PREM 19/3432

MT

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Visit of M. Werner PM of luxembourg

Visit of M. Santer PM of LUXEMBOURG.

LUXEMBOURG

November 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~26.11.82~~		**See Relations**					
~~23.2.82~~							
~~9.7.82~~		PREM 19/3432					
~~11.10.82~~							
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~~22.5.91~~							
~~5.6.91~~							
5.6.91							

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Earliest papers filed on European Policy.

Part 5 – Luxembourg Council Policy.

Meeting Record

Subject
" Master

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 June 1991

Dear Christopher,

PRIME MINISTER'S MEETING WITH THE LUXEMBOURG PRIME MINISTER: 25 JUNE

Thank you for your letter of 24 June containing briefing for the Prime Minister's meeting with M. Santer today. The Prime Minister was also grateful for the instant analysis of M. Santer's pre-European Council letter. Armed with that, and a translation of the EPP statement issued two days ago, the Prime Minister was able to question M. Santer closely in the opening stages of the meeting.

M. Santer said the aim was to agree at Maastricht but to have a stocktaking at Luxembourg which would enable us to see where agreements could be reached even if final agreement did not happen until the end of the year. He confirmed the subjects for discussion in his agenda letter. The reason for identifying subjects for discussion now was that not all the questions could be taken to Maastricht. If they were there was a risk of no agreement.

The Prime Minister said that that was not at all what he had been expecting to hear on the basis of his earlier discussion with M. Santer. It was right to start the European Council with a discussion of the single market; right to discuss the two IGCs at length. But he was startled to hear the proposition that unless we made progress beyond a stocktaking in Luxembourg there would be no agreement in Maastricht. The position had always been that we could not make agreements on individual bits of the text but only on the whole. M. Santer seemed to be seeking points of agreement. On that basis we would not be able to agree on very much. If Britain was alone in this, so be it. Nobody who had glanced at the British media could be in any doubt about views here. The Prime Minister had made it clear that despite all the pressures he wanted agreements at the end of the year but if he was put in a position where he had to say yes or no in Luxembourg he would have to say no and he would then have no flexibility for the rest of the year. He wanted there to be an agreement but he equally wanted there to be no misunderstanding.

The Prime Minister then took out the EPP statement with its

clear rejection of anything other than a unitary structure and its requirement that everything be subject to Community competence involving the Commission, the European Parliament and the Court of Justice. This was the tree and not the temple, writ large.

It was not clear that M. Santer had seen the statement at all and he came fairly close to disowning it. The unitary structure did not suit a small member state like Luxembourg, he said. The EPP statement had been issued on the authority of the chairman, Mr. Martens, and had been drafted by the Secretary General after everyone else had left. That said, it reflected positions which Mr. Lubbers had claimed to be ones which the Prime Minister and Mr. Patten had accepted in the context of EDG adherence to the EPP. The Prime Minister said that if Mr. Lubbers had gained that impression he was wrong.

In subsequent discussion M. Santer said that he envisaged concrete orientations. It was not his intention to isolate anyone but he wanted the Luxembourg meeting to give a clear sense of direction for the future. The Presidency had, however, to reflect the views of all the member states, hence the various changes that had been made in the text since Dresden. He hoped to be able to stick with the structure in its existing form. The Prime Minister said that he would be prepared to agree to the three-tier structure but not to federal union. He did not know what it meant. It could mean subsidiarity or it could mean centralization. There was risk of a semantic squabble. Why not stick with "ever closer union"?

Mr. Garel-Jones said he had been attracted by the phrase the Luxembourgers had used about finding a point of equilibrium. The orientation in Luxembourg in favour of the three-pillared structure would give us more room for manoeuvre in December. It had been pretty clear in last week's discussion that four countries did not want to take specific decisions next Friday and when M. Poos had tried to sum up in a contrary sense that feeling had been expressed. Four countries had opposed co-decision with the European Parliament in principle. Any attempt to unblock the Social Charter would be dynamite for us.

The Prime Minister asked how the discussion of EMU would be structured. M. Santer said there would be a Chairman's report including something on convergence and on the passage to Stage III. Mr. Wicks warned that if the Luxembourgers were talking about the three principles of no veto, no lock-out and no imposition it was important to avoid getting into the British problem. Equally we had to be clear that "no veto" did not mean no veto over the Treaty but no veto over the move to Stage III once the Treaty had been agreed. M. Mersch (Director of the Luxembourg Treasury) seemed to take this point.

M. Weyland said that the Commission wanted to get rid of the judicial pillar of the temple structure altogether. Mr. Garel-Jones said that if M. Santer, from the chair, proposed that all should agree to the existing structure then he thought the UK, France and perhaps three other member states would give strong

support. We ourselves could not make that proposal since we were arguing that no decisions should be taken at this point. M. Santer did not give the impression that he would act in this way. The Prime Minister said that if there were points which we and the Luxembourgers, wearing their national hat, had in common and which it would be useful for the Prime Minister to make, then he would do so in his own name but with Luxembourg's interests also in mind.

M. Weyland asked whether it would be possible for the draft conclusions to identify a number of problems requiring decision and say that work was going on on the basis of the draft Treaty. Mr. Garel-Jones said that this would work for CFSP but not, for example, for co-decision, because that raised an issue of principle as yet unresolved.

Comment

I think M. Santer will have gone away with a very clear impression of the limits beyond which we cannot be pushed. But although he described his position and ours as being close, there is a gap between the concept of stocktaking and the concept of orientations and no doubt plenty of wedges will be driven into that gap before Saturday evening.

I enclose a note of the comments which the Prime Minister and M. Santer gave to the press in Downing Street after the meeting.

I am copying this letter and enclosure to Jeremy Heywood (HM Treasury) and Sonia Phippard (Cabinet Office).

Yours,

Stephen

J.S. WALL

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

Stephen
Content to stay with this?
Or anything else you would like
to add - as a "line"? Thks Peter.

Comments by the Prime Minister and M. Santer
Tuesday, 25 June 1991

PM

We have been disucssing the nature of the discussions we will be having this weekend. There is a splendid structure that has been set out that will enable us to address all the important issues and I have said to the Prime Minister how much I appreciate the way this has been arranged. I think we both see this weekend's meeting as an occasion to take stock of the tremendous progress that has been made over the last six months, to look at the particular difficulties that arise, and to set general orientations for the discussions that must still proceed. And we have a joint intention to see that it is a successful weekend and that we are in a position to reach final conclusions on the two inter-government conferences when we reach Maastricht in December.

M. Santer

We have had a very useful meeting withthe Prime Minister. We discussed the agenda for the European Council in Luxembourg and we agreed about the items on the agenda plus the interior market, and the achievements of the interior market, which is also very important I must say. We also discussed the problems of immigration and the problems of exile.....
So we have to take stock about the two intergovernment conferences.I must say that we are now in the right timetable to take any decisions in Maastricht in December under the Netherlands Presidency. Therefore we have to have now discussions about the complete orientations before the next Presidency so that we can reach, I hope so, I am quite confident about that, an agreement in Maastricht.

In answer to questions the PM said:

Many things will be discussed but not agreed this weekend.At the moment we have before us some drafts that are the product of the individual wishes of 12 individual nation states. There is a long way to go before we reach conclusions as to what will actually stay in the Treaty.So there will be many discussions in order to set the right orientations for finalisation of the Treaty in Maastricht. So there will be very broad discussions over this weekend.

CCPC

Foreign &
Commonwealth
Office

London SW1A 2AH

24 June 1991

Dear Stephen,

Prime Minister's Meeting with M. Santer, 26 June: Attendance

I owe you a further note about attendance on our side at the Prime Minister's meeting with M. Santer at 1630 on Tuesday 25 June. The Foreign Secretary is unfortunately already committed to a meeting with the 1922 Committee Executive, which he believes is important and best left as it is. Mr Garel-Jones will therefore attend the meeting with M. Santer. As now arranged, the Prime Minister will also be accompanied by yourself, Sir John Kerr and Nigel Wicks.

Yours ever,

Christopher Prentice

(C N R Prentice)
Private Secretary

J S Wall Esq
10 Downing Street

CONFIDENTIAL

Foreign & Commonwealth Office

London SW1A 2AH

24 June 1991

Dear Stephen,

Prime Minister's Meeting with Luxembourg Prime Minister, 25 June

The Luxembourg Prime Minister, M. Jacques Santer, will call on the Prime Minister for an hour at 1630 on Tuesday 25 June. The Foreign Secretary or Mr Garel-Jones, Nigel Wicks and Sir John Kerr will attend. Santer will be accompanied by M. Yves Mersch (Director of The Treasury), M. Joseph Weyland (Ambassador to the EC) and M. Jean-Jacques Kasel (Political Director, MFA).

Santer will just have completed his tour of EC capitals to prepare for the European Council on 28/29 June. The Prime Minister will want to try to consolidate the progress he made on 5 June (reporting letter enclosed) in bringing Santer round to our views on handling the Council.

Our objectives will be:

- to re-emphasise the need for a stock taking discussion on the IGCs, and to discourage Santer from trying to single out certain issues for agreement;

- to strengthen Santer's apparent resolve to maintain the separate "pillar" structure of the political union treaty and to make clear the importance we attach to any revision clause being neutral;

- to give our support to Santer's intention to avoid defence in the discussion of CFSP; and

- to stress the importance we attach to the European Council projecting a message of openness to the outside world.

Political Union IGC

The Presidency circulated a new draft Treaty text this week. It will be on the table for the European Council but not for detailed discussion.

/Foreign

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Foreign Ministers met on 23 June to decide the subjects the European Council should cover. Poos, the Luxembourg Foreign Minister, concluded after discussion that the Council should focus on CFSP (but not defence) and co-decision; with cohesion (essentially an oral report by Delors) and the social dimension (at Italian behest) sub-themes. The Germans may, nevertheless, raise interior and justice cooperation. We have said we shall want to discuss ways to improve the efficiency of Community institutions and strengthen the rule of law. The structure of the Treaty is also likely to be a theme of this discussion. The President's latest draft included unacceptable references to a 'federal goal', a single currency and a defence policy, and continues to blur the distinction between Community action and inter-governmntal cooperation. We shall need to stress the importance of a clear distinction between the two.

At the Foreign Ministers' meeting, Poos (Luxembourg Foreign Minister) tried to conclude that a consensus existed on CFSP and co-decision, but failed when challenged by us, backed up by Denmark, Portugal and Ireland, all of whom agreed with us that this Council was not the place or time for decisions. There was also some support for this position from Germany and Spain. So there was nowhere near a consensus for firm decisions. The Luxembourgers may, hwoever, try again at this European Council. We must dissuade them.

The Prime Minister may wish to:

- welcome the Presidency's draft text as a reference point for future discussion, even though it is by no means acceptable to us as it stands.

- agree that the European Council should concentrate on a few major issues.

- happy to have a discussion of CFSP, but premature to aim for conclusions, or to go deeply into defence issues.

- co-decision is important, but discussion must include other aspects of democratic legitimacy: strengthening the EP's monitoring powers, and the role of national parliament.

- discussion of cohesion may be unavoidable but we do not see much scope for progress. It is too early to try to defuse this with a declaration. Spain would not accept any language acceptable to northern member states.

/- efficiency

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- efficiency and the rule of law are important priorities for the UK. We will wish to see some discussion at the Council.

- discussion of other areas has not progressed far enough to seek even provisional agreement on the basis of the Presidency draft text.

- reinforce the message that the UK is looking for neutral stock-taking conclusions. Our outline text (which Santer will have seen) is as far as we can go in indicating agreement or disagreement with particular aspects of the text.

Common Foreign and Security Policy

The Prime Minister was told by M Santer at their meeting on 5 June that CFSP, though not defence, would be one of the main issues at the European Council. Leaving defence out would suit us. The question of defining the European defence identity in Treaty language will not be ripe for decision at Luxembourg. This can only be settled as part of a package including the NATO review and work in the WEU later in the year. But it remains possible that the French or other partners may try to bounce us into a text on "Common Defence Policy" at Luxembourg, even though "common" is dropped from the latest Presidency text.

Other aspects of the Presidency CFSP text have not received much attention and continue to cause us difficulty (eg, the two-tier model for decision-making, the introduction of majority voting for implementing measures, coordination in international organisations, "Brusselisation" of the CFSP process).

The Prime Minister might say:

Non-Security Aspects of CFSP

- IGC has barely touched on non-security aspects of Presidency text. Would be premature to push for substantive conclusions. UK arguing for simple, flexible decision-making structure operating by consensus (cf, Special European Council of 8 April).

Security/Defence

- Cannot take decisions on Treaty language on European defence issues until we are sure outcome will be compatible with Alliance. Would therefore be premature to reach conclusions at Luxembourg on longer term perspective for European defence.

/EMU

EMU

We have shown our draft Conclusions language to the Luxembourgers. They have been encouraging in their response, but non-committal about the use to be made of them. (The Council Secretariat and some German officials have also seen them but not other Member States.) It would be useful to know Santer's own reactions.

Santer's second agenda letter may refer to European Council discussion of perhaps 3 specific questions to be addressed on EMU. These are likely to be:

1) How to deal with convergence?

2) What principles should underline Stage II?

3) What should be the arrangements for the passage to Stage III?

The first of these is acceptable to us. Under the second heading, we would be prepared to agree to the principle that monetary policy should be in national hands in Stage II, but not to any date for the establishment of the central bank nor compulsory membership of the ERM narrow bands. We should also resist any commitment to a date for Stage II.

The transition to Stage III is the most difficult. Santer will be pushing for agreement to the three principles (no one should veto a move to Stage III; no one should be forced to go against their will; no one should be prevented from going), to which he referred at his previous meeting with the Prime Minister. (The Prime Minister indicated that he found the principles generally acceptable). The Chancellor will shortly be writing on this point.

The Prime Minister may therefore wish to say:

- Hope you have had a chance to see the UK draft Conclusions for the European Council on EMU. Attempt to give Luxembourg credit it undoubtedly deserves, and record consensus on convergence and national monetary policy responsibilities in Stage 2.

- Recognise some may wish to go further but present discussions have not yet reached the point where further agreement is possible. Could not for example agree on establishing European Central Bank in Stage 2

/or compulsory

or compulsory membership of ERM narrow bands since both would conflict with principle of national monetary policy responsibility in Stage 2.

- In particular UK does not think it helpful to try to resolve the "British issue". Recognise that constructive suggestions have been made (including the Delors suggestion, and the 3 principles - no veto/no imposition/no lock out). But reaction in UK press and Parliament to Delors' suggestion shows how senstive this is in UK. Attempt to reach agreement now would provoke reaction which would make future negotiations more difficult.

Single Market and Frontiers

The Prime Minister may wish to:

- stress the importance of a discussion on the Single Market which will give a firm steer for further liberalisation of key sectors such as financial services and transport during the Dutch Presidency and beyond;

- express appreciation for Luxembourg's sensitive handling of the discussions of the External Frontiers Convention, which we hope Interior Ministers may be able to conclude on 26 June;

- remind Santer of his suggestion put forward on 5 June for a serious political discussion of immigration and related problems facing the Community. He might mention that Chancellor Kohl had favoured this approach on 9 June.

External Issues

The Prime Minister agreed with Santer on 5 June that there was a good case for a European Council Declaration on external relations. But Presidency officials seem reluctant to run the draft declaration we gave them. The Prime Minister might say:

- we agree on importance of the European Council reaffirming that the Community is open to the outside world and ready to play an active role internationally. If there is not to be a separate declaration, essential that the Conclusions cover prominently the wide range of international challenges currently facing us. Especially important to send a positive message on GATT and reaffirm our personal commitment to the success of the Round.

/The Presidency

The Presidency have made it clear that there will be an exchange of views over dinner on the Soviet Union. The Prime Minister could say that:

- look forward to a full exchange of views on the Soviet Union. Glad that the EC aid we agreed in Rome is now being disbursed. Gorbachev's visit to London will be an important opportunity to assess what else, if anything, we can and should do. But G7 participants will not be in a position at the Summit to enter into commitments on financial assistance.

EPC

Preparations for the EPC part of the European Council's agenda have been going quite well. The Presidency has identified four main subjects for discussion: Iraq, Arab/Israel, Yugoslavia and arms exports.

On Iraq EC policy remains much as ours and our objective will be to keep it that way. At the EPC Ministerial on 17 June the Presidency said that it might put forward proposals at the European Council. It is not immediately apparent what these might be or what purpose they might serve.

On 17 June there were no rumblings of discontent about continuing to suppress elements of EC policy on Arab/Israel in the interests of the Baker initiative. The Israelis have agreed to full EC participation in any peace conference. Our only concern is that they might have gained the impression from the Troika meeting with Levy on 5 June that the pay back for this would be closer EC/Israel cooperation. But Poos made clear on 17 June that such cooperation depended on progress in the peace process. Our objective for the European Council will be a statement in support of the Baker initiative.

Yugoslavia is likely to be the main focus for EPC discussion with the meeting taking place shortly after Slovenia and Croatia's declarations of independence. We want to ensure that the European Council issues a declaration, building on the CSCE statement published at Berlin on 19 June, which puts pressure on the two republics to continue negotiating for a confederal solution. The Presidency may have more activist plans for EC involvement which it would be useful to smoke out in advance.

On arms exports good progress has been made on the mandate given by the European Council in April to consider how the Twelve might help to maintain the international momentum on this subject created by the Gulf crisis. A set of supply

/criteria

criteria has been agreed, as has the idea that the Twelve should table a resolution at the next UN General Assembly on a UN Arms Register. Both will be announced by the European Council.

Other items for discussion include the UK's proposal for a declaration on sporting contacts with South Africa. This now has majority support, including from the Presidency, who will however wish to cover broader issues in the declaration. We hope that the Anglo-German initiative on improvement of the coordination of UN emergency assistance will also be endorsed by the European Council. Finally, if the Presidency raises our proposal for a declaration on human rights, we might thank them for their help in moving this forward. The Prime Minister might say:

Iraq

- We are all agreed on three important elements needed to provide reassurance to refugees: effective UN presence on ground; maintenance of sanctions; Baghdad/Kurdish agreement with international underpinning.

- Latest contacts with Secretary-General suggest position on UN security guards in Northern Iraq now much better than feared. New pledges of assistance should allow total force of 500 to be deployed by mid-July.

- Understand at EPC Ministerial, 17 June, Jacques Poos said Presidency might put forward proposals on Iraq to European Council. What might these be?

Arab/Israel

- Good progress made by Troika in meeting with Levy, 5 June.
- Glad we are all holding together firmly in support of Baker initiative.

- Not exactly in line with our position in EC but best hope of progress.

- Will Presidency be putting forward a European Council statement in support of Baker?

Yugoslavia

- Events in Yugoslavia reaching a critical point. Slovenian and Croatian independence due to be declared shortly before we meet.

- European Council will need to make statement putting pressure on two republics to continue negotiating for confederal solution.

/- Anything

- Anything else EC can do at this stage?

Arms Exports

- Glad we have been able to make progress since April meeting. Important to maintain momentum.

- Announcement by European Council of agreed supply criteria and intention to put forward resolution at General Assembly on UN Arms Register will set useful lead to others.

South Africa

- Grateful for Presidency support for declaration on sporting links.

- Not asking for lifting of 1985 ban on official sporting contacts. But important to give encouragement to principle of international contacts with sports which have integrated.

- Could support forward looking language in declaration on violence, political prisoners and return of exiles.

Coordination of Emergency Assistance

- We have put forward ideas jointly with Germany on improving coordination of UN emergency assistance.

- We all agree that change is needed and, I believe, on remedy.

- Hope we can agree at Summit to support:

- appointment of high-level figure responsible for all relief measures within UN system;

- establishment of standing committee (which he chairs) to coordinate efforts of governments and NGOs;

- up-to-date register of UN, national, NGO resources.

- Believe would be mistake to be too specific about where senior figure should be located. Clearly will need to have base both in New York and Geneva: New York to ensure necessary close liaison with Secretary General; Geneva because most humanitarian agencies based there.

Human Rights

- Grateful for Presidency support for and work on UK proposal for European Council declaration.

/- Hope

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- Hope time will permit work on declaration to be completed for this European Council.

I am copying this letter to Jeremy Heywood (HMT), and Sonia Phippard (Cabinet Office).

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

J S Wall Esq
10 Downing Street

FILE KK

C/Foreign/Santer

bc PC.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 June 1991

VISIT OF PRIME MINISTER SANTER TO LONDON

This is to confirm our telephone conversation when I said that the Prime Minister would be able to see M. Santer from 1630 to 1730 on Tuesday 25 June. (He will now see Chief Buthelezi from 1730 to 1820.)

I should be grateful for briefing for M. Santer's call, to reach me by am on Monday, 24 June. Perhaps you could also let me know who M. Santer will have with him.

I am copying this letter to Jeremy Heywood (HM Treasury) and to Sonia Phippard (Cabinet Office).

(J. S. WALL)

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

162015
MDHIAN 1656

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VISIT OF PRIME MINISTER SANTER TO LONDON

1. MR SANTER'S OFFICE HAVE PROPOSED A MEETING WITH THE PRIME MINISTER IN LONDON ON 25 JUNE IMMEDIATELY AFTER HIS TALKS WITH PRESIDENT MITTERRAND. M. SANTER COULD BE IN LONDON BY 12.30 FOR LUNCH OR ELSE A MEETING THAT AFTERNOON UP TO SEVEN PM. 26 JUNE WOULD BE VERY DIFFICULT FOR M. SANTER.

2. I HAVE EXPLAINED THAT TIME IS ALSO VERY TIGHT IN LONDON AND HAVE PROMISED TO GET BACK TO SANTER'S OFFICE AS SOON AS POSSIBLE.

3. PLEASE PASS TO PS NO. 10.

CAMPBELL

YYYY

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MR HERVEY

ADDITIONAL 4

PS/NO 10.

NNNN

Prime Minister
I believe you invited M. Santer to call in again after his meetings with other European leaders.
Only possibility on Tuesday 25 June would be 1730-1825 (see programme implications below). OK?
S 18/6

Yes

NOT TO BE COPIED

COPY NO: 2

?1700	DEPART FOR
1830	ARRIVE THE FININGS
1900	CONSTITUENCY ASSOCIATION EVENING FUNCTION AT HOUGHTON HILL HOUSE + MRS MAJOR
Sunday 23 June	
pm	RETURN TO NO.10
Monday 24 June	
1120	DEPART NO 10
1135	DEPART CHELSEA BARRACKS
1330	ARRIVE DUNKIRK FOR ANGLO-FRENCH SUMMIT
1340	MEETING WITH PRESIDENT MITTERRAND FOLLOWED BY
1415-1515	LUNCH
1650	DEPART DUNKIRK
1645	ARRIVE WELLINGTON BARRACKS
1700	LOOK IN ON CONSTITUENCY WOMEN'S COMMITTEE ANNUAL TEA PARTY + MRS MAJOR AND GB H/C
1800-1930	Host Reception for Eureka + SH
	? Peter Gummer
Tuesday 25 June	
0800	Breakfast with SH
0900	Questions briefing
0945	Week ahead meeting
1030	Parliamentary Business Managers
1100	Governor of Hong Kong + Foreign and Commonwealth Secretary + JSW
1245	Lunch and Questions briefing
1515	QUESTIONS
1535	DALE CAMPBELL-SAVOURS MP AND ANN CLWYD MP + DM
1545?	? PATRICK CORMACK MP + GB
1600	RETURN TO NO 10
1615	Prepare for
1630	Chief Buthelezi + JSW
1730	President of Soka Gakhai, IKEDA + JC ?1730 Luxembourg PM Santer
~~1745~~	~~Keep free for~~ Box
1830	AUDIENCE
2000	SPAGHETTI DINNER WITH LORD STEVENS OF LUDGATE + MRS MAJOR
Wednesday 26 June	
0800	Press Breakfast + GO (The Sun)
0915	VIEW CAR + RC
0930	Women's Conference Speech meeting + JC, SH, NT
1100	Farewell call by Sir Patrick Wright + JSW
1130	DEPART FOR
1145	PHOTO SESSION WITH MPs + GB
1300 ?1515	LUNCH WITH 1922 EXECUTIVE COMMITTEE
1530	British Tourist Authority photocall + GO
1545	Keep free for box
1645	Foreign Secretary + JSW
1730	Chancellor + BP
1815-1945?	? European Council briefing meeting

This is what Juliet Campbell [redacted] hoping to discuss with you.

With the compliments of

THE PRIVATE SECRETARY

Stephen
You wanted an hour for Portfolio/ Mandela Lad Ihara
Hour suffolk 1730-1830 Shuffling Ikeda & 26th
Sarah Howard 1775 - 1815
- Shuffling M Ikeda?

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

cc PS/No 10.

FROM: M A Arthur
DATE: 18 June 1991
cc: PS/Mr Garel-Jones
Mr Weston
Mr Bayne
Mr Jay
Mr Sheinwald
L Parker Esq,
Cabinet Office

Private Secretary

SANTER VISIT

1. I spoke to Mrs Campbell at 1500 today, as you suggested. She has sent a telegram. Her latest message from the Luxembourgers is a little bit more specific than the telegram implies.

2. Santer would prefer to come to London on Tuesday 25 June, but could probably manage Wednesday 26 June if his arm were twisted.

3. On 25 June he has suggested three slots:
a) 1230 and lunch
b) 1600 - 1700
c) 1800 - 1900

4. Mrs Campbell is perplexed by the precision envisaged in (b) and (c), and suspects that any time late afternoon would be possible. I warned that the Prime Minister might not be too happy about a meeting in advance of PM Questions (1515). I said we would get back to her.

Sheila Cassell

pp M A Arthur
European Community Department
(Internal)

MA4AKE/1

162015
MDADAN 5463

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3. PLEASE PASS TO PS NO. 10.

CAMPBELL

YYYY

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SUBJECT cc MASTER

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 June 1991

Dear Richard,

PRIME MINISTER'S MEETING WITH LUXEMBOURG PRIME MINISTER
5 JUNE 1991

Thank you for your letter of 3 June with briefing material for the Prime Minister's meeting with Prime Minister Santer. I am also grateful to Jeremy Heywood and Sheila James for their letters of 4 June covering EMU and indirect tax harmonisation.

M. Santer duly came to lunch today accompanied by M. Yves Mersch (Director of The Treasury), Nico Schmit (Ministry of Foreign Affairs) and M. Pierre-Louis Lorenz (Assistance Political Director, Ministry of Foreign Affairs). Only when we tried to sit down at table did we discover that the Luxembourg Ambassador had sneaked in as well. We made a place for him but he took a strictly decorative part in the proceedings.

Before lunch there was some discussion of M. Santer's recent visit to Yugoslavia and Santer identified this as a subject for discussion at the European Council. He did not see much cause for hope. With the exception of Markovic, none of the Yugoslav leaders had any real sense of economic reality. All but one of them was a Marxist re-tread. Santer did not himself rule out a role for the CSCE but said that the Yugoslavs themselves had rejected the idea so far.

M. Santer also identified the Middle East as a subject for discussion. The Community should have a role in the peace process, though this was being resisted by Mr Shamir.

The Prime Minister congratulated M. Santer on the progress so far achieved under the Luxembourg Presidency. M. Santer said that he aimed to deal with the single market on the first morning of the European Council and the two IGCs in the afternoon. We needed to make progress on the single market. He thought there had been a fruitful discussion on VAT at ECOFIN. Luxembourg too had some difficulties over VAT. The Prime Minister explained that supply and taxation were prerogatives jealously guarded by Parliament so that even if the Government agreed to a minimum rate Parliament would not. We had tried to accommodate our partners through the Declaration which the Chancellor had made. We were also prepared to agree to minimum rates on alcohol and tobacco, though not the low rates presently envisaged. We were also prepared to look for a suitable minimum rate for duty on diesel. M. Santer might be concerned that if no

agreements were reached under the Luxembourg Presidency we would crumble under the Dutch. We would not. An issue of principle was at stake.

M. Santer said that the European Council was not a drafting committee. It should concentrate on a number of issues. The first of these was CFSP. On this he started by saying that the meeting should concentrate on foreign policy leaving security and defence on one side. He subsequently revised this to suggest that foreign policy and security could be discussed but not defence. The Prime Minister and Mr Garel-Jones pointed to the importance in this context of preserving the existing architecture of the Treaty. M. Santer seemed to have been undermined by the discussion at Dresden and thought that half a dozen member states had now rallied to the Delors position. Sir John Kerr said he thought one or two member states would like to agree with M. Delors but recognised that no agreement could be reached on the basis of a unitary text. The Luxembourgers themselves would no doubt like to go in the Delors direction but had rightly put forward a realistic compromise. Mr Garel-Jones pointed out that if the architecture was not right then we could not begin to have a negotiation on substantive issues and could not begin to sell an outcome to the House of Commons.

M. Santer seemed to take some comfort from this and to be strengthened in his resolve. He pointed out that the French objected to the Delors amendments. He then raised the question of a revisionary clause. Mr Garel-Jones made clear that a clause which suggested that the present text was an evolution towards a unitary text would not be acceptable. After a bit of discussion it was agreed that we could accept a reference to another look being taken at this issue in five years time though the Prime Minister pointed out that even this would not be regarded as neutral in the House of Commons.

Sir John Kerr proposed that it would be useful if the European Council could agree on one or two propositions. These were: no-one wants to damage the Alliance; everyone wants to see a greater European defence identity; there is a role in this for the WEU. The Prime Minister said that it would be difficult to go beyond that. This was an area where, through no fault of the Presidency, there was a great deal of obscurity. The whole issue of "co-operation" versus "common action" was unresolved and ill defined as was the question of qualified majority voting. The Community would undoubtedly grow in size. What happened about neutrals? How did we deal with the non-EC European members of NATO?

The Prime Minister said that any attempt to agree conclusions on frontiers would be very difficult for Britain at a time when we were faced with serious immigration problems. Sir John Kerr suggested that there might, however, be a discussion at the European Council on the dangers for all Community countries of third country immigration, with a view to reaching an agreement that building an effective external ring-fence round the Community was an important task. The Prime Minister agreed. Many of our difficulties would go away if there was an external Community frontier as effective as our national frontier.

M. Santer seemed to like this idea. He, too, was concerned about the immigration issue.

M. Santer identified his second subject for discussion as the powers of the European Parliament. Several member states, notably Germany, were quite tough in their demands for more powers for the European Parliament. The Prime Minister identified this as another difficult area for our Parliament. Santer said that the French too did not like the idea of increased powers for the Parliament. But this would have to be discussed, as would other institutional questions like an extension of qualified majority voting. Kohl was very eager. These matters could not be left entirely to the Netherlands Presidency.

Sir John Kerr (laying on the flattery in Disraelian proportions), said that the Luxembourg achievement had been to make progress across the board on the IGCs. If they tried to single out certain issues for agreement they might fail and the overall result could therefore look like a failure. The Prime Minister confirmed that we would not be able to accept much in June and would need to look at the package as a whole. This was not just the British view. The Germans insisted on linkage between the two IGCs. Other member states would have their own difficulties. Some of the changes being proposed were very far reaching and ambitious. M. Santer said that if he simply reported to the European Council on the two IGCs, and if no agreements were reached, then things would simply be pushed to the next Presidency. He was afraid that areas where substantial agreement had been reached might then unravel. He came back to the idea of a stock taking. In subsequent discussion the Prime Minister and others in our team stressed the importance of implementation of Community decisions and of compliance. The Luxembourg side thought there was a real prospect of getting substantial agreement on compliance under article 171 of the Treaty. M. Santer reverted to the idea of extending qualified majority voting. The Prime Minister said that our Parliament would see every extension of competence as being at the expense of the domestic Parliament. This was one reason why agreement on an overall package was important so that you ended up with a balance of advantage.

M. Santer identified as the third item for discussion economic and social cohesion. He showed himself well aware that the social part of this item was very explosive and gave the impression that he would try to avoid substantive discussion of it. On cohesion, he was advised by our side that it would be damaging at this stage to offer the Spaniards and other southerners a declaration which looked forward to cohesion being discussed in the future financing negotiations next year. That would only tempt the Spaniards to put down different demands during the remainder of this year. The trick would be to produce such a declaration at the final stage of the negotiations in Maastricht. M. Santer said that he would have to find some language on cohesion. The Prime Minister said that since language had been found at previous European Councils he was sure the ingenuity of officials would match this occasion as well.

EMU

The Prime Minister stressed the importance we attached to real convergence conditions, but there was a potential conflict between monitoring convergence before moving to Stage II and before moving from Stage II to Stage III, and the desire of some member states to set dates, including the date already written into the Rome European Council conclusions for the start of Stage II. What did we mean by convergence? We could not just mean inflation rates. Did we mean GDP growth, unemployment rates, flexibility of the economy, interest rates, etc.? Convergence was not a stick devised by the UK to fend off economic and monetary union. It was vital to the success of the enterprise. He hoped at the European Council we could have a serious discussion of this issue including matters like the handling of fiscal deficits. If we got this wrong we could, within three years, undo the work of twenty.

M. Santer and his colleagues indicated that their approach was to set out very detailed guidelines on convergence and that these guidelines should have priority over a date in setting the moves between Stages I and II and Stages II and III. There should also be provision for retrospective assessment of convergence so that you did not get a false reading. An economy on the way up and an economy on the way down would appear to converge as they passed each other. John Kerr said that any text on EMU should talk about the conditions of convergence, should make clear that monetary policy was for member states in Stage II, should describe the further convergence tests needed for the move to Stage III, and should make clear that the problems of accountability of the financial institution and its independence had not yet been agreed.

M. Santer was evidently worried at a lack of parallelism in all this. We would be setting out quite a lot of detail on EMU but not much on political union, though he agreed with the Prime Minister that the more time went on the more it became clear that the political union IGC was more problematical than the EMU IGC. Mr Garel-Jones pointed out that if the structure of the Treaty was agreed at the European Council that would already be a considerable achievement. The Prime Minister offered to let M. Santer have some suggestions of possible Treaty language on both EMU and political union and the Luxembourgers agreed to this.

The Prime Minister said that the suggestion by M. Beregovoy, which M. Delors had then run with, of special provision for the UK on Stage 3 had not been helpful politically. He recognised that M. Delors had acted for the best of reasons, but with the worst of effects. M. Santer said he understood this. He envisaged agreement on a general principle on the transition from Stage 2 to Stage 3 which would apply to all member states. This would be: no veto, no compulsion, no lockout. The Prime Minister said that a formula such as this in the Treaty would be satisfactory.

Sir John Kerr floated the idea of a declaration at the European Council on external issues which might cover the single market, the GATT round, relations with EFTA, Association

Agreements with East European countries, and the desirability of building on EC declarations with the US, Canada and Japan. The Luxembourgers might like to take up this idea as their own. M. Santer thought the idea was a good one, but saw no reason why Britain should not continue to run with it.

Mr Weston said that progress on the Japan/EC declaration seemed to have got bogged down because the idea had been hijacked by the Commission. M. Lorenz said that the Luxembourgers had had a meeting with the Japanese and in fact it was the Japanese who were being obstructive.

The Prime Minister suggested that, if it would be useful at the end of his round, M. Santer might like to come back for another talk in advance of the European Council. M. Santer welcomed this. He hoped that the ground for the European Council would anyway be thoroughly prepared by Foreign Ministers at a special meeting on 23 or 24 June.

South Africa

The Prime Minister argued for a statement at the European Council calling for the re-establishment of sporting contacts with South Africa as individual sports became integrated. The Luxembourgers wondered whether this would be possible while the Danes were still blocking the measures which had been agreed at the Foreign Affairs Council a month ago. The Prime Minister said that we should not be deterred by this. It was important to give a political signal. South Africa needed access to the international financial institutions if she was to cope with a population growth rate of more than three per cent per year. GDP growth was currently zero per cent. M. Santer agreed that President de Klerk had been faithful to his promises, and brave.

Drugs

The Prime Minister said that we would like to have a bilateral agreement with the Luxembourgers on confiscation of assets acquired through drug trafficking. M. Santer said that he, too, would like to have such an agreement. The Luxembourgers were shortly to enact the necessary domestic legislation to allow them to confiscate drug assets. Once legislation was in place, an agreement could be reached.

Follow-up

I have already told Sheila James that the way is clear for the Treasury to float with the Germans our proposed European Council conclusions language on EMU in advance of the Prime Minister's meeting with Chancellor Kohl on Sunday.

The Prime Minister would be grateful if the FCO, in conjunction with the Cabinet Office and other departments as necessary, could draft language for the political union bit of the conclusions which could be offered to the Luxembourgers.

The Prime Minister has also said that we should offer language to the Luxembourgers on a possible declaration on the Community's external relations. It would clearly be tactically better if the Luxembourgers were to run with this idea themselves.

I am copying this letter to Jeremy Heywood (HM Treasury), Martin Stanley (Department of Trade and Industry), Sonia Phippard (Cabinet Office) and Sir John Kerr (UK Rep Brussels).

Yours,

Stephen

J S WALL

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From The Secretary of State

4 June 1991

Dear Stephen,

Prime Minister's Meeting with Santer : 5 June

Since Richard Gozney's letter of 3 June, the Foreign Secretary has reported on his discussions yesterday at the Informal meeting of Foreign Ministers in Dresden. I enclose a copy of the telegram.

Discussion concentrated solely on the structure of the Political Union Treaty. This is of great importance to us. M. Delors mounted a rearguard action and argued against the two-pillar structure contained in the present Presidency draft. He secured widespread support, with only France, Denmark and ourselves arguing for retention of the Presidency structure (or an improved version of it). Ireland and Portugal sat on the fence. This was disappointing. But, in summing up, M. Poos seemed to claw back some of the lost ground.

The next step is for the Presidency to recirculate their text. It is important that this maintains the present structure, because the Dutch are among the stronger advocates of a unitary text as proposed by the Commission: we want the two-pillar structure firmly entrenched before they take over the Presidency. Indeed, this may be one point where we should work for more than a take-note conclusion from the European Council.

Mr Garel-Jones - in the Foreign Secretary's absence - hopes that the Prime Minister will make clear to Santer the overriding importance we attach to achieving a treaty structure which maintains a two-pillar approach.

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

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FROM PRIVATE SECRETARY

PART ONE OF TWO
INFORMAL EC FOREIGN MINISTERS' MEETING, DRESDEN, 3 JUNE:
POLITICAL UNION IGC : TREATY ARCHITECTURE

SUMMARY

1. A CALM, SERIOUS DISCUSSION WITH DELORS AND DUMAS THE MAIN PROTAGONISTS. DELORS BROADENS HIS SUPPORT. THE MAJORITY, INCLUDING GENSCHER, SUPPORT FURTHER WORK TO RECONCILE THE PILLARS AND UNITARY APPROACHES. ONLY THE FRENCH AND DANES AND SECRETARY OF STATE EXPRESS CLEAR PREFERENCE FOR THE PRESIDENCY DRAFT TEXT. IRELAND AND PORTUGAL SIT ON FENCE. POOS' INFORMAL CONCLUSIONS POINT TO SOME STRENGTHENING OF THE OPENING ARTICLES, BUT THE ESSENCE OF THE PILLARS APPROACH PROBABLY STILL SAFE.

DETAIL

2. POOS (PRESIDENCY) REFERRED TO DELORS' LETTER OF 21 MAY. THERE WERE MISUNDERSTANDINGS WHICH NEEDED TO BE REMOVED. ON SUBSTANCE, HE BELIEVED MEMBER STATES COULD AGREE ON THREE POINTS:

(I) NOT ALL THE AREAS OF ACTION BY THE UNION COULD BE UNDER THE SAME PROCEDURES, EG THE CFSP NEEDED DIFFERENT PROCEDURES FROM THE CAP. AGREEMENT ON THIS WAS A SINE QUA NON FOR FURTHER PROGRESS.

(II) ALL THE SUBJECTS SHOULD BE COVERED WITHIN A SINGLE INSTITUTIONAL FRAMEWORK (FR. CADRE). IN THAT SENSE THERE WOULD BE UNITY (UNICITE)

(III) THE UNION HAD TO EVOLVE. THE PRESENT NEGOTIATION WOULD PRODUCE A STEP FORWARD, NOT THE FINAL STATE OF THE UNION WHICH WAS UNPREDICTABLE.

3. CONTINUING, POOS SAID THERE WERE TWO POSSIBLE ARCHITECTURES. EITHER ALL ELEMENTS COULD BE INCLUDED IN THE SAME SYSTEM WITH DEROGATIONS AND EXCEPTIONS FOR CFSP, JUSTICE/INTERIOR MINISTERS ISSUES ETC: OR THERE COULD BE SEPARATE CHAPTERS. WAS THERE A FUNDAMENTAL DIFFERENCE BETWEEN

THESE APPROACHES? AFTER MUCH THOUGHT, THE PRESIDENCY HAD PREFERRED THE SECOND APPROACH BUT THIS WAS NOT A RELIGIOUS CONVICTION AND THEY WERE WILLING TO LISTEN.

4. DELORS (COMMISSION) SPOKE NEXT. HE WONDERED IF THERE WAS A REAL DIFFERENCE OF PERCEPTION OR ONLY OF EXPRESSION. POOS HAD EXPLAINED THE ISSUE WELL. THE LUXEMBOURG PRESIDENCY HAD MADE GREAT PROGRESS. AT THE LUXEMBOURG SUMMIT THERE MIGHT WELL BE GENERAL SURPRISE AT HOW MUCH HAD BEEN ACHIEVED. SOME CRITICISMS OF HIS OWN PROPOSAL ON ARCHITECTURE WERE INACCURATE: THIS WAS NOT AN EFFORT BY THE COMMISSION TO STRENGTHEN OR EXTEND ITS OWN INFLUENCE. THE COMMISSION WISHED TO MAINTAIN ITS POWER OF INITIATIVE BUT ACCEPTED THAT CFSP, FOR INSTANCE, REQUIRED DIFFERENT PROCEDURES AND HAD NO AMBITION TO UNDERMINE THE ROLE GIVEN TO THE EUROPEAN COUNCIL UNDER THE SEA: WITHOUT THE COUNCIL, 75 PER CENT OF THE DECISIONS SINCE 1985 WOULD NOT HAVE BEEN MADE. HOWEVER, THE PRESENT DRAFT PRESIDENCY TEXT CLOSED THE WINDOW TO AN EVENTUAL FEDERAL EUROPE. THERE NEEDED TO BE EVOLUTION: THE AMERICANS, FOR INSTANCE, WANTED THE EC TO SPEAK WITH A SINGLE VOICE ON ALL MATTERS: THERE WAS DISORDER IN THE BANKING NEGOTIATIONS WITH JAPAN: AND THERE HAD BEEN DISARRAY OVER AID TO ROMANIA. A STRUCTURE WAS NEEDED WHICH COULD SYNTHESIZE VIEWS. THIS SHOULD BE ONE LEGAL ENTITY AND A SINGLE STRUCTURE FOR ALL SUBJECTS, LEAVING ASIDE DEFENCE. ETHIOPIA AND KURDISTAN HAD AGAIN SHOWN THE ESSENTIAL LINK BETWEEN FOREIGN POLICY (CFSP) AND RELIEF OF DISASTERS (EC): THESE SHOULD BE UNDER THE SAME SYSTEM. BUT THERE WAS NO ATTEMPT TO FORCE THE COMMUNITARISATION OF SUBJECTS: THERE WOULD BE A NEW SINGLE LEGAL ENTITY (THE UNION) BUT FOREIGN AND SECURITY POLICY AND INTERIOR MATTERS WOULD NOT BE UNDER THE ECJ.

5. DUMAS (FRANCE) AGREED THAT IT WAS IMPORTANT TO REMOVE MISUNDERSTANDINGS AND TAKE THE HEAT OUT OF THE DEBATE. ON SUBSTANCE, MOST MEMBERS STATES WANTED TO MAKE A LEAP FORWARD IN INTEGRATION TOWARDS A GENERAL POLITICAL UNION. THE QUESTION WAS HOW THIS SHOULD BE EXPRESSED IN A JURIDICAL TEXT. WE SHOULD INCREASE THE SCOPE OF THE UNION THROUGH EMU, CITIZENSHIP, MORE DEMOCRACY, JOINT ACTION IN INTERNAL MATTERS AND CFSP. ONE UNION ENCOMPASSING ALL THIS ACTIVITY WAS NEEDED. IN SOME AREAS (EG EMU) A FULLER DEGREE OF INTEGRATION WAS POSSIBLE. JOINT ACTION ON INTERIOR MATTERS AND CFSP WOULD BE A HALF-WAY HOUSE. THERE SHOULD BE A COMMITMENT TO THE FINAL OBJECTIVE OF A FEDERAL EUROPE: THIS WINDOW HAD TO BE KEPT OPEN, EVEN IF THAT CAUSED DIFFICULTIES FOR SOME.

6. DUMAS CONTINUED THAT THE PRESIDENCY TEXT MET THESE REQUIREMENTS. THERE WAS NO SERIOUS ALTERNATIVE. IT WAS

INCONCEIVABLE TO BRING INTERIOR AND CFSP MATTERS UNDER NORMAL COMMUNITY PROCEDURES. IN A UNITARY SYSTEM, SUCH AS THE COMMISSION PROPOSED, THE MANY DEROGATIONS NECESSARY WOULD CAUSE A LEGAL IMBROGLIO - VARIABLE LEGAL GEOMETRY AND CONFUSION. FRANCE WANTED ACCELERATION IN THE COMMUNITY BUT WOULD REFUSE TO MAKE GRANDIOSE STATEMENTS WHICH COULD NOT BE REALISED.

7. DUMAS QUESTIONED THE COMMISSION AMENDMENT TO ARTICLE C ABOUT RESOURCES, WHICH SEEMED TO IMPLY THAT THE COMMUNITY BUDGET WOULD PAY FOR EVERYTHING, EVEN THE POLICE AND FOREIGN POLICY. BUT FRANCE WAS PREPARED TO CONSIDER CHANGES IN THE DRAFT PRESIDENCY TEXT. THESE MIGHT UNDERLINE THE FEDERAL OBJECTIVE, STRENGTHEN THE LINKS BETWEEN THE PILLARS OF THE UNION STRUCTURE, INCLUDE A TIMETABLE FOR CONSIDERING FURTHER INTEGRATION AND LIST OTHER COMMUNITY INSTITUTIONS ALONGSIDE THE EUROPEAN COUNCIL IN THE PREAMBLE. BUT WIDER AMENDMENT WOULD NOT BE HELPFUL, SO NEGOTIATIONS SHOULD PROCEED ON THE BASIS OF THE PRESIDENCY TEXT. THE LUXEMBOURG SUMMIT SHOULD RATIFY THE WORK DONE TO DATE.

8. DE MICHELIS (ITALY) SAID HE COULD NOT AGREE NOW ON A FEDERAL APPROACH FOR EVERYTHING BUT HE SHARED DELORS' ANXIETIES. HE THEREFORE SUPPORTED DELORS' BASIC APPROACH, WHICH SHOULD BE EXPLORED, BUT AVOIDING THE LEGAL IMBROGLIO FEARED BY FRANCE. THE PRESIDENCY SHOULD ELABORATE BOTH APPROACHES SO THAT MINISTERS COULD MAKE A PRAGMATIC CHOICE.

9. EYSKENS (BELGIUM) URGED COMPROMISE. TO AVOID DISASTER THE WINDOW TO A FEDERAL FUTURE MUST BE LEFT OPEN. ENLARGEMENT WAS INEVITABLE BUT THE COMMUNITY MUST FIRST HAVE AN INSTITUTIONAL ACQUIS WHICH PRESERVED THE FEDERAL PERSPECTIVE. HE SUPPORTED THE COMMISSION AMENDMENTS, PARTICULARLY ON ARTICLE B.

10. THE SECRETARY OF STATE SPOKE NEXT. HE COMMENDED THE PRESIDENCY'S EFFORTS IN TACKLING THIS ENORMOUS SUBJECT. WE SHOULD NOT AVOID A SINCERE AND SERIOUS PHILOSOPHICAL DEBATE, SUCH AS WAS NOW GOING ON IN BRITAIN. POLITICAL UNION WAS A PROCESS. THE FINAL DESTINATION WAS UNKNOWN. WE SHOULD MAKE SURE THAT THE NEXT STEP WAS THE RIGHT ONE. IT WAS NOT POSSIBLE TO BIND THE DECISIONS OF FUTURE PARLIAMENTS. THE EXPERIENCE UNDER THE SEA OF RETAINING EPC OUTSIDE THE TREATY OF ROME HAD WORKED WELL. WE NOW NEEDED TO TRANSFORM EPC INTO CFSP AND REINFORCE COOPERATION BETWEEN THE TWELVE IN INTERIOR AND JUSTICE AFFAIRS. ALL WERE AGREED THAT COMMUNITY PROCEDURES COULD NOT BE EXTENDED INTO THESE AREAS. THERE WERE 3 CHOICES: THE MODEL FOLLOWED IN THE PRESIDENCY DRAFT: THE COMMISSION'S MODEL, WHICH PUT COOPERATION IN THESE AREAS INSIDE THE TREATY OF ROME BUT WITH A STRING OF EXEMPTIONS - THIS, AS HAD BEEN SAID, WOULD BE COMPLEX, CONFUSING AND UNSOUND: THE THIRD CHOICE WAS TO ABANDON

ALTOGETHER THE IDEA OF A TREATY BASE FOR COOPERATION IN THESE FIELDS. THIS WOULD BE A GREAT PITY. BUT, IF A SINGLE STRUCTURE WERE TO BE THE ONLY OPTION, THIS WOULD BE THE ONLY SOLUTION. THE PRESIDENCY APPROACH WAS THEREFORE RIGHT. HOWEVER, PARTS OF THE CFSP TEXT PROVIDED LINKS WHICH WERE TOO CLOSE TO COMMUNITY STRUCTURES: AND THE TEXT ON INTERIOR AND JUDICIAL COOPERATION WAS ALSO, IN OUR VIEW, TOO STRONG. THE UK HAD TABLED ITS OWN PROPOSALS WHICH PRESERVED THE NECESSARY DISTINCTION BETWEEN THIS COOPERATION AND COMMUNITY PROCEDURES. PRESERVING A CLEAR DISTINCTION BETWEEN UNION AND COMMUNITY PROVISIONS WAS CRUCIAL TO THE UK: WE WERE THEREFORE LOOKING FOR THIS DISTINCTION IN THE PRESIDENCY TEXT TO BE CLARIFIED STILL FURTHER. THE PRESIDENCY APPROACH WAS IN NO WAY A BETRAYAL OF EUROPEAN IDEALS. IT WAS COUNTER-PRODUCTIVE TO TRY TO FORCE THE PACE OF POLITICAL UNION. WE DID NOT WANT TO INHIBIT THE VISION BUT ALL SHOULD CONCENTRATE ON THE NEXT STEP FORWARD.

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PART TWO OF TWO
INFORMAL EC FOREIGN MINISTERS' MEETING, DRESDEN, 3 JUNE:
POLITICAL UNION IGG : TREATY ARCHITECTURE

11. ORDONEZ (SPAIN) SUPPORTED THE PHILOSOPHY OF THE COMMISSION TEXT, BUT DUMAS' CONCERNS SHOULD BE NOTED. HE WELCOMED FRENCH WILLINGNESS TO DISCUSS AMENDMENTS.
12. ELLEMAN-JENSEN (DENMARK) SAID HE HAD ALWAYS LIKED THE ARCHITECTURE OF GREEK TEMPLES. DENMARK WOULD NOT OPPOSE SOME STRENGTHENING OF THE OPENING ARTICLES OF THE TREATY DRAFT, BUT THIS NEEDED CARE. DEFENCE SHOULD BE EXCLUDED AND ANY FEDERAL VOCATION CLAUSE WOULD GO TOO FAR. ANY REVIEW CLAUSES SHOULD BE NEUTRAL ON THE SUBSTANCE. THE PRESIDENCY APPROACH AND THE THREE PILLAR STRUCTURE WAS RIGHT: THE OTHER IDEAS ADVANCED WOULD PRODUCE A MESS AND CAUSE DOMESTIC POLITICAL DIFFICULTIES IN DENMARK OVER SOVEREIGNTY.
13. SAMARAS (GREECE) GAVE STRONG SUPPORT TO THE COMMISSION TEXT. FEDERALISM HAD TO BE THE ULTIMATE OBJECTIVE. THE ROLE OF THE EUROPEAN COUNCIL SHOULD NOT BE DEVELOPED AT THE EXPENSE OF THE OTHER INSTITUTIONS, ESPECIALLY THE COMMISSION. BUT DUMAS' POINTS NEEDED TO BE TAKEN INTO ACCOUNT.
14. COLLINS (IRELAND) GAVE SUPPORT TO BOTH SIDES. HE SAID HE AGREED WITH MUCH OF WHAT DELORS HAD SAID: A REVIEW PROVISION SHOULD BE INCLUDED. BUT THE PRESIDENCY DRAFT TREATY TEXT WAS A GOOD OVERALL BASIS, THOUGH IRELAND HAD DETAILED CRITICISMS. CFSP AND INTERIOR ISSUES SHOULD REMAIN OUTSIDE THE COMMUNITY MODEL: IRELAND WAS NOT PREPARED TO TRANSFER THE DEGREE OF SOVEREIGNTY ANY OTHER APPROACH WOULD REQUIRE. SPECIAL REPRESENTATIVES SHOULD EXAMINE WHETHER THE TWO APPROACHES COULD BE RECONCILED.
15. GENSCHER (GERMANY) AGREED WITH THIS IRISH PROPOSAL. THE PRESIDENCY SHOULD TRY IN A FURTHER DRAFT TO TAKE ACCOUNT OF THE COMMISSION'S PROPOSALS. PROSPECTIVE ENLARGEMENT WAS AN IMPORTANT FACTOR: THERE WOULD BE MANY NEW APPLICANTS, SO

DEEPENING OF THE COMMUNITY SHOULD PROCEED FAST. WE SHOULD BE AMBITIOUS IN SEEKING THE MOST UNITARY POSSIBLE COMMUNITY FRAMEWORK. WE SHOULD NOT ALLOW THE COMMUNITY TO MOVE AHEAD FASTER ON EMU THAN ON POLITICAL UNION. THE NEXT STEP SHOULD BE A PRESIDENCY DRAFT TEXT, COVERING THE TWO ALTERNATIVES.

16. VAN DEN BROEK (NETHERLANDS) AGREED THE COMMUNITY SHOULD BE AMBITIOUS, PRESERVING THE OPPORTUNITY FOR FURTHER INTEGRATION. HE ADMIRED THE LUXEMBOURG PRESIDENCY'S WORK IN THIS AREA BUT, IN EXTENDING THE SCOPE OF COOPERATION, THE COMMUNITY ACQUIS SHOULD BE PROTECTED. WITH ENLARGEMENT IN PROSPECT, A PERMANENT DIFFERENTIATED STRUCTURE FOR CFSP WOULD NOT WORK. THE EUROPEAN COUNCIL SHOULD NOT BE ENHANCED AT THE EXPENSE OF THE COMMISSION OR THE EUROPEAN PARLIAMENT. IT WOULD BE RIGHT TO REAFFIRM THE STUTTGART COUNCIL LANGUAGE. HE SUPPORTED THE COMMISSION APPROACH, THOUGH THE DETAILS OF SPECIFIC ARTICLES WOULD NEED FURTHER WORK. THERE WOULD HAVE TO BE A COMPROMISE ON THIS CENTRAL ISSUE UNDER THE DUTCH PRESIDENCY. ALTERNATIVES SHOULD BE DEVELOPED FOR DECISION.

17. DE PINHEIRO (PORTUGAL) SAID HE WAS OPEN TO EITHER APPROACH, SUBJECT TO CONDITIONS. IF THE PILLARS MODEL WAS ADOPTED, THE PROSPECT OF CONVERGENCE AND INTEGRATION HAD TO BE ASSURED. BUT HE WARNED AGAINST USING THEORETICAL PHRASES ON FEDERALISM. THE TWO APPROACHES WERE NOT INCOMPATIBLE: AN ATTEMPT SHOULD BE MADE TO RECONCILE.

18. DELORS THEN REPLIED TO THE FRENCH TEXTUAL POINTS. FIRST, THE COMMISSION ARTICLE C LANGUAGE ON NECESSARY RESOURCES WAS A QUOTATION FROM THE CONCLUSIONS OF ROME II. SECOND, HE DISAGREED THAT THE COMMISSION APPROACH INVOLVED MORE COMPLEXITY AND DEROGATIONS THAN THE PRESIDENCY TEXT (EG ARTICLE O).

19. POOS THEN SUMMARISED THE DISCUSSION. THERE WAS SUPPORT FOR THE PRESIDENCY EXPLORING WAYS TO STRENGTHEN THE GENERAL PROVISIONS OF THE DRAFT TREATY TEXT. THERE WERE FOUR WAYS OF PROCEEDING:

(I) STRENGTHEN THE REFERENCE TO THE UNITY OF THE STRUCTURE, THROUGH EXPLICIT MENTION OF OTHER COMMUNITY INSTITUTIONS: AND/OR

(II) DEFINE THE OBJECTIVES OF THE UNION BETTER (HE OFFERED A REVISED PRESIDENCY DRAFT - TEXT IN MIFT): AND/OR

(III) STRESS THE EVOLUTIVE CHARACTER OF THE UNION - THE OPEN WINDOW TO A FEDERALIST STRUCTURE, THOUGH SOME HAD RESERVATIONS ABOUT THIS: AND/OR

(IV) SET A RENDEZ-VOUS FOR FURTHER CHOICES, AS IN THE EMU NEGOTIATIONS.

THE PRESIDENCY WOULD REFLECT ON A NEW TEXT, EITHER FOR THE IGC

DISCUSSION ON 17 JUNE OR THE CONCLAVE ON 23 JUNE.
20. POOS CONTINUED THAT THERE WAS DANGER IN ANY DELAY INTO 1992 WHEN THE COMMUNITY WOULD BE INVOLVED IN THE FUTURE FINANCING NEGOTIATIONS AND THE START OF THE ENLARGEMENT DEBATE. IF THERE WAS NO IGC AGREEMENT THIS YEAR, THERE COULD BE AN INSTITUTIONAL CRISIS IN 1992. SO THE PACE OF THE NEGOTIATIONS MUST SPEED UP.

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MEETING WITH M. SANTER

Check List

- Luxembourg Presidency has done brilliantly in making progress so far

- want to see success for Luxembourg but without pre-empting final decisions

- European Council can record progress without trying to chalk up results at this stage: want a neutral stocktaking

- EMU: avoid flagging up British problem at Luxembourg

- may we let you have some thoughts on possible EMU conclusions shortly?

- Indirect tax harmonisation: not necessary for Single Market

- we cannot accept legally binding agreement on a minimum rate but Chancellor's declaration

- agree minimum rates on alcohol and tobacco duties (but proposed rates far too low)

- agree a minimum rate on diesel duty

- political union: we agree structure you have drafted. Vital to maintain it.

- not possible to settle now issues of cohesion, frontiers, social issues and European Parliament: avoid divisive discussion at Luxembourg

- wise not to try to settle CFSP now. Hope conclusions can note over-riding importance of Alliance/desirability of strong European identity within Alliance/role of WEU

- avoid shutting door on non-EC European allies

- do not understand compartmentalisation of foreign policy into "co-operation" and "common action". Avoid majority voting in this area

- single market: progress on single market (avoid trying to resolve issue of internal frontier controls at this stage: water's edge controls make practical sense for UK)

- external issues: declaration from European Council would be a good idea covering single market, GATT round; EFTA; association agreements with Eastern European countries; building on EC declarations with US/Canada and Japan

- South Africa

- Yugoslavia: Santer's recent visit? Role for CSCE

- we want bilateral drug asset confiscation agreement.

J. S. WALL
4 June 1991
c:\foreign\lux2 (slh)

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FRAME POLITICAL UNION

PARIS FOR PRIVATE SECRETARY TO SECRETARY OF STATE

YOUR TELNOS 2857 AND 2858 : IGC (P): DRESDEN DEBATE ON ARCHITECTURE.

1. DELORS MAY HAVE SEEMED TO HAVE THE BETTER OF THE DEBATE, BUT THE EVIDENCE HERE SUGGESTS THAT THE PRESIDENCY, TRUE TO POOS' SUMMING-UP, ARE STICKING TO THEIR GUNS AND THE STRUCTURE OF THEIR TEXT. COUNCIL SECRETARIAT AND LUXEMBOURG REPRESENTATIVES HAVE TODAY BEEN INSTRUCTED BY POOS (A) TO WORK UP SOME ADDITIONS TO THE INTRODUCTORY ARTICLES, PICKING UP POOS' POINTS AT PARA 19 OF FIRST TUR, BUT (B) TO RETAIN THE PRESENT STRUCTURE OF THE OVERALL TEXT IN THE NEW EDITION TO BE CIRCULATED BEFORE THE THE EUROPEAN COUNCIL.

2. THE PRESIDENCY'S VIEW IS THAT SOME (EG EYSKENS) WHO TOOK DELORS' SIDE AT DRESDEN ARE WITH HIM IN THEIR HEARTS (AND IN WHAT THEY SAY WHEN HE IS PRESENT) BUT KNOW IN THEIR HEADS THAT DUMAS' LINE WILL PREVAIL. IN ANY PRIVATE DISCUSSION WITH DUMAS, EG IN COPENHAGEN, THE SECRETARY OF STATE MAY THEREFORE SIMPLY WISH TO ENCOURAGE HIM TO STICK TO A WINNING SONG (AND CONFIRM THAT THE FRENCH AGREE THAT IT MAKES SENSE THAT WE AND THEY GO ON SINGING IT IN HARMONY, NOT UNISON.)

3. DELORS MAY HAVE ANOTHER GO, IN THE FAC, OR THE CONCLAVE, OR AT THE EUROPEAN COUNCIL. SO IT WOULD BE GOOD, AT NO 10 ON 5 JUNE, IF SANTER WERE URGED TO STAND FIRM. THE PRESIDENCY'S STRUCTURE IS THE REALISTIC ONE, WHATEVER DELORS SAYS: AND DELORS' EARLIER ATTACKS ON LUXEMBOURG MOTIVES IN PUTTING IT FORWARD WERE ILL-FOUNDED.

4. THE NEXT QUESTION WILL BE HOW FAR POOS' CHANGES TO THE INTRODUCTORY ARTICLES AMOUNT IN PRACTICE TO A FUDGE. THE ODDS ARE THAT THEY WILL GO TOO FAR FOR US (BUT PERHAPS NOT FOR THE FRENCH.) BUT THAT WILL BE NEXT WEEK'S PROBLEM (PERMANENT REPRESENTATIVES ON

13 JUNE).

KERR

YYYY

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Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

4 June 1991

Stephen Wall Esq LVO
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Stylen,

BRIEF FOR PRIME MINISTER'S MEETING WITH SANTER: INDIRECT TAX HARMONISATION

... I attach a brief on EC indirect tax harmonisation for the Prime Minister's meeting with Mr Santer. At the same time, it may be helpful if I update you on how yesterday's ECOFIN went.

On VAT, as agreed with the Prime Minister, the Chancellor stuck to the well known UK line that it was perfectly possible to achieve a European Single Market without a legally binding agreement on tax rates, and that it was neither necessary nor desirable to impose constraints on Member States' fiscal flexibility. The Chancellor did, however, follow the precedent set by the Prime Minister, when Chancellor, in December 1989, by offering a declaration that the United Kingdom had no present intention of reducing its VAT rate below the 15 per cent minimum proposed by the Presidency; indeed, it had no present intention of making any change to the current UK VAT rate.

It is too early to say what the considered view of the Presidency and the other Member States will be to this constructive gesture: they showed no particular enthusiasm at the time, but most Ministers had left by then. There must remain a risk, if a further discussion at next Monday's ECOFIN shows the other 11 Member States to be in favour of a legally binding agreement on a minimum VAT rate of 15 per cent, that this will be presented as an 11 to 1 division.

The Chancellor drew a distinction between VAT, which was a broad-based revenue-raising tax, and the excise duties on alcohol and tobacco, which served purposes other than simply raising revenue. He drew attention to the health and social considerations associated with alcohol and tobacco taxation, and confirmed (as envisaged in the UK's 1988 paper on Taxation and the Single Market) that he was prepared in principle to support minimum rates on these duties. But the rates proposed by the Presidency were far too low to be acceptable.

On diesel, the Chancellor reminded his colleagues that he had opposed a legally binding minimum rate when they had last discussed this in April, on the grounds that this was not necessary to achieve the Single Market. He had, however, reflected very carefully on the points made by colleagues at that meeting, and he appreciated that some of them had very different views. In addition, he thought there were other arguments in favour of a minimum rate: particularly, that it would encourage Member States to ensure that road hauliers made a realistic contribution to the costs they imposed on the infrastructure, and that it would have useful environmental benefits. Accordingly, he would be prepared to agree to a minimum rate of duty on diesel.

There was no immediate reaction to that statement, but it looks as though the Presidency will be looking for a deal to be concluded next Monday. We do need to make the point that any deal would have to be subject to a Parliamentary scrutiny reserve (there is due to be a debate on mineral oils towards the end of this month).

The Chancellor thinks that it should be possible to demonstrate to Mr Santer that the UK is taking a constructive line. The main point on which we have a serious difficulty of principle is the question of a legally-binding VAT minimum rate. But on this, our position is not very different from the Luxembourgers' own.

The Chancellor believes that the Prime Minister might wish to make the following points to Mr Santer:

- we agree with the Luxembourgers' own approach, that tax rate harmonisation is not necessary to complete the Single Market;

- we cannot accept a legally-binding agreement on the minimum rate of VAT; but

- the Chancellor has already told his ECOFIN colleagues that the UK Government has no present intention of reducing its rate of VAT below the 15 per cent minimum proposed by the Luxembourg presidency; or indeed of making any change to the present rate of 17½ per cent;

- maintenance of our right to continue our zero-ratings remains crucial;

- we could contemplate legally-binding minimum rates for the alcohol and tobacco duties; but the rates proposed are far too low to be acceptable. They would not provide any sensible protection for our health/social policies;

- we are prepared to agree to a suitable legally-binding minimum rate for the duty on diesel, and the Chancellor looks forward to further discussion of this at the next ECOFIN;

- pleased at the constructive approach the Luxembourg Presidency has taken to our concerns about burdens on business of the technical proposals on VAT and statistics.

I am copying this letter to Richard Gozney.

Yours,

Jeremy

JEREMY HEYWOOD
Principal Private Secretary

chex.jp/jh/26

POINTS TO MAKE

VAT

The UK appreciates Luxembourg's sympathy for our belief that centrally-determined legally-binding VAT rates are not necessary for the completion of the single market, and that such rigid approximation is the wrong course for the Community's economies. We value them as allies in our pragmatic approach of concentrating on what is necessary for 1992.

2. We understand that, as the Presidency, Luxembourg has had to try to reach a rates agreement, and has made great efforts to construct a package that would not cause practical problems for the UK. We particularly appreciate the provision they have made for the continuation of our right to apply our present VAT zero rates - this is crucial for the UK.

3. We have gone as far as we can in response to the Presidency proposals. At 3 June ECOFIN the Chancellor contributed a minutes statement, along similar lines to my undertaking (when Chancellor) in 1989, to the effect that the UK has no present intention of reducing its standard VAT rate below 15 per cent, and, furthermore, that the Government has no present intention of making any change to the current UK rate of 17.5 per cent.

4. The sensible decision to keep the destination system for the great majority of intra-EC trade has removed any economic argument for a formal approximation of VAT rates. The voluntary convergence of VAT rates already underway strengthens our view that this is not necessary. We cannot ask Parliament and the public to accept an agreement which would unnecessarily constrain Member States' fiscal flexibility.

5. Our rates do not present problems for other Member States.

Excise duties

6. Different arguments apply in the case of excise duties on alcohol and tobacco. Health and social policy provide good reasons why minimum rates make some sense for these duties. We have always made it clear that we could, in principle, support either minimum duty rates for alcohol and tobacco goods or restrictions on the quantities of the goods that can be brought into the UK. But clearly any minimum rates would need to be set at a high enough level to protect our social/health policies.

7. At Monday's ECOFIN the Chancellor said that we were also prepared to accept a minimum rate for diesel duty so that all Member States would be in a position to ensure a minimum contribution from heavy goods vehicles to the costs they impost. Like alcohol and tobacco duties diesel duty fulfils more than just a revenue-raising role.

Technical systems

8. We are agreed that the essential purpose of the single market is to provide the best possible environment for EC businesses. The priority now should be to agree, as quickly as possible, the least bureaucratic possible legal texts for the technical systems. I particularly welcome Mr Bausch's agreement to have a discussion at Working Group level later this month about the issue of burdens on business.

chex.kf/sj1/110

cc PC
B'up

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

4 June 1991

Stephen Wall Esq LVO
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Stephen,

PRIME MINISTER'S MEETING WITH M. SANTER

... I attach briefing on EMU and the European Council for the Prime Minister's meeting with M. Santer.

Your letter of 13 May recorded that the Prime Minister had agreed that it would be helpful to speak to Chancellor Kohl, President Mitterand and M. Santer in order to avoid unwelcome decisions at the June European Council. The Chancellor has been thinking further on the action we could take to encourage an outcome at the European Council on EMU which was acceptable to the UK.

The first point is to congratulate Santer on the excellent progress made by the Luxembourgers so far, but to point out that there are many issues still outstanding on EMU. Like other Member States, the UK could not accept a partial agreement and any attempt to seek to reach such an agreement, including any attempt to resolve what Santer is likely to call "the British problem" would cause great difficulties in the UK. The Prime Minister might add that he is sure the Luxembourgers would wish to enhance the prospects of successful negotiations later on in the year.

Therefore since the Luxembourgers will want and deserve something positive to come from the European Council, it might be helpful, to offer them draft Presidency Conclusions which would meet this aspiration; flatter them a little; and yet still represent an outcome acceptable to the UK. It would be even more helpful, if

the draft were to secure the endorsement of the Germans. I attach draft Conclusions language which has been approved by the Chancellor and which has been written in a way which we hope would appeal to the Germans. Paragraph 5 of the draft conclusions is square-bracketed. The Chancellor does not wish to offer this formula to the Luxembourgers or Germans since he feels that this would only encourage discussion of "the British problem" at the European Council.

If the Prime Minister agrees that a passage on these lines in the European Council Conclusions would indeed be satisfactory from the United Kingdom point of view, we would suggest that we proceed as follows:

(i) The Prime Minister could tell Santer that he was considering draft Conclusions for the European Council and would offer to show them to him - but would not hand over any draft conclusions at 5 June meeting.

(ii) We would then pass the draft to the German Chancellery (excluding paragraph 5) at official level and ask for their comments and suggestions: I gather than the Chancellery have asked to discuss EMU and the European Council with HM Embassy Bonn this Thursday (6 June) in preparation for the Prime Minister's weekend meeting with Chancellor Kohl.

(iii) The Prime Minister could refer to the draft (excluding paragraph 5) at his meeting with Chancellor Kohl on 9 June, stressing the importance of acting together to head off any attempt by the Luxembourgers to be too ambitious at the European Council.

(iv) Having (we hope) received the support of the Germans, we would submit the draft conclusions (excluding paragraph 5) to the Luxembourgers early in the week beginning 10 June.

I will be writing further with briefing on indirect tax issues.

I am sending a copy of this letter to Richard Gozney.

Yours,

Sheila

S M A JAMES
Private Secretary

DRAFT CONCLUSIONS

Conference on Economic and Monetary Union

The European Council welcomes the important work that has been carried out by the Inter-Governmental Conference on economic and monetary union, and commends the Presidency on its handling of the Conference.

2. It welcomes the agreement that convergence of member states' economies is essential for a successful and dynamic economic and monetary union. It calls on member states to draw up and adopt, where necessary and as soon as practicable, and within the framework of the Convergence Decision of 12 March 1990, multiannual adjustment programmes intended to ensure lasting convergence, in particular with regard to price stability and balanced public finances. It requests the Ecofin Council and the Commission to assess and monitor the implementation of such programmes and report by no later than the end of June 1992.

3. The European Council notes with satisfaction the progress made by the Inter-Governmental Conference in identifying possible Treaty Amendments designed to promote convergence, in particular through:

- strengthened multilateral surveillance procedures, and in particular to build on the multiannual convergence programmes;

- convergence conditions - relating to price stability, budget balances, interest rates and market flexibility - for determining moves from one stage to another;

- recognition that any move to the final stage requires prior achievement of price stability on a durable basis; budget deficits reduced to levels which are sustainable in the long term and consistent with monetary stability;

the achievement of market flexibility; a high degree of alignment of short and long term interest rates on the capital markets.

4. The European Council similarly commends the Presidency's work in focusing discussion on the content of Stage 2 of economic and monetary union, and reaffirms that a new Community monetary institution shall be set up at the beginning of the second stage, assuming the duties of to the Committee of Governors of the Central Banks of the member states. The European Council notes agreement that the institution's tasks in Stage 2, respecting the principle that responsibility for defining and carrying out monetary policy will remain with the authorities of the member states during Stage 2, shall be

- to promote the smooth operation of the EMS, as membership of the exchange rate mechanism extends to all Community currencies;

- to facilitate the development and hardening of the ecu, ensuring that from the beginning of Stage 2 it does not devalue against any currency participating in the exchange rate mechanism;

- to strengthen co-operation among the central banks of the member states; and

- to promote the co-ordination of the monetary policies of the member states with the aim of ensuring price stability.

[5. The European Council recognises that no member state should be obliged to enter the final stage of Economic and Monetary Union and notes that appropriate provisions for ensuring respect for this principle will be further considered.]

6. The European Council reaffirms the importance it attaches to adherence to the timetable, set out in Strasbourg and Dublin, for completion of the Inter-Governmental Conference and ratification of its results by member states by the end of 1992. It notes with satisfaction that the good progress made in the Luxembourg Presidency is fully consistent with this timetable.

ec1.gm/may/Santer

BRIEFING FOR THE PRIME MINISTER'S MEETING WITH M SANTER

EMU IGC

Points to Make

- Congratulate the Presidency for the excellent progress made so far in the EMU IGC. Believe that at the June European Council, the Presidency can and should take credit for:

  - The progress made so far;

  - The Presidency non paper, proposing draft amendments to the EC Treaty which will provide a solid contribution to the future work of EMU IGC;

  - The development of a consensus on the need for the convergence of Member States economies, and on the value of multi annual convergence programmes which will assist in achieving such convergence.

  - The need to ensure that monetary policy remains unambiguously in national hands in Stage 2.

  See no reason why the June European Council should not endorse such a conclusion. But would be wrong to attempt to go further. Although much progress has been made, many issues still remain outstanding and there is a long way to go. For example:

  - The content of Stage 2: ie the nature, role, status and date of establishment of any monetary institution to be setup in Stage 2, and how that role can be reconciled with the principle that there should be no ambiguity about national responsibility for monetary policy in Stage 2.

- The procedures for identifying gross errors of budgetary policy, or the measures to be taken to discourage such errors.

- Conditions to be satisfied before there is a move to Stage 3, and the arrangements for those Member States who cannot or do not wish to move to Stage 3.

- Other issues in Stage 3 also remain open such as the independence and accountability of the ECB.

- Appreciate the remarks made by the Luxembourgers, and others at the informal ECOFIN on 11 May to the effect that a way should be found to meet UK concern that we cannot be committed to move to a single currency without a separate decision by the UK Government and Parliament. Although there is not yet a proposal which fully meets the UK concerns on this point, it is already clear that this is not the real problem in the negotiation - there are many other issues which need to be resolved.

- UK press and Parliament response to the remarks made demonstrate how sensitive this subject is in the UK. Any attempt to reach agreement on this at the European Council, in advance of agreement to the Treaty as a whole would provoke, in the UK, a very critical response which would not make future negotiations any easier. To attempt to press for such an agreement would be very difficult for the UK, and my strong personal preference would be to avoid he issue in the June Conclusions.

- Happy to offer draft Presidency Conclusions which would present an outcome acceptable to the UK and, I hope, other Member States, and would give credit to Luxembourg for the excellent work done so far.

ec1.gm/may/Santer

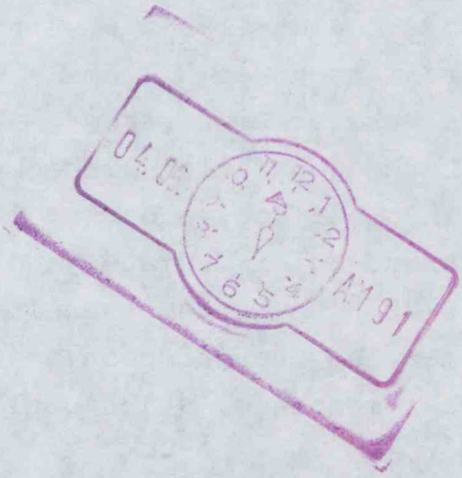
Background

It is not clear what aspirations the Luxembourgers have for the European Council in respect of EMU. At one point they appeared to wish to reach agreement on the broad outlines of Stage 2 (with a Council of Governors being established when the new Treaty came into force; the European System of Central Banks being established in 1994 and coming into operation in 1996; and the European Council first considering whether not a move could be made to Stage 3 in 1987). But this package has not found favour with us the Germans and the Dutch. They also wished to reach agreement in the transition to Stage 3.

The Luxembourgers may still be wishing to reach some form of provisional agreement on some items - including perhaps, what they may describe as "the British issue". It is important to impress upon them that the suggestions made by Mr Beregovoy and President Delors at the Informal Ecofin on May 11, although intended to be helpful, provoked an immediate and in some respects adverse, response in the UK. Any attempt to press the UK to a premature partial agreement at the European Council would provoke a greater and more critical response, which would make future negotiations that much harder.

It would be helpful to tell M. Santer that wewould be prepared to offer the Presidencies draft Presidency Conclusions for the European Council which would present a successful outcome from our point of view. A draft of the Conclusions is attached but we would not recommend handing them to Santer yet.

We would seek to ensure that such draft Conclusions were also acceptable to the Germans before giving them to Mr Santer.



PRIME MINISTER

LUNCH WITH PRESIDENT SANTER

You will want to read the briefs below from the Treasury and Foreign Office and look at the highlights in the telegrams from Luxembourg. Santer is good news. He is basically a consensus man and the Luxembourgers have handled their Presidency well. But he is under pressure to produce results at the end of June.

He is likely to respond to a bit of flattery and to a political expose of the difficulties for us in pushing for too much.

I attach a check list based on the briefs. The things we want to avoid are:

- any change in the architecture of the present draft Treaty which avoids bringing common foreign security policy within Community competence;

- any attempt to reach firm conclusions which pre-empt the final outcome of the negotiation. We can plausibly argue that we can only take a view at the end of the process;

- any attempt to resolve the issue of internal frontier control at the European Council;

- any flagging up of the British problem on EMU.

Things we actually want to secure are:

- a statement from the European Council on sporting contacts with South Africa;

- a declaration from the European Council on the Community's role in the world.

Katinia a. Santer.

pp

J. S. WALL

4 June 1991

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cc PC
B/L

CONFIDENTIAL

Foreign & Commonwealth Office

London SW1A 2AH

3 June 1991

Dear Stephen,

PRIME MINISTER'S MEETING WITH LUXEMBOURG PRIME MINISTER, 5 JUNE

The Prime Minister will host a working lunch on 5 June for M. Santer. Mr. Garel-Jones, John Weston and Sir John Kerr will also attend.

Luxembourg has coped well with running two Inter-Governmental Conferences at the same time as a significant amount of other Community business. They regard the IGCs as their priority, and have chaired them effectively and fairly. The Prime Minister may want to thank Santer for this. They have also pushed hard on tax and frontiers policy. They have made less progress than we would have liked in the Single Market area.

Our objectives for the Prime Minister's talk with Santer are:

- to find out how he intends to handle the European Council, and encourage him to set realistic objectives;

- to make clear the importance we attach to the present structure of the Political Union Treaty.

- to suggest how external EC issues might be handled at the European Council; and

- to reiterate the need for the European Council to push forward the Single Market programme, while indicating our desire to avoid contentious discussion in Luxembourg on frontiers or indirect tax.

Political Union IGC

The Foreign Secretary's minute of 30 May reported discussion in OPD(E) on 23 May on the Political Union IGC. A matrix showing UK, Presidency, French and German positions on the key issues is enclosed. The Presidency intend to circulate a revised composite Treaty text (incorporating EMU sections) before the European Council. Although they do not intend textual discussion in Luxembourg, this new text would be the background for the debate. Kohl, Delors and others have been urging Santer not to push for a substantial agreement in Luxembourg on the IGCs, and Santer appears to accept this.

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Although Santer will not decide until nearer the time how to handle European Council discussion the present Presidency intention is to seek to identify (in Santer's agenda letter) some ten specific issues, from both IGCs, including cohesion, co-decision, defence, interior and judicial affairs and the social dimension. Although conscious of the UK position on these issues, Santer's instinct may be to to try to nail down as much agreement as he can. He could either seek to reach a political understanding on some of the individual IGC issues, or declare the bulk of the new treaty text broadly agreed: since a good number of the institutional issues are not in contention for the majority of member states, this would have the effect of 'freezing' certain areas of IGC discussion, leaving the Dutch Presidency to focus on the remaining difficult areas.

The UK interest will be to push for a neutral stock-taking at the European Council. We also need to make clear to Santer on 5 June and at the European Council itself the importance to us of maintaining the structure of the present Presidency draft, which distinguishes between areas of inter-governmental cooperation within the Union (CFSP and interior/justice matters) and activity under the Treaty of Rome. After the informal Foreign Ministers' meeting in Dresden on 3 June, the Presidency are working on revisions to the opening articles to try to reconcile the Commission and Presidency approaches. But we expect the revised draft still to preserve the distinction we seek. European Council endorsement of such a Presidency draft as a good basis for continuing the work of the IGC would help to limit Dutch room for manoeuvre, since the present structure might be a casualty of any new Dutch draft given their preference for a unitary Community-based approach. We believe the Presidency, stung by Delors' criticisms, may be receptive to this approach.

The Prime Minister might wish to:

- make clear our readiness for an in-depth discussion of the IGCs at the European Council of the IGCs. But this should be a stock-taking, not an attempt to reach agreement, which would be premature.

- agree that singling out a series of key issues is sensible, but argue against concessions to the south on cohesion; and warn of the sensitivity for the UK of the frontiers and social dossiers.

- emphasise UK public and parliamentary objections to additional legislative powers for the European Parliament, but agree to a broad Luxembourg discussion of accountability, ie including our ideas on financial control and the role of national parliaments.

- stress the importance of the present structure of the Union

Treaty. A unitary text would ignore the fundamental difference between the Treaty of Rome and cooperation in areas such as foreign policy.

- refer to our fundamental difficulties with certain other proposals in the Political Union IGC, eg radical extension of competence and qualified majority voting.

Santer may raise IGC discussion of common foreign and security policy. Because of the NATO Ministerial meeting on 6-7 June and the WEU Ministerial on 27 June, the defence aspect will be in peoples' minds at the European Council, but the Presidency do not at present envisage substantial discussion of this. The Prime Minister might therefore want to:

- argue against any decisions on security/defence issues in June. This could only be settled as part of a package including the NATO review and work in the WEU, as well as the IGC.

- stress the need to ensure that the IGC outcome is compatible with the Alliance. NATO should retain sole responsibility for defence of NATO territory. Need to avoid shutting defence door on non-EC allies (Turkey, Norway, Iceland).

- suggest the possibility of Luxembourg Conclusions noting the overiding importance of the Alliance, the desirability of a strong European identity within the Alliance and the importance of the WEU's role.

- urge Santer to re-consider the proposed compartmentalisation of foreign policy into "common action" and "cooperation". Should avoid mechanistic procedures such as majority voting, which would weaken Union's voice on international scene. Special European Council of 8 April provided a preview of an effective CFSP in action: strong, speedy, unified action, based on consensus with no wrangling about procedures.

The Treasury will be writing separately on economic and monetary union.

Single Market and Frontiers

Despite their emphasis in public statements on the need for Single Market momentum, progress has been slower than the Presidency and we would have wished. The Luxembourgers have concentrated on the more contentious questions such as indirect tax (on which the Treasury will be writing separately) and frontiers, both of which are likely to figure at the June European Council. There will be a meeting of Interior Ministers on 13 June at which agreement is possible on an External Frontiers Convention. Failing this, the frontiers coordinators (senior EC Interior and Foreign

Ministry officials) are likely to report to the European Council that progress on inter-governmental work on frontiers, is blocked because of UK refusal to abolish internal frontiers. Some of the Schengen Group, including the Presidency are also pushing in the political union IGC to bring frontiers cooperation within Community competence. There is also pressure from the Commission to move over from inter-governmental to Community action.

The Prime Minister may want to:

- emphasise that the Single Market remains the flagship of the Community, and the key to further integration.

- stress we must continue to work for a liberal and deregulatory Single Market, eg in financial services, public procurement and transport. The European Council should urge action in these and other more technical sectors.

- seek to steer Santer away from any attempt to resolve the issue of internal frontier controls at the European Council. This would only divert attention from the IGCs, and would sour atmosphere at Luxembourg. Successive European Councils have made progress on the substance by setting aside the legal dispute about frontier controls. Why not continue?

- make clear that the UK is working constructively for an External Frontiers Convention. Meanwhile we have considerably reduced frontiers checks. Water's edge controls make practical sense for UK as an island. Key thing is that movement of people will be far freer after 1992 than when SEA came into force.

EC External Issues

Because of the problems we will face on the IGCs and internal agenda, we are keen to play up EC external issues at the European Council. Presentationally, it would be useful to be able to say afterwards that we had played an active and positive role on external subjects (thus counter-balancing any criticism we may face over our attitude to the IGCs). It might be worth floating with Santer the idea of a declaration on the Community's role in the world, similar in scope to the one issued at Rhodes in 1988. A good case can be made for such a statement: it is important at such a critical time for international relations, including trade relations, that the EC should emphasise its openness to the rest of the world.

The Prime Minister might say:

- At a time of major international challenges, important that Community should not appear exclusively preoccupied with internal development.

- Reaffirmation of importance of Community's international role would therefore be timely.

- Believe a statement committing Community to open approach

- economically and politically - would be very welcome to our international partners.

- Statement might include the following specific commitments:

  = To open single market

  = To contributing to successful GATT Round by end of year. Depending on progress of negotiations, the EC might make commitments on specific issues

  = To early conclusion of agreement with EFTA so that the European Economic Area can enter into force on 1 January 1993

  = To reaching agreement soon with Hungary, Czechoslovkia and Poland on Association Agreements which provide real improvements to their ability to trade successfully with the Community

  = To building on EC declarations with US, Canada and Japan by consulting on issues of common interest.

Language on economic issues will be balanced by statements at the European Council on political cooperation subjects. There will inevitably be a declaration on the Middle East, concentrating on the peace process and Iraq. Events in Yugoslavia may be reaching a critical point following the Slovene declaration of independence. The Presidency will be keen to produce language on arms exports and non-proliferation. We shall wish to make sure this fits with our plans for the G7 Summit. We hope that a declaration will be agreed on human rights, democracy and good government. We are also pressing for a statement on resuming sporting contests with South Africa. Some partners are making heavy weather of this. We are lobbying and hoping to persuade the ANC to intervene with EC governments. The Presidency is taking a cautious approach and wants a clear lead from the ANC. It would be helpful if the Prime Minister could say:

- We favour a statement by the European Council outlining the Twelve's intention to resume sporting contacts with South Africa on a sport by sport basis as integration takes place;

- This is one of the few opportunities we have to promote nation-building in South Africa;

- This policy is advocated by the ANC. Its spokesman on sport, Steve Tshwete, told us during his recent visit to

London that he favoured a statement from the European Council.

EC/EFTA

The negotiations on a European Economic Area are drawing to a close. The EEA will extend the Single Market to the EFTA countries from January 1993. The Luxembourg Presidency have worked reasonably hard to push matters along. The Prime Minister may wish to congratulate Mr Santer on the progress made and say:

- We strongly support the EEA, which will bring substantial economic benefits to both the Community and EFTA.

- it would be helpful if the Presidency could press partners to adopt a realistic approach so that the next EC/EFTA Ministerial in the margins of the 17-18 June FAC can resolve outstanding issues.

EC/Eastern Europe

We would like to see added impetus given to the Association Agreement negotiations. In particular we hope that the European Council will help overcome protectionist tendencies by giving a clear political lead on the need for significant trade concessions for Poland, Hungary and Czechoslovakia.

The Prime Minister might say:

- Negotiations for Association Agreements with Poland, Hungary and Czechoslovakia are reaching an important stage. President Walesa underlined to me in April the importance of major EC trade access concessions if Polish reconstruction was to be successful.

- We agree that greater freedom to trade is more effective in the long run that aid disbursements. The European Council should give a clear political lead for trade access concessions across the board.

EC Emergency Assistance

The Prime Minister may wish to emphasise that the EC should respond quickly and positively to humanitarian cases, but without jeopardising budget discipline. The Community and its member states have recently provided 1500 mecu (500 mecu from member states) for Egypt, Jordan and Turkey and 150 mecu (50 from member states) for Iraqi refugees. The Community has also given 140 mecu to the Horn of Africa, a loan of 160 mecu to Israel and a 60 mecu grant to the Occupied Territories. But financial discipline has been weakened by the need to increase the financial perspectives. We should therefore follow the Bangladesh precedent, whereby Community assistance

(20 mecu) was found from within existing EC budgetary resources, with member states providing more substantial bilateral contributions (60 mecu). This also has the merit of permitting rapid disbursement without the delay necessitated by consultation with the European Parliament. The Prime Minister may wish to alert Mr Santer that he intends to raise this issue at the European Council.

Yugoslavia

M Santer and Delors visited Belgrade on 29/30 May. Delors set out preconditions before talks on an EC Association Agreement: a solution to the problem of the Federal Presidency, agreement on a future institutional structure and progress on human rights and political and economic reforms. He held out the prospect of a $4-5 bn aid/debt package once the Yugoslavs put their house in order. He did not specify where the money would come from. The visit is unlikely to have had a major impact on developments in Yugoslavia. The two main political figures in Yugoslavia (Presidents Tudjman of Croatia and Milosevic of Serbia) have each pointedly belittled the visit's importance. Foreign Ministers agreed at Dresden on 3 June that the Presidency and Commission should draft a Presidency message to the Yugoslavs and that the possibility of using CSCE mechanisms should be considered within the Twelve.

The Prime Minister might wish to ask Santer for his assessment of events in Yugoslavia and what action he now proposes following his visit. The Prime Minister might also wish to draw on the following:

- Still believe CSCE could have role to play in Yugoslav crisis. Dresden Foreign Ministers agreed this should be examined by the Twelve. CSCE negotiation/good offices exercise might not in itself produce a solution. But could exert some restraint on hot-heads. Anyone in Yugoslavia who resorted to violence whilst it was in train would lose much international political credit.

- (If raised) Do not object in principle to idea of EC Association Agreement for Yugoslavia along lines of those now being negotiated with Poland, Czechoslovakia and Hungary. But before negotiations begin will need to be convinced that Yugoslavia both has reasonable chance of holding together and is firmly on road to reform (especially in Serbia). Understand M. Delors shares same view.

Sites of Institutions

The Luxembourgers have made no attempt to solve the long-running question of sites for the EC's institutions. Poos told the March FAC that Andreotti had been asked to continue his work to find a solution. But there has been no

sign of activity. Meanwhile, the French have maintained their veto on any agreement to sites for new institutions until Strasbourg is confirmed as the European Parliament's permanent seat.

If the subject comes up, the Prime Minister could:

- remind Santer that our position remains that we want decisions as soon as possible on the sites of the three agreed new institutions - the Community Trade Marks Office, the Environment Agency and the Training Foundation. Reject linkage with EP. We have no national axe to grind: we recognise that the UK is not currently in the running for any of the three.

- discourage any attempt to expand the package (in order to make it more marketable) to include sites for other proposed Community institutions (eg Medicines Evaluation Agency, Plant Breeders Rights Office) whose establishment has not been agreed, and for which the UK has or may wish to bid.

Bilateral Drug Asset Confiscation

The Prime Minister might also register our interest in concluding a bilateral drug asset confiscation agreement with Luxembourg. Our 1986 Drug Trafficking Offences Act (DTOA) contains comprehensive powers to trace, freeze and confiscate the proceeds of drug trafficking. These powers can be made available to other countries who are able to reciprocate them. We have, to date, concluded 21 agreements to do so (including with Germany, Switzerland, Spain and Italy. Luxembourg has been identified by Police and Customs as a priority and discussions about an agreement have been proceeding since July 1989. This is the only bilateral issue of current consequence.

Further Contact

Santer may offer to return to London at the end of his tour of EC capitals to touch base again with the Prime Minister just before the European Council. If so, we recommend the Prime Minister should agree: no more than a short meeting or working lunch would be required.

Other Contacts

Santer and the Prime Minister sat next to each other at the EBRD inauguration lunch on 15 April but have not had a bilateral meeting as such. The last Prime Ministerial talks were between Mrs Thatcher and Santer in London in May 1989. In February, the Secretary of State gave the Churchill Memorial Lecture in Luxembourg and had talks with Foreign Minister Poos. In May the Chancellor met the Luxembourg Finance Minister, the Lord Chancellor visited Luxembourg

Luxembourg, and the Financial Secretary gave a speech to the Chamber of Commerce. A personality note on M Santer is attached.

I am copying this letter to Jeremy Heywood (HMT), Martin Stanley (DTI), and Sonia Phippard (Cabinet Office).

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

	UK	France	Germany	Luxembourg
Democratic Legitimacy				
- EP Role in appointing Commission	No	Limited	Yes	Yes
- EP Role in legislative process (co-decision)	No	Very limited	Yes, lots	Possibly
Extended Competence	No	Some (eg social, industrial)	Yes, but not new expenditure	Some (eg social, environment)
Qualified Majority Voting	No	Some (including social)	Some (including social)	Yes (including social)
Citizenship: Voting Rights	No	Yes	Yes	Exemption clause
Subsidiarity	Treaty	Preamble	Treaty	Preamble Weak text
Cohesion as element of IGC	No	No	No	No
Role for National Parliaments	Yes (Declaration)	Yes (Congress)	No	Agnostic
EP Financial Accountability	Yes	Yes	Yes	Yes
Compliance (stronger ECJ)	Yes	Yes, but no fines	Yes	Yes
CFSP				
- Two-tier structure	No	Yes	Yes	Yes
- QMV	No	Some	Some	Some
- Common Defence Policy	No	Yes	Yes, but...	Yes
- Constraints on national action (eg IFIs, UNSC)	No	No	Yes - UNSC	Agnostic

GL1ABH/ 1/KW

LUXEMBOURG

M JACQUES SANTER

Prime Minister of Luxembourg since 1984 (Christian Social).

Son of a policeman. Educated in Strasbourg and Paris (doctorate in law). Member of the Chamber of Deputies since 1974. Appointed Minister of Labour, Social Security and Finance in 1979. Led the successful Christian Social Party election campaign in 1984 and was appointed Prime Minister. Repeated this performance in the 1989 election with a notably high personal score.

A devout Catholic, with a strong interest in social affairs, he has also built up an expertise in foreign affairs and finance. After the 1989 election, which considerably strengthened his position vis-a-vis the Socialists, he took over from Jacques Poos the key Treasury portfolio with its responsibility for the financial centre. Has now considerable EC experience, including chairing the Inter-Governmental Conference on the Single European Act during the 1985 Luxembourg Presidency, when he played an important and successful broker role.

Santer is a committed European who believes, as do most Luxembourgers, that membership of the Community is at the heart of the Grand Duchy's prosperity. However, he and his country have distanced themselves somewhat from the integrationists in recent years as more difficult issues have come to the fore (tax harmonisation, voting rights, etc). There tends now to be a noticable difference in tone between Santer's statements as Prime Minister of Luxembourg and his European rhetoric during his term as President of the European People's Party, which ended in April 1990.

Shrewd and hardworking, despite a relaxed manner, Santer is now unquestionably the dominant figure in the Government, and earlier criticism of too pliant leadership has fallen away. Friendly and accessible. Speaks English but more confident in French. COI visitor to Britain in 1973. Brief bilateral visit to London, 1989.

French wife teaches biology. Both enjoy music for relaxation. They have two teenage sons, both of whom have attended languages schools in England.

cc Bachup

CONFIDENTIAL

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OPS/No 10

Not clear that you have received these.
and Sanders
4/vi

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OF 030710Z JUNE 91
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PM'S MEETING WITH SANTER: 5 JUNE: PRELIMINARY CALL

SUMMARY

1. SANTER TELLS ME OF HIS CONTINUED DETERMINATION TO AVOID ISOLATING ANY MEMBER STATE. SAYS HE WANTS TO AVOID CONCENTRATING ON DIFFICULT ISSUES FOR US AT THE EUROPEAN COUNCIL AND DOES NOT WANT TO RISK FAILURE BY RAISING EXPECTATIONS TOO HIGH. HIS PRELIMINARY THINKING HELPFULLY INCLUDES DISCUSSION OF SINGLE MARKET AND EXTERNAL ISSUES, BUT ON THE IGCS HE ENVISAGES GOING FURTHER THAN WE WOULD WISH. EMPHASIS ON THE PRESIDENCY'S ROLE BEING TO SEEK COMPROMISE AND AVOID DRAMA.

DETAIL

2. I PAID A SHORT CALL ON SANTER ON SATURDAY MORNING TO DISCUSS HIS MEETING WITH THE PRIME MINISTER. HE WAS ABOUT TO HAVE A MEETING WITH THE TEAM TO ACCOMPANY HIM, WHICH IS LIKELY TO BE MERSCH (DIRECTOR OF THE TREASURY), SCHMIT (PRESIDENCY LINK-MAN IN BOTH IGCS) AND POSSIBLY KASEL (POLITICAL DIRECTOR) OR LORENZ (KASEL'S DEPUTY).

3. SANTER SAID BEGINNING HIS TOUR OF CAPITALS IN LONDON WOULD HELP HIM ORIENTATE HIS LATER DISCUSSIONS. HE REMAINED DETERMINED NOT TO ISOLATE ANY MEMBER STATE. THE PRESIDENCY'S JOB WAS TO AVOID CREATING OBSTACLES. IT SHOULD NOT PUT OTHERS INTO DIFFICULT SITUATIONS DOMESTICALLY. HE HAD ARGUED FOR DELAY WHEN KOHL NEEDED TIME FOR REUNIFICATION, AND HE WOULD NOW TRY TO AVOID ISSUES OF PARTICULAR DIFFICULTY FOR HMG. HE WANTED TO DISCUSS WITH THE PM WHAT SUBJECTS COULD MOST USEFULLY BE DISCUSSED AT THE EUROPEAN COUNCIL.

4. I SAID THAT WE MUCH APPRECIATED THE PRESIDENCY'S APPROACH. IT WAS ONE OF THEIR ACHIEVEMENTS TO HAVE GOT AWAY FROM THE POLARISATION OF ROME I. (SANTER INTERJECTED THAT THE UK NEGOTIATORS HAD WORKED IN A VERY CONSTRUCTIVE SPIRIT). ANOTHER ACHIEVEMENT WHICH WE MUCH APPRECIATED WAS THE PILLAR STRUCTURE OF THE DRAFT TREATY. SANTER

POINTED OUT RUEFULLY THAT IT WAS UNDER CONSIDERABLE ATTACK FROM OTHERS. HE HAD HAD TO REMIND THE EP EARLIER IN THE WEEK THAT THE PRESIDENCY'S JOB WAS TO LOOK FOR COMPROMISES, NOT TO DRIVE IN NAILS. IN THE END ALL PARTIES TO THE NEGOTIATION WOULD NEED TO MAKE SOME SACRIFICE. THE COMMUNITY NEEDED TO ADVANCE A 12.

5. SANTER OUTLINED HIS PRELIMINARY THINKING ON THE EUROPEAN COUNCIL (NOT YET DISCUSSED WITH HIS COLLEAGUES) AS FOLLOWS:

(A) SINGLE MARKET: HE ENVISAGED DEVOTING THE FIRST MORNING TO THIS AFTER A 10 OR 11 AM START. THERE SHOULD BE A PROGRESS REPORT AND AN IMPETUS GIVEN TO WHAT STILL NEEDED TO BE DONE TO COMPLETE THE SINGLE MARKET.

(B) IGCS: FOR DISCUSSION ON THE FIRST AFTERNOON. HE HOPED THE COUNCIL WOULD APPROVE THE LARGE AREA OF COMMON GROUND ALREADY IDENTIFIED, PERHAPS AGREE 3 OR 4 NEW POINTS (UNSPECIFIED) AND HAVE AN ORIENTATION DISCUSSION ON 3 OR 4 MORE: EG COMMON FOREIGN POLICY, POWERS OF THE EP AND ECONOMIC AND SOCIAL COHESION. (I WONDER IF HE MEANT CONVERGENCE.) HE ADDED THAT IT WAS NOT THE RIGHT TIME TO PRESS AHEAD ON SECURITY/DEFENCE: MITTERRAND AND KOHL HAD NOT AGREED IN THIS FIELD AT THEIR LATEST MEETING AND IT WAS ANYWAY NECESSARY TO KEEP IN STEP WITH DISCUSSIONS IN NATO ETC. I COMMENTED THAT HE WAS LIKELY TO FIND THE PM ARGUING FOR A LESS AMBITIOUS OVERALL APPROACH. IT WOULD BE VERY DIFFICULT TO SETTLE INDIVIDUAL POINTS UNTIL ONE COULD SEE THE WHOLE PACKAGE. THERE WERE MANY ISSUES OF GREAT SENSITIVITY FOR THE UK, AND A DANGER OF POLARISING POSITIONS IN THE COMMUNITY BY PRESSING TOO SOON. SANTER AGREED THAT AIMING TOO HIGH WOULD INCREASE THE CHANCES OF FAILURE.

(C) EXTERNAL: SANTER SAID THERE WERE SEVERAL ISSUES WHICH NEEDED DISCUSSION. HE MENTIONED THE PREPARATIONS FOR THE G7 SUMMIT, THE SOVIET UNION, YUGOSLAVIA. (SANTER HAS RETURNED FROM HIS TRIP TO YUGOSLAVIA CONVINCED THERE IS A REAL RISK OF OPEN HOSTILITIES AND THINKS THAT THE EC IS THE ONLY EXTERNAL FORCE THAT MIGHT INFLUENCE THE SITUATION.) I SAID THAT GATT WAS ANOTHER OBVIOUS SUBJECT. I THOUGHT WE WOULD WELCOME A GOOD DISCUSSION OF EXTERNAL ISSUES. THE COMMUNITY NEEDED TO AVOID THE IMPRESSION OF BEING PREOCCUPIED WITH ITS OWN AFFAIRS.

(D) CONCLAVE: SANTER SAID HE ATTACHED MUCH IMPORTANCE TO A PRELIMINARY MEETING OF FOREIGN MINISTERS, AS HAD BEEN HELD IN 1985. THIS WOULD AGREE ON THE DOCUMENTS FOR THE EUROPEAN COUNCIL AND PREVENT ILL-PREPARED LAST MINUTE INITIATIVES. HE RECALLED THE

FRANCO-GERMAN PAPER AT MILAN WHICH HAD PUT HIM IN DIFFICULTIES AND INFURIATED MRS THATCHER. THE LUXEMBOURG PRESIDENCY WAS DETERMINED TO AVOID THAT SORT OF DEVELOPMENT.

6. SANTER MENTIONED THAT THERE WOULD BE A MEETING OF THE 6 CHRISTIAN DEMOCRAT LEADERS IN LUXEMBOURG ON 21 JUNE. OF COURSE SOME OF THEM TOOK A VERY DIFFERENT VIEW ON EUROPE FROM THE UK, BUT HE WANTED TO REASSURE US THAT HE WAS AWARE OF THE SENSITIVITIES, WAS IN FAVOUR OF CONSERVATIVE LINKS WITH THE EPP, AND WOULD PERSONALLY ADOPT A LOW-KEY APPROACH AT THIS MEETING.

7. I ENDED UP BY SAYING THAT I WAS SURE IT WAS USEFUL FOR SANTER TO TALK TO MR MAJOR AT THE START OF HIS ROUND. THERE MIGHT BE A CASE FOR FURTHER CONTACTS AT THE END. SANTER SAID HE WOULD BE VERY READY TO GO TO LONDON AGAIN IF NECESSARY, EG IF THE OTHER MEMBER STATES WANTED TO GO FURTHER THAN THE UK. HE RECALLED HOW CLOSELY THE LUXEMBOURG PRESIDENCY HAD KEPT IN TOUCH WITH THE UK IN THE RUN UP TO THE AGREEMENT ON THE SINGLE EUROPEAN ACT IN 1985, INCLUDING AN EVE OF SUMMIT VISIT BY SIR G HOWE.

8. SEE MIFT FOR BACKGROUND COMMENT, WHICH ALSO DRAWS ON MR MAUDE'S VERY INTERESTING CONVERSATION WITH JUNCKER (OF WHICH RUTNAM IS PREPARING A RECORD.)

CAMPBELL

YYYY

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PM'S MEETING WITH SANTER: 5 JUNE:
BACKGROUND AND COMMENT

SUMMARY

1. SANTER WANTS TO AVOID CONFRONTATION AND TO KEEP THE 12 TOGETHER, BUT THE PRESIDENCY IS UNDER INTERNAL AND EXTERNAL PRESSURES TO SHOW RESULTS IN THE IGCS. POOS WANTS TO GO FOR AGREED POINTS IN EACH IGC. JUNCKER THINKS THIS PREMATURE, BUT DOES NOT WANT TO BE PUT IN THE SHADE BY POOS. SANTER WILL DECIDE ON TACTICS FOR THE EUROPEAN COUNCIL IN THE LIGHT OF HIS ROUND OF CAPITALS. SOME SUGGESTED CONCLUSIONS: TRY TO CHANNEL PRESIDENCY ENERGIES AND PLAN A FURTHER MINISTERIAL CONTACT AT END OF ROUND.

DETAIL

2. SANTER HAS BEEN ABSOLUTELY CONSISTENT IN ARGUING THE IMPORTANCE OF THE COMMUNITY OF 12 ADVANCING TOGETHER. HE WAS OUTSPOKENLY CRITICAL OF THE HANDLING OF THE FIRST ROME SUMMIT LAST AUTUMN, SAYING IT WAS ALWAYS WRONG TO ISOLATE ONE MEMBER STATE, AND THAT THE LUXEMBOURG PRESIDENCY WOULD BE LEFT TO PICK UP THE PIECES. THE PRESIDENCY HAVE WORKED HARD AND PRETTY SUCCESSFULLY TO PREVENT THE 11-1 SPLIT RECURRING, AND GENERALLY TO DEDRAMATISE THE IGC NEGOTIATIONS. I AM SURE SANTER IS PROUND OF THIS ACHIEVEMENT ON WHICH THE PM WILL WANT TO CONGRATULATE HIM. IT GIVES AN OPENING FOR URGING HIM NOT TO PUT THIS SUCCESS AT RISK THROUGH POSSIBLE CONFRONTATIONS AT THE LUXEMBOURG EUROPEAN COUNCIL.

3. ON THE OTHER HAND THE LUXEMBOURGERS SHARE THE USUAL PRESIDENCY WISH TO SHOW RESULTS. THEY SEE THE DUTY OF A PRESIDENCY AS BEING TO PUSH FOR COMPROMISES WHICH SEEK THE MIDDLE GROUND, AND THINK THAT AS A SMALL STATE THEY ARE PARTICULARLY WELL PLACED TO DO THIS. AS SEEN FROM HERE THEY HAVE BEEN BOTH INVENTIVE AND FAIR IN THEIR PROPOSALS, AT TIMES AT SOME RISK TO THEIR OWN INTERESTS (EG JUNCKER'S PROPOSALS ON INDIRECT TAX AND POOS' PAPER ON CODECISION. POOS TOLD ME A FEW

WEEKS AGO THAT THE LATTER WAS THE ABSOLUTE MAXIMUM THAT LUXEMBOURG COULD ACCEPT ON NEW POWERS FOR THE EUROPEAN PARLIAMENT. HE TOLD EC AMBASSADORS LAST DECEMBER THAT LUXEMBOURG WANTED AS LITTLE CHANGE TO THE INSTITUTIONS AS POSSIBLE.)

4. AS JUNCKER TOLD MR MAUDE ON 31 MAY, THERE ARE DIVIDED VIEWS AMONG LUXEMBOURG MINISTERS ABOUT AMBITIONS FOR THE JUNE EUROPEAN COUNCIL. THE ARGUMENT IS GIVEN EDGE BY PARTY CONSIDERATIONS AS WELL AS A LACK OF PERSONAL SYMPATHY BETWEEN THE CATHOLIC MINISTERS SANTER AND JUNCKER AND THE SOCIALIST POOS. POOS IS APPARENTLY PRESSING FOR HEADS OF GOVERNMENT TO BE ASKED TO PRONOUNCE ON SEVERAL MAJOR POINTS IN EACH IGC. JUNCKER THINKS THE TIME IS NOT RIPE FOR THIS BUT WOULD BE IN DIFFICULTY IF DECISIONS ON POLITICAL UNION WERE NOT MATCHED IN THE FIELD OF EMU WHERE HE BELIEVES MORE REAL PROGRESS HAS BEEN MADE. HE IS LOOKING FOR A MEETING WITH SANTER IN AN ATTEMPT TO GET A COORDINATED GOVERNMENT LINE.

5. THE PRESSURES ON LUXEMBOURG MINISTERS TO TRY FOR AGREEMENTS ARE CONSIDERABLE. JUNCKER SPOKE OF 7 OR 8 MEMBER STATES PRESSING FOR DECISIONS. HE ALSO SAID IT WOULD BE DIFFICULT TO DEFEND HIMSELF AGAINST DOMESTIC CRITICISM IF HE HAD NOTHING TO SHOW FOR NEGLECTING INTERNAL CONCERNS DURING THE PRESIDENCY. TO HAVE CLARIFIED THE ISSUES WAS NOT ENOUGH. HE IS THEREFORE LOOKING FOR FORMULATIONS ON LESS CONTENTIOUS ISSUES WHERE IT MIGHT BE POSSIBLE TO CHALK UP SOME PROGRESS. (AS EXAMPLES MERSCH MENTIONED THE ROLE OF ECOFIN, THE COMMON GROUND ON CONVERGENCE, AND THE PROCEDURE FOR TACKLING THE PROBLEM OF THE PASSAGE TO STAGE III).

6. SANTER WILL DECIDE HOW TO PLAY HIS HAND IN THE LIGHT OF HIS ROUND OF CAPITALS OF WHICH LONDON IS THE START. HIS INSTINCTS ARE EMOLLIENT. HE WILL BE MUCH INFLUENCED BY KOHL WHOM HE ADMIRES AND, TO A LESSER EXTENT, BY CONSIDERATIONS CONCERNING THE EUROPEAN PEOPLE'S PARTY. JUNCKER SAID THAT SANTER HAS RECEIVED TWO LETTERS FROM KOHL ADVISING AGAINST RUSHED FENCES.

7. I CONCLUDE FROM ALL THIS THAT SANTER IS VERY DISPOSED TO BE HELPFUL TO HMG'S CONCERNS, AND WILL WORK HARD TO AVOID OUR BEING ISOLATED ON SUBSTANCE. ON THE OTHER HAND IF OTHER HEADS OF GOVERNMENT WANT SUBJECTS AIRED HE WILL NOT WANT TO GIVE US AN ABSOLUTE VETO. IT IS ALSO DIFFICULT FOR THE PRESIDENCY TO ACCEPT OUR LINE THAT NOTHING CAN BE DECIDED IN THE IGCS UNTIL EVERYTHING CAN. IT WOULD SEEM VERY WORTHWHILE TO LOOK FOR SOME POSITIVE BUT LESS SENSITIVE DIRECTIONS IN WHICH TO CHANNEL PRESIDENCY ENERGIES. AND OF COURSE IT WILL BE IMPORTANT TO KEEP CLOSELY IN TOUCH WITH THE

PRESIDENCY OVER THE NEXT CRITICAL MONTH. I HOPE WE CAN ENCOURAGE THE THOUGHT OF A FURTHER MINISTERIAL CONTACT AT THE END OF SANTER'S ROUND OF CAPITALS, A POSSIBILITY WHICH JUNCKER ALSO MENTIONED TO MR MAUDE.

8. AT A PERSONAL LEVEL, IT IS WORTH REMEMBERING THAT SANTER'S ENGLISH, THOUGH PRETTY GOOD, IS NOT ALTOGETHER FLUENT. HIS IDEAS COME OVER LESS CLEARLY IN ENGLISH THAN IN FRENCH. IT IS A GOOD IDEA TO ENCOURAGE HIM (AND HIS OFFICIALS WHO ARE ALL GOOD ENGLISH SPEAKERS) TO ELABORATE ON ANY STATEMENTS THAT ARE OPAQUE.

CAMPBELL

YYYY

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Foreign &
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Office

London SW1A 2AH

22 May 1991

Dear Stephen,

Visit of the Luxembourg Prime Minister

Further to my letter of 17 May I can now confirm that John Weston will be the senior official attending the working lunch which the Prime Minister is giving for M. Santer on 5 June. Attendance from here will, therefore, be Mr Garel-Jones and John Weston, with Sir John Kerr from Brussels.

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

J S Wall Esq
10 Downing Street

LUXEMBOURG: visite de M
Nov 1980.

Foreign &
Commonwealth
Office

London SW1A 2AH

17 May 1991

Dear Stephen,

top end

Visit of the Luxembourg Prime Minister

Your letter of 2 May asked for advice on FCO attendance at the working lunch which the Prime Minister is giving for M. Santer on 5 June. You asked specifically whether it would be a good idea for Sir John Kerr to be present.

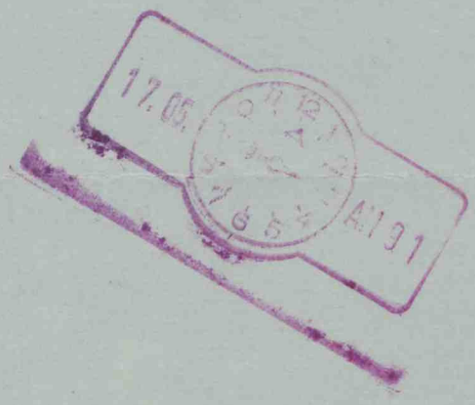
We believe that it would be, and understand that Sir John Kerr is free to attend. We propose that John Weston should be the senior FCO official. Unfortunately he cannot yet be certain that he will be free on that day. If he cannot be there, we suggest that Mrs Campbell should attend instead. If you agree, we will let you know as soon as possible which it will be.

Yours ever,

(S L Gass)
Private Secretary

J S Wall Esq
10 Downing Street

LUXEMBOURG: Visit of Sorter NOV 1980



CORRECTED VERSION

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 May 1991

VISIT OF THE LUXEMBOURG PRIME MINISTER

Christopher Prentice wrote to me on 30 April about the arrangements for the working lunch which the Prime Minister is giving for M. Santer on 5 June.

The lunch will be at 1300 for 1315, and we will allow until 1500.

I suggest we go for four or five aside. On our side that would be the Prime Minister, the Foreign Secretary (or Mr. Garel Jones), a senior official and myself. I should be grateful for advice on who the senior official might be. Since M. Santer is coming here in his Presidency capacity, I doubt if we need ask Juliet Campbell to come back from Luxembourg. But would it be a good idea for Sir John Kerr to be present?

J.S. WALL

Simon Gass, Esq.,
Foreign and Commonwealth Office.

Foreign &
Commonwealth
Office

London SW1A 2AH

30 April 1991

Dear Stephen,

The Prime Minister agreed to see the Luxembourg Prime Minister before the European Council in June, and offered him a working lunch on 15 May. Santer's office hinted at difficulties with this date. You helpfully suggested 5 June as an alternative.

Santer's office have now told HMA Luxembourg that Santer has accepted the invitation for 5 June. I would be grateful if you would let me know timings in due course.

Yours ever,

Christopher Prentice

(C N R Prentice)
Private Secretary

Stephen Wall Esq CMG LVO
10 Downing Street

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 March 1991

MEETING WITH THE LUXEMBOURG PRIME MINISTER

The Prime Minister has agreed to see M. Santer ahead of the European Council in June, and could offer a working lunch on Wednesday 15 May. I should be grateful if you could arrange for this to be proposed to M. Santer.

CHARLES POWELL

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

(1)

PRIME MINISTER

Yes

MEETING WITH LUXEMBOURG PRIME MINISTER

It is normal for the Prime Minister holding the EC Presidency to travel round to meet the other Heads of Government in good time before the European Council. In this tradition, Jacques Santer has asked to come and see you in late April-early May. It is something which you ought to do.

It is unlikely to be possible in the margins of the EBRD opening ceremony: you will be swamped with Presidents and Prime Ministers. But we have identified a working lunch on Wednesday 15 May as a possibility (relevant page of the long-term diary attached). Would you agree to this.

C.D.P

Charles. Yes. Or Yes — 1300 for 1315? S 18/3

CHARLES POWELL
15 March 1991
c\foreign\santer (kw)

cc: Mrs Goodall

Is this still ok? If so will write to FCO

CDP

Wednesday 8 May	
0900-?1245	Keep free for Scottish Conference speech +JC, SH, NT
?1600	Daisaku Ikeda, President Soka Gakkai
1645	Foreign and Commonwealth Secretary +CDP
1715	Chancellor of the Exchequer +BP
1800-1930	Host General Reception No.10
Thursday 9 May	
0900	Questions Briefing
1030	Cabinet
1300	Lunch and Questions Briefing
1515	QUESTIONS
1545-1700	KEEP FREE FOR MPs
1700	Keep free for Scottish speech
Friday 10 May	
	SCOTTISH CONFERENCE
Saturday 11 May	
	KEEP FREE FOR FOOTBALL MATCH ? POSSIBLE DINNER
Monday 13 May	
0945	Party Chairman, Chief Whip, +GB, JC, SH, GO, AT
1030	Diary Meeting
1100	Sir Robin Butler
1215	Parliamentary business managers
1300 for	
1315-1500	Lunch for colleagues
1830	AUDIENCE
Tuesday 14 May	
0800	Breakfast meeting with SH
0900	Questions briefing
1000	Foreign and Commonwealth Secretary +CDP
1300	Lunch and Questions briefing
1515	QUESTIONS
	92 CLUB DINNER
Wednesday 15 May	
1000-1045	Keep free for AT
1600-1700	Area Chairmen of Conservative Women's National Committee +JC
1730	Chancellor of the Exchequer +BP
Thursday 16 May	
0900	Questions briefing
1030	Cabinet
1300	Lunch and Questions briefing
1515	QUESTIONS
1545-1700	KEEP FREE FOR MPs
2100	MICHAEL HOWARD'S C.A. DINNER (?H/C)
Friday 17 May	
	CONSTITUENCY DAY

Accidentally destroyed 19/3/91. Copy requested from FCO 19/3/91

Dinner 13 May Mon
Cabinet overcomes pre PMQ
Lunch 15 May Wed
(though Hurd also offer invites in WSM)
Dinner 15 May Chan pre Cabinet + PMQs

RESTRICTED

Foreign & Commonwealth Office

London SW1A 2AH

13 March 1991

Dear Charles,

Contacts with the Luxembourg Prime Minister

This letter suggests a meeting between the Prime Minister and M. Santer between now and June.

Before the June European Council M. Santer will undertake the usual tour of Presidency capitals. Recent Presidencies have come to London towards the end of their tours, but in view of the political importance of satisfactory handling of the IGCs and the June Council generally we see a strong case for encouraging him to come here at the beginning of his tour, in late-April or May. Would the Prime Minister be willing to offer a working-lunch or dinner? The Foreign Secretary could offer separate talks before or after.

In addition, we shall in due course be providing co-ordinated advice about possible bilaterals with the Prime Minister in the margins of the EBRD Inauguration on 15 April. The Luxembourgers have asked for a meeting then (on 14 or 16 April) and, as EC Presidency, we may need to offer them a few minutes. But we doubt that the crowded programme will be conducive to proper discussion of EC Presidency strategy and would prefer pre-emptively to arrange the fuller meeting suggested above.

If the Prime Minister agrees, could you please let us have possible dates when he could receive M. Santer?

Yours ever,
Christopher Prentice.

(C N R Prentice)
Private Secretary

Sir Charles Powell
10 Downing Street

RESTRICTED

chex.ps/jmt2/16 **CONFIDENTIAL**

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

16 May 1989

Richard Gozney Esq
PS/Secretary of State
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Dear Richard

CHANCELLOR'S MEETING WITH LUXEMBOURG PRIME MINISTER

M. Jacques Santer, the Prime Minister of Luxembourg, called on the Chancellor yesterday afternoon. He was accompanied by Luxembourg officials; the Paymaster General, Mr R I G Allen (Treasury), and HM Ambassador Luxembourg were also present.

The Chancellor, opening the discussion, noted that on a wide range of EC issues, our two countries' positions were very close. It was important that this should continue to be so.

Delors Report

Santer said that Luxembourg was a small country, which was already linked monetarily to Belgium. Luxembourg therefore supported the principles of EMU, with all the consequences which followed from that. But progress towards this goal must be very cautious. Delors was right to divide the process into three stages. These should be taken in a pragmatic, realistic way, building on the system as it existed at present. Luxembourg was not in favour of calling an Inter-Governmental Conference (IGC) at this stage. It was one thing to call an IGC by majority; it was quite another to seek to reach agreement, by unanimity, at that IGC.

The Chancellor said that it was wise not to seek to have an IGC at this stage. There seemed to be a misunderstanding, in some quarters, that because the UK had agreed to the Single European Act, it would also agree to anything which might arise from that. In fact, the position was exactly the reverse. The Single European Act was itself a major undertaking, beyond which we were not prepared to go. Completion of the single market was an enormous job, and the Community should not be distracted from

that. There was, in any case, no way in which it would be possible to get a new Treaty accepted by the House.

The Chancellor agreed that we should see how far co-operation could be improved within the framework of the existing Treaty. Much of the material in Delors' first stage could be useful here - though we could not accept the proposition that embarking on that first stage meant accepting the whole process. The Chancellor commented that, despite Luxembourg's monetary union with Belgium, the Delors proposals would nonetheless cause Luxembourg difficulties since they envisaged imposing wholly new centralised budgetary controls on Member States.

Santer asked whether this meant that the Chancellor doubted that there would be any progress at this weekend's informal ECOFIN meeting. The Chancellor said he would be interested to hear what others had to say. If there were agreement to focus only on the first stage, some progress might be possible. But if others wished to go any further than this, there would be no progress. Santer said that, unlike the UK, Luxembourg could agree to embarking on all three stages in the report. Luxembourg also agreed, however, that action should be focused on what was practicable.

One of Santer's officials asked whether it was not necessary to have budgetary co-ordination between countries if there were monetary co-ordination between them. The Chancellor said that all that was required was an agreement not to monetise budgetary deficits, and that Member States would not be bailed out of their budgetary difficulties. Delors, however, thought that you also needed control from the centre, and intervention through regional policy. This raised a further question: how would this great accretion of economic power in the centre be made accountable? But we did not think it wise to go down this road in the first place.

Santer asked whether our wish to focus on closer co-operation within the existing framework included UK membership of the ERM. The Chancellor said that our position was clear: we would join when the time was ripe.

Withholding tax

Santer said that it was now clear that the original Commission proposal could not be followed through. It was, in any event, not a necessary condition for capital liberalisation. The Chancellor noted that this was no accident - we had had to press hard for this in ECOFIN, last year. The Chancellor said that the focus of debate might well shift towards greater exchanges of information between fiscal authorities. Santer said that Luxembourg could not go as far as the Second Draft Directive on the exchange of information, though the Mutual Assistance Directive would be acceptable. The Chancellor said we could also accept the Mutual Assistance Directive, though it would be very difficult to go further than that.

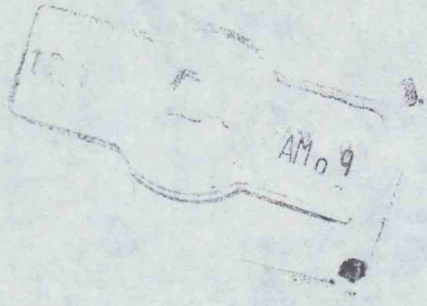
Indirect tax

Santer said the Commission would need to come up with new proposals on indirect tax harmonisation. He understood that the Commission was likely to propose a minimum rate of VAT at 15 per cent, a lower range of 4-9 per cent, and continuing zero rates as a transitory derogation. This would not be enough of a revision from the earlier proposals for Luxembourg: for example, the bureaucratic clearing house mechanism was still in play. The Chancellor said that we could not accept the clearing house mechanism either. Nor could we accept that maintenance of zero rates could only be a transitory derogation. But in any event, none of this was necessary for the abolition of fiscal frontiers, as our own papers had demonstrated. Moreover, there was no possibility of approximating excise duties. The Chancellor said that we awaited the Commission's proposals. But if they were as close to the old proposals as Santer's information implied, there was no chance of any agreement on them. Santer agreed.

I am copying this letter to Charles Powell (No.10), and Paul Tucker (Bank).

Yours ever

J M G TAYLOR
Private Secretary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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 May, 1989.

Dear Richard,

PRIME MINISTER'S MEETING WITH THE LUXEMBOURG PRIME MINISTER

The Prime Minister had a talk this evening with the Luxembourg Prime Minister. Monsieur Santer was accompanied by the Luxembourg Ambassador and his Private Secretary. HM Ambassador in Luxembourg was also present.

European Community Matters

The Prime Minister said that the British and Luxembourg positions on fiscal issues in the European Community were very similar. Germany's decision to abolish its capital withholding tax had been an important step. We did not believe that harmonisation of taxation was necessary for completion of the Single Market. Indeed, we regretted the tendency of the Commission to bring forward proposals on the grounds that they were required by the Single Market when often this was not in fact the case. M. Santer agreed with the Prime Minister, and pointed out that there was already a Single Market in Benelux without harmonisation of taxation.

The Prime Minister supposed that the European Council in Madrid would have a general discussion of the Delors Report. We could not accept the goal of economic and monetary union as defined in the Report, and objected in particular to the linkage established in paragraph 39 between embarking on the first stage and acceptance of the full concept of economic and monetary union. That link must be broken otherwise any step towards closer cooperation on economic and monetary matters might be interpreted as acceptance of the ultimate goal. Britain was prepared to move forward in practical ways which were useful on their merits, but could not contemplate the massive transfer of sovereignty involved in economic and monetary union as defined in the Report.

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M. Santer said that Luxembourg had many reservations about the Report, although they accepted the eventual and distant goal of economic and monetary union. He did not believe that the time had come for a new Inter-governmental Conference to consider revision of the Treaty. That would be appropriate only when there was agreement on the precise purpose of such an amendment. Anyway, the various steps proposed in the first stage of the Delors Report could be taken on the basis of the existing Treaty. In his talks with the German Finance Minister, he had found a similarly pragmatic attitude.

The Prime Minister said that her understanding of economic and monetary union was of a voluntary convergence of policies, not new institutions or massive transfers of resources. M. Santer agreed that it should be seen as member States moving in the same direction. He pointed out that Central Bank Governors of the EMS member Governments still met in Basle rather than in Luxembourg, where there was only a nameplate. He did not think that the Spanish Presidency expected to make much progress at the Madrid Council, but thought that the subsequent French Presidency would make progress in implementing the Delors Report a major objective. They saw it as a political matter. The Prime Minister said that it was anything but that: she was very dubious whether Heads of Government could have a worthwhile discussion of so technical a matter as economic and monetary union.

The Prime Minister continued that any attempt by the Spanish Presidency at Madrid to press for adoption of a Social Charter would not succeed. M. Santer acknowledged that every country had its own historical background, and one country's system could not simply be transferred to others. He did not believe that a Social Charter was necessary for completion of a Single Market. Indeed, he was not aware that any draft had been prepared. The Prime Minister lamented the tendency of the Community to tie itself up with too many regulations.

NATO Summit

The Prime Minister gave M. Santer an account of our contacts with the United States and German and Dutch Governments. We had already made our compromise by agreeing not to press for a decision on deployment of a successor to LANCE at the forthcoming Summit, and were not prepared to compromise any further. We were strongly opposed to negotiations on SNF which were bound to lead to a third zero, and thus serve Mr. Gorbachev's aim of denuclearising Europe. M. Santer asked whether the Prime Minister thought agreement could be reached before the NATO Summit. The Prime Minister said she doubted it, although there were some signs of dissension within the German Coalition. She would prefer to argue the case at the Summit itself rather than accept an unsatisfactory compromise. Existing NATO texts, both from the last Summit and from the autumn meeting of the NPG, should be the starting point. They remained valid unless replaced. M. Santer commented that Luxembourg had

been placed in a difficult position by the change in German policy. His main concern appeared to be a compromise which did not force Luxembourg to take sides.

I am sending copies of this letter to Brian Hawtin (Ministry of Defence), Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), and Trevor Woolley (Cabinet Office).

Yours sincerely,

C.D. Powell

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

SW2AVN

CONFIDENTIAL

cc Backup

PRIME MINISTER

MEETING WITH THE LUXEMBOURG PRIME MINISTER

You are to see Monsieur Santer on Monday afternoon for 30 minutes. He will earlier have lunched with the Foreign Secretary and seen the Chancellor of the Exchequer. You last saw him at the Luxembourg 150th anniversary celebrations. His main aim in coming is to be seen with you; he has elections on 18 June.

There are two main areas you will want to discuss: European Community and the NATO Summit.

On the European Community we are remarkably at one with the Luxembourgers on current issues. Like us they oppose indirect tax approximation and the Commission proposals for a withholding tax. They also have doubts about the Delors Report and are, in particular, opposed to any early moves towards Treaty amendment. You will want to explain our reservations about the Report, in particular the link established in paragraph 39 between the first stage and full Economic and Monetary Union. You might say that the Madrid European Council should break this link, push off any talk of Treaty amendment or an inter-governmental conference and commission Finance Ministers to look at practical steps of cooperation which could be taken over the next year or so. You might also explain why the time is not right for us to join the ERM.

You should also take the opportunity to tackle him on SNF modernisation. Luxembourg keeps its head down on this - literally as well as figuratively. They are opposed to SNF negotiations now but think they are inevitable in due course. You will want to take him through the arguments why SNF would remain a vital part of the NATO strategy even if the Russians were to make substantial reductions in their own short-range weapons; and explain why we think any negotiations would be likely to lead to a third zero.

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If he raises President Mitterrand's audio-visual initiative, you should say that we favour industrial-led cooperation on High-Definition and derision and would not support Government subsidies or fiscal incentives. It is important that Britain and Luxembourg should stick together on this, particularly when UK firms have bought more than half the channels on Luxembourg's Astra broadcasting satellite.

CDP

(C. D. POWELL)
12 May 1989

Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

12 May 1989

Jean Charles.

Call by M. Santer, Luxembourg Prime Minister: 15 May

M. Santer will be calling on the Prime Minister for half an hour at his request. He will be accompanied by the Luxembourg Ambassador, M. Jean Wagner, and M. Alphonse Berns, the Director of International Economic Affairs at the MFA. Our Ambassador in Luxembourg, Mrs Campbell, will also be present. M. Santer is also seeing the Foreign Secretary, the Chancellor of the Exchequer, Mr Renton and Mr Maude (a programme is enclosed). The Prime Minister last met M. Santer at the independence celebrations in Luxembourg on 18 April. Their last full bilateral was on 21 September 1988 in Luxembourg. A personality note is enclosed.

This is an important visit for Santer, coming just before the national elections (on 18 June). It is not at all certain that Santer's Christian Social Party will remain as the major coalition partner. But the result is unlikely to affect UK interests since there is close to a consensus between the three main parties on the issues of most concern to us.

Santer's main aims (and ours) will be to discuss EC tax issues, which are of major importance to Luxembourg and on which we largely agree. But it will also be a useful opportunity to tackle him on SNF.

Luxembourg opposes in principle any administered indirect tax approximation, accepting that market forces will bring about whatever changes in tax rates may be required once fiscal frontiers are dismantled. But they also have strong practical objections, driven by concern not to lose the cross-border trade currently attracted by low Luxembourg tax rates. The Prime Minister will wish to welcome Luxembourg's approach, and to note the encouraging signs of flexibility and open-mindedness on the part of the Commission and most other member states.

Luxembourg is also firmly opposed to the Commission's proposal for a withholding tax on interest. They see it as a major threat to their financial sector (in which the UK is a major partner with new banks such as Lloyds and TSB continuing to open in Luxembourg). We have made clear our fundamental objections: the Commission's proposal is unnecessary, would not work and would damage financial markets, as was demonstrated by the German experience with their domestic

withholding tax, now abolished. The Prime Minister may wish to stress the importance of continued UK-Luxembourg cooperation on this.

Luxembourg has reservations about the Delors Report recommendation for early work on institutional change. Santer told our Ambassador last month that he believed it was too soon to talk about Treaty amendment. The Prime Minister may wish to reiterate our own opposition to Treaty change whilst emphasising the practical measures on which we believe work should now be carried forward by ECOFIN and the Committee of Central Bank Governors.

The Luxembourgers are in the middle of the NATO pack on SNF. They agree that there should be no third zero and that decisions on a follow-on to LANCE should be taken in two stages: authorisation of research and development now; and a decision on whether to produce and deploy in 1990/91. But they also believe that, although there should be no question of SNF negotiations at this stage, they are inevitable in due course; they should be considered in 1990/91 in the light of progress in other arms control talks. The Prime Minister may wish to explain our objections to SNF negotiations and the risk of ending up with a third zero. Up to date short range nuclear missiles will continue to be an essential element of NATO's strategy of flexible response irrespective of progress in other arms control fora.

Santer may raise President Mitterrand's audio-visual initiative and the proposed September Conference on High Definition Television (HDTV), to which Council of Europe members and probably some Eastern European countries are being invited. Luxembourg, as a broadcasting centre, favours cooperation between European programme makers; but is likely to agree with us that the emphasis should be on industry-led co-operation, avoiding government subsidies or fiscal incentives. This is another field in which the UK is a major partner. UK firms have bought over half of the Channels on Luxembourg's Astra broadcasting satellite.

I am copying this letter to Alex Allan (HMT) and Trevor Woolley (Cabinet Office).

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

VISIT BY M SANTER, PRIME MINISTER OF LUXEMBOURG: 15 MAY

PROGRAMME

1000	Arrive Gatwick
1230	Working lunch with the Foreign Secretary (full Luxembourg delegation, HMA Luxembourg, Sir J Fretwell, Mr Kerr, PS, Mr Blunt (WED))
1415	Call on Mr Renton, Home Office (Ambassador, M Zimmer, M Bausch)
1500	Call on Mr Maude, DTI (Ambassador, M Berns, M Mersch)
1545	Call on Chancellor of the Exchequer at No 11 (Ambassador, M Bausch, M Mersch)
1630-1700	Call on Prime Minister (Ambassador, Mr Berns)
1900	Depart Gatwick

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CONFIDENTIAL

SANTER, JACQUES

Minister of State (Prime Minister), Minister of Finance, of National Development and of the Posts, Telecommunications and Information Technology. (Christian Social).

Born 1937. Educated in Strasbourg and Paris (Doctorate in Law). Worked as lawyer at the Luxembourg Court of Appeal for 4 years before going into politics. Member of the Chamber of Deputies since 1974. Member of the European Parliament from 1974-79. Appointed Minister of Labour, Social Security and Finance 1979. He led the PCS election campaign in 1984 and was invited to form a government where the Christian Social Party again gained the highest number of seats.

A devout Catholic, who retains a strong interest in social and labour affairs. He is able and friendly and has established himself in the eyes of British and other European Ministers. Though a strong performer on EC matters he has distanced himself and his country from the integrationists. Keenly interested in TV/Satellite questions. Played an important neutral role during the Luxembourg Presidency on IGC but achieved little as Chairman of Ecofin.

Speaks English but prefers French. COI visitor (1973).

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COMMENT

CONFIDENTIAL
FM LUXEMBOURG
TO IMMEDIATE FCO
TELNO 162
OF 111530Z MAY 89
INFO PRIORITY OTHER EC POSTS. UKDEL NATO

YOUR TELNO 34

VISIT BY LUXEMBOURG PRIME MINISTER: 15 MAY: THE VIEW FROM LUXEMBOURG

SUMMARY

1. FOR SANTER THIS VISIT FITS INTO THE CONTEXT OF NATIONAL AND EUROPEAN ELECTIONS (18 JUNE) AND THE MADRID EUROPEAN COUNCIL (26/27 JUNE). THE ELECTIONS MAY LEAD TO A NEW COALITION BUT NOT TO IMPORTANT CHANGES OF POLICY.

DETAIL

2. THE ELECTION CAMPAIGN IS NOW IN FULL WING. BUT THERE HAVE NOT SO FAR BEEN ANY DECISIVE DEVELOPMENTS. AS DESCRIBED IN MY TELNO 80 OF 12 APRIL. THE THREE MAIN PARTIES FACE A SQUEEZE FROM A RANGE OF SINGLE ISSUE LISTS AND FROM THE REDUCTION OF THE CHAMBER FROM 64 TO 60 SEATS. WHICH TWO WILL FORM THE NEXT GOVERNMENT WILL BE DECIDED IN THE LIGHT OF THE ELECTION RESULTS. IT IS NOT LUXEMBOURG PRACTICE FOR THE PARTIES TO EXPRESS PREFERENCES IN ADVANCE AND ANY TWO COULD WORK TOGETHER IN GOVERNMENT. THERE IS WIDE CONSENSUS ON LUXEMBOURG'S PRIORITIES. PARTICULARLY IN FOREIGN POLICY. WHERE WE ARE UNLIKELY TO SEE MAJOR CHANGES.

3. THE SOCIALIST LEADER POOS IS BIDDING TO REPLACE SANTER AS PRIME MINISTER AND HAS BURNISHED HIS IMAGE AS THE DEFENDER OF LUXEMBOURG'S INTERESTS. ESPECIALLY AGAINST THE WITHHOLDING TAX PROPOSAL. SANTER LACKS THE SAME PUNCH. BUT HIS CATHOLIC PARTY HAS POWERFUL SUPPORT IN THIS VERY CATHOLIC COUNTRY. HE WILL ALMOST CERTAINLY ATTEND THE EUROPEAN COUNCIL AS CARETAKER PRIME MINISTER SINCE NEGOTIATING A COALITION IS A LENGTHY PROCESS INVOLVING PERSONALITIES AND AN AGREED PLATFORM.

4. SANTER WILL BE KEEN TO DISCUSS WITH YOU AND THE PRIME MINISTER THE COMMUNITY DOSSIERS WHERE THE UK AND LUXEMBOURG HAVE MUCH IN COMMON (ESPECIALLY TAX AND THE DELORS REPORT) BUT MAY ALSO RAISE THE SOCIAL DIMENSION WHERE WE DIFFER. HE WILL ALSO WANT TO DISCUSS ALLIANCE MATTERS BEFORE THE NATO SUMMIT. DEFENCE IS NOT AN ELECTION ISSUE BUT LUXEMBOURG IS MUCH INFLUENCED BY OPINION IN GERMANY - SEE MY TELNO 161 REPORTING MY CONVERSATION WITH POOS.

CAMPBELL

YYYY
MAIN 63

Foreign and Commonwealth Office

London SW1A 2AH

23 February 1989

Dear Alex,

Visit by the Luxembourg Prime Minister: M Santer, 15 May

It may be helpful to confirm the programme for M Santer's visit on 15 May, which looks as follows:

1245 Lunch with the Foreign Secretary

1500 Mr Maude

1545 Chancellor at No 11

1630 Prime Minister

I understand that these calls have already been firmly noted in the Chancellor's and Mr Maude's diaries.

I am copying this letter to Charles Powell (No 10) and Andy Heyn (DTI).

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

Alex Allan Esq
HM Treasury

23 II

CONFIDENTIAL

CF file

10 DOWNING STREET

From the Private Secretary

20 November 1985

Dear Colin,

PRIME MINISTER'S MEETING WITH THE LUXEMBOURG PRIME MINISTER

I enclose a record of the Prime Minister's meeting with Monsieur Santer today which continued over lunch.

We learned from Monsieur Santer that the European Council will now start at 1030 am on 2 December. This will require some revision to our administrative arrangements.

I am sending copies of this letter and its enclosure to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry) and David Williamson (Cabinet Office).

yours sincerely,

(C. D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

Subject cc Master

CONFIDENTIAL

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF LUXEMBOURG ON WEDNESDAY, 20 NOVEMBER, 1985, AT 1200 HOURS

Present:

Prime Minister	Monsieur Santer
Foreign Secretary	Monsieur Dondelinger
Mr. David Hannay	Monsieur Hastert
Mr. Charles Powell	

Intergovernmental Conference

The Prime Minister said that her experience at the Milan European Council had left her sceptical whether it was worth while making an active effort to improve the functioning of the Community. She would therefore wait to see what was on the table at the Luxembourg Council before taking up any position. So far as she was concerned, the more minimal the proposals the better. It was a sad failing of the European Community that when it felt unable to tackle real problems, it retreated into discussing treaty changes. She was ready to work for decisions at Luxembourg if reasonable proposals on the same general lines as those put forward by the United Kingdom in June were tabled. She was very glad that M. Santer would be in the chair. This ensured that the meeting would be well run.

M. Santer said that the Presidency would have a difficult task, but would work for a successful outcome which safeguarded the unity of the Community. They would seek a consensus or, failing that, a convergence of views. The Presidency's main objectives would be agreement on how to bring about completion of the internal market by 1992; inclusion in the treaty of a reference to cohesion despite different understandings of what this meant in practice; probably new treaty articles on monetary matters, technology and the environment; a treaty amendment which would give the

European Parliament a more satisfactory role; and an agreement on political cooperation on the basis of the proposals tabled by the United Kingdom in June. This last had now been amplified by the French Government's draft preamble entitled "Act of European Union". The Prime Minister said that she had listened carefully to M. Santer's list, and saw little prospect of agreement on some of the issues he had mentioned. M. Santer said that some governments would regard his list as too much and others would see it as too little. The Presidency would try to find a satisfactory middle way.

The Foreign Secretary expressed admiration for the way in which the Luxembourg Presidency had handled discussions in the Intergovernmental Council. But the planned meeting of Foreign Ministers on the day before the Council would mean that Heads of Government would have very little time to study the texts. M. Dondelinger said that the Presidency intended to issue basic texts on the evening of Tuesday, 26 November. These would be the only documents on the table at the Council, amended as appropriate by the Foreign Ministers following their meeting.

The Prime Minister said that a successful outcome would depend on whether a satisfactory package could be put together. She would like to take the various issues raised by M. Santer individually, starting with cohesion. To a number of member States this simply meant a subsidy from the richer to the poorer countries. She did not interpret convergence as meaning redistribution of wealth but convergence of economic policies. M. Dondelinger read out rather indistinctly three points which would form the basis of the Presidency's approach. The Prime Minister said that she would study any text closely but sceptically. The Foreign Secretary said that we could agree on convergence of economic policies, on the use of existing structural funds, and a completion of the internal market as a contribution to cohesion. But we would not be able to accept any new redistributive instruments.

The Prime Minister said that she doubted the usefulness

of new treaty articles on technology and the environment. The Community was coping well with these problems by operating under Article 235. This allowed more flexibility than would specific treaty articles dealing with these issues.

Turning to institutional questions, the Prime Minister observed that it was already difficult enough to reach conclusions in the Council. It would be a mistake to increase the difficulties further by giving more powers to the Assembly. In any event she would never be able to get a treaty amendment conferring such powers through Parliament. M. Santer said that he was not thinking in terms of giving the Parliament legislative or decision-taking powers. Rather he was looking for a cooperative procedure which would allow the Parliament a role more in accord with its status as a directly elected Assembly. The Prime Minister said that she could agree to consultation with the Parliament before the Council reached decisions. But the Council itself must retain full decision-taking power. Moreover, no new procedure should have the effect of delaying decisions. Her own proposals in June would have achieved this. She could not see that treaty amendment was necessary. M. Dondelinger said that the Presidency's proposals would require some amendment to Article 148. Mr. Hannay explained that, under the Presidency's proposals, the Parliament would have an increased role only in limited areas, principally the internal market. The last word would still rest with the Council. The Prime Minister repeated her opposition to treaty change. M. Dondelinger said that the Presidency's proposals were already a minimum which would command the support of other member States. The Prime Minister said that the minimum would need to be set lower still.

M. Santer said that agreement was close on a political cooperation text which drew extensively on the original British proposal. The Prime Minister said that she objected to the proposed reference to a "European foreign policy". This was simply unattainable when the Community included

countries which were neutral as well as those who were committed members of the Atlantic Alliance. It would be possible to reach agreement on some foreign policy issues, but not to have a single common foreign policy.

The Foreign Secretary said that a text on the internal market was still under discussion and some progress was being made. But a great deal remained to be done. M. Santer observed that there was agreement that all matters concerning taxation had to be dealt with by unanimity. M. Dondelinger explained the Presidency's proposals on the internal market. The Prime Minister said that she could envisage some move to qualified majority voting for the internal market, though it would be necessary to preserve unanimity on major proposals as well as on matters such as freedom of movement of persons, social engineering and essential safeguards affecting health and safety.

The Prime Minister said that she was not happy to hear that the Presidency was intending to propose some treaty amendment on monetary matters. Economic and monetary union was not a practicable goal. M. Santer said that experience with the EMS had been favourable, and this might be reflected in the treaty. M. Dondelinger added that reference to monetary matters might obtain a commitment from some governments to abolish exchange controls. The Prime Minister said that she understood that the German Government was equally opposed to any monetary amendments to the treaty. M. Santer said that he had suggested to Chancellor Kohl that, if a formula could be found which safeguarded the position of the Bundesbank, it might be possible to include a reference to the aim of economic and monetary union. Chancellor Kohl had not ruled this out. He thought that France and Germany would coordinate their position on this and other issues shortly before the European Council. Mr. Hannay said that our own strongly-held objections to dealing with monetary issues as part of the package would be undiminished.

The Prime Minister said that she would sum up the discussion on the Intergovernmental Conference by saying that Mr. Santer's idea of a minimum was still higher than her minimum. Much remained to be done to shrink what was being proposed to a level which she could accept.

Deregulation

M. Santer said that he hoped that the Prime Minister would pursue her initiative on deregulation in the course of the debate on the Economic and Social situation in the Community on the first morning of the European Council. The Prime Minister explained her objectives, and handed over some draft conclusions for the European Council.

Falklands at the United Nations

The Prime Minister said that she greatly appreciated Luxembourg's earlier abstention, and hoped that it would be maintained. M. Santer said that Luxembourg would keep to last year's vote. The Prime Minister said that she was very grateful.

CDP

20 November 1985

LUXEMBOURG
VISIT OF PM

+ Falklands

PRIME MINISTER

MEETING WITH THE PRIME MINISTER OF LUXEMBOURG

You will have an hour's talk with Mr. Santer at midday tomorrow, followed by lunch. He will be accompanied by M. Dondelinger (Permanent Secretary) and the Luxembourg Ambassador.

The Foreign Secretary will be present for the talk but cannot stay for the lunch. Mr. Hannay will be present for both.

The main subject of the meeting will be the Intergovernmental Conference. The Luxembourg Presidency have adopted a workmanlike approach and are keen to reach an agreement on 2/3 December. They have gradually amalgamated and scaled down unrealistic proposals from several sources. The outlines of a package are beginning to emerge. It would include [see paras. 3 - 8 of the background]:

i) provision for more qualified majority voting under Treaty Articles relevant to the internal market.

ii) new Treaty articles on technology and the environment. The key point for us here is to preserve unanimity on all important decisions.

iii) a text on cohesion. We want to avoid creation of new financial instruments or commitments to transfer more resources to the South.

iv) a 'co-operation' procedure for the Parliament, which would leave the last word with the Council.

v) a POCO Treaty. You still have reservations on a 'European foreign policy'.

In addition the Presidency are likely to propose a monetary amendment to the Treaty. And the French have just tabled a

general preamble to whatever package is agreed with the title: "Act of Union".

I suggest that you take very much the same line as with President Mitterrand: encourage the Presidency to press on with constructing a realistic package; recall your own proposals in June as a guide to your thinking; preserve some mystery about what you are likely to agree to in December; but leave him with the impression that there's still some substantial scaling down to be done before they arrive at the sort of package which stands a serious chance with you. Of course there will be member states who could accept more than we can. But they will at the end of the day agree to the most that is acceptable to everyone. That was the clear message which you received from President Mitterrand.

The other main subject to press is your deregulation initiative. You will want to be sure that this features prominently in the debate at the European Council on the annual economic report. We want three things:

i) all Commission proposals for new regulations should include an analysis of the burdens they impose on business;

ii) a systematic review of the scope for cutting back the burdens imposed by existing regulations.

iii) a central deregulation unit to be established in the Commission.

You could hand Mr. Santer the attached draft conclusions for the European Council.

CDP

C.D. Powell
19 November 1985

Internal Market

① Order
Com Policies
② Convergence
③ Soc Reg Funds

Cohesion

Nordic Policies

Technology

Environment

Institutions — Assembly
Council

Political Co-operation

Foreign and Commonwealth Office

London SW1A 2AH

19 November 1985

Dear Charles,

Luxembourg Prime Minister's Visit: TV Satellite Broadcasting

We do not expect Santer or Dondelinger to raise the subject of TV broadcasting by satellite when they call on the Prime Minister. You may however like to have the following background.

When Sir Geoffrey Howe met the Luxembourg Foreign Minister in London in June this year, Dondelinger (Permanent Secretary in the Luxembourg MFA) said that the Luxembourg Government were ready to discuss with us at any time problems posed by the forthcoming operations of TV broadcasting by satellite in Europe. Our Ambassador to Luxembourg is following up this offer and will shortly propose bilateral talks in London in January to the Luxembourgers. We, the DTI and the Home Office consider there is merit in having talks at official level with our European partners to forestall any problems likely to arise over satellite TV broadcasting. We are however concerned that the Luxembourgers should not take our willingness to talk about technical issues to mean that there is UK Government interest in cooperation or participation with them on their own TV by satellite plans. (The Luxembourg Government have approved plans by Societe Europeenne des Satellite (SES), a Luxembourg-based private company with French, German and Belgian capital, to operate a satellite TV broadcasting system with 16 channels. These could be receivable over a wide area of Europe, including the UK, by individuals with dish aerials and by TV cable subscribers.) Nor do we want other European countries, especially the French, to get the wrong signals and assume UK/Luxembourg collaboration. We have therefore proposed that the agenda for our talks with the Luxembourgers be confined to technical issues such as advertising, copyright, frequency interference etc.

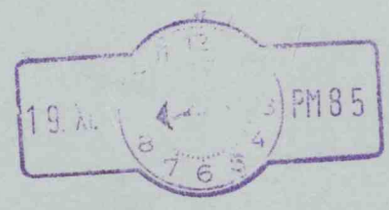
If Santer raises the question of UK/Luxembourg collaboration, we would recommend that the Prime Minister should say that HMG has not come to any decision. She could add that we welcome the prospect of bilateral official-level discussions and are about to propose a date in January.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street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Foreign and Commonwealth Office

London SW1A 2AH

19 November 1985

Dear Charles,

Talks with Luxembourg Prime Minister: 20 November

I enclose briefing for the Prime Minister's meeting with M. Jacques Santer on 20 November. The arrangements proposed in my letter of 8 November stand, except that M. Santer will not now arrive in London until 1045. The briefing covers the EC (the main subject), the internal scene, bilateral relations and personality notes on M. Santer, M. Dondelinger and M. Hastert.

The talks will of course be taking place while President Reagan and Mr Gorbachev are meeting in Geneva. We expect M. Santer to attend President Reagan's debriefing to NATO in Brussels on 21 November.

On the Falklands Luxembourg is one of our more solid supporters. They have said they will abstain barring 'some totally unexpected development'. French support for the Argentine resolution might be such a development. The Prime Minister might like to point out our objections to a 'soft' Argentine text and express our hope that we can rely on Luxembourg abstention again this year.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

VISIT BY M. SANTER

INTER-GOVERNMENTAL CONFERENCE AND PROSPECTS FOR DECEMBER EUROPEAN COUNCIL

OUR OBJECTIVES

Intergovernmental Conference

- To encourage the Luxembourg Presidency to work for an agreement at the 2/3 December European Council, even if detailed legal drafting has to be completed later.

- To persuade the Presidency to ensure that the draft Political Cooperation Treaty is ready for agreement at the Luxembourg European Council.

- To reserve our position on the substance of Treaty amendment until it is clear on which issues decisions will be required.

- To make it clear that any Presidency compromise proposals will have to take full account of the views of the UK, France and Germany if agreement is to be reached, capable of approval by national parliaments.

Other Issues

- To encourage Presidency to focus the European Council discussion of the annual economic report on the need to lift adminstrative burdens from business, and to get our objectives on deregulation agreed as Conclusions of the European Council.

Arguments to Use

(i) Inter-governmental Conference

- Do you see possibility of agreement at European Council? Important to complete this institutional discussion in December if possible.

- Institutional change should be means to an end: not sole and dominant issue of EC business. Need to take decisions designed to make the Community more effective in ways we all agree: completion of internal market, including faster and more effective decision-taking; technologically competitive Community etc.

- Will judge proposals for Treaty changes by whether they would help to achieve our objectives. Will take a view on the basis of whatever precise proposals are before European Council.

- Presidency has to deal with conflicting pressures. But aim must be something to which all can agree and commend to national parliaments.

- Any treaty amendment must therefore not only reflect our objectives but also include essential safeguards.

- We should:

(i) remove obstacles to trade in goods and services; but keep necessary safeguards in areas affecting health and safety standards, animal and plant health and social measures; we must maintain unanimity for tax harmonisation and for freedom of movement of people.

(ii) involve the European Parliament more responsibly in decision taking but not make decision-taking harder. This means retaining the present institutional balance and leaving the Council the last word;

(iii) look carefully at proposals for updating the Treaty to include specific references to technology and environment where the Community and Member States are already actively involved; but not make effective action more difficult by shifting to majority voting for decisions which can only in practice be implemented if all agree;

(iv) use the Structural Funds to help the areas of greatest need and co-ordinate their activities better; but not attempt to extend their scope, or offer unreal prospect of new cohesion measures, or make the internal market conditional on convergence. Internal market is a vehicle for convergence.

(v) In the monetary field; clearly different approaches between Members as revealed in ECOFIN discussion. Better to concentrate on practical measures for developing ECU and strengthening monetary integration; pressure for Treaty amendment could hinder this process; should be left for further reflection by Finance Ministers.

- Decisions should be reached in December, even if some details have to be sorted out later.

- We must concentrate on essentials, not be side-tracked into argument over marginal proposals.

- Political cooperation text also near agreement. Should be ready for decision at European Council if outstanding details tied up quickly. Presidency task.

- Need to maintain close contacts.

(ii) Other Issues

- Attach importance to follow-up on deregulation.

- Hope discussion on Commission's economic report can focus particularly on need to reduce administrative burden on companies and remove constraints on their growth.

- Want agreement on Council conclusions which:

  (a) ensure new legislative proposals are systematically examined for elimination of burdensome provisions;

  (b) call upon the Commission to set up deregulation unit;

  (c) launch a review of burdens imposed by existing legislation.

  - Hope Presidency will support in steering discussion. Offer possible language from Conclusions [piece of paper containing suggested language attached].

M. SANTER'S OBJECTIVES

- To press for changes which can be presented publicly as a real reform of Community procedures.

- To find out what changes we can accept.

OUR RESPONSE

- Must take decisions which will make Community more effective in ways which all agree: completion of internal market, including faster and more effective decisions; technologically competitive Community etc.

- Must not make decision-taking harder, e.g. by shifting institutional balance in favour of Parliament) or less effective (by making completion of internal market conditional on convergence, by shifting to majority voting for decisions which can only be implemented if all agree, e.g., on environment), or

- will take a view on specific proposals put to European Council.

BACKGROUND

(i) Inter-governmental Conference

1. Luxembourg has traditionally joined its Benelux partners and Italy in pressing for more rapid European integration. As Presidency, they have, however, run the Conference fairly. The present Luxembourg government is more cautious than its predecessors. They are, for example, wary of increasing the powers of the European Parliament and this is reflected in their latest text on the European Parliament.

2. The Presidency are starting to try to put together a package as a basis for agrement at the European Council. They key issues are decision-making, the European Parliament, new articles on technology and environment, and cohesion. The Benelux and Italy are still supporting maximalist positions. The French, Germans and ourselves have been taking a similar line on the substance. Most member states want to try to reach agreement on a limited package in December.

3. On the internal market the Presidency's latest text would provide for majority voting for a number of Treaty articles, not all of them directly related to completion of the common market. We want to ensure that taxation remains subject to unanimity, that freedom of movement for people is limited to the categories already covered (workers, the professions); that essential existing safeguards are retained for measures affecting health standards and that issues affecting the terms and conditions of workers (crucial to government/industry/trade union relations) do not become subject to majority voting.

4. On environment the Presidency's proposals have come a long way towards meeting our concerns, by providing that any move to allow majority voting for detailed decisions would have to be agreed beforehand by unanimity.

5. On technology the Presidency proposals have solved some of our minor problems but do not yet meet our requirements on the basic question of how new R&D programmes are to be decided. We, the Germans and the French, want to be sure that the substantive content of programmes, and their financing, remain subject to unanimity.

6. On cohesion, the Presidency have now suggested an approach which would, correctly, point to the internal market as a vehicle for achieving greater economic convergence, by comparison with the earlier Commission text which made convergence a prior condition of completing the internal market. They are also placing greater emphasis, as we would wish, on coordination of the existing structural funds, not on the creation of new instruments.

7. On the Parliament the Presidency's ideas for a "cooperation" procedure are a better basis for discussion than previous proposals (eg from the Commission). They would improve the procedures involved by allowing the Parliament to propose amendments to Commission proposals (which effectively happens already) but would leave the last word with the Council.

8. Discussion in the ECOFIN Council on 18 November revealed division over the question of monetary amendment to the Treaty. There was support from a number of Member States for the Chancellor's sceptical approach, and some support for leaving this difficult area off the European Council agenda, remitting it for further reflection by Finance Ministers. Nevertheless, some Member States, especially the French, may press for some reference, either in the Treaty or in any overall agreement, to the role of the EMS. The Germans are sceptical about Treaty amendment but could probably accept some reference to the goals of the Community in the monetary field. We should seek to persuade the Presidency that it would be better deferred.

(ii) Poco Treaty

- EC Foreign Ministers will have their final discussion at the EPC Treaty on 19 November. Discussion should open way for agreement at Luxembourg, if necessary after further work by officials.

(iii) Other Issues

- The European Council will also discuss the annual economic report during which we will wish to focus on deregulation, and the now regular report on technology. For this meeting with the Luxembourg Prime Minister, in which the IGC will be the main topic of discussion, the Prime Minister will wish to register the importance we attach to work on deregulation. In particular, she may wish to hand over to M. Santer the attached paper, setting out the clear action-related conclusions which we would like the European Council to adopt.

LUXEMBOURG INTERNAL POLITICAL AND ECONOMIC SCENE: UK/LUXEMBOURG RELATIONS

1. Luxembourg has been an independent Grand Duchy since the middle of the last century. Though neutral in the First World War it was invaded by the Germans in 1940 and the ruling Grand Duchess fled to Britain. The Grand Duke Jean, who served in the Irish Guards during the war, is a constitutional monarch. The Parliament has one chamber elected by proportional representation. Luxembourgers greatly admire Great Britain.

2. Following the General Election in June 1984 the Christian Social Party (PCS/CSV), led by M. Jacques Santer formed a coalition with the Socialists (POSL/LSAP), who had made unexpected gains at the expense of the Democrats (PD/DP) the former junior coalition partner.

3. The present government's chief economic aims are to keep the growth of public expenditure linked to GDP and to encourage private industry to expand: a small budget surplus is expected for 1985. Indexation of wages has been reintroduced but inflation is expected to fall from 7.1% in 1984 to about 4% in 1985. Unemployment is still less than 2% of the labour force. Luxembourg has an Economic Union with Belgium, although it enjoys considerable autonomy in monetary affairs.

4. The Government attaches considerable importance to promoting Luxembourg as an important European financial centre. Many people from surrounding countries take advantage of its strict banking secrecy laws. The dominant manufacturing industry is steel making concentrated in the hands of the government controlled ARBED company. Steel production has picked up recently after a difficult period of re-structuring but the Government is trying to diversify the economy particularly into small high technology enterprises. Belgium (including Luxembourg) is our sixth market worldwide but Luxembourg takes a disproportionately small share of this.

5. The former Prime Minister, Pierre Werner, paid an official visit with his wife to London which included talks with the Prime Minister

on 26-27 October 1982. The Foreign Secretary had talks with M. Poos in London on 4 June and in Luxembourg on 21 July, and is due to visit Luxembourg again on 29 November for talks with M. Santer.

6. Princess Alice of Gloucester represented the Queen at the funeral of the mother of the present Grand Duke on 13 July.

18 November 1985

SANTER, JACQUES

Minister of State, President of the Government, Minister of Finance, of National Development and of Posts, Telecommunications and Information Technology.

Born 1937. Educated in Strasbourg and Paris (doctorate in law). 1961-65 lawyer at the Luxembourg Court of Appeal. 1963-65 worked in the Private Office of the (Socialist) Minister of Labour and Social Affairs; Government Attache to the Ministry 1965. 1966 Secretary of the Christian Social Party's parliamentary group. 1970 Assistant General Secretary of the Party. 1972 State Secretary for Labour, Social Services and Culture. The same year became General Secretary of the PCS. President of the Party from 1974-84. Member of the Chamber of Deputies since 1974. Member of the European Parliament from 1974-79. Appointed Minister of Labour, Social Security and Finance 1979. He led the PCS election campaign in 1984 and was invited to form a government when the Christian Social Party again gained the highest number of seats.

A strong performer on EC matters. He is able and friendly. Although in the past he was accused of lack of substance he has shown himself a competent administrator and is growing in assurance after a shaky start as Prime Minister. His public bonhomie conceals a good brain but he lacks the weight and experience of Werner, his predecessor.

He was a COI visitor in 1973.

DONDELINGER, JEAN

Secretary General of the MFA.

Born 1930. Studied law at Nancy and Paris, and took a scholarship in Political Sciences at St Anthony's College, Oxford. Active in the international student movement 1951-57. 1954-58 practised at the Luxembourg Bar and as legal adviser to a major oil company. Joined the Luxembourg Diplomatic Service in 1958, handling international economic relations. Assistant Permanent Representative to the EC 1961-70; Ambassador and Permanent Representative 1970-84. Returned to Luxembourg to succeed Jean Wagner as Secretary General of the MFA in 1984.

A fervent European with a thorough knowledge of the minutiae of Community affairs. Quick-witted and ambitious, he enjoys listening to himself practising the art of diplomacy. Drives himself hard and does not delegate.

HASTERT, ROGER CMG

Luxembourg Ambassador in London since September 1979.

Born 1929. Studied law and took a doctoral degree at the Sorbonne before being called to the bar in Luxembourg.

Joined Luxembourg Ministry of Foreign Affairs 1959; First Secretary Brussels 1963, being promoted Counsellor and Consul-General 1967. Chef du Protocole and Legal Adviser 1969. In this dual role, was one of the chief advisers to the Prime Minister/Foreign Minister, M Gaston Thorn. Accompanied the Grand Duke on his State Visit to Britain 1972, and awarded CMG.

He is due to relinquish his post in London at the end of the year and return to Luxembourg as Marshal of the Grand Ducal Court.

An agreeable and friendly man with a shrewd judgement and a pleasant sense of humour, thoroughly professional and competent.

CCDP

REDUCING THE ADMINISTRATIVE AND LEGAL CONSTRAINTS ON BUSINESS: DRAFT EUROPEAN COUNCIL CONCLUSIONS

1. The European Council, recalling the conclusions of its meeting in March 1985, and welcoming the follow-up work undertaken by the Commission, reiterated the importance of reducing the administrative and legal constraints on business and removing the barriers they pose to the growth of businesses and the creation of new jobs.

2. In particular, the European Council agreed that the following steps need to be taken if significant reductions are to be made in the regulatory burdens on businesses and called on the Commission to implement them:

(a) an analysis should be made of the costs and benefits of each proposal for a new Community regulation, including for those proposals currently before the Council; this analysis should be kept up to date in the light of the Council's consideration of each proposal;

(b) a systematic review of the scope for cutting back on existing Community regulations should be carried out;

(c) an independent, central, deregulation unit should be set up which would be responsible for coordinating and stimulating action on deregulation and provide a focus for long term reform. The central unit's work should be directed at reducing the volume of regulation, rather than at harmonising or codifying existing regulations. It should also seek to give enterprise and job creation top priority in the preparation of Commission proposals for new legislation.

CONFIDENTIAL

BEMBCB. BM

10 DOWNING STREET

9 November 1985

From the Private Secretary

VISIT OF LUXEMBOURG PRIME MINISTER

Thank you for your letter of 8 November about the arrangements for M. Santer's visit.

The Prime Minister would be grateful if the Foreign Secretary and Mr. Hannay would attend the talks. I am sure she will understand the Foreign Secretary's reasons for not being able to attend the lunch.

(C.D. Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

London SW1A 2AH

8 November 1985

Dear Charles,

Visit of the Luxembourg Prime Minister: 20 November

M. Santer has accepted the Prime Minister's invitation to talks followed by lunch on 20 November. I understand that the Prime Minister's diary is free for talks starting at 1200 with lunch at 1300 for 1315. M. Santer will be met by the Secretary of State's Special Representative at 0900: usual for working visits by Heads of Government of a Community partner. M. Santer has asked for protocol to be kept to a minimum. He will stay with M. Hastert (Ambassador) until noon and plans to leave after lunch for Copenhagen.

The purpose of the visit is to discuss Community matters: the Intergovernmental Conference on 25/26 November and the European Council on 2/3 December. There are no bilateral problems. The Prime Minister may wish to mention the UNGA debate on the Falklands. M. Santer may ask the Prime Minister for her view of the US/Soviet Summit.

M. Santer will be accompanied by M. Dondelinger, Secretary General at the Foreign Ministry, and M. Hastert. M. Hastert will take any necessary note on the Luxembourg side. All three speak good English. Sir Geoffrey Howe will be available to attend the talks. It would be difficult for him to attend the lunch because the FCO is top for questions that day. Sir Geoffrey suggests that David Williamson and David Hannay should also attend. You may also like to consider inviting Robin Renwick.

We shall provide a brief nearer the time.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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Luxembourg; Visit of Pm

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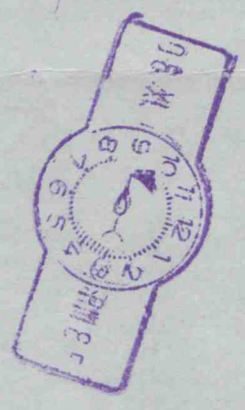

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Luxembourg

Foreign and Commonwealth Office

London SW1A 2AH

23 November, 1982

N.B.I.M.

A.J.C. 24/11.

Dear John,

The Luxembourg Prime Minister's Visit: 26-27 October 1982

I enclose a copy of a despatch from HM Ambassador Luxembourg reporting and commenting on M. Werner's recent visit to London. The Luxembourgers regard the visit as a great success. We endorse Mr Maud's conclusions.

Yours ever,

(R B Bone)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

LUXEMBOURG - VISIT OF MONSIEUR PIERRE WERNER

26-27 OCTOBER 1982

S U M M A R Y

1. The Luxembourg Prime Minister's first official visit to London an outstanding success. Common concern on economic outlook (paras 1 - 3)

2. In a speech at Chatham House Werner made suggestions for furthering economic and monetary union to help reduce inflation and fight protectionism and to reduce over-valuation of the dollar. The role of the ECU should be enlarged and sterling should join the EMS (paras 4, 5)

3. Discussions at No 10 on the British budget contribution. Werner thinks Germany can afford to pay more than her partners, but does not reject budgetary corrective mechanism (para 6)

4. Good publicity in Luxembourg. Bilateral relations strengthened. Werner ready to listen to us over the EC, but perhaps yet to be convinced by our approach. A shrewd and useful interlocutor (paras 7 - 10).

BRITISH EMBASSY,
LUXEMBOURG.

12 November 1982

The Right Honourable
Francis Pym MC MP

Sir,

1. By a happy initiative of my predecessor the Luxembourg Prime Minister M. Pierre Werner's lecture to Chatham House was made the occasion of an official visit to London - his first in the 20-odd years of the last 23 that he has held this office. The visit was an outstanding success. It gave great pleasure to the visitors. It may also have provided some valuable instruction for his hosts. It deserves a formal record and a brief commentary.

2. The visit took place on October 26 and 27. Monsieur Werner was accompanied by Albert Hansen, Secretary General of the Government, André Claude, Counsellor and official spokesman and Joseph Weyland, Director for International Economic Relations. All played a useful supporting role. The Luxembourg Ambassador was ubiquitous but not always helpful: he put up his Prime Minister to ask the Chancellor of the Exchequer an unworthy question about the application of Community banking regulations to the Channel Islands which could easily have been disposed of elsewhere. Otherwise he did his best. Monsieur Werner also brought his delightful and enthusiastic wife, whose needs were very capably administered to by Diana Makgill. As befits

/representatives

representatives of a country with reputedly the second highest standard of living per head of population in the world, the party lost no opportunity to make some well-targetted off-shore purchasing. Government Hospitality's arrangements for the visit were impeccable, despite a last-minute decision to arrive late on 25 October rather than at dawn the next day.

3. Monsieur Werner's first official call was on the Governor of the Bank of England. Given the position of the City of London and Luxembourg as competing financial centres, it was perhaps to be expected that conversation remained at a very general level. Both men agreed that it was difficult to identify where the stimulus necessary to get the world out of the present economic recession might come from. Topics such as the future of Luxembourg's currency, indebtedness and the international banking crisis were not touched upon, still less the affairs of the Banco Ambrosiano. But the exchange brought out the degree of common concern over current economic prospects and M. Werner's over the Luxembourg steel industry.

4. Monsieur Werner then gave his lecture at Chatham House under the title ``European Monetary Union - Why Not?''. This is a favourite theme of M. Werner and one on which he is an acknowledged expert. He recognised at the outset that the theme was unseasonable, given governments' demonstrable unreadiness to surrender key instruments of economic management to a central authority. But he argued that even agreement on general guidelines about the appropriate means of balancing national budgets and limiting monetary expansion for budgetary reasons would help Governments to harmonise their economic

/policies

policies. This in itself would bring both economic and monetary union nearer. The convergence among European countries in adopting more rigorous monetary policies had already achieved lower inflation rates. The European Monetary System (EMS), a small step towards monetary union, had contributed to the stability of the economies of certain EC countries and was a restraint on protectionism. Monsieur Werner argued that a closer approximation to EMU would enable the Community to share with the dollar the burden of providing a reserve currency. This in turn would reduce the present over-valuation of the dollar, which was costly to oil importers like Luxembourg and was attributable to political and speculative grounds rather than the performance of the US economy. He ended with a ringing call that Europe should set up a Federal Reserve System leading to a European Monetary Fund, with a swap credit-line enabling the dollar to be stabilised vis-à-vis European currencies; we should enlarge the role of the ECU in its use between central banks and in private use; and, not surprisingly, the £ should join the EMS.

5. The animated questions which followed this lecture suggested that M. Werner was far from preaching to the converted. But the frank exchange with the Chancellor of the Exchequer next day showed that M. Werner was not convinced either by the argument that sterling's special characteristics, with its tendency to be strengthened by oil price rises which depressed sterling's potential partners in the EMS, made it an unsuitable

/member

member of the system.

6. Apart from the magnificent evening which Sir Charles Troughton and Sir John Burgh arranged at Covent Garden to hear Mussorgsky's Khovanschina, the centre-piece of the visit was lunch at No 10 Downing Street, followed by talks with the Prime Minister. The fact that these over-shot by nearly 20 minutes speaks for itself. This exchange ranged over bilateral and international economic matters but principally concentrated on the European Community. A significant point to emerge was that M. Werner was not convinced by the Prime Minister's argument that if Germany continued to pay the lion's share of the EC budget, a new generation in Germany could develop a different attitude towards the Community. Monsieur Werner suggested that Germany had done so well out of the first phase of the Community and out of her trade with favourable conditions with East Germany, that she could afford to pay more than her partners now. But more helpfully, he agreed that the idea of a budgetary corrective mechanism should not be rejected, provided this took account of the balance of advantages and disadvantages (a typically sly Luxembourg compromise). This may be a more useful line to pursue than M. Werner's suggestion that a group of wise men could be set up to carry out a discreet study of the Community's financial problems. Monsieur Werner said afterwards that he was greatly impressed by the Prime Minister's mastery of such a wide range of topics. He was certainly bowled over by her speech.

7. Monsieur Werner then gave a press conference at the Luxembourg Embassy which was a straightforward, low-key affair.

/It

It was clear that his aim was to register his presence in London for the benefit of his domestic rather than the English public. The COI collaborated most helpfully in ensuring that copies of photographs taken at No 10 were available for the party to take back to Luxembourg. This in turn secured wide coverage for the visit on Luxembourg television and in all the local newspapers.

8. The visit was nicely rounded off by the Luxembourg Ambassador's reception at the Hyde Park Hotel which was attended by two former Prime Ministers and numerous luminaries of the political and financial worlds.

9. Monsieur Werner evidently valued this visit for the cordiality of his welcome and the efficiency of the arrangements which enabled him to get the most out of it. He also saw it as an important reinforcement of our bilateral relations, particularly given the disparity in size and weight of our two countries and the habit of Luxembourg's geographical neighbours of patronising or ignoring her. It will have eased communication between Luxembourg and London. This is already paying off in our continuing discussions with them over matters of mutual concern, like the Falklands vote and the opening of the Luxembourg insurance market to Lloyd's. But I think we have also strengthened our purchase on the Luxembourgers over the European Community on which, as the Benelux Summit of 10 November confirmed, M. Werner in particular is regarded as an experienced authority and a source of wise advice. The Luxembourgers are not blinded by their idealism about the

/future

future development of the Community: Werner's Chatham House speech advanced pragmatic reasons for strengthening the monetary stability achieved by the EMS and enhancing Europe's role in international monetary cooperation. He proved a good listener. How far he was convinced by our case on the EC budget remains to be seen. With his avuncular manner, shrewd judgement and peasant wisdom as seasoned EC Head of Government, M. Werner seemed to fit the old American saw: ``His strength is as the strength of 10 because his heart is pure''. It was a pity that other preoccupations prevented M. Werner meeting any Foreign Office Minister. But I am most grateful that the Prime Minister and the Chancellor of the Exchequer as well as Mr Gordon Richardson were able to devote the time to him they did. I think they will have found him a pleasant interlocutor as well as a useful one.

10. I am sending copies of this despatch to Her Majesty's Ambassadors in European Community posts, Madrid, Lisbon and Washington.

I am

Sir

Yours faithfully

H J H Maud

H J H Maud

23 NOV 1982

SUBJECT cc Mosler Ops

GRAND-DUCHÉ DE LUXEMBOURG

LE PRÉSIDENT DU GOUVERNEMENT

November 3, 1982

Luxembourg
Prime Minister

(4).

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 205c/82

(1) Off. Copies
(2) P.M.

My dear Prime Minister,

I should like to thank you once more for the exquisite hospitality extended to Madame WERNER and myself during our visit in London on October 26 and 27.

The exchange of views on some of the current international problems which I had the privilege to have with you personally enabled us to recognize large areas on a common approach. The present general economic crisis induces us to accelerate the solution of the major problems within the European Community in view of a better use of these Institutions for a new economic and social start.

Yours very sincerely

Pierre WERNER

Right Hon. Mrs Margaret THATCHER
Prime Minister
10, Downing Street
GB - London

CONFIDENTIAL

JA

Luxembourg

10 DOWNING STREET

From the Private Secretary

27 October 1982

Dear Roger,

Prime Minister's Meeting with M. Werner

I enclose a record of the conversation between the Prime Minister and the Prime Minister of Luxembourg which took place here this afternoon.

I am copying this letter and enclosure to John Kerr (HM Treasury) and Jonathan Spencer (Department of Industry).

I should be grateful if the record was not circulated beyond Private Offices except where this is operationally essential.

Yours ever

John Coles.

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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SUBJECT

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DAIE

cc Marks

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF LUXEMBOURG AT 1505 HOURS ON WEDNESDAY 27 OCTOBER 1982 AT 10 DOWNING STREET

cc HANCOCK CAB OFF

Present:

Prime Minister	M. Werner
The Hon. H.J.H. Maud	M. Hastert
Mr. Goodison	M. Weyland
Mr. Coles	

* * * * * * *

The Prime Minister opened the discussion by referring to the next European Council in Copenhagen. She very much hoped that the fisheries problem would be settled then.

She would be interested to hear how the Luxembourg Government was tackling the problems of the steel industry. We were having a very difficult time. Our industry, including the private sector, had a capacity of 24 million tonnes but output was at present around the 13 million tonne level. She understood that the proportion was the same in Luxembourg. The causes were well known. There was over-capacity, even in boom conditions, and new patterns of world trade were emerging, as evidenced by the new steel plants in Korea. We had found, when we were seeking a replacement for the Atlantic Conveyor, that Far Eastern countries were able to quote prices for a replacement ship which were below the cost which British firms would quote simply for the raw materials. Low wages and low overheads enabled such countries to compete very easily.

M. Werner said that the picture in Luxembourg was much the same. But the difficulties caused by the problems of the steel industry were even more dramatic for Luxembourg than for other EC countries. The Luxembourg steel industry was very heavily dependent on exports. Last year 60-65% of its exports went to Community countries - so the restrictions imposed in the Community created great hardship.

/Luxembourg

CONFIDENTIAL

Luxembourg had realised twenty years ago that its over-dependence on steel was not healthy and it had therefore diversified its industry to some extent. But a steel industry would be needed for many years yet - it still accounted for 25-30% of revenue. It was impossible to give up such a substantial part of the economy.

The industry had traditionally been run by free enterprise methods. It had always seemed improbable that it would be necessary to subsidise it. In 1975 the steel companies had undertaken themselves to invest large sums in new equipment. But now, like steel industries throughout the world, money was having to be raised to cover short term debts. There was a problem of financial liquidity and the Government was being asked to help. Meanwhile, in France and Italy, the Goverment was pouring money into the steel industry in order to keep it alive. Luxembourg could not follow suit - because there was no alternative source of finance.

A third difficulty was posed by the fact that the main Luxembourg steel company was a multi-national. What happened in the Saar had indirect implications for Luxembourg. So whereas Luxembourg used to be one of the most prosperous countries of Europe, it was now in trouble. The Government had appealed to the companies and the trade unions to solve these problems by themselves - but it was difficult for them to reduce production costs.

The Prime Minister said that in the British steel industry wages had stayed below the level of inflation. We had never had wage indexation. But we could not persuade steel workers to take a 10% cut like their American counterparts.

M. Werner said that the industry's experience in the first 6 months of this year had not been bad - indeed, the cash flow had been positive. But this had been completely reversed in the second half of the year. Wages and salaries had been fully indexed in Luxembourg but this system had been moderated in the new

/austerity

austerity programme. Negotiations were now in hand for next year's wage round - the trade unions seemed ready to accept a cut of 5-6% in real wages. Mr. Maud pointed out that the inflation rate was just under 10%. M. Werner explained that the devaluation of the Belgian franc in February, which contrary to provisions of the Belgian-Luxembourg Economic Union was not preceded by consultation, had been very badly received. The net result had been a great increase in import prices. Political and social conditions had become difficult. There had been a one day strike in the steel and transport industry. This had not happened for many years.

The Prime Minister said that it was not easy to see any improvement. She had just seen the latest American forecasts of 3-4% growth in the US economy over the next year - but higher growth would be needed if the positive effects were to filter through to Europe.

M. Werner said that he had noted that there was discussion in Britain of how the steel industry should be protected. He had read the proposal of a Member of Parliament that import restrictions should be imposed. The Prime Minister said that this represented the thinking of the Labour Party. But she kept pointing out to them that Britain had to work through the European Community. The net result of a generally protectionist policy would be a slump in exports. On the other hand we had particular problems in some areas. For example, our automobile trade with Spain and the general imbalance of trade with Japan was causing serious difficulty. She also expected further problems between the Community and the United States. The Americans objected to the Common Agricultural Policy. Now, with bumper crops in the United States they were threatening to subsidise their exports. M. Werner commented that competitive subsidies were the beginning of the end.

/ The Prime Minister

The Prime Minister said that, with regard to the Siberian Pipeline, the United Kingdom, France and Germany had so far taken the same line. She sympathised with President Reagan's attitude. It would have been better if the West was not helping the Soviet Union to construct the pipeline. But the fact was that we had tendered for contracts and must now keep them. The main flaw in the American case was that the kind of sanctions envisaged could not produce the desired effect in Poland or in the Soviet Union. There was a clear need to sort out the differences amongst the allies and we were hopeful of early progress in this respect. There were a number of proposals on the table. M. Werner said that Western countries ought to have agreed to place tighter conditions on credit to the Soviet Union. The Prime Minister interjected that this was what President Reagan had tried to achieve at Versailles. M. Werner said that we should make the Russians pay. It made no sense both to supply them with equipment designed to enrich their economy and to give them subsidised credits. In that area, we ought to make concessions to the American viewpoint. The Prime Minister said that she had supported President Reagan at Versailles but no-one else had. It was possible that we would not make much further progress until after the forthcoming American elections. But we were trying to put a package together. M. Werner said that it was his impression that President Reagan was looking for a way out of the present difficulties.

The Prime Minister then asked M. Werner for his views on American monetary policy. M. Werner said that from the 1950s until about 1970 there had been a continuous dialogue with the United States about monetary matters and this dialogue had led the Americans to take account of the situation of other countries. But the dialogue had ceased and the IMF's efforts in the same field had not been successful. Misunderstanding between the United States and other countries about the purpose of monetary policy had grown. The Americans were

/proud

proud of the strong position of the US dollar but the fact was that this owed less to economic performance than to political and speculative factors. He considered the dollar to be over-valued. The time would come when the Americans would have to take cognizance of this fact. It would be beneficial if the dollar were somewhat devalued. In Luxembourg petrol prices rose every two months, not because the oil producers sought higher prices but because the dollar became more expensive.

The Prime Minister enquired about the banking system in Luxembourg. Had it been upset by the Banco Ambrosiano affair? M. Werner said that this was a special case. The Luxembourg company involved was a holding company and as such was not controlled by banking surveillance operations. The State had no right to investigate its affairs and indeed the company appeared to have observed all the provisions of Luxembourg company law. The Luxembourg Government had subsequently asked all other Italian banks using holding companies in Luxembourg in this way to guarantee the operations of those companies. So that loophole had been closed. The case had cast a shadow over Luxembourg but this was not really deserved. The events which occurred could have happened anywhere. The Vatican was not blameless. It had given a mandate to people who should not have been entrusted with it. The Luxembourg Government had made two demarches to the Vatican to the effect that they wished to be associated with the negotiations proceeding between the Soviet Government and the Vatican because they had to watch over the interests of a Luxembourg company.

Mr. Maud said that he understood that the Luxembourg Government was contemplating support for the EC directive which related to freedom of insurance services. M. Werner said that the matter had been studied and there had been talks with Lloyds. Luxembourg was open to a change if they judged that the resulting business would be profitable. The other prosperous sector at present was TV and radio. The LUXSAT

/project

project was of importance in this connection. The project was to some extent overshadowed by the attitude of the French Government. President Mitterrand was not happy about the coverage of his election campaign by Radio Luxembourg. M. Mauroy had sent representatives to discuss this matter. He (M. Werner) had explained that Radio Luxembourg had to be neutral in political matters. The reply had been given that the French Government was trying to change society and did not wish the media to interfere in that process. Fifty per cent of shareholders in Radio Luxembourg were French. The fact was that they would not vote for the satellite project unless they got a green light from the French Government. There were also German interests but the attitude of the new German Government was easier than that of the previous government. Mr. Goodison said that we hoped the Luxembourg Government would award the contract for the project to British industry. M. Werner said that he would be grateful for any moral or other help from Britain. The French were marshalling support for European agreement on the way this problem should be handled. Britain had initially not been invited to a recent meeting convened by the French, a fact which did not inspire confidence in the French attitude. But an invitation had now been issued. Britain and Luxembourg could give each other mutual support.

The Prime Minister said that she was concerned about the prospects for the next European Council meeting in Copenhagen. It would have to address the next phase of the Budget problem, namely the long-term agreement which she had always sought. If Germany continued to pay the lion's share of the EC Budget, she believed that the new generation in Germany would develop a different attitude towards the Community. M. Werner said that he did not entirely agree with this point of view. The budgetary arrangements were unbalanced, largely because all the possible Community policies had not been fully developed. So there was an uneven spread of advantages. Hence the need for a corrective formula. But the advantages brought by free trade could not be evaluated just in budgetary terms.

/The Prime Minister

The Prime Minister said that she agreed with the latter point but that she still felt that to continue with the present system, with Germany paying an enormous contribution, created the danger that the new generation in Germany, which did not have the same guilt complex as the old, would be less committed to the Community. It was of great importance to keep the Community going with Germany inside it.

M. Werner said that it was nevertheless a fact that during the first phase of the Community, Germany and German industry had profited greatly. This was partly because its capital equipment had been new and its workforce efficient. Moreover, Germany had the privilege of trading with East Germany without restrictions.

The Prime Minister pointed out that last year the Germans had paid 2,200m ecus to the Budget. We were the only other contributor, with 12m ecus. All the other member States were net beneficiaries. M. Werner said he wondered whether it would be useful to set up a group of wise men to carry out a discreet study of these problems. The Prime Minister said that we should either have to continue with a corrective formula for the United Kingdom or a much more fundamental reform would have to be worked out. In any case, when Spain and Portugal entered the Community there would have to be a new method of financing it. M. Werner said that it would be good to settle these problems amongst the Ten before other countries entered. The Prime Minister said that she would welcome this. She did not like having to raise the issue so frequently. For one thing, it tended to set British public opinion against the Community - though yesterday's settlement of the outstanding problems for 1982 had been welcome.

M. Werner said that he did not reject the idea of a mechanism. But he did not believe in a simple budgetary mechanism designed to balance advantages and disadvantages.

/ He could

He could go so far as to agree that the corrective mechanism should take account of the balance of advantages and disadvantages. The Prime Minister said that another approach was to stipulate that no country should contribute more than a certain amount.

M. Werner said that the Community was weakened if successive meetings squabbled about the Budget. It might be wise to envisage a more discreet inquiry into the whole system. This would have the advantage that the issue need not be brought before Ministers again until it was ripe for settlement.

A.J.C.

27 October 1982

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

26 October 1982

Dear John,

A J C 26/10

Prime Minister's Meeting with M. Werner:
Seat of the European Parliament

You asked for further information on the problem which has arisen over the seat of the Parliament. The problem of a permanent seat for the Parliament and the other Community institutions is a long-standing one. The Treaty (Article 2.1.6) requires the member states to reach agreement on 'the seat of the institutions'. It has not so far proved possible to reach agreement on 'the seat' and the present locations are therefore provisional. The Parliament has three provisional locations. Its plenary sessions are held in Strasbourg (and, until recently, sometimes in Luxembourg, see below), its Secretariat is in Luxembourg and its Committees normally meet in Brussels. In July 1981 the Parliament adopted a resolution which provided that in future all its plenary sessions would be held in Strasbourg. The Luxembourg Government, fearful of Luxembourg losing its status as a 'European Capital', took exception to this and brought an action before the Court of Justice under an Article of the ECSC Treaty (Art 38) which allows a Member State to apply to have an act of the Parliament declared void. Their case is based on the Parliament's lack of competence to pass the resolution on the grounds that it is for the member governments to decide on the Parliament's location. The Court has not yet pronounced on this case.

This is not a subject on which we would wish to intervene since anything we said would risk upsetting one or other of the parties to the dispute. Our long-term view is that it would be preferable for all the institutions to be located in a single place in order to eliminate the waste of money and inefficiency which results from the present situation, but we have not tried to push this view, given the many sensitivities involved.

Yours ever,

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

LIST OF GUESTS ATTENDING THE LUNCHEON TO BE GIVEN BY THE PRIME MINISTER AND MR. DENIS THATCHER IN HONOUR OF HIS EXCELLENCY THE PRESIDENT OF THE GOVERNMENT OF THE GRAND DUCHY OF LUXEMBOURG AND MADAME WERNER ON WEDNESDAY, 27 OCTOBER 1982 AT 1.00 PM FOR 1.15 PM

Mr Coles

The Prime Minister and Mr. Denis Thatcher	
His Excellency Monsieur Pierre Werner and Madame Werner	
His Excellency the Luxembourg Ambassador and Madame Hastert	
Monsieur Albert Hansen	Conseiller de Direction accompanying Monsieur Werner on his visit
Monsieur Andre Claude	Conseiller, accompanying Monsieur Werner
Monsieur Joseph Weyland	Director for Economic Affairs, Ministry for Foreign Affairs
HM Government	
Rt. Hon. Sir Geoffrey Howe, MP	
Rt. Hon. Francis Pym, MP and Mrs. Pym	
Media	
Sir John Rodgers and Lady Rodgers	Chairman of Radio Luxembourg, London. Holder of Grand Cross of Luxembourg
Mr. Geoffrey Owen	Editor, Financial Times
Industry and Banking	
The Lord Gormley and Lady Gormley	President of NUM 1971-82. Coal mining is one of Luxembourg's chief industries
Sir Derek Ezra and Lady Ezra	Former Chairman, National Coal Board. A friend of M. Werner
Mr. P.I. Harta and Mrs. Harta	Managing Director, Morganite International. Morganite is one of the largest companies trading between Britain and Luxembourg
Mr. Philippe Muuls and Mrs. Muuls	Chairman of the Belgo-Luxembourg Chamber of Commerce and Managing Director, Banque Belge
Mr. Robin Hutton	Accepting Houses Committee. Has worked for some years in Luxembourg.
Parliament	
Mr. W.P. Grieve, MP and Mrs. Grieve	Chairman of the Luxembourg Society
Mr. Ray Whitney, MP and Mrs. Whitney	

[illegible]ers

The Lord Auckland and Lady Auckland	Member of Luxembourg Society
The Hon. Sir Clive Bossom and Lady Barbara Bossom	President, Anglo-Netherlands Society. Member, Luxembourg Society
Sir Robin Mackworth-Young and Lady Mackworth-Young	Chief Librarian, Windsor Castle (met the Werners when they visited Windsor in 1963)
Mr. A.J. Clasen and Mrs. Clasen	Luxembourg Ambassador in London 1955-71. Has an English wife
Professor R.H. Graveson and Mrs. Graveson	Professor Emeritus of Private International Law, Kings College, University of London
Mr. David Watt and Mrs. Watt	Director, Royal Institute for International Affairs
Mr. John Bolt and Mrs. Bolt	Officer of the Order of Merit of the Grand Duchy of Luxembourg

Government Officials

Sir Antony Acland and Lady Acland	Foreign and Commonwealth Office. Former Ambassador to Luxembourg. Friends of Monsieur and Madame Werner
The Hon. H.J.H. Maud and Mrs. Maud	HM Ambassador, Luxembourg
Mr. Patrick Wright	Foreign and Commonwealth Office. Former Ambassador to Luxembourg
Mr. John Coles	Private Secretary, 10 Downing Street

PRIME MINISTER

Visit by the Prime Minister of Luxembourg

I attach your brief and some notes for the usual short after lunch remarks.

Mr. Werner arrives here from an Audience with The Queen Mother. That is why, unusually, we are having talks after lunch. I suggest that we have these in the White Drawing Room since Mr. Werner wishes to be accompanied by his Ambassador here and M. Weyland from his MFA. On our side, I have asked our Ambassador in Luxembourg (Humphrey Maud) and Alan Goodison from the Foreign & Commonwealth Office.

Since you may arrive for lunch a little late, from the Memorial Service to Douglas Bader, we have asked the Foreign Secretary to be ready to receive guests until you come.

A. J. C.

26 October 1982

COVERING CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

22 October 1982

Dear John,

Visit by the Prime Minister of Luxembourg

I enclose briefing in preparation for discussions between the Prime Minister and M. Pierre Werner, Prime Minister of Luxembourg, during and after lunch on 27 October.

We agreed earlier that a consolidated brief would suffice for the talks, not only in view of their limited duration, but also because the Prime Minister will already have full background available in the briefs for the Anglo-German Summit.

The briefing is being submitted in parallel to Mr Pym. I am sending copies now in case you would wish to include it in the Prime Minister's weekend box.

Yours ever,

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

COVERING CONFIDENTIAL

VISIT BY THE PRIME MINISTER OF LUXEMBOURG: 26-27 OCTOBER

STEERING BRIEF

1. The meeting with M Pierre Werner on 27 October will be the first UK-Luxembourg top-level meeting since November 1980, when M Werner visited London as part of a tour of Community capitals. The present visit is built around an invitation to address Chatham House (on 26 October) on the future of the European Monetary System. M Werner is an authority on international finance.

INTRODUCTION

2. M Werner has been Prime Minister since the general election of 1979 and led successive coalition governments between 1959 and 1974. He remains firmly in control at the head of the Christian Social Party and looks set to remain Prime Minister, at least until the next elections due in 1984. The Socialist opposition is ineffective. A background brief on the Luxembourg political scene is attached at Annex A. Personality notes on Monsieur and Madame Werner and on M Roger Hastert, Luxembourg Ambassador at London, are at Annex B.

OBJECTIVES

3. The prime UK objective at this meeting is to ensure that UK links with Luxembourg are kept in good repair. Bilateral relations are without problems. The visit provides an opportunity to confirm how much we value our relationship. There is considerable affection and respect in Luxembourg for Britain and the British people. The Luxembourgers have an equal vote and voice in the EC and are staunch supporters of

/NATO

NATO. They have given the UK consistent support over the Falklands. The Luxembourgers can be useful allies in the Community, on which they are well tuned in to their neighbours' preoccupations. There have recently been signs that the Luxembourgers regret that we do not work more closely on EC issues.

4. M Werner is concerned about Luxembourg's monetary future. The Belgian-Luxembourg Economic Union was sorely tested in February this year when Belgium devalued without warning the Luxembourgers. M Werner will probably raise this issue during his meetings with the Chancellor of the Exchequer and with the Governor of the Bank of England. The Prime Minister may wish to hear M Werner's views although we should not wish to advise him on any course of action that could be embarrassing for our relations with Belgium. A background brief is attached at Annex C.

STRATEGY AND TACTICS

5. There is no agenda for the meeting. M Werner himself has no specific subjects to raise with the Prime Minister and it has been agreed that in view of the limited time available a degree of flexibility is essential. (The Prime Minister and M Werner will, however, have spent almost two hours in conversation during the lunch prior to the talks.)

6. M Werner will be particularly interested in the Prime Minister's views on transatlantic relations, East/West relations and international financial problems. The Prime Minister will wish to press the UK case on the Community.

/i)

i) European Community

7. As a fervent European, M Werner will respond to a clear restatement of Britain's commitment to the Community. But progress will continue to be hindered as long as the Budget problem remains. The Prime Minister will wish to reiterate the importance of a lasting and equitable solution. Repeated negotiations are bad for the Community. The present burden on British taxpayers is intolerable. Without refunds UK would pay over 1500 mecu a year to recipients of Community expenditure in other Member States, often better off than ourselves. This is about the level of our current aid programme. The UK is not seeking to undermine Community principles on the CAP, nor are we seeking juste retour. We should keep to the end of November deadline for decisions on 1983 and beyond. If M Werner raises new own resources, the Prime Minister may wish to say that we would not object to discussing Community finances if that was proposed, as long as all problems were covered with no presumption that new own resources would necessarily be created.

8. M Werner was the author of the report which led to the establishment of the EMS. He may ask about UK intentions. The Prime Minister could say that the question of full EMS participation by the UK is kept under regular review. We shall join only when conditions are right for the UK economy and for the system itself. Sterling is a very widely traded currency, subject to different pressures from others when oil prices move. We would not want EMS participation to conflict with domestic monetary objectives.

/ 9.

9. If no solution on Fisheries is agreed at the 25-26 October Council, the Prime Minister may wish to stress how essential it is for the Community to get this solved soon. We must persuade the Danes to stop holding up agreement. We hope that Luxembourg will continue to help.

10. If M Werner refers to the Seat of European Parliament, we should express understanding about Luxembourg concern over the Parliament's 1981 resolutions. We must now await the outcome of the European Court's deliberations.

[I have asked for a note expanding this. A.J.C. 22/10].

ii) EC/US Relations

11. The Prime Minister may wish to tell M Werner that we appreciated the Luxembourg Government's contribution to efforts to reach a negotiated settlement with the US on steel, despite the fact that punitive US duties had little direct effect on the Luxembourg steel industry (the fourth largest in Europe). The prospect of a new dispute breaking out over EC agricultural exports causes us concern as, no doubt, it does to the Luxembourgers. We accept that the present operation of the CAP is defensible in terms of existing GATT obligations. At the same time we believe the Community must recognise that subsidised agricultural exports are going to remain a major irritant in relations with more competitive producers like the US as well as a drain on the Community Budget so long as EC production of high-cost surpluses continues to increase.

iii) Falkland Islands

12. We have noted with gratitude Luxembourg's continuing support for the UK over the Falklands, including the helpful

/statement

statement made by Mme Flesch in New York. The UNGA debate is of the highest importance to us. We hope Luxembourg will at the very least abstain in a vote on the Latin American draft resolution.

iv) East/West Relations

13. The Prime Minister might suggest that the pipeline dispute is a symptom of deeper differences on the approach to East/West relations. It is important to work urgently to resolve these differences, and to achieve a united and co-ordinated Alliance approach on both economic and political relations. It is important to keep the pressure on the Russians over Poland, particularly in the light of recent events there, and over Afghanistan, where it will be important to secure the largest possible majority for this year's UNGA resolution. The Alliance position for the reconvened CSCE Madrid Conference has not yet been decided. The Americans want to continue concentrating exclusively on denunciation of the Soviet bloc, particularly over Poland, while the Europeans want also to return to negotiation of a concluding document. Urgent efforts are being made to resolve these differences before the resumption on 9 November. Unity is important if the West is to maintain pressure at Madrid.

v) Defence and Arms Control

14. Luxembourg representatives take a low profile in NATO consultations on INF but when they do speak up they are helpful. The Prime Minister might tell M Werner that we appreciate

/Luxembourg's

Luxembourg's co-operative attitude in INF consultations; co-ordinated tactics in the Alliance are all the more important as the time for the first cruise and Pershing II deployments approaches.

vi) Arab/Israel

15. The Prime Minister could take the opportunity to mention to M Werner that the Ten should do all we can to keep up the momentum generated by the Reagan proposals and play a distinctive role in sustaining Arab moderates. It is useful that King Hussein is now discussing the future of the Palestinians with the PLO.

vii) Banco Ambrosiano

16. The Prime Minister may wish to congratulate the Luxembourg Government on its prompt and firm action following the collapse of the Banco Ambrosiano. [In August, following the Banco Ambrosiano's collapse, Luxembourg's Banking Commissioner insisted that all Italian banks with subsidiary holding companies in Luxembourg should give immediate unconditional guarantees covering any individual debts incurred by these holding companies. If they failed to do so, the operating licences for their banking operations in Luxembourg would be withdrawn. The guarantees were given.]

viii) Luxembourg Direct Broadcasting Satellite (LUXSAT)

17. M Werner could be reminded that HMG is very interested in the implementation of the LUXSAT project. There are good prospects of British Aerospace winning this contract. British Aerospace have been actively working on technology related to

/the

the project since their early studies were completed in 1980. Radio Television Luxembourg (RTL) have been planning to operate a direct broadcast satellite television system for some years. British Aerospace prepared a study for RTL in 1979/80 in parallel with studies by Hughes Aircraft Company of the United States and Eurosatellite (MBB Germany and Aerospatiale France). Pressure from the French and German governments may have been holding up a decision.

PROGRAMME

18. M Werner will arrive at Heathrow airport at 0725 on 26 October. He will have attended the Churchill Memorial Lecture, in Luxembourg the previous evening, given this year by the Foreign and Commonwealth Secretary. The theme is continuity in international institutions.

19. On 26 October M Werner will call on the Governor of the Bank of England in the morning, address a lunchtime meeting of the Royal Institute for International Affairs at Chatham House on 'European Monetary Union, Why Not?', and attend the opera in the evening.

20. On 27 October M Werner will meet the Chancellor of the Exchequer at 1115, followed by a courtesy call, accompanied by his wife, on the Queen Mother. He will arrive at No 10 for lunch at 1300, followed by talks with the Prime Minister for 45 minutes beginning at 1500. M Werner is expected to be accompanied at those talks by M Roger Hastert, the Luxembourg Ambassador in London and by M Joseph Weyland, Director for International Economic Affairs at the Luxembourg Foreign

/Ministry.

Ministry. At 1800 M Hastert is to give a reception at the Hyde Park Hotel, following which M Werner will depart for Luxembourg. A full programme is attached at Annex D.

ANNEX A

A

LUXEMBOURG INTERNAL POLITICAL SCENE

Following the General Election in 1979, the Christian Socialists, PCS, led by M Pierre Werner, formed a coalition with the Democrats, PD, led by Mme Colette Flesch. M Werner became Prime Minister and Mme Flesch his Deputy and Minister for Foreign Affairs.

The domestic scene is relatively untroubled. Despite its first strike since the war earlier this year, the Grand Duchy remains a haven of industrial peace where most important economic decisions are made by consensus. But the steel industry is suffering. The re-structuring plan was revised and submitted to the commission late last month. Attention is now focussed on measures to aid redundant steel workers and to reduce production costs in the industry. This will have an effect on the national budget which comes before the Chamber of Deputies next month. The Government must soon decide what to do when its package of emergency measures, including a price freeze and a break in the index-linking of wages, expires in December. The odds seem to be on more of the same for at least the first few months of next year. The rising price of imports has pushed the inflation rate up to 9.7% and greatly worsened the already negative balance on visible trade. The construction industry is in trouble and retail trade stagnant. But as Ministers are quick to point out, the financial sector remains profitable and invisible earnings will put the balance of payments into the black as in previous years. Agriculture and wine, too, are having a good year.

The government has weathered the deterioration in the economic situation. The Socialist opposition is ineffective. It seems very likely that M Werner's coalition will govern until 1984 when its five-year term of office ends.

ANNEX B

B

MONSIEUR WERNER

Monsieur Pierre Werner is the Prime Minister of Luxembourg and also Minister of Culture, Religious Affairs, Information and Press, Development and the Treasury (Christian Social).

He was born near Lille in France in 1913 and was educated in Paris. He became a Doctor of Law (1938), but soon left the Bar for the Banque Generale. In 1945 he was appointed Banking Control Commissioner. In 1953 he was appointed by M Bech as Minister of Finance and in 1954, of the Armed Forces. He was Prime Minister from 1959 of successive coalition governments; with the Democrats (1959-64 and 1969-74); and with the Socialists (1964-69). Having also, at one time or another in this period, held the portfolios of Foreign Affairs, Justice and the Civil Service, there is not much he does not know about the working of the Luxembourg Administration.

He is well-known internationally and for his chairmanship of the European Community's 'Werner Committee' on Economic and Monetary Union (on which subject he published a book in 1977). Finance is his speciality.

M Werner speaks fluent English and understands better than most the British way of doing things. He is a devoted family man, fond also of music (he is a good pianist) and gardening.

MADAME WERNER

Madame Werner was born Henriette Pescatore and comes from a well-known family of Italian origin. She married Pierre Werner in 1939. They have three sons and two daughters. Although Madame Werner is not often seen in public and rarely accompanies the Prime Minister on official visits abroad, she visited China with him last May.

Her interests are art (she will be visiting the Victoria and Albert Museum during her stay), history and literature (Monsieur and Madame Werner are going to the British Museum Library on 26 October). She is a sponsor of an organisation devoted to the care of itinerant children of circus and fair people. Her hobbies are gardening and walking. She speaks good English.

ROGER HASTERT CMG

Luxembourg Ambassador in London.

Born 1929. Studied law and took a doctoral degree at the Sorbonne before being called to the bar in Luxembourg.

Joined Luxembourg Ministry of Foreign Affairs 1959; First Secretary Brussels 1963, being promoted Counsellor and Consul-General 1967. Chef du Protocole and Legal Adviser 1969. In this dual role, was one of the chief advisers to the Prime Minister/ Foreign Minister, M Gaston Thorn. Accompanied the Grand Duke on his State Visit to Britain 1972, and awarded CMG.

A stocky, agreeable and friendly man with a shrewd judgment and a pleasant sense of humour, thoroughly professional and competent.

/Speaks

Speaks fair English, though he is happier in French.

Married, with two children. Madame Hastert, who is Dutch by birth, speaks good English.

VISIT BY THE PRIME MINISTER OF LUXEMBOURG: 26-27 OCTOBER 1982

DRAFT BACKGROUND BRIEF

BELGIUM-LUXEMBOURG ECONOMIC UNION

1. The BLEU came into being in 1922, following the Treaty of Versailles (1919). It is both a customs union (now expanded to embrace the Netherlands) and a partial monetary union. The Banque Nationale de Belgique holds the joint exchange reserves of the two nations, is responsible for defending the international value of the currency, and acts as lender of last resort. Luxembourg's Caisse d'Epargne de l'Etat acts as cashier to the Grand Duchy. The bulk of currency in circulation in both countries is issued by the Belgian authorities.

2. The devaluation of the franc on 22 February 1982 brought the Union under considerable strain. The Luxembourg authorities complained that they had been consulted only at the last moment. The currency link was called into question, and a proposed modification and extension of the BLEU was withdrawn from the Chamber of Deputies. Luxembourg called for an exchange rate guarantee for Belgian Franc assets held by Luxembourg banks and requested a division of the joint gold and foreign exchange reserves held by the Belgian National Bank. Subsequent communiqués have reaffirmed the commitment of the two governments to the stability of their currency; the Belgians consider the crisis to be past. The Luxembourgers, however, remain uneasy. They have been studying alternative monetary arrangements, eg, the possibility of linking their currency with a stronger unit such as the guilder or deutschmark. Despite many difficulties there is still some support for the suggestion that the new Luxembourg Monetary Institute be given the prerogatives of a central bank.

3. Although the Belgian/Luxembourg franc remains the weakest currency in the EMS, a further devaluation is unlikely in the near future. Such a development would undoubtedly subject the BLEU to considerable pressure.

D

HER MAJESTY'S GOVERNMENT IN THE
UNITED KINGDOM OF GREAT BRITAIN
AND NORTHERN IRELAND

Visit of
His Excellency
the President
of the Government
of the Grand Duchy of Luxembourg
and Madame Werner

26 to 27 OCTOBER 1982

His Excellency the President of the Government of the Grand Duchy of Luxemburg and Madame Werner will be accompanied by:

Monsieur Albert Hansen,
Secretary General of the Government

Monsieur André Claude,
Counsellor

Monsieur Joseph Weyland,
Director for International Economic Relations

In attendance:

Group Captain Robert Thomson—*Government Hospitality*

The Hon. Diana Makgill—*Lady Ceremonial Officer, Foreign and Commonwealth Office*

The visitors will stay at:

Claridge's
Brook Street, W.1

Programme

TUESDAY, 26 OCTOBER

(See page 5 for programme for Madame Werner)

0725 hrs	Arrive London Heathrow Airport by Flight LG 401 from Luxembourg *Hounslow Suite* Met by the Special Representative of the Secretary of State for Foreign and Commonwealth Affairs, Sir David Muirhead
0745 (approx)	Leave the Airport by car
0830 (approx)	Arrive Claridge's *Brook Street, W.1*
0945	Leave Claridge's
1015	Arrive Bank of England *Bullion Entrance, Lothbury, E.C.2* Call on the Governor, The Rt. Hon. Gordon Richardson
1100	Leave Bank of England
1130	Arrive Claridge's
1235	Leave Claridge's
1250	Arrive Royal Institute of International Affairs *Chatham House, 10 St. James's Square, S.W.1* Met by the Director, Mr. David Watt

Continued on next page

TUESDAY, 26 OCTOBER *(Contd.)*

Buffet Luncheon given by the Royal Institute of International Affairs
Host: The Director,
Mr. David Watt

1330 hrs — His Excellency the President of the Government will give a talk entitled:
"European Monetary Union: Why not?"

1430 — Leave Royal Institute of International Affairs

1500 — Arrive The British Library Reference Division
Great Russell Street, W.C.1

Met by the Keeper of Manuscripts,
Dr. D. P. Waley
and the Deputy Keeper of Manuscripts,
Mr. D. H. Turner

1545 — Leave The British Library Reference Division

1605 — Arrive Claridge's

1740 — Leave Claridge's

Arrive Royal Opera House
Floral Street Entrance

1830 — Attend a performance of "Khovanshchina"
Hosts: The Director General of the British Council
and Lady Burgh
Dress: Lounge Suit

Supper Entr'acte

PROGRAMME FOR MADAME WERNER

TUESDAY, 26 OCTOBER

1015 hrs — *Leave Claridge's*

1030 — *Arrive Victoria and Albert Museum*
Main Entrance, Cromwell Road, S.W.7

Met by the Director
Sir Roy Strong

1130 (approx) — *Leave Victoria and Albert Museum*

1145 (approx) — *Arrive Claridge's*

Private Luncheon

1440 — *Leave Claridge's*

1500 — *Arrive The British Library Reference Division*
Great Russell Street, W.C.1

Programme for the remainder of the day as for His Excellency the President of the Government

WEDNESDAY, 27 OCTOBER

(See page 8 for programme for Madame Werner)

1105 hrs	Leave Claridge's
1115	Arrive 11 Downing Street
	Call on the Chancellor of the Exchequer, The Rt. Hon. Sir Geoffrey Howe, M.P.
1150	Leave 11 Downing Street
1200	Arrive Clarence House
	Audience with Her Majesty Queen Elizabeth The Queen Mother
1230	Leave Clarence House
1240	Arrive Claridge's
1255	Leave Claridge's
1310	Arrive 10 Downing Street
1300 for 1315	Luncheon given by Her Majesty's Government Hosts: The Prime Minister and Mr. Denis Thatcher
1500	Talks with the Prime Minister, The Rt. Hon. Margaret Thatcher, M.P.
1545	Leave 10 Downing Street
1600	Arrive Claridge's
1750	Leave Claridge's
1800 to 2000	Reception given by His Excellency the Ambassador of the Grand Duchy of Luxembourg and Madame Hastert *The Ball Room, Hyde Park Hotel, Knightsbridge, S.W.1*

Continued on next page

WEDNESDAY, 27 OCTOBER *(Contd.)*

1945 hrs	Leave Hyde Park Hotel
2020	Arrive London Heathrow Airport *Hounslow Suite*
2040	Board Flight LG 404 departing at 2100 hours for Luxembourg
	The Special Representative of the Secretary of State for Foreign and Commonwealth Affairs, Sir David Muirhead, will bid farewell

PROGRAMME FOR MADAME WERNER

WEDNESDAY, 27 OCTOBER

0935 hrs	*Leave Claridge's*
1000	*Arrive Barbican Centre Administrative Offices, Main Entrance, Silk Street, E.C.2*
	Met by the Administrator, Mr. Henry Wrong
	Tour Barbican Centre
1050	*Leave Barbican Centre*
1115	*Arrive Claridge's*
	Leave Claridge's
1200	*Arrive Clarence House*
	Audience with Her Majesty Queen Elizabeth The Queen Mother
1230	*Leave Clarence House*
1240	*Arrive Claridge's*
1255	*Leave Claridge's*
1310	*Arrive 10 Downing Street*
1300 for 1315	*Luncheon given by Her Majesty's Government Hosts: The Prime Minister and Mr. Denis Thatcher*
1445 (approx)	*Leave 10 Downing Street*
1500 (approx)	*Arrive Claridge's*
	No official engagements during the afternoon
	Programme for the evening as for His Excellency the President of the Government

DIRECTORY

Government Hospitality	
2 Carlton Gardens, S.W.1	01-214 8142
Foreign and Commonwealth Office	
Western European Department	01-233 3266
Protocol and Conference Department	01-273 3585
Embassy of Luxembourg	
27 Wilton Crescent, S.W.1	01-235 6961
London Heathrow Airport	
Hounslow Suite	01-759 4321 ext. 4337
Claridge's	
Brook Street, W.1	01-629 8860
Bank of England	
Threadneedle Street, E.C.2	01-601 4444
Royal Institute of International Affairs	
Chatham House, 10 St. James's Square, S.W.1	01-930 2233
The British Library Reference Division	
Great Russell Street, W.C.1	01-636 1544
Royal Opera House	
Floral Street, W.C.2	01-240 1200
Victoria and Albert Museum	
Cromwell Road, S.W.7	01-589 6371
11 Downing Street	01-233 3000
Hyde Park Hotel	
Knightsbridge, S.W.1	01-235 2000
Barbican Centre	
Silk Street, E.C.2	01-638 4141

Luxembourg visit Nov 82

Foreign and Commonwealth Office

London SW1A 2AH

22 October, 1982

Dear Tobin,

Visit by the Prime Minister of Luxembourg

We have been considering who should attend the talks between the Prime Minister and the Prime Minister of Luxembourg following the lunch at No 10 in M. Werner's honour on 27 October.

We are aware of the Prime Minister's preference for a restricted meeting. The limited time available for the talks also argues against any enlarged grouping.

We understand that M. Werner would like to be accompanied at the meeting by M. Roger Hastert, the Luxembourg Ambassador in London, and also by M. Joseph Weyland, Director for International Economic Affairs at the Luxembourg MFA. On our side, we suggest that the Hon Humphrey Maud, Ambassador at Luxembourg, and Mr Patrick Wright, Deputy Under Secretary, should attend.

I should be grateful if you could seek the Prime Minister's views on these proposals.

Yours ever,

(R B Bone)

A J Coles Esq
Private Secretary
10 Downing Street

Luxembourg

vb

CF

11 October 1982

Further to our conversation this afternoon, can I confirm that you will make the necessary arrangements to see that the Prime Minister of Luxembourg does not arrive before 1305 on Wednesday 27 October. It was also agreed that the Foreign Secretary would arrive at 1245 to receive the guests. As I explained, the Prime Minister is attending the Memorial Service for Group Captain Sir Douglas Bader and will not be back at Downing Street until just after 1300 hours.

C.S.

Miss Marsha Fenwick,
Foreign and Commonwealth Office.

10 DOWNING STREET

From the Private Secretary

9 July 1982

Visit by the Prime Minister of Luxembourg

It appears that your letter of 11 May never reached here. I have just seen a copy.

The Prime Minister will be glad to hold talks with the Prime Minister of Luxembourg after the lunch that she is giving for him on 27 October. As the two Prime Ministers will have sat next to each other throughout the lunch, I wonder whether we need to set aside an hour. Perhaps you could suggest that the talks should take place from 1430 to 1515.

A. J. COLES

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

John
I can do either. I can do Jan 29th.
C.

Caroline

Following lunch - say 2.30 to 3.15.

A.S.C. 9/7

If agreed, I will write. ASC 9/7.

With the compliments of

THE PRIVATE SECRETARY

Caroline

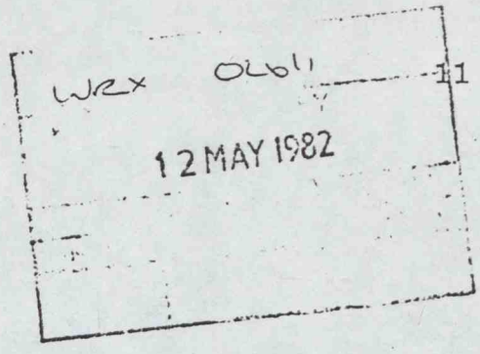
Third time lucky!

C.

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

Foreign and Commonwealth Office

London SW1A 2AH



11 May 1982

Dear John,

Visit by the Prime Minister of Luxembourg

In my letter to you of 8 March I outlined the plans for a visit to London by M Pierre Werner, the Prime Minister of Luxembourg, on 26 - 27 October. Under the present arrangements M Werner will meet the Prime Minister on 27 October for an hour or so of talks followed by lunch.

The Ambassador in Luxembourg had recommended that the Werners call on The Queen during their stay. In the event Her Majesty will be out of the country all the time, but The Queen Mother has agreed to receive the Werners at 12 noon on 27 October. No other time is convenient.

In these circumstances, we hope the Prime Minister might agree to talks with M Werner following the lunch rather than preceding it. If this were inconvenient, might it instead be possible to hold an hour of talks beginning at 1030 am? The second of these options would permit M Werner to visit Clarence House following the talks and then return to No 10 for lunch. I should be grateful if you could let me know if either of these revised timings would be acceptable to the Prime Minister.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

With the compliments of

HER MAJESTY'S AMBASSADOR

A J Coles Esq
Private Secretary
No 10 Downing Street

BRITISH EMBASSY
LUXEMBOURG

ES 22/3.

Caroline to see

22/3.

GRAND-DUCHÉ DE LUXEMBOURG

LE PRÉSIDENT DU GOUVERNEMENT

March 15, 1982

His Excellency Mr Jeremy C. THOMAS
Ambassador of the
United Kingdom of Great Britain
28, boulevard Royal
L u x e m b o u r g

My dear Ambassador,

FCO letter 8/3 refers

By your letter of March 2, you were kind enough to extend to Madame WERNER and myself, on behalf of Her Majesty's Prime Minister, an invitation to visit London in autumn this year.

This is to confirm that we accept with great pleasure this gracious invitation.

As I already told you, the proposed dates of October 26 and 27 are convenient to us as well as the overall line of the proposed programm.

May I ask you to express to Mrs THATCHER our very best thanks.

Yours sincerely

Pierre WERNER

22 MAR 1988

Foreign and Commonwealth Office

London SW1A 2AH

8 March 1982

Dear John,

Visit by the Prime Minister of Luxembourg

Thank you for your letter of 23 February.

HM Ambassador in Luxembourg duly conveyed to M Werner the invitation to visit London on 26 - 27 October. M Werner readily accepted and asked the Ambassador to convey to the Prime Minister his warm thanks for the invitation.

We shall of course need to discuss details at a later date, but we would at this stage expect M Werner to arrive on the morning of 26 October in time to lunch at Chatham House prior to addressing a general meeting there immediately afterwards. (He is expected to choose a theme connected with European Finance.) He would be entertained that evening by the British Council.

On 27 October, as envisaged in your letter, M Werner would meet the Prime Minister for an hour or so of talks, followed by lunch.

Yours ever.

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

-8 MAR 1982

Luxembourg R M

cc:- Miss Stephens

23 February, 1982

Proposed visit by the Luxembourg Prime Minister

Thank you for your letter of 19 February.

The Prime Minister would be pleased to hold talks with M. Werner and give a lunch for him and his wife but would find it much easier to do this in the autumn rather than in the period May - July. A convenient day would be 27 October though if that were not acceptable to M. Werner we could look for another date in the autumn.

F N Richards, Esq
Foreign and Commonwealth Office

Prime Minister

Your foreign affairs commitments between now and July are rather heavy already.

2. Could we offer lunch and talks on 27 October or some other suitable date in the autumn?

A.J.C. 22/2.

27 Oct

(i)

Yes no

Foreign and Commonwealth Office

London SW1A 2AH

19 February 1982

Dear John,

Proposed visit by the Luxembourg Prime Minister

HM Ambassador at Luxembourg has recommended that an occasion should be found on which to invite M. Pierre Werner, the Luxembourg Prime Minister, to visit the United Kingdom. This proposal was first put forward early last year, but it was decided at the time that it should not be pursued until after completion of the UK Presidency.

Formally we still owe M. Werner an invitation in return for the Prime Minister's visit to Luxembourg in October 1979. M. Werner met the Prime Minister in November 1980 in London, but that was part of a pre-European Council tour, not a bilateral visit in the traditional sense. We would propose that M. Werner be invited primarily to give a lecture at Chatham House. This would reflect the fact that Mrs Thatcher went to Luxembourg primarily in order to deliver the Churchill Memorial Lecture. In principle Chatham House would welcome M. Werner as a speaker. There are at present slots available for guest speakers this year from May onwards; the exact date chosen could depend on the Prime Minister's commitments.

HM Ambassador has asked whether the Prime Minister might be prepared to offer a meal to M. Werner and his wife during their stay. One possibility might be an hour of talks followed by lunch. If this is acceptable, the lunch might best be given on the second day of M. Werner's visit, leaving lunchtime on the first day free for the Chatham House lecture (which would begin at 1.30 pm).

The Luxembourgers share many of our aims in Europe. But they are not very good at standing up to their French and German neighbours when it comes to the crunch and we need to stiffen their resolve from time to time. Although there have been suggestions in the last few days that M. Werner's age (he is 68) may be beginning to tell, he remains very much at the helm and continues to play a predominant role in the formulation of Luxembourg policy. An invitation to M. Werner, as Prime Minister of Luxembourg, would demonstrate the value we attach to Luxembourg's understanding of the British position in Europe.

Yours ever.

(F N Richards)
Private Secretary

Francis Richards.

A J Coles Esq
10 Downing St

19 FEB 1982

cc Master Set.

HMT
ENG
CO

DFA

Luxembourg

10 DOWNING STREET

From the Private Secretary

26 November 1980

Dear Paul,

Conversation with M. Pierre Werner

As you know, the Luxembourg Prime Minister, M. Werner, visited No. 10 last night for talks and dinner with the Prime Minister. He was accompanied by the Luxembourg Ambassador and M. Bloes. The Lord Privy Seal, Mr. Franklin and Mr. Bullard were also present.

Much of the conversation was of a very general character and need not be recorded in detail. But you will wish to have a note of the points relating directly to the meeting of the European Council next week.

Organisation of the Meeting

M. Werner said that he planned that the Heads of Government should deal with financial and economic matters on Monday afternoon and with political matters, including the Middle East, on Tuesday morning. Mr. Jenkins' report would be taken later on Monday afternoon. The informal conversation over dinner would, as usual, be devoted to political problems. There would no doubt be some discussion of the Middle East then.

Middle East

M. Werner said that everyone was aware that it would not be right for the Heads of Government to launch a "spectacular initiative". Nonetheless continuity should be maintained. The Nine should not give up now. The process begun in Venice should be carried on cautiously pending clarification of the future orientation of US policy. The Prime Minister agreed but said there remained the question of just how the contacts should be carried forward. She wondered whether the Foreign Ministers should not be invited to discuss possible communique language on the Middle East on Monday evening. It was agreed that this would be the right way to proceed. Mr. Bullard pointed out however that the Heads of Government might themselves have to consider one or two points in the documents prepared for the meeting. The French for instance wished to commit the Community to seek Israeli withdrawal from the occupied territories within two years. Other Governments were thinking in terms of an unspecified period. There was also a variety of options for the future status of Jerusalem. The Prime Minister said that it would be quite wrong to mention a defined period within which withdrawal from the occupied territories had

/to take

to take place or to come down in favour of one option for Jerusalem. The Heads of Government could not be expected to decide these things. The idea had been to send round a representative group to gather more data. The Prime Minister and M. Werner agreed that the communique should attempt to convey the impression that the Nine were continuing the process begun in Venice, were anxious to establish the position of the various parties more clearly and therefore to consult with them, and were hoping "to come out with something" at a later date.

International Economic Situation

M. Werner thought that some members of the Community, notably the Italians, the Danes and the Irish, would wish to urge action by the Community to reduce unemployment. They would be arguing for greater harmonisation of economic and monetary policies. The Prime Minister made it clear that she was sceptical about the effectiveness of Community action in this field, It was an area for action by national Governments.

M. Werner noted that the Heads of Government were expected to make a declaration of some kind about their trade with Japan. The Prime Minister, agreeing, said that it would be important in anything the Community did to bear in mind the need to avoid making the Japanese more isolationist.

M. Werner did not think that there would be any need for the Heads of Government to take up a position on energy problems unless something unforeseen emerged from the forthcoming meeting of Energy Ministers. A discussion among the Heads of Government would only result in the repetition of well-known positions. The Prime Minister agreed.

European Parliament

M. Werner said that the Heads of Government would probably need to discuss the question of relations between the European Council and the European Parliament. The Parliament wanted the President of the Council to report to them in person during each Presidency. The Dutch, who would take over the Presidency in January, were keen to fall in with this proposal. However it raised major difficulties for President Giscard. M. Werner, who noted that Mr. Haughey was opposed to the proposal, said that he himself thought it would be difficult to go on frustrating the European Parliament indefinitely. He was wondering whether or not he should himself appear next month. The Prime Minister said that she had not herself made up her mind. But the Heads of Government would need to be clear what they were letting themselves in for. Would the Parliament ask for more? M. Werner also rehearsed the problems relating to the seat of the European Parliament. He recognised that the Heads of Government could not possibly take a decision next week but thought that, nonetheless, the Heads of Government would have to take some kind of position. He envisaged an exchange of views on the problem over dinner and agreement on guidelines as to how the discussions should be carried forward.

/Three Wise Men

CONFIDENTIAL

Three Wise Men

It was agreed that there would have to be the annual formality of a reference to the Tindemans Report.

EMS

M. Werner noted that it had been decided in Bremen that the target date for the establishment of a European Monetary Fund should be March 1981. It was clear for a variety of reasons that this would not now be possible. But some members of the EMS thought that additional steps should be taken to enhance the effectiveness of that organisation e.g.:-

(a) the extension of medium term swap arrangements by two years could be confirmed; and

(b) proposals to increase the acceptability of the ECU e.g. by issuing loans expressed in ECUs, might be encouraged.

The Prime Minister said that she was not enthusiastic about the second proposal. She could see the rationale of trying to make the ECU a better store of value but she remained suspicious of artificial currencies. She said that she would like to see a paper on the subject and also to hear the views of bankers on it. It was agreed that more discussion of this proposal would certainly be needed but that a decision on the medium term swap arrangements might be possible.

New Zealand Butter

The Prime Minister said that she had learned with disappointment of the failure of the Foreign Affairs Council to find a solution to the New Zealand butter problem. She said that she might wish to raise the matter briefly during the European Council meeting. The absence of any agreement created acute difficulties for New Zealand who had been a good friend of Europe in the past.

Restructuring

The Prime Minister said that she would wish to emphasise in Luxembourg the need to stick to the terms of the mandate. She wanted the Commission's paper to be ready in time to be handed to the Dutch Presidency for transfer by them to her.

Kim Dae Jung

The Prime Minister and M. Werner agreed that the Heads of Government should try to do something on Kim Dae Jung's behalf.

Poland

It was agreed that Heads of Government should discuss the Polish crisis. The Prime Minister was not sure what could be done but made it clear that she was anxious to help. Clearly a decision by the nine Heads of Government to take collective action of any kind could be very important.

CONFIDENTIAL

/Commission

CONFIDENTIAL

Commission Portfolios

It was agreed that the allocation of Commission portfolios should be discussed over dinner.

I am sending copies of this letter to John Wiggins (HM Treasury), Julian West (Department of Energy) and David Wright (Cabinet Office).

Yours ever

Richard Alexander

Paul Lever, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

C.B.B. Mr. Alexander

LIST OF GUESTS ATTENDING THE DINNER TO BE GIVEN BY THE PRIME MINISTER IN HONOUR OF HIS EXCELLENCY MONSIEUR PIERRE WERNER, PRIME MINISTER AND MINISTER FOR FOREIGN AFFAIRS OF THE GRAND DUCHY OF LUXEMBOURG ON TUESDAY, 25 NOVEMBER 1980 AT 7.45 PM FOR 8.00 PM LOUNGE SUIT

The Prime Minister	
His Excellency Monsieur Pierre Werner	
His Excellency the Luxembourg Ambassador	
Monsieur Robert Bloes	Deputy Political Director in the Ministry of Foreign Affairs
The Rt. Hon. Sir Ian Gilmour, MP	
Mr. Michael Franklin	Cabinet Office
Mr. Julian Bullard	Foreign and Commonwealth Office
Mr. Michael Alexander	

P. R.

DRAFT SEATING PLAN FOR DINNER ON TUESDAY, 25 NOVEMBER 1980

Mr. Michael Alexander

Monsieur Robert Bloes | The Rt. Hon. Sir Ian Gilmour

PRIME MINISTER | HE MONSIEUR PIERRE WERNER

HE The Luxembourg Ambassador | Mr. Michael Franklin

Mr. Julian Bullard

ENTRANCE

10 DOWNING STREET (1)

Ronnie Millar

As you will see from your diary for tomorrow I have asked your team to come along a few minutes early for this meeting so that you can have a briefing discussion. But perhaps it is hardly necessary. Will it be soon enough if they arrive at 18.10 i.e. 5 minutes before Mr Wenner?

6.00 p.m. if possible

MT

Foreign and Commonwealth Office

London SW1A 2AH

24 November 1980

Dear Michael,

Visit by Luxembourg Prime Minister : 25 November

We wrote to you on 21 November with briefing for M. Werner's call on 25 November. On reflection, we feel that the reference in the brief to EMS should be somewhat expanded in view of M. Werner's interest in this subject in the past.

I attach revised third and fourth pages of the brief on the European Council Agenda.

inserted in both briefs

Yours ever

Robert Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

Foreign and Commonwealth Office

London SW1A 2AH

21 November 1980

Dear Michael,

Visit of M. Werner

M. Werner is calling on the Prime Minister at his own suggestion on 25 November to discuss the European Council agenda. He is also visiting other Member States and will already have been to Paris, Brussels (Commission), Copenhagen and Dublin.

There are no bilateral subjects for discussion but we think that it would be useful if the Prime Minister could mention one or two current Community subjects to M. Werner in addition to discussion of the European Council agenda, in particular fisheries and New Zealand butter. She may also wish to raise the question of Commission portfolios. M. Werner is likely to raise the question of the seat of the institutions.

I attach the following briefs:

(a) European Council agenda;

(b) Fisheries;

(c) New Zealand Butter;

(d) Institutional Questions (Seat of Institutions and Commission portfolios);

(e) Luxembourg internal political and economic scene;

(f) A personality note on M. Werner

Further background on all the points likely to be discussed by the European Council is contained in the briefs for the European Council.

I am sending a copy of this letter to David Wright (Cabinet Office).

Yours ever,

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
No 10 Downing Street

A

VISIT BY LUXEMBOURG PRIME MINISTER : 25 NOVEMBER

EUROPEAN COUNCIL AGENDA

POINTS TO MAKE

General

1. Grateful to Werner for his helpful message to Heads of State/Government and for coming to London to discuss the agenda. Agree generally with suggestions in his message. Aim should be wide-ranging discussion of major economic and political subjects.

Restructuring

2. Glad to see he included an opportunity to discuss restructuring. Attach importance to this. Far too soon for any detailed discussion but we would like an opportunity to express some preliminary views, for example about importance of sticking to 1% VAT ceiling. This will provide some guidance for Commission in preparing their proposals. Essential to keep to 30 May Agreement, including timetable.

3. Must not undermine restructuring exercise in 1981 CAP price fixing. Know that Chancellor Schmidt shares our view of need to limit agricultural expenditure. Useful if we could agree that Finance Ministers should study ways of setting a ceiling for agricultural expenditure in 1981.

Report by President Jenkins

4. Glad you have been able to put this on agenda. Right that outgoing President of Commission should have an opportunity to report on his term of office and on his ideas about the future development of the Community.

Problems of Trade and Industry/Relations with major Industrialised countries

5. These two items closely linked. Important that European Council should discuss the difficult problems facing some of our industries. Particular concern about effects of US

/energy

energy pricing policies on textile and chemical industries. Would like to see Community action in this field.

Report of Three Wise Men

6. Hope we can finally reach agreement on this subject, preferably without a lengthy discussion.

Energy

7. Oil supply situation evolving rapidly. Will be discussed by Energy Council on 27 November. But seems likely that we should discuss it at European Council.

Seat of Institutions

8. Will President Giscard raise this? Prefer to leave this to discussion in Conference of Member States.

ESSENTIAL FACTS

1. M Werner's message to Heads of State/Government suggests an agenda on the following lines:

(a) economic and social situation;
(b) appointment of new Commission and mandate on restructuring;
(c) report by Mr Roy Jenkins;
(d) problems of certain sectors of economy (trade and industrial problems and possibly agriculture);
(e) relations with major industrialised countries (US, Japan)
(f) EMS;
(g) North/South Dialogue;
(h) functioning of Community and report of Three Wise Men;
(i) political cooperation to cover Middle East;

Restructuring

2. M Werner's message suggests discussing this under item (b), appointment of the new Commission. Mr Roy Jenkins has told M Werner that he sees no need for such a discussion since the Commission is already carrying out its mandate to prepare proposals on restructuring. He also thought that serious discussion of restructuring would be premature because it would risk re-opening the 30 May Budget Agreement.

/3. We

3. We have a number of points to get over to the European Council on restructuring and it is important that there should be a suitable opportunity. A better place to take this might be in discussion of Roy Jenkins' report.

4. The Prime Minister suggested to Chancellor Schmidt in Bonn that the rate of growth of CAP expenditure should be restricted to the growth of the Community's own resources. Schmidt replied that he would go further : the cost of the CAP should increase by considerably less than the growth in own resources. We hope to build on this exchange at the European Council and it will be useful to prepare the ground with M. Werner.

Problems of Trade and Industry/Relations with major industrialised countries.

5. Our aim at the European Council will be to draw attention to the problems of certain industries and to urge the Community to take timely and effective but limited action to tackle these problems as they come up. In particular the competition faced by our textile and chemical industries from the US is exacerbated by low US oil prices and we think the Community should take an initiative with the intention of persuading President-elect Reagan to go faster than the Carter administration's deadline for de-controlling oil prices by October 1981. We are likely to want to raise this at the European Council.

Other Agenda Items

6. Economic and social situation is a regular item at European Councils and provides an opportunity for Heads of State/Government to explain the economic policies they are following. Some discussion of the European Monetary System is inevitable at the European Council and M. Werner, as the author of an earlier report on Economic and Monetary Union, may be particularly interested in our participation in the exchange rate mechanism and any further progress towards the second stage of EMS (in principle due March 1981). As the majority of member states (led by France and Germany) do not wish to go rapidly to the second stage, discussion at this European Council should not cause difficulties.

/ We have

We have no interest in a lengthy discussion by the European Council on North/South as this subject is under discussion in other fora, but some discussion is probably inevitable.

Political Cooperation

7. Likely to cover a number of other subjects in addition to Middle East (Iran/Iraq, East/West, EC/US, Korea (Kim Dae Jung) and Euro/Arab/Africa ''trilogue'').

Energy

8. This does not appear in M. Werner's message but Mr Jenkins has already proposed that it should be discussed and it is likely that the European Council will wish to do so in the light of the evolving situation.

Seat of the Institutions

9. President Giscard may seek to raise this at the European Council. The subject is already under discussion by member states and we have no interest in having a discussion at the European Council. A separate brief gives a line to take in reply to M. Werner's likely lobbying on behalf of Luxembourg's interests on this subject.

Foreign and Commonwealth Office

21 November 1980

A

Preparation for European Council

A

Ref. A.

(My underlining)

Copies to Mr Attwell
All Heads / Section
Mr Cohen
Mr Hohler
new De Fontbarque EESS(I)
me

[Sent to Mr.]

[Sir M. Butler has a copy]

LE PRÉSIDENT DU GOUVERNEMENT

Right Hon. Mrs Margaret THATCHER,
Prime Minister

12/11

I have the honour, as President in office of the European Council, to confirm that our next meeting will be held on 1 and 2 December next, when I shall have the pleasure of receiving you in Luxembourg.

This meeting is taking place at a moment when public opinion certainly expects that the Heads of State or of Government will not only review the economic and political situation in the Community and in the world, as has now become a tradition, but will also show their determination to get action on a number of vital current issues.

As usual, our meeting should enable us to have an exchange of views on the political situation.

It is already clear to me that the question of the Middle East must be placed well up on our agenda. In accordance with Point 2 of our declaration in Venice, the Luxembourg Minister for Foreign Affairs has taken up contact with all the parties concerned. It will be for the European Council to assess the results of this mission and to decide on the form of any further initiative on the part of the Member States of the Community.

Please copy to:
Mr Goodenough, Cabinet Office
(As received by Ukrep
- w.b. the blanks in
penult para)

Sent 13/11/80

.../...

The economic and social situation doubtless requires thorough examination and special emphasis should be placed on our joint concern to check and to reduce unemployment, the continuation of which, and its tendency to become chronic, are gradually creating a situation which poses a danger to stability and public order in our countries.

Turning to Community problems, we shall have to appoint the President and members of the future Commission of the Communities and to confirm to them or to set out in more detail a mandate already given to the Commission to complete, before 30 June 1981, an examination of future developments in Community policies, without calling into question either the principle of joint financial responsibility or the basic principles of the common agricultural policy. This examination should take the interests of all the Member States into account, so as to prevent situations which would be unacceptable for any of them from arising in the future.

It has been suggested that, on the same occasion, Mr Roy JENKINS, President of the Commission, should let the European Council have his views on the state of the Community, in the service of which, for almost four years now, he has carried out the important and difficult duties which the European Council entrusted to him in 1976. It has also been suggested that the person whom we shall appoint as President of the Commission for the next term of office should take part in this exchange of views.

As regards the more immediate future, there is no doubt that it would be advisable for the Heads of State or of Government also to discuss the situation in certain branches of our economies which have been particularly affected by the crisis, and the longer-term prospects of an economic upturn resulting, in particular, from the rationalization of economic structures which has now become imperative.

In this context we should perhaps also pay attention to relations between the countries of the European Community and the other large industrialized countries, with a view both to maintaining free trade throughout this delicate phase and to ensuring that Europe's industrial efforts are not unduly thwarted by unbalanced commercial policies pursued by one or other of our great partners.

.../...

In the light of our exchanges of views on the international monetary situation we shall no doubt have to continue our earlier discussions on the development of the European Monetary system. Even if decisions as fundamental as those concerning the establishment and operation of the future European monetary fund may prove to be somewhat premature at this particular meeting, a re-affirmation of the determination of the Heads of State or of Government to continue the development and strengthening of monetary co-operation would not only satisfy the expectations of Community and International economic and financial operators, but would emphasize a determination to continue with a process now irrevocably under way. In this connection instructions to examine certain questions in more detail could be given to the competent bodies, as regards the widening of the role of the ECU among other things.

We shall also have to examine the conditions under which the North/South Dialogue should be resumed in the near future. During this preparatory phase we should try to promote joint positions which are capable of giving Europe the weight and cohesion which are necessary for the judicious defence of its own interests but which can also prove to make a real contribution to the prospects for the longer term success or this dialogue.

Finally, we should think about the problems of the internal functioning of the Community, with particular reference to future relations between the Council and the European Parliament, and also to the conclusions which the Ministers for Foreign Affairs have drawn from the report drawn up by the Three Wise Men at the request of the European Council.

My suggestions concerning the items for discussion are neither exhaustive nor indicative of any priorities. I shall be very happy if you would like to let me have your suggestions and wishes concerning the agenda.

If you consider that a personal exchange of views could be useful for the effective preparation of this meeting I would be very willing to come to sometime this month.

In addition, unless you see any objection, I also propose to extend an invitation to the Prime Minister of Greece.

(Signed WERNER)

B

VISIT OF LUXEMBOURG PRIME MINISTER : 25 NOVEMBER

FISHERIES

POINTS TO MAKE

1. HMG firmly committed to meeting 1 January deadline. Others seem equally determined. Now that access, satisfactory arrangements on which are essential UK requirement, is firmly on the agenda, see no reason why a settlement cannot be reached.

2. Luxembourg now has real chance to succeed where others have failed, and to achieve a CFP settlement by 1 January 1981 target date. This must now be main Presidency priority.

3. Essential to keep up momentum established at 17/18 November Fisheries Council. Basic quota issues now clear. Helpful Presidency initiative on quotas. Need to reduce allowance for industrial by-catches as desired by all except Denmark. Hope Presidency can convince Commission of this. As soon as further bilaterals have produced sufficient measure of agreement on access, suspended Council discussions should be resumed on basis of new proposal.

ESSENTIAL FACTS

4. Discussions in the Fisheries Council have continued to make progress towards meeting target date for agreement of 1 January 1981, agreed by Foreign Ministers on 30 May. On 29 September, the Council adopted a comprehensive conservation regulation. On 28 October, the Council agreed in principle to Community control and enforcement measures. At the last meeting on 17/18 November, the Council agreed that access must be settled with quotas. The Presidency also produced compromise quota proposals which made a significant movement towards United Kingdom objectives by allocating to us a share of the seven principal series nearer to our average catch over recent years. In order to maintain momentum, whilst allowing further opportunities for bilateral contacts, the Luxembourg

/President

President suspended the 17-18 November meeting which is still formally in session. The main difficulty on quotas has been that the Commission's proposals have so far been too generous to Denmark and less than generous to the United Kingdom, France and Germany, because of excessive allowance given for by-catches of human consumption species in Danish industrial fishery. On access several Member States remain suspicious of our demands, but United Kingdom Ministers are seeking to make progress bilaterally on our demands for an essentially exclusive 12 mile limit and some preference beyond. A new, formal, Comission proposal on this element is perhaps unlikely to be put forward until the last moment.

6. No firm date has yet been fixed for the resumption of the November meeting. The next formal meeting is scheduled for 15-16 December.

7. Luxembourg chairmanship of Fisheries Council (under Helminger, Minister of State, MFA) not particularly effective; lacks political weight and manpower resources (eg. Helminger had to leave crucial Council discussions on 18 November to chair Development Council meeting). But Presidency's role in overcoming Commissioner Gundelach's (probably nationalist-inspired) hesitations over submitting new proposals which adversely affect Denmark, will be crucial if an acceptable compromise settlement is to be reached.

Foreign and Commonwealth Office
21 November 1980

C

VISIT OF LUXEMBOURG PRIME MINISTER : 25 NOVEMBER

NEW ZEALAND BUTTER: POST 1980 ACCESS

POINTS TO MAKE

1. Grateful to Presidency for the helpful way they are trying to steer this through a satisfactory conclusion.
2. Decision long overdue. EC must continue to give New Zealand a fair deal. Otherwise risks placing itself in breach of its commitments.
3. Very much hope Foreign Affairs Council today (25 November) can settle key issues of quantity and duration. Now that we are talking about a three-year arrangement instead of open-ended access as originally proposed, an adequate commitment to extension beyond three years is essential.
4. This is an issue of the highest political importance. If no agreement at Foreign Affairs Council, discussion by European Council may be needed.

ESSENTIAL FACTS

1. In July 1980 the Commission put forward a proposal for a new regulation which would have provided for New Zealand's quota to decline from 97,500 in 1981 to 90,000 for 1984; for the arrangement to run indefinitely thereafter; for a reduced levy and other improvements in the financial arrangements; and for access to be to the Community as a whole, instead of just the UK.
2. This proposal was discussed for the first time by the Agriculture Council at its meeting on 10/11 November. As expected, the main difficulty proved to be the question of duration. Only the UK supported the Commission's wish to provide for open-ended access. All other Member States wanted a limited term and all except France could accept three years. In order to increase French isolation Mr Walker indicated that the UK could reluctantly accept three years also. France is now alone in arguing for a one-year term.

/ At the 1

3. At the Agriculture Council there was also some erosion of the Commission's proposals on quantities. A number of member states said they could not accept the 2,500 tonne increase in 1981 over the revised figure of 95,000 tonnes already agreed for 1980. The Commission therefore indicated that it would reduce the quota levels it was proposing by 2,500 tonnes in each of 1981,1982 and 1983. We have not yet given any indication that this would be acceptable to the UK but only France and Ireland are still arguing for lower figures. The Irish say they want a 1981 quota of 'less than 80,000 tonnes' and the French 65,000 tonnes.

4. In the UK the parliamentary position is that in a Scrutiny debate in July the Government accepted an opposition amendment calling for 'permanent access' and 'a quota for 1984 of not less than 90,000 tonnes' (i.e. the arrangements originally proposed by the Commission). Mr Walker suggested and colleagues agreed that acceptance of a new arrangement with a limited initial term could be justified to the House of the following grounds.

'(a) The arrangement has a continuing commitment to import New Zealand butter after the three or four years for which specific quantities will be laid down;

(b) It would have been more damaging to New Zealand to have no arrangement at all and the deal is in the terms which were the most favourable that could be obtained for New Zealand at the time'.

5. It is extremely important that if the Foreign Affairs Council does make progress towards resolving the duration issue it should at the same time agree a text which provides an adequate commitment to renewal of the arrangements beyond the initial term. We have drawn this point to the attention of the Commission, the Presidency and the Germans (who, apart from the UK are New Zealand's strongest allies within the Community).

6. The New Zealand position is that they would reluctantly be prepared to accept a decision which involves 'a term of at least three years with scope for renewal beyond 1983 and the other elements [of the original Commission proposal] remaining substantially unchanged'. They have confirmed to us that, as the last phrase suggests, they would accept the revised Commission proposals on quantity (starting at 95,000 tonnes in 1981). They

/ have

have said that they are not ready to accept a term of less than three years.

7. There have been hints that the French may in fact be prepared to move to two years, but they have as yet given no clear signal that they are definitely willing to do so. They may try to link post-1980 access for New Zealand with exports of EC butter to the USSR.

Foreign and Commonwealth Office

21 November 1980

D

VISIT OF LUXEMBOURG PRIME MINISTER: 25 NOVEMBER

INSTITUTIONAL QUESTIONS

POINTS TO MAKE

Seat of Institutions

1. Recognise Luxembourg's interests and appreciate their concern.

2. Decision on seat of institutions is for all Member States acting unanimously.

3. Believe Parliament should be consulted before Member States take any decision even though it is for Member States alone to decide.

4. UK interest is to eliminate waste of time, money and energy caused by present arrangements; hope it will be possible to reach satisfactory solution.

Commission portfolios

(Subject to the Prime Minister's discussion with President Giscard and any further developments)

5. Mr Tugendhat will be the British vice-President; expect him to retain his Budget portfolio.

6. Mr Richard has expressed interest in Development; we believe he would be well qualified for this. Should not overlook fact French have held Development portfolio for 22 years; only portfolio which has not changed hands.

ESSENTIAL FACTS

Seat of Institutions

7. M Werner has told HM Ambassador in Luxembourg that he will want to raise the site of the European Parliament. He has already said publicly that he is prepared to use the veto if necessary to defend Luxembourg's interests; since the Secretariat is based

/in

in Luxembourg, and it would represent a considerable loss to the country if it was to be moved. M Werner told HM Ambassador that he would also be broaching the subject with President Giscard in Paris on 19 November and that he could not afford to see Luxembourg diminished over this question; the French could not, he said, expect to override agreements between the member Governments.

8. M Werner will no doubt solicit UK support for his position. Ministers previously agreed that our longer term aim should be to see the Parliament in Brussels, but that we should play this long and avoid taking the initiative. We have no interest in provoking an open confrontation with France. The best tactics with M Werner therefore are likely to be to express sympathy with the Luxembourg position, not to give commitment of direct support but to endorse the Dutch suggestion that there should be consultations with the Parliament before any decisions are taken. More general background is in Brief No 14 for the European Council.

FOREIGN AND COMMONWEALTH OFFICE

21 November 1980

E

VISIT BY LUXEMBOURG PRIME MINISTER, M. PIERRE WERNER:
25 NOVEMBER

LUXEMBOURG INTERNAL POLITICAL AND ECONOMIC SCENE

Political

1. Since the formation of a middle-of-the-road Christian Social Democrat coalition government in July 1979, Luxembourg has been politically calm. The Christian Social leader, Pierre Werner, as leader of the majority party in the coalition, took over the post of Prime Minister from the Democrat leader, Gaston Thorn who reverted to being Foreign Minister. (M. Thorn has recently resigned prior to taking up his post as President of the EC Commission in January.)

2. The government has had an easy ride partly because of the confusion within the Socialist Party following their election setback. The Communists and Social Democrats have also found it difficult to adapt to their newly diminished role: both went from 5 down to 2 seats at the elections.

3. The main political issue is one which has united all the parties in opposition to the proposed construction by France of a 5200 MW nuclear power station at Cattenom just over the French border and less than 20 miles from Luxembourg city. A national action group led by the President of the Chamber of Deputies and including all the main political parties and unions as well as all the environmentalist groups has been set up to fight the Cattenom project.

/Economic

Economic

4. On the economic front, inflation crept up from 3.1% to 5.5% last year. But industrial production was slightly up as well and unemployment stayed at under 1% throughout 1979. M. Thorn drummed up some foreign investment and 11 new banks opened, including Warburgs and the Bank of China, bringing the total to 108. The Anglo-Luxembourg trade figures (though difficult to disentangle from those involving Belgium and probably therefore understating the true position) for 1979 suggest that UK exporters still have about 1.7% of the total Luxembourg market and that our exports, worth about £24 million, were stationary.

F

WERNER, PIERRE

Prime Minister, and Minister of Culture, Religious Affairs, Information and Press, Development and the Treasury (Christian Social).

Born near Lille in 1913.

Educated in Paris. Doctor of Law (1938), but soon left the Bar for the Banque Generale. 1945 appointed Banking Control Commissioner. 1953 appointed by M Bech as Minister of Finance and (1954) of the Armed Forces. Prime Minister from 1959 of successive coalition governments; with the Democrats (1959-64 and 1969-74); and with the Socialists (1964-69). Having also, at one time or another in this period, held the portfolios of Foreign Affairs, Justice and the Civil Service, there is not much he does not know about the working of the Luxembourg Administration.

A very impressive public servant who commanded widespread respect and esteem during his long years of office, not least for the patience he showed in allowing decisions to emerge by consensus. His record in Catholic Action and his strong religious convictions undoubtedly helped to ensure his rapid rise to the head of his party once he entered politics. He lacks the skill in public relations of M Thorn but is an excellent speaker. In the 1974 elections his party lost a number of seats, and though still the largest party, he decided to resign. He thought that the Christian Social Party had probably been in power for too long (over 50 years) and would benefit from a period to readjust and rethink. He devoted a year to the organisation of the party, particularly to stimulating interest from the younger generation, and the considerable success of his Party in the 1979 elections was largely due to his efforts. He achieved the highest personal vote in the 1979 national elections and the second highest (after M Thorn) in the European Elections.

He is well-known internationally and for his chairmanship of the European Community's "Werner Committee" on Economic and Monetary Union (on which subject he published a further book in 1977).

M Werner has a relaxed, friendly, open and attractive personality. He speaks fluent English and understands better than most the British way of doing things. He is a devoted family man, fond also of music (he is a good pianist) and gardening. His wife comes from the distinguished and influential Pescatore family and is a strong character in her own right. Keen on the Oecumenical movement. Also speaks good English. 5 children.

SUBJECT

see 14/11 original

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T224/80

Original a Euro PM, PHS Luxembourg Council.

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GRS 300
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FM FCO 171500Z NOV 80
TO IMMEDIATE LUXEMBOURG
TELEGRAM NUMBER 159 OF 17 NOVEMBER 1980
INFO SAVING UKREP BRUSSELS, PARIS, BONN, DUBLIN, BRUSSELS, THE HAGUE, COPENHAGEN, ROME, ATHENS

MIPT
FOLLOWING IS TEXT original dated 14/11
DEAR PRIME MINISTER
THANK YOU FOR YOUR MESSAGE ABOUT THE AGENDA FOR THE EUROPEAN COUNCIL.
I AM MOST GRATEFUL FOR YOUR SUGGESTIONS ABOUT THE SUBJECTS WE MIGHT DISCUSS, WITH WHICH I GENERALLY AGREE. THERE IS PLENTY OF GROUND TO COVER IN WHAT YOU HAVE SUGGESTED AND I DO NOT WISH TO PROPOSE ANY FURTHER ITEMS. I FULLY AGREE WITH YOU THAT THE MEETING MUST COVER ECONOMIC AS WELL AS POLITICAL QUESTIONS AND THAT THERE SHOULD BE AN OPPORTUNITY TO LOOK AT THE CURRENT PROBLEMS FACED BY CERTAIN OF OUR INDUSTRIES.
I WELCOME YOUR PROPOSAL TO INVITE THE OUTGOING PRESIDENT OF THE COMMISSION, ROY JENKINS, TO GIVE A REPORT TO THE EUROPEAN COUNCIL. THIS WILL PROVIDE AN OPPORTUNITY FOR THE HEADS OF GOVERNMENT TO CONSIDER THE BROAD PERSPECTIVE OF THE COMMUNITY'S DEVELOPMENT AND TO INDICATE TO THE NEW COMMISSION ANY ASPECTS TO WHICH THEY ATTACH PARTICULAR IMPORTANCE. I AGREE THAT IT WOULD BE APPROPRIATE FOR THE NEW PRESIDENT OF THE COMMISSION, WHOM WE WILL BE DESIGNATING, TO BE THERE.
I CAN SEE NO POSSIBLE OBJECTION, AND EVERY ADVANTAGE, IN AN INVITATION TO THE GREEK PRIME MINISTER TO BE PRESENT.
I AM VERY GRATEFUL FOR YOUR SUGGESTION THAT YOU MIGHT COME TO LONDON TO DISCUSS THE PREPARATION OF THE EUROPEAN COUNCIL WITH ME. I WOULD WELCOME THIS, IF YOU FEEL THAT YOU CAN SPARE THE TIME AT A VERY BUSY PERIOD - AND SUBJECT OF COURSE TO US

/ BEING ABLE

BEING ABLE TO FIND A CONVENIENT DATE.
YOURS SINCERELY
MARGARET THATCHER

CARRINGTON

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MR HANNAY
LORD BRIDGES

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MR ALEXANDER,
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FILE

RH

10 DOWNING STREET

From the Private Secretary

14 November, 1980

European Council Agenda

The Prime Minister has seen your letter to me of 13 November on this subject and has approved the draft enclosed with it. I attach the signed version. I should be grateful if you could arrange for its delivery in Luxembourg.

As I mentioned to you on the telephone, the Prime Minister has agreed that an invitation should be extended to M. Werner to visit London on Tuesday, 25 November. She envisages a session of talks beginning at 1815 hrs followed by a working dinner. I fear that this is virtually the only opening available in her diary.

I am sending a copy of this letter and its enclosure to David Wright(Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq
Foreign and Commonwealth Office

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