

CONFIDENTIAL

FM MADRID

TO DESKBY 280900Z FCO

TELNO 654

OF 280740Z JUNE 89

INFO DESKBY 280900Z EC POSTS

FOLLOWING FROM HANNAY

MIPT: EUROPEAN COUNCIL: MADRID: 26/27 JUNE: COMMENT

1. THIS WAS AN UNEXPECTEDLY SUCCESSFUL EUROPEAN COUNCIL AT THE END OF A VERY CREDITABLE FIRST SPANISH PRESIDENCY. BILLED IN ADVANCE BY AN OVER-EXCITED INTERNATIONAL PRESS CORPS AS A PREDICTABLE BLOODBATH, WITH BRITAIN ISOLATED ACROSS THE BOARD, IT IN FACT CONSISTED OF AS SERIOUS AND GOOD TEMPERED DEBATES AS MOST OBSERVERS COULD REMEMBER TAKING PLACE AT A EUROPEAN COUNCIL AND IT ENDED IN AGREED CONCLUSIONS ON A WIDE RANGE OF SUBJECTS, THE SOCIAL DIMENSION BEING THE SOLE EXCEPTION TO THAT RULE. GONZALEZ' CHAIRMANSHIP EARNED HIGH PRAISE: AND THE PRESIDENCY/COUNCIL SECRETARIAT/COMMISSION DRAFT CONCLUSIONS CIRCULATED OVERNIGHT WERE PITCHED ALMOST EXACTLY RIGHT TO ACHIEVE CONSENSUS THE NEXT DAY,

2. THE MAIN ISSUE BEFORE THE COUNCIL WAS THE FOLLOW-UP TO THE DELORS GROUP REPORT ON ECONOMIC AND MONETARY UNION. A GENERAL DEBATE ON THE MORNING OF THE FIRST DAY, MARKED BY A CONSTRUCTIVE STATEMENT BY THE PRIME MINISTER INCLUDING A REFERENCE TO OUR INTENTIONS OVER JOINING THE EXCHANGE RATE MECHANISM RAISED HOPES OF AN AGREED OUTCOME WHICH WERE SHARPLY REDUCED BY WIDENING DISAGREEMENTS OVER A PREMATURE PRESIDENCY ATTEMPT TO DRAW CONCLUSIONS THAT AFTERNOON. IN PARTICULAR FRENCH PRESSURE (WITH ITALIAN AND BELIGAN SUPPORT) TO RUSH A DECISION ABOUT AN INTER-GOVERNMENTAL CONFERENCE, LOOKED AS IF IT MIGHT DERAIL THE PRESIDENCY'S ATTEMPTS TO REACH CONSENSUS. BUT WHEN THE DISCUSSION RESUMED ON THE SECOND MORNING ON THE BASIS OF A TEXT WHICH CONTAINED A KHOL SUGGESTION PUSHING THE CONVENING OF AN INTER-GOVERNMENTAL CONFERENCE BEYOND 1 JULY 1990, THE FRENCH WERE QUICKLY ISOLATED AND ONLY GAINED A MINIMAL DRAFTING CHANGE.

3. THE FINAL OUTCOME IS NOT IDEAL FROM OUR POINT OF VIEW, BUT IT IS A GREAT DEAL BETTER THAN AT ONE TIME LOOKED LIKELY. WHILE THE DELORS GROUP REPORT IS COMMENDED, IT IS ONLY TO BE 'A' NOT 'THE' BASIS FOR FURTHER WORK. THE GOSPEL ACCORDING TO PARAGRAPH 39 (IN FOR A PENNY, IN FOR A POUND) DOES NOT APPEAR AND, IN AN OBSCURE MANOEUVRE WHICH NOONE ELSE UNDERSTOOD AND WHICH CAUSED DELORS

CONSIDERABLE CHARGE, THE FRENCH ACTUALLY MANAGED TO WEAKEN THE REFERENCE TO THE GLOBALITY OF THE EMU PROCESS. THE CONCESSION WE MADE IN ADMITTING THE INEVITABILITY OF AN INTER-GOVERNMENTAL CONFERENCE WAS MORE APPARENT THAN REAL, GIVEN THAT SUCH DECISIONS ARE TAKEN BY A SIMPLE MAJORITY. THE PRIME MINISTER MADE IT CLEAR TO HER COLLEAGUE THAT THERE COULD BE NO AUTOMATICITY ABOUT THE TIMING OF THE CONTENT OF A MOVE TO STAGE 2 FOR WHICH UNANIMITY AND PARLIAMENTARY RATIFICATION ARE NEEDED. MEANWHILE THE PREPARATION OF THE NECESSARY DECISIONS ON STAGE 1 WILL HOLD CENTRE STAGE, AS WE WISHED.

4. THE SOCIAL DIMENSION PLAYED VERY MUCH SECOND FIDDLE TO ECONOMIC AND MONETARY UNION. THE GENERAL DEBATE REVEALED A GOOD DEAL LESS WHOLEHEARTED ENTHUSIASM FOR THE DRAFT SOCIAL CHARTER THAN THE SOCIAL AFFAIRS COUNCIL HAD DISPLAYED ON 12 JUNE. THE PRESIDENCY'S CONCLUSIONS, BY SEEKING OUR AGREEMENT TO A TEXT WE HAD ALREADY REJECTED ON 12 JUNE AND BY AVOIDING ANY ATTEMPT TO COBBLE TOGETHER SOMETHING LESS EASILY REJECTABLE, MEANT THAT WE CAME UNDER NO PRESSURE TO CONCEDE GROUND. THE PRIME MINISTER SET OUT OUR OWN POSITIVE CONTRIBUTION TO THE SOCIAL DIMENSION.

5. MOST SIGNIFICANT OF ALL FOR THE FUTURE HANDLING ON THIS SUBJECT, A DUTCH TEXT CALLING FOR THE RESPECTIVE ROLES IN THE SOCIAL FIELD OF COMMUNITY LEGISLATION, NATIONAL LEGISLATION AND VOLUNTARY AGREEMENTS TO BE CLEARLY ESTABLISHED WAS AGREED. THIS SHOULD GREATLY COMPLICATE FURTHER DISCUSSION OF THE SOCIAL CHARTER AND HAS THE MAKINGS OF A POTENTIAL BULWARK AGAINST EXCESSIVE COMMUNITY LEGISLATION.

6. NONE OF THE OTHER SUBJECTS DEALT WITH IN THE CONCLUSIONS WAS DISCUSSED IN ANY SUBSTANCE BY THE EUROPEAN COUNCIL ITSELF ALTHOUGH THERE WAS SOME DESULTORY REFERENCE TO DEBT AT THE HEADS OF GOVERNMENT DINNER. THE MORIBUND SPANISH PROPOSAL FOR A EUROPEAN FUND TO REPAY DEBT WAS GIVEN ANOTHER AIRING FOR PROPAGANDA PURPOSES. ON THE INTERNAL MARKET WE GOT MOST OF OUR PRIORITIES ENDORSED. THE COORDINATORS REPORT ON FRONTIERS AND THEIR WORK PROGRAMME WAS ENDORSED WITHOUT ANY RE-RUN OF EARLIER DISPUTES BETWEEN ABSOLUTISTS AND PRAGMATISTS. ON THE ENVIRONMENT WE AVOIDED ENDORSING (BUT AGREED TO CONSIDER) THE COMMISSION PROPOSAL FOR AN AGENCY: AND, WITH HELP FROM THE DUTCH, FENDED OFF A HORRENDOUS TEXT INVITING THE COMMISSION TO PROPOSE HOW TO CLEAN UP THE WHOLE OF THE MEDITERRANEAN REGION. A USEFUL TEXT ON FRAUD WAS ADOPTED AT UK SUGGESTION. UNEXCEPTIONAL TEXTS WERE AGREED ON TAX, WITH AN END-YEAR DEADLINE FOR REACHING HEADS OF AGREEMENT ON INDIRECT TAXES. THE INTERNAL

MARKET COUNCIL WAS INVITED TO ADOPT THE BROADCASTING DIRECTIVE, TO THE EVIDENT DISCOMFORT OF THOSE WHO ARE VOTING AGAINST.

7. ON EXTERNAL ECONOMIC POLICY ISSUES, EC/EFTA, THE URUGUAY ROUND, THE LOME RE-NEGOTIATION AND TRANSATLANTIC RELATIONS UNDER THE NEW ADMINISTRATION WERE BLESSED.

8. YOU MAY FEEL THAT THE ABOVE ACCOUNT GIVES A SOMEWHAT ROSE-COLOURED PICTURE OF AN EXTREMELY TRICKY MEETING, THE TWO MAIN SUBJECTS OF WHICH WERE ONES WHERE WE RISKED BEING IN A DANGEROUSLY ISOLATED POSITION. WE HAVE CERTAINLY NOT BANISHED THESE RISKS FOR ALL TIME. BUT I BELIEVE THE INEVITABLE AUTUMN DISCUSSIONS ON A SOCIAL CONTRACT/SOLEMN DECLARATION WILL BEGIN WITH US IN A SIGNIFICANTLY BETTER POSITION THAN WE WERE BEFORE THIS MEETING. AND THE SOOTHSAYERS OF DOOM, DIVISION AND TWO SPEED EUROPE ON ECONOMIC AND MONETARY UNION WILL NOW HAVE TO CAST THEIR NETS TO THE MORE DISTANT WATERS OF 1991 RATHER THAN (AS THE FRENCH WOULD DEARLY HAVE LIKED) BUILDING UP THE EUROPEAN COUNCIL AT THE END OF THE YEAR AS A MAKE OR BREAK AFFAIR.

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