10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 July 1991

Dear Richard,

INTER-GOVERNMENTAL CONFERENCES

Thank you for your letter of 17 July setting out an assessment of the deal that might be done at Maastricht.

The Prime Minister agrees with your summary of what the best achievable outcome at Maastricht might consist of. The Prime Minister's detailed comments are as follows.

i. Structure of the Treaty

The Prime Minister attaches importance to maintaining the existing structure of the Treaty. The existing lines of what is or is not under Community competence in the field of interior/justice matters seems to be somewhat blurred, and the Prime Minister would welcome more analysis of this point. As regards CFSP, he thinks we must be absolutely clear that this does not come under Community competence in any way.

ii. CFSP

The Prime Minister is not attracted by the idea of having framework decisions taken by unanimity and implementing decisions taken by qualified majority. He suspects that there could be real trouble in the House if it was thought that we were compromising our ability to take national foreign policy decisions. He thinks we will need to be pretty hard-line on this point.

The Prime Minister thinks that the issue of a common defence policy may boil down to one of clever drafting to ensure that we are not committed to a Community defence policy which would undermine NATO.

iii. Powers of the European Parliament

The Prime Minister agrees that this will be a crucial issue. It needs more thought and Ministerial consultation before a definitive view can be taken.

iv. Extensions of Qualified Majority Voting and Competence

The Prime minister agrees with your assessment of the areas where we might be able to live with some extensions of Qualified Majority Voting. He also agrees that the sticking point for us will be the social area.

The Prime Minister has noted the Foreign Secretary's view that we will need to be very firm, indeed difficult, over our main points through the autumn if we are to avoid the assumption that we will sign up to almost anything at the end. The Prime Minister thinks that he will need to have a pretty clear idea, before he sees Mr Lubbers in September, of what we can and cannot live with. He proposes to have a meeting in September with the Foreign Secretary, the Chancellor, John Kerr and Nigel Wicks, and plans to set aside three or four hours for this purpose. He will want a detailed, point by point agenda, with an assessment of our position and that of others. We shall be in touch once we have found a time in the diary.

At our request, your letter was based on consultation within the FCO only. Once the Prime Minister and the Foreign Secretary have had a chance to talk over some of these issues, I will look for a way of minuting out a bit more widely.

Yours,
Stephen

J S WALL

R H T Gozney Esq
Foreign and Commonwealth Office

CONFIDENTIAL

Foreign &
Commonwealth
Office

London SW1 2AH

17 July 1991

Dear Stephen,

INTER-GOVERNMENTAL CONFERENCES

In your letter of 2 July you asked for an assessment of the deal that might be done at Maastricht.

The enclosed note sets out what we believe to be the best achievable outcome at Maastricht. It follows the structure of the existing Luxembourg Treaty text since, despite its deficiencies, that text will form the basis of future negotiations. It is inevitably speculative, involving judgments of other member states' bottom lines. As instructed, it has been done in-house, without consulting Departments who lead on some subjects, or the Cabinet Office. Nor, of course, have the Law Officers been consulted, though the Foreign Secretary plans to seek their advice on the main constitutional issues involved in the political union IGC over the summer.

In summary, the best achievable outcome might consist of:

- a Union consisting of a pillared structure (Treaty of Rome, CFSP, interior/justice matters) under the aegis of the European Council, a neutral review clause and no mention of a federal goal, but with some blurring of the distinction between the pillars;

- a broadly acceptable subsidiarity clause;

- the introduction of the concept of Union citizenship, limited to the right to vote in EP and local elections, free movement and consular protection, and not jeopardising national citizenship;

- on EMU, a Stage III regime with a single monetary policy and ESCB with operational independence; arrangements for the move to Stage III which provide satisfactorily for "no veto, no imposition, no lock-out"; a requirement for specific convergence criteria, but incorporation too of an indicative timetable for decision-taking; a Stage II which keeps monetary responsibility in national hands, but provides for the establishment of a new European institution and some development of the ecu; and new procedures for economic policy coordination, including probably binding rules on budget deficits;

- codification and some extension of existing competence in areas such as environment, education and research, and an extension of competence in some new areas such as health and culture;

- no, or at most limited, extension of competence or Qualified Majority Voting (QMV) in the social area;

- the extension of QMV into the environment and possibly its introduction into some new areas of competence such as health;

- some extension of the European Parliament's role in the non-legislative area, including EP agreement to the appointment of the Commission and its President; in the legislative area, some extension of the existing cooperation procedure to Single Market-related areas; and conceivably (though more difficult) the introduction in limited areas of a procedure (which would need to be called co-decision, but might be no more than an amended version of the cooperation procedure) which would permit the EP to halt the legislative process, but not alter the content of legislation agreed by the Council; and a declaration on the need to strengthen the role of national parliaments;

- incorporation in the Treaty of most of our ideas for increasing the efficiency and financial accountability of the Community institutions, and for strengthening compliance with EC law;

- a CFSP text which would avoid the artificial distinction between cooperation and joint action, but conceivably (a last-minute concession) with provision for implementation of decisions by QMV in limited areas, agreed unanimously in each case;

- a reference in the Treaty to a possible defence policy for the Union, balanced by a reference to the primacy of NATO.

This would be the best achievable outcome at the end of tough negotiations, and we cannot be certain of achieving it. The deal on offer in the run-up to Maastricht would look less attractive.

Our tactics between here and Maastricht will need careful consideration. Judgments will, for example, be needed on the relative importance of our key requirements. We take these to be:

- arrangements for CFSP and interior/justice cooperation which do not bring these subjects within the Community and do not apply full Community procedures to them;

- a satisfactory "no imposition" formula for the transition to EMU Stage III; retention of monetary policy in national hands in Stage II, i.e. no central bank and no requirement for national central banks to be independent before Stage III; and adequate convergence requirements;

- limited extension of QMV and competence, with as little as possible in the social area;

- limited increase in the legislative role of the EP, without a procedure which gives them the last word on substance;

- no new commitments on resource transfers (cohesion);

- the retention of freedom of action in foreign policy areas where our interests are directly touched, and in the UN Security Council;

- recognition of the Alliance as the bedrock of Europe's defence.

In terms of the future development of the Community, the structure of the Treaty will be the most important issue to get right. Whatever the outcome of the IGCs, there will be continuing pressure by the Commission and some member states, probably helped by ECJ judgments, to extend Community competence into new areas. The process may be given another push in the next IGC, probably in 1996. But the more we can ensure that CFSP and interior/justice matters are clearly outside the Treaty of Rome, and that the concept of inter-governmental cooperation is recognised as valid, the better placed we shall be to resist this trend. It is therefore particularly important to get neutral review clauses in these sections.

In this IGC we shall need to work hard to improve the language in the chapeau of the draft Treaty, the sections on CFSP and interior/justice cooperation, and the final provisions, in order to ensure that the pillars are institutionally and legally as distinct as possible, and in particular that inter-governmental cooperation is not subject to the ECJ. There is some risk of pressure for dropping the interior/justice chapter, leaving it in effect to be decided by the ECJ what is the extent of Community competence over frontiers/immigration matters, while dealing with other interior/justice matters under the existing Treaty provisions for inter-governmental cooperation, which might be expanded.

There will therefore be a hard fight ahead on structural questions. The other difficult issues are likely to be the social area (on which we shall be alone) and the powers of the European Parliament, on which we should have some support. It will be for consideration nearer the time whether some movement on our part in the social area and in the legislative

role of the EP (both of which will be of great importance to the Germans) would be a price worth paying for a better structure (for which we should get French, but will also need German, support). The analysis here assumes that we shall at the least have to accept something called co-decision.

The Foreign Secretary believes that we shall need to be very firm, indeed difficult, on our main points through the autumn if we are to win through at Maastricht. We have to demolish the assumption that we will sign up to almost anything in the last five minutes. Our strategy for getting the best outcome we can at Maastricht must include:

- intense lobbying of our partners during the autumn, including by the Prime Minister (as proposed in my letter of 8 July), the Foreign Secretary, the Chancellor (on EMU and on related issues such as cohesion), and at Minister of State and senior official level. The key countries will be the Dutch Presidency, the Germans, the French and our smaller supporters, i.e. the Danes, Irish and Portuguese;

- acceptance of the need to settle some points at the Foreign Ministers' conclaves in November (or at the EMU IGC) so that Maastricht does not become unmanageable - always of course subject to an overall reserve until we see the package as a whole. This in turn will require collective Ministerial discussion, in OPD or Cabinet, in late October or early November. At the same time we must avoid settling so much before Maastricht that the only issues for discussion there are those on which we shall be on the defensive, with very little left to give;

- this suggests that issues to be resolved at the conclaves (or at the EMU IGC) might include:

  - citizenship;
  - some extension of Community competence;
  - our proposals on the rule of law (level playing fields, etc);
  - the role of the European Parliament other than the legislative role;
  - most EMU issues but not, for example, participation in Stage III;

- issues for Maastricht, which the conclave will need to have worked up into clear options for decision, would thus be:

  - structure, on which we would have to be fighting hard;
  - social issues, on which we would be alone, and would have a rough time;
  - co-decision, on which we might have some limited give;
  - QMV, on which we would need some give;
  - cohesion, on which the Southerners, not us, would be the demandeurs (but we would resist hard);

- EMU, participation in Stage III;
- CFSP including defence, on which a suitable formula ought to have been cooked up beforehand, after the NATO summit;

- such a European Council should give us:

  - wins on CFSP, defence, EMU, cohesion (at least until the future financing negotiations), and the rule of law;
  - a probable defeat on co-decision, and perhaps QMV;
  - an uncertain outcome on structure and social.

This takes us up to Maastricht. Thereafter, we need to consider the tactical position, including in Parliament. Mr Garel-Jones is considering this with the Chief Whip and the Foreign Secretary hopes to be able to discuss this parliamentary aspect with the Prime Minister once the Prime Minister has considered the negotiating strategy in this letter.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

STRUCTURE

The present text broadly follows the three-pillared approach we have advocated, with activity under the Treaty of Rome treated separately from inter-governmental cooperation on common foreign and security policy and on interior/justice questions. In Treaty terms, all these are in separate chapters under an opening section setting up the Union itself and the European Council as the one institution with over-arching responsibilities for all three areas.

The new opening section, however, gives the Union itself too much substantive content (objectives and resources of its own) and contains too many unifying provisions which pull the pillars together and risk drawing aspects of CFSP and interior/justice matters into Community competence. The CFSP and interior/justice pillars themselves also contain linking clauses designed to make it easier for these to be communitarised in future.

In particular:

- the opening articles envisage "a Union with a Federal goal", and the closing ones a further IGC in 1996 "in the perspective of strengthening the Federal character of the Union";

- there are references to a "single institutional framework" which make insufficiently clear that the EC institutions which also have functions under the CFSP and interior/justice chapters operate there under entirely different procedures;

- a cross-reference between the interior/justice chapter and a new Article 235A of the Treaty of Rome would explicitly bring certain interior and justice matters within Community competence;

- there is no provision like that in the Single European Act excluding the jurisdiction of the ECJ from the opening articles and the CFSP and interior/ justice chapters. There are exclusion clauses in the latter two but they are not complete.

It should be possible to reach agreement on a text which deleted the references to "Federal", substituted "ever closer Union" - or an equivalent phrase - and included a neutral review clause of the kind in the Single European Act. It should also be possible to exclude the Court's jurisdiction from the opening articles and those on CFSP and interior/justice. A "single institutional framework" is unavoidable after the Luxembourg Conclusions but we should be able to make it clear that the institutions operate under different rules in the different parts.

Since many member states want a unitary approach now, or the possibility of it in the future, it will not be easy to remove all the linkages ("passerelles") between the pillars, or the general references to ensuring consistency. It ought to be possible, however, if necessary by making clear before and at Maastricht that this is a sticking point for us, to agree on a text which leaves open the direction in which the Union might evolve - neither envisaging nor excluding closer integration of the pillars in the longer term.

TREATY OF ROME: PRINCIPLES, INSTITUTIONAL QUESTIONS AND GENERAL PROVISIONS

These sections of the Treaty of Rome chapter include a number of points which we either welcome or can accept. These include:

- an Ombudsman, with suitably restricted terms of reference;
- a Commission reduced to one representative for each member state (though this provision may not survive);
- a provision enabling reallocation of the responsibilities of the ECJ and the Court of First Instance, in line with UK proposals;
- a provision for member states to be fined for failing to implement ECJ judgments, again in line with UK proposals;
- an article strengthening the financial accountability of the Commission;
- a subsidiarity clause which, though not yet strong enough, is on the right lines.

It should be possible to agree a text which includes all, or nearly all, these points.

Their main disadvantage lies in the articles dealing with the powers of the European Parliament. Some are acceptable - e.g. the right of the EP to request the Commission to initiate legislation, the right of enquiry, the right of petition, and a modest extension of the assent procedure to major international agreements. But the proposals have three main defects:

- they give the EP too great a role in the appointment of the Commission;
- they give the EP too broad a right to be consulted on and give assent to inter-national agreements;
- they introduce a form of co-decision between the

European Parliament and the Council which gives the former the ability in certain circumstances to block legislation approved by the latter.

This will be a difficult negotiation because most member states can either accept, or positively seek, a wider role for the EP, including in the legislative area. It should nonetheless be possible to agree a text which:

- limits the EP's role in the appointment of the Commission to a negative assent procedure;
- limits the right of the EP to be consulted on or give assent to inter-national agreements;
- accepts some increase in the EP's role in the legislative process (which for presentational reasons we might need to call co-decision), but which would consist <u>either</u> of:
  - some increase in the existing cooperation procedure to other areas of QMV;

  <u>or</u> conceivably (though Hurd is dubious)
  - some more restrictive form of the existing Presidency proposals, in which in very limited circumstances the EP would have the ability to block Community legislation agreed by the Council (but <u>not</u> to change its content);

  <u>or</u> (almost certainly)
  - some combination of the two.

A further <u>disadvantage</u> is that the combination of Article 2 (objectives of the Community), Article 3 (activities to meet those objectives) and Article 235 (permitting, for agreement by unanimity, measures to come forward consistent with Articles 2 and 3, but not specified in the Treaty) could lead over time to an unacceptable spread of Community competence.

It should be possible to narrow the scope of Article 3 and perhaps tighten Article 235 in order to reduce this risk.

CITIZENSHIP

This chapter formally establishes the concept of citizenship of European Union, complementary to national citizenship. We would not seek this, but should be able to accept it in principle, if the content of Union citizenship is limited and clearly in no way affecs UK nationality law.

The text contains broadly acceptable provisions on free movement/rights of residence and on consular protection. Three remaining problems for us are:

- we should prefer the provisions to be outside the Treaty of Rome;

- the proposal to give EC nationals voting rights in local elections. Given that Irish and Commonwealth citizens already have such rights, this might not be a sticking point;

- any evolutionary clause must contain provision for ratification by national parliaments. This should be achievable.

Despite pressure from Spain for more, we should be able to negotiate an acceptable text, broadly on the lines of the existing draft.

COMMON FOREIGN AND SECURITY POLICY

The main advantages of the CFSP text are:

- CFSP as a separate pillar, with its own institutional arrangements;
- broadly satisfactory objectives (defence apart).

The main problems with the CFSP text are:

- CFSP nonetheless insufficiently distinct from the Treaty of Rome;
- an artificial distinction between cooperation (broadly as for political cooperation now) and joint action, with provision for QMV;
- too heavy a slant towards Brussels rather than capitals (e.g. the relationship between COREPER and the Political Committee);
- language which could jeopardise our freedom of action in the UN Security Council and the international financial institutions;
- reference to a long-term defence policy.

It should be possible to reach agreement on a text which:

- keeps CFSP outside the Treaty of Rome;
- gets rid of the distinction between cooperation and joint action but recognises the possibility of unanimously determined, limited, time-bound QMV for implementation only;
- sets a proper balance between Brussels and capitals;
- protects our position in the UN Security Council (perhaps through a joint declaration with the French) and the IFIs;
- balances a reference to a possible long-term defence policy for the Union with a reference to the primacy of NATO.

COMMUNITY COMPETENCE: "POLICIES OF THE COMMUNITY"

In addition to EMU, this section contains proposals for codifying or extending Community competence in the following areas: social, education, youth, consumer protection, culture, environment, energy, public health, R&D, industry, trans-European networks (TENs), development, road safety, tourism and civil protection.

In almost all these areas some Community activity has been possible in the past, under the existing Treaty. The new texts would codify this, and in many cases extend the scope. The Commission will be quick to exploit all such changes in bringing forward new legislative proposals over the coming years.

There are no advantages for the UK in this chapter. At best, we see the new language as unnecessary; at worst, the texts would extend competence into areas which we believe should remain the responsibility of member states, in some cases with significant expenditure implications.

It should be possible to remove some of the texts altogether, e.g. tourism, civil protection, youth. But there is strong pressure for extension of competence in other areas.

Although the Presidency texts themselves are unacceptable, we could probably accept new Treaty language (on lines we are drafting) on energy, TENs, industry, health, culture, education, development, and environment. We shall, however, need to fight hard for the right language. The real difficulties would be if Community activity extended into education policy (e.g. curriculum) or health care (as distinct from protection). Both of these should be avoidable. So our main difficulty will be a Treasury objection to the (unquantifiable) risk of increased expenditure. Subject to that, we should have no sticking point in this section.

Indeed some Departments (Health, DES) would not be averse to limited new Community policy making, suitably ring-fenced; and others will accept the inevitablility of some change (OAL, DTI, Energy).

The exception is social policy. The text provides an opening for a wide range of new Community activity in such areas as working conditions, social protection (i.e. social security), and the social dialogue and equal opportunities. The thrust of these proposals is at variance with HMG's approach to employment policy. Some of the changes would also have expenditure implications.

Most if not all member states want changes in this area, in particular Germany, France, Denmark and BENELUX. The present text is unacceptable to the responsible Departments in Whitehall, who consider that the existing Treaty makes more than enough provision for social legislation. We shall need to look hard at the text, to see whether any part of it might be acceptable. But any changes which we might be able to accept would be well short of others' requirements. The negotiations on this issue will therefore be very difficult.

QUALIFIED MAJORITY VOTING (QMV)

There is no specific section on QMV in the draft Treaty. There are, however, proposals in various parts of the text for an extension of QMV in areas such as social or environment, and for its introduction in most of the areas in which an extension of or new competence is proposed, including education, R&D, energy, TENs, consumer protection, health and culture.

QMV is also suggested, in carefully defined and limited circumstances, for certain decisions on CFSP, interior and justice cooperation, and citizenship.

We <u>see no advantage</u> in extension of QMV. But we shall not be able to resist the pressure for some move. Environment would be the obvious first candidate (because the SEA makes partial provision for QMV already). There will be pressure for QMV in the new competence texts too. If - as is probable - we have to concede some new competence texts, the easiest texts on which to accept QMV would be those on energy, consumer protection and transport safety.

We shall have few allies in resisting QMV, although Spain says it will hold out against QMV for the environment and social policy (because of the implications for unwanted national expenditure), but not elsewhere.

INTERIOR AND JUSTICE COOPERATION

This section establishes the framework for closer cooperation on immigration, judicial questions, and police work (anti-drugs, anti-terrorism). The Luxembourg European Council agreed the "underlying objectives" of a far-reaching proposal by Chancellor Kohl to harmonise policy in this area, and to establish a European Criminal Investigation Office (Europol). Kohl, and several others, would like to bring this activity within Community competence, if not now, then at least in progressive stages.

We welcome greater cooperation in this area which should have intrinsic value, irrespective of the UK position on maintaining internal frontier controls. However it is essential for us that this activity should remain on the basis of inter-governmental cooperation, outside the Treaty of Rome, and that there should be no Qualified Majority Voting.

So we have two key objections to the Presidency text:

- far from being a self-standing pillar (as it appears superficially), there is a direct link clause to Community competence (Article C3, read with Article 235A, and related drafting points);

- QMV gets a foot in the door.

There should be no difficulty securing a text which retains unanimity for decision making. But it will be harder to remove all vestiges of a link to Community competence. We shall probably have to accept that the Interior Ministers meet within the structure of "the Council". But we should be able to avoid other Treaty of Rome institutional arrangements (e.g. automatic recourse to the ECJ, Commission exclusive right of initiative). We may have to accept a non-prejudicial review clause. Any closer

link to competence should be one of our main sticking points for the IGC. It is not inconceivable therefore that the Presidency will drop this chapter altogether, and suggest instead an article in the Treaty of Rome which would specify that activity should be on an inter-governmental basis. We shall need to consider this further.

ECONOMIC AND MONETARY UNION

The EMU articles are integrated in the Luxembourg text circulated in June. The Dutch have made a flying start, and their approach (see below) has - to the irritation of the Italians and others - generally been helpful to us.

The advantages of the Luxembourg text (12 June) are:

- the objectives and principles of EMU contain commitments to "the overriding objective" of price stability and to conducting economic policy compatible with free and competitive market principles;

- new procedures for strengthening economic coordination, including multilateral surveillance, no monetary financing, no bail-out, identification of excessive deficits (but see below);

- an operationally independent ESCB in Stage III and acceptable ex-post accountability procedures (but we would like more);

- ECOFIN responsibility for the exchange rate regime in Stage III;

- the establishment of specific convergence criteria for assessment by the European Council in deciding on the transition to Stage III (but see below);

- requirement for consensus (ie European Council decision) for the move to Stage III.

The disadvantages of the Luxembourg text are:

- the inclusion of binding rules for handling excessive budget deficits, in both Stage II and Stage III. We

believe a system of peer group pressure combined with the new procedures mentioned above would suffice; but we can accept binding rules in Stage III if absolutely necessary, but only as a last resort against persistent offenders. Discussion under the Dutch has moved sanctions firmly into Stage III, as we have insisted.

- Stage II in the Luxembourg text is a muddle, with the ESCB established at the start of Stage II, but not functioning until 1996; and a requirement for national central banks to be independent in Stage II. The Dutch have proposed a Stage II design which is more acceptable to the UK, avoiding the blurring of monetary responsibility in Stage II, with a European Monetary Institute (not a central bank) established at the beginning and the ECB established only after a decision to move to Stage III;

- progress on convergence merely informs the European Council decision on the move to Stage III in the Luxembourg text. We want to make the economic criteria as testing and objective as possible, and to have them written into the Treaty. Both points are now broadly accepted as a result of Dutch-chaired discussion;

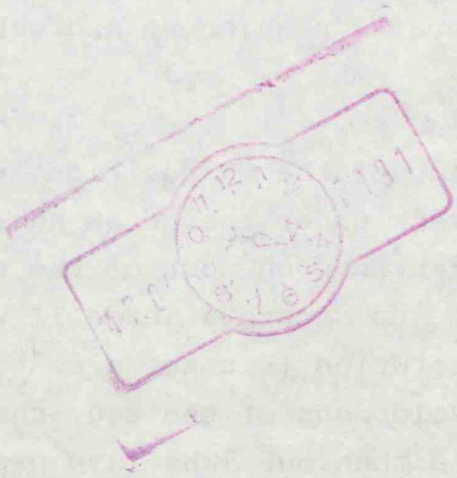
- our and other member states' national representation in IFIs in Stage III is not properly guaranteed in the present text;

- the Luxembourg text referred to derogations for member states not able economically to join Stage III, but went no further, although "no veto, no imposition, no lock-out" was in principle accepted. On "no imposition", the Dutch Presidency have circulated a draft text, of general applicability and in the Treaty itself, providing for individual member

states to decide, after the date for the start of the Stage III has been set, whether or not they will participate. We shall be able to build on this, incorporating a suitable "no arbitrary exclusion" formula. The Conference is reconsidering the "no veto" proposition which we and others see less value in.

The development of the UK position in the EMU IGC and a clear change of tack under the Dutch have allowed us to move closer to the mainstream on most of the central issues. We should now be able to secure a Stage II which establishes a new monetary institution (but not a central bank) and involves some development of the ecu, though on a less far-reaching scale than our June 1990 proposals; a satisfactory formula for participation in Stage III; and a substantial set of convergence criteria in the Treaty itself, but probably not agreement that these should exclusively determine the European Council decision; but we may well not be able to avoid provision for binding rules on budget deficits, although this is - as we want - likely to be confined to Stage III.

EURO POL: Euro Council' Mtgs
in Luxembourg Pt 38B



CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 July 1991

Dear Richard,

EUROPEAN COUNCIL

I am writing separately (and more widely) about the Prime Minister's conversation with the Foreign Secretary on follow-up to the European Council. This letter (not copied elsewhere) covers one aspect which the Prime Minister and Foreign Secretary discussed. The Prime Minister said that we should, in a back room, start putting down on paper what the basis of the deal in Maastricht might be. We would need to keep the three pillar structure. We would need to keep out the word 'federal'. We would need provisions on EMU (whether and when) on lines that were already familiar. We would have to see what moves we might need to make on QMV and competence. We would need to work up a package on the European Parliament.

The existence of this part of the Prime Minister's conversation with the Foreign Secretary should not be revealed outside a very small circle within the FCO.

Yours,

Stephen

J. S. WALL

Richard Gozney, Esq.
Foreign and Commonwealth Office

CONFIDENTIAL

FROM: M H Jay

DATE: 27 June 1991

cc: PS/Mr Garel-Jones
Mr Weston
Mr Bayne
Mr Arthur, ECD(I)
Mr Cornish, News Dept.
Mr Hadley, Cabinet Office
Mr Wicks, H M Treasury

Private Secretary

EUROPEAN COUNCIL: POSSIBLE DRAFT CONCLUSIONS

1. I attach a set of the possible draft Conclusions which we have fed into the Presidency and Council Secretariat over the last few days. They include:

A (i) EMU. Conclusions fed into the Presidency and Council Secretariat after informal discussions with the German Chancellery (but not the German Foreign Ministry, who may be unaware of them). The initial response was relatively positive, though the Luxembourgers said others would want to go further.

B (ii) Political Union. Conclusions fed into the Presidency and Council Secretariat. The general approach has been shared with some other member states, including the French and Germans; but they have not been given the text. The Luxembourg Presidency will regard these as far too little. Latest indications are that they continue to look for more far-reaching language, on CFSP and co-decision in particular.

C (iii) Single Market. Text fed into the Presidency and Council Secretariat. This concentrates just on the Single Market programme, and indeed on our priorities. It does not cover the more difficult issues of tax and frontiers.

D (iv) External Relations. A text on which our Embassies have lobbied in capitals, with broadly favourable response.

/2. ...

MJ1BBW

2. We shall be preparing today, for use as appropriate at the European Council itself, possible Conclusions language on the main political union issues likely to feature in the Presidency Conclusions, i.e.:

- CFSP;
- powers of the European Parliament, including co-decision;
- cohesion;
- social issues.

3. The Treasury have written to No.10 separately on possible fall-back Conclusions language on British participation in Stage III of EMU.

M H Jay

27 June 1991

MJ1BBW