

PRIME MINISTER

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MADRID EUROPEAN COUNCIL

You wanted a form of words which you could if necessary use at Cabinet tomorrow on the subject of the Madrid European Council. I suggest the following.

① The Madrid Council is bound to be a difficult one. For some time now, the European Council has been concentrating on issues which we have put on the agenda: the British budget contribution, the Single Market and reform of the CAP. That particular cycle is now coming to an end and we face a number of issues on which the more interventionist dirigiste member states in Europe are in the lead. // ② The two most prominent and most difficult are the proposed Social Charter and Economic and Monetary Union.

We believe that both proposals are, in their different ways, thoroughly mistaken. The Social Charter makes no economic sense, runs contrary to our traditions and would impose additional burdens on business which would make it less competitive. There is already a perfectly good, non-binding, Council of Europe Social Charter. The main motivation for having another one in the Community is the desire of the high-cost countries, such as Germany, to avoid what they call social dumping - which in practice means eroding the competitive advantage enjoyed by others: and the hope of the poorer countries that others can be persuaded to make major resource transfers, to help bring their living standards up to the level of the Northern member states.

We have made quite clear that we will not accept a legally-binding Charter. We do not believe it is a necessary part of the Single Market. There is no need for the Community to try to cover every aspect of our lives. Some governments argue that the Charter would be only a declaration and have no binding force. But that ignores the fact that the Commission would use it as a quarry for legislative proposals, many of

which will be subject to qualified majority voting. b

We have got to take a firm stand on this issue right from the beginning. The Secretary of State for Employment did so at the Social Affairs Council last week: and colleagues in OD were unanimous that our position is absolutely right. We provide an extremely high level of social benefits to our people and I shall take to Madrid a document setting them out in full. We can use this with the press and others to show that we are not in any sense a laggard on social matters. Our point is that we are not prepared to accept that these things should be regulated from the centre. And we believe that many of the items in the Social Charter run flatly counter to all the things we have done to strengthen the British economy and free it from unnecessary constraints over the past ten years. We shall probably find ourselves isolated in opposing a Charter. But we have a very good case and we should all take every opportunity to get it over in this country.

The Economic and Monetary Union debate will be more difficult to manage. EMU has been a long-standing objective of the Community and all governments have subscribed to it without it ever having been defined in a way which all can agree. The Delors Committee Report has now come up with a definition involving 3 stages. The first is mostly concerned with establishing free movement of capital and a genuine free market in financial services, things which we already have. But the second and third stage would involve a major transfer of sovereignty from national governments and parliaments to ^{anonymous} ~~anomalous~~ institutions in Europe, amounting to a major step towards a federal Europe, as well as massive payments to the poorer members of the EC, which would be particularly expensive for us. As the Chancellor and the Foreign Secretary have made clear on many occasions, this is simply not on the agenda.

Our aim at Madrid will therefore be to shunt away stages 2 and 3 of Delors and the idea of an intergovernmental conference to amend the Treaty. Ideally we want them dropped altogether or

at least deferred sine die. But to have any hope of achieving that we shall need to commit ourselves to work for the completion of stage 1, with everything else being referred for further study. This is in effect what the Chancellor agreed to at the informal meeting of ECOFIN some weeks ago. Most of the provisions of stage 1 are broadly acceptable to us: in fact we are well ahead of other governments in implementing them. It seems that the Spanish Presidency are prepared for an outcome on these lines, but others will be more ambitious.

We may be asked to clarify our position on joining the ERM, which is referred to in Stage I of Delors. Our manifesto for the European Election Campaign reiterated our position that we will join when the time is right. We cannot just abandon that view, particularly so shortly after the European election. Moreover, as the Chancellor made clear in his evidence to the TCSC, we cannot possibly join at the moment, while our rate of inflation is at its present level. We have to avoid any binding commitments which would deprive us of flexibility and lead us into particular difficulties at the time of an election if the opinion polls were against us.

What we

~~But~~ might do, if we judge it would help us achieve a satisfactory outcome at Madrid, is spell out the conditions which would have to be met if we were to decide that the time was right. What we might say is that our position remains that we shall join when the time is right. When that will be depends on a number of factors. We for our part must get the inflation rate down. And we shall want to be convinced that the process of completing the Single Market and removing all barriers to trade and financial services is being genuinely implemented throughout the Community. In particular, we shall want to see the abolition of all controls on free movement of capital and complete freedom of financial markets implemented and sustained for a reasonable period so that we are able to judge the effect of these steps on the ERM itself. The final decision will remain the sole responsibility of the British Government. But the fulfilment of these conditions would clearly have a positive effect both on the Community itself

and our decision whether to bring sterling into the ERM.

Such a statement would only be worth making if we judged it would clinch a satisfactory outcome at Madrid. It would help our aim to see a level playing field for economic and financial issues in Europe. And it would give the other members some additional assurance that our statement that we shall join when the time is right is made in good faith. I am not very optimistic that it will do the trick. Several of the other Member States are determined to press ahead at Madrid or soon after to an Intergovernmental Conference on Stages 2 and 3 of Delors, which we are all agreed that we cannot accept. But I hope that Cabinet will agree that we should have the maximum tactical flexibility to avoid this and achieve an outcome based on acceptance of Stage I.

C.D.P.

C. D. POWELL

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