of total sovereignty is, frankly, a dangerous illusion.

Instead you have to ask on a pragmatic basis: how can I most effectively achieve what I want for my country? Sometimes the answer will be to take action at the national level. At other times it may be best to reach bilateral or multilateral agreements. But there will be occasions when the right long-term answer will be to pool sovereignty with others, in order, paradoxically, to achieve an objective which may be of paramount national importance.

The control of inflation? The protection of the environment? Everyone will have their own view as to which objectives can best be achieved by which means. But the key feature of such a concept of sovereignty is that it has to be applied on a case-by-case basis. It is still founded on the belief that there is such a thing as the national interest. It does not ask for that to be subordinated to some supranational ideal. But it interprets the national interest in a broader, more long-term way than has hitherto been the case. Above all it seeks to avoid confusing the bare form of sovereignty with the substance.

Nor should we confuse sovereignty with national identity. We have confirmation virtually every day that 40 years of oppression in Eastern Europe have merely strengthened the sense of national identity. Brussels is no Politburo. I am a Commissioner, not a Commissar. If the countries of Western Europe have come together, it is because their citizens want to do so. But we also want to preserve the rich national traditions which give Europe its depth and colour. Fortunately no one could eradicate those traditions if they tried. Indeed, they give Europe its special fascination.

It is a fascination which is particularly marked for the younger generation. Their knowledge of Europe is derived from cheap travel, rather than a painful personal or historical recollection of past wars. For them the traditional concept of sovereignty is a meaningless abstraction. But that does not lead to a starry-eyed idealism. Rather than that there is a recognition that British interests may frequently have to be fought for robustly, but in a way that makes sense in today's world, and not on the basis of a rigid and outmoded constitutional theory.

The question thus becomes: what approach to the handling of European affairs stands the best chance of securing acceptance for the ideas and policies that we believe in? Even after only ten months in the Commission I have no doubt as to the right answer.

There are two bases on which to build.

The first is to influence proposals at the ideas stage, so that the policies that come forward reflect much more than at present British priorities. This is not just pie in the sky. There is no separate and identifiably "Community" approach to policy-making. At the end of the day those in the European Commission who put forward policies are conditioned by what they regard as the priorities, based on their experience of the different member countries. France and Germany are much more adept than Britain in presenting their ideas as the ones which ought to be given priority and translated into action. It is frequently ideas born of their experience rather than that of the U.K. that find their way into the legislative proposals and action programmes of the Community. To change this calls for a pro-active rather than a reactive approach on Britain's part. Stop asking: what is hitting us from Brussels and what can we do about it? Start asking: is there anything that we want and how can we persuade Brussels to put it forward?

The second basis for a more positive approach is to look at each new proposal as it emerges in a clear-headed way. If it is totally unacceptable, say so at the outset. But if it is likely that in the end Britain will, however reluctantly, go along with some version of what has been proposed, the right approach is to say at the outset "Yes, but ..." rather than "No, not for the present". That would not stop Britain negotiating toughly on the details, and even rejecting the proposal in the end if the changes required are

not accepted. By saying "Yes, but ..." at the outset you stand a far better chance of shaping the proposal into something acceptable in the end.

Looking at proposals in this way also means seeing them as they have developed, and not as they once were. Sometimes we risk becoming the prisoners of our own propoganda. The European Company Statute is a good case in point. The obstacle to allowing European companies to be set up has always been the problem of worker participation. British businessmen have very understandably been reluctant to have workers on the Board, as a condition for the creation of a European Company. In that they have had the vigorous support of the Government. But meanwhile, what has actually been proposed has changed beyond all recognition. Has the British perception kept up with the reality?

Do British businessmen appreciate that the current proposal does not force a European Company to have workers on the Board? That if there is no agreement between workers and management, the management can set up the company on the basis of model articles issued by the British Government itself? And that the only relevant requirement that those articles will have to contain is a provision requiring management to consult the workforce about the implementation of major decisions? Not a requirement to consult about the making of those decisions, but only about their implementation - and even that hedged around with exceptions in the case of commercially-sensitive information. What is now required is a limited consultation procedure, falling short of that followed

by most leading British companies today. So why should Britain deny its companies the opportunity - not an obligation - to set up a European Company? The truth is that Britain has campaigned so hard and so effectively against workers on the Board, that it finds it difficult to appreciate that that battle has now been won. Knowing when to proclaim victory, rather than to continue to tilt against windmills, is a skill we have yet to master.

So far I have focussed on the sovereignty debate and on the right approach to decision-making in the Community. Therein lie some of the obstacles to our making the best of the Community and our role within it. But what of the actual policies that the Community should be pursuing?

The top priority must be the completion of the 1992 process. Much progress has of course been made, for example in the area of banking. But thorny issues remain. Frontier controls and indirect taxation are but two of these.

Two basic questions seem to recur: should the Community's general approach be interventionist or market-oriented? And should it be open towards the outside world, or protectionist?

For me the answers are clear. The Community will be neither successful nor acceptable to those living within it if it is dirigiste and nannying. And it would be short-sighted and ultimately self-defeating for a group of nations so heavily dependent on trade to be illiberal in its external relations. A

deregulatory and open-market approach, on the other hand, will enable us to increase prosperity and choice, the yardsticks by which our efforts should be judged.

There are of course strong dirigiste and protectionist tendencies within the Community. But the extent to which the Community is now pointing in the free-market direction has been inadequately appreciated. The whole 1992 process is itself fundamentally liberal in approach. It is breaking down the barriers between the Member States which have up to now prevented the creation of a genuine Single Market. More specifically, within the last few months a number of crucial decisions have been taken by the Commission which point decisively in a liberal direction.

Air transport is one example of our efforts to break down unnecessary and illiberal regulation, in order to benefit travellers, through cheaper fares and more convenient services.

Telecommunications' services is another case in point. There national monopolies have tended to drive up prices, stifle innovation and entrench inefficiency. Our efforts to open up this market will help consumers and smaller business throughout the Community.

But if the European Community is to prove a liberating influence and not a centralising and corporatist one, we must further develop and apply the principle that decisions should be taken at the lowest appropriate level: as close as possible, that is, to the

people who are affected by them. This is known in Euro-speak as the principle of "subsidiarity". We may, for example, need to decide on toxic vehicle emissions at European level. But there is on the other hand no reason to prescribe how Member States should organise their schools, say, or, in my view, their industrial relations.

We should always ask ourselves, particularly in the social domain, is this really a decision that needs to be taken at Community level?

If it is not, the Community would be wise to set out the general objective, but leave it to the individual Member States to achieve that as they wish, according to their own traditions and their own laws.

Subsidiarity should not be seen as something for the theologians of Community law, but as something intensely practical: where to draw the dividing line between what is best done by the Community, and what is best done by national governments. Even if the Community has the legal right to legislate, it should exercise a self-denying ordinance, unless the problem can really only be resolved by action at Community level.

Everybody now pays lip service to this principle. But it needs to be developed and applied with much more rigour in practice. Too often I see legislative and spending proposals coming forward without proper consideration of whether the Community is really the

raised within the context of European broadcasting policy. It is reasonable for Britain to ask for understanding in the context of the Social Charter. But it is equally reasonable for our Continental partners to ask for understanding from Britain when it comes to broadcasting.

It is only since coming to Brussels that I have fully appreciated the constantly increasing dominance of the English language in the European Community. In Portugal last month I attended a Conference with delegates from all over the Community and beyond. The only language which was spoken there was English. In Belgium, with its two linguistic traditions and semi-federal structure, significantly fewer Flemish people speak French today than ten years ago. A major factor behind this has been the pervasive influence of English-language television, and above all American films. It is not surprising, therefore, that against this background there should be an extremely widespread and very strongly felt feeling that positive action is now needed to prevent the non-English speaking cultures of Europe from being swamped.

It is very comfortable for me to be able to speak English at almost all the meetings I attend. But if you value the richness and diversity of Europe's cultural heritage, you have to agree that the present trend towards uniformity should not go unchecked.

That is why - somewhat to my own surprise - I am not unsympathetic to those parts of the Community's "TV without frontiers" Directive which aim to ensure that an adequate proportion of programmes are of European origin.

I certainly would not favour rigid quotas, but the current requirement that, where practicable, a majority of programmes should be of European origin, seems to me to have achieved a reasonable balance. The single broadcasting market will bring immense new opportunities, for the US as much as anyone else. It is a positive-sum game. The U.S. currently has only 28% of the existing market, so there is plenty of scope for further U.S. expansion, even if, as we should, we take positive action to promote European production.

The maintenance of cultural diversity may need special action. But in a more general sense, there is no need whatsoever for the Community to be a force for centralisation and uniformity. On the contrary the Community can help to preserve and develop its diversity by helping the regions within the Member States to escape from the feeling of being suffocated by national centralisation. The Community can provide the regions with a wider framework from which to operate and express themselves.

By instinct and experience I have long been a believer in an active regional policy. This is something which can now be conducted particularly effectively at Community level. The Regional Development Fund, and control over national subsidies, are the main

instruments. But the very existence of the Community's institutions provides a tier of decision-making beyond the individual Member State that challenges assumptions that have often been made about the role and dependence of the regions. We are already seeing in Edinburgh and Cardiff a striking interest in the European Community as an antidote to the dominance of London. And the same process is taking place in Catalonia, say, or in the Mezzogiorno.

This process does not depend on or imply devolution of political power to the regions. It is more a case of enabling them to re-assert their identity in the broader European context.

As the frontiers of Europe come down, some now artificial national divisions will become less important and regional identities will be reinforced. We are already seeing for example, a revitalisation of Alsace. For seventy years Alsace was a victim of its position on the Rhine, a political fault-line in Europe. Today it is a self-confident, dynamic region which is again fulfilling its traditional role as a highway, not a barrier, to European trade.

The stance of the Community for which we should be aiming in the 1980s is, therefore, a clear one: liberal, outward-looking and encouraging diversity; never empire-building, but also never reluctant to do at Community level what can best be achieved by action in common.

These are the objectives, but are the present institutions of the Community adequate to attain them? This is often put in the context of the argument in favour of increased federalism. A debate in these terms seems to me peculiarly sterile. It is an unwitting repudiation of the unique character of the European Community. The Community is not a United States in embryo. Why should it be? It is not a collection of colonies becoming independent and seeking to create a new nation. It is a group of existing states, many proud and ancient, increasingly converging to achieve together, on a permanent basis, what they have not been able to achieve separately. It is sui generis: an evolving constitutional structure. It is not the first stage in creating a replica of some other country's constitution. To proceed ad hoc is not to lack principle, but to recognise that it is only by proceeding step by step that any ultimate goal will emerge from the mist.

But there are some immediate and vital decisions that need to be taken both about the Community's institutions and the proper scope of decision-making at Community level.

The first issue is whether the Community's decisions are subject to adequate democratic control. In principle there is no problem. Only the Commission can put forward legislative proposals. But they will only gather dust if the Member States do not accept them. In each Member State the government is in principle fully accountable to its democratically-elected Parliament for the position it takes up in the Council of Ministers of the Community.

But the practice is very different. Westminster at present cannot cope satisfactorily with Community affairs and as a result does not make the impact that it should on the Government's handling of them.

It is of the greatest importance that this should change.

For what comes from Brussels is no longer just of interest to those who specialise in European affairs. Proposals from the Community should not be left to the competing prejudices of the Europhobes and the Europhiles, considering these matters in a Committee dealing exclusively with European affairs. The depth of our relationship with the Community makes that a totally outdated way of handling matters. Community proposals relating to the environment should be regarded as an aspect of environmental policy, and not an aspect of European policy. And of course the same goes for all other subjects.

The main effort of examining draft Community legislation should therefore pass to the Select Committees responsible for different policy areas. They would be able to bring greater expertise to bear and be able to do so quickly. But they will need three or four members on each Committee who are specially designated to keep in touch with what is happening at the European level.

Nor will this in itself be sufficient. MEPs, too, have a particular role to play. They have no Government duties or ambitions to distract them. So they concentrate on examining and

amending European legislation. They are therefore uniquely well placed to help the UK Parliament. It would surely be sensible to mobilise their expertise by inviting two or three MEPs to sit with each Select Committee when it is engaged in scrutinising Community legislation.

The object of these changes is to increase knowledge of Europe and Westminster, to bring more influence to bear at an earlier stage, and perhaps, most important, to help Parliament to start burrowing into the fabric of Europe, developing the informal links and friendships, both with the European Parliament and with the Commission, which are so vital if Parliament is really to make a major impact on what is done by the Community.

But there is another institutional issue that is even more dominant at the moment. That is of course Economic and Monetary Union.

Last June, meeting in Madrid, all twelve leaders of the Community, including Mrs Thatcher, restated their commitment to Economic and Monetary Union. But what does that actually mean?

Nobody disagrees about the first stage which involves tightening up the institutional arrangements for closer cooperation, designed to bring about a greater convergence of policy. Nor is there any disagreement that this first stage includes membership of the Exchange Rate Mechanism of the E.M.S. on the part of those countries which are not yet members. The British Government agreed

to this, if not to any specific timing. It did so, no doubt, because it recognises the concrete benefits that membership of the E.R.M. have brought to those countries within it.

Businesses have the immense advantage of far greater certainty about the value of currencies in which they trade. They can better exploit export opportunities as a result. But above all, the history of the last ten years has shown that membership of the E.R.M. has brought lower inflation and lower interest rates. It is striking that France was once a country of high inflation, but now has a rate of inflation comparable to that of Germany. Ireland has since 1985 enjoyed low and stable inflation in the E.M.S. Britain by contrast, in spite of having a Government which has given top priority to the battle against inflation, and which has been remarkably successful in bringing it down from the peaks of the 1970s, still suffers from rates of inflation way above those of our principal trading partners. It really is a bit strange to have been arguing the merits of E.R.M. membership in academic abstraction, when the practical effects are there for all to see. Academics, like accountants, should be on tap, and not on top.

As the official policy of the Government is to join the E.R.M., the real question is: when? It is reasonable to wait until inflation is clearly pointing downwards. The signs are that inflationary pressure is already abating. But there is no need or justification for waiting until inflation reaches the European average. After all, by definition there must be several members of the E.R.M. who have inflation levels above the average, but have been contented

members of the E.R.M for years. Nor is there any real reason to wait for the further removal of capital and exchange controls within the Community next summer.

After all, most exchange controls in the major European countries have already been successfully dismantled. In France, all capital transactions have been freed from controls. The only obstacle still to be removed is the ban on French citizens freely opening bank accounts abroad. In the Foreign Exchange markets Eurofranc and domestic franc interest rates are now virtually identical. That indicates very clearly that there is no reason to believe that the E.R.M. will be under such strains next year, that we need wait to see what happens then before joining it.

And what of the suggestion that we should wait until some of the other barriers to trade within the Community have come down? They are indeed due to do so as part of the 1992 process. A large measure of agreement has already been reached as to how to bring this about. But there is no economic reason to wait for further progress. The other countries also want to move towards 1992, but they are already enjoying the benefits of E.R.M. membership. Joining the E.R.M. is not a prize to be given to our partners when they come up to scratch, but a benefit for ourselves if only we would take it. There is, therefore, no good reason why Britain should not join the E.R.M. within a very few months from now, and many powerful reasons why we should.

Not the least of these is the Government's desire to have a significant influence on the next steps towards Economic and Monetary Union. Why should our partners heed what we say, however sensible, if we have not even done what we agree is necessary for stage one?

That does not mean that there is any need to accept the remaining stages of the Delors Report as they stand. Nor is there any justification for a precipitate rush to negotiate those stages. It was indeed agreed that alternatives could be considered. That makes it all the more important that Britain should join the E.R.M. soon, so that alternative views can be seriously examined. Britain is right, for example, to refute the suggestion in the Report that you have to have rigid central control of the fiscal policy of national governments. There is no need or justification for there to be control of the size of budget deficits or surpluses on a Community basis. That would be a wholly unnecessary intrusion. A commitment to a common monetary policy would automatically lead to market pressures for a high degree of convergence of fiscal policy. But the level of public spending and the taxation needed to finance it is something that can be perfectly well left to national governments to determine. During the many years when the Gold Standard provided an effective common monetary policy, there was no question of central control of fiscal policy. And in the United States and other federations today State budgets and revenue are often of major macro-economic importance. But it is not thought necessary to control them to prevent conflict with monetary policy.

When it comes to the monetary half of the Union, the questions that must be asked are: what are the benefits of monetary union, and can they be achieved in a way that is significantly different from what is suggested in the Delors Report? The benefits are, quite simply, the benefits of the E.R.M. writ large. If exchange rates are fixed permanently, you have a common currency. It makes no economic difference whether that is expressed on bank notes, in pounds, or in ECUs. It is a question of convenience for individuals and of sentiment. Why not, then, put on our bank notes the words: One pound, equals 'x' ECUs? The pound could then continue to be used as before, but its permanently fixed value against the ECU would be clearly stated. The hallmark of monetary union, and indeed of a common currency, is not the word that you put on the banknotes. It is the permanence of the value of those notes compared with other banknotes issued elsewhere, and their consequent acceptance across the Community.

In an E.M.U. in that sense, the benefits of the E.R.M. in terms of the control of inflation would be reinforced. This is because the risk that now exists, even within the E.R.M., of a realignment of currencies would be finally removed. Above all there would be a massive further reduction in the cost and uncertainty faced by businessmen trading throughout the Community. They would be trading in what would in effect be a single currency, but ordinary citizens would have the comfort of it being expressed in pounds and pence, as before, on their notes and coins. To know what they had to pay when trading abroad, businessmen would need only a calculator, and not a Bureau de Change. And if they chose to trade

in ECUs they wouldn't even need that. It is no accident that the two most powerful economies in the world, the USA and Japan, have a single currency, despite their size and the diversity of their regions.

These, then, are the benefits. The Delors Report envisages that the common monetary policy that would be needed to secure them, would be achieved by bringing together the existing central banks of the Community into something like the Federal Reserve of the United States. If an alternative route is to be considered seriously it has to be shown that the same benefits will flow from it. If not, it cannot be credibly described as Economic and Monetary Union, which is, after all, what the British Government said it favoured last June in Madrid. What, for example, does the use of competing currencies all over the Community actually mean in practice? Would it ultimately lead to a single currency and single monetary policy in the sense that I have described it? In considering the latest British proposals, the doubts and ambiguities on these points are bound to be exposed to the most searching scrutiny.

For my part I see no reasons for us to shy away from the concept of a Federal Reserve-type of European Central Bank, operating as in the United States on a decentralised basis. If it were based in London, which as Europe's financial powerhouse would be a natural home for it, the benefits to the City would be enormous. But there will of course be no chance of that happening unless Britain were to show its enthusiasm for the project from the outset.

Two main objections have, however, been put forward. First, it is said that it would be an unacceptable loss of sovereignty to have monetary policy determined on a Community basis. I suspect that that is a view put forward by politicians for politicians, rather than one that has any deep popular roots. Ask the man in the street whether he would rather have lower inflation with a European Central Bank, or higher inflation with total national control. I have little doubt what the answer would be. In any event, what sort of expression of sovereignty is it to have to race after the Bundesbank within minutes of its unilaterally deciding to put up interest rates? Wouldn't we be having more control over our affairs if the Bank of England had a major say in what happened, as part of a decentralised European banking authority?

The other main argument against such an authority is that it would not be accountable. If it is to be independent it cannot, by definition, be given instructions by any outside body as to the way it operates. But the history of monetary policy, almost wherever it is conducted, shows that Governments of all political persuasions are tempted to lower their guard and allow inflationary pressures to build up, when they are under short-term electoral pressure. If, therefore, you really believe that a stable currency is the necessary prerequisite for economic progress, the best and perhaps the only way of guaranteeing it is to allow monetary policy to be conducted on a day-to-day basis by an independent central bank. That is what West Germany has done, for forty years with outstanding success. It is likely to be as necessary at Community level as at national level.

Intellectually, it would be fair to say that the battle for Open Europe has been won. The liberal reciprocity clause in the proposed banking legislation is a token of that victory. Our trading competitors are now worried not by the barriers of Fortress Europe, but by the competition of Freedom Europe.

The Community's contribution to the liberal world trading system must, however, also be reflected in its politics, and especially in its relations with its closest neighbours. The most urgent questions here involve the role that we should be playing in the drama unfolding in the Soviet Union and Central Europe and in the question of the enlargement of the Community itself.

No one can now say what the European political landscape will look like in a year - let alone in a decade. It is already clear, however, that the artificial ice age imposed at Yalta is drawing to a close. The Soviet Union and its former satellites face dramatic and unaccustomed political choices internally, and in their external relations. At the risk of sounding vainglorious, I believe the European Community offers them an inspiration and an example not just of economic success, but of political stability, democracy, and perhaps greatest of all, successful political collaboration between governments of differing parties united by their common ideals.

It is not good enough, of course, just to offer an example. We must be participants in the changes taking place, not mere observers. That does not simply mean spending a lot of money. The

This does not mean that the monetary authority should be allowed to operate without any check or control. In the first place the general policy it must follow, giving primacy to the battle against inflation, would be laid down in the constitutional charter setting it up. Secondly, like any other Community institution, it could be challenged in the European Court of Justice if it were thought to have exceeded or abused its powers. It would not, moreover, be operating in a vacuum. It would be natural and proper for it to be required to report both to the Council of Ministers and the European Parliament, and answer questions on the conduct of its operations. Finally, it would even be possible to provide some mechanism for the dismissal of its Governors if both the Council and the Parliament had clearly and overwhelmingly lost confidence in them.

Let me finally turn to some of the unresolved external questions facing the Community. The ghost of Fortress Europe, as I have said, has now been laid to rest. The tide of liberalisation within the Single Market now is carrying through into its external trade policy: on cars, for example, common national quotas against foreign imports will have to be scrapped as a consequence of 1992. There may need to be a short transitional period to a free market for cars, but there is general acceptance now of the open-market objective, and of the need to achieve it quickly.

Community Budget is relatively small and should remain so. The Community cannot and should not play the role of a major international financier. Its primary responsibility, rather, must be to coordinate our joint response to events as they develop and to establish the framework for future cooperation.

First, we can achieve this through cooperation agreements with the countries involved, such as the ones recently concluded with Poland and Hungary.

Secondly, we can play a coordinating role. In an interesting and innovative development, the Commission was called on, at the 67 Summit earlier this year, to pull together the Group response of the 24 OECD countries towards Poland and Hungary. That is a task we are undertaking with enthusiasm and urgency. A great deal has already been achieved: from immediate food aid, to very large loans from the European Investment Bank, to offers of training and practical experience in professional fields such as banking.

Thirdly, and this is most important, we must demonstrate that we do not exclude anything in the future architecture of Europe.

The case of Germany, where recent events have revived the debate over re-unification, is a specially delicate one.

It is understandable, and indeed natural, that West Germany should not want anything to be done in the development of the Community which would make reunification more difficult to achieve. The

right response to that anxiety is neither to accelerate artificially the pace of European integration, nor to retard it. It is, rather, to give Germany the reassurance that is necessary for her to feel that the continued development of the Community, at a normal pace, will not be an obstacle to reunification.

What form should such a reassurance take? It is natural for some of the countries of Western Europe to view the prospects of German reunification with anxiety. But such anxiety will not stop it happening if the Soviet Union should ever allow it to happen or be unable to stop it happening. Indeed, if Germany's partners give the impression of being opposed to reunification, this will only increase what is at present a small risk: that some in Germany may be tempted to seek reunification on the basis of doing a unilateral deal with the Soviet Union, involving the setting up of a new unified German State outside the Community. In other words, opposing reunification will make it more likely to occur in the form which we would least want.

Instead, the Community as a whole should make it absolutely clear that it would warmly welcome East Germany joining West Germany on the basis that it was not admitting a new Member State to the Community, but simply recognising the extension of the territory of an existing member. For that to be possible, it would of course be essential for what is now East Germany to accept fully both the liberal democratic institutions of the Federal Republic and the rights and obligations involved in being part of a Member State of the European Community. For Germany's partners the ready

acceptance of an enlarged Germany would require an imaginative and far-sighted response to current events. But it would be a much smaller step than the historic act of reconciliation involved in accepting Germany into Western Europe, when the EEC was first created so soon after the savage events of the Second World War. Is it too much to expect the lesser, but necessary, response that is required today?

The problem of Germany is a unique one. A wider problem is presented by the growing desire of several other European countries outside the Community to become members of it. For the moment we have put off this question of the enlargement of the Community until after 1992.

But it is quite clear that the Community with its present institutions is not a locomotive which can simply take on a few extra carriages. It is difficult and time-consuming enough to get agreement in a Community of twelve. But significant expansion would face us with an extremely difficult choice. If we retain the present structure of decision-making, we would simply slow down the development of the Community. In so doing, we would destroy the very dynamic which has made the Community so attractive to the countries outside it. To retain that dynamic in a substantially larger Community, we would have to reform our institutions, to streamline our procedures drastically, and facilitate majority voting still further. Are the present Member States yet prepared to move in that direction? But to refuse new entrants altogether would be to give reality to the image of the Community as a rich

man's castle, happy to pull up the drawbridge once all the privileged inhabitants are safely aboard. For the moment we do not need to resolve this dilemma. But in a very few years time we will have some very difficult choices to make.

Let me conclude by trying to answer the questions posed in the title of this lecture. Is Europe "our sort of Community"? Is it a Community which seeks to dismantle internal barriers for the benefit of all its citizens? Is it a Community that looks always at providing opportunities, rather than imposing regulations? Is it a Community that is not afraid to be open to the outside world? And is it a Community that can rise to the challenge presented by the momentous changes on its doorstep?

The answer is that Europe has increasingly become just such a Community and Britain has played a bigger part in that process than it gives itself credit for. But there is much still to play for. The die is by no means irrevocably cast. It is up to us - all of us - to ensure that the Europe of 1992 and beyond will indeed be that sort of Community. To achieve that we must bring to bear all our energy, all our imagination, and all our enthusiasm, but above all that sense of practical commitment which characterises Britain at its best.



FCS/89/192

SECRETARY OF STATE FOR TRADE AND INDUSTRY

European Community Structural Funds: "Objective 2"

- at Harp*
1. Thank you for your letter of 27 October.
 2. I agree with the negotiating objectives which you propose, and also that we should maintain pressure on the Commission. I raised the issue when I saw Mr Delors in Brussels on 6 November. He was unsighted. I would be willing to take up the matter with him in more detail in due course, if that would be helpful.
 3. We should also consider other means of putting pressure on the Commission, for example through briefing journalists or MEPs. Francis Maude has already mentioned the problem of our overall take to Glyn Ford, leader of the British Labour Group; he or Douglas Hogg might now raise the specific problem of the Community Support Frameworks too.
 4. I am sending copies of this minute to the Prime Minister, colleagues on OD(E), the Solicitor General, the Solicitor General for Scotland and Sir Robin Butler.

D.H.
(DOUGLAS HURD)

Foreign and Commonwealth Office

7 November 1989

Enro 10: Budget

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CCPU
etc

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

The Rt Hon Nicholas Ridley MP
Department of Trade and Industry
Victoria Street
LONDON
SW1

6 November 1989

CDP Fkr

Dear Secretary of State,

EUROPEAN COMMUNITY STRUCTURAL FUNDS: OBJECTIVE 2

Thank you for copying to me your letter of 27 October to Douglas Hurd about the Commission's attitude in negotiations over Community Support Frameworks. I agree fully with the negotiating objective which you propose, and I understand that you will have early opportunity to pursue them directly with Bruce Millan.

The Commission's attitude will, if unchanged, bear particularly harshly on those areas, of which there are many in England, which do not yet have approved programmes. This applies particularly to North West England where, as you know, three major programmes are with the Commission awaiting approval to Tyne and Wear/South East Northumberland and those other areas which are awaiting approval of programmes or have yet to submit them. People in these areas might become resigned to having some cut in their programmes, but will be puzzled and upset if the Commission continues to insist that what funding is available is applied in ways which bear no relation to the priorities in our plans and programmes. Bruce Millan ought to be aware of the political consequences of this kind of setback to economic development being blamed on the Commission.

I therefore agree with you that we should seek to have much more flexibility put into CSFs, to allow the type of infrastructure projects which have been funded in the past, which continue to be important, and which are still eligible under the regulations.

We are particularly concerned that no ERDF support is envisaged for water and sewerage projects. The importance of these measures for creating the right conditions for economic development is clear, and has nothing to do with privatisation. We have established with the Commission what Water Services PLCs should be eligible for ERDF funding, and their opposition to this now appears to be politically inspired.

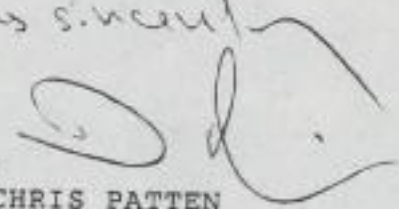


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I shall be interested to see what advice the Law Officers give about whether the Commission is acting consistently with the Regulations, and I hope that we will exploit to the full any legal weakness in the Commission's position.

I am sending copies of this letter to the Prime Minister, to colleagues on OD(E) and E(A), to Sir Patrick Mayhew, Nicholas Lyell, Alan Rodger, Peter Carmyllie and to Sir Robin Butler.

Yours sincerely

PP

CHRIS PATTEN

(Approved by Mr Patten and signed on his behalf)



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ccfy
pc.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

021
20 3 1989

The Rt Hon Nicholas Ridley MP
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON
SW1E 0ET

ccfy 2/a.

6 November 1989

Dear Nick,

EUROPEAN

EASTERN COMMUNITY STRUCTURAL FUNDS: "OBJECTIVE 2"

Thank you for your letter of 27 October ^{Har} about the difficult negotiations which lie ahead with the Commission over the Community Support Frameworks for our industrial regions.

I share your concern over the extreme position adopted by the Commission and its blatant disregard for our priorities. I agree entirely with your proposed negotiating objectives and the steps envisaged to bring further pressure on the Commission should this prove necessary. I would be happy to support your efforts in any way possible, for example by writing to Bruce Millan at the appropriate time to stress the implications for Scotland of his proposals.

I am copying this letter to the recipients of yours.

Yours ever,
MRF

MALCOLM RIFKIND

Eulopa : Budant Pt43





ccfy
PC

CONFIDENTIAL

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

5803
Telephone 01-273
Telex 915564 Fax 01-273 5821

Secretary of State

CJD
b/k

The Rt Hon Nicholas Ridley MP
The Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

Handwritten signatures:
Nicholas Ridley
John Mack
Pier

Thank you for your letter of 27 October about the state of play in negotiations over Objective 2 "Community Support Frameworks".

As you know, my particular interest is in the European Social Fund elements of these, though as Douglas Hogg's letter of 29 September pointed out, if the Commission sticks to its initial plans, the ERDF elements may have wide ranging public expenditure implications.

I agree that our efforts must be directed at bringing the Commission's priorities more closely into line with those of our plans and operational programmes. At present, it appears that the ERDF elements of the draft CSF pose the greatest problems, though negotiation of the ESP elements has only just begun.

I understand that our officials are considering the division between ESP and ERDF support under Objective 2 that would best serve our interests. The right balance depends to a large extent on the priorities finally agreed with the Commission for ERDF and ESP support and the extent to which they meet the needs identified in our plans for both funds. Until we are closer to agreement with the Commission I do not believe it would be in our interests to give Mr Millan any hint that we are prepared to consider a division between the two funds which differs from that envisaged in the operational programmes for each fund which were submitted some time ago. At that time our understanding was that the Commission would maintain separate ERDF and ESP budgets.



CONFIDENTIAL

Employment Department - Training Agency
Health and Safety Executive - ACAS

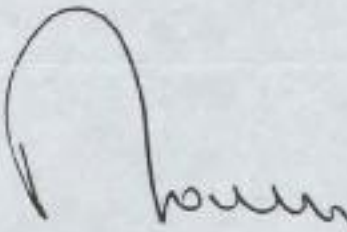


Secretary of State
for Employment

CONFIDENTIAL

Otherwise he might be tempted to draw on money which would have gone towards the ESP, the greater part of which supports Government training and employment programmes, to finance some of his more unpalatable priorities for (largely Labour) local authority spending, at the expense of approved public expenditure.

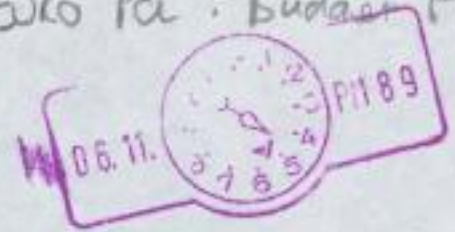
I am copying this letter to the Prime Minister, to colleagues on OD(E) and E(A), to Sir Patrick Mayhew, Nicholas Lyell, Alan Rodger, Peter Carmyllie and to Sir Robin Butler.

Your 

NORMAN FOWLER

CONFIDENTIAL

Euko Pa : Budget P103





PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No: T195/89

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

6 November 1989

SUBJECT CC MASTER
OPS

Dear Mr. President.

I have been reflecting on our conversation at Chequers on 1 September, and on the discussion in the Social Affairs Council on 30 October of the revised text of the Commission's proposed social charter. This text, while some improvement on the original Commission version, still seems to me to have fundamental defects and does not accord with the concept which you put forward at Chequers.

Nor despite its reference to the Madrid conclusions does it in substance match our Madrid prescription and our agreement there that job creation must be the top priority in Community policy. That means preserving, and enhancing, the competitiveness of Community business and industry in international markets. Indeed, the whole thrust of the document goes in the opposite direction, over-regulating the workplace, increasing costs and so threatening jobs. Moreover, the present text does not adequately meet the Madrid requirement that subsidiarity and diversity be respected.

You will understand that I cannot accept any declaration which would reverse the policies which the United Kingdom Government has consistently followed in this area over the last ten years. We have been determined to reduce the role of the state and to establish a better balance of power between employers and unions. We have therefore introduced a wide range

of measures to free up the labour market and to give power back where it belongs, with individual employees.

You said at Chequers you wanted a charter dealing with only the most general principles, and that - as far as possible - national governments should be left to do things their own way. I entirely agree on both counts. You know we in the United Kingdom think it right to leave as much as possible to be settled directly between management and workforce: I know that others have different arrangements and I certainly would not wish to interfere with them. Each of us have been elected to deal with the particular circumstances of our individual countries.

It seems to me the solution is to try to draft a statement which fully respects this diversity and which allows Member States to continue to develop their own appropriate policy. I think we should be looking at Strasbourg for a broad, declaratory and general statement, free of detail and regulatory promises. It would have a very firm political commitment to social progress. It could reaffirm the priority of job development and creation; and the need for social policies to support Community competitiveness. It should follow the Madrid line on subsidiarity, and must make clear that it does not extend the Community's role into areas best dealt with by Member States themselves. Commitments accepted in the Council of Europe social charter cannot simply be transposed into Community obligations. It could, however, reaffirm the major principles on which we are all working together: the freedom of movement; mutual recognition of qualification; freedom of establishment; freedom to engage in an occupation; equal treatment of men and women in employment; the key issue of training; health and safety at the workplace; and the integration of disabled people into working life.

I hope that we will in this way be able to build upon our conversation in September. I leave it to you how best to pursue this, either through direct contact by your Elysée staff or through Douglas Hurd and Roland Dumas putting their heads together.

A political declaration, agreed by all at Strasbourg, would make a major impact in the Community and beyond but I see no way of achieving agreement on the basis of the present text.

Kind regards.

Yours sincerely

Langau Malche

His Excellency le Président Mitterrand, G.C.B.

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FILE

KK



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 November 1989

SOCIAL CHARTER

The Prime Minister has written to President Mitterrand about the Social Charter in the terms proposed in the Employment Secretary's minute of 3 November. I enclose the signed original. I should be grateful if the text could be sent by telegram to Paris for delivery as early as possible tomorrow 6 November.

I am copying this letter and enclosure to Clive Norris (Department of Employment) and to Sir Robin Butler.

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

AW



FILE

KK

Foreign/Hadley

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

DAVID HADLEY
CABINET OFFICE

EUROPE

The Prime Minister was much impressed with the figures for the continuing subsidies to industry given by other member states, which came to us in the brief for her meeting with Leon Brittan.

She would find it useful to have half a dozen other examples of where the European playing field is not level. Could you possibly let me have these in the course of 6 November. One example might be the numbers of infraction proceedings. Another might be the sort of restrictions which the Germans, and no doubt others, impose on investment by insurance companies. But you may be able to find better examples.

C. D. POWELL

5 November 1989

KK



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

Rt Hon Douglas Hurd CBE MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Whitehall
London
SW1A 2AH

3 November 1989

Dear Secretary of State,

EC: POLAND AND HUNGARY

I am writing in connection with the proposals for EC assistance to Poland and Hungary, which are to be discussed at the Foreign Affairs Council on Monday.

You are already aware that the Commission's proposals on quantitative restrictions cause me some difficulty. Abolition of QRs specific to Poland and Hungary would affect the UK on horticulture in a discriminatory way. It is most important that, in giving our agreement on the specific QRs we should secure a commitment to non-specific QRs being relaxed too. Discussion at official level has evidently been going our way. I very much hope that you will be able at Monday's Foreign Affairs Council to secure a firm commitment to the action we need being taken quickly.

I am writing principally to register concern over the additional proposals which the Commission have produced this week for reductions in levies or duties on a range of agricultural products. My Department is still assessing the details of this package and its impact, and the first discussion between Member States at official level is not till Monday.

/The problem however...

The problem however would seem to be twofold. First, that these reductions in levies or duties on products from Poland and Hungary could in themselves cause considerable difficulty for British farmers and horticulturalists. However, that might be defensible if it were not that the form in which the reductions would come, opens up the Community market to imports from other countries including Yugoslavia, Romania and Chile. This would not be explicable and would give rise to widespread resentment and anger. Coupled with the fact that we would inevitably bear the greater burden of some of the concessions being discussed I do see this situation as extremely difficult.

With Malcolm Rifkind, I shall wish to evaluate the effects of these proposals very carefully. At this stage I simply write to alert you and other colleagues and to ask that, if there were any move to agree even part of this latest package of levy and tariff reductions next week, you would resist and make clear that we have had insufficient time to reach a firm view.

I am copying this letter to the Prime Minister and other members of OD(E), to the Secretaries of State for Scotland, Wales and Northern Ireland, and to Sir Robin Butler.

Yours sincerely,
S. J. Lambert

pp JOHN GUMMER
Approved by the Minister
and signed in his absence





CC BY
PC

Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

John G/K

From the Minister

Rt Hon Douglas Hurd CBE MP
Secretary of State for Foreign
and Commonwealth Affairs
Whitehall
London SW1

7 November 1989

EUROPEAN COMMUNITY STRUCTURAL FUNDS: OBJECTIVE 2

FILE WITH COPY

I was interested to see Nicholas Ridley's letter to you of 27 October.

I have of course no direct interest in Objective 2 expenditure. But I am concerned about the principle of how priorities under Community Support Frameworks are decided. We are about to commence substantive negotiations with the Commission on the CSFs for Objective 5b rural areas. There are some signs that Commissioner MacSharry may attempt to force on us inappropriate and potentially divisive additional agricultural measures. I do therefore strongly support any initiative designed to underline to the Commission that it is Member States who are best placed to decide on priorities within the range of the various activities eligible for support under each objective.

I am copying as before.

JOHN GUMMER

Eulo Pa - Budaer PTO3



PRIME MINISTER

SOCIAL CHARTER

The revised letter prepared by Norman Fowler and Douglas Hurd matches exactly what you asked them to do, and I think it would be a mistake now to stand on your head and take the advice attached.

The fact is that the Social Charter as it stands is far beyond what we could accept: we need to start well back from our bottom line, if there is to be any chance of meeting at a mid-point that we could accept.

Agree that the Norman Fowler draft should stand?

CDP

(C. D. POWELL)
3 November 1989
a:\foreign\SC.srw

Yes



Secretary of State
for Employment

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PRIME MINISTER

SOCIAL CHARTER

Following our discussions in Cabinet yesterday I attach a redraft of a draft letter to President Mitterrand, which I have agreed with Douglas Hurd.

The list of items is a long way from what the French and others will be looking for. They may therefore not see it even as a basis for discussion.

Douglas and I considered a longer list; but such a list is no more likely to be acceptable; and takes us into areas of employment policy - pay, working conditions and industrial relations - in which we believe there is doubt as to Community competence; but in which also our approach is dramatically opposed to that of the French and the majority of other member states.

On both these issues, it may be possible to find a political solution, but I have to say I am not optimistic. We have provisionally arranged a discussion prior to Cabinet at OD(E) on 16 November.

I am copying this to Douglas Hurd and Sir Robin Butler.

N F

November 1989

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CCPC. ①

Prime Minister

Content in this revised text?

Yes not

CDP 3/Ki

C:\WP\DOCS (BR) FOREIGN
MITTERRA
(Kay)

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DRAFT LETTER FROM THE PRIME MINISTER TO PRESIDENT MITTERRAND

EC SOCIAL CHARTER

I have been reflecting on our conversation at Chequers on 1 September, and on the discussion in the Social Affairs Council on 30 October of the revised text of the Commission's proposed social charter. This text, while some improvement on the original Commission version, still seems to me to have fundamental defects and does not accord with the concept which you put forward at Chequers.

Nor despite its reference to the Madrid conclusions does it in substance match our Madrid prescription and our agreement there that job creation must be the top priority in Community policy. That means preserving, and enhancing, the competitiveness of Community business and industry in international markets. Indeed, the whole thrust of the document goes in the opposite direction, over-regulating the workplace, increasing costs and so threatening jobs. Moreover, the present text does not adequately meet the Madrid requirement that subsidiarity and diversity be respected.

You will understand that I cannot accept any declaration which would reverse the policies which the United Kingdom Government has consistently followed in this area over the last 10 years. We have been determined to reduce the role of the state and to establish a better balance of power between employers and unions. As you know, we have therefore introduced a wide range of measures to free up the labour market and to give power back where it belongs, with individual employees.

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You said at Chequers you wanted a charter dealing with only the most general principles, and that - as far as possible - national governments should be left to do things their own way. I entirely agree on both counts. You know we in the United Kingdom think it right to leave as much as possible to be settled directly between management and workforce: I know that others have different arrangements and I certainly would not wish to interfere with them. Each of us have been elected to deal with the particular circumstances of our individual countries.

It seems to me the solution is to try to draft a statement which fully respects this diversity and which allows member states to continue to develop their own appropriate policies. I think we should be looking at Strasbourg for a broad declaratory and general statement, free of detail and regulatory promises. It would have a very firm political commitment to social progress. It could reaffirm the priority of job development and creation; and the need for social policies to support Community competitiveness. It should follow the Madrid line on subsidiarity, and must make clear that it does not extend the Community's role into areas best dealt with by member states themselves. Commitments accepted in the Council of Europe social charter cannot simply be transposed into Community obligations. It could, however, reaffirm the major principles on which we are all working together: the freedom of movement; mutual recognition of qualification; freedom of establishment; freedom to engage in an occupation; equal treatment of men and women in employment; the key issue of training; health and safety at the workplace; and the integration of disabled people into working life.

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I hope that we will in this way be able to build upon our conversation in September. I leave it to you how best to pursue this, either through direct contact by your Elysee staff or through Douglas Hurd and Roland Dumas putting their heads together.

A political declaration, agreed by all at Strasbourg, would make a major impact in the Community and beyond but I see no way of achieving agreement on the basis of the present text.

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FM PARIS
TO IMMEDIATE FCO
TELNO 1432
OF 021919Z NOVEMBER 89
INFO IMMEDIATE UKREP BRUSSELS, BONN
INFO ROUTINE OTHER EC POSTS, WASHINGTON

FRAME GENERAL

FRENCH EC PRESIDENCY : OBJECTIVES FOR REMAINING WEEKS

SUMMARY

1. FRENCH OBJECTIVES FOR THE REMAINDER OF THEIR PRESIDENCY. THEIR MAIN PRIORITIES, SETTING A DATE FOR AN IGC AND SECURING THE ADOPTION OF THE SOCIAL CHARTER, CLEARLY AWKWARD FOR US. INDIRECT TAXATION, THE ENVIRONMENT, AUDIOVISUAL, R AND D AND EXTERNAL ISSUES GENERALLY LESS PROBLEMATIC, BUT TRICKY IN PARTS. OVERALL APPROACH SKEWED BY MITTERRAND'S EMU AND SOCIAL PRIORITIES AWAY FROM THE SINGLE MARKET, WHERE THE TALLY IS LIKELY TO BE MEAGRE.

DETAIL

2. FIVE WEEKS BEFORE THE STRASBOURG COUNCIL AND JUST BEFORE YOUR FIRST FAC, I OFFER A VIEW OF FRENCH OBJECTIVES FOR THE REMAINDER OF THEIR PRESIDENCY.

EMU

3. PROGRESS ON EMU HAS ALWAYS BEEN ONE OF MITTERRAND'S MAIN PRESIDENCY OBJECTIVES. SPECIFICALLY, FRENCH AIMS HAVE BEEN TO PUSH AHEAD WITH PREPARATIONS FOR STAGE 1 OF THE DELORS REPORT - ESSENTIALLY UPDATING THE 1964 AND 1974 TEXTS ON MONETARY AND ECONOMIC COOPERATION, WHICH THEY WILL HOPE TO COMPLETE BY THE END OF THE YEAR - AND IN ADDITION TO FORCE THE PACE, FOR EXAMPLE THROUGH SETTING UP THE GUIGOU HIGH LEVEL GROUP, ON PREPARATIONS FOR AN IGC. THERE IS LITTLE DOUBT THAT THE SUMMONING OF AN IGC IN THE SECOND HALF OF 1990 IS NOW - ALONG WITH AGREEMENT ON THE SOCIAL CHARTER - MITTERRAND'S MAIN OBJECTIVES FOR STRASBOURG.

SOCIAL CHARTER

4. THE PRESENT STATE OF PLAY IS PREDICTABLE. A SOCIALIST GOVERNMENT PURSUING ESSENTIALLY LIBERAL MACROECONOMIC POLICIES HAS GOT TO BE SEEN TO BE ACTIVE ON EC SOCIAL ISSUES. THIS GOVERNMENT IS SENSITIVE TO THE ARGUMENT THAT A LIBERAL MARKET-FORCES APPROACH WILL FAVOUR CAPITAL AGAINST LABOUR, WITH THE STRONG BECOMING STRONGER AND THE WEAK WEAKER, UNLESS COMMON SOCIAL STANDARDS ARE PUT IN PLACE. THE

SOCIAL CHARTER HAS BECOME THEIR TOTEM. I AM NOT IN DOUBT THAT THE GOVERNMENT WILL WANT A CHARTER ADOPTED AT STRASBOURG COME WHAT MAY. THE QUESTION IS HOW FAR THEY WILL BE WILLING AND ABLE TO WATER IT DOWN IN ORDER TO WIN US OVER. THERE ARE CONFLICTING SIGNALS ABOUT THIS. AT A PRESS CONFERENCE FOLLOWING THE 30 OCTOBER SOCIAL AFFAIRS COUNCIL SDOISSON DID NOT RULE OUT THE POSSIBILITY THAT CHANGES MIGHT STILL BE MADE TO THE TEXT. BUT THE OUTCOME OF THE COUNCIL LOOKS - AT LEAST FROM HERE - TO HAVE MADE LESS LIKELY THE TABLING AT OR BEFORE STRASBOURG OF AN ALTOGETHER DIFFERENT, LESS DETAILED CHARTER. AND FRENCH OFFICIALS ARE SUGGESTING THAT NOW EVERYONE ELSE HAS MORE OR LESS BEEN SQUARED, THE UK POSITION IS A BRIDGE TOO FAR. NEVERTHELESS, IF BY WORKING HARD OVER THE COMING WEEKS WITH THE ELYSEE AND WITH DUMAS, WE CAN STILL AGREE ON A FORM OF WORDS WHICH MEETS OUR NEEDS I AM SURE THAT WE SHOULD CONTINUE TO TRY TO DO SO. THE ELIMINATION FROM THE AREA OF DISPUTE OF AN ISSUE OF MAJOR POLITICAL SENSITIVITY TO FRANCE (AND OUR OTHER PARTNERS) WILL MAKE THE PURSUIT OF OUR OTHER OBJECTIVES AT STRASBOURG LESS DIFFICULT TO HANDLE.

SINGLE MARKET

5. IN RECENT SPEECHES FRENCH MINISTERS HAVE SEEMED TO TAKE IT FOR GRANTED THAT THE SINGLE MARKET WILL BE COMPLETED ON TIME. IT IS THEREFORE IRONIC THAT THEIR PRESIDENCY ACHIEVEMENTS IN THIS AREA ARE UNLIKELY TO BE IMPRESSIVE. MME CRESSON HAS PUT MOST OF HER EGGS IN THE MERGER CONTROL BASKET. SHE WILL BE DISAPPOINTED IF SHE DOES NOT GET AGREEMENT ON THE REGULATION DURING THE NEXT TWO MONTHS. IT WOULD BE IN CHARACTER FOR HER TO PLAY PRETTY ROUGH AND ERRATIC IF THE OUTCOME LOOKED IN DOUBT.

6. THE GOAL OF A COMMON POSITION ON THE EUROPEAN COMPANY STATUTE, PROCLAIMED BACK IN JULY, HAS (FORTUNATELY) BEEN ABANDONED AS UNREALISTIC. FRENCH OFFICIALS ARE TAKING COMFORT IN THE FACT THAT THEY HAVE AT LEAST GOT DISCUSSIONS LAUNCHED. THERE IS STILL HOPE IN PARIS OF A COMMON POSITION ON THE PUBLIC PURCHASING EXCLUDED SECTORS DIRECTIVE* BUT ALSO RECOGNITION THAT THIS MAY NOT BE REALISTIC. APPARENTLY BETTER FOUNDED IS THEIR OPTIMISM ON THE RIGHTS OF RESIDENCE DIRECTIVES FOR STUDENTS AND PENSIONERS, WHICH CAN BE BILLED AS MAJOR CONTRIBUTIONS TO A PEOPLES EUROPE. REGRETTABLY THERE IS NO INCLINATION TO PRESS HARD ON THE INVESTMENT SERVICES DIRECTIVE. CONVERSELY THERE IS A RISK THAT THEY MAY GO FASTER THAN WE WOULD WISH ON THE TAKEOVER DIRECTIVE WHERE THEY ARE SEEKING POLITICAL AGREEMENT ON THE MAJOR POINTS.

7. PUBLIC PURCHASING APART THE FRENCH HAVE DONE LITTLE TO EXTEND THE

SINGLE MARKET TO THE ENERGY, TRANSPORT AND TELECOMS SECTORS: AND WE HAVE THE IMPRESSION THAT THEIR HANDLING OF ALL THESE SUBJECTS HAS LEFT MUCH TO BE DESIRED. IT REMAINS TO BE SEEN WHETHER THERE IS STILL TIME FOR AN APPARENT CHANGE OF HEART ON ROAD HAULAGE CABOTAGE TO BEAR FRUIT. AT LEAST THEY NOW SEEM READY TO ATTEMPT TO GET A DECISION AT THE DECEMBER TRANSPORT COUNCIL. DELEBARRE HAS BEEN PREPARING THE GROUND DOMESTICALLY: AT A RECENT CONFERENCE HE EMPHASISED THE INEVITABILITY OF CABOTAGE TO A RELUCTANT AUDIENCE OF FRENCH HAULIERS.

8. THE FRENCH WILL PROBABLY WANT THE STRASBOURG COUNCIL TO REAFFIRM THE IMPORTANCE OF PROGRESS IN THE REMOVAL OF INTERNAL FRONTIER CONTROLS BY 1993, ANOTHER PEOPLE'S EUROPE ITEM. THEIR RECENT HANDLING OF THE SUBJECT HAS BEEN BOTH SENSIBLE AND SENSITIVE TO UK CONCERNS, PARTICULARLY ON DRUGS. THE COUNCIL WILL BE INVITED TO ENDORSE A PROGRESS REPORT FROM THE FRONTIERS COORDINATING GROUP, AND TO CALL FOR GREATER COHERENCE IN THE HANDLING OF DRUGS ISSUES, WHICH HAVE LOOMED LARGER THAN THE FRENCH EXPECTED AT THE OUTSET OF THEIR PRESIDENCY.

INDIRECT TAXATION

9. HERE THE FRENCH PERFORMANCE HAS BEEN MORE IMPRESSIVE. GOOD PROGRESS HAS BEEN MADE. OBJECTIVES FOR THE REMAINING WEEKS ARE AGREEMENT ON DESTINATION-BASED VAT AND EXCISE DUTY TECHNICAL SYSTEMS, ON A FLOOR-RATE OR BAND FOR STANDARD VAT, AND ON THE CRITERIA FOR A REDUCED RATE. THEY DO NOT BELIEVE THAT AGREEMENT CAN BE REACHED ON THE BASIS OF A MARKET FORCES APPROACH TO RATE APPROXIMATION.

AUDIOVISUAL

10. PROGRESS ON AUDIOVISUAL MATTERS REMAINS A FRENCH PRESIDENCY PRIORITY. IT WILL BE ON THE AGENDA AT STRASBOURG, WHERE DELORS IS EXPECTED TO MAKE A PITCH FOR A COMMISSION PROGRAMME OF 250 MECU TO CARRY FORWARD IDEAS ARISING FROM THE AUDIOVISUAL ASSIZES. THE FRENCH MAY WELL NOT WANT THIS TO BE THE ONLY OFFSHOOT FROM THE ASSIZES: WHETHER THEY CAN COME UP WITH OTHER, MORE PALATABLE, IDEAS FOR TAKING FORWARD THE AUDIOVISUAL EUREKA WILL BECOME CLEARER AT THE FAC ON 6 NOVEMBER.

ENVIRONMENT AND R AND D

11. THE FRENCH WILL BE WORKING HARD TO SECURE ADOPTION AT THE NOVEMBER ENVIRONMENT COUNCIL OF A REGULATION SETTING UP THE EUROPEAN ENVIRONMENT AGENCY. THE STRASBOURG COUNCIL CAN THEN BE INVITED TO NOTE WITH SATISFACTION WHAT HAS BEEN ACHIEVED.

12. SEEN FROM HERE THE FRENCH REMAIN INTENT ON GETTING AGREEMENT ON A NEW EC R AND D FRAMEWORK PROGRAMME THOUGH THE TIMETABLE IS GETTING VERY TIGHT. THEY HAVE BEEN ARGUING FOR A MUCH LARGER PROGRAMME THAN WE WOULD WISH. THERE ARE RECENT HINTS FROM THE TRESOR THAT THEY MAY BE PREPARING TO COMPROMISE.

EXTERNAL

13. IN HIS SPEECH TO THE EUROPEAN PARLIAMENT ON 25 OCTOBER MITTERRAND HIGHLIGHTED THE CONCLUSION OF THE LOME IV NEGOTIATIONS AS A MAJOR OBJECTIVE. BUT THE FRENCH TASK HAS BEEN MADE HARDER BY LACK OF PROGRESS AT THE EC/ACP MINISTERIAL ON 27-30 OCTOBER. HAVING MADE WHAT THEY SEE AS IMPORTANT CONCESSIONS THEMSELVES (EG ON RUM), THEY WILL WANT TO PRESS PARTNERS HARD PARTICULARLY ON THE SIZE OF EDF7.

14. THEY ATTACH POLITICAL IMPORTANCE TO THE EC/EFTA RELATIONSHIP AS LIKELY TO BRING ECONOMIC BENEFITS TO THE COMMUNITY AND AS HELPING TO DELAY PRESSURE FOR FULL MEMBERSHIP OF THE EC FROM CERTAIN EFTANS. THEY HOPE THE 19 DECEMBER MINISTERIAL WILL PAVE THE WAY FOR DETAILED NEGOTIATIONS ON THE AWKWARD LEGAL AND INSTITUTIONAL QUESTIONS RAISED BY THE CONCEPT OF A EUROPEAN ECONOMIC SPACE.

15. RELATIONS BETWEEN THE COMMUNITY AND EASTERN EUROPE ARE CERTAIN TO BE ON THE STRASBOURG AGENDA. MANAGING CHANGE IN EASTERN EUROPE IS A MAJOR CONCERN OF MITTERRAND. IT IS NOT YET CLEAR WHETHER HE WILL BE LOOKING FOR CONCRETE INITIATIVES OR THE REAFFIRMATION OF THE NEED FOR A POSITIVE COMMUNITY RESPONSE TO CHANGES IN POLAND AND HUNGARY. HE THREW OUT SEVERAL IDEAS IN HIS SPEECH TO THE EUROPEAN PARLIAMENT, BUT FRENCH OFFICIALS HAVE YET TO FLESH THEM OUT.

CONCLUSIONS

16. THE FRENCH HAVE BEEN STRUGGLING TO ENSURE FOR THIS PRESIDENCY A POLITICAL TRIUMPH COMMENSURATE WITH MITTERRAND'S AMBITIONS FOR FRANCE IN BICENTENNIAL YEAR AND FOR HIMSELF. THEY WERE BOXED IN ON EMU BY THE CONCLUSIONS OF THE MADRID COUNCIL. THEY INHERITED RELATIVELY LITTLE ON THE SINGLE MARKET FRONT. AND IT WAS ALREADY CLEAR THAT THE UK WOULD HAVE NO TRUCK WITH GRANDIOSE INITIATIVES ON THE SOCIAL SIDE. AN ELEMENT OF FRUSTRATION AS WELL AS DISORGANISATION IN PART EXPLAINS, BUT CANNOT EXCUSE, THE CAVALIER WAY IN WHICH THEY HAD ABUSED THE PREROGATIVES OF THE CHAIR, SUBSTITUTED AD HOC GROUPS FOR COREPER, AND BROKEN THE CONVENTIONS GOVERNING INFORMAL COUNCILS.

17. WHETHER THEY WILL BE SATISFIED IF THEY CAN PULL OFF ALL OR MOST

OF THE ABOVE OBJECTIVES IS A MOOT POINT. ON THE SINGLE MARKET SIDE THEY WILL FIND EXCUSES IN THE CONSTRAINTS IMPOSED BY EP CONSULTATION REQUIREMENTS, AND IN THE ARGUMENT THAT MANY OF THE EASIER ISSUES HAVE BEEN PICKED OFF BY THEIR PREDECESSORS. THEY WILL SAY THEY HAVE ACHIEVED QUALITY RATHER THAN QUANTITY. THEY WILL BE GENUINELY CONTENT WITH THE PROGRESS MADE ON INDIRECT TAXATION, THE ENVIRONMENT, AUDIOVISUAL AND EXTERNAL ISSUES. AS FOR THE TWO ISSUES CLOSEST TO MINISTERS' HEARTS, EMU AND THE SOCIAL CHARTER, THEY WILL BE SATISFIED IF A DATE HAS BEEN FIXED FOR AN IGC, BUT MAY FEEL THAT THE SATISFACTION OF ACHIEVING AGREEMENT AMONG ELEVEN IS LESS THAN CONGRATULATIONS WHICH WOULD ENSUE IF WE WERE TO AGREE TO IT.

FERGUSSON

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 November 1989

SOCIAL CHARTER

Thank you for sending a draft message from the Prime Minister to President Mitterrand about the social charter. The Prime Minister felt that we needed to spell out in greater detail what we can accept, on the lines of the enclosure to your Secretary of State's earlier draft. She mentioned this in Cabinet this morning and Mr. Fowler agreed that he would discuss the draft further with the Foreign Secretary later today and let us have a fresh version tomorrow morning.

(CHARLES POWELL)

Clive Norris, Esq.,
Department of Employment.

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

I have been reflecting on our conversation at Chequers on 1 September, and on the discussion in the Social Affairs Council on 30 October of the revised text of the Commission's proposed social charter. This text, while an improvement on the original Commission version, still seems to me to have fundamental defects and does not accord with the concept which you put forward at Chequers.

Nor does it meet the Madrid prescription. The text does not properly reflect our agreement there that job creation must be the top priority in Community policy. That means preserving, and enhancing, the competitiveness of Community business and industry. Many of the provisions of the present text would have the opposite effect, over-regulating the workplace, increasing costs and so threatening jobs. The present text does not adequately meet the Madrid requirement that subsidiarity and diversity be respected.

You said at Chequers you wanted a charter dealing with only the most general principles, and that - as far as possible - national governments should be left to do things their own way. I entirely agree on both counts. You know we in the United Kingdom think it right to leave as much as possible to be settled directly between management and workforce: I know that others have different arrangements and I certainly would not wish to interfere with them.

So I think we should be looking at Strasbourg for a broad, declaratory and general statement, free of detail and regulatory promises. It should follow the Madrid line on subsidiarity and must make clear that it does not extend the Community's role into areas dealt with by Member States themselves. The text must make clear that it does not give the Commission powers which it does not have already.

I hope that we will in this way be able to build upon our conversation in September. A political declaration, agreed by all at Strasbourg, would make a major impact in the Community and beyond but I see no way of achieving agreement on the basis of the present text.

His Excellency Monsieur le Président Mitterrand, G.C.B.

*Plc type for
PM's signature
on*

DRAFT LETTER FROM THE PRIME MINISTER TO PRESIDENT MITTERRAND

*C: Foreign
Mitterr. KK*

EC SOCIAL CHARTER

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I hope that we will in this way be able to build upon our conversation in September. A political declaration, agreed by all at Strasbourg, would make a major impact in the Community and beyond but I see no way of achieving agreement on the basis of the present text.

The text must not clear the way of
which not give the Commission
powers which it does not
have ahead.



Secretary of State
for Employment

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PRIME MINISTER

SOCIAL CHARTER

I attended the Social Affairs Council in Brussels on 30 October at which the social charter was discussed.

The Presidency draft charter was in some ways an improvement over the previous version, but our fundamental problems remain. I therefore maintained our general reserve. Other countries including Ireland, Germany, Italy and possibly Spain, also have reservations for a variety of different reasons. Many countries privately expressed doubts about the speed with which the Presidency had bulldozed the draft through the Council. I have no doubt however that all eleven countries will in the end sign up to the Presidency text.

I learned that the Commission action programme is to be produced in the middle of November and it will be discussed at the Social Affairs Council on 30 November. It appears that the action programme will be a very weighty document, and it may influence some countries who up to now have seen the charter as a fairly vague political statement. It will certainly be very helpful to us in our presentational case against the charter and undue regulation.

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Secretary of State
for Employment

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Monsieur Soisson suggested in his press conference that any changes to the draft circulated on Monday could only come at political level. The question now is whether you should write to President Mitterrand reminding him of your September discussion and suggesting that the issue should be reopened at political level. There are suggestions that President Mitterrand would like unanimity at Strasbourg, and he knows he cannot get it with the current draft charter.

I am frankly doubtful whether this will be effective but I attach a draft letter, replacing my draft of 25 October, which has been agreed by the Foreign Secretary. We should not at this stage give President Mitterrand a detailed account of our reservations nor send him the kind of text we would accept.

I have copied this letter to Douglas Hurd and Sir Robin Butler.

N F

1st November 1989

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Ref. A089/2818

PRIME MINISTER

Cabinet: Community Affairs

1. The Chancellor will wish to alert colleagues to the release (at 11.30 am) of the Treasury's paper on an evolutionary approach to EMU, and to distribute copies.

2. The Foreign Secretary may report on renegotiation of the Lome Convention, on which Mrs Chalker attended an EC/ACP Ministerial meeting on 27-30 October. Key points were:

- some progress, but much remains to be settled;
- the UK has worked extremely hard to extract from the Community the best possible EC proposal for liberalising EC/ACP trade; this was put to the ACP;
- ACP pressure for an early EC aid offer was firmly resisted as premature; pressure on this will however build up over the weeks ahead;
- a further Ministerial meeting is likely in mid-November. Signature of Lome IV is still officially foreseen for December, but there is some doubt whether this target can now be met.

3. The Secretary of State for Employment may report on the Social Affairs Council which he attended on 30 October. The main item on the agenda was the Social Charter (on which Mr Fowler is minuting you and the Foreign Secretary suggesting that the next step might be for you to write to President Mitterrand setting out the UK's position and suggesting further bilateral contact before the Presidency's strategy for the European Council is finalised). Key features of the Council discussion were:

- Mr Fowler argued the UK's case as agreed in Cabinet last week;
- the Presidency largely avoided discussion of the substance; they concentrated instead on consolidating the text of their report to the European Council;
- the Presidency's report notes the UK's general reserve on the substance; other member states' remaining difficulties are largely glossed over;
- the report also invites the Commission to note the wish of some member states (notably the Germans and Italians) for specific legislation to implement parts of the Charter;
- Commissioner Papandreu told the press afterwards that the current text could not now be altered: the French Labour Minister (Soisson) was less precise and said that this was a political matter.

Nov. 30th

F.R.B.

ROBIN BUTLER

1 November 1989



GDP

10 DOWNING STREET
LONDON SW1A 2AA

CONFIDENTIAL

Graham Reid Esq
Deputy Secretary
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

31 October 1989

Dear Graham,

SOCIAL CHARTER

I have read with great interest your record of the Social Affairs Council and the latest Presidency text.

Going through the latter, I was struck by the number of detailed drafting changes the effect of which is to make the overall text even less acceptable (if that is possible!) I imagine you yourself have already noticed these, but I have set out in the attached note eight changes which stand out to me as particularly difficult. The worst is probably the one in new Article 16 which makes "reconciliation of occupational and family obligations" an absolute requirement, thus opening the way to the Commission's proposing mandatory workplace childcare facilities.

It is obviously important that such detailed points are not overlooked if we do, yet, get into further negotiations on texts ahead of Strasbourg. And they may be a useful counterweight to the line being put out by the French that their further revision represents compromise on their part and a move in our direction.

On a slightly different note, I was struck by Soisson's comment (in para 10 of the reporting telegram) that reference to Art 100A(2) (which excludes provisions relating to the rights and interests of employed persons from the ambit of Art 100A) in the recitals had been removed at the express wish of the Commission. This ties in completely with the Commission game-plan outlined by Delors at the Foreign Ministers Informal Meeting on 14 October: on the social

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dimension there should be a programme of action on the basis of QM (or simple majority) voting which respected the principle of subsidiarity. Ditto the Commission's revised proposal on the European Company Statute which also excludes 100A(2). It was fortunate perhaps that it was the Germans who raised this yesterday: it is one issue on which we have a good chance of making common cause with them.

*Yours ever,
John*

JOHN MILLS

cc David Hadley (Cabinet Office)
John Kerr (FCO)
Charles Powell (No. 10)

SOCIAL CHARTER

Changes to 23/10/89 draft in latest (31/10) Presidency draft

There are a number of detailed changes to our detriment:

- Whereas V : This now says whereas the completion of the internal market must favour the approximation of improvements in living and working conditions and economic and social cohesion. (Previously: 'be conducive to'.) This rather alters the sense, by tying progress on the single market not only to the social dimension in its broadest sense but also economic cohesion.
- Whereas VI : This now says whereas the completion of the internal market must offer improvements in the social field (Previously: 'lead to') Again the sense is completely altered as above.
- Whereas XIII: The 23/10 draft said responsibility for implementation lay firstly with Member States. This is now omitted and responsibility is put equally on the Member States and the Community. This undermines the subsidiary point in this recital.
- Article 1: Free movement of workers may now be restricted only on grounds of public order, public safety and public health. The 23/10 draft used the phrases "public policy" and "public security" which are existing Treaty language. The first of these changes, in particular, would appear significantly to narrow the scope of the restriction. The briefing for the Council was that this Article was acceptable. Does it remain so in the light of these changes?

Article 8 (formerly 10): The 23/10 draft linked the right to a weekly rest period and annual paid leave with national practice. The 30/10 draft now relates national practice to the harmonisation of the duration of leave, not the right to it. The right thus becomes absolute with no national practice escape clause.

Article 13 (formerly 15): In the 23/10 draft the right to strike was subject to obligations under national legislation and collective agreements. In the 30/10 draft 'national legislation' is replaced by 'national practices'. This is a significant weakening of the escape clause.

Article 16 (formerly 18): The 23/10 draft said action should be intensified wherever necessary to ... [implement] the principle of equality between men and women in a wide range of fields. In the 30/10 draft this qualification is dropped, thus leaving a requirement to intensify action.

The 23/10 draft said that measures should also be developed to enable men and women "to reconcile their occupational and family obligations more easily". In the 30/10 draft "more easily" is omitted, thus making such reconciliation an absolute (and, in all probability, an unattainable) objective which could well haunt policy-making for years to come. This would surely be used by the Commission to justify its plans for mandatory workplace childcare facilities.

MR HADLEY

cc Mr Kerr, FCO
Mr White, DSS
Mr Powell, No 10
Mr Mills, No 10 Policy Unit
Mr David
Mrs Le Guen

EOO
31/X.

SOCIAL AFFAIRS COUNCIL, 30 OCTOBER

1 The Social Affairs Council turned out to be a very low key event, apart from a late Italian walk out when no Italian text of a revision was available. Keith Masson's telegram will be available today, so I shall miss out the detail.

2 Soisson gave a Ministers only dinner on Sunday night, at which he laid down the ground rules that there would be no vote; Presidency conclusions would be remitted to the European Council with the text being approved in December; there would be adequate mention of subsidiarity and competence; he would like to deal with the UK and other reserves "informally" at this meeting; and the reference to the Commission action programme (Article 30 in the original text) should be amended. He did not want article by article discussion during the meeting.

3 Soisson achieved these objectives during the meeting through ruthless Chairmanship which was however undeniably effective.

4 There was a sequence of discussions throughout the day on the Presidency report and, informally, on particular problematic articles of the Charter itself. Some changes were made during the dinner which resulted in one text, and there were two other texts circulated during the meeting for consideration. I attach the final versions of both the Presidency note and the Draft Charter.

5 The main changes in the Charter are that Article 5 to which Portugal had fundamental objections has been deleted (but see para 7); the original Articles 2 and 3 have been combined into one new Article 2; a minor change in Article 22 (the bit between dashes) makes it more difficult for us; and there have been some changes in Title II.

6 The particular issue at Title II, extensively discussed at the Ad Hoc Group, was how to refer to the Commission action programme and how to meet the German requirement for legally binding instruments. The Germans now want 9 and are supported by Benelux. The solution is a new Article 28 which represents an invitation to the Commission to meet the German request.

7 The Presidency report also went through a number of drafts. It reflects the UK general reserve, and also lists the various items in the German proposal, linking them here with the Commission action programme. It also contains the substance of the deleted Article 2.

8 A few other points emerging from the meeting:

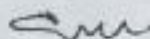
(a) Miss Papandreou has now assured Member States that the action programme will be available in mid November. It is on the agenda for discussion at the Social Affairs Council on 30 November.

(b) a number of Member States were distinctly unhappy about being railroaded into accepting a text on which they still had reservations. Denmark was not among them. The Danish Minister complimented the Presidency and the Commission and said he could accept the text and would commend it to the Danish Parliament.

(c) at the Presidency Press Conference Miss Papandreou said the current text could not now be altered; Soisson was less precise and said that this was a political matter.

(d) The Germans are anxious for bilateral talks. There is an interesting interaction between their proposals, the Commission action programme and the Charter which we could no doubt discuss.

9 There are a number of ways in which contact with the French Presidency might be established, and the Minister of State wishes to discuss this with me this morning. I shall report on our conversation when we meet at 4.30.



Ext: 5824

G L REID
31 October 1989

Final

LABOUR AND SOCIAL AFFAIRS COUNCIL
Meeting document no 1 REV

Brussels, 30 October 1989
SN 3408/89
REV

DRAFT

**Presidency Report
to the European Council**

After a long and constructive discussion, the Presidency notes that the procedure defined by the European Council in Madrid for drawing up the Charter of the fundamental social rights of workers has been observed.

On the basis of the Commission's draft, the social partners were consulted on 17 and 18 October, the European Parliament was informed on 17 October, and the Economic and Social Committee on 18 October.

The Community Charter of the fundamental social rights of workers must express the Member States' desire to harness together economic development and social progress in the Community, while complying with the principle of subsidiarity and, in general, remaining strictly within the powers of the Community authorities as defined by the Treaties.

The amendments submitted by the Member States have been taken into account and a Presidency draft drawn up. It defines the fundamental social rights of European workers in 27 Articles.

The Presidency has taken note of the Council's agreement to forward the attached draft Charter with a view to a decision on adoption by the European Council.

The United Kingdom delegation, having objections to a number of draft Articles, maintained its general reservation.

The Presidency has noted that, before the European Council meets, the Commission intends to submit an action programme on the practical implementation of the rights laid down in this Charter.

It invites the Commission in so doing to take into account the requests made by a number of delegations relating inter alia to the length of annual leave, pay for public holidays and sickness leave, protection of children and adolescents, the situation of pregnant women and mothers of small children, integration of the disabled into the ordinary working environment, health and safety at the workplace, vocational guidance and temporary work, and the mutual recognition of qualifications.

In addition, the Presidency wants genuine equality of treatment to be applied to all workers, and to cover all forms of work, in particular work which offers no long-term security. It believes that, allowing for the differences in situation, any worker employed in another Member State in the context of subcontracting or the award of public works contracts should enjoy equal treatment with employees of the host country.

In connection with the priorities which the Council has set itself regarding employment and vocational training, it hopes that the project to set up a European Employment Survey Authority will be examined by the Council at its meeting on 30 November, along with the Community programme for the development of continuing training for employees in undertakings.

Lastly, it stresses the importance which it attaches to continuation of the dialogue between management and labour, particularly as regards the implementation of the principles laid down in the Charter.

Final

EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 30 October 1989 (OR. f)

9430/2/89
REV 2

RESTREINT

SOC 370

NOTE FROM THE PRESIDENCY

to: COUNCIL (LABOUR AND SOCIAL AFFAIRS)

on: 30 October 1989

No. Cion prop.: B997/89 SOC 345 COM(89) 471 final

Subject: Community Charter of the fundamental social rights of workers

Delegations will find in the Annex the draft Community Charter of the fundamental social rights of workers submitted by the Presidency.

DRAFT

COMMUNITY CHARTER OF THE FUNDAMENTAL SOCIAL RIGHTS
OF WORKERS

THE HEADS OF STATE AND GOVERNMENT OF THE MEMBER STATES OF THE EUROPEAN COMMUNITY
MEETING AT
ON

Whereas, under the terms of Article 117 of the EEC Treaty, the Member States have agreed on the need to promote improved living and working conditions for workers so as to make possible their harmonization while the improvement is being maintained;

Whereas following on from the conclusions of the European Councils of Hanover and Rhodes the European Council of Madrid considered that, in the context of the establishment of the single European market, the same importance must be attached to the social aspects as to the economic aspects and whereas, therefore, they must be developed in a balanced manner;

Having regard to the Resolutions of the European Parliament of 15 March 1989 and 14 September 1989 and to the Opinion of the Economic and Social Committee of 22 February 1989;

Whereas the completion of the internal market is the most effective means of creating employment and ensuring maximum well-being for all Community citizens; whereas employment development and creation must be given absolute priority in the completion of the internal market, whereas it is for the Community to take up the challenges of the future with regard to economic competitiveness; taking into account, in particular, regional imbalances;

Whereas the social consensus contributes to the strengthening of the competitiveness of undertakings, of the economy as a whole and to the creation of employment; whereas in this respect it is an essential condition for ensuring sustained economic development;

Whereas the completion of the internal market must favour the approximation of improvements in living and working conditions, as well as economic and social cohesion within the European Community while avoiding distortions of competition;

Whereas the completion of the internal market must offer improvements in the social field for workers of the European Community, especially in terms of freedom of movement, living and working conditions, health and safety at work, social protection, education and training;

Whereas, in order to ensure equal treatment, it is important to combat every form of discrimination, including discrimination on grounds of sex, colour, race, opinions and beliefs, and whereas, in a spirit of solidarity, it is important to combat social exclusion;

Whereas it is for Member States to guarantee that workers from non-Member countries and members of their families who are legally resident in a Member State of the European Community are able to enjoy, as regards their living and working conditions, treatment comparable to that enjoyed by workers who are nationals of the Member State concerned;

Whereas inspiration should be drawn from the Conventions of the International Labour Organization and from the European Social Charter of the Council of Europe;

Whereas the Treaty, as amended by the Single European Act, contains provisions laying down the powers of the Community relating, inter alia, to the freedom of movement of workers (Articles 7, 48-51), the right of establishment (Articles 52-58), the social field under the conditions laid down in Articles 117-122 - in particular as regards the improvement of health and safety in the working environment (Article 118a), the development of the dialogue between management and labour at European level (Article 118b), equal pay for men and women for equal work (Article 119), the general principles for implementing a common vocational training policy (Article 128), economic and social cohesion (Article 130a to 130e) and, more generally, the approximation of legislation (Articles 100, 100a and 235); whereas the implementation of the Charter must not entail an extension of the Community's powers as defined by the Treaties;

Whereas the aim of the present Charter is to consolidate the progress made in the social field, through action by the Member States, the two sides of industry and the Community;

Whereas its aim is also to declare solemnly that the implementation of the Single European Act must take full account of the social dimension of the Community and that it is necessary in this context to ensure at appropriate levels the development of the social rights of workers of the European Community, especially employed workers and self-employed persons;

Whereas, in accordance with the conclusions of the Madrid European Council, the respective roles of Community rules, national legislation and collective agreements must be clearly established;

Whereas, by virtue of the principle of subsidiarity, responsibility for the initiatives to be taken with regard to the implementation of these social rights lies with the Member States or their constituent parts and, within the limits of its powers, with the European Community; whereas such implementation may take the form of laws, collective agreements or existing practices and whereas it requires in many spheres the active involvement of the two sides of industry;

Whereas the solemn proclamation of fundamental social rights at European Community level may not, when implemented, provide grounds for any retrogression compared with the situation currently existing in each Member State,

HAVE ADOPTED THE FOLLOWING DECLARATION CONSTITUTING THE "COMMUNITY CHARTER OF THE FUNDAMENTAL SOCIAL RIGHTS OF WORKERS":

TITLE I
FUNDAMENTAL SOCIAL RIGHTS

FREEDOM OF MOVEMENT

1. Every worker of the European Community shall have the right to freedom of movement throughout the territory of the Community, subject to restrictions justified on grounds of public order, public safety or public health.
2. The right to freedom of movement shall enable any worker to engage in any occupation or profession in the Community in accordance with the principles of equal treatment as regards access to employment, working conditions and social protection in the host country.

3. The right of freedom of movement shall also imply:

- Harmonization of conditions of residence in all Member States, particularly those concerning family reunification;
- Elimination of obstacles arising from the non-recognition of diplomas or equivalent occupational qualifications;
- Improvement of the living and working conditions of frontier workers.

EMPLOYMENT AND REMUNERATION

4. Every individual shall be free to choose and engage in an occupation according to the regulations governing each occupation.
5. All employment shall be fairly remunerated.

To this effect, in accordance with arrangements applying in each country:

- workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living;
 - workers subject to terms of employment other than an open-ended full time contract shall receive an equitable reference wage;
 - wages may be withheld, seized or transferred only in accordance with national law; such provisions should entail measures enabling the worker concerned to continue to enjoy the necessary means of subsistence for himself and his family.
6. Every individual must be able to have access to public placement services free of charge.

IMPROVEMENT OF LIVING AND WORKING CONDITIONS

7. The completion of the internal market must lead to an improvement in the living and working conditions of workers in the European Community. This process must result from an approximation of these conditions while the improvement is being maintained, as regards in particular the duration and organization of working time and forms of employment other than open-ended contracts, such as fixed-term contracts, part-time working, temporary work and seasonal work.

The improvement must cover, where necessary, the development of certain aspects of employment regulations such as procedures for collective redundancies and those regarding bankruptcies.

8. Every worker of the European Community shall, have a right to a weekly rest period and to annual paid leave, the duration of which must be progressively harmonized in accordance with national practices.
9. The conditions of employment of every worker of the European Community shall be stipulated in laws, a collective agreement or a contract of employment, according to arrangements applying in each country.

SOCIAL PROTECTION

According to the arrangements applying in each country :

10. Every worker of the European Community shall have a right to adequate social protection and shall, whatever his status and whatever the size of the undertaking in which he is employed, enjoy an adequate level of social security benefits.

Persons who have been unable either to enter or re-enter the labour market and have no means of subsistence must be able to receive sufficient resources and social assistance in keeping with their particular situation.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

11. Employers and workers of the European Community shall have the right of association in order to constitute professional organizations or trade unions of their choice for the defence of their economic and social interests.

Every employer and every worker shall have the freedom to join or not to join such organizations without any personal or occupational damage being thereby suffered by him.

12. Employers or employers' organizations on the one hand and workers' organizations on the other, shall have the right to negotiate and conclude collective agreements under the conditions laid down by national legislation and practice.

The dialogue between the two sides of industry at European level which must be developed, may, if the parties deem it desirable, result in contractual relations in particular at interoccupational and sectoral level.

13. The right to resort to collective action in the event of a conflict of interests shall include the right to strike, subject to the obligations arising under national practices and collective agreements.

In order to facilitate the settlement of industrial disputes the establishment and utilization of conciliation, mediation and arbitration procedures should be encouraged in accordance with national practice.

14. The internal legal order of the Member States shall determine under which conditions and to what extent the rights provided for in Articles 11 to 13 apply to the armed forces, the police and the civil service.

VOCATIONAL TRAINING

15. Every European Community worker must be able to have access to vocational training and to undergo such training throughout his working life. In the conditions governing access to such training there may be no discrimination on grounds of nationality.

The competent public authorities, undertakings or the two sides of industry, each within their own sphere of competence, shall set up continuing and permanent training systems enabling every person to undergo retraining more especially through leave for training purposes, to improve his skills or to acquire new skills, particularly in the light of technical developments.

EQUAL TREATMENT FOR MEN AND WOMEN

16. Equal treatment for men and women must be assured. Equal opportunities for men and women must be developed.

To this end, action should be intensified to ensure the implementation of the principle of equality between men and women as regards in particular access to employment, remuneration, social protection, education, vocational training and career development.

Measures should also be developed enabling men and women to reconcile their occupational and family obligations.

INFORMATION, CONSULTATION
AND PARTICIPATION FOR WORKERS

17. Information, consultation and participation for workers must be developed along appropriate lines, taking account of the practices in force in the various Member States.

This shall apply especially in companies or groups of companies having establishments or companies in several Member States of the European Community.

18. Such information, consultation and participation must be implemented in due time, particularly in the following cases:

- when technological changes which, from the point of view of working conditions and work organization, have major implications for the workforce are introduced into undertakings;
- in connection with restructuring operations in undertakings or in cases of mergers having an impact on the employment of workers;
- in case of collective redundancy procedures;
- when transfrontier workers in particular are affected by employment policies pursued by the undertaking where they are employed.

HEALTH PROTECTION AND SAFETY
AT THE WORKPLACE

19. Every worker must enjoy satisfactory health and safety conditions in his working environment. Appropriate measures must be taken in order to achieve further harmonization of conditions in this area while maintaining the improvements made.

These measures shall take account in particular, of the need for the training, information, consultation and balanced participation of workers as regards the risks incurred and the steps taken to eliminate or reduce them.

The provisions regarding implementation of the internal market shall help to ensure such protection.

PROTECTION OF CHILDREN AND ADOLESCENTS

20. Without prejudice to such rules as may be more favourable to young people, in particular those ensuring their preparation for work through vocational training, and subject to derogations limited to certain light work, the minimum employment age must not be lower than the minimum school-leaving age and, in any case, not lower than 15 years.
21. Young people who are in gainful employment must receive equitable remuneration in accordance with national practice.

22. Appropriate measures must be taken to adjust labour regulations applicable to young workers so that their specific development and vocational training and access to employment needs are met.

The duration of work must, in particular, be limited - without it being possible to circumvent this limitation through recourse to overtime - and night work prohibited in the case of workers of under eighteen years of age, save in the case of certain jobs laid down in national legislation or regulations.

23. Following the end of compulsory education, young people must be entitled to receive initial vocational training of a sufficient duration to enable them to adapt to the requirements of their future working life; for young workers, such training must take place during working hours.

ELDERLY PERSONS

According to the arrangements applying in each country:

24. Every worker of the European Community must, at the time of retirement, be able to enjoy resources affording him or her a decent standard of living.
25. Any person who has reached retirement age but who is not entitled to a pension or who does not have other means of subsistence, must be entitled to sufficient resources and to medical and social assistance specifically suited to his needs.

DISABLED PERSONS

26. All disabled persons, whatever the origin and nature of their disablement, must be entitled to additional concrete measures aimed at improving their social and professional integration.

These measures must concern, in particular, according to the capacities of the beneficiaries, vocational training, ergonomics, accessibility, mobility, means of transport and housing.

TITLE II
IMPLEMENTATION OF THE CHARTER

27. It is the responsibility of the Member States to guarantee the fundamental social rights in this Charter and to implement the social measures indispensable to the smooth operation of the internal market as part of a strategy of economic and social cohesion and in accordance with national practices, notably through legislative measures or collective agreements.
28. The European Council invites the Commission to submit initiatives, ^{as far as possible} which fall within its powers, as provided for in the Treaties, with a view to the adoption of legal instruments for the effective implementation, as and when the internal market is completed, of those rights which come within the Community's area of competence.
29. The Commission shall establish each year, during the last three months, a report on the application of the charter by the Member States and by the European Community.
30. The report of the Commission shall be forwarded to the European Council, the European Parliament and the Economic and Social Committee.

EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 30 October 1989 (OR. f)

9430/2/89
REV 2

RESTREINT

SOC 370

NOTE FROM THE PRESIDENCY

to: COUNCIL (LABOUR AND SOCIAL AFFAIRS)

on: 30 October 1989

No. Cion prop.: 8997/89 SOC 345 COM(89) 471 final

Subject: Community Charter of the fundamental social rights of workers

Delegations will find in the Annex the draft Community Charter of the fundamental social rights of workers submitted by the Presidency.

DRAFT

COMMUNITY CHARTER OF THE FUNDAMENTAL SOCIAL RIGHTS
OF WORKERS

THE HEADS OF STATE AND GOVERNMENT OF THE MEMBER STATES OF THE EUROPEAN COMMUNITY
MEETING AT
ON

Whereas, under the terms of Article 117 of the EEC Treaty, the Member States have agreed on the need to promote improved living and working conditions for workers so as to make possible their harmonization while the improvement is being maintained;

Whereas following on from the conclusions of the European Councils of Hanover and Rhodes the European Council of Madrid considered that, in the context of the establishment of the single European market, the same importance must be attached to the social aspects as to the economic aspects and whereas, therefore, they must be developed in a balanced manner;

Having regard to the Resolutions of the European Parliament of 15 March 1989 and 14 September 1989 and to the Opinion of the Economic and Social Committee of 22 February 1989;

Whereas the completion of the internal market is the most effective means of creating employment and ensuring maximum well-being for all Community citizens; whereas employment development and creation must be given absolute priority in the completion of the internal market, whereas it is for the Community to take up the challenges of the future with regard to economic competitiveness; taking into account, in particular, regional imbalances;

Whereas the social consensus contributes to the strengthening of the competitiveness of undertakings, of the economy as a whole and to the creation of employment; whereas in this respect it is an essential condition for ensuring sustained economic development;

Whereas the completion of the internal market must favour the approximation of improvements in living and working conditions, as well as economic and social cohesion within the European Community while avoiding distortions of competition;

Whereas the completion of the internal market must offer improvements in the social field for workers of the European Community, especially in terms of freedom of movement, living and working conditions, health and safety at work, social protection, education and training;

Whereas, in order to ensure equal treatment, it is important to combat every form of discrimination, including discrimination on grounds of sex, colour, race, opinions and beliefs, and whereas, in a spirit of solidarity, it is important to combat social exclusion;

Whereas it is for Member States to guarantee that workers from non-Member countries and members of their families who are legally resident in a Member State of the European Community are able to enjoy, as regards their living and working conditions, treatment comparable to that enjoyed by workers who are nationals of the Member State concerned;

Whereas inspiration should be drawn from the Conventions of the International Labour Organization and from the European Social Charter of the Council of Europe;

Whereas the Treaty, as amended by the Single European Act, contains provisions laying down the powers of the Community relating, *inter alia*, to the freedom of movement of workers (Articles 7, 48-51), the right of establishment (Articles 52-58), the social field under the conditions laid down in Articles 117-122 - in particular as regards the improvement of health and safety in the working environment (Article 118a), the development of the dialogue between management and labour at European level (Article 118b), equal pay for men and women for equal work (Article 119), the general principles for implementing a common vocational training policy (Article 128), economic and social cohesion (Article 130a to 130e) and, more generally, the approximation of legislation (Articles 100, 100a and 235); whereas the implementation of the Charter must not entail an extension of the Community's powers as defined by the Treaties;

Whereas the aim of the present Charter is to consolidate the progress made in the social field, through action by the Member States, the two sides of industry and the Community;

Whereas its aim is also to declare solemnly that the implementation of the Single European Act must take full account of the social dimension of the Community and that it is necessary in this context to ensure at appropriate levels the development of the social rights of workers of the European Community, especially employed workers and self-employed persons;

Whereas, in accordance with the conclusions of the Madrid European Council, the respective roles of Community rules, national legislation and collective agreements must be clearly established;

Whereas, by virtue of the principle of subsidiarity, responsibility for the initiatives to be taken with regard to the implementation of these social rights lies with the Member States or their constituent parts and, within the limits of its powers, with the European Community; whereas such implementation may take the form of laws, collective agreements or existing practices and whereas it requires in many spheres the active involvement of the two sides of industry;

Whereas the solemn proclamation of fundamental social rights at European Community level may not, when implemented, provide grounds for any retrogression compared with the situation currently existing in each Member State,

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The dialogue between the two sides of industry at European level which must be developed, may, if the parties deem it desirable, result in contractual relations in particular at interoccupational and sectoral level.

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In order to facilitate the settlement of industrial disputes the establishment and utilization of conciliation, mediation and arbitration procedures should be encouraged in accordance with national practice.

14. The internal legal order of the Member States shall determine under which conditions and to what extent the rights provided for in Articles 11 to 13 apply to the armed forces, the police and the civil service.

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The competent public authorities, undertakings or the two sides of industry, each within their own sphere of competence, shall set up continuing and permanent training systems enabling every person to undergo retraining more especially through leave for training purposes, to improve his skills or to acquire new skills, particularly in the light of technical developments.

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To this end, action should be intensified to ensure the implementation of the principle of equality between men and women as regards in particular access to employment, remuneration, social protection, education, vocational training and career development.

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This shall apply especially in companies or groups of companies having establishments or companies in several Member States of the European Community.

18. Such information, consultation and participation must be implemented in due time, particularly in the following cases:

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These measures shall take account in particular, of the need for the training, information, consultation and balanced participation of workers as regards the risks incurred and the steps taken to eliminate or reduce them.

The provisions regarding implementation of the internal market shall help to ensure such protection.

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21. Young people who are in gainful employment must receive equitable remuneration in accordance with national practice.

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The duration of work must, in particular, be limited - without it being possible to circumvent this limitation through recourse to overtime - and night work prohibited in the case of workers of under eighteen years of age, save in the case of certain jobs laid down in national legislation or regulations.

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These measures must concern, in particular, according to the capacities of the beneficiaries, vocational training, ergonomics, accessibility, mobility, means of transport and housing.

TITLE II IMPLEMENTATION OF THE CHARTER

27. It is the responsibility of the Member States to guarantee the fundamental social rights in this Charter and to implement the social measures indispensable to the smooth operation of the internal market as part of a strategy of economic and social cohesion and in accordance with national practices, notably through legislative measures or collective agreements.
28. The European Council invites the Commission to submit initiatives, which fall within its powers, as provided for in the Treaties, with a view to the adoption of legal instruments for the effective implementation, as and when the internal market is completed, of those rights which come within the Community's area of competence.
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on
European Budget

Pl. await FCo
reply & return
CDP
29/10.

PAUL GRAY

27 October 1989

EUROPEAN COMMUNITY STRUCTURAL FUNDS

attached
Nick Ridley's letter of 27 October to Douglas Hurd.

This iterates the concerns in my recent note on this subject and which you agreed. I think it would be well worthwhile for the Prime Minister to signal her strong support for the firm line which Nick Ridley intends to take with Bruce Millar. There is a big potential problem looming.

John Mills

JOHN MILLS



dti

the department for Enterprise

*CSFE
TH*

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

CONFIDENTIAL

Rt Hon Douglas Hurd CBE MP
Secretary of State for
Foreign and Commonwealth Affairs
Whitehall
LONDON SW1

Department of
Trade and Industry

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Our ref

Your ref

Date

27 October 1989

*CDD
27/10.*

Dear Secretary of State,

EUROPEAN COMMUNITY STRUCTURAL FUNDS: "OBJECTIVE 2"

Over about the next month we have to negotiate with the Commission documents called "Community Support Frameworks" (CSFs), which for the next three years will govern the bulk of the European Regional Development Fund's grants to the UK and some of those from the Social Fund.

So far Commission proposals have been formally received only in relation to the ERDF. I enclose a factual Note by our officials on the problem which arises here. The Commission has for over a month been standing on an extreme position. Without any justification in the new regulations for the funds, it is proposing a sea change in the purposes for which the ERDF makes its grants.

Unless this position can be as radically altered in negotiation, there would be significant implications for regional policy and public expenditure (on which Douglas Hogg last wrote to Norman Lamont on 29 September). The extent of the potential damage cannot yet be precisely measured, partly because the Commission's proposals are still incomplete in essential financial details. Our hand in Brussels would be stronger if it were possible to give actual examples of projects which the Commission's proposals would jeopardise.

Our difficulties are compounded, and to some extent caused, by the fact that the Commission's negotiator is Stanley Clinton Davis's former chef de cabinet, acting under the direction of Bruce Millan; and that the local authorities in the areas concerned, also mostly Labour, are partners to the negotiation. The Commission are seeking to oblige us to allow the ERDF to subsidise new and local authority initiatives at the expense of approved public expenditure (including central government programmes and water authority and railway investments).



Recycled Paper

Douglas Hogg saw Bruce Millan on 26 September. On that and some subsequent occasions we have received some reasonably helpful general assurances of the Commission's flexibility. But there has not yet been any sign of it in the negotiation.

I propose that we endorse the following UK negotiating objectives, which have been discussed by our officials:

- a. to have the CSFs redrafted more flexibly, in terms which imply no presumption in favour of local authority measures;
- b. in particular, to minimise the CSFs' commitments to grants towards local authority revenue expenditure, and
- c. to seek to restore grants to as many as possible of the measures excluded by the Commission's proposals.

There is also the question of whether, in proposing CSFs embodying such instructions on the measures which may be adopted, is acting inconsistently with the Regulations under which the CSFs is to be adopted. I am arranging for the opinion of the Law Officers to be sought on this question. Further pressure on the Commission is likely to be necessary if we are to secure an acceptable outcome. I propose the following steps:

- i. We have already recently arranged for the influence of Leon Brittan and Commission Secretary-General Williamson to be brought to bear on Bruce Millan. Officials also need to maintain pressure on Millan's cabinet and staff for more acceptable next drafts of the CSFs, now expected from them at the beginning of November.
- ii. If when these next drafts are received we find that they do not offer a constructive basis for negotiation, they should not be circulated to the local authorities, but Douglas Hogg or I should see Bruce Millan as soon as possible and ask him to revise them.



the department for Enterprise

iii. If the result of this is still unsatisfactory, I would ask you to speak to President Delors or have our concern raised in COREPER.

At some stage during the negotiation we shall need to take decisions on the distribution of the funds' grants between the Regional and Social Funds and between various "Objective 2" areas. I will write again on this aspect as soon as the Commission's own proposals are clearer.

Officials have also given some advance consideration to the alternative courses that we may need to choose between at a late stage in the negotiation. We must return to that in due course.

I am sending copies of this letter to the Prime Minister, to colleagues on OD(E) and E(A), to Sir Patrick Mayhew, Nicholas Lyell, Alan Rodger, Peter Carmyllie and to Sir Robin Butler.

*Yours sincerely
Rosalind Cr. G.*

[Approved by the Secretary of State and signed in his absence]

ING518



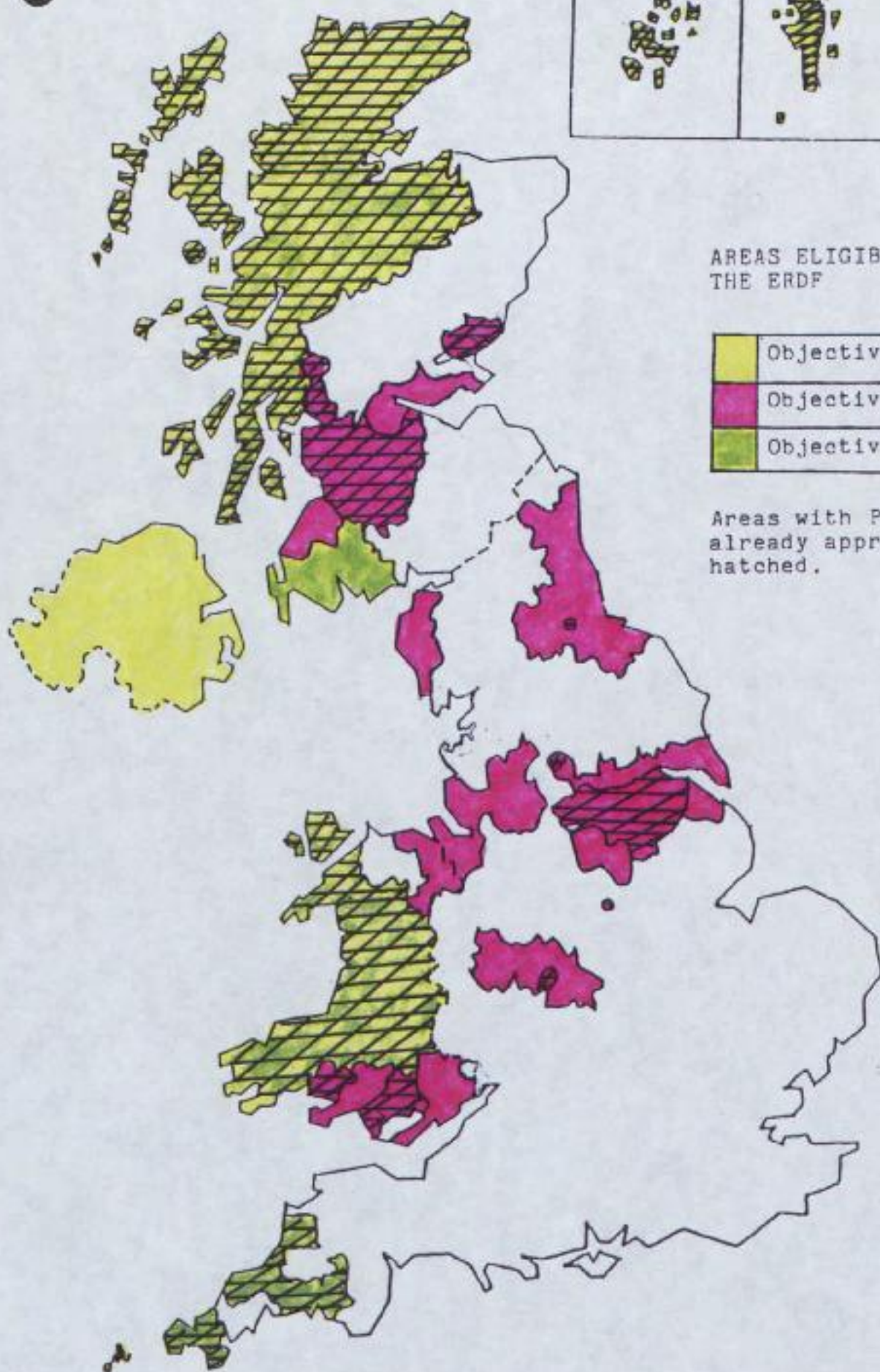
Recycled Paper



AREAS ELIGIBLE FOR THE ERDF

	Objective 1
	Objective 2
	Objective 5(b)

Areas with Programmes already approved are hatched.



Parts of inner London and East Kent will receive special ERDF grants; so may Gibraltar and some coal-mining areas outside the coloured areas.

ERDF GRANTS IN UK "OBJECTIVE 2" AREAS

Note by Officials

The ERDF hitherto

1. In recent years the UK has received for what are now called its "Objective 2" areas (map attached) some £300m per annum of grant. Grants have been made for:

- (a) central government expenditure programmes (trunk roads, and regional assistance to industry) about 20% of the total;
- (b) capital investment, mostly by nationalised industries but also including local authority items, in railways, bus transport, ports, airports, water and sewerage and energy - about 35%;
- (c) local authority and new town road-building programmes - about 20%; and
- (d) other local authority and new town capital expenditure, including the preparation of industrial sites and some tourism projects - about 25%.

The percentage composition has varied slightly between England, Scotland and Wales.

2. Government policy is that receipts from the Structural Funds are taken into account when public expenditure programmes are set. In the case of grants towards central government programmes, the receipts go to finance already agreed expenditure. Grants towards local authority and nationalised industry capital expenditure are passed on to the bodies concerned; but to prevent their leading to public expenditure above the agreed levels, the recipients' borrowing limits are reduced correspondingly (they count against local authorities' capital allocations). In the case of any other grants, eg towards local authority revenue expenditure, Government policy is that they must be accommodated within the appropriate Department's PES total. Such grants have hitherto been very small.

3. Grants are now applied for in the form of composite multi-annual "programmes" for a particular geographical area. Nine such general programmes, already approved by the Commission, are at present current, for the "Objective 2" areas shown hatched on the map. There is also one special ("RESIDER") programme. These ten approved programmes are

due to yield £380m of grant in the three years 1989-1991. Applications are pending with the Commission for 13 similar general programmes. Four more, together with some addenda and two special programmes, are in preparation.

The new régime

4. New regulations for the Community's structural funds, including the ERDF, came into force on 1 January 1989. They required the preparation by the Government, in consultation with local authorities and others, of regional "plans" for UK drawings on the Funds. Future grants are to be subject to the terms of "Community Support Framework" (CSF) documents established by the Commission "in agreement with the Member State concerned", "through the partnership" (ie in a negotiation which also includes local authorities), and after consulting an Advisory Committee of all Member States. The CSFs are due to be agreed during November 1989.

The Commission's proposals

5. Partial first drafts of CSFs for eight of the nine UK "Objective 2" regions were received from the Commission on 15 September. These would (see specimen text at Annex A) ... discontinue grant for 75-80% of the items in para 1 above - all (a) and (b), including water, sewerage and energy, nearly all (c) and some of (d) ("greenfield" sites) - although all of them remain fully eligible under the terms of the new ERDF regulation. On the other hand they would require grant to be paid for certain further purposes: "business development" schemes for small firms, certain environmental works, regional research and development and technology transfer initiatives, and tourism promotion services. A percentage allocation between five "priorities" is to constrain the composition of grant programmes.

6. One consequence of these first drafts is that, for the first time, a significant element of local authority revenue expenditure would be included. Moreover, Commission officials have made clear that they would intend to approve only local authority initiatives in the new categories, although we will vigorously oppose this (it may be legally as well as politically objectionable).

7. The Commission's only attempted justifications of its proposals are theoretical or grossly exaggerated. It says it wishes to support infrastructure of different types in Objective 1 and Objective 2 regions; it pleads the shortage of Objective 2 resources; it refers to European Parliament and Court of Auditors criticism of past ERDF grants to under-utilised roads (mainly in Southern Member States). It has no cogent reply to UK arguments, expressed so far unanimously by central and local government, that the

measures supported hitherto are all essential for regional economic development and fully eligible for grant under the new ERDF regulation.

8. The programmes already approved are formally to be exempt from these changes, but in practice some slippage of new "priorities" into existing programmes might be unavoidable, because Departments could not in the programme Monitoring Committees veto Commission and local authority proposals for including projects of the new types without jeopardising these programmes as a whole.

9. The Minister for Industry and Enterprise discussed these proposals with Commissioner Millan on 26 September, pointing out that they would represent a "sea change" in the ERDF's operations for which no reasonable justification had been put forward. Mr Millan said he hoped that in the forthcoming negotiations, which are expected to take several weeks, the Commission would display "reasonable flexibility, within limits". He renewed these assurances to the UK Permanent Representative on 10 October.

10. So far, however, in "partnership" discussions of the drafts in Brussels on 2, 3 and 12 October, Commission officials have shown no flexibility at all. Only in certain bilateral discussions with the local authorities have they (according to reports) shown some signs of willingness to consider partial concessions on roads. At the suggestion of Mr Millan's chef de cabinet we have put in counter-drafts of our own (example at Annex B), but the only new indication in writing from the Commission is a single unapproved second draft CSF, received in strict confidence on 18 October.

11. This new draft would appear to reduce the proportion of measures that would lose grant from 75-80% to 60-65%, and would allow the continuation of grants towards part of the cost of the Enterprise Initiative (perhaps £45m over the three years). On the other hand it continues to rule out any grants for trunk roads, ports, airports, water, sewerage and energy; it retains an "additionality" condition on grants for derelict land clearance, objectionable possibly legally as well as in substance; it contains some discouraging indications of the Commission's ideas on grant rates; and it would moreover explicitly require grant for the operating (as well as the capital) costs of local authority business development schemes.

12. The Commission is expected to decide on 25 October to allocate to the UK Objective 2 CSFs a total, for the ERDF and the European Social Fund together, of 1517 MECU for 1989-91. There would be arguments in favour of assigning up to 450 MECU of such a total to the ESF; on the other hand, an assignment of even no more than about 1200 MECU to the

ERDF would, if the approved ERDF programmes were to be left untouched, require the others to be cut by more than half.

13. The Commission has yet to make proposals on the distribution of grant between the two Funds or between the nine Objective 2 areas, or on the percentage allocation of grants between "priorities".

25 October 1989

2.2 The priorities for Community action

In accordance with the criteria outlined in section 2.1 above, the following priorities for action by the Community's Structural Funds have been chosen :

1. Improving facilities for the development of productive activities, namely :

- provision of industrial premises and sites, including on-site infrastructure
- facilities specific to the disposal and recycling of industrial waste

A shortage of good quality sites and building has been identified as one of the constraints on developing new economic initiatives in Eastern Scotland.

Further provision of sites and premisses has therefore a high priority. ERDF support will, as a general rule, only be given to the provision of industrial sites on non-greenfield land. It is evident that those works will also improve the image of the area and as such increase its attractiveness to potential tourists and inward investors. With regard to industrial premises, the run-down of certain industries has left a stock of redundant buildings. Without investment in improved services and renovation works such buildings cannot be adapted to meet new industrial use. In the context of full funding of derelict land clearance by the Central Government authorities, any activity supported by the ERDF in this field must lead to an increase in the area of land cleared compared with that already planned under existing nationally-funded schemes. Expenditure on the provision of sites and premisses in the region by the bodies listed in section 1.2 was £.....million in 1988, associated with hectares of land andm² of workshops provided. Planned expenditure for the period 1989-91 is £.....million.

It is targeted that approximately 110 ha new industrial sites will be provided over the period 1989-1991. The target for industrial premisses - either refurbish or new buildings - is 200,000m² over the same period.

It is evident that sufficient solid industrial waste disposal facilities are available for future economic development in the area. Current facilities are not adequate and this may have a negative impact on future industrial development. It is also clear that the provision of new or the expansion of existing waste disposal facilities do not have an adverse effect on the environment of the area.

2. Assistance for the development of new businesses, in particular small- and medium-sized enterprises:

Eastern Scotland has been particularly affected by the decline of traditional industries such as coal and textiles, which had once been major contributors to the economic development of the area. In recent years, a number of industries such as chemicals, electronics and electrical engineering have shown employment growth. Also the small business sector, a key agent for economic growth, has been showing steady growth in many parts of the area.

The UK authorities concerned are aiming to reinforce further the provision of new employment opportunities in a number of potential growth sectors. The main elements of a strategy to attain this objective are,

- * attraction of inward investments
- * support for the creation of new firms and the expansion of existing small indigenous firms,
- * development and promotion of the use of new technology,
- * encouragement of large firms to support the development of local SMEs.

Under this priority, ERDF assistance is envisaged for the following measures,

- * grants under the national enterprise initiative,

- * Business centres in Fife Region

The aim is to establish and develop Business Centres, which will provide a co-ordinated combination of premises and forms of support services appropriate to the needs of SMEs, thereby stimulation and encouraging the creation and growth of such enterprises.

- * Managed Workshops

The provision of managed workshops at the Falkirk Business Park, the Stirling Enterprise Park, the Alloa Business Centre and certain other key location in the region.

- * The Trade and Export Centre at Falkirk

This centre will provide local SMEs, with services related to the challenge and opportunities arising from the creation of the European Single Market.

* Further local initiatives which complement and cooperate with activities in this field carried out currently. This related in particular to:

- provision of business - and enterprise centres and managed workshops
- better access to new technologies
- promotion of local development and enterprise agencies
- provision of common services for a number of SMEs.
- promotion of export by local firms

The ERDF contribution to those schemes will be either max. 50% of public expenditure involved or 30% of the total eligible costs. The cost of these initiatives are estimated at x m£ over the period 1990-1991.

ESF activities (DG V)

It is envisaged that the measures planned under this priority will provide an impetus for the creation of about 3000 new SMEs in the region. These new firms as well as the growth of existing firms will make a substantial contribution to the objective set with regard to employment.

3. Improving the image of the region by works in locations with clear potential for either industrial and office sector development or tourism, namely :

- reclamation of derelict land in key industrial and tourist areas with no immediate productive after-use
- landscaping works on tourist attractions, industrial sites, in key transport corridors and the cleaning up of town centres.
- coastal protection works linked to specific industrial or tourist developments.

In the context of full funding of derelict land clearance by the Central Government authorities, any activity supported by the ERDF in this field must lead to an increase in the area of land cleared compared with that already planned under existing nationally-funded schemes.

Total public expenditure on those type of schemes has been approx. m£ in 1988. For the period 1989 - 1991 public expenditure in this field are estimated at m£. The ERDF contribution to these measures will be in the order of m£. The target for the reclamation of derelict land is to remove and clear 675 ha of industrial dereliction.

4. The development of tourism

Tourism already plays an important part in the economy of Eastern Scotland. One of the Government's objectives is to encourage the spread of tourism throughout Scotland. The proximity of Edinburgh will benefit the region, where cultural heritage and active leisure holidays are already well established. In recent years, the ERDF has contributed considerably to the development of Dundee as a focus point for tourism in Eastern Scotland.

A study by Fife Region has indicated the potential for growth in the business tourist sector, particularly related to the development of conferences and exhibitions in the proximity of the Forth Bridge.

The strategy to support the expansion of tourism in Eastern Scotland is based on:

- the development and improvement of facilities and tourist attractions in potential growth markets such as business tourism, family holidays and active holidays,
- the promotion of private sector involvement,
- the marketing of tourist attractions outside Scotland.

The objective of this strategy is to attract to Eastern Scotland 110,000 additional tourist visits in 1992. In 1988, the total number of tourists amounted to 150,000 overseas visits and 2,000,000 domestic visits.

In 1988, public expenditure on tourism development was about million £. For the period 1989-1991, total public expenditure envisaged for this sector will be in the order of million £.

Vocational training actions directly linked to tourism development (DG V)

5. Support for research and development, and vocational training facilities.

A shortage of modern technology skills in the regional workforce is also seen as a barrier to growth. New occupations emerging in new industries require different skills from the area's traditional industries.

With regard to research and development, this priority is intended to build on the strengths of the region in its excellent higher and further education facilities, and on the support for R & D facilities already funded by the ERDF. Such activities will also support the strategy adopted for business development, in particular SMEs.

The following type of measures are envisaged:

- support for the diffusion and transfer of new technologies,
- support for initiatives encouraging greater industrial use of expertise in the region's universities, polytechnics and colleges of further education (creation of transfer points, enterprise zones and innovation parks),
- provision of facilities for vocational training in industrial sectors with potential for growth.

In 1988, public expenditure to improve and extend vocational training and R & D facilities amounted to m£. For the period 1989 -1991, public expenditure in this field is estimated at m£.

6. Other support for training

(text from ESF)

The priorities chosen in this Support Framework respond to the strategy set out in the conversion plan for the region by including elements of all seven of the priorities for action outlined in the plan. However, with a view to achieving a greater value for money from the Community's limited resources, they are focussed on direct job creation.

The Support Framework should be seen in the context of all national and local initiatives for industrial and urban regeneration in Industrial South Wales. Measures such as the general provision of basic transport and public utility infrastructure will be carried out by the responsible authorities without ERDF support, but where appropriate with the support of other Community's financial instruments.

2.2 The priorities for Community action

In accordance with the criteria outlined in section 2.1 above, the following priorities for action by the Community's Structural Funds have been chosen:

1. Providing facilities to encourage productive investment, namely:
 - transport infrastructure closely linked to economic development
 - facilitating the provision of industrial premises and sites, including on-site infrastructure
 - facilities specific to the disposal and recycling of industrial waste
 - water and sewerage infrastructure closely linked to economic development

Transport infrastructure is particularly important in Eastern Scotland because of its peripheral position. The ERDF will not support all transport development, but will support the modernisation and laying out of transport infrastructure which provides the basis for the creation or development of economic activity. This could include road, rail, airport and port projects. The key test will be whether the development will promote economic development and productive investment.

A shortage of good quality sites and building has been identified as one of the constraints on developing new economic initiatives in Eastern Scotland. Further provision of sites and premises has therefore a high priority. Where possible this should be on brownfield sites, but it is recognised that some productive investment can only be achieved if greenfield sites are also used. It is evident that those works will also improve the image of the area and as such increase its attractiveness to potential tourists and inward investors.

It is evident that insufficient solid industrial waste disposal facilities are available for future economic development in the area. Current facilities are not adequate and this may have a negative impact on future industrial development. It is also important that the provision of new or the expansion of existing waste disposal facilities do not have an adverse effect on the environment of the area.

The supply of water is of economic importance in the plan area, both because of the need for high quality standards to attract high tech investment and because of changing demand patterns from industry as a result of structural change. Insufficient or inadequate sewerage facilities are acting as a bottleneck on productive investment in several parts of the area. Inadequate sewage disposal systems are proving a disincentive to tourism because of their effect on the quality of beaches and bathing water. The ERDF will therefore support projects to increase the capacity of or upgrade water, sewerage and sewage disposal systems, where the projects are closely linked to economic development and the encouragement of productive investment.

2. Business Development:

Eastern Scotland has been particularly affected by the decline of traditional industries such as coal and textiles, which had once been major contributors to the economic development of the area. In recent years, a number of industries such as chemicals, electronics and electrical engineering have shown employment growth. Also the small business sector, a key agent for economic growth, has been showing steady growth in many parts of the area.

This priority is concerned with the development of businesses, in particular small and medium-sized enterprises. ERDF assistance is envisaged for the following measures:

- * grants to promote productive investment, particularly in small- and medium-sized firms, and support for loan guarantees;
- * investment by enterprise agencies and in business facilities;
- * measures to encourage self-employment and the use of business consultancy.

3. Improving the image of the region by works in locations with clear potential for either industrial and office sector development or tourism, namely:

- reclamation of derelict land in key industrial and tourist areas with no immediate productive after-use
- landscaping works on tourist attractions, industrial sites, in key transport corridors and the cleaning up of town centres.
- coastal protection works linked to specific industrial or tourist developments
- refurbishment of buildings of historical interest.

4. The development of tourism

Tourism already plays a part in the economy of Eastern Scotland. One of the Government's objectives is to encourage the spread of tourism throughout Scotland. The strategy to support the expansion of tourism in Eastern Scotland is based on:

- the development and improvement of facilities and tourist attractions in potential growth market such as business tourism, family holidays and active holidays.
- the promotion of private sector involvement.

Vocational training actions directly linked to tourism development (DGV)

5. Support for innovation and new technology

To increase the level of innovation it will be important to make full use industrially of the research and development strengths of the higher education sector in the region. Support for innovation will also be important for SMEs.

A shortage of modern technology skills in the regional workforce is also seen as a barrier to growth. New occupations emerging in new industries require different skills from the area's traditional industries.

The following types of measures are envisaged:

- grants to stimulate innovation;
- grants for the diffusion and transfer of new technologies;
- investment in initiatives encouraging greater industrial use of expertise in the region's universities, polytechnics and colleges of further education (eg science parks);
- provision of facilities for vocational training in industrial sectors with potential for growth.

6. Other support for training

(text from ESF)

The priorities chosen in this Support Framework respond to the strategy set out in the conversion plan for the region by including elements of all 6 of the priorities for action outlined in the plan. However, in view of the Community's limited resources, they are focused on actions that seem likely to have the greatest economic impact.

The Support Framework should be seen in the context of all national and local initiatives for industrial and urban regeneration in Eastern Scotland.



PRIME MINISTER

26 October 1989

NB - *pc.*

RCC
10/11

RIDLEY SPEECH IN BONN WELL RECEIVED

Mr Ridley spoke to the Economic Council of the CDU in Bonn on 17 October about the British vision of Europe. His point that the Community should only try to do things which cannot be done better by Member States was applauded and very strong support was shown for his statement that the Government has emphasised the dangers of rushing into work on longer term developments in European economic and monetary arrangements, going beyond Stage 1 of EMU. He drew on the experience of Eastern Europe in saying that "we must recognise that nationhood - the desire to determine one's own destiny within one's own country - is something we tamper with at our peril" which was also well received. That statement was made in the context of Mr Ridley's comments about worker participation - and about British opposition to suggestions for compulsory Community measures like worker participation where he distinguished between the different German and British experiences of industrial relations and said that "unless there is an overriding need for harmonised legislation, we should respect one another's customs and traditions".

Even in those areas where the Federal Republic has not promoted a policy of full liberalisation eg the insurance market, CDU members were willing to applaud a statement which said that the single market was about giving the consumer wider choice with 'equivalent' rather than 'identical' protection for his rights.

We are certainly not isolated in the emphasis which we put on all these issues.

Howell Harris Hughes

HOWELL HARRIS HUGHES



10 DOWNING STREET

Notes

Solemn Undertaking

Tracy as concerned
that PM should not do his
stage quotes of the lyrics for
the effects of the S.C. on
jobs etc. Apparently Tracy
have only just seen the estimates
and think they need looking.

P.
26/10

CONFIDENTIAL



Secretary of State
for Employment

ccp.

PRIME MINISTER

CM.

EC SOCIAL CHARTER

As requested in your Private Secretary's minute of 23 October, I now attach a draft letter to President Mitterrand. *Map*

On balance I think it would be better to consider sending this letter after the meeting of the Social Affairs Council on 30 October. This will allow us better to assess the stance of other countries to the revised charter text (the French version of which has only just arrived), and their reaction to our attitude to the charter.

You may also wish to consider whether at some stage we send the French an alternative charter along the lines you discussed with President Mitterrand at Chequers. I attach at Annex 1 a short list of items which might form the basis of such an alternative approach. We can provide specific texts on these items.

As I pointed out in my minute yesterday, there are some dangers in agreeing to any social charter which goes beyond our existing commitments as set out in List A of Annex 1. Though List B contains "rights" to which we have signed up in the Council of Europe charter, some of these are unacceptable (for example, an unqualified right to strike) in a European Community context, where their effect would be different. It would mean giving away the agreement on competence in these areas, and also weakening our position in arguing against any directives which may then follow.

CONFIDENTIAL

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Secretary of State
for Employment

I have followed up your suggestion that we cost some of the provisions of the Commission charter. I attach a short note summarising some of the results. There are obviously considerable methodological problems with such figures, but we are now clearing them with the Treasury. We should consider at what stage and in what form these costings might be deployed.

Finally, I think we must further improve press and public understanding of our position. I have prepared a series of fact-sheets on our policies and progress in the social area, and propose to use these in press briefings at the end of the week. I attach a set of these fact-sheets.

I have copied this minute and attachments to John Major and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'NF' with a large flourish above it.

N F

25 October 1989

CONFIDENTIAL

CONFIDENTIAL

DRAFT LETTER PRIME MINISTER TO PRESIDENT MITTERRAND

EC CHARTER

The Social Affairs Council has now discussed the revised text of the Commission charter following official discussions in the Ad Hoc Group which you set up.

While the revised version is an improvement on the original Commission text, it is not at all the kind of document which we agreed at Chequers it would be sensible to achieve. Our objective there was to devise a social charter which dealt only with general principles, not detail and regulation, and which recognised the diversity of national practices as well as the principle of subsidiarity. The existing draft does not meet these aims.

Following our meeting on 1 September, Madam Guigou from your office met my officials and they spelled out the fundamental difficulties we had with the Commission charter. I still have fundamental reservations over areas of the revised text which might adversely affect my Government's domestic policies by introducing a Community dimension. These include provisions on pay and working conditions, and rights in the industrial relations area including trade union membership and the right to strike.

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CONFIDENTIAL

I remain firmly of the view that we ought to be looking for a broad, declaratory and general political statement of fundamental rights, free of detail and of regulatory promises. This should be closely in accord with our conclusions at Madrid on the importance of subsidiarity and national practice, and it should reflect the top priority which we gave to job creation. We should in addition ensure that nothing we do extends the role of the Commission into areas from which it is currently excluded or which are perfectly satisfactorily dealt with by Member States themselves.

I hope we can work towards this kind of declaration for our meeting in Strasbourg.

CONFIDENTIAL

ALTERNATIVE SOCIAL CHARTER

List A: Commitments which would be acceptable to UK in a Community charter

- right to freedom of movement in line with the Community's existing legislation;
- right to safe and healthy conditions of work in accordance with Community's existing legislation;
- improved access to relevant training for both employed and unemployed, including rehabilitation for people with disabilities;
- right of men and women to equal treatment in line with existing Community legislation;
- encouragement of self-employment and setting up of small firms.

List B: Other commitments which UK accepted for workers in context of Council of Europe social charter (a number of these would be unacceptable to the UK in a European Community Charter)

- protection of the right to earn a living in an occupation freely entered upon;
- provision of free public employment service and appropriate vocational guidance;
- right to just conditions of work, including public holidays with pay, a minimum of two weeks annual holiday with pay and a weekly rest period;
- right to a fair remuneration, such as to give workers and their families a decent standard of living;
- right to organise;
- right to bargain collectively and recognition of the right to strike;
- promoting the establishment and use of appropriate machinery for conciliation and voluntary arbitration in settlement of labour disputes;
- provision for paid leave on maternity;
- right to social security.

List C: Items which are not covered by Council of Europe social charter but which UK might nevertheless be able to contemplate in a Community charter, subject to clear statement that action for Member States and not the Community.

- minimum employment rights in areas of unfair dismissal and collective redundancies;
- encouragement of employee involvement.

CONFIDENTIAL

ANNEX 2

THE COST OF THE CHARTER PROPOSALS IN THE UK

1 Costing the Charter proposals is very difficult. Many of the articles are insufficiently precise to allow a clear assessment of what they would do, and even where estimates can be made, they are highly sensitive to the many assumptions which have to be made. The following list presents broad estimates of the range of costs to the UK economy, in terms of jobs lost or additional expenditure, which might be involved in a number of the articles. It is not possible to derive a total cost of the Charter.

Decent Wage

2 On the assumption that "a decent wage" means a national minimum wage at 68% of the national average (a Council of Europe definition) the cost to the UK would be

- 430,000 - 1.3 million fewer jobs.

Minimum Holidays

3 Assuming a minimum holiday of 20 days would mean costs of

- 130,000 man years of employment lost

Right to Training Leave

4 One week's paid leave for each employee would cost

- £1.7 billion in lost output

CONFIDENTIAL

Eno Pet - Budget
1945





(2)

10 DOWNING STREET

Prime Minister

I don't think this
note says anything
very new. I have
already written on
your behalf making the
principal points in it.
(A copy of my letter is
attached). But you
might get Norman
Fowler to confirm in
Cabinet that the work
you commissioned is
being done. CDP 25/x.

CONFIDENTIAL

PRIME MINISTER

25 October 1989

SOCIAL CHARTER

Norman Fowler has circulated a note for tomorrow's Cabinet setting out his proposed tactics for next week's Social Affairs Council. He intends to make clear that the current draft falls well short of what we could accept, while emphasising that the UK will continue to play a constructive role in further negotiations.

For the short term this is entirely sensible. But we need also to look ahead to the political manoeuvring - which is already beginning - in the run-up to the Strasbourg European Council. We should be under no illusion as to the difficulty of getting an acceptable text, and we must prepare for the worst.

The French Position

The French now seem to be carefully planting the impression in the media that they are bending over backwards to accommodate the UK. So far the facts do not bear out this interpretation. There must be a distinct possibility that this is an attempt by the French to show themselves in a good light and to undermine the credibility of the UK position. (See attached cutting).

The Foreign Office view is that we should not be too surprised that the French Presidency have as yet failed to make much of an effort to accommodate our concerns. They argue:

- it was predictable that the French would just go through the motions in the Working Group;

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- once the Social Affairs Council is out of the way the French will embark on the "real" negotiations to produce a much shorter, declaratory text designed to get us on board.

This was Mitterand's gist at Chequers. If this happens it will be helpful, but we are pessimistic about the prospects:

- any substantial move away from the current detailed text would be too much of a climb-down for most (if not all) other Member States;
- it would undermine France's own credentials with the socialist majority in the European Parliament who are erecting the idea of a tough (anti-UK) social charter into a cause celebre.

So whatever Mitterand might have been thinking at Chequers, perhaps he is now too boxed in to deliver. This thought is reflected in the latest telegram from our Paris embassy (attached). It would certainly be unwise therefore to rely on French goodwill to get us out of a corner.

The Way Forward

Thus our approach to the subject in the run-up to Strasbourg needs to assume, as a distinct possibility, an 11:1 situation. The political risks of this are high, but can be lessened by an intense presentational effort to get across our views on

- the economic costs of the Charter
- ~~_____~~

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- the extension of competence it implies
- the need for diversity and respect for national tradition
- the hidden agenda: consolidation of trade union power in a corporatist Europe, and protection for the North against the low-cost South.

So far, with the exception of the Foreign Secretary's Blackpool speech, we have not tackled this and the French and the left are dominating the debate with unspecific, but telling language about the importance of the 'social dimension'.

Yet our case is strong. For example, the Australian High Commission is saying to Canberra that the social charter is good news for Australia because it will reduce Europe's competitiveness. And, on minimum wages, the Department of Employment has produced tentative conclusions that such a minimum at 68% of the national average wage (which is Labour party policy) could result in long run job losses of between 400,000 to 1.3 million (depending on the extent to which differentials above the minimum were restored).

It is essential that impetus is given to this work on costs so that at Strasbourg you can, with confidence, say that the Social Charter will destroy not create jobs, and back your point up with facts.

CONCLUSION

Norman Fowler will maintain the UK line at the Social Affairs Council. Our tactics for the run-up to Strasbourg need to be assessed next week in the light of the Council

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discussion. This includes how best to put Mitterand on the spot in the letter you have commissioned.

But it is crucial to start preparing the ground now for what is bound to be a very difficult meeting at Strasbourg. And this must be done on a worst case basis, to make it easier to justify the UK's not signing an unacceptable document.

This requires, on top of all the likely diplomatic manoeuvres in Brussels and Paris,

- an intense presentational effort, which needs to involve Kenneth Baker and John Major as well as Norman Fowler. The target is domestic as well as European opinion. The cost, competence and trade union power implications have got to be brought into the open;
- encouraging industry to voice its concerns as strongly as possible. So far its voice has been fairly muted, but we know there is much unease about the impact on competitiveness;
- encouraging small Member States to oppose the Charter. Realisation of the anti-competitive implications of the Charter are increasing, especially in Portugal. We must foster this. 10:2 in Strasbourg will be immeasurably better for us than 11:1;
- urgent, coordinated work in Whitehall on the economic costs. This is our strongest card, but does not appear to be being pursued with enough vigour. You should call for a paper within two weeks, to lay the foundation for considered statements that the Social Charter will destroy jobs;

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- further urgent work on a UK alternative Charter.
We need this to back up statements of our own belief on the social dimension and to head off the likely accusations of negativeness.

John Mills
JOHN MILLS

Andrew Dunlop
ANDREW DUNLOP

CONFIDENTIAL

French in 'secret deal' to dilute EC Social Charter

John Palmer in Strasbourg

THE French government is making secret moves to water down the European Community's controversial Social Charter of workers' rights in an effort to persuade the British government to abandon its outright opposition to European monetary union.

EC governments have been sent confidential copies of a proposed new draft charter which they want all 12 heads of government, including Mrs Thatcher, to endorse at the Strasbourg summit in December.

There are fears among European MPs that the new version of the charter will scale down attempts to legislate for greater worker participation and will scrap reference to the need to guarantee minimum wages for workers and minimum incomes for other social groups.

British officials said last night that "at first reading" the changes suggested in the charter by the French government, which currently holds the EC presidency, did not go far enough to overcome Britain's objections, and many difficulties remained.

The moves to dilute the charter, which has been described by Mrs Thatcher as being in-

spired by "Marxism and the class struggle" are backed by the European Commission's president, Mr Jacques Delors.

He fears that unless the 12 agree to accelerate moves to economic and monetary union, the European Community will lose the power to influence events in Eastern Europe.

Earlier yesterday, there were reports that the European commissioner responsible for the charter, Ms Vasso Papandreu, would dissociate herself from the new French version. But last night her advisers said that while she preferred the original version, the French compromise was "one she can live with."

Last week, Ms Papandreu told a select committee of the House of Commons that it would be better if only 11 governments endorsed the charter at the December summit if the price of Mrs Thatcher's signature was to dilute the planned programme of minimum social legislation.

Members of the Socialist group of MEPs, the largest political faction in the Strasbourg assembly, intend quizzing President François Mitterrand when he addresses the European Parliament here later today.

They will demand assurances from both the French presi-

dency and the commission that they will not be parties to any manoeuvre which empties the social charter of real content in an attempt to get Mrs Thatcher's backing for monetary union.

"We are alarmed at the suggestions that a secret deal is in the making which would disastrously dilute the contents of the social charter," the leader of the 180 Socialist MEPs, Mr Jean-Pierre Cot, said yesterday.

It was not clear last night whether President Mitterrand would use the fact that he is a head of state, not a mere head of government, to refuse to answer MEPs' questions directly.

Ms Papandreu's advisers said that she would not be replying to any debate on behalf of the commission.

There is no reason to believe that Mrs Thatcher is ready to trade an emasculated social charter for a commitment to back moves to monetary union or immediately to join the European Monetary System fixed exchange rate regime.

The differences between the Prime Minister and the Chancellor of the Exchequer over EMS are still unresolved, although Mr Lawson is still pressing for an early commitment to join the EMS — possibly as early as in December.

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FRAME SOCIAL

UKREP BRUSSELS TELNO 3161: SOCIAL CHARTER: THE NEXT STEPS

SUMMARY

1. THE FRENCH MAY INDEED BE PAINTING THEMSELVES INTO A CORNER, AND DOMESTIC POLITICS WILL MAKE IT HARDER FOR THEM TO BREAK OUT. I SUPPORT THE IDEA OF AN EARLY CABINET OFFICE/GUIGOU CONTACT.

DETAIL

2. THERE IS INDEED A RISK THAT THE FRENCH WILL PAINT THEMSELVES INTO A CORNER ON THE SOCIAL CHARTER AND FIND THEMSELVES UNABLE TO DELIVER AT STRASBOURG THE SORT OF DEAL THAT WOULD BE ACCEPTABLE TO US, AND AT WHICH MITTERRAND HINTED WHEN HE SAW THE PRIME MINISTER AT CHEQUERS LAST MONTH.

3. THE FRENCH HAVE RECENTLY TAKEN A CONSISTENT LINE BOTH IN PUBLIC (CRESSON TO THE NATIONAL ASSEMBLY ON 4 OCTOBER, SOISSON TO THE EUROPEAN PARLIAMENT'S SOCIAL AFFAIRS CONVENTION ON 17 OCTOBER) AND IN PRIVATE, AT THE HIGH LEVEL GROUP AND IN CONVERSATIONS WITH US WHICH WE HAVE REPORTED SEPARATELY TO THE FCO AND DE. THE LINE IS THAT THEY WANT US ON BOARD THE SOCIAL CHARTER AT STRASBOURG, BUT NOT AT THE PRICE OF AN EMPTY CHARTER: BETTER GO AHEAD WITHOUT US THAN AGREE TO THAT.

4. THIS MAY BE A TACTICAL MANOEUVRE DESIGNED TO PULL US FAR ENOUGH IN THEIR DIRECTION TO PERMIT AN AGREEMENT AT STRASBOURG AFTER THEY THEMSELVES HAVE GIVEN GROUND AT THE LAST MINUTE. BUT THE MORE THE FRENCH TAKE A TOUGH LINE IN PUBLIC ON THE CHARTER THE HARDER IT WILL BE FOR THEM TO GIVE GROUND IN THE END GAME. (SEE MICHEL NOBLECOURT IN LE MONDE OF 24 OCTOBER, FAXED TO ECD(I), IN SUPPORT OF THIS POINT.) AND THE DOMESTIC POLITICAL BACKGROUND WILL NOT HELP EITHER. PREPARATIONS FOR THE SOCIALIST PARTY CONGRESS NEXT MARCH ARE UNDER WAY, AMID CRITICISM FROM SOME IN THE PARTY THAT ROCARD'S GOVERNMENT HAS ALREADY MADE TOO MANY COMPROMISES TO FREE MARKET ECONOMICS. MITTERRAND HAS RECENTLY NUDGED ROCARD INTO MAKING A FEW CONCESSIONS

IN THE 1990 BUDGET TO MEET THESE CONCERNS, BUT HAS TAKEN CARE NOT TO DESTABILIZE HIM NOR TO UNDERMINE THE BROAD THRUST OF THE GOVERNMENT'S ECONOMIC POLICIES. THE NEGOTIATIONS ON THE SOCIAL CHARTER PROVIDE BOTH MITTERRAND AND ROCARD WITH AN OPPORTUNITY - WITHOUT UNDERMINING THEIR ECONOMIC POLICY - TO UNDERLINE THE GOVERNMENT'S DETERMINATION TO ACHIEVE ECONOMIC GROWTH WITHOUT NEGLECTING WORKERS' RIGHTS. IF AGREEMENT ONLY LOOKED POSSIBLE ON THE BASIS OF AN ANODYNE CHARTER, THE FRENCH MIGHT DECIDE THAT A ROW WITH US, UPHOLDING THE PRINCIPLE OF WORKERS RIGHTS AGAINST THE PROPONENTS OF THE LIBERAL ECONOMY, WOULD BE A PREFERABLE OUTCOME. THERE IS AS MUCH POLITICAL MILEAGE HERE IN BEING SEEN TO BASH THE BRIT AS VICE VERSA.

5. THERE ARE, OF COURSE, ARGUMENTS THE OTHER WAY. MITTERRAND WILL NOT WANT TO PRESIDE OVER A SEEMINGLY DIVIDED COMMUNITY WHEN HE IS ARGUING THE CASE FOR A STRONGER AND MORE UNITED COMMUNITY TO FACE THE CHALLENGES OF CHANGES IN THE EAST. BUT WE CANNOT BANK ON THESE ARGUMENTS WINNING THE DAY. AND IF THE FRENCH COME OUT STRONGLY AT THE SOCIAL AFFAIRS COUNCIL IN FAVOUR OF THE SORT OF CHARTER NOW ON THE TABLE, IT WILL BE EVEN HARDER FOR THEM TO SHIFT GROUND IN THE RUN-UP TO THE STRASBOURG EUROPEAN COUNCIL - HARD THOUGH WE SHALL WISH TO PRESS THEM TO DO SO. IN THESE CIRCUMSTANCES, WHERE DELAY IS IN NO SENSE ON OUR SIDE, I VERY MUCH AGREE WITH THE THOUGHTS EXPRESSED BY SIR DAVID HANNAY IN THE LAST PARAGRAPH OF HIS T.U.R.

FCO PLEASE ADVANCE KERR, ARTHUR, FCO, REID, DEPT OF EMPLOYMENT, HADLEY CAB OFFICE.

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PAGE 2
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Ref. A089/2738

PRIME MINISTER

Social Charter

Purpose

1. You have asked for a discussion of the Social Charter before the Social Affairs Council on 30 October. Colleagues will have seen the Secretary of State for Employment's letter of 24 October, which sets out the background. His further letter of 25 October on our subsequent strategy has gone only to you and the Foreign Secretary at this stage.

Key Issues

2. There are two key issues:
- a. Mr Fowler's line for the 30 October Council;
 - b. our subsequent strategy.

Cabinet will need to look particularly at the first of these; you may think it best for detailed consideration of the second to wait until we know the outcome of the Council.

Likely Position on 30 October

3. The Presidency's latest text remains closely based on the Commission's original proposals, and is unacceptable. At the Council, some member states are likely to be ready to sign up to it with minor amendments. Others may have more major difficulties: the Portuguese, for example, seem seriously worried



about the effect on their competitiveness. In particular our concerns about extensions of Commission activity (competence, subsidiarity etc) are now shared by several member states: however this has led the Germans and others to press for the text to be made more, not less, detailed so as to tie the Commission down.

4. The Council should at least demonstrate that there is no prospect of all twelve member states signing up to anything modelled on the Presidency's current text. Beyond that, it is not clear whether the Presidency will try to work towards a consensus of 11 member states; nor, if so, how far they could succeed.

Issues for Discussion

5. The main issues you may want to explore in discussion are:

- our line for the Social Affairs Council. This will be the first discussion of the present text at Ministerial level. The UK will need to repeat its objections of principle (damage to employment, competence, subsidiarity) and our detailed points on the text. We will also need to stress that our fundamental objections to this charter do not mean that we would necessarily oppose any charter; and to press for an approach based on a short declaratory text;
- further negotiation at Community level. We will want to resist further discussion in the high level group set up by the Presidency to consider the Commission draft. Ideally there should be a pause for reflection by the Presidency, during which we can work behind the scenes, including contacts at political level. The French may well decide to channel further work into COREPER and the Foreign Affairs Council, as part of the normal preparations for the

Strasbourg European Council. This would probably suit us. But if the Presidency insist on maintaining the high level group, we shall need to participate to ensure that our side of the case is heard;

- further bilateral negotiation with the French. In the contacts with Mme Guigou following your discussion with President Mitterrand at Chequers on 1 September, the French made clear that they would have to begin by seeing how far they could get with the Commission draft. If the Council goes as we expect, they should now look seriously at alternatives. We shall need to press them to consider a much shorter, simpler text, and privately to make specific suggestions for its content. A message from you to President Mitterrand after the Council, followed up by contacts with the Elysee, may be the best way to do this. The precise terms of such an approach would need to be considered in the light of the Council outcome;

- public presentation of UK position. It will be particularly important to ensure that our case is put across effectively to the press and the public in the run-up to Strasbourg. Mr Fowler's letter of 25 October encloses some useful material on those elements of the present proposals which lend themselves to some sort of costing (most colleagues will not have seen this). For maximum impact at Strasbourg, it may be desirable to save them for use nearer the time. Since any arguments of this kind will come under intense critical scrutiny, we will in any case need to be sure that they will stand up, and that the Treasury in particular will be able to weigh in heavily behind them. It may be best to consider our presentation strategy in parallel with our more general strategy following the Council.

Conclusions

6. You may be able to conclude that:
- Mr Fowler's proposed line for the 30 October Council is agreed, subject to the points made in discussion;
 - he should report back to colleagues after the Council; consideration will then be given to our strategy from here to Strasbourg; you may wish to make our views clear to President Mitterrand at an early stage;
 - supporting material for use in the presentation of our case should be worked up in consultation with the Treasury and other departments concerned.

F.R.B.

ROBIN BUTLER

25 October 1989



Ref. A089/2739

PRIME MINISTER

Cabinet: Community Affairs

1. A number of Council meetings have taken place since Cabinet last met.

2. The Secretary of State for Education and Science and Mr Jackson attended the Education Council on 6 October. Key points were:

- satisfactory conclusions on cooperation in the education field, agreed after the United Kingdom secured amendments ensuring respect for member states' competence, and requiring proposals to take account of cost and management efficiency;
- conclusions on a youth card. They make clear that it is for individual member states to decide on mechanisms for introducing such a card, which could be based on either governmental or non-governmental initiative;
- a Commission report on current plans for helping Poland and Hungary in the training field.

3. The Chancellor of the Exchequer may report on the 9 October ECOFIN. Mr Lilley represented the United Kingdom. Key points were:

- broad agreement on the United Kingdom's preferred approach for abolishing frontier controls for VAT post-1992, retaining the zero-rating of exports, and avoiding the need for a VAT 'clearing house'. The United Kingdom's general position on tax approximation was reserved;
- general acceptance by member states of the need for early agreement on mutual assistance measures to help prevent tax evasion following the liberalisation of capital movements. Agreement should be reached at the November ECOFIN, finally disposing of the French-inspired proposal for a tax on savings;
- approval of an amending letter to the 1990 Budget providing for the agreed level of assistance to Poland and Hungary.

4. The Secretary of State for Trade and Industry may report on the 10 October Internal Market Council. Mr Redwood represented the United Kingdom. Key points were:

- useful progress on some aspects of the merger control regulation of particular concern to the United Kingdom, eg the criteria for assessing mergers, and limiting the scope for exits from Commission scrutiny to national jurisdiction while protecting member states' legitimate interests. Significant differences remain to be resolved on thresholds (the size of merger at which the Commission's jurisdiction begins) and how these provisions are to be reviewed after five years. Presidency still seeking final agreement by the end of the year. United Kingdom's general reserve maintained;
- some discussion of rights of residence for students, pensioners, etc: Mr Redwood confirmed the United Kingdom's reservations over Community competence and legal base.



5. The Secretary of State for Transport may report on the Transport Council on 16 October. The main points were:

- agreements on aircraft noise and road haulage tariffs (both supported by the United Kingdom);
- road haulage cabotage, where French attempts to set aside a compromise put forward by the preceding Presidency and to press for more limited liberalisation met strong resistance from most Ministers: the French Presidency will amend its proposals in a more liberal direction;
- general discussion of a Commission communication on transport infrastructure (no conclusions were reached); on Commission proposals for measures on shipping (further work is needed); and on Presidency notes on road safety and railways.

6. The Secretary of State for Trade and Industry may report on the 17 October Research Council, where Mr Hogg represented the United Kingdom. The key item was the Commission's proposal for a new framework programme, on which:

- Mr Hogg underlined the United Kingdom's view that the Commission's proposal of 7.7 becu is much too high;
- the Commission undertook to provide much more technical detail on the content and aims of the programme;
- following sustained United Kingdom pressure, with Dutch and Spanish support, provisional agreement was reached on a clear distinction between decisions on funding up to 1992 which would fall under the present Inter-Institutional

Agreement (IIA) and those for 1993/94 which could only be indicative at this stage, and would depend on negotiation of the next IIA and evaluation of the programme;

7. The Minister of Agriculture, Fisheries and Food may report on the Agriculture Council on 23-24 October:

- little progress was made on the main items (revision of the structural regulations, cereals levy, milk quotas and the future of veterinary controls);
- on veterinary controls, the Commission insisted on their proposal that checks should only be made at the origin and destination of consignments, and not at internal frontiers. Mr Gummer continued to argue for checks at the most appropriate point in the transport chain, including frontiers if necessary;
- many member states strongly criticised the Commission for determining the 1989 cereals harvest at 160.5 m. tonnes, which is just enough, under the stabiliser mechanism, to cause a 3% price cut in 1990.

R.R.B.

ROBIN BUTLER

25 October 1989



Secretary of State
for Employment

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cc PM ①
Prime Minister
This is the Employer

ms

Secretary's note for Cabinet
tomorrow.

PRIME MINISTER

It seems clear that he
should play for deadlock

EC SOCIAL CHARTER : SOCIAL AFFAIRS COUNCIL : 30 OCTOBER

at the Social Affairs Council,
preferably into some agreement
from others. You should

Introduction

We are to discuss at Cabinet on Thursday morning the current position on the social charter which will be discussed at the Social Affairs Council in Brussels on Monday.

Ben had a message to
President Nitterand. @ 25%

Background

The European Commission issued a draft proposal for a Community charter of fundamental rights in April this year. It set out ten broad areas for such rights with an invitation to the Commission to draw up a related action programme. At the Social Affairs Council in June, all member states except the UK agreed to the principle of a charter. At the Madrid summit, Heads of Government agreed discussions should continue, but set some general principles that should apply. Job creation must be given top priority; account should be taken of member states' traditions; and the role to be played by community standards, national legislation and contractual relations must be clearly established.

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Secretary of State
for Employment

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The French Presidency set up an ad hoc working group of officials to discuss the text, and this has now concluded its work. A revised text for consideration at the Social Affairs Council meeting in Brussels on 30 October is now available. A summary of the contents is attached at Annex A. As expected, the draft differs only in minor respects from the original Commission text, notably in confining the rights broadly to workers.

Difficulties

We have a number of severe difficulties with the charter. First, some of the proposals are fundamentally unacceptable. They seek to regulate the labour market in ways that would hamper flexibility and slow down job creation. They also run counter to the thrust of our programme of trade union reform of the last 10 years.

Secondly, it raises issues of competence. The Commission proposal is not for a legally binding document, but for a declaration. However, the Law Officers advise that although a declaration is not in itself legally binding it may have legal consequences. The current draft charter covers several areas in which competence is at least debatable. Included among these are matters which are central areas of our national policies, such as rights in relation to pay, collective bargaining, strikes and social protection for workers. There is a serious risk that, if we agreed to a charter, we would at some stage be said to have removed any doubts as to Community competence in relation to these matters.

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Secretary of State
for Employment

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Thirdly, we are not content with the scope left for Community action relative to that of member states (the subsidiarity principle agreed in the Madrid conclusions). Even if we were prepared to sign up to some general principles in the employment field, we would see objectives carried forward in the main by member states, not by the Community.

Clearly we cannot accept the current Commission text but we might consider whether a general, political declaratory text, paying due regard to subsidiarity, might be worth contemplating. This could make a clear political statement about competence; acknowledge Community action in those areas, like health and safety, we have already agreed; and contain any other action within the scope of member states' own custom and practice.

Tactics for the Social Affairs Council

I therefore propose to develop the following line at Brussels:

- the revised draft, while an improvement on the original Commission draft, falls well short of the kind of charter Europe needs;
- it pays far too little heed to the need for job creation: indeed its regulatory proposals will inhibit competition and destroy jobs;
- it needs to be clearer about the respective roles of Community and of member states;

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Secretary of State
for Employment

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- it does not sufficiently respect national differences, and threatens different national arrangements which have worked well in member states;
- because of this, Heads of Government would be better considering a broad declaratory statement of fundamental principles rather than detailed provisions;
- most particularly, we need a clear political statement of intent that the declaration should not extend the competence of the Community;
- the discussion should be taken forward at political level, preferably through bilaterals between the Presidency and member states, on the basis of the kind of charter we might contemplate.

*do not
conclude a
broad declaratory
statement*

Support

I fully expect all other countries, if it comes to a decision, to express their general support for the draft charter. The Germans are pushing for binding minimum standards in specific areas. They have backing for the principle from Benelux, Italy, and some from Spain, all of whom have some reservations on the specific areas Germany wants. Spain have issued their own list of fundamental rights, and only this week Italy have come up with their own proposals.

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Secretary of State
for Employment

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We do have support from some countries however on the competence issue, and on subsidiarity. We can also exploit the uncertainty over the Commission action programme, which will certainly not be ready by 30 October. However when it comes to it, it is likely that we shall be in a minority of one.

I am copying this minute to Cabinet colleagues, the Attorney General and Sir Robin Butler.

N F

24th October 1989

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ANNEX A

AREAS COVERED BY COMMISSION CHARTER

1 Right of free movement (this includes equal treatment in pay etc. for a national of one country working in another).

2 Employment and remuneration (this includes right to a "decent wage", and the right to free public employment service).

3 Improvement of conditions of living and working (includes regulation on working time, right to paid holidays, and right to specification of working conditions).

4 Right to social protection (all workers have such a right depending on the arrangements appropriate to each country).

5 Right to freedom of association and collective bargaining (this includes freedom to join a trade union; freedom to negotiate and conclude collective agreements subject to national legislation and conditions; encouragement of dialogue at European level; and right to strike).

6 Training (all workers have a right of access to training).

7 Right to equal treatment between men and women.

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8 Right to information, consultation and participation of workers (information, consultation and participation should be developed within the practices of Member States; certain specific instances are given).

9 Right of protection on health and safety at work.

10 Protection of children and adolescents (this includes a minimum age of employment; equitable pay; regulation of working time; and training).

11 Elderly persons (within the arrangements applying in each country, right to adequate resources during retirement).

12 Handicapped persons (all persons who are handicapped should benefit from measures to help them, including in the transport and housing areas).

The Charter concludes with a Title II in which the European Council invites the Commission to bring forward a programme of action and appropriate instruments.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 October 1989

EC SOCIAL CHARTER

We spoke at the end of last week about the position reached in the latest Council Working Group meeting and the handling of internal discussions in the run up to the 30 October Social Affairs Council which your Secretary of State will be attending.

I have now been able to consult the Prime Minister about this. She would like to discuss the issues under the Community Affairs item at Cabinet next Thursday, 26 October, and understands that your Secretary of State is planning to circulate a minute in the next few days on the latest position reached.

The Prime Minister also feels that the time has come for her to write to President Mitterrand recalling their conversation at Chequers in December about the Social Charter, and enquiring why the French Presidency are not following the procedure which she thought had been agreed there. The letter should then go on to spell out in considerable detail exactly what we are prepared to accept in this field and what we shall not on any account accept, on the lines which officials have already put to Madame Guigou. The Prime Minister would find it helpful to have a draft of this letter by the time of the Cabinet discussion on Thursday, although it need not necessarily be considered there. She feels it will be necessary to reflect on whether it is better to send it before or after the meeting of the Social Affairs Council on 30 October.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office) and to Sir Robin Butler and David Hadley (Cabinet Office).

PAUL GRAY

Mrs Liz Smith
Department of Employment

CONFIDENTIAL



FL
PM
cc PU

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 October 1989

Dear Andy,

IMPORTED MEDICINES

The Prime Minister was grateful for the note on imported medicines attached to your Secretary of State's letter to the Foreign Secretary of 16 October. She would be grateful to see a copy of the results of the current enquiry on the discount recovery scheme and the action that it is proposed to take. She would also be grateful if your Secretary of State could make a further report next July on the impact of the EC Directive; unless this has had a significant effect, the Prime Minister is currently minded to think it would then be appropriate to undertake a fundamental review of the pricing arrangements.

I am copying this letter to the Private Secretaries to members of OD(E), Jim Gallagher (Scottish Office), Stephen Williams (Welsh Office), Stephen Leach (Northern Ireland Office) and Trevor Woolley (Cabinet Office).

*Yours
Paul*

PAUL GRAY

Andy McKeon, Esq.,
Department of Health.

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John Mills cc [unclear]

Needs
1 copy in X,
It is not keep any
under review.

CONFIDENTIAL

PAUL GRAY

23 October 1989

Back 2/10

EUROPEAN COMMUNITY STRUCTURAL FUNDS

You will by now have seen the correspondence which preceded Norman Lamont's letter of 16 October to Douglas Hogg (the first of the series to be copied to the Prime Minister).

X/

This issue still has a fair way to run, and I doubt it needs to be put before the Prime Minister yet. But clearly looming are

- yet another battle on the nature of regional policy;
- further grounds (to add to ACOST's) for attacking EuroPes. Matters are not helped by having local authorities fully involved (and jostling for their own positions) in the discussions.

What also emerges very strikingly is the irony of Conservative Ministers having to deal with a former Labour Minister who never made any secret of 'the more the better' as his own approach to regional policy. Whether Millan's motive is simply Commission-inspired, to force up UK net regional spending, or more political, to embarrass HMG through its reluctance to do so (on the Commission's terms), I do not know. But I suspect at least a mixture of such motives, and so the stakes are high.

Howell Harris Hughes and I will keep close watch as the DTI does further battle in Brussels. I am sure there will have to be collective discussion in due course, with some difficult options before Ministers.

John Mills

JOHN MILLS

CONFIDENTIAL

(15)
cc/p

PS/SECRETARY OF STATE

- cc PS/Minister of State
- PS/Secretary
- Mr Manley
- Mr David
- Mrs Le Guen
- Mr Hadley, Cabinet Office
- Mr Kerr, FCO
- Mr Powell, No 10
- Mr Mills, No 10 Policy Unit
- Mr J White, DSS

Mr. Powell

I have commissioned a note from Mr. Fable before Thursday's Cabinet discussion, together with a draft letter to Mitterrand.

This note expands on my earlier summary impression of the Ad Hoc Group meeting.

SOCIAL CHARTER: AD HOC GROUP

Rec 6 23/10

1 I attended the final meeting of the Ad Hoc Group on Thursday and Friday to discuss the Preamble, the final section on implementation, and the revised Presidency draft on the Social Charter. The Annex contains a description of the debate, but my general conclusions are as follows.

2 First, the draft which goes to the Social Affairs Council will be little different from the one discussed in the Ad Hoc Group. While a number of critical points were made by different countries (including Ireland, Portugal and of course UK) most of them can be met by drafting and the Presidency shows no sign of wishing to amend the draft in any significant degree.

3 Secondly, this means that the draft will be distant from the general political statement of social rights which President Mitterrand suggested he wanted when he met the Prime Minister at Chequers. The draft will be a mix of statement of fundamental social rights, and detailed prescriptions many of them specifying regulation of working time and, by implication, of pay.

4 Thirdly, the draft continues to take insufficient account of the Madrid conclusions on the importance of job creation, on differing national practice, and, crucially, on subsidiarity and the relative responsibilities of member states and the Commission.

5 Fourthly, it is very unlikely that any other country will have substantial reservations about the Charter in Brussels on 30 October. If there were to be a vote, I think it would be eleven to one. There is however one chink of light in this. Germany and Spain both presented texts which they described as possible Annexes to the Charter. In effect they are alternative Charters, the German text being the list of legally binding minimum standards they would wish to see, and the Spanish being a very brief ten point statement of fundamental social rights. (The Spanish list (annexed) is rather the lines that we might want to use as a fall back.) The German text in particular would have been unacceptable to Portugal and possibly to Greece because of its anti-competitive nature.

6 The debate in the Ad Hoc Group on how to handle these Annexes lasted for about two hours and in the end it was decided to leave the issue up to Ministers on 30 October. The specific question which Ministers seem likely to be asked is whether the Council should ask the Commission to bring forward a programme of legally binding minimum standards; if so should this be in detail or under broad headings; and if the latter what rights should be included. If this question is asked, the debate in the Working Group suggests a tangled and divisive discussion.

7 In this context it is relevant that Germany is convening an official meeting with Italy, Belgium, Luxembourg and Netherlands today to co-ordinate tactics. The intention will clearly be to present a common front on the need for legally binding minimum standards. We shall ascertain through our normal sources the outcome of this meeting.

8 Two other points

- during the meeting I referred to my letter and emphasised that we were taking a constructive approach, and that our disagreement was with the Commission text: we had never said we would never accept any Charter;
- the Commission action programme is expected "by the end of November". A number of countries emphasised that it was vital to their view of the Charter that the action programme be available.

all.

Ext: 5824

G L REID
23 October 1989

PREAMBLE

1 The discussion on the preamble was very brisk. The first 10 recitals were covered within a few minutes, with the UK suggested revisions being swept aside. Few other countries spoke. On recital 11, which contains the Treaty provisions, Germany suggested an amendment specifically referring to Article 100A Paragraph 2 which limits the extension of qualified majority voting to the general area of the Charter. This was further amended in discussion at the end of the meeting, and we shall be considering the revised wording. A reference to competence is also included in this recital rather than in a separate recital as we suggested.

2 There were a few amendments to the remaining recitals, but nothing of much significance. A revised French text was circulated at the end of the meeting and we are currently looking at it. In general, though, the Preamble does not sufficiently take account of the Madrid conclusions nor is the issue of competence given the importance it deserves.

TITLE II Implementation

3 This was a long and complex discussion which covered some central issues and exposed views of individual countries. It began with a general debate about the whole of Title II, sparked off by a UK request that subsidiarity and the role of the member states should be given more prominence in the implementation Articles. Spain agreed and said there was not enough on the Madrid and Luxembourg conclusions. We must indicate clearly the respective roles to be played by the Community and member states. Spain's view of the Charter as a whole would influence their view

of Title II. It was almost impossible to know whether an Article was acceptable until the method of implementation were known. Portugal agreed, and I suggested that the suggestion of guaranteeing social rights was very difficult.

4 Denmark asked whether the action programme referred to would be a Commission action programme or an action programme approved by the Council. The Commission said it would be a Commission programme not necessarily discussed with the Council: there would be no Council decision. Heads of State would have enough information to know what the Commission intended by the time of their discussion on December 8, and the action programme would emphasise what was a Community initiative and what was for member states. Germany expressed surprise that the Commission did not intend to discuss the action programme with the Council even informally. This was why Germany did not want to give the Commission a general remit: this was given by the Treaty and not the Council. I asked whether Germany would wish to delete most of Title II. The answer was it would not, but wanted clear political guidelines to be given.

5 At this stage the Chairman summed up. We had to decide how the responsibility of Member States to implement the Charter should be expressed. Should the mandate of the Commission be clarified by the Council asking the Commission to produce texts of some kind where the Commission felt that Community action was called for.

6 We then discussed Article 30. Denmark said more than a reference to subsidiarity was needed. The key issue was a Commission and the national level and the relative rules of legislation and collective agreements. UK agreed with this, and emphasised the need to highlight national practice and how the mechanisms of implementation would work; also resources. Netherlands questioned the "all resources necessary" as being vague and imprecise and suggested "to the extent possible".

Germany supported this thought, saying that Member States should decide on the funds. The Commission generally agreed. A new text will be produced.

7 Article 31 provoked most discussion, linked with the two tabled proposals from Germany (legally binding minimum rights) and Spain (fundamental social rights) .

8 In a long and rambling contribution Germany argued that we should agree now on what rights should be legally binding and at what level. Spain was in favour of an annex spelling out rights, distinguishing between basic rights and secondary ones, and national and community rights. They could not support Article 31 at the moment because of its failure to make the distinctions they thought important. Portugal agreed with Spain, stressing the primacy of Member States and the principle of subsidiarity. The Commission "was secondary to Member States". I agreed with this and pointed out the practical difficulties of annexing what were effectively two alternative Charters to the text already discussed. Denmark was not in favour of an annex, while Italy felt that without an annex the Charter was only symbolic. The German proposal went beyond the premises already agree, but we must know what the Commission will do: an Annex would make this concrete. Belgium agreed than an Annex would be useful.

9 At this stage the Chairman suggested that the Council should ask the Commission to bring forward proposals in particular areas. This resulted in a long discussion of whether a Council action programme was right and proper. Ireland raised the issue of subsidiarity; Netherlands agreed that an Annex suggesting types of action which could be taken at Commission level was desirable; France disagreed saying that an Annex would change the nature of the exercise and be divisive; Germany disagreed with this, saying that their proposal simply tried to define competence and that their list could be allied with that of Spain; and I asked for a much clear definition of what kind of Annex we might we talking about and that the issues of subsidiarity and competence were paramount.

10 The Chairman again summed up suggesting that a majority were in favour of an Annex which would not fundamentally affect the Charter, but that it was a choice from Ministers. He suggested that the Annex should be only few headings on which the Council should ask the Commission to make proposals. Germany said it could not only be headings but should be about legally-binding minima. Denmark very helpfully compared the pay provisions in the Charter, the Spanish and the German proposals and pointed out the great confusion we were in. Spain again asked that Title II should clearly say what the subject of Commission instruments would be. The Commission pointed out the need to revise Article 31 because the timing was wrong. The action programme would come in November and would take account of the principle of subsidiarity. It would make proposals in many areas but only on the basis of specifics could countries decide what to do. The action programme would be for three years, and many areas in the Spanish and German proposals were currently outside competence.

11 The Chairman again summed up suggesting that Article 31 might propose to the Council that they should ask the Commission to bring forward proposals. This could be an Annex. It was not possible for us at the moment to draw up a list of points. Germany proposed that Article 31 should require minimum binding rights, which was wanted by the workers. I expressed our fundamental opposition on grounds of principle and competence, and also said it was unnecessary given the action programme. Portugal, Netherlands, and Italy agreed with Germany; Portugal, Denmark and Ireland agreed with us. Subsequently Belgium also fell in with the German view.

12 At this stage the Chairman suggested that the discussion had got to a key point but that it could not go further than earlier discussion. It was for Ministers.

Revised Presidency Draft

13 I shall summarise very briefly the main points under each broad heading.

Right to Freedom of Movement

14 Portugal asked that the reference to public works should be deleted and made a long statement on the inequity of articles 3 and 5 which are those designed to prevent "social dumping" or, as Portugal would have it, effective competition. Spain agreed and suggested the deletion of 3 and 5. I agreed with them.

Employment and Remuneration

15 Ireland had no difficulty with the principle but considerable problem with the practice given the lack of statutory minimum wage. I agreed on this, and emphasised the competence point. Several countries asked that the reference to families should be taken out in the sub-clause on "a decent wage" and this will probably happen. The Chairman also noted that several countries had difficulties with "assured" or "guaranteed".

Improvement of Living and Working Conditions

16 I said we had fundamental problems with all three articles which were regulatory and did not respect national differences. Ireland had some problems, but other countries wanted more references in the regulatory sections, to night work and seasonal work.

Right to Social Protection

17 Spain found this very difficult, largely because it had to respect individual differences. I made the point that individual countries imposed conditions on receipt of social benefits which had to be respected.

Right to "Trade Union Freedom" and Collective Bargaining

18 I outlined our fundamental problems, including the objectionable title (the Chairman's response was that trade union freedoms were the same as worker freedoms, a point which I disputed). Germany agreed on the title as did Ireland which also did not want to see problems with existing agreed and satisfactory procedures.

"Right" to Vocational Training

19 Ireland suggested changing the title to "Access": I agreed. Some wording changes were suggested to make the article less prescriptive. There was a long debate, mainly between Spain and Belgium, about whether the original article 18 on university entry should be restored.

Equal Treatment

20 Greece asked for an addition to cover equal participation in paid and unpaid work. Others found this obscure, as did the Greek delegate himself. I asked for a clarification on subsidiarity, to avoid Community action in the context of education and remuneration, but I doubt whether it will be included.

Information, Consultation and Participation

21 Worrying points were suggested here by Ireland and UK to ensure that "encouraged" is restored.

Health and Safety

22 Ireland queried "optimum" and Portugal and UK support it. There is a question whether the wording of this article follows the framework directive sufficiently precisely, and this is being checked.

Protection of Children and Adolescence

23 Spain wanted a maximum duration of work for young people, and also a prohibition on overtime. Spain appears to feel this is a fundamental right. I said that the regulatory nature of these paragraphs was unacceptable to us, and would adversely affect the employment of young people.

Elderly Persons

24 I suggested deleting article 27, but the Chairman said the draft reflected an earlier compromise.

25 Further drafting comments are being sent to the Presidency today reflecting our further views on the revised text.

1. The right to the choice and practice of a profession and to the free movement of workers in all the territory of the Community on the basis of total equality of treatment in relation to the access to employment, to the conditions and requirements of jobs, to protection and to the social services of the country of residence.
2. The right to health and security at work.
3. The right to freedom of association and representation of workers in their company and to action and collective bargaining at every Community level.
4. The right of workers and employers to fair wages, to have top limits fixed and duly respected in connection with their hours of work as well as with the rest periods.

Workers also have the right to see their conditions of employment included in their contracts so as to guarantee that there will be no kind of discrimination and that the Law and the collective negotiation will be respected.

5. The right of workers and employers to legal effective protection when exercising their rights and their genuine interests.
6. The right of workers to be covered by the Social Security, which includes economic benefits, health assistance and social services in case of illness, maternity, old age and invalidity; to social protection in case of unemployment; to benefits from the free employment services as well as orientation and professional rehabilitation and aid in case of necessity due to a lack of income.
7. The right to education and to free compulsory training at its initial stage and to professional re-training, especially for younger workers in such contingencies as unemployment, re-structuring and technical changes.

8. The right to equal effective treatment between men and women.

9. The right of information, advice, and workers' participation.

10. The right of people who are socially discriminated because they belong to certain groups of population or have real difficulties to have access to active life -as in the case of the handicapped- to benefit from positive measures, specially adopted to counter-act their social disadvantages.



MR. ~~GRAY~~

RM

EC SOCIAL CHARTER

The Prime Minister has read your minute of 20 October. She has two thoughts:-

- given that the diary is very crowded, she would be ready to deal with the subject under Community Affairs at Cabinet on Thursday rather than have a separate meeting. We would in any case need to have 7 or 8 Cabinet Ministers represented at any meeting;

- she thinks the time has come for her to write to President Mitterrand, recalling their conversation at Chequers in December about the Social Charter, and enquiring why the French Presidency are not following the procedure which she thought had been agreed there. The letter should then go on to spell out in considerable detail exactly what we are prepared to accept in this field and what we shall not on any account accept, on the lines which officials have already put to Madame Guigou. It would be helpful to have a draft of this letter by the time of the Cabinet discussion on Thursday although it need not necessarily be considered there. But we shall need to reflect on whether it is better to send it before or after the meeting of the Social Affairs Council on 30 October.

C. D. P.

(C. D. POWELL)

23 October 1989

IMPORTED MEDICINES

1. The general position on imports of pharmaceuticals is that the value of imports is substantially exceeded by exports. In 1988 there was a positive trade balance of £860 million, which is expected to exceed £900 million in the current year. Imported medicines include both those ready for use and pharmaceutical raw materials used in medicines manufacture in the UK for the home and export markets.
2. The Prime Minister's concern related to a particular section of the market, known as parallel imports, where some branded medicines which meet our statutory requirements as to safety, efficacy and quality are imported from EC countries which have cheaper prices for those particular medicines than currently prevail in the UK.
3. For many years we have operated a discount recovery scheme, to ensure that the NHS enjoys the benefit of the discounts retail pharmacies obtain from wholesalers and other suppliers. Recovery is effected by deducting a set percentage, which varies according to the value of a pharmacy's dispensing, from the amount paid to pharmacies for the medicines they dispense. That approach encourages individual pharmacies to seek better discounts, thus building an element of competition into the distribution chain. The levels of discount available to pharmacies are established through periodic inquiries. Currently the recovery scale is based on an inquiry undertaken in 1986; a further inquiry is being undertaken this year.
4. These arrangements catch discounts resulting from parallel imports as well as those occurring in normal domestic trading. Thus the NHS does, as far as possible, recover the savings achieved through parallel importing. Furthermore, we have taken steps in our licensing arrangements to facilitate the entry of parallel imported medicines of an acceptable quality, thus introducing some competition, from which the NHS benefits, in a market from which competition is otherwise largely absent.
5. The trade does depend, as the Prime Minister has said, on differences in national price levels. There is a wide range of medicine price control arrangements in the various EC Member States, reflecting different systems of health care delivery, different national arrangements for reimbursing patients for some or all of the cost of their medicines, and different historical attitudes to acceptance of patent rights. The newer Member States are being required to accept patent rights by the end of 1992 as part of their terms of accession. As a first specific step in bringing medicine prices more closely into line as part of the Single Market programme, a directive has been adopted which sets basic ground rules for the various methods of price control and requires greater transparency in the application of those methods. A consultative committee is now being established to take this work forward. We shall seek through that mechanism to pursue our general policy of putting downward pressure on the size of the drugs bill, to the benefit of the NHS and the patient, while recognizing the need to achieve a reasonable balance between the interests of the Service and those of the pharmaceutical industry.

Enno Pol: Budget

Pt 42



PRIME MINISTER

FM

MB

IMPORTED MEDICINES

Following advice from the Policy Unit you asked Kenneth Clarke to prepare a note on the variable prices of medicines in different EC countries, the associated trade in parallel imports and the implications for NHS costs.

This note is now available, at Flag A. Its keys points are:

- exports of pharmaceuticals still substantially exceed imports.
- the NHS does get some benefit from the lower costs of parallel imports. But a new enquiry is under way to consider whether the formula for NHS recovery needs changing.
- the trade in parallel imports will be affected, and probably reduced, by the progressive implementation of an EC transparency directive.

The Policy Unit have provided comments at Flag B. They regard the steps to which Ken Clarke draws attention as useful in the short-term, but probably not going far enough. They recommend that you should:

- ask to see the results of the enquiry on the discount recovery scheme and the proposed action.
- ask for a report back by next summer on the impact of the EC Directive, and raise the possibility that it might have to be necessary to conduct a fundamental review of pricing.

i) Content simply to note the DoH report at Flag A?

Or

ii) Do you want to comment in the terms recommended by the Policy Unit?

Sandra A. Larkin
PAUL GRAY

Policy Unit
MB

C: MEDICINE.MRM

mt

PRIME MINISTER

EC SOCIAL CHARTER

The Council Working Group has been meeting in Brussels yesterday and today. I have not been able to obtain this evening a detailed report of proceedings. But I gather that the meeting did not go terribly well, particularly today, when the UK was more or less alone in arguing for changes to the latest Presidency draft. (That draft was itself little different from the Commission's original.) Quite what the French are up to is not clear, but there is a strong suspicion that they are working hard to get the 11 lined up against the UK rather than following the approach Mitterrand discussed with you at Chequers.

The next key development is a meeting of the Social Affairs Council on Monday 30 October which Norman Fowler will be attending. I have agreed with his office that, in the light of developments at today's meeting and following further inter-departmental discussions, he will put a minute to you next Wednesday setting out how he proposes to handle the Council meeting.

You will want to consider handling before the Council. The diary for next Thursday and Friday is already very crowded. One possibility would be to have a discussion under Community Affairs at Cabinet on Thursday. Alternatively, you may prefer us to try to find time for a separate meeting, either bilaterally with Norman Fowler or a small group of colleagues.

i) Do you want to await Norman Fowler's minute on your return before deciding the handling of discussions next week?

Or

ii) Do you want us now to set up a separate meeting for Thursday/Friday? If so, who would you like to attend?

PAUL GRAY

20 OCTOBER 1989

C:ECCOUNCIL.MRM

DTI -
DHS.
Treasury
Dept. Employment
Health
Chancellor
Duty
P.C.O.
Cabinet Office

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PRIME MINISTER

19 October 1989

IMPORTED MEDICINE

There is a fundamental problem in medicine pricing throughout Europe. Each member state applies a different pricing policy leading to horrendous distortions of trade. So called 'parallel importing' has grown dramatically in recent years owing to the import of lower-priced medicines into the UK from other EC countries (examples are attached). Trade is determined by differential Government pricing policies; not by relative production efficiency.

float
Kenneth Clarke's proposal may have some impact in the short-term by ensuring that the NHS receives more of the benefit of lower import prices. But this measure will not seriously address the fundamental problem.

The EEC transparency directive may have some marginal impact by requiring each member state to be more transparent when operating their various methods of price control. But if this directive fails to bite - which is a distinct possibility - parallel importing will continue to grow and the NHS will not benefit fully from lower prices.

Kenneth Clarke will then have to conduct a fundamental review of pricing.

Discount Recovery Scheme

Each pharmacy is charged 0.33 per cent of its total turnover by the NHS to clawback some of the benefit of lower priced imports.

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There is no doubt that this clawback is far too low. The pharmaceutical industry estimates that parallel imports amount to an aggregate of £300 million a year. This accounts for some 15 per cent of the NHS bill for prescriptions in the UK, an increase of 40 per cent over the estimated 1987 figure. Of this, at least £60 million is estimated to represent a profit margin for the importers and the pharmacists. Currently, the NHS receives only £6 million as a clawback (10%).

An enquiry is now being undertaken by the Department of Health to determine whether the clawback should be increased.

This is a good first step. But this blunt instrument is not a long-term solution.

EEC 'transparency' directive

Under this new directive, each member state will be required to publish clearly the criteria behind its pricing policy on medicine. This development will not lead to instant harmonisation of pricing policies across Europe. But it may encourage some member states to re-evaluate their own pricing policies, where they differ significantly from the European norm.

*But surely
has to be
stopped by 1992?*

CONCLUSIONS AND RECOMMENDATIONS

Kenneth Clarke's strategy is a good one in the short-term. We will need to ensure that the discount recovery scheme is uplifted to a more realistic level as soon as possible. Otherwise, the NHS will not benefit from the considerable increase in parallel imports.

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Recommendation

Ask for a copy of the results of the current inquiry on the discount recovery scheme and the proposed action to be taken.

At best, the discount recovery scheme should only be viewed as a stop-gap. Fundamental change is essential. If the EEC transparency directive has no real impact, Kenneth Clarke will need to conduct a fundamental review.

Recommendation

Kenneth Clarke should be asked to report back next July on the impact of the EEC directive. If there is no measurable impact, Kenneth Clarke should be asked to conduct a fundamental review of pricing.

Ian Whitehead

IAN WHITEHEAD

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PAUL GRAY

19 October 1989

SOCIAL CHARTER

Things are hotting up, and some initial decisions, at least on tactics, will be needed next week.

The French have now issued a revised Presidency draft. This is attached. It makes some nods in our direction but is still wholly based on the Commission's draft which John Major denounced at Blackpool. No-one has much confidence at the moment that we would be able, from now, to make substantial changes to it before Strasbourg.

This new draft is being discussed in a Council working group today and tomorrow. It will then be tabled, probably unchanged, at a Social Affairs Council on Monday 30 October. Norman Fowler will represent the UK.

It seems essential to make time next week for discussion among the Ministers mainly concerned. The Prime Minister, we think, really needs to be involved in this. How Norman Fowler performs at Luxembourg - and how he is perceived by others - will impact directly on the Prime Minister's own room for manoeuvre at Strasbourg six weeks later.

You may therefore care to discuss with Norman Fowler how to handle this next week. So far nothing is arranged except an informal official level discussion next Tuesday (chaired by David Hadley) and an apparent intention (no firmer than that) on Norman Fowler's part to raise it at Cabinet.

Given the need for agreement of some kind by the end of the week, this leaves me a bit worried. We ought to have a note

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from Norman Fowler on Monday or Tuesday at latest as the basis for decision later in the week on exactly what line and tactics he should follow. This would reflect the outcome of today and tomorrow's discussions in Brussels.

And it would help Department of Employment to get its thinking clear. They are playing a straight bat in the discussion - a constructive but critical approach to the texts under a general reserve - but both Andrew Dunlop and I feel they are floundering in the political dimension and looking for a lead from the Prime Minister marching orders may even be a more accurate description. This will be the hardest issue for the Prime Minister at Strasbourg and we cannot afford the possibility of her being ill-served by indecision.

To complete the picture you may care to glance at the attached letter just in from UKREP which indicates how the official discussion is moving. There are also now numerous telegrams reporting what seems to be a fairly intensive French campaign to win hearts and minds to their scheme of things and to show that the UK is indeed isolated. All in all the omens look very difficult, unless we can get others to make fairly significant climb-downs as the price for 'unity'.

John Mills

JOHN MILLS

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PRESIDENCY DRAFT

①

- TITLE I -
FUNDAMENTAL SOCIAL RIGHTS

RIGHT TO FREEDOM OF MOVEMENT

1. Every worker in the European Community shall have the right to freedom of movement throughout the territory of the Community, subject to restrictions justified on grounds of public order, public safety or public health.
2. The right to freedom of movement shall enable any worker to engage in any occupation or profession in the Community on the same terms as those applied to nationals of the host country, subject to the provisions of Community law.
3. The right to freedom of movement shall imply that every worker carrying out a job in another Member State, particularly in connection with the award of public contracts shall be entitled to equal treatment with workers of the host country as regards working conditions and social protection.
4. The right of freedom of movement shall also imply:
 - . Harmonization of conditions of residence in all Member States, particularly those concerning family reunification;
 - . Elimination of obstacles arising from the non-recognition of diplomas or equivalent occupational qualifications;
 - . Improvement of the living and working conditions of frontier workers.

(2)

5. Recourse to subcontracting in the context of the freedom to provide services cannot, when it leads a worker in one Member State to perform work in another Member State, be an obstacle to the principle of equal treatment with workers of the host country.

EMPLOYMENT AND REMUNERATION

6. Every individual shall be free to choose and engage in an occupation according to the regulations governing each occupation.
7. All employment shall be fairly remunerated.

To this effect, in accordance with arrangements applying in each country:

- . a decent wage shall be established, i.e. a wage sufficient to ensure a decent standard of living for both workers and their families;
 - . workers subject to terms of employment other than an open-ended full time contract shall be assured of an equitable reference wage;
 - . wages may be withheld, seized or transferred only in accordance with national law; such provisions should entail measures enabling the worker concerned to continue to enjoy the necessary means of subsistence for himself and his family.
8. Every individual must be able to have access to public placement services free of charge.

(12)

IMPROVEMENT OF LIVING AND WORKING CONDITIONS

9. The development of a European labour market must lead to an improvement in the living and working conditions of workers in the European Community. This process must result from an approximation of these conditions while the improvement is being maintained, as regards in particular the duration and organization of working time and forms of employment other than open-ended contracts, such as fixed-term contracts, part-time working and temporary work.

The improvement must cover, where necessary, the development of certain aspects of employment regulations such as procedures for collective redundancies and those regarding bankruptcies.

10. Every worker in the European Community shall, in accordance with national practices, have a right to a weekly rest period and to annual paid leave, the duration of which must be progressively harmonized.
11. The conditions of employment of every worker in the European Community shall be stipulated in laws, a collective agreement or a contract of employment, according to arrangements applying in each country.

RIGHT TO SOCIAL PROTECTION

According to the arrangements applying in each country :

12. Every worker in the European Community shall have a right to adequate social protection and shall, whatever his status and whatever the size of the undertaking in which he is employed, enjoy an adequate level of social security benefits.

Persons who have been unable either to enter or re-enter the labour market and have no means of subsistence must be able to receive sufficient resources and appropriate social assistance.

(4)

RIGHT TO TRADE UNION FREEDOM
AND COLLECTIVE BARGAINING

13. Employers and workers in the European Community shall have the right of association in order to constitute professional organizations or trade unions of their choice for the defence of their economic and social interests.

Every employer and every worker shall have the right freely to join such organizations and to waive such rights without any personal or occupational damage being thereby suffered by him.

14. Employers or employers' organizations on the one hand and workers' organizations on the other, shall have the right to negotiate and conclude collective agreements under the conditions laid down by national legislation and practice.

The dialogue between the two sides of industry at European level which must be developed, may, if the parties deem it desirable, result in contractual relations in particular at interoccupational and sectoral level.

15. The right to resort to collective action in the event of a conflict of interests shall include the right to strike, subject to the obligations arising under national legislation and collective agreements.

In order to facilitate the settlement of industrial disputes the establishment and utilization of conciliation, mediation and arbitration procedures should be encouraged in accordance with national practice.

16. The laws of the Member States shall determine to what extent the rights provided for in Articles 13 to 15 apply to the armed forces, the police and the civil service.

(5)

RIGHT TO VOCATIONAL TRAINING

17. Every European Community worker must be able to have access to continuing, vocational training and to undergo such training throughout his working life.

The public authorities, undertakings or the two sides of industry, each within their own sphere of competence, shall set up continuing and permanent training systems enabling every citizen to undergo retraining more especially through leave for training purposes, improve his skills or acquire new skills, particularly in the light of technical developments.

RIGHT OF MEN AND WOMEN
TO EQUAL TREATMENT

18. Equal treatment for men and women must be assured. Equal opportunities for men and women must be developed.

To this end, action should be intensified to ensure the implementation of the principle of equality between men and women as regards in particular access to employment, remuneration, social protection, education, vocational training and career development.

Measures should also be developed, enabling those concerned to reconcile their occupational and family obligations more easily.

RIGHT OF WORKERS TO INFORMATION CONSULTATION
AND PARTICIPATION

19. Information, consultation and participation for workers must be assured along appropriate lines, taking account of the practices in force in the various Member States.

This shall apply especially in companies or groups of companies having establishments or companies in several Member States of the European Community.

(6)

20. Arrangements to this end must be implemented in due time, particularly in the following cases:
- . when technological changes which, from the point of view of working conditions and work organization, have major implications for the workforce are introduced into undertakings;
 - . in connection with restructuring operations in undertakings or in cases of mergers having an impact on the employment of workers;
 - . in case of collective redundancy procedures;
 - . when transfrontier workers are affected by employment policies pursued by the undertaking where they are employed.

RIGHT TO HEALTH PROTECTION AND SAFETY
AT THE WORKPLACE

21. Every worker must enjoy optimum health and safety conditions in his working environment. Appropriate measures must be taken in order to achieve further harmonization of conditions in this area while maintaining the improvements made.

These measures shall take account in particular, of the need for the training, information, consultation and balanced participation of workers as regards the risks incurred and the steps taken to eliminate or reduce them.

The provisions regarding implementation of the Internal Market shall help to ensure such protection.

PROTECTION OF CHILDREN AND ADOLESCENTS

22. Without prejudice to such rules as may be more favourable to young people, in particular those ensuring their preparation for work through vocational training, and subject to derogations limited to certain light work, the minimum employment age must not be lower than the minimum school-leaving age and, in any case, not lower than 15 years.
23. Young people who are in gainful employment must receive equitable remuneration.

(7)

24. Appropriate measures must be taken to adjust labour regulations applicable to young workers so that their specific development and vocational training needs are met.

The duration of work must, in particular, be limited and night work prohibited in the case of workers of under eighteen years of age, save in the case of certain jobs laid down in national legislation or regulations.

25. Following the end of compulsory education, young people must be entitled to receive initial vocational training of a sufficient duration to enable them to adapt to the requirements of their future working life; for young workers, such training must take place during working hours.

ELDERLY PERSONS

According to the arrangements applying in each country:

26. Every worker in the European Community must, at the time of retirement, be able to enjoy resources affording him or her a decent standard of living.
27. Any person who has reached retirement age but who is not entitled to a pension or who does not have other means of subsistence must be entitled to sufficient resources and to medical and social assistance specifically suited to his needs.

DISABLED PERSONS

28. All disabled persons, whatever the origin and nature of their disablement, must be entitled to additional concrete measures aimed at improving their social and professional integration.

These measures must concern, in particular, according to the capacities of the beneficiaries, vocational training, ergonomics, accessibility, mobility, means of transport and housing.



Office of the United Kingdom Permanent Representative
to the European Community

Rond-Point Robert Schuman 6 1040 Brussels

Telephone 230.62.05

Mr G Reid
Department of Employment
Caxton House
Tothill Street
London SW1H 9NF

Your reference

Our reference

Date

228/12

17 October 1989

Dear Graham,

SOCIAL CHARTER AND ACTION PROGRAMME

1. At his request I had lunch today with Patrick Venturini who is responsible for social affairs in the Delors cabinet. He and I have already discussed the charter etc at length, most recently at the beginning of August when Ruth Le Guen was here.
2. Venturini basically wanted to find out how the UK attitude had evolved. His impression was that the UK was now in effect not prepared to accept a charter (an impression which was also prevalent when Soisson spoke to the EP social affairs committee this morning - I am reporting that meeting separately). I said it was by no means the case that the UK had excluded all possibility of agreeing to a charter. Our position was clear. We were not 'demandeur' for a charter which risked being a distraction from the overriding priority of creating jobs. But we were willing to try to reach an agreement. We could not agree to anything like the Papandreou draft. It was a pity the second version differed so little from the first. Papandreou had painted herself into a corner with her first draft. She could not afford to be seen by the EP and her comrades to be retreating from that opening stance.
3. Venturini asked what sort of charter we could sign up to. I said we could accept only a more general text, without the detail which clutters up the Papandreou draft. There would have to be more safeguards and qualifications and some points would have to be entirely omitted. Venturini commented that it was difficult to combine fundamental rights with a series of exclusions and qualifications.

4. Venturini asked for my views on the action programme. I said it was essential we see this well before the European Council. The action programme would be the test of the Commission's commitment to 'subsidiarity'. If the programme were modest and sensible, it would undoubtedly help us to accept the charter. If, on the other hand, it was packed with items we did not consider appropriate for action at the Community level, it would obviously have the opposite effect. Venturini took the point and repeated what he had previously told me about the action programme containing proposals for recommendations as well as legislation. He said the topics were still not clear. **The ETUC had not made any concrete proposals.** He was convinced that something was needed to require consultation of workers in advance of cross-border dismissals (the problem arose when Michelin closed a plant in Belgium without warning). He also mentioned repeated fixed-term contracts, 'atypical' work (temporary, part-time etc) and his desire to amend the collective redundancies directive. I said most of this would be difficult for the UK and went over again our case that part-time work is not second rate work. I hoped I would be able to offer him some British ideas on what might be included. He would welcome this.

5. Reverting to the charter Venturini said the reports circulating of your meeting with Mme Guigou et al suggested that the UK thought approximately a third of the charter should be deleted, a third was negotiable and a third could be accepted more or less unchanged. I said the categories were correct but the proportions were probably not so simple. Venturini claimed this was being interpreted as effectively rejecting the charter. I emphasised that this was not the intention. For the UK government there would be a political price both for accepting and rejecting the charter. It was still not clear which would be greater. Soisson had said to the EP this morning that he wanted a charter agreed unanimously, but not at any price. The UK's position, approaching it from the opposite direction, was exactly the same. We would like to agree, but not at any price. We needed to find out whether there was a mutually acceptable price.

6. Finally Venturini asked me about Dutheillet de Lamothe's handling of the ad hoc group. I said I had been at only one meeting and there de Lamothe had largely let delegations talk and then summed up in terms that recorded the consensus or majority view, without reaching any decisions. It remained to be seen whether he could make real progress. We had yet to see his

revised text. He did not really have the time to take things forward. It was not clear whether there would be agreement by 30 October even among 11 Member States. Several still had problems.

7. I agreed with Venturini that we should meet again next week to see where things stood, and for me to pass on any ideas on the action programme.

8. I conclude from this episode that Venturini had two main objectives: to test the current UK position and to get an 'independent' view on how the ad hoc group was progressing. I think he has gone away with the message that it is worth making an effort to try to accommodate us. In order to reinforce that message I reminded him that when we had talked in July I put the chances of the UK accepting the charter at no more than 50/50. Following recent events, I thought the probability higher.

9. I am sending copies of this letter to Mr Kerr (FCO), Mr Hadley (Cabinet Office), Mr Mills (No.10), Mr White (DSS), Mrs Le Guen and Mr Cappella (both DE) as well as to colleagues here.

Yours,

Kerr

K Masson

? how about
about Majin's
speech.



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John D. Barker
Chief Executive

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TOTALS					235.02		

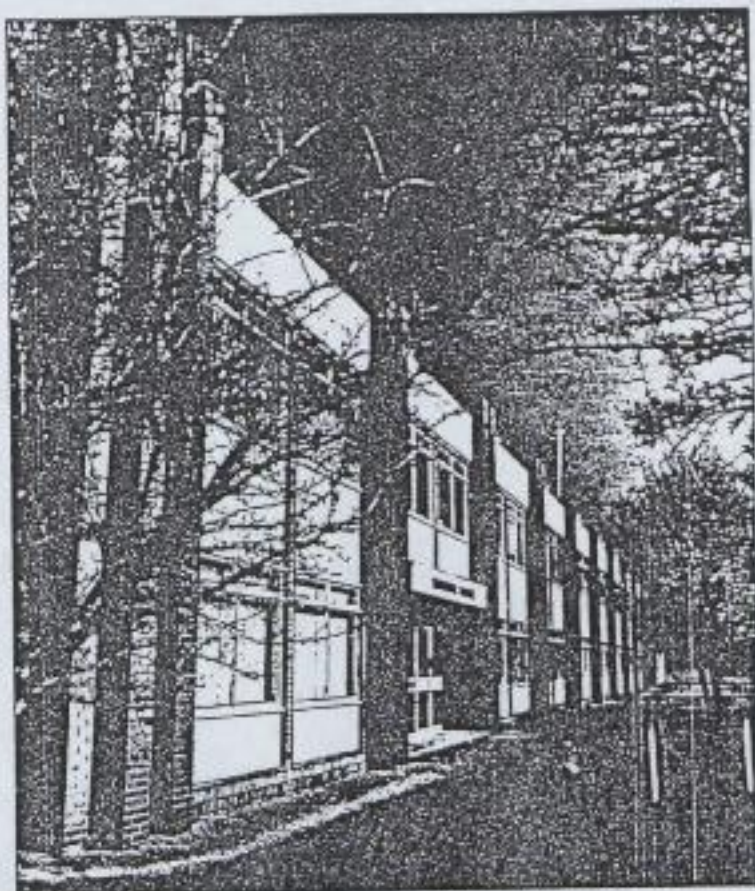
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ATOF2	Tofranil 25mg Tablets	100	30%	2.21	0.94		
ATRA1	Trasicor 80mg Tablets	40	13%	2.55	1.14		
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Treasury Chambers, Parliament Street SW1P 3AG

The Hon Douglas Hogg MP
Minister for Industry and Enterprise
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

16 October 1989

D. Hogg

EUROPEAN COMMUNITY STRUCTURAL FUNDS:
OBJECTIVE 2

attached

Thank you for your letter of 25 September. I have also seen Peter Walker's letter of 9 October.

I was concerned by your reference to the risk of substantial new public expenditure resulting from the pattern of structural fund receipts envisaged by the Commission in the draft CSFs. This appears to reflect an assumption that the Government's agreed rules on the treatment of EC receipts would be set aside. I am sure you would agree that no such assumption can be made and that negotiations with the Commission on the CSFs must therefore be conducted within the framework of our policy on additionality. My predecessor's letter of 24 November 1988 made clear that the new structural fund regime should not compromise the Government's ability to maintain firm control over public spending.

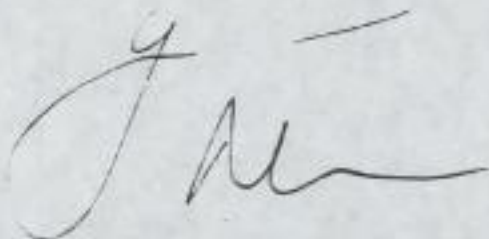
Our aim in the negotiations will be to agree CSFs that are both flexible and consonant with domestic expenditure priorities. If we succeed, the need for Departments to make significant offsetting savings in their PES programmes should not arise. But if we were unsuccessful, difficult decisions would be needed on the balance of spending with the agreed planning total.

I realise that the negotiations are likely to be difficult. But the UK has a strong case and must, in my view, take a forthright line on both the level and nature of our prospective receipts. As regards the former, we should take every opportunity to exploit the assurances which Delors has given us: a reduction in UK receipts associated with a doubling of the funds would be indefensible.

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As regards the nature of UK receipts, the CSFs are predicated upon the concept of partnership between central and local government and the Commission. The concept was fully reflected in the regional plans which the UK presented to the Commission, which were based on well-reasoned priorities. The Commission's draft CSFs not only cut across those priorities but also seem to be at odds with Community policy more generally, to the extent that they down-grade infrastructure and focus on support for industry. We shall need to emphasise this point, lobbying other member states as appropriate. More specifically, we should continue to argue that the Commission's proposals would not maximise value for money. And we must make clear that we cannot accept any requirement for additionality going beyond Article 9 of the Horizontal Regulation (subject, of course, to the assurances we have received about its application in the UK).

I am copying this letter to Peter Walker, Ian Lang, Francis Maude, Tim Eggar, David Hunt, Michael Portillo and Robert Jackson, and to Sir Robin Butler and Sir David Hannay; and also to the Prime Minister, in view of the possible need for collective Ministerial consideration of the issues to which you refer.

A handwritten signature in dark ink, appearing to read 'N. Lamont', with a long horizontal stroke extending to the right.

NORMAN LAMONT



CCPU

From the Secretary of State for ~~Health~~ Health

The Rt Hon John Major MP
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street
London
SW1A 2AL

116 OCT 1989

Dear John, at head

In his letter of 29 September to your Private Secretary conveying the Prime Minister's general approval of the approach to future arrangements for European medicines licensing which David Mellor had proposed in his letter to you dated 22 September, Mr Gray sought an assurance that the position would be closely monitored and reported to Ministers as discussions proceed in Brussels. I confirm that that is our intention.

The Prime Minister had also raised a question on variable prices for medicines in different EC countries and the implications for NHS costs of the importation of cheaper medicines from Europe. I enclose a note on that, as requested.

I am copying this letter and enclosure to the Prime Minister, Members of OD(E), Malcolm Rifkind, Peter Walker, Peter Brooke and Sir Robin Butler.

KENNETH CLARKE



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

John Gummer Esq MP
Minister of Agriculture Fisheries & Food
Whitehall Place
London
SW1A 2HH

11 October 1989

em
Dear John,

SINGLE MARKET IN VETERINARY MEDICINAL PRODUCTS

Thank you for your letter of 26 September on the above subject. I am content with the line you propose.

I am copying this letter to the recipients of yours.

cap pr 42
[Handwritten signature]
MALCOLM RIFKIND

Euro Pol: Budget pr 43



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Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switsfwrdd)
01-270 (Llinell Union)
0538

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)
0538

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

CT/12385/89

9 October 1989

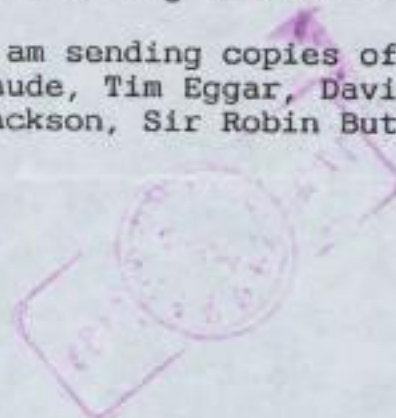
EUROPEAN COMMUNITY STRUCTURAL FUNDS: OBJECTIVE 2

I have seen Douglas Hogg's letter of 29 September to you on this subject.

I too am concerned at the impact which the outcome of the Objective 2 negotiations could have on public expenditure programmes in Wales. While the signs of a possible increase in the allocation are most welcome, the Commission's declared priorities remain unattractive (both to the local authorities and to us) because of their restrictiveness, and awkward for my Department from a public expenditure point of view.

We still need, of course, to find out exactly what the Commission will offer and I shall be happy to be involved in considering the next steps when we have that information.

I am sending copies of this letter to Ian Laing, Francis Maude, Tim Eggar, David Hunt, Michael Portillo, Robert Jackson, Sir Robin Butler and Sir David Hannay.



The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

PS/SECRETARY OF STATE

cc PS/Minister of State
PS/Secretary
Mr David
Mrs Le Guen
Mr Hadley, Cabinet Office
Mr Kerr, FCO
Mr White, DSS
Mr Powell, No 10
Mr Mills, No 10 Policy Unit

CV
12x.

SOCIAL CHARTER: REPORT OF SECOND MEETING OF AD HOC GROUP, 6 OCTOBER

1 The meeting finished discussion of the individual articles of the draft Commission Social Charter. It was a more restrained and low key occasion than the first meeting, with few countries other than the UK registering fundamental objections. The French Presidency too seemed more ready to compromise by redrafting articles and in a few cases by considering re-formulations based on alternative accepted international texts.

2 The line up of countries expressing difficulties with the text, apart from us, was the much the same as in the first meeting: Germany less aggressively than before; Denmark on a few articles; Spain which wants less detail; and Portugal on grounds on implementation difficulties. I got the clear impression, however, that most countries were simply going through the motions in the Working Group and that any major objections will be lodged at the Ministerial or political level. For example, we know that Germany wrote a "very nasty" letter at Ministerial level to the French complaining about the handling of the Working Group and threatening to block the Charter unless the French accepted legal minimum standards in some areas. None of this appeared at the meeting on Friday: the German delegate was very moderate and indeed left before the end of the meeting.

3 The Presidency will now produce a revised text for consideration on October 19, following discussion of the preamble and title II of the draft Commission Charter. The revised text will be an amended version of the Commission Charter which is very unlikely indeed to meet our basic objections. The Presidency do not intend the revised to be discussed in detail, but want countries simply to flag up fundamental difficulties they have with the new text.

4 I doubt whether this approach will be feasible: many countries will wish to comment on the redrafting. The Presidency themselves may have doubts: we have been told to reserve Friday morning for continuation of the meeting. Notwithstanding this, the draft for the Social Affairs Council on October 30 is likely to be very similar to the one that we see on October 19.

5 In discussion with the Secretariat, I was asked whether we had alternative texts on articles to which we took fundamental objection. I gave no commitment that any text would be forthcoming.

6 As before, I attach a detailed account of the discussion.

SP Stewart

G L REID

9 October 1989

Ext: 5824

Article 13: Social Protection

There were two main strands in the discussion of this article. Germany emphasised that it should concentrate on workers, and this was endorsed in one way or another by the UK, Ireland, Italy, Denmark, Belgium and Luxembourg. Spain, Portugal and Greece would have preferred the draft text on citizens, but did not press the point: France made a strong plea for citizens. Secondly, I expressed serious doubts about the mixing of general principles and detail, and also about the need to take much greater account of national practice and procedures. This was supported by the Netherlands, Spain and Portugal, the last of which was clearly concerned about the financial implications of the article. A number of redrafting suggestions were put forward, and the Presidency will produce a revise concentrating on workers rather than citizens.

Article 14: Freedom to Join Trade Union

There were a couple of arcane passages in this discussion. One was an argument about fundamental and derived rights between Spain and the Commission; and the other was the need to include the right to form a trade union as well as join one, which seemed to be particularly important to Greece. I pointed out the fundamental problems this article might cause for us, and criticised the current text which took no account of excluded groups (eg. police and army) nor of the roles of trade unions which might limit individual choice. This was supported by Netherlands, Italy, Germany, Portugal, and by implication others. There were other textual criticisms. Germany suggested that a new text should be drafted based on the Council of Europe Charter and "tried international wording" and the Chairman agreed that this would be done.

Article 15: Freedom of Negotiate and Conclude Collective Agreements

Belgium raised the problem of representation. Read strictly this article would authorise any organisation to negotiate and sign collective agreements, but member states had different practices on how representation should be decided. Germany agreed with this, suggesting again reliance on international text already approved, and so did Luxembourg, Portugal, Ireland, Netherlands and the UK. Denmark supported Germany on an alternative text, and suggested using article 118B. Detailed references to specific issues should be excluded. I said that this article caused fundamental difficulties for us. I pointed out that it confused the rights of individuals and the apparent collective rights of trade unions, and that this must be clarified. It ignored the important and growing area of individual negotiations and agreement, and took quite insufficient account of differences in national practice. The Commission said that the old area came up against national practice and that what was needed was a general provision which would refer to national practice and tradition and the great variations therein. There was no intention to challenge the autonomy of member states. The Chairman said this article would have to be clarified but it did concern collective rights. He agreed with the German suggestion of a new text, and there will be some other wording changes.

Article 16: Right to Strike

A number of countries criticised the existing wording which specified that "existing legislation" might be an exception to the general right. Germany asked for national legislation, while I pointed out that future legislation would have a similar effect so would non strike agreements drawn up by employers and trade unions. I said that once again this article took inadequate account of the different legal frameworks and the very different national practices within member states. I said that any

interference with the careful balance we had achieved in the whole industrial relations area (not just this article) would be fundamentally unacceptable. Other countries were also apprehensive about the effect on their national practices (Netherlands, Belgium and Greece spoke) but the Chairman summed up this article as being broadly acceptable.

Article 17: Vocational Training

Germany led off by saying that a binding legal right was not acceptable, and this was supported by Ireland (who wanted access to training), Netherlands, Italy, UK, Greece and Portugal. This article will be redrafted to reflect this point, and possibly also to remove "citizens" again.

Article 18: Enrolment on Occupational Training Courses

Belgium entered a reserve on this because of budgetary problems emerging from a current ECJ case. Germany said they had political problems on the specific reference to the Universities. In reply to a question I was assured that the text was intended to cover only enrolment fees, and not maintenance grants or qualification standards.

Article 19: Equal Treatment

Ireland had no fundamental problem with this article but wanted the third paragraph (on "development of amenities") removed: I agreed. Denmark saw no problem and thought the text ought to have more on employment opportunities for women including co-operation at EC level: Italy, Belgium, Luxembourg and Greece agreed with this.

Article 20: Information Consultation and Participation

Denmark raised the question of whether all three should be treated together, since they were the subject of different legal provisions. Multinationals were a minefield and perhaps the article ought to refer to the national level only. Germany disagreed: it was necessary to allay fears of workers on redundancies etc. and to avoid social dumping: Belgium, Greece, France and Luxembourg agreed. Ireland agreed in principle but emphasised the need to take account of national law and practice, and to have flexible mechanisms. I agreed with this, referring to the variety of practice within the UK: I alluded to our forthcoming booklet. I also asked how this article related to the ongoing debate in the European Company Statute, but received no answer. The Chairman recorded "a consensus" but there was a need for information, consultation and participation depending on practices in member states.

Article 21: Details on Consultation, etc.

I asked whether this article was necessary in the light of the comprehensive nature of the previous one, and suggested that it be deleted in the interests of having a general statement in any Charter. No one supported this, and it will presumably remain as it is.

Article 22: Health and Safety

I said we agreed with this in principle and had very good health and safety national provisions. We had welcomed the Framework Directive but the article ought to make clear what had already been done and emphasise the importance of implementing and enforcing directions already agreed. I also asked why public works should be explicitly singled out in this article. Ireland agreed with this last point, as did Spain and Greece. Belgium

tabled an amendment which at first sight seemed less acceptable than the original text. Denmark and Germany thought it improved the article; I expressed reservations as did Greece. The Chairman concluded that the text of the article might be somewhat expanded to reflect what had already been done, and noted the points about public works. He expressed no conclusion on the Belgium alternative.

Article 23: Minimum Age of Employment

Germany welcomed this but had a problem with the specification of 16 years: so did Belgium and Denmark. I suggested that the article ought to refer to the minimum school leaving age, and that provision must be made for appropriate part-time work and vocational preparation. These points were generally agreed by others who spoke.

Article 24: Youth Pay

This was not discussed at all, since it will have to be revised in line with the previous conclusion on article 8 which dealt with pay generally. I did however enter a fundamental reservation on articles dealing with pay.

Article 25: Youth Training

I said that the principle of training for young people was wholly accepted in the UK and that we had very good provision. The article however was far too rigid and regulatory, and indeed backward looking. It ought to be more flexible and concentrate on qualifications rather than on a particular time period for training. Germany also emphasised the need for a more permissive article allowing freedom of choice. Belgium had no problem, but Portugal said they could not accept the text since they would be unable to implement it. Greece felt the article was rigid and that employers might find it hard to employ young people if they

had a requirement of two years training. The Chairman concluded we were agreed on principles but that the two year specification should be deleted.

Article 26: Regulation on Young People's Hours

Germany had a problem of principle with this article, since weekly hours are a matter for collective agreements without any exemptions for young people. They suggested maximum daily hours. Portugal supported the intention of the article but saw difficulties with it. It seemed odd to allow laws or collective agreements to sanction a breach of a fundamental right; and it would be difficult for Portugal to enforce this provision since the working week is more than 40 hours now. Greece saw the article as an obstacle in the way of employment, and Spain and Portugal agreed with the principle but saw difficulties in practice. I said the article was fundamentally opposed to our approach. We did not agree that regulation was the right way to ensure the employment of young people; it was inflexible; it was out of line with the demographic trends in our country; and our current policy was to de-regulate young people's hours rather than the reverse. The Chairman suggested that the majority were agreed on night work (which was hardly mentioned) but that the specific provision of 40 hours did not seem acceptable. It would be revised.

Articles 27/28: Elderly/Pensions

I suggested that both these articles should be deleted since we had agreed that the Charter would cover workers. Germany and Italy agreed. Belgium, Denmark, and Netherlands accepted the logic of this but felt we needed something on retired workers. Spain and France wanted to retain these articles, and so did Portugal and Greece. They both said they would cause problems on implementation. The Chairman concluded that something was



necessary but restricted to workers (or ex-workers) and nationals of EC countries. The articles might be merged or they might be included with article 13 on social protection generally.

Article 29: Disabled

I said we accepted the need for special provisions for people with disabilities to enable them to find and keep work, but the article was much too broad and should be revised to cover workers and EC nationals. The Commission disagreed, and said it should cover all disabled people. Germany (whose lead delegate had left by this time) surprisingly agreed with this though they wanted only a general statement. Others agreeing were France, Greece, Belgium, Luxembourg and Portugal. The Chairman concluded that this article should be retained.

Family

France pointed out that the Charter made no reference to the family. This was a major challenge and silence would be badly interpreted. He proposed an addition. Portugal and Greece supported this; the UK and Germany opposed. The Chairman concluded that there was a majority for a Charter on workers and by implication ruled out any particular article on the family.

dti

the department for Enterprise

CC PU.

The Rt. Hon. Lord Trefgarne
Minister for Trade

David Mellor Esq QC MP
Minister of State
Department of Health
Richmond House
79 Whitehall
London SW1A 2NS

Handwritten:
RBT
RBT
10/10

Department of
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London SW1H 0ET
Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-215 5468

Direct line 01-215 5144
Our ref WO7
Your ref
Date 6 October 1989

Dear David,
EC SINGLE MARKET AND PHARMACEUTICALS

John I am sorry to be a little late in commenting on your letter of 22 September to John Major.

My view is that the completion of a genuine single market in pharmaceuticals is well worth the consequent loss of national authority over the regulation of medicines. The UK pharmaceutical industry is strong, and well organised to take good advantage of the opportunities which will be opened up.

It is unfortunate that the usual path to achieving the single market of "mutual recognition" proved impossible to negotiate in this case. I recognise the sensitivities involved with medicines, but it is important that this issue should not be seen as a precedent. Mutual recognition should remain the preferred approach.

We must also be aware when agreeing transfer of authority that this does not lead to unnecessary bureaucracy and to systems more cumbersome than our own. The creation of a single market will be of little benefit to business if at the same time they are hampered by extra burdens. I am sure your officials will be vigilant on this issue when agreeing the procedures of any new body created.

Copies of this letter go to members of OD(E), Peter Walker, Malcolm Rifkind, Peter Brooke, the Prime Minister's office and Sir Robin Butler.

Yours,
LORD TREFGARNE *David*





Euro PO1

Budget

Pl 43

Ref. A089/2531

PRIME MINISTER

Cabinet: Community Affairs

The Foreign Secretary may report on the 3 October Foreign Affairs Council. The main points were:

- agreement in principle to a package of measures to assist Poland and Hungary; details remain to be worked out;
- adoption of the broadcasting directive, after we and the Germans secured a Council/Commission statement on the political nature of Article 4 (quotas) and a Commission undertaking to apply Article 4 in this light;
- Commission reports on discussions with the US. On hormones the Americans have offered a 4.2 million dollar cut in retaliation, with a further cut at the end of the year if trade in hormone-free beef has increased. On renewal of the EC/US steel VRA, the terms now proposed by the US are sufficiently improved to be a basis for a formal negotiation. Our own position remains that the case for a new VRA is not proven.

2. The Secretary of State for Social Security may report on the Social Affairs Council on 29 September, at which Mrs Shepherd represented the United Kingdom. The main points were:

- a proposal to amend a 1971 regulation on social security for migrant workers, in order to resolve problems arising in

France following a recent ECJ ruling, was satisfactorily modified to meet United Kingdom concerns but blocked by the Italians; discussion will continue;

- at the Presidency's initiative (largely for French domestic consumption) there were general discussions of national policies towards the disabled and convergence of social protection schemes;
- satisfactory texts were adopted on combating problems which exclude people from a normal way of life (unemployment, homelessness, poverty etc) and on family policy and demography;
- there was agreement to study the possibility of replacing form E111 (which entitles EC citizens to claim emergency health care in other member states) with a more durable plastic card.

3. Future meetings are:

- Education Council, 6 October
- ECOFIN Council, 9 October
- Internal Market Council, 10 October

R.B.

ROBIN BUTLER

4 October 1989



cc/pa
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

David Mellor Esq MP
Minister for Health
Department of Health
Richmond House
79 Whitehall
LONDON
SW1A 2NS

4 October 1989

Dear David,

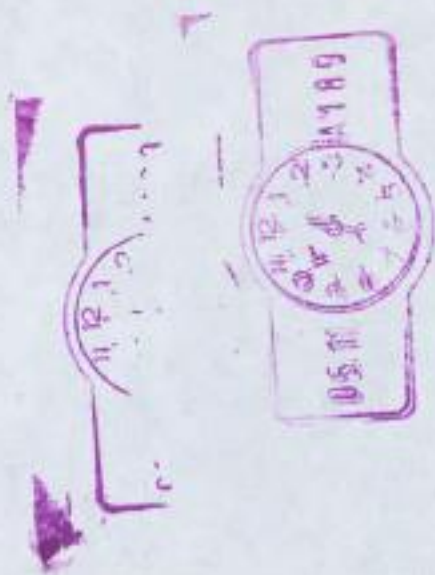
Thank you for copying to me your ^{Flap.} letter of 22 September to Mr Major about the EC Single Market and Pharmaceuticals.

I am concerned that the paper which your officials are proposing to send to the Commission on a Single Market in medicinal products after 1992, pays insufficient heed to the danger of extending Community competence in the health field. I think that the paper should be much firmer in opposing any potential further extension of Community competence. I would be grateful if our officials could consider this further.

I am copying this letter to members of OD(E), Peter Walker, Peter Brooke, the Prime Minister's Office and Sir Robin Butler.

Yours ever,
Mell

MALCOLM RIFKIND



Euro Po1 Pf 42
Community Budget.



01-936 6201

David Mellor Esq QC, MP
Minister of State for Health
Department of Health
Richmond House
79 Whitehall
London SW1A 2NS

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

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Paul
Slo

3rd October 1989

Dear David:

EC SINGLE MARKET AND PHARMACEUTICALS

at least
p142

Thank you for sending me a copy of your letter of 22 September 1989 to John Major.

I agree that it is necessary to balance the competence risk against the benefit to the single market, and I accept your view that we must be willing to take the competence risk if we are to keep our commitment to complete the internal market in human medicines. That being so, I should like to suggest an amendment to paragraph 20 of the draft paper. If we wish to be able to argue that any legislation resulting from the present exercise is single market legislation, rather than public health legislation, it would be helpful not to acknowledge in this paper a transfer of competence. I appreciate that you are there referring to executive, rather than legislative, competence, but it is important to avoid any opportunity for misunderstanding. I suggest therefore that the fourth sentence of paragraph 20 should be recast along the following lines: "Whilst attaching the highest importance to the goal of a single market authorisation, UK Ministers wish to reserve their position ..."

I am sending copies of this letter to the Chairman and members of OD(E), Peter Walker, Malcolm Rifkind, Peter Brooke, the Prime Minister's Office and Sir Robin Butler.

Yours sincerely
D.M.

Eiko bei bridge
P43





Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State



2 October 1989

NBLM

ALCG

460

Dr T. ...

Thank you for your letter of 25 September to John Major.

I agree with your proposed line in responding to the Commission's memorandum. Both the potential implications for competence and the existing negotiations on an interim proposal for the Committee on Veterinary Medicinal Products suggest we should adopt a cautious approach at this stage. We must also ensure that our lines on human and animal medicines remain consistent as the negotiations develop.

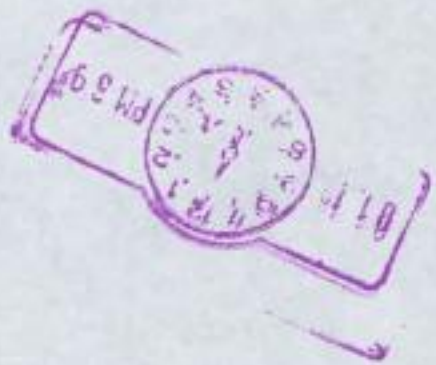
I am copying this letter to the Prime Minister, David Mellor, other members of OD(E), Malcolm Rifkind, Peter Walker and Sir Robin Butler.

W
lin -

The Hon William Waldegrave

John Gummer MP
Minister of Agriculture
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1A 2HH

Euro Bus Budget Pres



cafu



Foreign and Commonwealth Office
London SW1A 2AH

From The Minister of State

mbm

file 6

2 October 1989 *2/10*

L. Dill,

EC SINGLE MARKET AND PHARMACEUTICALS

Thank you for your letter of 22 September to John Major.

I agree that we should respond to the Commission's memorandum on the lines you suggest. This should help us influence their thinking at a formative stage. We will of course need to make sure that our line is carefully coordinated with our line on veterinary medicines, on which John Gummer has written too.

You are right to raise the point about competence. We must watch this carefully. But I agree that the risk of an extension is small, and acceptable, given that the effect of any measure would undoubtedly be to promote the Single Market.

Copies of this letter go to the Prime Minister, John Gummer, other members of OD(E), Peter Walker, Malcolm Rifkind and Sir Robin Butler.

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hm

The Hon William Waldegrave

David Mellor MP
Minister of Health
Richmond House
LONDON
SW1A 2NS

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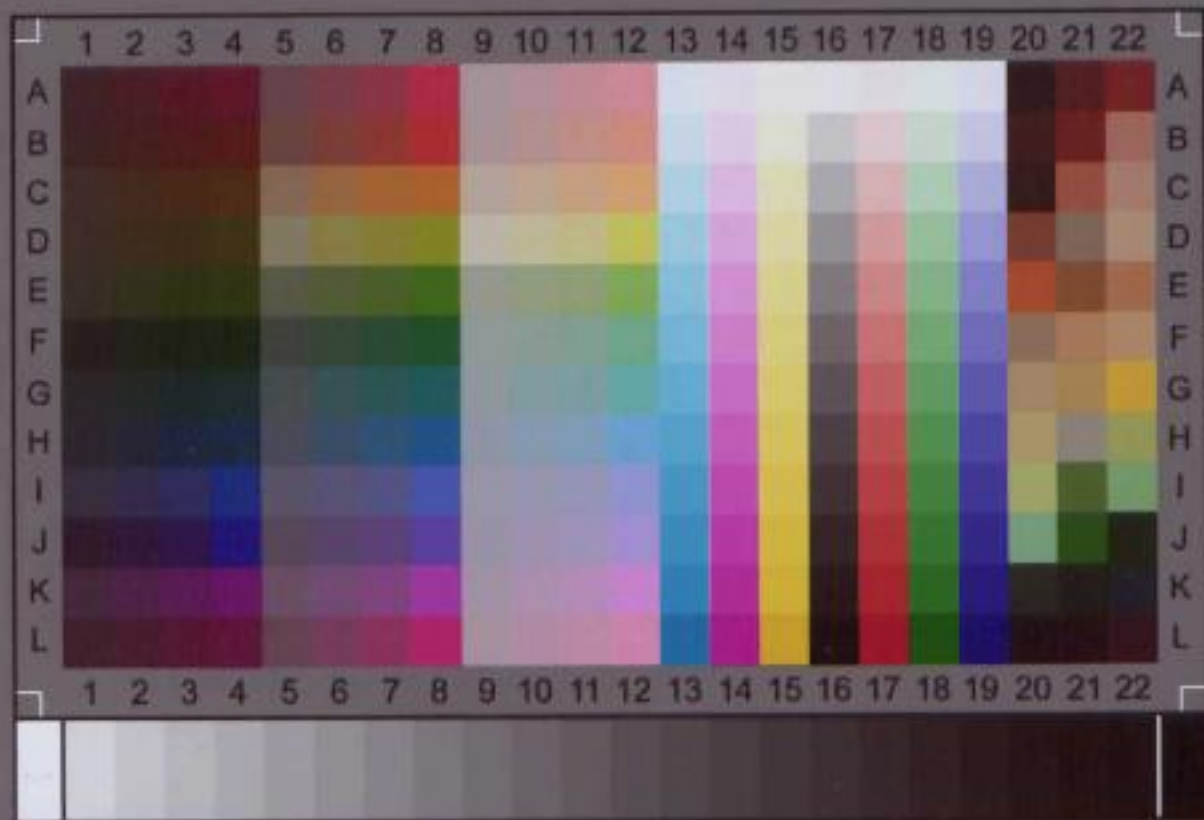


PART 42 ends:-

PQ to FCo 29.9.89

PART 43 begins:-

MS/FCO to MS/HEALTH 2.10.89



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