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Mr Arthur, ECD(I)

Meeting with M. Delors: Luxembourg, 17 June

M. Delors called on the Secretary of State on the evening of 17 June. He was accompanied by Mr Williamson. Sir D Hannay, Mr Kerr, Mr Hadley and Mrs Campbell were also present.

The Secretary of State asked M. Delors how he saw the European Council shaping up - where were the points of danger and of opportunity? M. Delors said that Presidency preparations for the Council were surprisingly poor. Personally, he had little time for rhetorical declarations. The strength of the Community rested on the European Council pointing the direction, and the other institutions translating that into action. There should not be a substantial gap between the two. There was a danger that Mr Haughey would argue that the IGCs could be convened without further discussion - that would simply mean that all the difficult problems were postponed until December. M. Delors therefore wanted three or four hours at the European Council to be devoted to a discussion of the meaning of and next steps towards political union.

The Secretary of State asked whether that was really necessary - there had already been such a discussion in April, followed by the lengthy exchanges of Parknasilla. There was also now the Presidency report, which wasn't bad. A lengthy debate could generate more heat than light. M. Delors said that he would, of course, fall into line if the judgement was that lengthy discussion of political union was not required on this occasion. But he did not think it a good way to proceed.

EMU, on the other hand, certainly did not require major discussion in Dublin. It was clear that there were four or five major options, and that these could be refined during the Italian Presidency.

The Secretary of State said that there was a considerable debate on EMU going on in the UK. As Delors knew, we had major difficulties with Stage III. But we were also surprised that some seemed to want to abolish Stage II, and preferred a quantum leap from Stage I to Stage III. This surely made no sense at all? Delors agreed: one important purpose of Stage II was to create the means by which the role of the ecu could be extended. But any ecu role was opposed by the

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Germans. The DM was, for the Germans, a symbol as well as a currency, and it was possible therefore that they would reject any proposals for Stage II. This presented a difficult political problem. If the UK wished, he would be willing to say at the European Council that during the Italian Presidency there should be a more detailed study of Stage II, and that the Commission would be ready to provide a paper as a basis for discussion. The Secretary of State said that he would reflect: this might be very helpful.

The Secretary of State said that an added dimension of the EMU debate was the argument from Mediterranean countries that very substantial resource transfers would be required. M. Delors said that there was an important difference between a two-speed Europe and an arrangement which permitted transitional periods. These had been used before. A major difficulty lay in the Portuguese preoccupation with cohesion. An agreement to contrive major financial transfers in order to achieve convergence would mean the end of the Community, for its implementation would be divisive and impracticable. It was not possible for the rest of the Community to pay Portugal sums equivalent to 8% of her GNP on a continuing basis.

On other agenda items for the European Council M. Delors said that failure to resolve the question of sites for EC institutions would be very damaging. The case of the European Environmental Agency was particularly embarrassing.

M. Delors said that he was concerned at the probability that secret negotiations were proceeding about financial assistance for the Soviet Union. He had written to Chancellor Kohl saying that it would be a grave step for the FRG to give financial help to the Soviet Union without prior discussion in the EC. We needed to be particularly cautious given that CFE had not yet been concluded. Discussion within the EC was also needed on the framework for strengthening CSCE.

The Secretary of State said that he was sure there were German/Soviet discussions on the financing of Soviet troops in East Germany - he did not object to that. But he also suspected that some wider proposal for large scale credit was indeed cooking. He saw no case for major loans to the Soviet Union before real economic reform started. The unreformed Soviet Union could not use such money effectively. It was a case of a rich country uniquely mis-governed. M. Delors said that the needs of the Soviet Union were very great - \$5 billion in short term credit and the same amount in medium term credit. This required discussion at heads of government level. He was worried about the possible growth of

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Pan-Germanism. The growing influence of Germany and the DM was bad for the political balance in Europe: the DM already played a powerful role in many East European economies.

The Secretary of State thought that Dublin discussion of CSCE would certainly be useful. But we should not let the question of aid to the Soviet Union confuse two separate concepts, which had different timescales i.e.

(a) the ideas which the Germans had already discussed with the Soviet Union for German payments to cover garrison costs in East Germany, including resettlement in the Soviet Union; and

(b) assistance for economic reform, which might include non-German finance, but could not sensibly be considered until a viable economic reform programme had been instituted in the Soviet Union.

The Secretary of State raised a difficulty over the Social Action Programme. When he and M. Delors had last discussed this, he had suggested that the Commission put forward the least controversial measures first. But instead the first proposals emerging from the Commission were among the most controversial. This had been much remarked on in the UK press. M. Delors commented that the Commission was in an awkward political position. The European Parliament had pressed them hard. But he thought that we should engage in a bilateral discussion in order to identify the UK's particular difficulties over the directive on atypical work. Sir D Hannay said that there was a strong feeling in the UK that QM legal bases were not legally justifiable. M. Delors, speaking very privately, said that he agreed that there was no good legal case for the use of Article 100A. Mr Kerr said that it would be helpful if the next proposals were uncontroversial - e.g. on health and safety at work. M. Delors said that he would do his best. He asked Mr Williamson to look at the problem.

Sir D Hannay said that we had some difficulty with the Presidency paper on the environment. Since the Irish had been devious, preventing any prior discussion of the text, we risked arriving at the European Council without adequate preparation of the text. The present draft was unsatisfactory. M. Delors agreed. He believed that the important thing was to establish two or three basic principles defining a new relationship between man and nature. Discussion of the technicalities would lead us quickly into difficulty. This was another example of the poor preparation for the European Council.

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The Secretary of State said he proposed to suggest in the FAC a pre-Dublin meeting of officials to knock the Environment text into shape. M. Delors said this would have his support.



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(S L Gass)

cc: PS

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PS/PUS

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