

EUROPEAN COUNCIL, STRASBOURG

Supplementary Notes on EC Issues

ECONOMIC/MONETARY

- Strasbourg agreed:

= Stage I to start on 1 July 1990. All Stage I elements agreed by all.

= For subsequent stages, an IGC to start at end-'90, with no end-date set. All ideas, including ours, to be on the table.

= In the interim, process of "full and adequate preparation" to continue. Commission paper expected in April, covering UK approach as well as Delors Report's.

UK Isolated?

- On substance, debate only just starting. And considerable support for ideas in 2 November "Evolutionary Approach".

- Full Delors Stage II/III package widely seen as unrealistic and unnecessary.

- On IGC decision, a simple majority suffices. But Treaty amendment, to which we are in no way committed, requires unanimity.

Why did you argue that it would be premature to start an IGC at end-'90?

- Because it makes sense to take account of progress in Stage I, which involves massive change, and stretches, on agreed Community timetables, at least until 1993.

- On economic side:

= completion of Internal Market, due by end-'92.

= doubling of Structural Funds, due by end-'93.

- On monetary side:

= abolition of French/Italian Exchange Controls due by next summer; abolition in Spain, Ireland, Greece, Portugal, due by end-'92. UK controls abolished in 1979.

= creation of "Single Financial Area": "Big Bang" Community-wide, will begin when Banking Directive, now agreed, and Investment Services Directive, on which negotiations only starting, come into effect in January 1993.

= completion of ERM, with same rules applying to all, will also produce major effects, which may take time to work through.

- In practice, account will have to be taken of Stage I developments during IGC. But no deadline set, either for IGC end, or for any move beyond Stage I.

UK Attitude to ERM?

- Explained at Madrid that £ will join when:
 - = level of UK inflation is significantly lower,
 - = there is capital liberalisation in the Community,
 - = real progress has been made towards completion of Single Market, freedom of financial services, strengthened competition policy.
- Not an issue at Strasbourg.

UK Trying to Delay Progress?

- UK "Evolutionary Approach" more robust, and not necessarily slower, than Delors Stage II/III prescription. Premature "Grand Designs" rash: cf. 1970 Werner Report.

"Evolutionary Approach" = Continued Bundesbank Domination?

- Important to ensure that convergence of monetary policies means convergence on the best counter-inflationary stance. Delors prescription would mean convergence on average performance against inflation, i.e. dilution.

A Treaty of Eleven?

- No such proposal at Strasbourg.
- Agreement to consider amending Treaty of Rome.
- As "Evolutionary Approach" shows, UK strongly favours increased economic/monetary coordination. And no-one argued at Strasbourg for progress in a smaller group.

Sovereignty?

- UK concerns widely understood.
- Strong stress on subsidiarity one of the key features of the Delors Report.
- Strasbourg stressed the importance of democratic control in each member state.

SINGLE MARKET

Progress

- 152 out of 279 measures in White Paper now agreed: 1 every 10 days. 96 under discussion; 30 yet to be tabled.

Implementation

- M Delors explicitly confirmed that on the Commission figures the UK and Denmark have the best records.
- [If asked] we are up to date with 69 of the 72 directives we should have implemented by now.

Single Market Package

Priorities

- Strasbourg endorsed UK proposal for package at 21 December Internal Market Council: merger control; public purchasing in energy, transport, telecoms and water; life insurance; standards and testing and certification.

Transport

- Transport Council on 4/5 December agreed:
 - = experiment for 1990-92 in road haulage cabotage: 15,000 permits, increasing by 10% per annum.
 - = guidelines for air transport liberalisation; uniform licensing criteria by 1992; end to limits on capacity

- sharing by 1993; "double disapproval" of fares by 1993.
- Now need to turn into binding legal texts.
 - France, Italy, Portugal, Spain and Greece still reserve coastal shipping trade (cabotage) for their nationals.

Financial Services

- Welcome 1989 agreement on Second Banking Directive: from 1993 banks can operate anywhere in Community on just one authorization.
- Need to build on this by agreeing Investment Services Directive, so "single passport" by 1993 for all relevant financial institutions.
- More work needed to open up insurance following last year's agreement on non-life insurance. Agreement on life insurance directive will mean liberalisation in cases where customer approaches a foreign company; but a more restrictive regime will remain for all other cases. So more progress needed to secure real single market.

Tax on Savings

- Dead. Agreement near on satisfactory measures to combat tax evasion.

STATE AIDS

- Support Sir L Brittan's campaign to reduce state aids. Ours are lowest in EC after Denmark: in 1986 UK aid to manufacturing industry (other than steel and shipbuilding) was £1.9bn. Others were: France £3.6bn; Germany £4.9bn; Italy £16bn.

Rover

- Official-level talks taking place today in Brussels.

VAT

- Cockfield's original proposals [August 1987]:
 - no provision for retention of zero rates;
 - origin system [to replace present destination system];
 - cumbersome "clearing house";
 - harmonisation of excise duties on average of current rates.
- UK alternative approach [September 1988]:
 - retention of destination system for commercial traffic;
 - abolition of fiscal frontier controls [retaining checks for drugs etc];
 - businesses to account for tax through normal accounting checks and audit controls;
 - any approximation of taxes left to market forces, with big increases in travellers' allowances.

Likely outcome

- Latest position (to be discussed at ECOFIN on 18 December):
 - retention of destination principle;
 - abandonment of clearing house;
 - agreement on measures to abolish fiscal frontiers;
- [On VAT rates UK view remains that such approximation as is necessary can be brought about by market forces. We shall of course retain our pledged zero-rates.]

AGRICULTURE

- 1988 budget reform and stabilisers working well.
- Out-turn for 1989 agricultural expenditure nearly £3 billion below CAP ceiling. For 1990 Commission propose overall CAP spending £2.5 billion below CAP ceiling.

- Proposed 1990 EC Budget would involve call up of resources £6 billion below overall ceiling.
- Butter stocks down 90% in last 12 months, beef stocks down by 80% (Commission estimate) and milk powder mountain has disappeared;

SOCIAL CHARTER

Why unacceptable to UK?

- Presidency text too regulatory. Contrary to Madrid prescription on unemployment; subsidiarity; and national diversity.

Specific objections?

- Would restrict freedom of workers and employers to negotiate most suitable arrangements on hours of work, annual leave, weekly rest periods, and consulting workforce. Over-regulation bad for jobs.

Action Programme

- Not endorsed at Strasbourg. Measures will be tabled in normal way over next two years and considered on merits. UK doubts shared by several other member states. Test of commitment to subsidiarity.

FRONTIERS

Community committed to free movement?

- Strasbourg agreed:
 - = need for "effective measures" to combat terrorism, drug trafficking etc.
 - = member states retain the right to take the measures they consider necessary.

Immigration/Asylum Issues?

- Nothing new in Strasbourg commitment to work towards coordinated European policy if we can - very sensible.

Schengen?

- Agreement between France, Germany and Benelux which commits them to abolish internal frontiers by 1990. Deadline has already slipped [and proposed signing of Schengen Treaty on 15 December may now be postponed again.]
- Schengen obligations are not EC obligations. Arrangement between geographically similar countries with long land frontiers. Not directly relevant to an island.
- For UK, water's edge checks most effective.

SCRUTINY

- Government attach great importance to scrutiny of European legislation. Welcome Procedure Committee report. My rt hon Friend Lord President of the Council will be considering Government's response and the early implementation of any changes the House agrees necessary.
- Our record on scrutiny is improving every year:
 - 1988: 39 debates on 109 documents - a record at the time;
 - 1989: so far 48 debates on 86 documents.

ENVIRONMENT

- Unanimous agreement on European Environment Agency - objective data necessary for effective policy. UK candidate site is Cambridge.

RESEARCH

- Hope to reach agreement on new 1990-94 Framework Programme at Research Council on 15 December.

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EC/Eastern Europe

- Remarkable display of Community unity on the need for a rapid and positive response to development in Eastern Europe.
- Comprehensive measures of aid, trade and investment measures already agreed.
- Combined contributions of the Twelve will provide more than half the \$1 billion stabilisation fund for Poland.
- Strasbourg Agreements on:-
 - = The creation of a European Bank for Reconstruction and Development.
 - = The creation of a European Training Foundation.
 - = More food aid for Poland when needed.

UK Measures

- \$100 million to the stabilisation fund for Poland.
- Doubling of Know-How Fund for Poland to £50 million.
- £15 million for a major project in the agricultural sector.
- A Know-How Fund of £25 million for Hungary.

Food Aid for Poland

- UK, through EC, has responded quickly. First - £70 million - tranche almost all disbursed.

- Further supplies to be made available quickly and targetted at needy.

European Bank of Reconstruction and Development

- Will promote productive and competitive investment.
- Will help transition to more market oriented economy and speed up structural change.
- Encourage all OECD countries to participate - will work in close consultation with the IMF and World Bank.

EC/GDR

- Community will begin negotiation of a trade and cooperation agreement with the GDR in January.
- Important to give encouragement to political changes in GDR.

EC/USSR

- Negotiations on Trade and Cooperation Agreement successfully concluded in November.
- Look forward to signature on 19 December.
- Will improve access for UK business in the Soviet Union.

Coordination of Support

- Commission has so far done well in coordinating G24 effort.
- G24 Ministers will meet on 13 December to review progress. Foreign Secretary will attend.

Balance of Payments Loan to Hungary

- Agreement with the IMF the essential first step. Will impress this on the Hungarian Prime Minister tomorrow.

EC/EFTA

- European Council agreed to work for substantive negotiations with EFTA next year. Hope that EC/EFTA Ministerial meeting on 19 December will launch this process.
- Aim is EFTA participation in as much of Single Market as possible.
- Expanded Single Market of 350 million promises increased economic benefits for all.
- EFTA collectively Community's largest trading partner. Two way trade in 1988 over US \$220 billion.
- New relationship will require strict balance of rights and obligations between EC and EFTA.

EC/Mediterranean

- We are currently studying a Commission paper outlining ideas to deepen cooperation. Important to encourage economic reform and strengthen trade links.

International Coffee Agreement (ICA)

- In context of efforts of Colombia and other countries to suppress drug trafficking, Council reaffirmed need for resumption of negotiations for a new ICA to protect income of producers in those countries.

- No change in Community position. Goes without saying that a new ICA must bring in consumers and must resolve the problems of the collapsed 1983 ICA.
- Community ready to take part in negotiations as soon as consensus emerges among producers and consumers on the basis for such negotiations.

Lomé

- Welcome successful conclusion of Lomé IV negotiations.
- Will further strengthen EC/ACP relations. (Signature now expected on 15 December in Lomé.)
- UK played active and constructive role throughout.
- EDF VII: 10.94 bn ecu for next EDF, with up to a further 1.225 bn ECU in EIB loans. A substantial and generous financial package (46% increase over EDF VI).

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Supplementary Notes on Political Cooperation Statements

CENTRAL AND EASTERN EUROPE

EC now committed to German reunification?

- Long standing Western commitment to unity through self-determination.
- Strasbourg statement sets out a number of very important amplifications on which we all agreed. Any reunification must:
 - = be peaceful, gradual and democratic
 - = fully respect Helsinki principles
 - = find its place within wider European integration
 - = strengthen peace in Europe.

What are the "relevant agreements and treaties" which must be respected?

- The whole range of post-war agreements underpinning existing security arrangements in Europe. For instance, the Federal Republic's commitments to the Community and NATO, the Quadripartite Agreement on Berlin, the Helsinki Principles.
- We also agreed at Strasbourg that maintaining dialogue and East/West cooperation is vital. The concerns of others in Eastern Europe and of the Soviet Union must be taken into account. The Federal Republic's own treaties, eg with Poland, are relevant.
- More generally, statement confirms our welcome for changes and our willingness to act appropriately in support of them.

- West not seeking to derive any unilateral advantage.
- Also underlines need for sense of responsibility at time of great change. Means we all agree to work within existing framework of alliances, treaties and CSCE commitments.
- Recognition of continued importance of US and Canadian involvement in European affairs, through NATO and CSCE; and of Gorbachev's role in fostering reform.

MIDDLE EAST

- Council reaffirmed Madrid Declaration (attached). A European perspective on the Arab/Israel problem. Fully consistent with UK's own position and efforts.
- Strasbourg statement encourages efforts to promote Israeli/Palestinian dialogue. (Reference to current US/Egyptian moves.)
- And focusses on practical help Community can give in Occupied Territories. A very sensible approach which we fully support.

LEBANON

- Statement of support for those, notably Arab League, working to restore constitutional government in Lebanon.

EURO-ARAB CONFERENCE

- Britain will participate. My Right Hon Friend the Foreign Secretary will represent us.

SOUTHERN AFRICA

- Good statement. It welcomes progress throughout the region towards solving longstanding problems, especially in Namibia.
- Our total opposition to apartheid very clearly underlined. But at same time, there are words of encouragement for South Africa to continue down the paths of reform and change. Glad that Community partners, like Commonwealth at CHOGM, have taken this view.
- UK not in any way isolated: we all agreed that change best promoted by a mix of pressure and encouragement.

ETHIOPIA

- UK proposal that we should discuss this, because we have been aware of problems of famine for some time, and because we are active in seeking solutions.
- Very glad that Council made public appeal on behalf of victims of famine and called for further efforts to bring peace through negotiation.
- Presidency will now draw statement to attention of all those who can influence situation, notably Ethiopian Government.

CHILE

- We all look forward to increased political and economic exchanges with a democratic Chile in future.

CENTRAL AMERICA

- Key is for all to fulfil commitments they have undertaken, particularly in relation to respect for democracy and strengthening of democratic institutions.

HUMAN RIGHTS

- Press communique demonstrates extent of Community's activity worldwide in defence of human rights and victims of abuses. We fully support this and do more than most to draw attention to violations, no matter where they occur.

CYPRUS

- Restates established position of Twelve: full support for UN Secretary General.