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PRIME MINISTER

EUROPEAN COUNCIL: STRASBOURG

I attach the main briefs for the Strasbourg European Council, in case you want to start on them tonight. You are in fact familiar with most of the subject matter.

The Single Market will come first and you will want to make sure it receives adequate prominence in the Council's conclusions. It is this which makes the Community attractive to Eastern Europe. On specific points:

- you can welcome and take credit for the measures just agreed on liberalisation of air fares;
- you will want to urge adoption of a package of measures at the Internal Market Council on 21 December including mergers, public purchasing in excluded sectors, testing and certification and life insurance (a first step);
- you will want to get a clear statement in the Council's conclusions on priorities for the future: investment services, life insurance, lorry quotas, shipping cabotage;
- you will want to stress the importance of rapid and effective implementation of Single Market measures (we hope to have an up-to-date note of performance by the time of Strasbourg);
- while you will probably want to mention the need to reduce State aids, and point to the huge discrepancy between the performance of member states, you need to be careful not to leave yourself open to counter-attack on Rover.

On the Social Charter, there is a lot to be said for avoiding a great debate in the Council itself. The general expectation is there will be an 11:1 split, and most are reconciled to this. It is no longer regarded as a jewel in the Strasbourg Crown. You will not want to plunge in, but wait and see how others want to handle it. If they want a debate or even - most unlikely - to

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negotiate a revised text of course you will respond. But the best time to deploy our views will be at the subsequent press conference. You will find in the folder an annotated copy of the Social Charter: our own draft of a Charter: and a note by the Policy Unit setting out arguments which you can use against the EC Charter.

We discussed EMU yesterday. All depends on Chancellor Kohl who has not yet made up his mind how to play this. You will want to use him as a stalking horse. If he does argue for delay and further work before a decision on an IGC, you will want to come in behind him. But the chances are that he will be less helpful and try to set a timetable which includes work leading up to an IGC, an IGC itself and a target date for completing it. He will present this as a dramatic commitment by Europe to take a major step towards integration. You will therefore need to make clear that we think an IGC is unnecessary, and ensure that our opposition is properly recorded in the Council conclusions. At the same time, we shall want to work behind the scenes to attach conditions to an IGC designed to constrain it as much as possible. (The conditions are in the folder, and you can give them to David Williamson when he comes to see you on Thursday evening.) It seems likely that others will argue for the scope of an IGC to be widened to include subjects such as the powers of the European Parliament. We cannot stop this: but you might suggest that, if the IGC does go beyond economic and monetary cooperation, then you too will have ideas to inject such as those in the recent IEA pamphlet.

The other main subject is Eastern Europe, although the French seem to want to relegate this to the sidelines. You may like to argue at the very beginning of the Council that there needs to be substantive discussion in the meeting itself. Opinion in Europe will judge the Community by how it responds to developments in Eastern Europe. There are important practical decisions to be taken on further food aid to Poland, a European Training Foundation, a programme of youth and student contacts and a Euro-Polish Bank. You may want to float our own idea for a European Development Council to provide technical advice and expertise to

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the private sector in Eastern Europe. There is also the French proposal for an East European Regional Bank: the French will press very hard for agreement in principle and it may be difficult to resist this in the end (the Germans tell me they will agree, since it will be sited in Berlin). If so, the key will be to get the details remitted to the Monetary Committee to study, where it may well be possible to emasculate it or at least ensure that its activities are constrained by sound banking principles. (I suspect the French will lose interest once their Presidency is over and they have a headline). In addition we have our paper on UK relations with Eastern Europe to feed in the discussion: and there will be a general political declaration on relations with Eastern Europe, where the Germans are proposing repetition of the language in NATO's Summit Communiqué on reunification. It is hard to see how all this can be dealt with satisfactorily over a meal.

On other issues, frontiers and drugs are likely to come up but should not cause any difficulty. You will want to ensure that your views on enlargement are properly represented in the conclusions. The Chancellor has warned that we have to be on the look-out for traps on indirect tax approximation and research and development: there may be an attempt to instruct ECOFIN to reach conclusions within a fixed time-scale. There are separate briefs on these points. In political cooperation there could conceivably be trouble over the proposed declaration on South Africa.

What the press and the House will be watching out for most of all is the overall impression which emerges from Strasbourg. Obviously there must be no impression that your attitude, priorities and tactics have changed as a result of the leadership election. You will be as determined as ever to ensure both that the Community continues to make progress in desirable directions - the Single Market and its influence in Eastern Europe - but not in ways which lead to greater central control, bureaucracy and protectionism.

You will want to bear in mind that there are no great victories

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to be won at Strasbourg, unlike on some previous occasions. It will be above all a tactical battle, in which we manoeuvre for future victories. This will require lots of talking up of the Community and our attachment to it, while remaining absolutely firm on the direction in which we want it to go. We want to avoid the sort of "Angry Thatcher side-lined in Strasbourg battle" stories and try to work for "Thatcher restates Britain's commitment to Europe and urges priority for drawing together East and West Europe in broad association of democratic countries with Community as its driving force" stories. It will mean playing down attack on the proposals of others and talking up the Community's potential to direct the future development of Europe as a whole at a turning point in the continent's history. Your vision is quite simply on a grander scale than that of the others.

C. D. P.

(C. D. POWELL)

6 December 1989

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PRIME MINISTER

DAVID WILLIAMSON

I have provisionally arranged for David Williamson to come to see you the evening we arrive in Strasbourg at about 10 pm.

CDP

(C. D. POWELL)

6 December 1989

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