



CONFIDENTIAL Foreign and Commonwealth Office

London SW1A 2AH

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Dear Charles,

Rhodes European Council: Prime Minister's meeting
with Gonzalez

You said that the Prime Minister might have time for a short bilateral meeting with the Spanish Prime Minister in Rhodes. This would be excellent, given the imminent Spanish EC Presidency, their preparations for which are businesslike and efficient, (though they are being made in close cooperation with the French, who will take over for the second half of the year).

The prospects for Spanish-led progress on the Single Market look good. But rising unemployment, inflation and industrial unrest in Spain may mean that Senor Gonzalez feels he has, for domestic reasons, to produce some evidence of parallel progress on social issues in Brussels. Lord Young's visit to Madrid in July did, however, show that the Spanish are receptive to the arguments against an over-regulatory approach.

On monetary questions, the Spanish will have to deal with the Delors report to the Madrid European Council. But they show every sign of wanting no more than a procedural debate then, with substantive follow-up left to the French. (It is however likely that next autumn the peseta will be included in the ecu basket and that Spain will join the ERM.)

On external issues the Spaniards are generally helpful on the Uruguay Round; but their concern to focus EC aid on Latin America conflicts with our concern for the greater developmental needs of anglo-phone Asia and Africa.

The Prime Minister will no doubt wish to refer to the highly successful visits which she and the Queen paid to Spain in the autumn. In addition she might say that:

- we are looking forward to the Spanish Presidency: interested to hear of your plans.
- the No 1 priority must be to press ahead with the Single Market programme: this will of itself address the Community's main social problem - unemployment - by removing barriers to growth.

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- see no prospect of agreement on European Company Statute. Evidence suggests business does not want it anyway: perhaps best to drop it. UK has voluntary worker participation arrangements and could not accept mandatory provisions. Employee share-ownership a UK success: number of schemes up from 30 to 1,500: 1½ million employees now participating.
- your Presidency will have an important role on external issues: Lomé negotiation will be at a crucial stage. Important we maintain liberal trade policy in relation to the Single Market, and in Uruguay Round, including progressive reform of agriculture. We must ensure that aid is focussed on the poorest countries.
- would like to keep in close touch on plans for the Presidency: Lynda Chalker seeing Senor Solbes on 20 December, Geoffrey Howe seeing Fernandez Ordonez in early February.

There are no bilateral issues which we think the Prime Minister should raise with Gonzalez. If he raises Gibraltar-related issues the Prime Minister might suggest that these should be pursued through the Brussels process when the Foreign Ministers meet in February.

I am copying this letter to Neil Thornton (DTI) and Roger Lavelle (Cabinet Office).

Jane.
Stephen Wall

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