

PERSONAL AND CONFIDENTIAL

Can  
No Powell : No 10.

J.O.K.  
16/vi.

FROM: J O Kerr

DATE: 14 June 1989

CC: Mr Wicks, H M Treasury  
Mr Reid, Dept of  
Employment  
Sir D Hannay, UKREP

Mr Lavelle  
Cabinet Office

VISIT TO MADRID: 14 JUNE

1. The following European Council points emerged from my meeting with Yanez in the Moncloa on 14 June:-

(a) Monetary

- (i) Gonzalez regards the discussion of the Delors Group report as by far the most important agenda item. Not only is the subject likely to be taken first, the whole of the first day will, if necessary, be allowed for it.
- (ii) The Presidency hope to avoid any discussion of the aim of progress towards EMU - They regard this as acquis in the SEA, and the Hanover text. The discussion should be about ways and means, and the pace of progress.
- (iii) The Spanish can accept the Delors Report without reservation. However as Presidency they recognise that some, including the UK cannot. Despite pressure from Paris and Delors, they will not therefore seek European Council acceptance or endorsement of the Report. But they want it welcomed, and described as a good basis for further work.
- (iv) The Presidency understand the problem with para 39. They don't agree that para 39 need be construed as requiring any greater prior commitment to the whole process than was contained in the Hanover text, but they accept that some so construe it, and that it is necessary to find a way round this problem. Yanez confirmed that their proposed way would be to sidestep it, as at S'Agaro.
- (v) The Presidency claim that they do not want discussion at Madrid of an IGC, or the right timing for one. But they do want explicit acknowledgement at Madrid that an IGC will be necessary during Stage 1 to permit the transition (no timing to be stated) to Stage 2. (I made clear that this would be very difficult for us, and that

PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

any references to the IGC and the transition would have to be in the conditional tense.)

- (vi) In order to see off pressure to set a date for the transition to Stage 2, the Presidency believe it will be necessary to set a target date for ERM completion. Yanez mentioned end 1992, whereas Fernandez Ordonez - and the present draft Conclusions text - says July 1992. (I held out no hope of our agreeing at Madrid to any target date.)

Comment

No big surprises. So the strategy outlined by Fernandez Ordonez in London on 8 June is the Gonzalez strategy.

(b) Social

- (i) For Gonzalez, the issue of a substantive text on the Social Dimension is a key domestic priority. And in Spanish eyes a substantive text is defined as one that includes strong political support for the idea of a Social Charter.
- (ii) Spain could in fact accept the Papandreou draft. But they do not want textual discussion of it at Madrid.
- (iii) Neither as Presidency nor as Spain could they agree to settle for procedural conclusions, calling for further studies, and a December decision on whether there should be a Social Charter.
- (iv) As Presidency, the Spanish are now reflecting on the Howe and Fowler statements at Luxembourg on 12 June. It seemed clear that they had not previously grasped that we opposed not only the Papandreou draft but also the idea of political commitment to the subsequent issue of some text.
- (v) Yanez thought that they would not decide their tactics until after Gonzalez' London visit: the question should be discussed between Prime Ministers.

Comment

The appearance of indecision was, I think, genuine. But my impression was that they would decide to go for a 'disagreed' text, setting out the views of the majority, perhaps as a separate declaration.

(c) Other Internal Issues

- (i) Fraud. I said that whether lengthy discussion would be required would depend on the discussion at ECOFIN on 19

PERSONAL AND CONFIDENTIAL

June. We thought the Commission's action plan quite good, but would want to see political impetus sustained. As a minimum we would want a reference in the Madrid Conclusions to the importance of tackling fraud. The Spanish would do well to volunteer, in No 10 on 19 June, an intention to include such a passage.

Comment

Yanez appeared to think this an excellent idea, and undertook to commend it to Gonzalez.

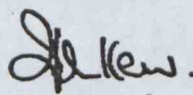
- (ii) European Environment Agency. The Spanish think the proposed Environment Agency a good idea, provided its function is limited to data collection, and its membership is open to other Western European countries. I warned that we would not be willing to endorse Commission proposals which had not yet been fully explained or even formally put forward.
- (iii) Research. Yanez claimed to be uncertain as to whether Gonzalez would want a Conclusions passage on the review of the R & D Framework Problem. The Commission wanted one, but the Presidency were as yet undecided. I said that we would have difficulty with language implying an increase in resources or not requiring adequate evaluation against a cost-effectiveness criterion.
- (iv) Frontiers. The Spanish confirmed that their intention was to avoid a substantive debate. They would however want language "adopting" the Coordinators' report, and drawing attention to the target dates in it. I warned that extended language about free movement of persons would in our book, require the addition of the traditional caveat about Member States' rights to retain defences against drugs, terrorists, etc.
- (v) Indirect Tax. The Presidency envisage no substantive discussion. But they want Conclusions pointing to the need for further progress soon if 1992 deadlines are to be met.
- (vi) Tax on Savings. We agreed that the Commission proposal was dead, but that an attempt to arrange a public burial would be tactless and unnecessary. Yanez said that the Conclusions would not refer to the ECOFIN deadline of 30 June. But, as a face-saver, something moderately positive should be said about Mutual Assistance to combat evasion/fraud.
- (v) Internal Market. Yanez said that progress on the mainstream 1992 programme should be highlighted, on Rhodes/Hanover lines.

PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

(d) External Issues

- (i) Debt. The Presidency want a declaration, separate from the Conclusions, on middle income debt. It would go beyond generalities about the importance of the issue, and would specifically call for a pooling of European resources, to constitute a European contribution similar to that of Japan. (NB I pressed on whether they envisaged a Community contribution: they do not, but rather a Western European contribution, bringing in Sweden Switzerland etc. Yanez said that they do not agree with Delors ideas). Expressing considerable scepticism I asked to see a draft, and was told that none yet existed (I rather doubt this): all will apparently be revealed at lunch time at ECOFIN on 19 June.
- (ii) No surprises on the proposed political cooperation texts, except that Yanez reported that the Portuguese have suggested something about Namibia. The Spanish have given a temporising reply, asking to see what precisely the Portuguese have in mind.



J O Kerr