



PM/89/064

PRIME MINISTEREuropean Council, Strasbourg: 8-9 December 1989

1. We are to discuss preparations for the European Council at Cabinet on 7 December.
2. President Mitterrand has yet to circulate his agenda for the Council, but the main subjects are likely to be:
 - (a) Eastern Europe;
 - (b) Economic and Monetary Union; and
 - (c) the proposed Social Charter.

We shall wish to ensure that:

- (d) the 1992 Single Market programme remains the Community's No 1 priority.

Our views on (a) and (d) are widely shared. Although some of our concerns about the underlying issues on (b) and (c) are also widely recognised, we may well be on our own on the particular decisions sought at Strasbourg. But neither decision would be a watershed; and our interest - and the Community's - lies in avoiding, at a time of dramatic change in wider Europe, exaggerated talk of 'crisis in the Community'.

3. We aim to ensure that the recent rapid political change in Eastern Europe, and the right Community reaction to it, is properly explored at Strasbourg. Discussion should cover general Western and specific EC assistance to support reform in Eastern Europe; the question of the GDR; the need to encourage democracy without promoting destabilisation; and the appropriate structure for future EC relationships with



Eastern Europe (at Annex A is a short paper on our ideas, which we have given to the Commission and the French). The French may argue that the right response to change in Eastern Europe is acceleration of the Community's internal development: we shall wish to make clear our view that the breach in the Berlin Wall neither reduces the need to press ahead with sensible (eg Single Market) proposals, nor justifies pressing ahead with unsatisfactory proposals (eg Delors Stages II/III). The French will press their unwelcome proposal for a new European Regional Development Bank. This would be costly; many of its functions could be done by existing institutions; and, as presently defined, it does not match the real needs of Eastern Europe. Poland's requirements, for example, are for the involvement of the Western private sector, for free food, and for extensive training in managerial/entrepreneurial skills: the last thing the Poles need is more debt. We shall want to secure a remit for further technical work against sensible criteria.

4. The European Council is likely to confirm that Stage 1 of the Delors Report's prescription for Economic and Monetary Union will start on schedule on 1 July 1990; and to discuss the content and timing of an Inter-Governmental Conference (IGC) to consider subsequent stages. We shall want to emphasise the importance and scale of Stage 1 (all elements of which we accept); the case for adopting an evolutionary approach (as recommended in the Chancellor's 2 November paper) to later developments; and the all-party Westminster concern at the rigidly dirigiste structure recommended in the Delors Report. These views on substance will need to be emphasised, and separated from the discussion on procedure. On this, the French are likely to seek a decision to start an IGC in late 1990. The Germans hold the key; and an IGC date is virtually certain



to be set unless Kohl, rejecting Genscher's advice and strong pressure from Paris, were to come down against it. Both Waigel and Pöhl, who welcome UK ideas on the substance of post-Stage 1 developments, expect an IGC decision at Strasbourg. We shall explain that in our view such a decision would be premature; but we shall work to ensure that any IGC remit covers not only the Delors Report's proposals, but also our alternative approach; that the right conditions are attached; and that the importance of the IGC taking full account of the effects of Stage 1 measures is accepted.

5. The Presidency want agreement on a Social Charter. The UK alone opposes the draft Presidency/Commission text considered at the October Social Affairs Council. Following opposite pressures from Germany and Benelux, the European Parliament, and his own party in France, President Mitterrand has confirmed that he does not propose to pick up the Prime Minister's suggestion of negotiating a more general declaratory statement, avoiding the regulatory detail of the present version, and accurately reflecting the prescription from the Madrid European Council. So the odds are that there will be little or no Strasbourg negotiation, and that the existing draft will be agreed by the others, though not - given our position - as a Community document. We can again explain our objections to it, and have an alternative text which could be deployed as necessary. But the optimal outcome, an agreed Charter text which met our desiderata, is not obtainable given the Presidency's attitude; and the next best outcome is to draw a line under the ill-conceived Charter exercise with minimum fuss. Delors has rightly described an 11:1 split on this issue as "no tragedy".

6. The Single Market has not been a high priority for the French. Their Presidency tally of measures agreed is so far



only 35, cf 56 in the German, 54 in the Greek, and 68 in the Spanish Presidencies. To rebuild momentum we want Strasbourg to reaffirm the Community's commitment to Single Market basics, and to the sectoral priorities agreed at Madrid, particularly those on which progress has been poor - financial services (especially insurance) and transport (especially air transport liberalisation and cabotage). We shall also aim for endorsement of Commission efforts to improve implementation and enforcement, and to tackle excessive state aids, eg in Italy. And we are seeking impetus from Strasbourg for a package of Single Market agreements at the Internal Market Council on 21 December, and have given the French, and the Commission, a list of suggestions for such a package.

7. Other 1992-related issues likely to be touched on at Strasbourg include:- (i) frontiers issues, on which the French have made steady and uncontroversial progress, and a welcome initiative to improve the Community's handling of drugs issues; (ii) fiscal issues: the Madrid Council called for end-1989 outline agreement on the post-1992 VAT and excise duty regime, and we can hope to consolidate recent advances in ECOFIN, notably on retention of the destination principle for VAT; and (iii) Audiovisual issues, to which the French have attached priority. We can continue to support industry-led cooperation, but will have to look out for Commission bids for major increases in Community expenditure.

8. Among non-1992-related issues which might come up the most important could be:

- (i) EC budget discipline: The constrictions of the 1988 Budget/CAP reforms are working well. Reduced CAP spending, and the watertight compartments which prevent use for other purposes of the funds thus



released, means that total EC expenditure foreseen for 1990 is some f6 billion below the ceiling. This has led the Commission to argue that the regime is too rigid; and that it should be possible to use a surplus in one area to fund expenditure in another. If this comes up at Strasbourg we shall insist on no change;

(ii) R & D: the French are unlikely to try to foreclose, but may try to accelerate, discussion of the 1990-1994 R & D Framework Programme. A new remit to the Research Council seems the probable outcome: we shall wish to ensure that its terms do not prejudice our position on funding;

(iii) European Environment Agency: Strasbourg will presumably be asked to confirm the decision to establish the Agency, and may be invited to consider the choice of site, though the French have to make an awkward choice between pressing as Presidency for a decision now, and advancing a national bid for the site to be in Strasbourg itself. On balance, a decision is unlikely, given the number of bids on the table. But we shall want to advance ours.

Conclusions

9. While we have allies on the substantive issues of economic and monetary cooperation, and against excessive regulation/harmonisation of social and labour market policies, we may well be in a minority of one on the two particular issues on which the Strasbourg debate may crystallise: the start-date for an Economic and Monetary IGC, and the issue of a Social Charter. The gap on the Social Charter is highly unlikely to be bridged; but we can demonstrate that we were willing to make the attempt. On the IGC date we may be able to contrive useful



conditionality, and should be able to ensure that our "evolutionary approach" remains on the table. On the other two key Strasbourg subjects - maintaining the momentum of the Single Market programme, and ensuring that the EC's relationships with Eastern Europe are well designed to encourage and support emerging democracies - the UK interest marches with the Community interest, and our line cannot be criticised as uncommunautaire.

10. For the domestic audience it will be important to bring out the fact that the 1992 and Eastern Europe issues are substantively much more significant than the procedural decisions being sought on an IGC date and on the Social Charter.

11. I am copying this minute to other members of Cabinet and to the Cabinet Secretary.

A handwritten signature in dark ink, appearing to be 'DH.' with a stylized flourish.

(DOUGLAS HURD)

Foreign and Commonwealth Office
5 December 1989

THE COMMUNITY'S RELATIONS WITH EASTERN EUROPE: A FRAMEWORK

1. The Community is concerned to encourage the drive for real democracy in Eastern Europe, within a framework of stability. Just as political reform goes together with economic liberalism, so the Community's encouragement must entail both political and economic support.
2. In respect of economic support, the Community has long followed a policy of differentiation between the countries of Eastern Europe according to the degree of economic reform already achieved. The scope of the Community's bilateral trade and cooperation agreements with individual Eastern European countries has been tailored to reward and encourage economic reform. This principle should plainly apply also to political reform.
3. The Community should not therefore treat Eastern Europe as a bloc, or envisage new regional, multilateral structures. While it is right to lay down principles of general applicability to all Eastern Europe, particular arrangements should be on a country-by-country basis, reflecting individual circumstances.
4. None of the existing models of Community relationships with European neighbours:
 - "Association Agreements", as with Turkey, Cyprus and Malta;
 - "Cooperation Agreements", as with Yugoslavia and other Mediterranean countries;
 - Free Trade Agreements, as with the EFTA countries now; or
 - the broader EC/EFTA relationship now being exploredis necessarily exactly right for the relationship with emerging Eastern European democracies. New forms of association, including appropriate elements from several

existing ones, may be required.

5. Such arrangements will in principle be open to all Eastern European countries. The speed and scale of development of each arrangement will reflect the particular needs and new circumstances of the individual country in question, and the degree of reform achieved.

6. A general principle applicable to all should be that political reform justifies a political response. As democracy and respect for human rights takes root in Eastern Europe, so the countries in question should be encouraged to accede to the European Convention of Human Rights and should be welcomed as full members of the Council of Europe. The Community should be ready for full political dialogue with them; and links between member state Parliaments - and the European Parliament - and East European legislatures should be strengthened. The extent of such dialogue should reflect the scale of political reform.

7. In developing closer economic links, the aim should be to reinforce reform in Eastern Europe. This will mean:

- (a) pursuing closer trade relations with Eastern Europe and the opening up of trade within Eastern Europe;
- (b) providing emergency short-term assistance, as necessary - coordinated in the Group of 24, under Commission auspices;
- (c) encouraging the development of local technical and entrepreneurial skills, which could involve extending relevant existing programmes - e.g. ERASMUS and EUREKA - to Eastern Europe;
- (d) encouraging the development of structures favourable to inward investment in Eastern Europe; and

- (e) extending appropriate long-term financial assistance, in the context of programmes agreed with the IMF.

In all cases, the scale of Community economic support should be proportionate to the degree of economic and political reform achieved.

8. Where economic and political reforms are successfully sustained, closer institutional association of the individual East European countries with the Community, as envisaged under Article 238 of the EEC Treaty (with regular meetings at the political level), may make sense. In addition, following the introduction of market mechanisms, the development of economic and institutional relationships similar to those now existing between the Community and the EFTA countries could become appropriate. Particular arrangements will reflect the degree of reform achieved, the needs of the specific country in question, and the increasing depth of its relationship with the Community.

9. Eventual applications for Community membership cannot, under the Treaty, be excluded. But this is not a question to be addressed now, for the Community cannot envisage any accession negotiations before 1993, and no Eastern European country is currently ready, politically or economically, to meet the obligations of Community membership. Appropriate forms of association for the short to medium term should therefore neither lead automatically to, nor automatically exclude, eventual EC enlargement.

10. The development of the Community's relationships with Eastern Europe within this framework should be dynamic and incremental: progress should be reviewed, and further steps charted, at successive European Councils.