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MADRID EUROPEAN COUNCIL: KOHL'S POSITION

1. On the basis of what Grimm and Thiele told me this morning in the Chancellery (partly confirmed by a separate conversation with Trumpf, and a meeting yesterday between Schlecht and Sir C Mallaby), Kohl's Madrid position is now virtually settled, after discussions with him yesterday, and is likely to contain the following elements:-

(a) General

(i) Open disagreements, and a perceived Community crisis, are to be avoided, if possible;

(ii) The pace of EC integration cannot run too far ahead of public opinion;

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(iii) The monetary issue is the most significant one, but the Social Charter is important domestically.

Comment

(ii) appeared to reflect German EP election results, and the rise of Republikaner. Grimm spoke of evidence that enthusiasm for the

development of the Community was lower in the electorate at large than among politicians: a pause might be needed.

(b) Monetary

- (i) The European Council must reaffirm the aim of eventual EMU (which, as far as Kohl is concerned, also means political union);
- (ii) The European Council must broadly accept/endorse the Delors Report, but must not do so in terms which appear to accept the detail of stages II/III as described in the Report [because the treatment of fiscal policy is not acceptable];
- (iii) Further work on Stages II and III should be remitted to the appropriate EC bodies [my assumption, stated twice, that this would be ECOFIN and the Monetary Committee, not the FAC, was not challenged];
- (iv) The Stage I prescription should however be adopted in full [though the French Reserve Fund idea must not creep in];
- (v) Para 39 should be neither formally reaffirmed nor formally rejected;
- (vi) In Madrid there should not be a decision either to call an IGC (little pressure expected) or on the appropriate timing of an IGC (some French pressure now, and more in December, expected). [Kohl has asked for a note on the conditions which should be met before a decision to convoke an IGC is taken - it is likely to suggest the tw

conditions that (a) the competent EC bodies should have reached an agreed view on the elements of Stages II/III, so that the European Council could discern precisely what form the new institutions should take; and (b) it would have to be clear what the outcome of a IGC would be (ie whether it would succeed or split).

Comment

This suggests that, at least for the moment, Waigel has won, and Genscher lost, the battle for Kohl's ear. If this sticks, Kohl will - despite the Genscher/Dumas communique on 20 June (which Trumpf admitted was pure French)-be more helpful to us than to the French. (But Genscher, not Waigel, will be alongside him.) The reason may be domestic electoral analysis: Grimm spoke of likely public concern when it became understood that stages II/III, as defined by Delors, would mean extensive revision of the Bundesbank statutes.

(c) Social

- (i) The European Council should agree that there would in due course be a Social Charter;
- (ii) The Papandreou draft was not acceptable, and something shorter should in due course be devised;
- (iii) New Community activity might cover a still smaller area, but all new activity must be legally binding [to ensure that German compliance did not mean further undercutting of German competitiveness by non-complying Southerners];

- (iv) The Social Affairs Council should consider appropriate areas for new Community activity, and the Commission should again consult "social partners", before a future European Council (by implication, Paris) was asked to consider a Social Charter text: the approach should thus be 'bottom up', rather than 'top down' à la Papandreou.

Comment

Here the domestic electoral factor is probably working against us. Grimm said that the EP results revealed widespread concern that 1992 Europe might prove a "Community of monopolies", and one in which the high level of FRG social rights would be undercut by market forces competition from the South. (i) was stated as a firm FRG requirement, though when challenged Thiele did not however categorically exclude the acceptability of purely procedural Madrid Conclusions covering inter alia further work on the question of whether there should be a Social Charter. (Trumpf maintains, much more categorically, that this would not be enough for Genscher.)

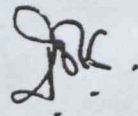
(d) Frontiers

- (i) The European Council should agree to step up police cooperation (NB not, this time, establish a Euro-FBI), because much more such cooperation would be necessary as intra-EC frontier controls were reduced;
- (ii) Meanwhile, the "timetable" in the Coordinators report was too tight: the "deadlines" must be relaxed.

Comment

Encouraging. Here the domestic electoral factor is concern (eg from Republican voters) that 1992 Europe should not be a paradise for drug-runners, criminals and illegal immigrants.

2. On balance, better positions than I expected.



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