

SUBJECT MEETING RECORD

CE MASTER



File
DA

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 December 1988

Dear John,

EUROPEAN COUNCIL RHODES: HEADS OF GOVERNMENT DINNER

You may find it useful to have a very brief note of what happened at the Heads of Government dinner.

Before dinner, Delors talked about the world economy and distributed some charts. The Prime Minister could not remember anything of significance being said and did not think much of the charts.

Virtually the whole discussion over dinner was devoted to the Middle East. There was a concerted effort by President Mitterrand, supported in varying degrees by Papandreou, De Mita and Gonzalez to secure agreement that the Council should issue a further statement on the Palestinians. This might welcome the creation of an independent Palestinian state; accept the PLO as the sole legitimate representative of the Palestinian people; and criticise the United States for refusing to admit Arafat to address the UN General Assembly.

This was strongly resisted by the Prime Minister with support from Schluter and, to a lesser extent, Lubbers and Kohl. The Prime Minister pointed to the many unsatisfactory aspects of the communique issued following the PNC meeting in Algiers, which had to be set against the modest step forward which it represented. She also pointed out that there would be no progress towards convening an international conference on the Middle East without engaging the United States. It was therefore pointless to issue statements criticising and hitting out at them.

The upshot was that no new statement was agreed. Instead the conclusions of the Council would simply refer to the statement issued earlier by Foreign Ministers.

There was also a brief discussion on Cyprus, with Papandreou urging others to put pressure on the Turkish Government to get Denktash to make concessions.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office).

Yours sincerely,

(C.D. POWELL)

John de Fonblanque, Esq.,
Foreign and Commonwealth Office.

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1. THE EUROPEAN ECONOMY

I. THE EUROPEAN ECONOMY

(a) strong growth

- internally generated
- with solid foundations

(b) high productivity growth

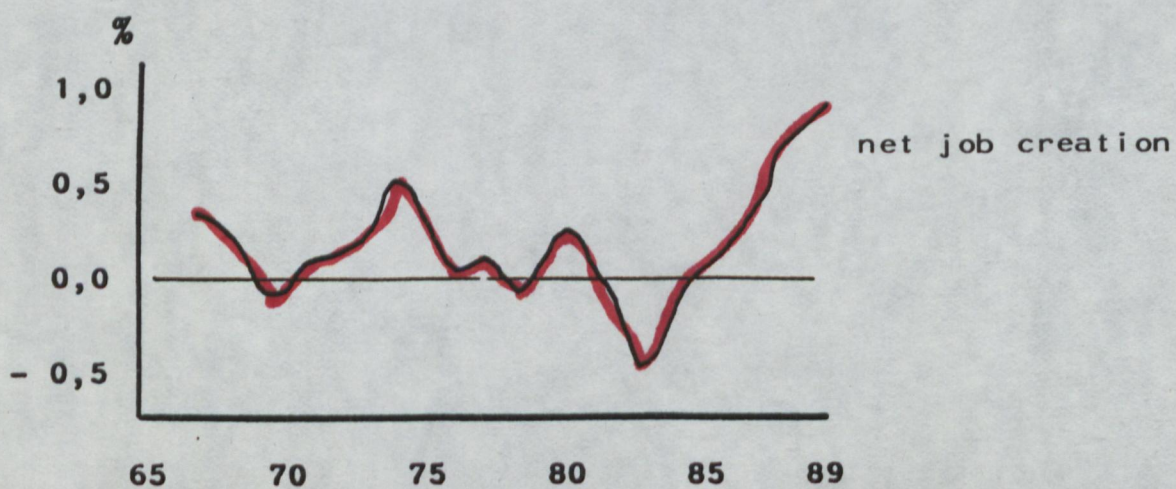
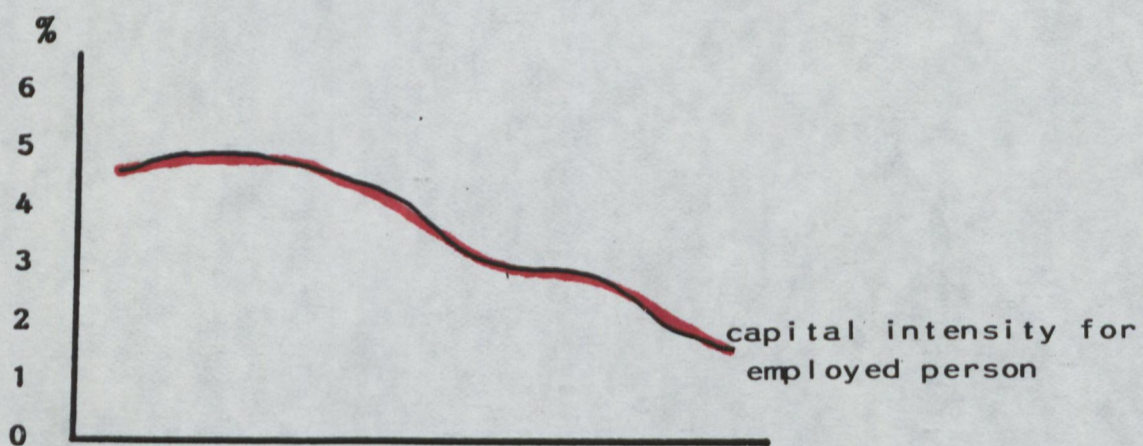
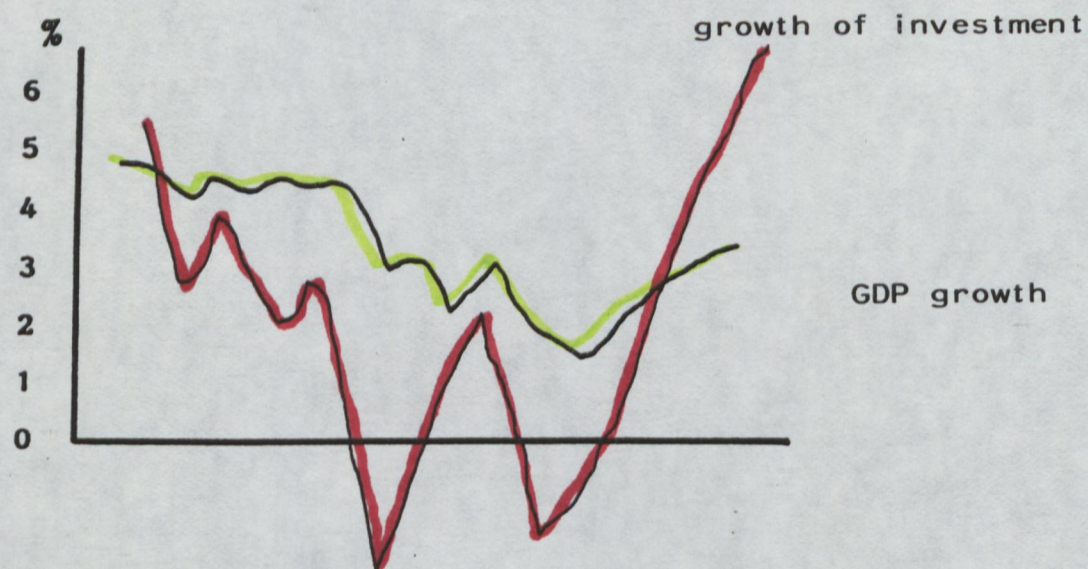
- in particular of capital.

Therefore,

- it is cheaper now to create new jobs.

(c) strong job creation

- 1.5 million new jobs in 1988, the highest since 1960's
- unemployment declining slowly because of growing participation rates



II. THE WORLD ECONOMY

- CAPACITY UTILISATION
- INFLATION
- WAGES

II. THE WORLD ECONOMY

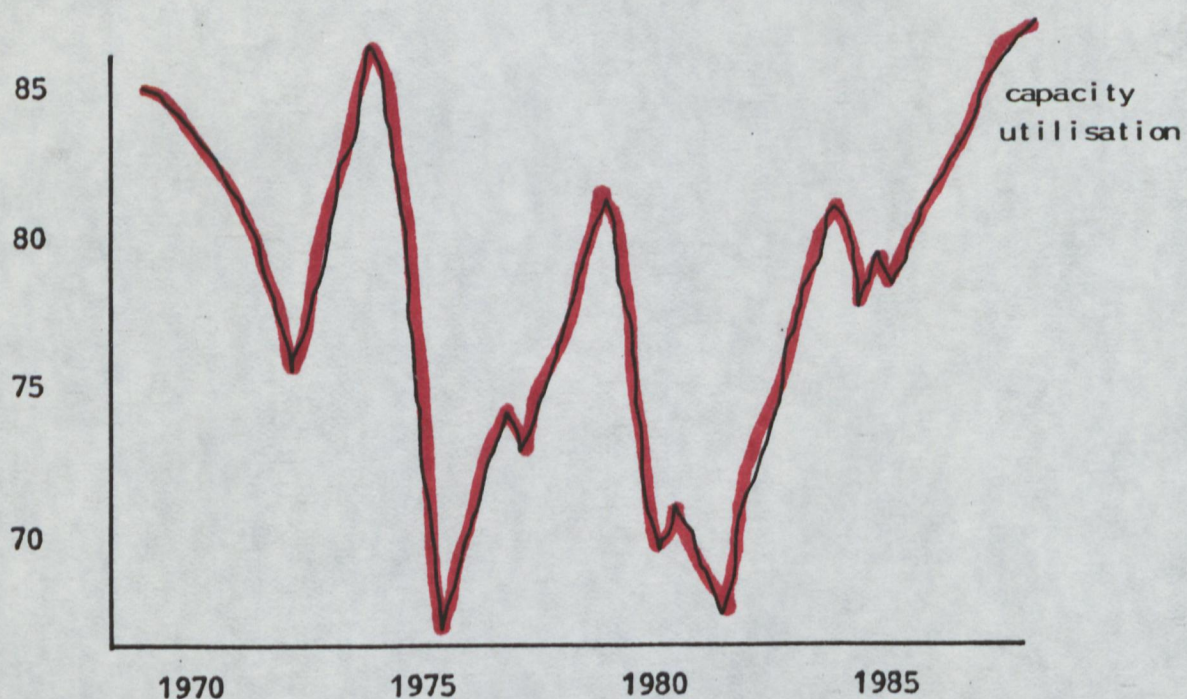
In major industrial countries :

(a) despite high and increasing capacity utilisation

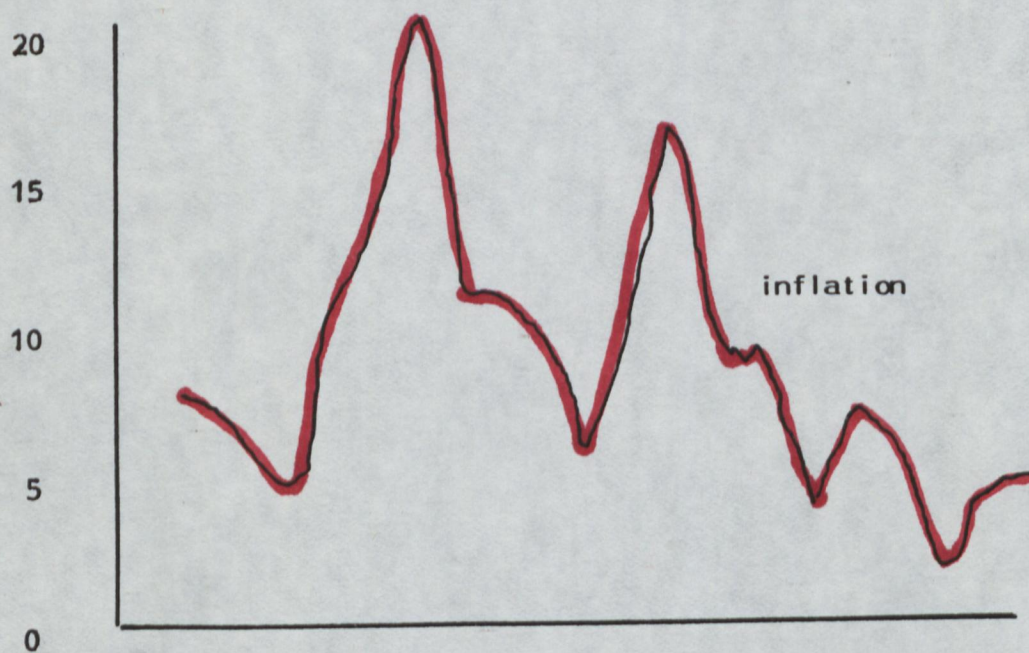
(b) underlying inflation remains generally low,

(c) with generally moderate increase of real wages

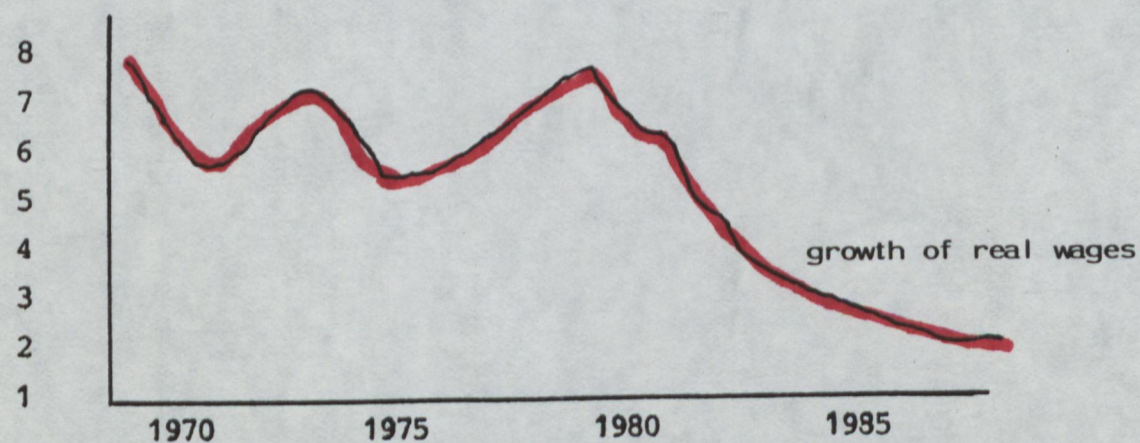
(a)



(b)



(c)



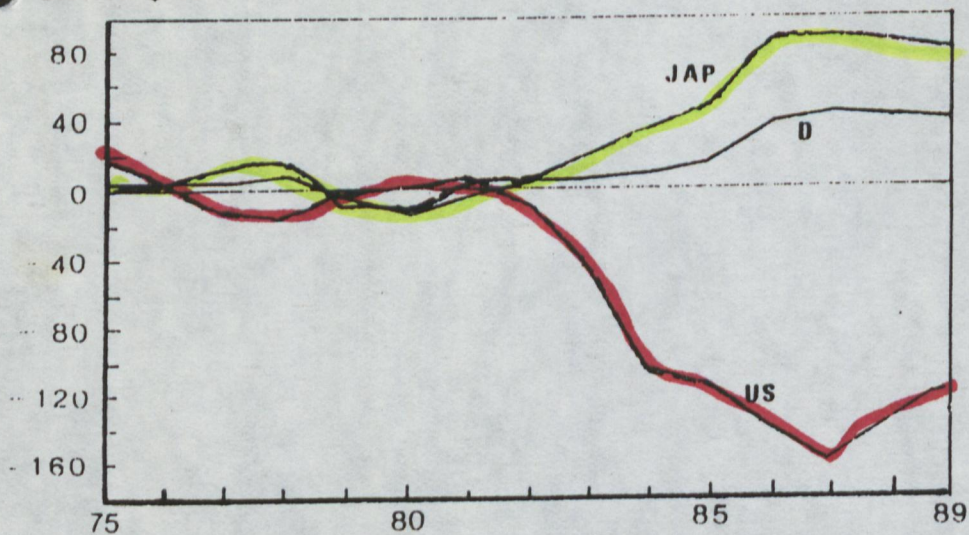
III. THE U.S. ECONOMY

III. THE U.S. ECONOMY

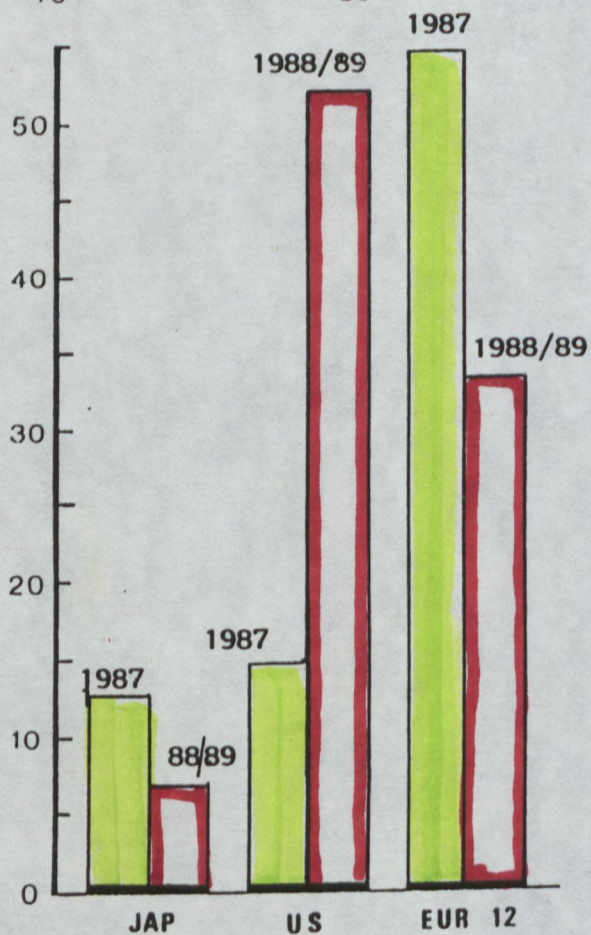
- (c) Higher interest rates could cause serious problems because of
- large domestic indebtedness
 - the fragile position of savings banks
 - the LDC indebtedness

BILLION \$ US

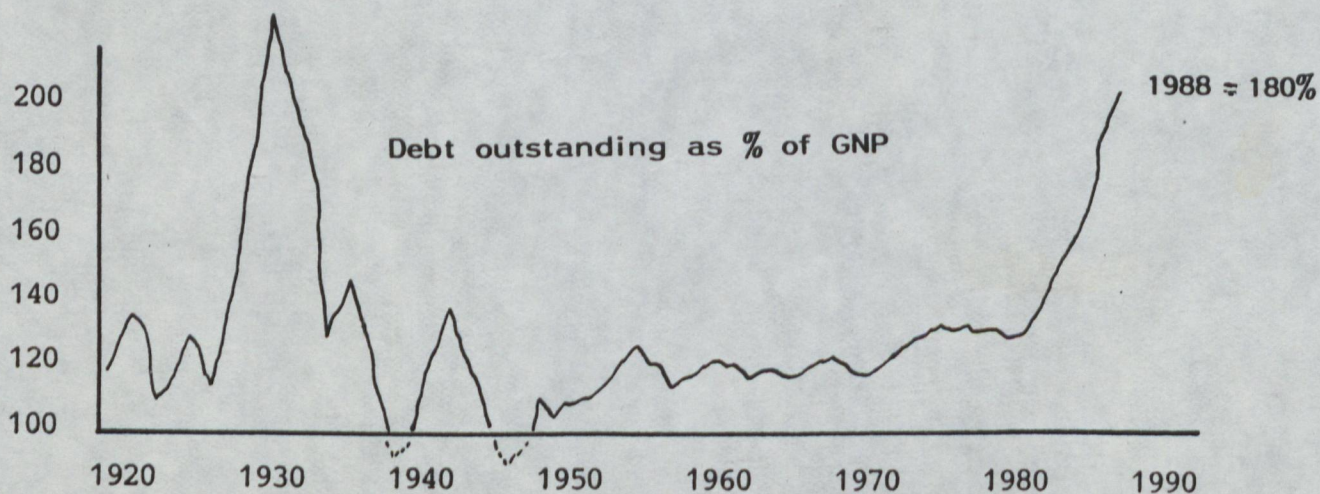
(a)



Current account
Balances



Evolution of export shares



Debt outstanding as % of GNP

1988 $\approx$ 180%