

(1)



Prime Minister

Agree to these  
small changes in

the letter which you  
have already approved?

(I have marked them on  
the attached copy).

Dear Charles,

Foreign and Commonwealth Office

London SW1A 2AH

25 November 1986

CDP  
25/xi

European Council: Presidency Papers

In the light of the Foreign Secretary's meeting with M. Delors on 23 November and the discussion in the Foreign Affairs Council yesterday, we suggest a small change in the passage on agriculture in the Prime Minister's letter to other heads of government; a reference to the fact that heads of government may raise other political cooperation issues over dinner; and the inclusion of a reference to decisions on the further liberalisation of capital movement as well as financial services in the discussion paper on business and jobs. I attach clean copies of the message and discussion papers, together with a set which, if the Prime Minister agrees, she may wish to hand over to M. Delors.

Denmark, the Netherlands and Ireland have said that their heads of government may wish to raise South Africa over dinner. There is no likelihood of a change in Chancellor Kohl's position and the Prime Minister will want to avoid a prolonged discussion.

We have received advance copies of the papers which the Commission will be circulating in advance of the European Council. I enclose a short summary/commentary. The Prime Minister should not need to go into these with M. Delors. The discussion at the European Council will be focussed mainly on the Presidency discussion papers.

I am writing separately about other matters for the Prime Minister's discussion with M. Delors.

Yours ever,

Colin Budd

(C R Budd)  
Private Secretary

C D Powell Esq  
No 10 Downing St



MESSAGE FROM THE PRIME MINISTER TO THE HEADS OF GOVERNMENT  
OF THE MEMBER STATES AND THE PRESIDENT OF THE COMMISSION

I look forward to welcoming you to London for the European Council on 5-6 December.

After lunching with Her Majesty The Queen at Buckingham Palace, I suggest that in the first session of our meeting, rather than having a general discussion of the economic and social situation, we might seek to concentrate on some specific themes relating to the economy, business and jobs, which are of concern in all our countries.

/ I enclose a Presidency paper as a basis for our discussion. I hope that you will not feel obliged to comment on all points in it, but will concentrate on those issues which are of particular interest to you.

I hope we can devote particular attention to:

(a) employment and job creation, on the basis of the ideas being discussed by our Employment Ministers. Small businesses have an essential role to play in the creation of new jobs and we shall want to take note of the Commission's recent proposals and give an impetus to further decisions.

(b) we must review progress on the internal market, including air, sea and inland transport, and decide what further steps we need to take to ensure that we achieve the 1992 target agreed in the Single European Act.

As a second major theme, I suggest that we should discuss the related problems of frontier controls, terrorism, immigration and drugs. If we are to promote freedom of movement within the Community, we must intensify our cooperation in these areas, as we agreed when we negotiated the Single European Act. There has been good progress in discussions between our Interior Ministers. We should aim to encourage that work and adopt a concerted approach



to these problems which are of serious public concern. A discussion paper on these issues is enclosed.

We should review progress in other areas where we are trying to create a Community which meets the needs of ordinary people. Following the initiative we took at the Milan European Council I propose that we decide on a European Cancer Information Year, with the aim of developing a sustained and concerted information campaign in all the member states on the prevention, early warning and treatment of cancer. I also think we should discuss the biggest potential public health problem any of us has had to face, namely AIDS. Our Health Ministers have adopted a resolution on cooperation against AIDS. I propose that we should agree on a Community-wide exchange of information as part of a concerted campaign to prevent the spread of AIDS.

I have asked Jacques Delors over dinner to tell us about the Commission's plans and timetable for presenting the ex-novo review of Community finances. It would not be appropriate for the European Council to seek to undertake the work of Agriculture Ministers. We should underline the need for the Agriculture Council to take the necessary decisions in the milk and beef sectors.

We shall also want discuss recent important developments in East/West relations. I will be ready to give my own impressions after my recent meeting with President Reagan. Other political cooperation subjects can be raised at our dinner, but I hope that most foreign policy issues can be dealt with by Foreign Ministers.

On Saturday morning, I hope that we can reach positive conclusions on the subjects I have mentioned. Our meeting will conclude with a luncheon at the Queen Elizabeth II Conference Centre on the second day.



I look forward to welcoming you here next week.

With best wishes.

Margaret Thatcher



25 November, 1986

## A COMMUNITY CAMPAIGN FOR BUSINESS AND JOBS

(report by the Presidency on the Economic and Social Situation)

### THE CHALLENGE

Among the main goals of the Community are economic and social progress and the constant improvement of the living and working conditions of the people of Europe.

The Community was a major force for growth in the 1960s. It must be so again in the 1980s and 1990s.

The problem of unemployment, particularly long-term unemployment, affects every member state. It can be tackled effectively only through the growth of business and enterprise.

Business will flourish only if barriers to trade are broken down throughout the Community.

Enterprise can be encouraged if steps are taken to reduce burdens and open up opportunities in all the member states.

### THE PROGRESS MADE

There is a growing convergence of economic policy in the member states.

This has been demonstrated in the policies we have adopted to reduce inflation.



The Commission expect inflation next year to fall to 3%, the lowest Community average for 20 years.

#### THE BRITISH PRESIDENCY HAS GIVEN PRIORITY TO:

- promoting long-term prosperity and job creation through the completion of the internal market;
- lightening burdens on business;
- an action programme for employment growth;
- helping small and medium-sized enterprises to make a dynamic contribution to the creation of prosperity and jobs.

#### CAPITAL MOVEMENTS

Finance Ministers agreed on 17 November on further measures to liberalise certain capital transactions. The Commission should be invited to bring forward as soon as possible proposals to achieve the free movement of capital throughout the Community by 1992.

#### THE SINGLE LARGE MARKET

Faster progress on the internal market has been achieved this year than under preceding Presidencies. But the pace of decisions remains too slow if the 1992 target is to be achieved. The Presidency invites the European Council to endorse the need for decisions by the end of this year on issues currently before the Council, in particular on:

- the first steps to be taken to achieve a single market in road haulage by 1992;
- creation of coherent Community policies, including the introduction of greater competition, in the fields of air and



sea transport;

- measures to open up public purchasing;
- measures in the fields of food law and plant and animal health;

The Presidency has proposed that agreement should be reached at the Internal Market Council on 1 December on a package of measures, including significant proposals on:

- counterfeit goods;
- pharmaceuticals;
- public procurement;
- standards in the fields of information technology and telecommunications;
- microcircuit designs.

The Presidency will make further recommendations to the European Council in the light of the progress achieved on 1 December.

To maintain the necessary rate of progress on the programme as a whole, the Presidency invites the European Council to endorse the need for decisions early next year on:

- the measures necessary for the further liberalisation of capital movements and to open up the market for financial services;
- the full arrangements for a Single Market in road haulage by 1992;
- further steps to open up public purchasing;



- the mutual recognition of tests and certificates.

#### TECHNOLOGY

A new industry-oriented basis for future Community action was agreed in the Single European Act. The new Framework Programme for R & D under discussion in the Research Council should give a clear signal of the Community's commitment to R & D as a component of industrial competitiveness.

To make this research effort effective and relevant to success in world markets, the Community must encourage wider cooperation between European firms. The involvement of several hundred European firms and research institutes in EUREKA projects has shown what can be achieved. Opening up public procurement to more effective competition is essential.

Decisions are imminent in the key area of digital cellular radio (mobile radio telephones). The potential world market over the next 10 years is worth \$10 billion. Europe's capability in digital technology is now ahead of that of our main competitors. We need to be able to exploit this technical lead to seize a substantial share of that market. We must have a common standard; European public telecommunications operators should join together to open a European service by 1991; and we must aim for a collaborative approach by industry.

#### ENCOURAGING ENTERPRISE

The Community has recognised the importance of lessening constraints on business to allow initiative to flourish and employment to expand.

This is essential for small and medium-sized enterprises which must play a role in creating new jobs.



- The Commission is examining all new proposed legislation for its impact on business costs and jobs;
- an assessment accompanying each proposal will enable the Council to take full account of the potential effects on business costs and jobs. This must now be put into effect;
- a special review is being carried out to assess the impact on business of existing Community legislation. The Commission will report with recommendations for action early next year;
- a Task Force has been set up to help ensure that the interests of SMEs are taken fully into account across the full range of Community policies affecting them;

The Council has endorsed the principles of the Commission's proposals on help for small businesses, and in particular steps to:

- ensure that existing schemes operate effectively for small firms;
- improve the administrative environment for small firms;
- create the conditions in which new small firms can be set up;
- improve the access of small firms to new technology;
- enable Member States to profit from each other's experience through an intensive exchange of information and mutual evaluation of initiatives, including schemes to help people to set up in business.

Agreement has been reached on new Community loan facilities of 1500 mecu which will enable the Community to support SMEs' efforts to invest, particularly in new technology.



The Council should consider urgently Commission proposals to raise the threshold limit for the payment of VAT by small firms.

#### AN ACTION PROGRAMME FOR EMPLOYMENT GROWTH

Social Affairs Ministers at their informal meeting in Edinburgh in September agreed on the need for an action plan for employment growth which the Council could formally adopt in agreement with the Commission. The Presidency will be seeking agreement in the Council on 11 December on an action programme designed to:

- help both young people and adults into employment;
- help the long-term unemployed back into jobs;
- promote the creation of self-employment and of small and medium sized firms;
- improve the workings of the labour market, including ways of increasing part-time and other flexible working patterns and providing better access to the labour market for disadvantaged groups.

#### CONCLUSION

These are all steps in our common battle to help create prosperity and employment for our citizens. The London European Council should be the occasion to decide on actions which would make a practical contribution to our ability to achieve those objectives.



25 November 1986

**FRONTIER CONTROLS/TERRORISM/IMMIGRATION/DRUGS**

(Presidency report to the European Council)

1. On signing the Single European Act and committing themselves to the completion of the internal market by 1992 we declared that:

'In order to promote the free movement of persons, the member states shall cooperate, without prejudice to the powers of the Community, in particular as regards the entry, movement and residence of nationals of third countries. They shall also cooperate in the combating of terrorism, crime, the traffic in drugs, and illicit trading in works of art and antiques.'

2. The United Kingdom Presidency has given priority to work designed to give practical effect to this Declaration.

Further terrorist attacks on the territory of member states and evidence of state sponsored terrorism have given this added urgency.

The Trevi Ministerial meeting on 25 September agreed on

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further action to combat terrorism, including a secure communications link between national police forces and the regular exchange of threat assessments.

Foreign Ministers reached agreement on 10 November on concerted measures in response to the evidence revealed in the Hindawi trial.

We should decide what further action can be taken to deter terrorist activity on the territory of any member state and reaffirm our commitment to make no concessions to terrorist blackmail, and solidarity between the member states in our response to such actions.

3. Following the further agreements reached at the meeting of the Interior and Justice Ministers and Lord Cockfield on 20 October, work must be carried forward on:

- the arrangements for extradition of those accused of violent crimes;
- steps to ensure that provision for asylum seekers is not abused. We have to distinguish between those genuinely needing asylum in our countries



- because of a denial of democratic rights elsewhere, and attempts to abuse this right as a way of circumventing immigration controls;
- cooperation to counter the theft and forgery of passports;
- the coordination of visa regimes;
- concerted action to deal with illegal immigration.

4. At the same time the effort must be continued to simplify frontier procedures within the Community, without weakening our essential defences against terrorism, drugs and illegal immigration. This must include action to strengthen controls at the Community's external frontiers.

5. Interior Ministers have drawn up a plan for action on drugs by the Community and its member states. They have agreed on the need, in cooperation with the Pompidou Group, to:

- concert action against those who criminally traffic in illegal drugs;
- coordinate legal action, in particular in relation to confiscation of assets;
- consider exchanging Drugs Liaison Officers;
- ensure that bilateral and Community aid supports,



as appropriate, recipient countries efforts to combat drug abuse;

- draw on each other's expertise in reducing the demand for drugs, especially among the young and in the treatment and rehabilitation of drug addicts.

6. These are problems of concern to citizens in all our countries. Heads of Government are invited to give a further impetus to cooperation on these subjects and to reach conclusions on further action.



EUROPEAN COUNCIL: COMMISSION PAPERS

The Commission paper on Short-term economic perspective examines the prospects for growth in the European economy. It attaches somewhat exaggerated importance to the agreement between the United States and Japan on interest rates and the level of the yen. It refers in vague terms to a cooperative growth strategy - a phrase which was included in the European Council conclusions at The Hague. The paper is unlikely to attract much attention in the European Council discussion.

The Commission paper on Community action on employment is very helpful from our point of view. It concentrates on creating the right environment for small and medium enterprises (including deregulation and the simplification of VAT on small business). It gives support to the specific ideas on employment launched by the United Kingdom in the Social Affairs Council.

The Commission paper on the Internal Market ("completing an area without frontiers") expresses concern at the slow rate of progress despite signature of the Single European Act.

The term "area without frontiers" was defined in the Single European Act as applying for the purposes of the EC Treaty. It was explicitly agreed that nothing in this could affect the ability of Member States to take the action necessary to deal with terrorism, immigration, drugs, etc. The paper gives strong support to the initiative taken by the Prime Minister to get agreement on a package of measures at the International Market Council on 1 December. It refers also to the need to make progress with internal market measures in other Councils (Transport, Agriculture and ECOFIN).



It urges that attention should be paid to measures in the fiscal area in 1987 (including the approximation of VAT: but handling of this matter in ECOFIN has shown that few Member States are prepared to take action in this sense at the present time).

The Commission paper on Europe Against Cancer draws attention to the action already taken following the conclusions reached at the Milan European Council and draws attention to the Commission's proposals for a concerted campaign on the prevention of cancer. This is in line with the proposal the Prime Minister will be making in her letter to the Heads of Government before the European Council.