

PREM 19/744

Part 1

MT

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Visit of M. Thors, President of the European Commission to London on 20 February, 1981.

EUROPEAN POLICY

Working Lunch on 14 September 1982

FEBRUARY 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
19.2.81		25.8.82					
Unrelated brief		14.9.82					
23.2.81		16.2.82					
25.2.81		14.9.82					
18.6.81		- Pt Ends -					
25.6.81		X					
26.6.81							
27.10.81							
6.11.81							
13.11.81							
21.11.81							
9.3.82							
16.3.82							
24.82							
5.8.82							

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PART 1 ends:-

AJC to FCC 14/9/82

PART 2 begins:-

AJC to PM 15/2/83

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
EQO (81) 65 th Meeting, Minutes	20.11.81
EQO (81) 171	24.11.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed *M Wayland* Date 20 September 2012

PREM Records Team

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10 DOWNING STREET

From the Private Secretary

14 September 1982

Dear Francis,

VISIT BY THE PRESIDENT OF THE EC COMMISSION

The Prime Minister entertained the President of the Commission today at a working lunch. I enclose a summary record of the discussion.

I am copying this letter and enclosure to John Kerr (HM Treasury), Robert Lawson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

Yours ever

John Major

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

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SUBJECT

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cc Master

SUMMARY RECORD OF THE DISCUSSION AT A WORKING LUNCH GIVEN BY
THE PRIME MINISTER FOR THE PRESIDENT OF THE EC COMMISSION
AT NO. 10 DOWNING STREET AT 1300 HOURS ON TUESDAY, 14 SEPTEMBER 1982

Present

Prime Minister	M. Thorn
Foreign and Commonwealth Secretary	M. Durieux
Sir Julian Bullard	M. Noel
Sir Kenneth Couzens	M. Ravasio
Mr. Evans	M. Marzys
Mr. Hancock	
Mr. Hannay	
Mr. Coles	
Professor Walters	

* * * * *

After a general discussion of the political situation in various European countries, followed by a brief exchange on the Middle East and the financial situation in Mexico, M. Thorn raised the problem of the UK contribution to the EC budget. The solution that had been adopted for 1982 was a purely temporary one; he did not wish to conceal the fact that he was unhappy about this. He had wanted a permanent solution and had only put forward the Commission's proposal in May in order to extricate the Community from a difficult situation. As regards future years, the Commission had no wish to postpone a solution. But it was necessary to learn lessons from past experience. It was not helpful for an issue of this kind to be discussed at two or three meetings of Heads of Government, accompanied by excessive attention on the part of the media. He was therefore adopting a different technique this time. He was seeking to discover the expectations of Heads of State and Governments at discreet meetings and thereafter to work out a proposal. It was necessary to take into account the political environment for at certain points during previous negotiations solutions had been envisaged which were better than the solutions eventually adopted. One important political consideration would be developments in Germany. It was not clear what kind of Government would be in power in Germany later this year. As to the substance of the problem, everybody was aware of the figures. It should be possible to settle the problem in one or two discussions.

/The Prime Minister

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The Prime Minister said that the first point to recognise was that the difficulties concerning the third year of the previous settlement must be sorted out. M. Thorn said that as far as he was concerned, the matter was settled. The figures had been fixed in May and could not be changed. The Prime Minister said that the difficulty with the longer term solution was that people refused to face up to the true issue. They would have to at the time of enlargement - otherwise she doubted whether enlargement would happen. The United Kingdom could not and would not pay its uncorrected contribution. She had stated this before, but the Falklands situation had made it necessary to give lower priority to the budget issue last May. She now wanted a solution which lasted as long as the problem. If it were devised to last only two or three years, then we should again find ourselves in an adversarial position. Being a staunch European, she found such a situation intolerable. No-one was talking about the Community breaking up; that would be unforgivable. We therefore had to concentrate on working out an equitable taxation system for the Community, just as Governments had to devise such systems internally. She had wanted to push the issue to its ultimate conclusion in Dublin. She had not done so because it had been argued that within three years the Community would be forced by its own resources problem to restructure the budget. That had not happened. Now the same argument was developing again. It was wrong for the Germans to bear a disproportionate burden. This was inconsistent with a relationship between partners. If the injustice continued, we should one day see a political party in Germany which was more concerned to unify the two Germanies than to strengthen the Community. The attitude that Germany should pay to the Community whatever was needed to finance its policies was very short-sighted. It was imperative to keep Germany in the Alliance. All this argued for a fair and equitable solution to the budget problem. Much as she disliked the recurrent argument, she would if necessary continue it. To postpone the fundamental solution for two or three years would not make it easier to achieve. A fair system should not put an unbearable burden on any one country. Seven of the Member States, including the United Kingdom, should make contributions which were reasonable in the eyes of all. Italy, Ireland and Greece were in a different position.

/M. Thorn

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M. Thorn said that he was practically 100% in agreement with the Prime Minister. But there were immediate problems. As regards the 1982 settlement, the Commission were of the firm view that the decisions had already been taken. The Commission would not depart from that view. As regards future years, he too had thought at an earlier stage that the combination of the 1% VAT ceiling and enlargement would have brought about a change in the budget system by now. But a combination of world prices and an unusually small rise in the Community's agricultural expenditure had prevented this happening. There was no doubt that enlargement would necessitate a change in the system. Even next year, given agricultural trends, there would be a problem. In 1983 the Community was unlikely to come up against the VAT ceiling. It might also avoid this problem in 1984, but it was most unlikely to do so thereafter.

Continuing, M. Thorn said that given the attitude of the French President and others, enlargement was unlikely to take place in the period 1983/84. The Prime Minister said that this created particular difficulties for Portugal. It was essential to keep Portugal in the democratic system. Could we not bring them in earlier or treat them as if they were in? M. Thorn said that the latter would be difficult juridically. The Prime Minister commented that Spain was a different problem, but Portugal needed our help.

M. Thorn said that we had to get away from the practice of asking Heads of Government to take decisions every few months on matters such as butter and fish. There was a need for broad directions to be set. But the problems of enlargement and the British budgetary contribution would not be settled quickly. Other Governments resisted solutions not because they were strong, but because they were weak. There was a prevalence of weak Governments in Member States at present. M. Thorn argued that a budget solution for two years would constitute a precedent for the future. The Prime Minister said that she had little faith in that argument, which she had heard on previous occasions. M. Thorn said that he did not know what the definitive position of the Commission would be on a future system of financing. But he believed it would be necessary to increase own resources. For the present, the only course was to seek a two or three year solution on the budget coupled with a review later. The Prime Minister did not think such a formula

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/would be

would be helpful. There had been agreement in the 30 May Mandate to make progress on the three chapters in parallel. But in the event, that agreement had meant nothing. A general undertaking to change the system was not worth the paper it was written on. M. Durieux suggested that there had been no agreement in May 1980 to change the system.

The Prime Minister said that, unfortunately, the Community only solved such problems at the eleventh hour. Germany could take the Community to the brink by refusing to finance its policies. M. Thorn, taking up a remark made by the Prime Minister earlier, expressed doubt as to whether Germany bore an unfair burden. The budget was only part of the matter. Germany took most of the commercial and industrial advantages of the Community. Moreover, agricultural prices were only at the level they were because of the German Minister of Agriculture. The Prime Minister said that she accepted those points. But this meant that under an equitable system of taxation, Germany would pay most. M. Thorn said that Belgium and Luxembourg should probably pay more but now was not the time to ask them. Belgium's economic position was desperate. Several other countries were in severe difficulty. For all these reasons, he could not imagine that in December there would be agreement to change the financial system. A short-term settlement was the only option. The Prime Minister again commented that it would be as difficult to find a short-term settlement acceptable to us as to change the system. M. Thorn said that he believed that other Member States could reach agreement in two meetings but in the present political situation they would not agree to fundamental change. The Prime Minister said that, in that case, we should perhaps envisage a formula whereby whatever result was negotiated stood in perpetuity but was reviewed every two years - and, if the review produced no agreement, the solution stood. M. Thorn did not believe that others would accept a permanent arrangement of this kind. Sir Kenneth Couzens thought that the Community's financial system should evolve so that revenue was raised in relation to ability to pay (a principle of wide domestic application).

M. Thorn said that one of his most chastening experiences in politics was the missed opportunities of the last 18 months when the Community could have been so much more helpful to the people

/of Europe.

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of Europe. The Community could do more. Heads of State and Governments needed to discuss problems in greater depth.

Following a brief exchange of views on the United States' economy, the discussion concluded at 1445.

A.J.C.

14 September 1982

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Foreign and Commonwealth Office

London SW1A 2AH

10 September 1982

Dear John,

Visit of M. Thorn: 13 - 14 September 1982

I enclose briefing on Community affairs for the working lunch with the Prime Minister is to give to M. Thorn on 14 September. The brief covers transatlantic trade relations, enlargement, fisheries and the Community budget. M. Thorn will have had talks and dinner at Chevening with Mr Pym, mainly to discuss the budget, on 13 September, and will also have met Mr Walker on the morning of 14 September to talk about the CFP.

Yours ever,

A handwritten signature in dark ink, appearing to read 'F N Richards', written in a cursive style.

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

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VISIT OF M THORN: 13/14 SEPTEMBER 1982

LINE TO TAKE

EC/US TRADE RELATIONS

EC/US Steel

1. Congratulate Commission on deal negotiated with US Administration on 6 August. Now right for EC to proceed on the assumption that it is still 'on'. We hope this will help bring home to US Administration that their role in the problem is not just that of an intermediary. They negotiated the terms of the draft Agreement and Baldrige has said publicly that the deal is the best obtainable. We hope they will continue to try to get this message across to their domestic industry.

2. List of counter-proposals put forward by US industry clearly unacceptable as it stands. But do not think it would be wise to rule out the possibility, however unwelcome, of offering some further, limited, concessions if this becomes necessary in order to clinch a negotiated settlement. Negotiated settlement continues to offer only realistic prospect of minimising disruption of trade and damage to EC producers.

3. (Depending on outcome of Davignon's meeting on 9 September with Chairmen of major EC steel producers). Share-out of export entitlements primarily a matter for producers themselves. But in British Government's view wrong for EC to take US findings on subsidy as basis for share-out. Would lend credibility to interpretation of GATT obligations which EC is united in regarding as arbitrary and



unjustified, and would be particularly unfair on BSC who have made an unparalleled effort to restructure.

Siberian Gas Pipeline

4. As you know very concerned at dispute with Americans. This has only benefitted the Russians. Doing our best to resolve it as quickly as possible. Meanwhile trying to keep temperature down. Taking minimum steps to protect our companies' existing contracts. Very grateful for help Commission has given, particularly for full and authoritative Note of 12 August to Administration in Washington. This was a very useful contribution.

5. Believe Americans now realise what damage has been done, and wish to resolve the dispute. But we do not yet know what price they will try to exact in further limits on our trade with Soviet Union. Price may be too high for us. Problem far from resolved.

6. As you know we have been keeping Commission closely in touch. Latest position is possibility of meeting at New York in margins of UN General Assembly later this month between Mr Shultz and Foreign Ministers of Italy, France, FRG and UK (countries with major contracts affected by US measures), to see if we can resolve the dispute and if so on what terms. We would have preferred a meeting earlier. Agenda not yet fixed.

7. (If question of Commission participation in meetings is raised) Fully understand your reasons. The UK would see advantage in Commission participation in New York Meeting. We are in touch with the French, Germans and Italians on this. We do not yet know their views.



Agriculture (If raised)

8. UK needs no convincing that present operation of the CAP is defensible in terms of GATT obligations. But subsidised exports bound to remain an irritant in relations with lower cost producers, as well as a drain on the EC budget, so long as Community's own production of high cost surpluses continues to increase.

ENLARGEMENT

Annex A.

9. As I said in my letter, we attach great importance to the further enlargement of the Community with the accession of Spain and Portugal. There are obviously difficult problems to resolve. But we think it important to get on with negotiations and to concentrate on finding solutions.

10. We continue strongly to support the traditional approach to accession negotiations with the object of agreement before accession on precise transitional arrangements. Most important for Spain and Portugal that Community should be seen to be making progress and that the momentum be maintained in the accession negotiations. For this reason there should be no pre-conditions in terms of internal Community reform which could be construed as blocking the negotiations.

Commission Inventory on Problems of Enlargement

11. I replied to your letter rapidly, because we do not wish the inventory exercise to hold up accession negotiations. Has

M Thorn now received all the replies? It would perhaps be useful to circulate the replies to all Member States, since we all need to know the approach our partners are adopting to the future of the accession negotiations. What do you intend to do with the inventory? And when?

Italian Ideas

12. We are sceptical of Italian suggestions for a different concept of enlargement which would appear to involve letting Spain and Portugal in but leaving until after accession decisions on the degree and form of their participation in major EC policies. Do not believe that problems would be any easier to tackle at a later stage; as a general rule problems coming up in the negotiations should be dealt with before accession. The Italian ideas have not been elaborated and we should certainly wish to study any proposals very carefully.

Separate Accession for Portugal or Spain?

13. Breaking the link between the two sets of negotiations is not a point that needs early consideration. Both negotiations are under way and this is clearly the best way to proceed. Important that the Community should be seen to keep up momentum for both applicant countries.

Linkage between Enlargement and Own Resources

14. At discussion in COREPER before the summer break and now in President Mitterrand's reply to M Thorn's letter on the inventory the French and other Member States are taking the line



that own resources must be increased at the same time as enlargement, with simultaneous ratification of both in national Parliaments. What are your thoughts about political effect on Spain and Portugal of such a timing link? They have already been made to wait a long time while the Community sort out internal problems. Reaching agreement on new own resources would clearly be a protracted process. May they not see this further delay as putting accession off to the Greek kalends?

15. Are Member States anyway likely to agree to commitment in advance to increase own resources at moment of enlargement and is enlargement in fact likely to be the major problem and could not possible movements in world agricultural prices and the overall cost of the CAP cause far greater need to look at own resources? UK ready to look at new own resources on its merits but question link with enlargement and could in any case not make a commitment in advance to agree to increase in own resources.

Enlargement and Reform of Mediterranean Agriculture

16. Look forward to early further detailed discussions on the nexus of problems associating enlargement, relations with the Mediterranean countries and reform of the Mediterranean agriculture. But these should proceed on parallel tracks and need not impede each other.

17. Good progress now made on reform of acquis. Must not repeat the mistakes made over northern agricultural products. We need to ensure that the new arrangements will not encourage



the production of surpluses. Important also to be sure that reforms take account of implications of enlargement and that they are not re-opened at later stage.

18. Reform of Mediterranean acquis must be such as to allow Community to meet its contractual obligations to the Mediterranean countries with whom it has Association or Cooperation Agreements.

COMMON FISHERIES POLICY

19. Would like to reinforce what Peter Walker told you this morning about importance we attach to early agreement on CFP.

20. Convinced it is in best interests of Community as a whole to solve this long-standing problem soon. Will help to create right atmosphere for discussion of our other very difficult problems in the autumn.

21. We have made great efforts to get a settlement. Package now on the table broadly acceptable to nine Member States. Only Danes seem reluctant to settle. Hope Commission will use its influence to encourage the Danes to adopt a constructive approach.

22. Hope change of government in Denmark will not lead to further delay.

COMMUNITY BUDGET

23. Grateful for your support over 1982 refunds. Absolutely clear from 25 May agreement that UK is to receive 850m ecu net; no question of our contributing to German refunds. Important politically to get all this decided at September Council.



24. As for 1983 and later, should keep to November deadline. How do you see the way forward? Hope that Commission will get things moving by putting forward some ideas for possible solutions.

25. UK problem large and continuing. Damaging to Community to have repeated annual negotiations. We need a lasting and equitable settlement.

26. I understand Commission think that time may now be right for thorough-going review of Community's financial arrangements to take account of enlargement and approach of 1% ceiling. Could not agree to any commitment in advance that this would lead to new own resources. If you proposed new own resources, how would you envisage ensuring that all the money did not go on the CAP? Review would have to include search for lasting solution to UK problem. But will not of course remove the need for a settlement for 1983 and later, which must be found by end-November, as agreed.

27. [Thorn's idea of a new Messina conference (If raised)] Not quite sure what such a conference would do, what subjects it would cover. Conditions are surely very different now from those at time of original Messina.



BACKGROUND

EC/US TRADE RELATIONS

EC/US Steel

28. At the fourth attempt the EC Commission (Davignon) and the US Administration reached agreement on 6 August on an outline restraint arrangement covering EC exports to US of all eleven products currently subject to formal complaints by US industry. The effect of the agreement would be to reduce the Europeans' share of the US market for the products concerned from around 6.7% to 5.75%. US steel industry representatives subsequently made clear their view that while in principle they remained in favour of a negotiated settlement, the terms agreed with the Commission were not good enough. At the end of August they presented the Administration with a 'shopping list' of suggested 'improvements' including a significant extension of product coverage and a further reduction in market share for the 11 products already covered. The Administration have passed this on to the Commission but have not themselves requested a re-opening of negotiations.

29. Community as a whole has accepted the Commission's recommendation that the best tactics are effectively to put the ball back in the US Administration's court by continuing to work out the necessary internal arrangements with a view to implementing, as scheduled, on 1 October, the terms agreed on 6 August.



30. But even with the existing deal there are still outstanding issues to be resolved within the EC, including;

(a) share-out of export entitlement for the 11 products

The Germans and, increasingly, the Dutch and Luxembourgers, seem reluctant to take any part of the cutback in EC producers' market shares which implementation of the restraint arrangement will require. They argue that this would be inappropriate in view of their virtual exemption from US anti-subsidy ('countervailing') duties. Davignon is meeting the EC producers association EUROFER at company chairman level on 9 September. (McGregor, BSC, who feels strongly on this point is expected to attend).

(b) conclusion of a parallel arrangement on pipe

and tube. The Commission have given the US Administration an undertaking that they will encourage EC producers to offer export restraint on these products too. One problem is that a significant part of trade in this sector is accounted for by firms which do not produce bulk steel and are not affected by US action. But some sort of arrangement for pipe and tube seems essential if the US industry is eventually to accept the deal. An informal meeting took place between joint industry/government teams from both sides in Washington on 7/8 September. The US proposed a 5.9% share of the US market for EC producers (this represents the average for the period 1979/81 but a significant reduction on the 1981 figure). The EC representatives undertook to consider.



31. Within the EC the objective is to have all details worked out in time for approval by the Foreign Affairs Council on 20/21 September. But this may not be possible and a special Council may then be required. The absolute deadline for the conclusion of a deal appears to be the definitive determination of injury by the US International Trade Commission, due on 8 or 12 October, after which US industry complaints that EC producers are being subsidised cannot be withdrawn.

32. US Trade Representative Brock told us when he visited London on 2 September that, if there is no agreement, the US Administration could in the last resort impose its own solution. He explained that what he had in mind was the unilateral establishment of quotas on approximately the terms which the EC was known to be prepared to tolerate, but possibly with somewhat wider product coverage than in the outline agreement. Commission probably know of this idea. It may offer some sort of way out. But there can be no certainty that Brock would be able to persuade the Department of Commerce and other parts of the US Administration to act in the way proposed; and even if they do so act, there is a strong possibility of legal challenge in US Courts.

/Pipeline



Pipeline

33. As a result of work done on legal aspects of US measures in Brussels with Commission a quatre then a dix M Davignon handed over 'comments' to US Authorities on 22 June and EC Delegation in Washington delivered comprehensive Note on 12 August.

34. Commission have made clear they would like to participate in any meetings of the four with the Americans. Danish Presidency have expressed satisfaction with bilateral briefing but have made clear that if Commission were present at any meeting the Presidency would also wish to be there. At least one other EC member (Netherlands) has also expressed interest in participation. Commission has a strong case for participating if the discussion concentrates on the American measures and their implications for European commercial interests and policy.

Agriculture

35. Problems over agriculture are also contributing to tension in EC/US trade relations. US have mounted a whole series of cases in the GATT against the CAP export restitution system but so far at least have had little success in demonstrating that EC practice infringes GATT rules. The GATT contains special provisions which permit the subsidisation of exports of primary products so long as the world market price is not

/undercut



undercut and the exporting country does not obtain a 'more than equitable share' of world markets.

36. US attacks on the CAP cause resentment in the Commission who point out that the US has a substantial surplus with the EC on trade in agricultural products (\$7 billion in 1980) and argue that, on subsidisation and protection in the agricultural sector, criticism from the US is simply a case of the pot calling the kettle black. The US response is that none of this alters the fact that Community is in effect preventing lower cost producers from exploiting their competitive edge. On this they have the support of virtually all other members of the GATT.

37. Any attempt on our part to urge on the rest of the Community the case for a conciliatory gesture to the US in the agriculture sector is likely to prove counter-productive, given the suspicion with which we are already regarded because of our reservations about the budgetary effects of the CAP. It would be better, therefore, not to take the initiative in raising the subject with Thorn. There are indications that the Dutch and Germans are becoming increasingly concerned at the damage EC agricultural policies are doing to the Community's relationship with countries like the US and Australia. It is more likely to prove effective if we leave it to them to make the running.

/ENLARGEMENT



ENLARGEMENT

38. President Mitterrand's intervention at the June European Council opened a continuing debate on enlargement and left little doubt that the French Government wished to put a brake on progress in the accession negotiations. Implementing a mandate from the European Council, M Thorn in a letter dated 10 July to Heads of Government, asked each Member State to list the problems posed by enlargement for it. This was clearly designed to elicit substantive answers principally from the Italians and the French. The Prime Minister replied on 5 August (full text at Annex), emphasising our belief that this exercise should not hold up the negotiations, espousing the traditional approach to enlargement and drawing attention to a few selected problems.

39. We have received privately copies of the replies from France, Ireland and Belgium. A summary is given at Annex A.

40. It would be of interest to know how the Commission now see the accession negotiations in the light of the replies so far, and in particular in the light of (a) the difficulties raised by the French which amount to a technical brake and (b) the very vague ideas put forward by the Italians for a more gradual form of accession. The French and Italian approaches are in

/direct

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direct contradiction, since the French wish to solve all problems, including own resources, in advance of accession. This could have the effect of delaying accession for a long time if not indefinitely. The Italians on the other hand appear to envisage 'political accession' with deferment of decisions on participation in key areas of Community activity until after accession has taken place without the corresponding economic responsibilities. We shall wish to study any detailed proposals they put forward with care, to see whether there are any points which could be turned to our advantage. But we are in principle opposed to any suggestion for a different overall approach to the accession negotiations.

Linkage between own resources and enlargement

41. We are also opposed to the proposed French link between own resources and enlargement, because it would put off enlargement until there had been a positive decision on new own resources. The Annex to President Mitterrand's note to M Thorn reaffirms the line taken by the French Permanent Representative at the COREPER lunch discussions on enlargement on 21 July who explicitly said that the Community must decide on more resources before enlargement. The Dutch and Danes have also supported the idea that the Accession Treaties and a proposal for an increase in our own resources should be placed before national parliaments at the same time.

/Mediterranean

Mediterranean Agriculture

42. There are now a number of related exercises underway in Brussels. The first is the reform of Mediterranean agriculture - ie revising the regimes for Mediterranean products prior to enlargement. Agreement has now been reached on all new arrangements for wine and citrus fruit: other fruit and vegetables, and olive oil, are due to be revised this autumn. The second is the accession negotiations themselves. The third is the question of the Community's further relations with the Mediterranean countries with which it has association or co-operation agreements and which will be hurt by Portuguese and especially Spanish accession. COREPER had a first inconclusive discussion of this nexus of problems on 21 July, and will be discussing them further in the autumn.

43. The French are looking for as much as they can get for their Mediterranean producers and we need to ensure that they do not use enlargement as an excuse later to re-open the new arrangements already agreed in discussion on the reform of the Mediterranean Acquis.

COMMON FISHERIES POLICY

44. The next meeting of the Fisheries Council was due to take place on 21 September but we understand that the Danes are seeking to postpone it as a result of their change of government. Prospects for a solution are better than they have been for a considerable time and there are

/now



now no outstanding issues which could not be resolved at a single meeting.

45. The UK has made a major contribution in recent months to the narrowing of differences, for example, through bilateral contacts over access with Member States, particularly the French, having historic rights in coastal waters off the UK.

46. The Commission's latest proposals on the main outstanding questions of Total Allowable Catches (TACs)/quotas and access, were presented on 14 June. They were discussed at Fisheries Councils on 28/29 June and 20/21 July, but little progress was made, mainly as a result of Danish intransigence. The package now on the table has been extensively criticised in Parliament but we are nevertheless prepared to work constructively for a solution. It is our impression that so too are all other Member States, with the exception of Denmark. This was borne out by the Danish performance in the Presidency at the July Council. The former Danish Fisheries Minister (Mr Hjortnaes) called on Mr Walker on 12 August at his own request, but he had few positive suggestions to make and the purpose of the visit seems to have been mainly tactical. The Danes are still seeking increased quotas of certain fish, either at the expense of the other Member States, or of the stock as a whole. If agreement is to be reached at the next

/Fisheries



Fisheries Council, or soon after, it is important to persuade the new Danish government of the importance the Community attaches to resolving this issue and of their responsibility as Presidency for doing so.

47. M Thorn will have covered the ground thoroughly with Mr Walker on the morning of 14 September. It would nevertheless be useful if the Prime Minister could reinforce the message about the importance we attach to an early settlement.

COMMUNITY BUDGET

48. Mr Pym will have had a thorough discussion of the budgetary questions with Mr Thorn at Chevening on 13 September. The main issue is of course the budget solution for 1983 and later, but the Prime Minister may also wish to refer briefly to the problems which have arisen over our 1982 refunds. After the 24/25 May agreement the Commission put forward a broadly satisfactory proposal for its implementation which envisaged refunds to Germany and the less prosperous Member States as well as the UK. A number of Member States have been worried about the presentational aspects, particularly of paying refunds to Germany, and of the precedent this would create. The French and Italians with Dutch and Luxembourg support have gone so far as to argue that the UK should contribute to the German refunds. This would cost us 65 m ecu and would be completely contrary to what was agreed on 24/25 /May.



May. It is completely unacceptable to us. The Commission have supported our position at all discussions of this point and M Thorn himself gave valuable support at the July Council. It would be much the best if the problems over the implementation of the agreement could be settled at the 20/21 September Council. This would make it possible to meet the timetable for ensuring budget provision in 1983.

49. On the solution for 1983 and later, a fuller line to take is attached at Annex B. Thorn apparently now thinks that the Commission should put forward some ideas. He appears to be thinking in terms of an interim two year settlement and solving the problems for the longer term in the context of a broad review covering own resources, enlargement, the CAP and Community policies. His ideas should become clearer from his talks with the Foreign Secretary.

50. Thorn may refer to the idea which he has put forward that the Community needs to recover its momentum through a new conference of Foreign Ministers similar to the original conference of Messina. Although his advisers are not apparently much taken with this idea, we have heard that Thorn reacts very badly to criticism of it. If it is raised, the best line to take is probably to ask some questions about what the proposal really means.

ANNEX A

REPLIES TO M THORN'S LETTER

Belgium

1. Very short. No problems which cannot be solved by normal transitional measures. No extraordinary solutions required.

Ireland

2. Also short. Community's resources insufficient for enlargement. There must be a clear commitment to make available necessary "own resources". Agriculture is not just a Mediterranean problem. Opposed to "two-speed" Community.

France

3. M Mitterrand's letter stresses that enlargement costly and that costs should be shared by all. Scale of problem such that ordinary transitional measures unlikely to suffice. Problems to be resolved in advance of accession. Annex to letter contains long list of problems especially finances and own resources, relations with Mediterranean countries, industrial, fisheries and social policies.



10 DOWNING STREET

THE PRIME MINISTER

5 August 1982

Dear Monsieur Marin,

Following our discussion of enlargement at the European Council on 28-29 June, you wrote to me on 10 July asking me to specify the problems posed by the enlargement of the Community for the United Kingdom.

I should like to begin by restating the strong support of the British Government for the further enlargement of the European Community to include Portugal and Spain. It was important that the European Council in June reaffirmed its statement of 27 November 1981. I think the Community should endeavour now not only to maintain the momentum of the accession negotiations, but to bring them to a successful conclusion without undue delay.

All Member States have from the beginning been aware that there would be difficult problems to be faced in the accession negotiations. Many of these were identified in the "fresco" prepared by the Commission in April 1978 and in subsequent work. In general, we see no need to change the traditional approach to accession which was set out by the Community at the beginning of the negotiations: as in previous enlargements the thrust of the negotiations should be about the appropriate

/transitional

transitional arrangements for the applicant countries. Exceptions to the rule may be necessary in particular cases, but these should not denote an overall shift in approach. Where particular problems look like arising because of enlargement, the Community must consider carefully in advance what the appropriate arrangements for an enlarged Community should be, as is the case over certain Mediterranean agricultural products and over the costs of enlargement. We also consider that problems that come up in the negotiations should be dealt with, as a general rule, before accession.

For the UK, as for other Member States, some of the problems are more difficult than others, but I think the problems on the individual chapters of the negotiations are well enough known and need no further elucidation. However, I would wish to register the following particular points.

We continue to set store by the expectation that the accession of Spain will be followed, after only a short transition period, by the termination of the imbalance in trading conditions inherent in the Community's 1970 Trade Agreement with that country.

Regard for the legitimate concerns of industry, especially the problem of textiles (a problem mainly with Portugal but also with Spain), is particularly important for the United Kingdom. We hope that the proposal to Portugal agreed at the July Foreign Affairs Council will provide the basis for a solution to the textiles problem.

It will be important to negotiate arrangements which minimise the budgetary costs of enlargement. The own resources chapter in the accession negotiations will require the most careful consideration.

Changes in the Community's present arrangements for Mediterranean agricultural products to take account of enlargement should not be such as to encourage the production of surpluses and should honour the Community's existing obligations to the Mediterranean countries with whom the Community already has Association or Co-operation Agreements.

It will be essential to conclude urgently the negotiations on a revised Common Fisheries Policy in order to provide a satisfactory basis for discussion of the fisheries chapter in the accession negotiations.

We had hoped that the problem of the continued closure of the frontier between Spain and Gibraltar would have been resolved by now in the framework of the Lisbon Agreement of 1980. Unfortunately this has not so far been the case. If the frontier remains closed, the United Kingdom reserves the right to raise the matter in discussion of relevant chapters of the accession negotiations. We have made it clear to Spain and in Parliament that it is inconceivable that there should be a closed frontier between two parts of the Community.

Yours sincerely

Raymond Hunt

His Excellency Monsieur Gaston Thorn

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EUROPEAN COMMUNITY BUDGET PROBLEM:

LINE TO TAKE IN PRELIMINARY CONTACTS DURING SEPTEMBER/OCTOBER

INTRODUCTORY

1. Present Government committed to making success of British membership of EC. Dismayed by the atmosphere in which recent discussions on the budget have taken place. Must try to avoid similar atmosphere this autumn, try to find practical solutions between partners. UK sometimes accused of wanting to undermine Community principles, and of being lukewarm about the development of the Community: our experience this spring is that others have not always approached this problem in true spirit of Community. Note that they are worried about the financial costs of UK refunds, but they should appreciate how small these costs are compared with size of burden on UK even after refunds.

2. As recognised by figures underlying agreements of 30 May 1980 and 25 May 1982, the budget problem is substantial and continuing. No-one would be happier than us if the problem simply went away. But unrealistic to suppose that that will happen. More likely to get worse. CAP expenditure has come down as a proportion of the Community budget. But even if this proportion is maintained, neither this nor the development of new policies can change the situation in the next few years. Have to face the situation as it is. Prepared to be modest net contributor. But unadjusted net contribution ran at around 1.1/2 billion ecu a year in 1980 and 1981 - similar in magnitude to our whole overseas aid programme. British Parliament and people do not understand why Britain should be required to make a large net contribution when it is not amongst the more prosperous Member States and when eight other countries, several of them more prosperous, are net recipients.

3. No national budget could be so lopsided. No national budget perverse as between rich and poor. As compared to national budgets, Community budget may be smaller in scale but that is no justification for perversity.

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Bas of the budget problem

4. We recognise that the UK derives substantial benefits outside the budgetary field from its Community membership. The Government is fully aware of such points as our access to the common market, our increased voice in the world through being part of the Community; indeed we constantly emphasise these in Parliament and in public speeches. But these are not advantages confined to the UK. All Member States enjoy these benefits, but only the UK and Germany are asked to make a net budget contribution. Moreover, the UK loses outside the budget too. As a net food importer we make substantial resource transfers to other Member States through our agricultural trade due to Community prices being generally higher than world prices. It is often suggested that losses on the swings of the agricultural trade are made good on the roundabouts of trade in industrial goods. But it is just not true that the net importers of Community food are in all cases net exporters of manufactures to the rest of the Community: the UK for one is not.

5. The net contribution is not a figment of British imagination. It is money actually flowing across the exchanges. Each Member State collects the Community's own resources from its tax payers and pays them into a Commission account held in the Member State. The Commission uses that account to make payments to recipients of Community funds in that country. In the case of eight Member States, the accounts have to be topped up by transfers inwards from the other two Member States. These eight states know that the whole of their gross contributions will be used in their own countries and that additional funds to finance Community programmes in their countries will be transferred from the other two Member States. In these two countries, namely the UK and Germany, the payments to beneficiaries of Community programmes are less than the taxes collected so that the Commission is able to transfer the resulting surplus to accounts in other countries when they need topping up. These transfers are real money, and a real resource cost to the net contributor countries. They are also a charge on taxable capacity for which the net contributor countries

have to make allowance in their national budget.

6. A net contribution is thus a real burden and a net benefit a real gain. The pattern of net benefits and net contributions must be defensible to public opinion and this means that they must have some justification in logic and equity. At present the budget arrangements without correction may appeal to the net recipient countries but do not produce a defensible pattern.

Misinterpretation of the British Position

7. The United Kingdom is accused of trying to undermine the common basis of Community financing by insisting on a juste retour or calling for the destruction of the own resources system. Both charges are untrue. The UK has made it clear that it is willing to remain a modest net contributor and that the adjustment in its budgetary position which it is seeking can be achieved within the system of own resources. The UK is not trying to destroy the agreed rules of the Community. It is asking for the fulfilment of a pledge given to it before its accession, that, should an unacceptable situation arise, the institutions would find solutions. That assurance was repeated in December 1974 and the aim of the 30 May Mandate was to prevent the recurrence of unacceptable situations. The UK point is that the Community budget is unfairly harsh on the citizens of the UK because they pay in so much and get back so little. We agree that the money collected to finance the Community Budget belongs to the Community. But this does not mean that the money has to be distributed in a lopsided manner.

8. We are sometimes accused of seeking to undermine the CAP. This is nonsense. The British Government have made clear on numerous occasions that we subscribe to the principles of the CAP. Like a number of other Member States and the Commission, we are concerned at certain aspects of how the CAP is currently operating. The various support arrangements have not kept up with the rapid advances in agricultural productivity in recent years. But we are determined to play a constructive part in seeking

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improvements so as to put this very important area of common policy on a sounder footing for the future.

9. Nor do we have anything to reproach ourselves with on our attitude to other Community policies. In discussion of Chapter I of the Mandate, we were in the forefront of those who advocated the development of policies other than agriculture. We have consistently urged the completion of the internal market in such areas as insurance and air transport. We have negotiated constructively for a Common Fisheries Policy. And so on.

10. Some people say that the UK problem arises from its alleged failure to adapt to Community membership. It is said that our excessive net budget contribution arises because we import more than other Member States from third countries, and thus incur high tariff and levy charges. This argument is false, for two reasons. In the first place, the bulk of the UK budget problem stems from the low level of UK receipts from the Community budget. The disproportion in our gross contribution to the budget is a relatively minor factor. Secondly, the UK has adapted its trading patterns, quite radically, since it joined - 43% of total trade is now with Member States compared with about 32% before accession. 50% of our imports of manufactured goods now come from the Community. This does not look like a country with a budget problem created by obstinately clinging to traditional sources of supply.

11. [Defensive use only] Certain traditional necessities, be they food, energy or raw materials are not available within the Community. Each Member State has requirements of this kind. Our own urban population has a traditional demand for hard wheat for breadmaking; Italy's footwear industry has to import leather; France is short of fossil fuels and has built up her energy imports accordingly. These are not matters on which there is a reprehensible failure to adapt. Besides, trade is not state controlled in any of our countries. So it is up to our importers to decide whether to accept the cost penalty of the customs duty

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or y on third-country imports. Would we wish it otherwise? As a Community committed to an open world trading system we should surely defend the rights of consumers to choose the products best suited to their needs.

Autumn Negotiations

12. We must make clear our insistence on a lasting solution to the budget problem. The problem itself is not ephemeral. It is structural. It needs a rational solution, which will take account of the overall financial effect of separate Community policies on the United Kingdom (and on other Member States) and ensure that the eventual UK net contribution, as a contribution from one of the less prosperous Members, will be no more than modest.

13. The need for such a durable arrangement was recognised in the 30 May 1980 Agreement, which was in terms an interim arrangement foreshadowing a structural solution to the problem. Our discussions during recent months failed to find a lasting arrangement and we merely fell back on a further year of the 30 May agreement. We cannot go on like this. The UK is not prepared to approach the autumn negotiations on the basis that all it will lead to is further temporary and unsatisfactory patching.

14. We recognise that there are substantial problems lying ahead which affect the structure of the Community financial system. We share the belief of some others that the time may now be right for a thorough going review. There is a possibility that, on present policies, expenditures will soon run up against the ceiling on own resources, with implications for all Community policies and particularly the CAP, given the present open-ended nature of agricultural expenditure. There will be financial consequences from enlargement, which will change the effect of present financial arrangements on all Member States. And there are the continuing problems of the imbalance of spending policies and the impact of the budget on individual Member States. We would not go into any review having accepted a commitment in advance as to the nature of its outcome. In particular the terms of reference must

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not based on any assumption that own resources will be increased. But they must include a lasting and satisfactory solution to the budget problem.

15. Unrealistic to suppose that such a review would be likely to be completed very quickly, and the results will take even longer to work through. It is therefore not acceptable to the United Kingdom simply to put off discussion of the budget problem into this uncertain context, and adopt further patching operations meanwhile. Although a durable solution to the problem would be among matters to be considered in a wider review, the need is there now to find for 1983 and later a fair and equitable arrangement which would leave the UK paying no more than a modest net contribution. This would enable the Community either to carry on with that arrangement, or to move to something more satisfactory if such was suggested by the wider review.

Procedure

16. Should try to keep to end-November deadline; bad for Community for discussions to drag on. The methods adopted for the negotiations leading up to the agreement of 25 May 1982 did not work well. Ministers found themselves discussing complex issues which had not been properly prepared for them by officials. Officials should get to work in September so that Ministers can discuss substance of issues requiring political decisions in October.

17. Helpful to have views of Commission at early stage. Need some factual information, ideas for possible solution to the budget problem and terms of reference for the review.

Problem of German Anxiety Over Size of Their Net Contributions

[If raised]

18. We have a good deal of sympathy with the German position. We must start to cope with this problem now. Very short sighted to expect the Germans to carry so heavy a burden; out of the question to suppose that we will abandon our case for this reason.

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Correction of the Alleged Overpayments (If raised)

19. In law, the other Member States have no claim for any restitution of these alleged overpayments. The United Kingdom did not agree to make a minimum net contribution in respect of 1980 and 1981. It was the other Member States who rejected at that time the idea of a minimum net contribution system, and insisted on a minimum net refund. The text of the 30 May 1980 Agreement clearly specifies the refunds that would be made to the United Kingdom in various circumstances. It is true that underlying conditions changed in such a way that the agreed refunds of the United Kingdom's net contribution produced a more favourable result overall to the United Kingdom than had been expected. But the other Member States paid no more than they had pledged to pay. The refunds were no larger than those stated in the Agreement. In recognition of the fact that the United Kingdom's overall position turned out rather well, the United Kingdom agreed to a basic refund in respect of 1982 which was 158 m ecu less than what it ought to have been, given the terms of paragraph 7 of the 30 May Agreement and the Commission's estimate of our unadjusted net contribution in 1982. In recognition of the strength of feeling on this issue, we also agreed to discuss the matter further in the autumn negotiations; but we did so without commitment as to the outcome. I do not want to speculate now on what the outcome might be. The British Government will no doubt be influenced by the position taken by others on the diagnosis of the underlying problem and the nature of the solution to it.

30 May 1980 Mandate - Status of Draft Guidelines (If raised)

20. The draft conclusions of the November 1981 European Council have never been formally endorsed, because they were components of a package with three Chapters. There has so far been no agreement on Chapter 3 (Budgetary Problems) and opinions still differ on Chapter 2 (Common Agricultural Policy). The draft conclusions therefore remain in limbo. As far as Chapter 1 (Development of policies other than the CAP) is concerned, the UK is keen to see Community policies go ahead and has already made it clear that it is willing to take the draft conclusions as a basis for discussion

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where appropriate. If a satisfactory budget agreement were now reached and others wished to complete work on the rest of the Mandate, the UK would have no objection.

Differentiation (If raised)

21. Have seen the suggestions that in a Community of 12 not all policies need apply in all Member States. Reminiscent of earlier suggestions for variable geometry or two-speed Community. This is a very curious concept. Concerned that some people are seeking to use it to postpone the day when changes to the Community have to be made. Not going to help enlargement.

22. No question of UK being interested in such an approach. EMS not a good guide. The inherent nature of that arrangement made it feasible to draw up rules which would permit different forms of exchange rate management. This approach largely inapplicable to the rest of Community activity. Main objections and impracticabilities are:-

- (a) Against whole idea of Community.
- (b) Make decision making more difficult: how for example would majority voting work?
- (c) Many decisions of Council involve directly applicable legislation. Internal market would be affected if new members - or others - could pick and choose.
- (d) What about Council decisions involving expenditure? How does one decide who pays and who does not?
- (e) Many decisions affect third countries.
- (f) Debate about who joins what policy much more damaging than dealing with questions like Greek requests.

23 August 1982

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TO IMMEDIATE F C O

TELEGRAM NUMBER 3271 OF 8 SEPTEMBER 1982

INFO ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS

M I P T:

THORN'S VISIT TO CHEVENING ON 13 SEPTEMBER

1. IT IS IMPORTANT THAT THORN SHOULD NOT GO AWAY WITH THE IMPRESS-
ION (AND SAY TO MINISTERS IN OTHER COMMUNITY GOVERNEMENTS)

1. IT IS IMPORTANT THAT THORN SHOULD NOT GO AWAY WITH THE IMPRESSION (AND SAY TO MINISTERS IN OTHER COMMUNITY GOVERNEMENTS) THAT WE ARE STILL MAINLY PREOCCUPIED WITH GETTING OUR MONEY BACK. WE NEED TO SHOW A HEALTHY INTEREST IN THE INTERNAL DEVELOPMENT OF THE COMMUNITY AS WELL AS ITS RELATIONS WITH THE US AND OTHERS. GIVEN THAT THE AUTUMN CAMPAIGN HAS NOT YET REALLY OPENED AND THAT WE OURSELVES HAVE NOT FULLY CLEARED OUR MINDS ABOUT OUR NEGOTIATING OBJECTIVES, IT MAY BE POSSIBLE AND DESIRABLE TO DEVOTE A RELATIVELY SMALL PROPORTION OF THE TIME AVAILABLE TO THE UK BUDGET PROBLEM.

2. IT WILL IN PRACTICE BE EXTREMELY DIFFICULT TO GET THE DISCUSSION OF QUOTE 1983 AND LATER UNQUOTE GOING WITHOUT AN INPUT FROM THE COMMISSION. I SUGGEST THAT YOUR AIMS SHOULD BE:

- (A) TO FIND OUT WHETHER HE ENVISAGES MAKING SUCH AN INPUT AND, IF SO, WHETHER HE HAS ANY IDEA WHAT IT MIGHT BE:
- (B) IF SO, TO INFLUENCE HIM AWAY FROM ANY UNDESIRABLE THOUGHTS:
- (C) TO IMPRESS ON HIM THE NEED TO HAVE THOROUGH PREPARATION AT OFFICIAL LEVEL, BEGINNING IMMEDIATELY AFTER THE SEPTEMBER FOREIGN AFFAIRS COUNCIL, SO THAT MINISTERS MAY BE PUT IN A POSITION TO MEET THE 30 NOVEMBER DEADLINE: AND
- (D) TO THANK HIM FOR HIS INTERVENTION AT THE LAST COUNCIL ON THE 1982 BUDGET PROBLEM AND TO STRESS THE NEED TO GET THIS SETTLED ON 20 SEPTEMBER.

3. AS REGARDS ENLARGEMENT YOU WILL WANT TO IMPRESS ON HIM THE NEED TO GET ON WITH THE NEGOTIATIONS (AS IN THE PRIME MINISTER'S LETTER TO HIM). YOU MAY WANT TO QUERY THE POLITICAL WISDOM OF ANY LINKAGE OF TIMING BETWEEN ENLARGEMENT AND OWN RESOURCES. THE SPANIARDS AND PORTUGUESE HAVE HAD TO WAIT A LONG TIME ALREADY AND THE NEGOTIATIONS COULD NOW BE COMPLETED REASONABLY QUICKLY. SINCE IT SEEMS HIGHLY UNLIKELY THAT THE GERMANS, LET ALONE OURSELVES, WILL BE READY TO MAKE A COMMITMENT IN ADVANCE TO INCREASE OWN RESOURCES AT THE MOMENT OF ENLARGEMENT AND SINCE ANY DISCUSSION OF NEW OWN RESOURCES WOULD BE BOUND TO TAKE A VERY LONG TIME THE SPANIARDS AND PORTUGUESE WOULD SEE ANY LINKAGE OF TIMING AS PUTTING ACCESSION OFF UNTIL THE GREEK KALENDS.

4. AS REGARDS OWN RESOURCES, A READINESS TO DISCUSS THE MATTER OBJECTIVELY WITHOUT ANY COMMITMENT SEEMS TO BE THE RIGHT LINE FOR US. YOU MIGHT WANT TO ASK THORN HOW THE COMMISSION NOW SEES THE PROSPECTS FOR THE GROWTH OF CAP EXPENDITURE IN THE LIGHT OF THE TREND OF WORLD PRICES OF CEREALS DOWNWARDS AND THE GROWTH OF PRODUCTION OF CEREALS AND MILK IN THE COMMUNITY THIS YEAR. THE MORE WE CAN GET HIM COMMITTED TO RENEWING THE COMMISSION'S EFFORTS OF LAST YEAR TO CURB THE SURPLUSES THE BETTER. EQUALLY, IT WILL BE HELPFUL IF HE CAN BE BROUGHT TO SAY EXPLICITLY THAT WHATEVER IS

HELPFUL IF HE CAN BE BROUGHT TO SAY EXPLICITLY THAT WHATEVER IS DONE FOR MEDITERRANEAN AGRICULTURE MUST NOT CREATE NEW SURPLUSES IN THAT FIELD. IF, AS I EXPECT, HE SAY THAT THE COMMISSION WILL WANT TO PUT FORWARD IDEAS ABOUT NEW OWN RESOURCES EARLIER RATHER THAN LATER YOU MIGHT MAKE THE FOLLOWING POINTS:

- (A) THERE COULD BE NO QUESTION OF US MAKING COMMITMENT TO NEW OWN RESOURCES IN ADVANCE OF DISCUSSIONS:
- (B) HOW DOES HE ENVISAGE MEETING THE LEGITIMATE ANXIETY OF THE GERMANS, DUTCH AND OURSELVES THAT THE CAP WOULD SIMPLY SWALLOW UP ANY NEW MONEY?
- (C) DOES HE ENVISAGE THAT A FIRM LONG-TERM SOLUTION TO THE UK BUDGET PROBLEM WOULD BE INTEGRATED IN A DECISION ON NEW OWN RESOURCES? IS THE COMMISSION THINKING OF PUTTING FORWARD IDEAS ON OWN RESOURCES WHICH MIGHT CONTRIBUTE TO THAT END?

A NEW MESSINA

5. I SUGGEST THAT YOU MIGHT ASK THORN QUESTIONS RATHER THAN CRITICIZING (THOUGH WITHOUT SOUNDING POSITIVE AND THUS ALLOWING HIM TO TELL OTHERS THAT WE ARE INTERESTED) EG:

- (A) WHAT SORT OF AGENDA DOES HE ENVISAGE AND WHAT SORT OF OUTCOME MIGHT EMERGE?
- (B) WOULD THERE BE SOME PREPARATION IN ORDER TO ENSURE A REASONABLE CHANCE OF REACHING AN AGREEMENT?
- (C) HOW WOULD SUCH A CONFERENCE FIT IN WITH THE WORKING OF THE COMMISSION, COUNCIL AND PARLIAMENT?

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TO IMMEDIATE F C O

TELEGRAM NUMBER 3270 OF 8 SEPTEMBER 1982

INFO ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS

THORN'S VISIT TO CHEVENING ON 13 SEPTEMBER

1. YOU MAY LIKE TO HAVE ONE OR TWO THOUGHTS IN ADVANCE OF YOUR MEETING WITH THORN ON MONDAY.

2. THE EVENTS OF THE SPRING CAMPAIGN, IN PARTICULAR HIS LAST VISIT TO LONDON WITH TINDEMANS, HAVE LEFT THORN WITH THE FEELING THAT THE UK HAS BRUISED HIS EGO. THE PRESS REPORTED EXTENSIVELY THAT WE DID NOT LOVE OR ADMIRE HIM. HE IS FRIGHTENED BY THE PRIME MINISTER. ALL THIS PROBABLY MAKES THE TASK OF USING THE VISIT TO CARRY HIM WITH US MORE DIFFICULT. BUT I AM PRETTY SURE THAT HE IS WORRYING LEST WE VETO HIS SECOND TWO YEARS AS PRESIDENT. SO HE WILL BE WANTING TO MAKE A GOOD IMPRESSION AND HIS VANITY WILL AS ALWAYS MAKE HIM READY

~~MAKE A GOOD IMPRESSION AND HIS VANITY WILL AS ALWAYS MAKE HIM READY~~
TO RESPOND TO FLATTERY. ON THE OTHER HAND HE WILL ALSO AS USUAL NOT
WANT TO COMMIT HIMSELF TO US ABOUT ANYTHING WHICH WOULD CAUSE DIS-
PLEASURE IN PARIS, BONN OR EVEN ELSEWHERE IN THE COMMUNITY. AND HE
CAN BE RELIED ON TO RECOUNT WHAT IS SAID TO HIM TO OTHERS IN A NOT
WHOLLY FAVOURABLE WAY.

EC/US

3. DAVIGNON HAS BEEN CARRYING THE BALL WHILE THORN HAS BEEN ON
HOLIDAY. A PAT ON THE BACK FOR THE PROGRESS ON STEEL SO FAR WOULD
NEVERTHELESS BE WELCOME AND APPROPRIATE. THORN WILL BE BRIEFED TO
ARGUE THE CASE FOR COMMISSION PARTICIPATION IN ANY MINISTERIAL
MEETING BETWEEN THE FOUR QUOTE PIPELINE UNQUOTE MEMBER STATES AND
THE AMERICANS. THOUGH YOU MIGHT WANT TO OPEN THE MEETING ON EC/US
RELATIONS, AS THE MOST URGENT SUBJECT ON THE AGENDA, I DOUBT IF IT
WOULD BE PROFITABLE TO SPEND TOO LONG ON IT.

FISH

4. NOR NEED YOU SPEND MUCH TIME ON FISH, ESPECIALLY IF THORN IS
SEEING FISHERY MINISTERS THE FOLLOWING DAY. WITH ONLY THE DANES
HOLDING OUT AND OTHER MEMBER STATES INCLUDING THE FRENCH AND
GERMANS PRESSING FOR EARLY AGREEMENT, THORN WILL WANT THE COMM-
MISSION TO HELP TO PUSH THINGS FORWARD. OBVIOUSLY IT WILL BE DESIR-
ABLE TO INCREASE HIS FEELING THAT THE MATTER IS URGENT AND TO LOBBY
HIM ON ANY DETAILED POINTS OF CONCERN TO OURSELVES.

ENLARGEMENT

5. REPLIES TO THORN'S LETTER HAVE BEEN SLOW TO COME IN (COPIES OF
THOSE RECEIVED HAVE BEEN MUFAXED TO THE DEPARTMENT). THE BUDGETARY
CONSEQUENCES OF ENLARGEMENT MAY BE UPPERMOST IN THORN'S MIND. THE
COMMISSION ARE WORRIED THAT THERE WILL BE BIG INCREASES IN THE MILK
AND CEREAL SURPLUSES IN THE COMING YEAR AND THAT THIS WILL BRING TO
AN END THE PERIOD DURING WHICH, WITH SOME GOOD MANAGEMENT AND MORE
GOOD LUCK, THE RATE OF GROWTH OF CAP EXPENDITURE HAS BEEN LESS
THAN THAT OF OWN RESOURCES. THE FACT THAT A MAJORITY OF MEMBER
STATES, INCLUDING THE FRENCH, SEEM TO BE MOVING IN THE DIRECTION OF
SAYING THAT OWN RESOURCES WILL NEED TO BE INCREASED ON ENLARGEMENT
AND THAT THE ACCESSION TREATIES AND A REVISED OWN RESOURCES DECIS-
ION SHOULD BE PUT TO NATIONAL PARLIAMENTS AT THE SAME TIME MAY MAKE
THORN FEEL THAT THE COMMISSION MUST NOW MOVE FASTER IN PUTTING FOR-
WARD NEW IDEAS ABOUT OWN RESOURCES THAN HE SEEMED TO ENVISAGE IN
JULY (WHEN HE WAS IN NO HURRY TO ALLOW TUGENDHAT TO BRING HIS IDEAS
FORMALLY TO THE COMMISSION).

6. ACCORDING TO DURIEUX, THORN IS CONCERNED ABOUT MEDITERRANEAN
AGRICULTURE. HE SEES THAT THE COMMUNITY CANNOT AFFORD TO MAKE

6. ACCORDING TO DURIEUX, THORN IS CONCERNED ABOUT MEDITERRANEAN AGRICULTURE. HE SEES THAT THE COMMUNITY CANNOT AFFORD TO MAKE THE SAME MISTAKES FOR MEDITERRANEAN PRODUCTS AS FOR NORTHERN PRODUCTS. (AS FAR AS THE LATTER ARE CONCERNED HE WILL NO DOUBT POINT OUT THAT EVENTS THIS YEAR SHOW HOW RIGHT THE COMMISSION WERE IN THE MANDATE EXERCISE TO MAKE PROPOSALS FOR CURBING THE SURPLUSES).

7. WHAT I AM NOT SURE ABOUT IS WHETHER THORN HAS HIMSELF THOUGHT THROUGH AND ESPOUSED THE THESIS THAT NEW OWN RESOURCES AND ENLARGEMENT MUST GO HAND IN HAND. GIVEN THE LENGTH OF TIME WHICH A DISCUSSION OF OWN RESOURCES WOULD BE BOUND TO TAKE, HE MIGHT POSSIBLY BE SENSITIVE TO THE ARGUMENT THAT IT WOULD BE DAMAGING POLITICALLY TO TELL THE SPANIARDS AND PORTUGUESE THAT THEY WILL HAVE TO WAIT YET AGAIN, PARTICULARLY IF GENSCHER TAKES THIS LINE. ON THE OTHER HAND THE POSITION OF THE FRENCH AND MOST OTHER MEMBER STATES AND HIS ANXIETY TO PLEASE THE EUROPEAN PARLIAMENT WITH A PROPOSAL FOR AN INCREASE IN OWN RESOURCES WILL POINT HIM IN THE DIRECTION OF GOING ALONG WITH THE MAJORITY.

UK BUDGET PROBLEM

8. ACCORDING TO DURIEUX, THORN HAS NOT YET DECIDED WHAT, IF ANYTHING, THE COMMISSION SHOULD DO. HE IS THINKING IN TERMS OF AN INTERIM TWO YEAR SETTLEMENT AND SOLVING THE PROBLEM FOR THE LONGER TERM IN THE CONTEXT OF A BROAD REVIEW COVERING OWN RESOURCES, ENLARGEMENT, THE CAP (INCLUDING NOT ONLY MEDITERRANEAN AGRICULTURE BUT ACTION TO DEAL WITH NORTHERN SURPLUSES) AND COMMUNITY POLICIES. I DOUBT IF HE HAS YET ADDRESSED HIS MIND TO THE NATURE OF AN INTERIM SOLUTION.

A NEW MESSINA?

9. ACCORDING TO DURIEUX (PLEASE PROTECT) THORN HAS REJECTED THE ARGUMENTS OF HIS OFFICIALS THAT A NEW MESSINA WOULD NOT BE APPROPRIATE GIVEN THAT:

- (A) THE INSTITUTIONS OF THE COMMUNITY, INCLUDING THE COMMISSION, ARE NOW THERE TO TAKE THE NECESSARY DECISIONS ABOUT THE FUTURE DEVELOPMENTS OF THE COMMUNITY, AND
- (B) THERE ARE DANGERS IN TALKING ABOUT A NEW MESSINA WHEN NO CONSENSUS IS EMERGING ABOUT THE SORT OF STEPS WHICH MIGHT BE AGREED AT SUCH A CONFERENCE.

APPARENTLY THORN BELIEVES THAT IT IS HIS DUTY TO RELAUNCH THE DEBATE ABOUT THE FUTURE OF THE COMMUNITY IN ORDER TO RALLY PUBLIC OPINION BEHIND RENEWED EFFORTS TO PROMOTE EUROPEAN UNITY. HE THINKS THAT THE FIRST PHASE OF THE DEVELOPMENT OF THE COMMUNITY HAS BEEN COMPLETED AND THAT IT IS TIME TO AGREE ON A SECOND PHASE. I DARE SAY THAT THORN IS IN FACT MORE INTERESTED IN SOUNDING GOOD IN THE EUROPEAN PARLIAMENT THAN IN REALLY TRYING TO PROMOTE A NEW CONFERENCE. BUT APPARENTLY HE REACTS VERY POORLY TO CRITICISM OF HIS IDEA

ENCE. BUT APPARENTLY HE REACTS VERY BADLY TO CRITICISM OF HIS IDEA.

10. MY IMMEDIATELY FOLLOWING TELEGRAM PUTS FORWARD SOME SUGGESTIONS ABOUT THE IMPRESSION TO CREATE ON HIM AND THE LINE YOU, THE PRIME MINISTER AND OTHER MINISTERS MIGHT TAKE WITH HIM.

FCO ADVANCE TO:-

FCO - PS, PS/PUS, HANNAY, DE FONBLANQUE, BONE, FRY

CAB - HANCOCK, STAPLETON, DURIE, LAMBERT

TSY - LITTLER, EDWARDS

NO 10- COLES

BUTLER [ADVANCED AS REQUESTED]

NNNN

RESTRICTED

cf SG

1



Foreign and Commonwealth Office

London SW1A 2AH

Two Pd

Prime Minister:

25 August, 1982

Agree?

Dear Tim

JH

26/8

I should like
John Diller to join
if he is available and
then Walter.
me

Prime Minister's Lunch for M. Thorn: 12.45 for 1.00 pm,
14 September

The Prime Minister has agreed to give a working lunch for M. Thorn on 14 September. You will recall that this arose from M. Thorn's request to call on the Prime Minister some time in September for a 'wide-ranging discussion' (he is also hoping to see Herr Schmidt and M. Mitterrand). He will have spent the previous night at Chevening, where he will have a session of informal talks with Mr Pym on the budget issue; but he will no doubt want to range wider at the lunch (his Cabinet have mentioned transatlantic relations).

I enclose a draft guest list. Besides Mr Pym, it would seem appropriate for the Prime Minister, like M. Thorn, to be supported by a small number of officials. We have not been able to confirm that Sir M Butler, who is away on leave, will be able to attend. If not, we would suggest that Mr Hannay (Assistant Under-Secretary, FCO) be invited in his place.


Yours ever

John Holmes

(J E Holmes)
Private Secretary

T Flesher Esq
10 Downing Street

RESTRICTED


LIST OF SUGGESTED GUESTS
FOR WORKING LUNCH GIVEN BY THE PRIME MINISTER

ON 14 SEPTEMBER, AT 12.45 FOR 1.00 PM

IN HONOUR OF M GASTON THORN

Name	Address	Reason for Invitation
M Gaston Thorn President of the Commission of the European Communities [M Thorn will have two or possibly three officials with him - names to be supplied later]	C/o Head of Chancery UKRep, Brussels "	
✓ The Rt Hon Francis Pym MC MP		
✓ Sir Julian Bullard KCMG	FCO 233 3968	Deputy PUS and Political Director
✓ Sir Kenneth Couzens KCB	HM Treasury 233 4355	2nd Permanent Secretary responsible for Overseas Finance (including EC)
✓ Sir Michael Butler KCMG	UKRep, Brussels	UK Permanent Representative to the EC
✓ Mr D J S Hancock	Cabinet Office 233 7211	Deputy Secretary, European Secretariat
✓ Mr R M Evans CMG	FCO 233 5923	Deputy Secretary responsible for the EC and economic affairs



cc: Mrs Goodchild

10 DOWNING STREET

From the Private Secretary

23 August, 1982

WORKING LUNCH WITH M. THORN, 14 SEPTEMBER

Further to Stephen Lamport's letter to me of 11 August, the Prime Minister has agreed that M. Thorn should be accompanied by two or three members of his staff when he lunches here on 14 September.

CAROLINE STEPHENS

Miss M Fenwick
Foreign and Commonwealth Office

R



10 DOWNING STREET

PRIME MINISTER

Working Lunch with M. Thorn
on 14 September

M. Thorn will be accompanied
on his visit by two or three
members of his staff. Would you
have objection if they attended the
lunch?

None
ms ch.

20 August 1982

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Foreign and Commonwealth Office

London SW1A 2AH

11 August 1982

Miss Caroline Stephens
10 Downing Street
London SW1

Tim
X What do you think?
Ch.
to the PM's return?
R.
2/8

Dear Caroline,

POSSIBLE CALL BY M THORN ON THE PRIME MINISTER

Thank you for your letter of 5 August to Francis Richards. We have confirmed that M Thorn accepts the Prime Minister's invitation to a working lunch on 14 September.

X M Thorn will be accompanied on his visit by two or three members of his staff, and I should be grateful for your confirmation that they may also attend the lunch. I shall of course let you have their names as soon as possible.

Yours ever,

S M J Lamport
Private Secretary to Mr Hurd

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FILE Euro Tol RW

cc: S. GORDON

10 DOWNING STREET

From the Private Secretary

5 August, 1982

POSSIBLE CALL BY M. THORN ON THE PRIME
MINISTER

I am replying to your letter to John Coles of 4 August.

The Prime Minister would be prepared to give M. Thorn a working lunch on Tuesday, 14 September, 1245 hrs for 1300 hrs. Can you please confirm that this will be convenient.

CAROLINE STEPHENS

confirmed 10/8

F N Richards, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

AK



Foreign and Commonwealth Office

London SW1A 2AH

4 August 1982

Prime Minister

Would you like to see him - for example in the second week of October, after the party conference?

A.S.C. $\frac{4}{8}$

Dear John,

Possible call by M Thorn on the Prime Minister

UKREP Brussels (see UKREP teleno 3130 enclosed) have been approached by M Thorn's Cabinet asking for an appointment for him to see the Prime Minister in September. He is aiming also to see Chancellor Schmidt and President Mitterrand. His Cabinet have indicated that he wants a wide-ranging discussion; but it looks as though the autumn negotiations on the EC Budget will be at the top of his agenda.

We hope that it will be possible for the Prime Minister to find time for him. His role in earlier rounds of negotiations has been neither particularly effectual nor favourable to us. But his position is important and his influence cannot be ignored. He will be coming over for talks with Mr Pym on the EC budget at Chevening on 13 September; it would clearly reinforce the impact if he were subsequently to see the Prime Minister.

Ideally, Thorn would like a call after his night at Chevening, ie on the morning of 14 September; but he would try to manage any other date the Prime Minister could offer. In view of the Prime Minister's visit to the Far East in the latter half of the month, the 14th or any other September date would no doubt be difficult. A date early in October would in any case fit quite well.

I am copying this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours ever,

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

GR 288

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RESTRICTED

FM UKREP BRUSSELS 301538Z JUL 82

TO PRIORITY FCO

TELEGRAM NUMBER 3130 OF 30 JULY 1982

TELECON JONES PARRY/WHITNEY :

POSSIBLE CALL BY M. THORN ON PRIME MINISTER

1. GRAHAM MEADOWS (THORN'S CABINET) ASKED US TODAY, AT THE REQUEST OF THE PRESIDENT WHO IS CURRENTLY TOURING AFRICA, WHETHER IT WOULD BE POSSIBLE TO ARRANGE FOR M. THORN TO CALL ON THE PRIME MINISTER SOMETIME IN SEPTEMBER. THIS IS NOT INTENDED AS PART OF A TOUR OF CAPITALS, BUT THE PRESIDENT WISHES TO SEE MRS THATCHER, M. MITTERRAND AND CHANCELLOR SCHMIDT BEFORE THE MANDATE NEGOTIATIONS HOT UP. MEADOWS COULD NOT BE SPECIFIC ON SUBJECTS FOR DISCUSSION, BUT HE EXPECTED THAT IT WOULD INCLUDE THE MANDATE, POSSIBLY THE U.S., BUT WOULD ALSO BE WIDE RANGING.

2. M. THORN WILL BE SEEING YOU ON MONDAY 13 SEPTEMBER. THE CABINET'S PREFERRED DATE FOR A CALL ON THE PRIME MINISTER WOULD BE THE MORNING OF TUESDAY 14 SEPTEMBER, BUT THEY WOULD TRY TO MAKE ANY DATE CONVENIENT TO MRS THATCHER. WE POINTED OUT TO THE CABINET THAT AN APPOINTMENT MIGHT BE COMPLICATED BY THE PRIME MINISTER'S VISIT TO SOUTH EAST ASIA.

FCO COPY TO:

FCO - HANNAY; SPRECKLEY

CAB - HANCOCK; LAMBERT

ELLIOTT

LIMITED

ECD (I)

MR HANNAY

COPIES TO:

COPY ADDRESSEES

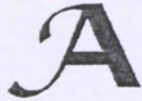
[NOT ADVANCED]

RESTRICTED

1-4 AUG 1982



NEW YORK, NY
AUG 4 1982



The National Archives

LETTERCODE/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>744</i> (one piece/item number)	
Extract/Item details: <i>Minute from Coles to Armstrong dated 7 April 1982</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>20 September 2012 Wayland</i>
TEMPORARILY RETAINED	
MISSING ON TRANSFER	
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NUMBER NOT USED	

Instructions for completion of Dummy Card

Use **Black Pen** to complete form

Use the card for one piece/item number only

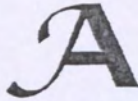
Enter the Lettercode, Series and Piece/Item references clearly
e.g.

LETTERCODE/SERIES <i>GRA 168</i>
PIECE/ITEM <i>49</i> (ONE PIECE/ITEM NUMBER ONLY)

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The National Archives

LETTERCODE/SERIES <i>PREM 19/744</i>	Date and sign
PIECE/ITEM <i>744</i> (one piece/item number)	
Extract/Item details: <i>Minute from Armstrong to Prime Minister dated 2 April 1982, with attachment</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>20 September 2012 @Wayland</i>
TEMPORARILY RETAINED	
MISSING ON TRANSFER	
MISSING	
NUMBER NOT USED	

Instructions for completion of Dummy Card

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Enter the Lettercode, Series and Piece/Item references clearly
e.g.

LETTERCODE/SERIESGRA 168.....
PIECE/ITEM49.....
(ONE PIECE/ITEM NUMBER ONLY)	

Please Sign and Date in the box adjacent to the description that applies to the document being replaced by the Dummy Card

If the document is Closed under a FOI exemption, enter the number of years closed. See the TNA guidance *Preparation of records for transfer to The National Archives*, section 18.2

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Qz.02507

A-2 C-3
h-a.
Gvo Pd

NOTE OF A MEETING

RECORD OF CONVERSATION BETWEEN THE FOREIGN AND COMMONWEALTH
SECRETARY AND THE PRESIDENT OF THE EEC COUNCIL OF MINISTERS
AND THE PRESIDENT OF THE EUROPEAN COMMISSION AT 1035 HOURS
ON 16 MARCH 1982 AT 10 DOWNING STREET

Present: Foreign and Commonwealth Secretary M. Tindemans
Sir Michael Butler M. Thorn
Mr Hancock M. Robert Vaes
M. Durieux
M. Thuysbaert

1. Immediately following the discussion recorded in the note attached to Mr Coles letter to Mr Richards of 16 March, the meeting continued with the Foreign and Commonwealth Secretary until 11 am.
2. M. Thorn said that the other member states would never agree to endorse a statement of the problem as seen by the United Kingdom. At least six of them would refuse. They would not admit that the United Kingdom had an eternal right to compensation. All they were likely to agree to was a mechanism which would reimburse some 60-65% of the relevant gap, with agreement to look at the problem again after, say, 3 years. Other governments would not accept commitments beyond their next elections. Lord Carrington said that the negotiations in January had gone further than M. Thorn had implied. All had agreed to 4 years with a formula for a review. The real problem was going to be the size of the refund. The United Kingdom for their part were not going to accept that they had a God-given duty to pay large sums to people richer than themselves.
3. Sir Michael Butler said that the first step was to define the size of the United Kingdom problem. The objective indicator gap would amount to something less than two-thirds of it. The problem had to be defined in relation to the financial mechanism

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gap as well. The negotiations could not reach the decisive stage until there had been agreement on such a method of defining the problem. M. Thorn replied that he did not personally have strong views on the financial mechanism, although he would not wish to be quoted. But he knew that the United Kingdom would not secure agreement to its continuation. He did not understand why the United Kingdom was insisting on figures for 1982. These would be higher than the figures the Commission had tabled. The other Member States were far more likely to agree to a high percentage if the discussion was confined to low figures for 1980 and 1981. He asked why the United Kingdom needed the financial mechanism if it had the prospect of getting a 100% reimbursement for the objective indicator back. Sir Michael Butler explained that that would be only about 60% of our unadjusted net contribution which was simply not conceivable as a settlement to the problem.

4. M. Tindemans said that the other Member States did not see the problem as the United Kingdom saw it. They claimed that the United Kingdom had accepted the Treaty and all the consequences of it. No other Member State ever calculated the benefits and costs of membership in the way that the United Kingdom did. The benefits of industrial trade were never evaluated. They did not accept that there was a British problem. The Foreign Secretary said that he did not wish to disabuse others of their illusions so long as the settlement lasted for a reasonable period of time. The problem would look quite different by the end of that period. When we negotiated the Treaty we had said that the present problem would arise; others said that it would not but agreed to put it right if it did. As it happened we were proved right. It was possible that the problem would now disappear; but that could obviously not be taken for granted. The United Kingdom was not asking to be given a present. We had said that we were prepared to be a modest net contributor. That was a contribution to the Community. The French had been significant net beneficiaries, even though they were richer than the United Kingdom. There was no need to say that the corrective

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arrangement would be required in perpetuity.

5. M. Thorn said that it would be much easier to negotiate a lump sum straddling the next few years in which a number of Member States had elections than to agree to a percentage of the objective indicator gap. He and M. Tindemans would try to avoid the word "degressivity". But if the United Kingdom insisted on a percentage, the other Member States would say that it should fall over the period of the settlement. Sir Michael Butler said that the way forward was to build on where we had got to in January. It should be fairly easy to get agreement on the 5 or 4 years duration plus a review. The next requirement was to add the financial mechanism gap to the objective indicator gap. If we could secure agreement to that, the final negotiation could then take place over the size of the percentage. If other Member States tried to fix a lump sum figure in advance, the arrangement might go wrong again as it had in 1980 and 1981.

6. M. Tindemans said that he did not think that British Ministers realised how bad the atmosphere was. The other Member States had severe political difficulties. The Foreign Secretary replied that the only real political difficulty was the fact that Mitterrand had criticised the 30 May Agreement. He thought that it should be possible to find a way of dealing with Mitterrand's presentational problem.

7. M. Thorn asked whether it would be possible to unlock Chapter I of the Mandate, even if the rest were not settled by the end of the month. The Foreign Secretary did not commit himself, but stressed that Chapter II could not be unlocked because of its organic link with Chapter III.

8. Finally, M. Tindemans said that he was still not at all sure what document the two Presidents should circulate for the meeting on 23 February. They had been thinking that

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the right approach would be to circulate one final attempt at compromise and say that the Foreign Ministers should either take it or leave it. But having heard what they had heard in Paris and London, they could see no hope of defining a compromise which stood a chance of being acceptable to either side. The Foreign Secretary said that the problem would clearly not be solved on 23 March but the aim should be to get the method for the solution agreed on that occasion.

DJSH

17 March 1982

Distribution:

- Private Secretary, No 10 Downing Street
- Private Secretary, Foreign and Commonwealth Office
- Private Secretary, H M Treasury
- Private Secretary, Ministry of Agriculture, Fisheries and Food
- Mr Wright, Cabinet Office

NB the card.

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W

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10 DOWNING STREET

From the Private Secretary

16 March 1982

EC Mandate

The President of the EC Council of Ministers and President of the European Commission called on the Prime Minister this morning to discuss the above subject. I enclose a record of the conversation.

I am copying this letter and enclosure to John Kerr (HM Treasury), Robert Lawson (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

A. E. COLES

Francis Richards Esq
Foreign and Commonwealth Office.

~~CONFIDENTIAL~~

Jup

ECR
SUBJECT

CONFIDENTIAL

cc Master

RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRESIDENT OF THE EC COUNCIL OF MINISTERS AND PRESIDENT OF THE
EUROPEAN COMMISSION AT 0930 HOURS ON 16 MARCH, 1982 AT
10 DOWNING STREET

Present:

Prime Minister	M. Tindemans
Foreign and Commonwealth Secretary	M. Thorn
Sir Michael Butler	M. Robert Vaes
Mr Hancock	M. Durieux
Mr Coles	M. Thuysbaert

M. Tindemans explained that he and the President of the Commission were nearing the end of their tour of capitals. It was proving extremely difficult to discover any basis for agreement. An attempt would be made on Thursday to draft a paper for the meeting of Foreign Affairs Ministers on 23 March.

M. Tindemans recalled the history of the mandate. The idea of drawing up guidelines for a solution had been discussed several times but the last discussion in January showed that three problems remained. France was still determined to secure measures for small milk producers. There was general acceptance that something had to be done about the British budgetary problem but there was disagreement about the period. The United Kingdom had argued for seven years plus a review. Others tended to favour four years. The President of the Commission and he had suggested five years followed by a report from the Commission. The third problem was degressivity. Some Member States insisted on this concept. But Lord Carrington has argued that the concept of degressivity must be objectively linked to change in the situation and that if there was no change, degressivity was unacceptable.

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/Some Member States

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Some Member States were now taking the line that the treaty was the same for everyone. No Member State could have a special status (Greece was arguing for such a status). The Community must therefore think in terms of special measures but these would need to be carefully categorised and limited in time. The French had made it clear again that anything which smacked of a special status for the United Kingdom would pose a constitutional problem for France. The German Foreign Minister had earlier suggested a vague formula on degressivity but this had been difficult to understand even in German.

M. Tindemans said that he had thought in January that an acceptable solution was attainable. But since then the situation had become more difficult. The tour of capitals conducted by him and M. Thorn had not produced elements for a compromise. The climate was not improving. He was now inclined to think in terms of a package of measures. The degressivity problem might be solved by a formula according to which, if the United Kingdom's situation improved, degressivity could apply. But further measures would be necessary to satisfy other Member States - he had in mind measures related to the European Foundation, the EMS and something based on the Genscher/Colombo proposals for a European act. None of these steps would cost anything. It had been clear from the recent tour of capitals that Member States no longer wished to discuss guidelines. The only possibility, therefore, was to seek agreement on figures. Genscher was not prepared, at any rate for the moment, to accept a precise proposal on the German contribution. This meant that it was necessary to seek agreement on the total amount of the United Kingdom's contribution. The question of for how long the solution should apply remained open for discussion but it would have to be underlined that the solution was temporary. The Dutch had suggested that the solution should last for two years, for each of which a precise amount would be specified, following which a further solution would be agreed for the next two years.

/The Prime Minister

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-3-

The Prime Minister said that the problem was not insoluble. A reasonably successful attempt at a solution had been made two years ago and that solution had been totally within Community principles. The present problem would be solved only when we reached the brink because that was how the Community worked. She had hoped that when the time to renegotiate the solution to the problem had arrived, the need for fundamental change to the system of Community financing and the CAP would have become clear. It would become clear in the not too distant future. We had therefore wanted a broad approach to the problem. Some Member States did not like the idea of net contributions. But the same result could be arrived at by considering the gap between the United Kingdom's share of Community GDP and, first, its contribution to the Community budget and, second, its receipts. It was quite wrong to link this problem with matters such as the EMS. The guidelines should be abandoned. We should now work on actual figures. One of the worst features of the current negotiation was the idea of degressivity. A problem required a solution. If the problem did not exist, the solution was unnecessary. It was like two blades of a pair of scissors. Degressivity could only apply to a problem which was diminishing. It was unacceptable for our partners to say that the United Kingdom had a big problem but they would only help over a short period. The Prime Minister stressed that she was quite clear as to the solution which the United Kingdom had to obtain - that was all there was to say.

It was wrong to think in terms of a solution for two or three years. Regular rows on this subject would tear the Community apart. We should do everything necessary to get a solution. There was some steps which we would rather not take but the situation was not of our choosing. Any other Member State would react in the same way if it was in our position. It was most unhealthy for the Community to be financed largely by one major contributor - this would build up resentment among the next generation of Germans. The situation had to be changed.

/Lord Carrington

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Lord Carrington said he sympathised with M. Tindemans and M. Thorn in their difficult task. There was a disagreement between us and the Commission about the likely figures for the UK's unadjusted contribution in 1982 but it sounded to us as though this would be of a quite unacceptable size. Something had to be done. He could not accept a statement in M. Thorn's recent letter to the effect that ten years after British entry into the Community, the United Kingdom should be fully integrated into the Community's economic framework. No-one had integrated more quickly than the United Kingdom. He agreed with the Prime Minister that the guidelines were of no consequence. What was necessary was a solution which gave back to the United Kingdom a very high percentage of its unadjusted contribution. Sir Michael Butler stressed that the solution this time round must involve a percentage and not a figure. The Commission had proposed an objective indicator for the gap between our receipts and our share of GDP. The Dublin formula made provisions similarly for the contribution problem. If we reached agreement on a percentage of the two gaps, the United Kingdom's refunds would be calculated ex post facto, thus avoiding the complaints of other Member States about the outcome for 1980 and 1981. It was impossible to see how any Community principle would be infringed by this approach. Lord Carrington stressed that the next meeting of Foreign Affairs Ministers should talk about figures and methods and not guidelines. M. Tindemans said that his tour had shown that it was more difficult to discuss guidelines than figures. But equally it would be very difficult to agree about amounts. The French, in particular, found the idea of guidelines impossible. He again referred to the Dutch suggestion that the size of the British contribution should be fixed for two years, at the end of which there would be further discussion about a solution for the following two or three years. The Prime Minister said that such a formula would be bad for the Community. Historical factors would prevent us from becoming fully absorbed in the Community's economic system. Sir Michael Butler said that, in addition to that factor, our VAT share was substantially above our GDP share because we consumed more and imported and exported less than other Member States.

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/M. Thorn

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-5-

M. Thorn took up the Prime Minister's reference to finding a solution when the Community reached the brink. Chancellor Schmidt tended to take the same line. He (Thorn) felt that we were already at the brink. The Prime Minister commented that it was probably about three months away. M. Thorn believed that the situation was already sufficiently bad and that it was necessary to try now to find a solution. The Community needed to sort out its internal problems before the Versailles Economic Summit and the NATO Summit. Unemployment in the Community would grow generally (though perhaps not in the United Kingdom) and was likely to reach twelve million. There was a prospect of serious unrest. Before that position was reached, the Community must show that it could resolve its problems. President Mitterrand believed that the essential negotiations should not be conducted at Head of Government level. Lord Carrington commented that the Community would never reach agreement until it sensed a crisis. And if the matter was not discussed at the European Council, then there would be no sense of crisis. The Prime Minister agreed that the problem must be discussed at the European Council. Otherwise other Community activities would come to a stop. M. Thorn agreed that a solution should be sought. Perhaps the way forward lay in the United Kingdom not insisting on an eternal solution while others did not insist on degressivity. The Prime Minister commented that the solution must take the form of a percentage related to the size of the problem. Lord Carrington agreed and said that the Community must also reach agreement on defining the size of the problem. M. Thorn repeated that certain other Member States preferred to speak only of figures. There might be merit in this because in a year or two the VAT ceiling would be reached and the whole issue would then have to be re-examined. The figures would always change. The Prime Minister commented that that was why a formula must be based on a percentage. She found M. Thorn's account of the thinking of other Member States alarming. They had clearly not understood the problem. The United Kingdom simply could not afford the kind of solution they had in mind and that was the end of the matter. M. Tindemans commented that President Mitterrand had taken precisely this kind of approach yesterday. So the Community faced a big crisis. The

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/Prime Minister

CONFIDENTIAL

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Prime Minister observed that other Member States refused to face the real situation which was illustrated by the size of the United Kingdom's net contributions. It was impossible for this situation to continue and she would tell President Mitterrand this if necessary. Lord Carrington pointed out that our net annual contribution would soon be more than our total annual aid programme to the third world.

M. Thorn said that he admitted that the United Kingdom's unadjusted contribution for 1982 would be higher. His personal guess was that it would amount to 1.8b. ecu's. The United Kingdom believed it would be at least 2b. But the figures could change and that was why other Governments were not prepared to think in terms of a mere percentage. If we proceeded on the basis of a percentage formula, we should have to introduce the idea of annual re-examination. The Prime Minister believed that that would be absurd and would do great harm to the Community. Lord Carrington said that he found M. Thorn's last remark very worrying. In effect, the Community would have a row for four to five months every year. M. Thorn said that he personally agreed but other Member States seemed to envisage such a procedure. On the other hand he believed that President Mitterrand genuinely wanted to make an effort to solve the problem and that he envisaged new Community policies which favoured industry and not just agriculture. He thought that France would abandon the idea of degressivity if it knew what sums it would be asked to pay. The Prime Minister said that there must be an objective formula, which could be subject to a review in seven years time. But postponement would not make the problem easier to solve. It must be solved now. Lord Carrington said that a temporary solution, involving annual discussion, would have a most damaging effect on British attitudes towards the Community. Such a solution would be a running sore both in the Community and in the United Kingdom. M. Thorn then suggested that we should think in terms of a five year solution with a review after the fourth year. Lord Carrington said that there would clearly have to be a review at some point

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/but not

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-7-

but not after one or two years. Sir Michael Butler suggested that other Member States ought to take the same view. They surely would not wish this problem to be caught up each year with that of agricultural prices. M. Thorn observed that those Member States who advocated a two year solution were in fact more sympathetic to our point of view than were other Member States. The Prime Minister repeated that it was necessary to persist until other Member States comprehended the problem. We needed an objective and reasonable solution.

The meeting ended at 1035.

A. J. C.

16 March 1982

CONFIDENTIAL



10 DOWNING STREET

Prime Minister

Visit of Thom and Tindemans

They will be accompanied by their 2 chefs de cabinet
and the Belgian Ambassador.

2. You will be supported by Lord Carrington, Sir Michael
Butler and Dr. Hancock.

3. I suggest we use the Cabinet Room. ✓

4. I think it would be right for you to go to the
front door to receive them. We have arranged
a photocall in the front hall. This is only
a regular meeting - I don't think the

A.J.C. $\frac{15}{3}$.

front door is
called for.

ant



Foreign and Commonwealth Office

London SW1A 2AH

15 March 1982

Dear John,

A.J.C. 16/3

Meeting with MM Thorn and Tindemans: 16 March 1982

h.a.

I now enclose the Annex A to the brief on Community energy policy for this meeting. This Annex is designed so that it can be handed over to Thorn and Tindemans if appropriate.

Yours ever,

(F N Richards)
Private Secretary

Francis Richards

A J Coles Esq
10 Downing Street

MEETING WITH M TINDEMANS AND M THORN : 16 MARCH 1982

NORTH SEA OIL AND EC ENERGY POLICY

Points to Make

1. HMG is committed to solidarity of purpose in energy policy in the Community.
2. In fact the UK makes a substantial contribution to the Community in the energy field, in a variety of ways:
 - more than half our oil exports go to our Community partners
 - UK has taken lead in reducing oil prices, thereby benefiting EC industry
 - EC companies significantly involved in development of UKCS resources
 - UK fully committed to EC (and IEA) arrangements to deal with oil supply crisis or sub-crisis.

Annex A My officials can provide note giving full details of UK energy contribution to the Community.

3. Welcome idea of re-affirming this commitment on energy in support of resolution of budget problem. What specifically have you in mind?

4. [If idea of Minimum Selling Price for North Sea oil is raised] A scheme to improve the Community's security of supply through a guaranteed minimum price for EC-produced oil was nearly agreed in 1975/76. We should be glad to look at this again. French and Italian opposition killed the scheme then. Do you detect a change of heart? And are present circumstances of supply surplus right for proposing such a scheme?

ESSENTIAL FACTS

Minimum Selling Price for North Sea oil

5. Mr Tindemans has suggested UK agreement to include North Sea oil in some new Community energy policy might help to improve the atmosphere for settlement of the budget problem. He has (oddly) cited as an example an earlier idea to set a minimum price for EC produced oil.

6. In 1976, when the world oil price was around \$12 per barrel, the Commission put forward a scheme for guaranteeing a minimum selling price for oil (msp) at \$7 per barrel. The aim was to safeguard investments in the supply of high cost alternatives to OPEC oil, such as coal or UKCS oil, and by energy users who had switched out of oil because of the price rises of 1973/74 but who might later have the value of such investments negated if the world oil price fell. The Commission proposed to charge a levy on imports of oil from third countries in the event of such oil entering member states below msp.

7. The levy would have been retained by the Commission and member states' contributions to the budget correspondingly diminished. The French opposed the concept of msp. The particular scheme mooted by the Commission was also opposed by the Italians, who were prepared to accept only a scheme operated by member states themselves on the basis of oil consumption taxes (this would have substantially reduced the net benefit to the UK). By 1977 it was clear that the scheme was not negotiable and it was dropped. A scheme based on an msp of \$7 per barrel was already evidently value-less.

8. The oil price would need to fall below \$25/barrel before investments in UKCS fields were put in jeopardy. In present circumstances a scheme that guaranteed prices at say \$30/barrel would prima facie be worth examining. A quid pro quo would presumably be needed in the form of guaranteed UKCS supplies to EC partners. This would have the possible disadvantage of loss of control over crude which we might otherwise be able to direct to the UK in an oil supply shortage. Other factors would include risk of disadvantage to EC industrial consumers through higher oil prices;

/to

to whom benefits of the levy would go; taxation implications (would msp above the world oil price be an arms-length transaction under the Oil Taxation Act?); how IEA partners outside the Community would react to a scheme which would divert UKCS crude away from US and other outlets; and OPEC reaction.

9. It seems unlikely that Community partners would see advantage in such a scheme in present conditions. Tindemans' remarks may well have been made without thorough consideration. Nevertheless, we should try to clarify what he had in mind.

10. Any scheme under which control of UKCS exploration and production was ceded to the Community would be unacceptable to HMG.

UK CONTRIBUTION TO COMMUNITY ENERGY

See Annex A.



OIL FROM UNITED KINGDOM CONTINENTAL SHELF: INVOLVEMENT OF EUROPEAN COMMUNITY PARTNERS

HMG is committed to solidarity of purpose in energy policy in the Community despite the marked contrast between the scale of our energy resources and those of other member states.

Production Rights

Under the UK's system for granting companies the right to explore and the exclusive right to win any petroleum discovered, European companies have fared well. Out of 43 production licences covering areas from which petroleum is being produced or where fields are now under development, non-UK EC companies hold interests in 21 - just under half. Of the 262 other licences, non-UK EC companies hold interests in 92 (about 35%). Non UK-EC companies' share of UK gas production was 30% in 1981.

Exports of Oil

For July - December 1981, the UK exported to other EC countries about 595,000 barrels per day of crude oil. This represented 52% of our total exports, and 32.5% of total production. The UK does not take any special price advantage for herself in relation to oil produced from the UKCS, all of which is sold at the world market price. EC partners thus enjoy access to these substantial exports on exactly the same terms as the UK itself. BNOC's recent decision to cut UKCS oil prices by a further \$4 per barrel is more good news for EC partners.

Energy Prices

Aside from oil, the UK is probably closest among its EC partners to charging fully economic prices for energy, consistently with EC energy policy and fair competition. This further refutes any suggestion that the UK enjoys a privileged position because of her own energy resources. In this context, it is worth noting that the direct contribution of UKCS oil and gas to the UK Gross National Product in 1981 was only just under 4%.



Oil Sharing Arrangements

The UK has incurred obligations to Community partners in the event of a substantial shortfall (ie in excess of 7%) in oil supplies in addition to its wider obligations under the IEA emergency allocation scheme. The UK has also agreed to Community procedures for handling a tight oil market short of a full crisis.



Foreign and Commonwealth Office

London SW1A 2AH

15 March 1982

Dear John,

Visit of Thorn and Tindemans

I enclose copies of the briefs for the visit of Thorn and Tindemans which will begin with a meeting under the Prime Minister's chairmanship at No 10 at 9.30 am tomorrow. In addition to the brief on the Mandate which is the main purpose of the visit, briefs are included on: European Union: German/Italian draft Act; European Foundation; Sterling and EMS; Community Energy Policy. M Tindemans told Sir Peter Wakefield that in his view these were the four main areas outside the Mandate in which progress "might induce the necessary favourable atmosphere for a compromise". He may return to this theme tomorrow.

The Foreign and Commonwealth Secretary suggests that the Prime Minister should aim to allow about 35 minutes for the meeting in her room. This will give the two Presidents time to explain their assessment of the current state of the negotiations and to put any points that they may wish to put to the Prime Minister. The Prime Minister will then be able to make the points suggested in paragraphs 1 - 4 of the attached brief.

At about 10.05 the Foreign and Commonwealth Secretary would take the visitors back to his room at the Foreign Office so as to be able to start a discussion of the more detailed aspects of the negotiations not later than 10.15. As the visitors have been informed, the meeting must stop at 11 am because the Foreign and Commonwealth Secretary has to attend the greeting ceremony for Sultan Qaboos.

The Prime Minister should be aware that M Tindemans is to visit Turkey on 19 March in his Presidency capacity to express the Ten's wish for a speedy return to democracy and concern at the human rights situation.

Yours ever,

(F N Richards)

A J Coles Esq
10 Downing Street

CONFIDENTIAL

MEETING WITH MM THORN AND TINDEMANS : 16 MARCH 1982

30 MAY MANDATE

Objective

To convince Thorn and Tindemans that a budget settlement acceptable to the UK is essential if a major crisis within the Community is to be avoided, and that they should give the highest priority to achieving such a settlement.

Points For Prime Minister to Make

1. Need to get a substantive settlement soon so that Community can tackle other major problems without internal row.
2. Foreign Ministers must get on with the job quickly on 23 March, so that they can report successful outcome on budget problem to the European Council, as was intended when Heads of Government gave them their remit in November. This will pave the way for a solution of the other problems covered by the 30 May Mandate. If no progress made on 23 March, European Council bound to discuss the Mandate, and should be under no illusion about the difficult atmosphere that will surround the discussion.
3. If others wish to have another attempt to agree guidelines, prepared to cooperate fully, but remain sceptical whether this is best way to proceed and concerned that it may end up as simply another fruitless discussion of degressivity. Guidelines are anyway only intermediate stage towards what is now urgently needed - a full, detailed settlement.
4. Solution must match scale of problem. UK unadjusted net contribution over 1500 m ecu in 1980 and 1981; could be as much as 2000 m ecu in 1982. Yet on basis of relative prosperity it would be equitable for us to be net recipients (like Italy, Ireland and Greece). We recognise that at present the more prosperous countries are not prepared to make the financial adjustment required for that, so willing to remain net contributor but only on a very modest scale.

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Points for Foreign Secretary to Make

5. Council should now start to examine practical application of the ideas almost agreed in the guidelines discussion. Glad that Commission has tabled illustrative figures for 1980 and 1981. But as I said in my letter, disappointed Commission felt unable to produce estimates for 1982. In my view they are an essential element in our discussions. Our calculations suggest that in 1982 the figures will be very different from 1980 and 1981. In particular the gap between the UK's gross contribution and GDP shares in percentage terms is likely to be more than double the gap in 1980 and 1981.

6. UK problem has two dimensions as Community recognised in the guidelines we nearly agreed; first the gap on the gross contributions side, as recognised in the Dublin financial mechanism; second, the gap on the receipts side as recognised by the Commission in their report of June last year. Essential to have measures to deal with both gaps. Although contributions gap was fairly small (224 and 175 m ecu) in 1980 and 1981, this was largely due to statistical impact of sterling exchange rate following oil price rises and we expect the gap to widen to about 700 m ecu in 1982. Objective indicator on its own would have extremely variable and perverse results - as our GDP fell, so would our compensation.

[If argued that averaging over three years would reduce problem of variable results of objective indicator on its own] Would reduce problem of variability somewhat but leave problem of perversity.

[If argued that joining EMS would reduce variability] Full sterling participation in EMS could smooth out small exchange rate fluctuations depending on size of fluctuation margin adopted (2½% or 6%), but major underlying trends such as sterling rise in 1980 would require parity realignments. Problem of perverse results would remain.

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[If asked what we mean by being willing to continue as net contributors but only on a very modest scale] The actual net contribution after refunds that has resulted for the UK in 1981 would be about right. This means about 90-95% of both gaps.

[If suggested that UK should accept compensation from objective indicator alone] Our estimates indicate that in 1982 the gross contributions gap could amount to over one-third of the total of the two gaps combined. Thus even 100% compensation on the basis of the objective indicator alone would not be adequate.

[If suggested that we should accept 75% of the objective indicator gap alone - Thorn and Tindemans are reported to have raised this possibility when they saw the Germans] That would be quite inadequate. It would produce less than 50% compensation for the two gaps taken together.

Guidelines

7. Three main outstanding issues on guidelines are milk, duration and degressivity. On duration, difference is only between four and five years, with review. Community needs adequate breathing space from this issue - think five years sensible. Obviously need review. Hope problem will be reduced by policy changes affecting structure of Community spending. But this is likely to take a considerable time. In the meantime, Community cannot simply stop correcting the problem.

8. As for degressivity, we accept that as balance of Community spending shifts and our share of receipts increases, our refunds from objective indicator would be reduced. There would also be progressivity since, other things being equal, as overall budget increases, so will our net contribution. But we could not accept an arbitrary reduction of refunds, regardless of size of underlying problem. And, as we have made very clear, we could not accept guidelines which were open to that interpretation. Can see no justification for it.

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9. On milk, we (and we believe the Dutch and Danes) could not accept aid to small producers being given through differentiated application of the co-responsibility levy. Nor are we ready to accept the principle of 100% Community financing of any aid for small producers. But in the context of measures to tackle the surplus problem and of an overall settlement on the Mandate we are prepared to see limited Community finance devoted to this problem.

Defensive points

10. UK problem not result of failure to adapt to Community. Massive shift in trade pattern (43% of trade with Community now compared with 30% before accession). As Commission rightly recognise, problem arises from failure of Community as a whole to develop its policies, as Six suggested they would in our accession negotiations, so that, in particular, agriculture takes smaller share of available resources.

11. UK not seeking a juste retour. Have never suggested that each Member State should get out exactly what it puts in. Accept basic financial principles of Community. What we advocate is that overall pattern of net transfers should be more closely in line with relative prosperity. That would increase Community solidarity and accord with convergence principle and principles followed in all Member States for determining the transfer of resources between their own richer and poorer regions. Our views about relative prosperity are in full accord with the "Lange" Resolution which we expect the European Parliament to adopt.

12. CAP/Budget Link CAP expenditure is the root cause of the British budget problem. Decisions on agricultural prices taken in 1982 will be a crucial determinant of the level of the UK's unadjusted net contribution in the years ahead. The discussions on the budget problem and the decisions on farm prices are therefore integrally linked. In the negotiations about Chapter Two of the Mandate, Heads of Government and Foreign Ministers considered the future treatment of Mediterranean products; the regime for cereals; the modulation of guarantees; the treatment of

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milk surpluses; what should be done to mitigate the effect of policies to contain milk surpluses on small milk producers; and a ceiling on the rate of growth of agricultural expenditure. The negotiations about these questions are now being continued in the context of the review of agricultural prices. But this is no reason for abandoning the agreement that progress must be made in parallel on non-agricultural policies, agricultural policies and the budget problem. For that reason, the British Government will need a fair and durable solution to the British budget problem in order to be able to defend at home a farm price settlement acceptable to the other Member States.

13. One Year Solution [might be suggested by M Thorn]. Cannot understand this suggestion when until now discussions have been in terms of a four or five year arrangement. It would be most unwise to go back on what was so nearly agreed under your [ie Tindemans'] chairmanship in January. One year solution would itself be difficult to negotiate and only postpone the decisions on more lasting arrangements, leaving Community in continuing state of division and paralysis.

14. Financing UK Refunds We have sympathy with principle of alleviating burdens of less prosperous Member States and have always recognised special German situation. What are your views now on using special contributions based on Article 200 of Treaty? Is there not some way to finance without using up all the budget headroom? Could not agree to raising 1% ceiling.

CONFIDENTIAL

Brussels, 18 January 1982

MWF 100/3
BY OFFICER
No Yes

OUTCOME OF THE INFORMAL MEETING ON
14 - 15 JANUARY 1982

=====

(Revised version)

All delegations have placed a general reservation on the text until a global agreement is reached.

MILK PRODUCTS

∟ In the milk sector the co-responsibility levy should be maintained at its present level with the existing exemptions.

Account will have to be taken of the situation of small producers, for whom special measures will be provided, financed by the Community budget (*).

At the same time the European Council agrees that should milk deliveries increase significantly from one marketing year to the next, the Council will take appropriate decisions to offset the additional costs this entails on the basis of Commission proposals.

In addition, the European Council, aware of the need to avoid an increase in milk surpluses, invites the Council to take the necessary measures to ensure better market equilibrium.] (

.../...

(*) The Commission is invited to make proposals within a financial frame of 120 MUC for the next marketing season.

-
- (1) - Reservation by the U.K. delegation on paragraphs 1 and 3.
 - Reservation by the Irish delegation on paragraphs 3 and 4.
 - Reservation by the Danish delegation on the footnote.

MEDITERRANEAN PRODUCTS

In view of the importance of Mediterranean agricultural products for the development of the Mediterranean regions, the European Council is agreed on the urgent need to improve the existing regulations, particularly, though not exclusively, in the wine, fruit and vegetables and olive oil sectors. The European Council would emphasize the need in this latter sector for examining the problem of vegetable oil imports taking account of the international obligations of the Community, including those of the GATT.

It calls on the Council to adopt the appropriate decisions very quickly, with account being taken of the need to improve the market organizations both from the point of view of producers' incomes and for the sake of efficient and economic management of the market. With regard to the proposals already presented by the Commission, the decisions will have to be taken by 31 March 1982 at the latest.

.../...

BUDGETARY ASPECTS OF THE CAP

It will be the responsibility of the Council, acting on proposals by the Commission, to adopt, without prejudice to the aims reaffirmed in paragraph 4 of the Preamble, the necessary decisions on implementation of the above guidelines to ensure that the rate of growth of agricultural expenditure will rise less rapidly than the Community's own resources. It will be the responsibility of the Council and the Commission to manage agricultural expenditure within that framework.

The implementation of these guidelines should be evaluated as an average over several years in the case of erratic development of the conditions under which the common agricultural policy is executed.

The implementation of these guidelines must not call into question the basic principles governing the CAP. (1)

(1) Reservations by the Italian, Greek, Irish and Danish delegations.

DRAFT GUIDELINES ON BUDGET

1. On 30 May 1980 the Council requested the Commission to examine the development of Community policies, in particular with a view to preventing the recurrence of unacceptable situations for any of the Member States. The European Council has now considered the Community's budget situation on the basis of the report drawn up by the Commission pursuant to the Mandate of 30 May 1980. It recognized the need to seek a better balance between Community policies and to secure harmonious distribution of Community resources in the financing of these policies, in order to create a sound basis for the further development of the Community and in order to promote convergence in economic performance. It further considered that its conclusions on the development of Community policies and the adjustment of the common agricultural policy were the first major steps in this direction.

2. Accordingly, and in view of the fact that the United Kingdom is not among the more prosperous Member States of the Community, the European Council adopted the principle of measures to grant the United Kingdom financial compensation to come into force from the 1982 financial year. They will apply for [four] ⁽¹⁾ years. Before the end of the fourth year the Commission will report on the application of the measures and make suitable proposals if necessary. (1) [Within the framework of the adjustment of Community policies with a view to avoiding compensation, this solution will also contain an element of degressivity.] (2) These measures must not affect the Community's financial system.

.../...

(1) U.K. reservation.

(2) The United Kingdom delegation has requested it to be recorded that this text in no circumstances can be accepted by it.

The French delegation has stated a reservation on the same text.

3. The amount of compensation will be determined each year, ex post facto in the light of the real size of the problem, as measured by an objective indicator without excluding if necessary the Financial Mechanism (*) (1) and on the basis of the level of compensation agreed and the methods of calculation and timing of payments adopted. With this method there will be no need for fresh negotiation each year.

The objective indicator can be based on the difference between the United Kingdom share in the Community gross domestic product (calculated on an average over several years, with the addition, if necessary, of clauses to prevent erratic variations) and the United Kingdom share in budget payments during the year in question.

4. Compensatory payments are to be incorporated in the budget (2). The measures adopted will respect the principles of solidarity, which the Community intends to apply with regard to its least prosperous members, and will take appropriate account of the problem of the Federal Republic of Germany's contribution. (Compensation to the United Kingdom must have only a minor effect on the burden to be borne by Germany.)

(*) - "The Council asks the Commission to present before the end of February 1982 a report on the desirability of including the Financial Mechanism in the solution in order to facilitate the disbursement of the British refund."

-
- (1) The French delegation has objected to any reference to continuing the Financial Mechanism.
- (2) The Netherlands delegation stresses that it is a condition for accepting the arrangement that the cost is financed in the budget and within the existing 1% VAT ceiling.

OUTCOME
OF THE
INFORMAL MEETING ON
14-15 JANUARY 1982

pa.
Mandate.
GWF 2/2

EXPLANATORY NOTE TO THE NOTE
OF 18 JANUARY 1982

KWF 108/3

BUDGETARY ASPECTS OF THE CAP

The text on the budgetary aspects of the CAP as proposed by the President of the Commission was generally accepted as the basis for the debate.

The Italian delegation suggested the addition of the following phrase:

"without prejudice to the aims reaffirmed in paragraph 4 of the Preamble concerning the harmonious development of the Community and the specific needs of the least-prosperous Member States".

Other delegations objected that it would give a distorted presentation to single out one of the considerations in the preamble and could not accept the Italian idea.

The possibility of simply referring to the paragraph was then mentioned as an alternative by the President of the Commission.

This is the text reproduced in the abovementioned document. It was perhaps not entirely clear to the Secretariat whether delegations referring to their preference for Mr Thorn's text during the last round of the debate were thinking of the original text or - as we believed - of the text as amended by the addition proposed by the President of the Commission.

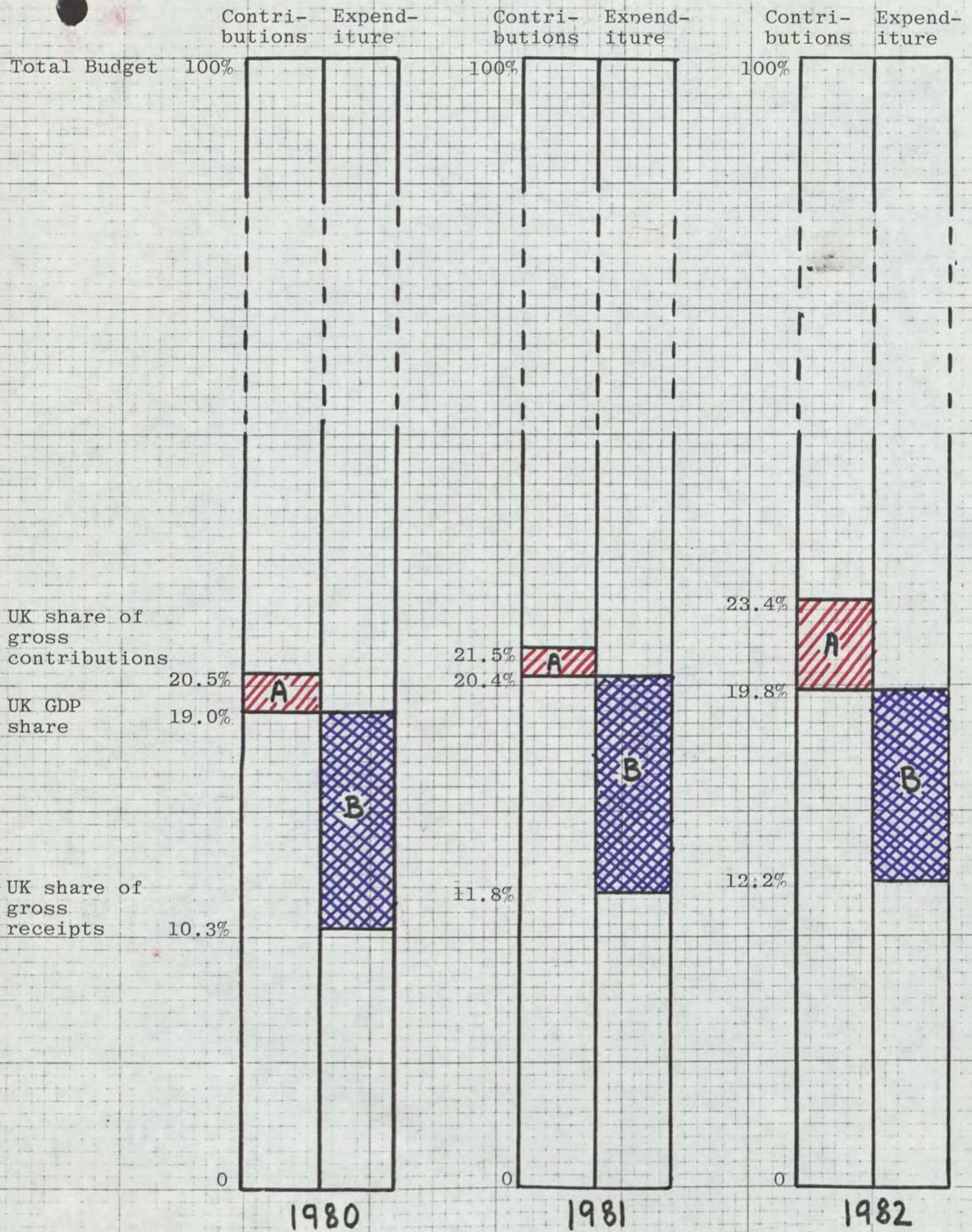
Delegations are requested to note that also this latter version meets objections from the German delegation, which prefers the original proposal by the President of the Commission.

MILK PRODUCTS

The UK delegation has requested that it be noted that it has a general reserve on the text on milk products relating to all four paragraphs.

UK

UK UNADJUSTED NET CONTRIBUTION: TABLE I



UK UNADJUSTED NET CONTRIBUTION: TABLE II

Unadjusted net contribution - 2132m ecu

Unadjusted net contribution - 1521m ecu

Unadjusted net contribution - 1548m ecu

Financial Mechanism (FM) gap - 224m ecu

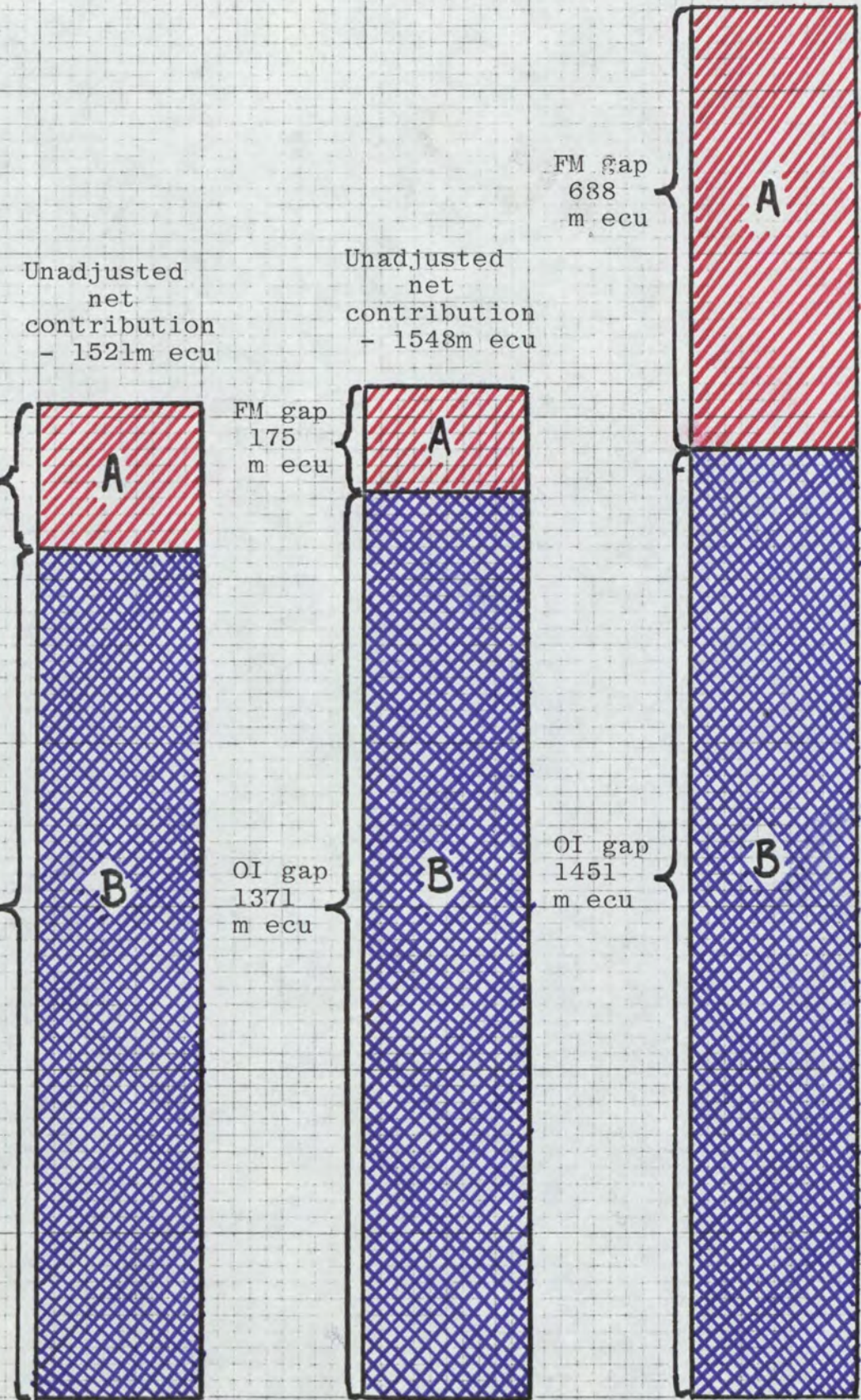
FM gap 175 m ecu

FM gap 688 m ecu

Objective Indicator (OI) gap - 1,299m ecu

OI gap 1371 m ecu

OI gap 1451 m ecu



1980

1981

1982

NOTES

1. The Tables are based on the 1980 and 1981 figures tabled on 4 March in Coreper by the Commission and the 1982 figures received in confidence from Commission sources.
2. In both Tables A is the Financial Mechanism gap (the contributions gap), and B the Objective Indicator gap (the receipts gap). $A + B =$ UK unadjusted net contribution.
3. The GDP shares shown are those for the year in question. Averaging over 3 years would in 1980-2 lower the UK's GDP share and so increase the contributions gap and reduce the receipts gap. It might however have the opposite result in 1983 and future years, depending mainly on trends in sterling.
4. The UK gross contributions share is particularly high in 1982. This is largely the result of the Community's budgetary conventions. Our 1982 VAT contribution has been estimated in sterling and converted into ecu at the exchange rate of February 1981, when sterling was unusually strong. A corrective payment will be made to us in August 1983.

VISIT OF M. THORN AND M. TINDEMANS : 16 MARCH

EUROPEAN UNION: GERMAN/ITALIAN DRAFT ACT

Points to make

1. We have welcomed Genscher/Colombo initiative and have shown in discussions so far that we are working on the proposals constructively. As Lord Carrington said at Foreign Ministers meeting on 23 February, we support the view that action is needed to strengthen unity of Community, especially in face of dangers of the world situation. (If Tindemans suggests making progress at March European Council) Think European Council could endorse the need for early progress by the Foreign Affairs Council/ad hoc group, but it should not get involved in discussing the details of the proposals at this stage.

Essential Facts

2. M. Tindemans had told the Ambassador in Brussels on 9 March that progress on the Genscher/Colombo proposals was one of the factors which would help to create a favourable atmosphere for finding a compromise on the Mandate.

3. The Genscher/Colombo proposals for an Act on European Union were submitted to the European Council meeting in London on 26/27 November 1981. In its conclusions, the European Council invited the Foreign Ministers, in cooperation with the Commission, to examine and clarify the proposals and to report back to a future meeting of the European Council.

4. The Belgian Presidency has set up an ad hoc group of personal representatives to examine the proposals. The UK representative is Mr Bullard. Discussions in the group have revealed that a number of Member States had difficulties with some of the proposals, while others needed clarification. The group prepared an interim report on the progress they had made which was discussed at the Foreign Ministers' meeting on 23 February. The

/report

Report requested the Foreign Ministers to give guidelines for future work in the group. At the 23 February meeting, the Foreign and Commonwealth Secretary supported the view that action was needed to strengthen the unity of the Community especially in the face of the dangers of the world situation and suggested that work on the Act could proceed side by side with that on Community policies, especially the Mandate. Foreign Ministers agreed on 23 February that the political will to continue the exercise existed and asked the ad hoc group to work on a revised draft Act with a view to consideration by Foreign Ministers probably at their meeting on 24 May. The group resumes its work on 16 March.

5. In discussion in the ad hoc group, and at the Foreign Ministers meeting, we have conveyed an impression of willingness to examine the proposals constructively, while resisting those likely to cause us difficulty and seeking clarification of others. We have secured acceptance of our basic requirements that there should be no provisions requiring Treaty amendment or Parliamentary ratification and that there should be no changes in the existing powers of the institutions. We have also floated the idea that the final document might be called something other than an Act, which has legal overtones in the UK.

6. Although the proposals do not amount to a great deal in substance, it is important that we continue to appear constructive on this exercise since we rely on Genscher and Colombo to be helpful to us in the Mandate negotiations.

VISIT OF M THORN AND M TINDEMANS : 16 MARCH

EUROPEAN FOUNDATION

Points to Make

There does not seem to be any obstacle to agreement being signed during the European Council on 29 March. Hope it will be possible to resolve remaining problem about financing on basis of Presidency compromise.

Background

1. Agreement to set up the European Foundation was reached in principle at the European Council of December 1977 following the recommendation of M Tindemans in his report on European Union in 1976. The aim of the Foundation as envisaged by M Tindemans is to promote a greater awareness of Europe among the peoples of the Community.
2. The French revived discussion late last year following a failure to agree in 1978. Substantial progress has been made and it is likely that during the European Council on 29/30 March an inter-governmental agreement between the governments of the Member States will be signed. A separate agreement will be concluded between the Foundation and the European Community.
3. The final details of the size of the Community contribution have yet to be settled in Brussels. The Presidency has now proposed a compromise involving a Community contribution amounting to 4m ECU over three years. We can go along with this, but have not yet said so in Brussels.

STERLING AND THE EMS

Introduction

1. M. Tindemans may suggest that sterling should join the EMS exchange rate mechanism and that this might help to smooth the way to a settlement on the Mandate. The answer is clear, and there are several familiar points that could be made. But given the likely course of most of the rest of the discussion it would seem best not to respond too aggressively on this item.

2. M. Tindemans is not renowned for his understanding of such matters. So it should be possible to respond effectively in a low key way by simply explaining why it is that sterling is different from most other EC currencies, and why it is therefore that membership of the exchange rate mechanism (ERM) causes us particular problems.

Points to Make

3. We have always said sterling will join the ERM when conditions are right for the system and ourselves. But we have good reason to be cautious. For sterling differs from most, and to some degree from all, other EMS currencies. The fact is that we are not satisfied that if sterling joined at a certain level it would remain at that level. Nothing could be worse than for sterling to join, followed by an early change in its central rate, which would damage the credibility of the system.

4. So while we keep the balance of risks, advantages and disadvantages under review, we do have real reasons for delaying membership of the ERM until we are quite sure the conditions are right.

/5.

5. We have been as anxious as anyone that Community countries should succeed in the underlying purpose of the EMS - a reduction and convergence of rates of inflation in the Community. Moreover we intend to continue to play an active part in helping the EMS operate and develop.

6. /If Thorn/Tindemans dispute that sterling differs from other EMS currencies/. Sterling is one of the world's four or five major international currencies. London provides sterling financial markets which have made sterling a home for mobile international funds in a way that differentiates it from all EMS currencies except the deutschemark. This means that when exchange markets are unsettled, there can be huge flows of funds between the sterling and the deutschemark - on a much larger scale than any other EMS currency has to face.



B/L 15/3 for Mr. B.

bc Caroline

10 DOWNING STREET

two pd

From the Private Secretary

9 March 1982

Visit of the President of EC Council
and President of the Commission

Further to our telephone conversation this morning, I confirm that the Prime Minister can receive M. Thorn and M. Tindemans at 0930 on 16 March.

I am copying this letter to John Kerr (HM Treasury) and David Wright (Cabinet Office).

A. J. COLES

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

2



10 DOWNING STREET

From the Private Secretary

8 March, 1982

BF

Visit of European Presidents

Thank you for your letter of 4 March.

As I explained on the telephone this morning, the Prime Minister's diary for 16 March is completely full. We agreed that you would attempt to establish whether M. Tindemans and M. Thorn could call on the Prime Minister at 8.30 on the evening of 15 March and, if not, what other flexibility they had about the timing of their visit to London.

I am sending a copy of this letter to John Kerr (HM Treasury), Robert Lawson (MAFF) and David Wright (Cabinet Office).

A. J. COLES

F N Richards, Esq
Foreign and Commonwealth Office

8

PRIME MINISTER

Visit of President of EC Council and
President of Commission

I am very sorry to come back to you about this but we are in real difficulty. Thorn and Tindemans are trying to fit in all ten capitals in a short space of time. We have explored the possibility of 15 March and 17 March but cannot find a mutually convenient time. They have offered 12 March (Friday) but you will be visiting Sunderland.

I think it would be a pity if you were the only European Head of Government who did not receive them since the purpose of their tour is to talk about "our" problem. Failure to receive them in London could have a negative effect on our negotiations.

I wonder therefore whether you could reconsider the possibility of seeing them at 0930 hours on 16 March? This would be after Questions briefing and before a meeting of E at 1030 hours.

*Then questions
briefing will have
to start at 9am.*

A.S.C.

mt.

8 March 1982

610
9 35-10 30



Foreign and Commonwealth Office

London SW1A 2AH

4 March 1982

*May I look at
the detailed diary
first. I thought
that a particularly
Dear John, busy week,
no.*

*Agree to see them on 16 March
with Lord Carrington present (we
will provide for more than 30
minutes in case you need it)?*

Prime Minister

A.J.C. 5/3

Visit by European Presidents

The Belgian Embassy in London have told us that M Tindemans and M Thorn would like to visit London on 16 March and if possible see the Prime Minister as well as the Foreign and Commonwealth Secretary. This would be one of the visits to Community capitals which they are undertaking in order to prepare the ground for the full-day discussion of the 30 May Mandate planned for 23 March at the Foreign Affairs Council. Lord Carrington very much hopes that the Prime Minister will be able to see the two Presidents on 16 March. He suggests that he should be present while the two Presidents call on the Prime Ministers (for perhaps 30 minutes) and then return with them to his office for further substantive discussion. I should be grateful to know whether these arrangements would suit the Prime Minister. We owe the Belgians an early reply.

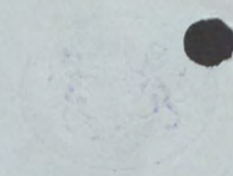
I am copying this letter to John Kerr (Treasury), Robert Lawson (MAFF) and David Wright (Cabinet Office).

*Yours ever,
Francis Richards*

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION
WASHINGTON, D.C. 20535



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10 DOWNING STREET

From the Private Secretary

24 November 1981

Dear Bravis,

THE HEAD OF THE EUROPEAN COMMISSION

As you know, the President of the European Commission, M. Gaston Thorn, called on the Prime Minister this morning. He was accompanied by M. Noel and M. Duriex. Sir Michael Butler and Mr. Franklin were also present.

As the discussion was somewhat discursive and is, in any case, rapidly being overtaken by events, I propose in this letter merely to record some of the main points made by M. Thorn and by the Prime Minister.

M. Thorn was inclined to agree with the Prime Minister that, while it was necessary for the European Council meeting to be seen as a success, it would not be easy to achieve this objective. His tour of European capitals had brought it home to him that, although there was a natural tendency to focus on the positions of the French and German Governments, the position of the smaller members of the Community, notably the Danes, the Dutch, the Irish and the Greeks, would be, if anything, even more difficult to move. They would be very stubborn.

M. Thorn thought that it should be possible to get somewhere on Chapter 1 of the 30 May Mandate. On Chapter 3, the Prime Minister's colleagues were in principle inclined to be cooperative. They realised that they had to help in finding a solution to Britain's problem. However, they would wish to set a time limit: it might be possible to achieve agreement to a solution lasting three years. If the Prime Minister were to push for seven years, she would probably achieve less than three. The best thing to go for would be guidelines. As regards Chapter 2, it would be important not to waste time on a detailed discussion of commodities. The most that could be achieved would be agreement on a way to proceed in the next few weeks.

M. Thorn said that Mr. Papandreou's position would cause complications. He would wish to make a statement, the burden of which would be that, while he did not wish to come out of the Community, it was going to be difficult for him to stay in and he would wish to discuss the matter with his colleagues. He

/ would not

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would not be willing to commit his Government, e.g. on the CAP, at this stage. He would argue that the Greek Government would first have to study the question in much more detail.

The Prime Minister said that she was worried about the prospects for the meeting. There was a risk that the press would present it as a useless, and indeed damaging, meeting. She was determined to go through the points on the agenda systematically. But she was anxious to avoid a situation where such a discussion highlighted the inability of the Council to reach agreement. This would have to be taken into account in the drafting of the conclusions. In the absence of any agreement, the conclusions would have to refer simply to a general discussion of the Mandate and to indicate that further work would be carried forward in the Council of Ministers. She would not be prepared to have conclusions recorded on matters which Heads of Government had not dealt with.

The Prime Minister said that she was unhappy with the economic analysis in the draft conclusions on Chapter 1 of the Mandate. The draft compared unfavourably with the Commission's report on the economic situation. She hoped that it would be possible to ensure that some of the points in the Commission's report were reflected in the conclusions.

The Prime Minister said she was concerned about having nothing except disagreement to report to the European Parliament in December. She intended to make it clear to her colleagues that she thought it would be a poor start to the practice of Presidency reports to the Parliament if they created a situation where the first such report had to be of a failure. (M. Thorn warmly supported this approach and pointed out that the Member states who were likely to make most difficulty on Thursday and Friday were precisely those who had been most enthusiastic about the idea of a Presidency report by the appropriate Head of Government to the European Parliament.)

As regards Mr. Papandreou, the Prime Minister said that she would wish to arrange things in such a way that he made his statement early on in the proceedings. This would at least ensure that his subsequent interventions were seen in a proper light. The Prime Minister added that the difficulties with the Greek Government would not weaken her support for the idea of Spanish and Portuguese membership of the Community. She saw this as, above all, important in the context of preserving democracy in those countries.

I am sending copies of this letter to John Kerr (HM Treasury), Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Francis Richards, Esq.,
Foreign and Commonwealth Office.

MR. WHITMORE ✓ *MW*

MR. ALEXANDER

FRONT DOOR

MR. TAYLOR

The following will be attending the meeting with the Prime Minister tomorrow at 1430:

Mr. Len Murray

Mr. Kok (ETUC President)

Mr. Hinterscheid (ETUC General Secretary)

Mr. Johann von Rens (Head of the International Department of the FNV - Dutch equivalent of the TUC)

Mr. Peter Coldrick (Secretary of the ETUC Economic Committee)

Mr. David Lea (Assistant General Secretary of the TUC)

Mr. Michael Walsh (Secretary of the International Department of the TUC)

es.

24 November 1981



Foreign and Commonwealth Office

London SW1A 2AH

23 November 1981

Dear Michael,

for [unclear]

Call by M. Thorn on the Prime Minister:

24 November 1981

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I enclose a brief (which is being submitted separately to Lord Carrington) for the Prime Minister's use when M. Thorn calls on her at 9.30am tomorrow. He will call on Lord Carrington at 9.00am. We do not yet know the outcome of the talks which Sir R Armstrong and Mr Franklin have been having today in Paris on our draft guidelines on the budget, and have not been able to cover this in the brief. I imagine they will report directly to the Prime Minister on their return.

*Secretary General
of me*

As the brief explains, Michael Butler will have briefed the Commission about the budget guidelines and we expect that Thorn will be in the picture. We did not however wish to give him a copy today, as he might then have circulated it at a Commission meeting this evening and there would therefore have been a strong probability of its leaking before we had briefed our other partners. We have however made it clear to Thorn that he will get a copy of the text in London, and we will arrange for this to be done when he calls on Lord Carrington before coming to see the Prime Minister.

Yours ever,
[Signature]

(B J P Fall)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

CALL BY M THORN ON THE PRIME MINISTER : 24 NOVEMBER

POINTS TO MAKE

European Council

1. Success or failure of this Council depends on 30 May Mandate. Propose to take this first. Council will have before it draft conclusions on Chapters One and Two and we expect to circulate draft guidelines for Chapter Three. But will try to get Council to focus not on texts but on the main issues remaining to be resolved. Wish to avoid lengthy tour de table. If we get enough progress on all three chapters, officials can look at texts overnight with object of Council's agreeing them on second day.

2. Next item will be economic and social situation. Will ask you to introduce your paper. After discussion we can consider whether Council can usefully draw any broad conclusions.

3. On European Union, plan to invite Germans and Italians to outline their ideas, with objective of giving Foreign Ministers a remit to study them further.

4. Take other items after that. Papandreou may make a statement on Greek membership. North/South may be raised, but will try to avoid long discussion. Enlargement declaration best taken when we can assess progress on the Mandate.

5. Your reactions to this way of proceeding?

30 May Mandate

A 6. Must get agreement to specific conclusions on all three chapters. Hence my message to European Council colleagues. Will not agree to communique with no real substance. After your tour of capitals how do you assess the chances? What is your reaction
B to our draft guidelines on Chapter 3? These are a lot less than we would have liked to have seen come out of the Council and leave open the precise method of correction; but they would be useful basis for negotiation next year.



7. How does Commission now see German problem? Do you plan to make separate proposals at European Council?



BACKGROUND

8. This meeting is primarily an opportunity to concert tactics with the Commission before the European Council. The Prime Minister may wish to begin by outlining how she proposes to handle discussion at the Council and invite M. Thorn to comment. She will then probably wish to concentrate on the 30 May Mandate. M. Thorn will have visited all European capitals except The Hague and may have some news of the positions being adopted by Member States.

C 9. Sir M Butler is going through our draft budget text with the Commission today. M. Thorn will therefore be aware of our ideas. Mr Franklin discussed them with Thiele of the German Chancellor's Office on 20 November, and received a generally favourable response, although the Germans would like a more specific reference to their own problem.

10. M. Thorn appears to be showing signs of strain. His interventions at the Foreign Affairs Council on 19 November were confused and unhelpful. He is more likely to play a constructive role at the European Council if he has as clear a view as possible of our intentions for handling the Mandate discussion.

GUIDELINES FOR BUDGET CHAPTER

TEXT

1. The object of the Community budget is to finance agreed Community policies. At the same time the creation or recurrence of an unacceptable situation for any Member State must be avoided and the overall convergence of the economies of Member States must be fostered, without imposing an undue burden on any Member State.
 2. In the long term the reconciliation of these objectives will be achieved through the development of Community policies and of the balance between them. The conclusions reached in Chapters I and II above are a first step in that direction.
 3. But the process of reconciling the objectives by these means will take a period whose length cannot be predicted with any precision and, in the meantime, a budgetary corrective arrangement will be needed, if unacceptable budgetary situations are to be avoided.
 4. The corrective arrangement will need to deal not only with the problem already recognised by the Community when the Financial Mechanism was agreed, but also with the imbalance in the distribution of expenditure, notably FEOGA guarantee expenditure.
- The arrangement will be based on objective criteria so that there is no need for an annual negotiation. These criteria should include not only the progress made in reducing the problem of unacceptable situations through the development of Community policies, but also the relative size of the Member State(s) in question and the relationship of their GDP per head to the Community average.
5. The financing of the corrective arrangement will be achieved within the 1% ceiling and without putting at risk the financing of other agreed Community policies, if necessary by a method which avoids any net budgetary impact. The financial effects of the corrective arrangement will have regard to whether the payments come from Member States below or above the Community average GDP per head and /whether

whether or not they are net contributors.

b. The corrective arrangement will apply with effect from the Community's 1982 budget year. The Council, acting on a proposal of the Commission, will take the necessary detailed decisions by 31 December 1981.

7. The detailed arrangements so agreed will be reviewed after seven years to consider the progress made towards the Community's long term budgetary objectives and whether any changes are needed.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 933 OF 21 NOVEMBER

INFO IMMEDIATE DESKBY 230600Z UK REP BRUSSELS AND PARIS (FOR SIR R ARMSTRONG)

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MANDATE: DRAFT GUIDELINES FOR CH. III: FRANKLIN/TRHIELE MEETING

1. FRANKLIN EXPLAINED THAT DURING THE ANGLO/GERMAN CONSULTATIONS ON 18 NOVEMBER THE PRIME MINISTER HAD RECOGNISED THAT THE FEDERAL CHANCELLOR WAS THINKING MORE IN TERMS OF ACHIEVING GUIDELINES AT THE EUROPEAN COUNCIL RATHER THAN A SET OF DETAILED SOLUTIONS TO THE PROBLEMS RAISED UNDER THE MANDATE. THE PRIME MINISTER WAS PREPARED TO ACCEPT THE CONCEPT OF GUIDELINES PROVIDED THEY WERE OF A KIND SUFFICIENTLY PRECISE TO SERVE AS A BASIS ON WHICH NEGOTIATIONS COULD BE CARRIED FORWARD. THEY NEED NOT PREJUDICE THE METHOD OF SETTLEMENT. IT WOULD BE IMPORTANT TO MAINTAIN A BALANCE BETWEEN THE THREE CHAPTERS ESPECIALLY TO AIM AT THE SAME LEVEL OF PRECISION IN EACH. WE HAD A TEXT FOR CH. III. WE WOULD BE SHOWING IT TO THE FRENCH AND THE COMMISSION ON 23 NOVEMBER BUT WOULD WELCOME GERMAN REACTIONS FIRST. FRANKLIN HANDED OVER THE TEXT AND EXPLAINED THE THINKING BEHIND IT, IN PARTICULAR, THE EFFORTS THAT HAD BEEN MADE TO TAKE ACCOUNT OF THE GERMAN POSITION.
2. TRHIELE'S REACTION WAS GENERALLY FAVOURABLE. THE TEXT WAS VERY MUCH IN LINE WITH GERMAN THINKING AND ALTHOUGH SOME OF THE POINTS (EG 31 DECEMBER 1981 (PARA 6) AND 7 YEARS (PARA 7)) MIGHT NOT BE NEGOTIABLE FROM THE POINT OF VIEW OF OTHERS HE THOUGHT THERE WAS ONLY ONE MAJOR DIFFICULTY FOR THE GERMANS, THE FINAL SENTENCE OF PARA 5. IT POINTED IN THE DIRECTION OF PARA 44 OF THE COMMISSION REPORT BUT FELL FAR SHORT OF WHAT GERMANY REQUIRED IF, AT THE SAME TIME, SHE WAS TO ACCEPT CHS. I AND II. WHAT WAS NEEDED WAS A MUCH MORE SPECIFIC REFERENCE TO THE SHAPE OF A SOLUTION FOR GERMANY. A PHRASE MIGHT BE ADDED ON THE LINES, EG 'NO MEMBER STATE SHOULD EXPECT TO CONTRIBUTE MORE THAN X% (HE MENTIONED 50 %) OF NET TRANSFERS.' THE CHANCELLOR

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/ WOULD NOT

WOULD NOT CONSIDER THE PRESENT TEXT GAVE HIM ENOUGH PURCHASE IN THE NEGOTIATIONS. IF THE TEXT WAS TABLED AS IT STOOD IT WOULD BE VERY DIFFICULT AT THE COUNCIL TO GET THE SPECIFIC RECOGNITION THE GERMANS WANTED INCLUDED. LATER THIELE ADDED THAT HE WOULD BE CONTENT TO SEE THE REFERENCE TO THE 1% CEILING DROPPED (IT WENT WITHOUT SAYING) IN EXCHANGE FOR FULLER RECOGNITION IN PARA 5 OF GERMAN NEEDS. FRANKLIN AGREED TO REFLECT ON THE WORDING BUT OFFERED NO COMMITMENT TO REDRAFT.

3. MORE GENERALLY, THIELE WAS UNHAPPY TO HEAR THAT THE TEXTS RELATING TO CHS. I AND II WERE SO DETAILED. HE SAID THE CHANCELLOR COULD NOT BE EXPECTED TO HAVE ANY APPETITE FOR DETAILED AND CONTENTIOUS NEGOTIATION AND, FACED WITH THAT PROSPECT, WOULD VERY LIKELY WANT TO SUGGEST THAT SUCH WORK WAS NOT APPROPRIATE TO THE EUROPEAN COUNCIL AND SHOULD BE REMITTED TO THE SPECIALIST COUNCILS. ON THE OTHER HAND, IF A REFERENCE OF THE KIND SUGGESTED FOR PARA 5 WERE INCLUDED THE CHANCELLOR WOULD PROBABLY FIND IT EASIER TO ENGAGE. FRANKLIN POINTED OUT THAT THE COUNCIL WAS COMMITTED TO A DISCUSSION OF THE MANDATE. FOR SOME COUNTRIES, THESE OTHER CHAPTERS WERE OF VITAL IMPORTANCE. THEY COULD NOT BE EXPECTED TO COME TO ANY AGREEMENT ON CH III UNLESS THEIR OWN CONCERNS HAD BEEN DEALT WITH IN THE FIRST TWO. WE THOUGHT THAT CH III, THOUGH NOT IDEAL, WAS WORTH HAVING. PROCEDURES SO FAR ESTABLISHED MEANT THAT ALL THREE CHAPTERS HAD TO BE DEALT WITH IN PARALLEL. AS FAR AS WE WERE CONCERNED THERE COULD BE NO PROGRESS ON CHS. I AND II UNLESS THERE WAS PROGRESS ON CH. III. THIELE SAID THAT WAS THE GERMAN POSITION TOO BUT HE REMAINED UNHAPPY AT THE PROSPECT OF THE CHANCELLOR'S REACTION TO THE SIGHT OF SO MANY SQUARE BRACKETS.

4. AS REGARDS CH II, THIELE QUESTIONED THE WISDOM OF GOING SO FAR ON MEDITERRANEAN AGRICULTURE. WHY SHOULD WE PAY THREE TIMES OVER? ONCE NOW FOR A MEASURE OF SATISFACTION ON CHAPTER III. A SECOND TIME WHEN, INEVITABLY, THE DETAIL CAME TO BE DISCUSSED AND A THIRD TIME AT ENLARGEMENT. FRANKLIN SYMPATHISED BUT DOUBTED THE SITUATION WAS QUITE AS BLEAK AS THIELE SUGGESTED. THE ITALIANS SEEMED MAINLY CONCERNED TO PRESERVE WHAT THEY HAD RATHER THAN TO MAKE NEW GAINS. IN ANY CASE, THE TEXT OFFERED NO COMMITMENTS.

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5. THIELE SAID HE WOULD STUDY THE TEXT IN MORE DETAIL AND GET IN TOUCH IF HE HAD FURTHER POINTS TO MAKE. FRANKLIN SAID HE WOULD PASS ON THE RESULTS OF HIS CONSULTATIONS IN PARIS AND LET THIELE KNOW IN DUE COURSE WHAT IT WAS DECIDED TO DO WITH THE PAPER.

ADVANCE COPIES : ELLIOT, WENTWORTH. CABINET OFFICE
BRIDGES, HANNAY, SPRECKLY, FAULKNER, FCO.
HANCOCK, EDWARDS, TREASURY
ALEXANDER, NO 10

TAYLOR

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FM FCO 201100Z NOV 81

TO FLASH ATHENS

TELEGRAM NUMBER 266 OF 20 NOVEMBER

AND TO FLASH OTHER EC POSTS AND UKREP BRUSSELS

EUROPEAN COUNCIL: 26/27 NOVEMBER:

MESSAGE FROM PRIME MINISTER

1. FOLLOWING IS TEXT OF MESSAGE FROM PRIME MINISTER TO OTHER HEADS OF STATE/GOVERNMENT AND PRESIDENT OF THE COMMISSION.

GRATEFUL IF YOU COULD ENSURE DELIVERY TODAY.

BEGINS

WE ARE NOW ONLY A WEEK AWAY FROM THE MEETING OF THE EUROPEAN COUNCIL IN LONDON. LAST JUNE WE SET OURSELVES THE TARGET OF REACHING DECISIONS ON THE MANDATE ON THIS OCCASION.

MUCH WORK HAS BEEN DONE BY THE FOREIGN MINISTERS AND BY THE MANDATE GROUP. BUT IT IS CLEAR THAT THERE ARE SEVERAL ISSUES THEY HAVE NOT BEEN ABLE TO RESOLVE. THESE THEREFORE FALL TO US TO CONSIDER. WE WILL BRING SEVERE CRITICISM ON THE COMMUNITY, TO WHOSE FUTURE DEVELOPMENT WE ARE ALL COMMITTED, IF WE FAIL TO ACHIEVE OUR PUBLICLY DECLARED OBJECTIVE OF TAKING DECISIONS THIS YEAR. THE HARD FACT IS THAT IT WILL BE NO EASIER TO TAKE THE DECISIONS NEXT SPRING. SO I HOPE VERY MUCH THAT I WILL HAVE YOUR CO-OPERATION IN WORKING TO MAXIMISE THE AREAS OF AGREEMENT WHEN WE MEET NEXT WEEK.

ONE THING THAT DOES SEEM CLEAR FROM THE DISCUSSION SO FAR IS THAT THERE IS NO ALTERNATIVE TO TAKING MATTERS FORWARD ON A BROAD FRONT. OUR AIM MUST BE TO MAKE EQUAL AND SOLID PROGRESS ON ALL THREE MAIN CHAPTERS OF THE NEGOTIATION. TO RELAUNCH THE COMMUNITY WE NEED TO DEVELOP COMMUNITY POLICIES, TO MAKE CHANGES IN THE CAP AND TO AVOID UNACCEPTABLE SITUATIONS.

AS REGARDS COMMUNITY POLICIES OTHER THAN THE CAP, A CONSIDERABLE NUMBER OF COMMITMENTS AND ORIENTATIONS FOR THE FUTURE DEVELOPMENT OF THE COMMUNITY HAVE BEEN WORKED OUT BY THE FOREIGN

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MINISTERS. IN OTHER CASES, DEADLINES FOR DECISIONS ARE LAID DOWN. ONLY A VERY FEW QUESTIONS REMAIN FOR US TO SETTLE. WE HAVE THE PROSPECT HERE OF CARRYING FORWARD IN AN IMPORTANT WAY THE WORK OF THE COMMUNITY IN FINANCIAL, ECONOMIC, SOCIAL, REGIONAL, INDUSTRIAL AND OTHER POLICIES.

THE DISCUSSIONS ON THE CAP HAVE, NOT SURPRISINGLY, LEFT OPEN MORE ISSUES. THE CAP IS OF MAJOR IMPORTANCE TO THE COMMUNITY. THE GENERAL ECONOMIC CLIMATE HAS CREATED DIFFICULTIES FOR OUR AGRICULTURE AS FOR OTHER SECTORS OF THE ECONOMY. BUT THERE IS A WIDESPREAD FEELING THAT WE NEED TO GIVE A NEW SENSE OF DIRECTION TO THE COMMON AGRICULTURAL POLICY. IT IS UP TO US AS HEADS OF GOVERNMENT TO LAY DOWN THE GENERAL GUIDELINES. THESE CAN BE SUBSEQUENTLY IMPLEMENTED IN DETAIL BY THE COMPETENT COMMUNITY BODIES. WE SHALL THEREFORE NEED TO SPEND SOME TIME AT OUR MEETING IN LONDON ON THE OUTSTANDING ISSUES IDENTIFIED IN THE PAPER WHICH HAS BEEN CIRCULATED BY THE PRESIDENCY, AFTER CONSULTATION WITH THE COMMISSION.

ON THE BUDGET CHAPTER, THE DISCUSSIONS SO FAR HAVE NOT PROVIDED US WITH A COMMON BASIS FOR DISCUSSION. BUT I BELIEVE, LOOKING AT THE PREPARATORY WORK, THAT THE ENTIRELY LEGITIMATE CAUTION OF ALL DELEGATIONS WHEN DEALING WITH SUCH A FINANCIALLY SIGNIFICANT MATTER HAS MASKED THE EMERGENCE OF SOME POINTS OF CONSENSUS. THERE DOES SEEM, FOR INSTANCE, TO BE GENERAL AGREEMENT THAT THE LONG TERM SOLUTION TO AVOIDING THE RECURRENCE OF AN UNACCEPTABLE SITUATION MUST BE SOUGHT IN THE ADAPTATION OF COMMUNITY POLICIES THEMSELVES. THIS SHOULD BE PUT IN HAND FORTHWITH. IT IS ALSO, I THINK, AGREED THAT THE ADAPTATION WILL TAKE TIME AND THAT THE RATE OF ITS PROGRESS IS NOT ENTIRELY PREDICTABLE: AND THAT IN THE MEANTIME SOME SPECIAL CORRECTIVE ARRANGEMENT WILL BE NEEDED. FINALLY, IT IS COMMON GROUND THAT IT WOULD BE IN NO-ONE'S INTEREST TO HAVE TO COME BACK TO THIS ISSUE YEAR AFTER YEAR.

WHAT IS STILL DISPUTED IS THE AMOUNT, DURATION AND METHOD OF THE NECESSARY ADJUSTMENT, AS WELL AS ITS APPLICATION, AND WHETHER IT SHOULD BE GENERAL OR LIMITED TO THE UK. WHAT I THINK WE MUST TRY TO DO NEXT WEEK IS TO ENLARGE THE AREA OF AGREEMENT BETWEEN

US AND REGISTER IT CLEARLY IN OPERATIONAL GUIDELINES WHICH WILL PERMIT THE REMAINING DETAILED WORK TO BE CARRIED OUT EXPEDITIOUSLY THEREAFTER.

I THOUGHT IT MIGHT BE USEFUL TO SET OUT MY PRELIMINARY THINKING IN ADVANCE. AS USUAL THE TIME AVAILABLE TO US WILL BE LIMITED AND I WOULD LIKE TO PUT IT TO THE BEST USE. TO SUCCEED IN TAKING DECISIONS NEXT WEEK WILL BE A GREAT BOOST FOR THE COMMUNITY AS A WHOLE.

SEPARATE ADDITION TO CHANCELLOR SCHMIDT

I HAVE BEEN REFLECTING ON WHAT YOU SAID DURING OUR TALK IN BONN. WE ARE WORKING ON SOME DRAFT GUIDELINES FOR THE BUDGET PROBLEM WHICH MY OFFICIALS WILL SHOW TO YOURS: AND ALSO TO THE FRENCH. I HOPE VERY MUCH WE WILL BE ABLE TO FIND A GOOD MEASURE OF AGREEMENT BETWEEN US.

SEPARATE ADDITION TO PM SPADOLINI

I DID VERY MUCH VALUE OUR TALKS ON THESE MATTERS WHEN YOU VISITED LONDON. I HOPE YOUR NEXT VISIT WILL SEE US BRINGING SOME OF THE ISSUES WE DISCUSSED TO FRUITION.

SEPARATE ADDITION TO PRESIDENT MITTERRAND

I THINK IT WOULD BE USEFUL TO FOLLOW UP THE SUGGESTION FROM M. BEREGOVOY OF A CONTACT BEFORE NEXT WEEK AND I HAVE ASKED SIR ROBERT ARMSTRONG AND MR FRANKLIN TO GO TO PARIS ON MONDAY. WE ARE WORKING ON SOME DRAFT GUIDELINES ON THE BUDGET ISSUE WHICH WE WOULD LIKE TO SHOW YOU AND ALSO THE GERMANS, FOLLOWING MY TALK WITH CHANCELLOR SCHMIDT EARLIER THIS WEEK.

SEPARATE ADDITION TO M. THORN

I LOOK FORWARD TO SEEING YOU AGAIN ON 24 NOVEMBER TO DISCUSS THE EUROPEAN COUNCIL. WE WILL HAVE TO WORK CLOSELY TOGETHER. I AM MOST GRATEFUL FOR ALL THAT YOU AND YOUR COLLEAGUES ARE DOING TO ACHIEVE SOME SOLID PROGRESS.

SEPARATE ADDITION TO DR FITZGERALD

I VALUED OUR DISCUSSIONS ON THIS WHEN WE MET RECENTLY. I HOPE WE WILL BE ABLE TO MAKE REAL PROGRESS WHEN WE MEET IN LONDON NEXT WEEK.

SEPARATE ADDITION TO MR PAPANDREOU

I VERY MUCH LOOK FORWARD TO MEETING YOU IN LONDON NEXT WEEK.

ENDS

CARRINGTON

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10 DOWNING STREET

From the Private Secretary

13 November 1981

Dear Francis,

President of the European Commission

I enclose a record of the discussion between the Prime Minister and M. Thorn which took place here this morning.

I am sending copies of this letter and the enclosure to John Kerr (HM Treasury), Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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SUBJECT.

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRESIDENT OF THE EUROPEAN COMMISSION, M. GASTON THORN, AT
10 DOWNING STREET ON 13 NOVEMBER AT 1020 HOURS

Present:

The Prime Minister

Sir Michael Butler

Mr. M.D.M. Franklin

Mr. M.O'D.B. Alexander

M. Gaston Thorn

M. Noel

M. Duriex - Chef de Cabinet

European Council Meeting

After a brief exchange, arising from a reference by the Prime Minister to the broadcast which M. Thorn had made on the BBC that morning, about the general political and economic situation in Europe, the Prime Minister asked about progress with the preparations for the European Council meeting. M. Thorn said that he was anxious for the meeting to be a success but it had to be recognised that there were still a lot of square brackets in the draft conclusions. The Prime Minister said that it seemed clear that the Community would have to "go to the brink" again before agreement was reached. This seemed to her to be a deplorable way to proceed. She much disliked it. M. Thorn agreed but said that many of the Prime Minister's colleagues wanted to postpone all the difficult decisions until the spring. If progress was to be made in London, both the Presidency and the Commission would have to dramatise the questions at issue.

The Prime Minister, agreeing, said that it was important in tackling the various problems to bear in mind the broader background. We needed to bear in mind, for instance, that the Community was regarded by other countries as a protectionist club. The Common Agricultural Policy must not be operated in such a way that it undermined our friends. We all lived in one world: heavily subsidised exports of agricultural products damaged those who should be on our side. Nor did the developing countries want food aid: they wanted aid in developing their own agriculture. The proposals

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at present under discussion for long term contracts for food exports could upset our partners.

In response to a request from the Prime Minister for an account of the state of play in preparing documents for the European Council, Sir Michael Butler explained that he and M. Noel had recently completed a text on Chapter One which had only a very few brackets in it. This, inevitably, did violence to the views of some of those interested but it should make further progress possible. On agriculture, positions were further apart but again a text was in view with a relatively small number of options. That part of the text which dealt with cereals was based on the Commission's proposals. The area of major disagreement in this text related to the question of stabilising the prices of imported cereal substitutes and in particular of maize gluten.

The Prime Minister asked whether agreement was in sight on pricing policy generally. Sir Michael Butler said that the situation here was not so good. The Prime Minister said that arrangements which had the effect of penalising the efficient farmers and subsidising the small and inefficient was crazy. She understood the need to deal with the problems of small farmers for social reasons. But it should be acknowledged that this was a question of social policy but not of agricultural policy. She would not accept an outcome which put a millstone around the necks of the efficient producers. M. Thorn asked whether it was not fair to tell the efficient that they did not need subsidies. The Prime Minister said that the effect of subsidies was to penalise the efficient. The proper way to tackle the problem was to change price levels. If something had to be done for, e.g. the hill farmers, this could be done nationally. Subsidising them in a way which penalised the larger and more efficient concerns would be like penalising Mercedes and BMW to make life easier for British Leyland! Sir Michael Butler commented that while it was clearly impossible to put extra levies on the efficient, it ought to be possible to find ways of making payments out of the budget to poor farmers. The Prime Minister said it would be essential to

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- 3 -

distinguish the genuinely poor farmers from the hobby farmers. M. Thorn observed that the Greek and Italians were seeking help from the budget for all small farmers. This would, of course, be disastrous. The Prime Minister said that she did not disagree with that, but she understood those who argued that a Community which was prepared to create butter mountains could hardly resist the creation of olive oil lakes. It was essential to find a means of making each country responsible for its own surpluses. As regards the Community as a whole, the objective should be to lower prices. This was the sensible approach.

The prevalence of anti-German feeling in Europe was very worrying. It was essential to keep Germany in the Community and to keep the Germans themselves feeling that they were being reasonably treated by the Community. This, after all, was the *raison d'etre* of the Community. The Prime Minister said that the German dimension dominated her attitude towards Community problems. She thought that while the Germans were prepared to contribute a great deal to the Community budget, they would not be prepared to subsidise everyone. In any case, such an approach would be wrong. M. Thorn said that when he had seen Chancellor Schmidt recently he had found him very understanding. He wanted to curb the recent growth in the German contribution but he was not asking to pay less. Sir Michael Butler asked whether the Commission was preparing to make proposals to deal with the problem of the German contribution. M. Thorn argued that if the Commission were to take the initiative on behalf of the Federal Republic, the resistance of the other members would, if anything, increase. Sir Michael Butler said that in his view movement on the budget question as a whole was hanging fire pending a sign from the Commission that they were prepared to do something for the Federal Republic and acceptance by the Federal Republic that what the Commission was proposing was tolerable. Until there was some progress on this point, no-one else would move. M. Thorn said that he did not want the impression to get around that the Commission meeting over the coming weekend (to which Sir M. Butler had referred) had as its purpose the elaboration of means to provide money for the Federal

/ Republic.

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- 4 -

Republic. The Prime Minister observed that in fact the Federal Republic was finding money for the rest of the Community. At a later stage in the conversation M. Thorn said that he thought the Commission would be able to come up with a proposal which would be acceptable for the Federal Republic. It would be important for the Prime Minister to tell Chancellor Schmidt, who was one of those who thought that everything could be postponed until the spring, that he would have to move at the London meeting.

The Prime Minister said that one reason why she considered the present German contribution unsatisfactory was that she believed that the budget should be equitable. The rich should pay but not too much; the less well-off should pay little or nothing; and the poor should get something back. If we could get a system which was fair it would not be necessary to proceed, as at present, by a series of trials of strengths. She had sought such a system last time round but in the end had had to settle for an "expedient compromise". She was worried at the prospect of having to make another such compromise. Mr. Franklin said that there were at present two concepts on the table for discussion: an approach based on the equitable sharing of burdens, which the UK thought right and which the Chancellor of the Exchequer had set out in his speech at the Hague; and the Commission's approach about which there were a number of uncertainties, which would only give the UK an acceptable outcome in exceptional circumstances and which, in its present form, did nothing to help the Federal Republic. The Prime Minister commented that the British approach of limiting contributions was a way of limiting the extent of present inequities. It was not a rigid approach. The difficulty was that the countries which were making a good thing out of the Community did not want to give up their present advantages. M. Thorn said that the greatest difficulties would be encountered with the Danes, the Dutch and the Irish. The Prime Minister said that she had no objection to helping the Irish since they were poor. M. Thorn commented that Dr. Fitzgerald was making a continuation of the present arrangements a question of principle. He was threatening to sue if there was any change. The Prime

CONFIDENTIAL / Minister

Minister said that there was nothing in the Treaty of Rome which compelled the Community to create a butter mountain. That was a result of policy. Mr. Franklin said that the Irish feared that changes in the budget would be an attack on the principle of financial solidarity.

Sir Michael Butler said that the Commission's proposal needed to be looked at from two angles:

- (a) whether it produced the right result; and
- (b) how it was to be financed.

It was essential under the second heading to ensure that the Federal Republic was not unduly burdened. (The Prime Minister agreed about this.) Mr. Franklin said that the Treasury had serious doubts as to whether the Commission's proposal would, in the end, produce the right result. Its operation would inevitably be somewhat arbitrary. Sir Michael Butler agreed that it would produce fluctuating results; the extent of the fluctuations would depend to a considerable degree on the level of the FEOGA return we achieved and on the nature of the financial mechanism. The Prime Minister said that she continued to think that a system based on limiting the new contribution would be fairest. M. Thorn said that the financial key in the Commission's proposal meant in effect keeping an eye on each country's contribution. The small rich members would undoubtedly have to pay up. Moreover, since this would be done through the refund of agricultural payments, it would not break the Community's principles.

In response to a remark by M. Noel that the common financing of the CAP was basic to the Community, the Prime Minister said that the CAP was basically unsound. M. Noel said that every country was protectionist where agriculture was concerned. The Prime Minister agreed. Sir Michael Butler said that the Community would have to move in the direction of a better agricultural policy. The Commission was trying to do this - although its proposals on milk were admittedly unsound. The guidelines under

/ discussion

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discussion for the European Council would assist in this direction. M. Thorn said that the Commission had already achieved something on this front. The increase in CAP expenditure in the last year had been lower than in other parts of the Community budget. Four countries were already complaining that the CAP had been cut too much.

In response to a comment from the Prime Minister about France's success in making the Community pay for its national aids to the agricultural sector, Mr. Franklin said that the draft guidelines envisaged the imposition of stricter curbs on such aids. The Prime Minister expressed some scepticism. The British horticulture industry had been "ruined" by Dutch energy subsidies. The Commission had had it in its power to take action but had done nothing. M. Thorn said that it had admittedly taken a long time but the Commission had taken action and the Dutch were now moving. The Commission were determined to tackle the French also. Both Sir Michael Butler and Mr. Franklin observed that the Commission would have to be tougher in the future.

Reverting to the European Council meeting itself, the Prime Minister said that she was looking for progress on all three chapters. She would want at the very least to see agreement reached on guidelines. As regards the budget, she would want to be satisfied that it was being tackled on a basis which would produce an equitable solution for the future and not condemn us to a series of ad hoc solutions. She would wish to ensure that the Mandate was fully discussed. She proposed therefore to take it as the first item. If necessary she would come back to it after the other subjects had been dealt with. M. Thorn observed that President Mitterand was sure to want to spend some time discussing unemployment and other social problems. The Prime Minister took note. She expected that the global economic situation and nuclear defence matters would be discussed at dinner.

The discussion ended at 1105.

Handwritten signature

13 November 1981

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10 DOWNING STREET

Prime Minister.

A. Thom will be accompanied by Emile Noel, the extremely influential Secretary General of the Commission. (I am told he also has v. good relations with the new French administration).

You will be supported by Sir A. Butler & Mr. Franklin.

Despite the gloom at O.D., I am sure your main objective must be to leave A. Thom in no doubt that you are determined to record genuine progress at the Council

Am^s



Foreign and Commonwealth Office

London SW1A 2AH

12 November 1981

Dear Michael,

Prime Minister's Meeting with M. Thorn:
13 November

I enclose two copies of briefs on the 30 May Mandate and the Common Fisheries Policy for this meeting: the latter brief deals with the Commission's claims that in the absence of a Council decision, its proposals are binding on the Member States. The brief is being submitted separately to Lord Carrington.

Copies of this letter and relevant enclosures go to Kate Timms (MAFF), John Kerr (Treasury), and Sir Robert Armstrong's Private Secretary.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

PRIME MINISTER'S MEETING WITH M. THORN : 13 NOVEMBER

30 MAY MANDATE

POINTS TO MAKE

1. Have heard reports of the results of discussion so far in the Mandate Group and in Councils on the various aspects of the 30 May Mandate. In spite of best efforts of Presidency and useful support from Commission, results so far disappointing.
2. Essential for something positive to come out of November European Council. Must get substantive conclusions. If not, it would be widely interpreted as failure of Community to put its house in order and to tackle effectively the problems of the 1980's. Not prepared to see lengthy communiqué covering up real substance *or absence thereof! P.M.*
3. At the very least, we should aim to get a set of agreed guidelines for future action. The more specific these are, the better. Must be parallel progress on all 3 chapters, since the different Member States have different interests in each of them.
4. Hope that you and Lord Carrington will use your dinner on Sunday as an opportunity to concert tactics for next week.

[REDACTED SECTION]

5. Understand that you have already visited a number of Community capitals. Was any progress discernible? What do you think Germans will settle for on the budget issue? Important to ensure they are not disgruntled. Are you thinking of elaborating your own proposals for the budget? How do you see the prospects for the European Council?

6. The UK, nationally, has played an active part in the search for solutions on the 3 chapters. We have supported the main Commission recommendations on other policies and your general approach on the CAP, though there are some differences. In particular, we want a "rigorous" (not just "prudent") price policy and no discrimination against larger farmers. We are against changes in import and export policy which would damage the Community's international trade relations. ^{These are important points of principle for us.} There should also be stricter control of national aids and an effective financial guideline which curtails the growth in CAP expenditure.

7. On the budget, really must make progress now towards an adequate solution. Quite unacceptable that Britain, as one of the less prosperous Member States, should be a substantial net contributor. Must find a solution which matches up to the scale of the problem and is defensible to electorates of our countries. This should be based on objective criteria, including relative prosperity.

8. If we are to avoid further divisive wrangles on this subject, the solution must be durable. It should last as long as the problem exists, ie. until the reform of the CAP and development of other policies means that the unbalanced nature of the budget no longer causes such problems for individual Member States.

9. [If asked whether we could accept Commission mechanism]. We have never ruled out the Commission's approach but not convinced it would produce sufficiently reliable results for UK, and we continue to think that a more comprehensive solution, which attacked the problem of net contributions head-on, is a better basis for a lasting solution to the problem. But Commission approach would have to be accompanied by fully effective financial mechanism.

10 [If asked about our scheme which we put to Germans]. Doing our utmost to promote Community solution. Have concentrated on principle rather than specific applications, but since our

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partners seemed unwilling to accept idea of deciding pattern of net contributions/receipts for all Member States, have been considering less ambitious variant which would set limits only on net contributions.

11. [If new Commission estimates of net contributions raised] 30 May agreement still left us paying considerable net contributions in 1980 and 1981 in spite of being one of poorer Member States; glad that this now looks like being reduced. But problem for 1982 and thereafter remains. Unadjusted net contribution for 1982 expected to be over 2,000 mecu, which is completely unacceptable.

/BACKGROUND

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BACKGROUND

1. The Foreign Affairs Council on 16/17 November, which may need to be extended by an extra session on 19 November, will be the last formal opportunity to prepare the ground for the discussion of the Mandate at the European Council on 26/27 November. The discussions so far, both in the Mandate Group and in plenary sessions of the Foreign Affairs Council, have been marked by a reluctance on the part of all Member States to make concessions of substance until the last moment. As a result, the draft conclusions for the European Council which we tabled in the Mandate Group for 28 October were so studded with alternatives and reserves as to make them totally unsuitable for submission to Ministers. We have however agreed, as Presidency, to put forward a new clean text on 30 November as a basis for Ministerial discussion. We also intend, at the Foreign Affairs Council, that Lord Carrington, accompanied by M. Thorn, should have a round of bilateral meetings with each of the other Foreign Ministers, who are more likely to make concessions in a private session than in the Council itself.

2. A number of representatives in the Mandate Group and Foreign Ministers have expressed their doubt as to whether decisive progress can be made at the European Council, as was originally envisaged. Our objective, as Presidency, will be to secure as broad a measure of agreement as we can on all 3 elements of the Mandate. M. Thorn should be left in no doubt of our determination on this point. Ministers will be considering our precise objectives at the European Council at a meeting on 12 November.

3. M. Thorn is in the middle of a series of visits to Community capitals. He will continue to tour Europe until shortly before the European Council and will have a further meeting with Lord Carrington and the Prime Minister on 24 November, which will give an opportunity for last-minute concertation of tactics. It would be useful to try to get from him his impressions

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from his talks so far. We know that he met Chancellor Schmidt on 4 November and seems to have come away with the impression that what the Germans want is for the Commission to recognise the existence of a German problem, by proposing some new system of financing UK refunds which imposed a smaller burden on Germany. There may be an opportunity to ask M. Thorn whether he intends to do this in the next few days. The Anglo-German Summit consultations is now set for 18 November. We know that the Germans mentioned to him the limits scheme which we put to them on 3 November, and he may ask about it.

Foreign and Commonwealth Office

12 November 1981

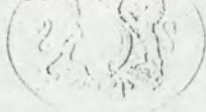
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PRIME MINISTER'S MEETING WITH M. THORN : 13 NOVEMBER

30 MAY MANDATE

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3. At the very least, we should aim to get a set of agreed guidelines for future action. The more specific these are, the better. Must be parallel progress on all 3 chapters, since the different Member States have different interests in each of them.
4. Hope that you and Lord Carrington will use your ^{meeting} ~~dinner~~ on ^{Monday} ~~Sunday~~ as an opportunity to concert tactics for next week.
5. Understand that you have already visited a number of Community capitals. Was any progress discernible? What do you think Germans will settle for on the budget issue? Important to ensure they are not disgruntled. Are you thinking of elaborating your own proposals for the budget? How do you see the prospects for the European Council?



6. The UK, nationally, has played an active part in the search for solutions on the 3 chapters. We have supported the main Commission recommendations on other policies and your general approach on the CAP, though there are some differences. In particular, we want a "rigorous" (not just "prudent") price policy and no discrimination against larger farmers. We are against changes in import and export policy which would damage the Community's international trade relations. ^{These are important points of principle for us.} There should also be stricter control of national aids and an effective financial guideline which curtails the growth in CAP expenditure.

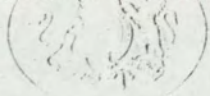
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Foreign and Commonwealth Office

12 November 1981

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Handwritten notes in the top left corner, including "Euro Pol" and "Tel 8".

Sw

Euro Pol

6 November, 1981.

Prime Minister's Meetings with
Monsieur Thorn

As you know, the Prime Minister is due to meet the President of the Commission on Friday, 13 November, and Tuesday, 24 November. She would be grateful if Sir Michael Butler could be available for both meetings.

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

①

PRIME MINISTER

Meetings with M. Thorn

Sir Michael Butler has asked whether he could be present at your two forthcoming meetings with the President of the Commission. Normally I refuse this kind of request without consulting you. But since we are in the run-up to the Council and since Sir Michael is chairing relevant meetings in Brussels, there might on this occasion be advantage in having him present.

Agree?

Yes mb

Rand

4 November 1981



File 116
Case 101

10 DOWNING STREET

From the Private Secretary

27 October 1981

PREPARATION FOR THE EUROPEAN COUNCIL:
VISIT BY THE PRESIDENT OF THE COMMISSION

The Prime Minister has seen your letter to me of 21 October and has agreed to see M. Thorn from 1015-1045 on Friday, 13 November, and from 0930-1000 on Tuesday 24 November.

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

FR

Alexander



Noted in
diary
et.

10 DOWNING STREET

V. Thirion's list

1. Mr Alexander. probably unavoidable.
2. Prime Minister

And

Jan could see Mr Thom from 10.15
to 10.45 on Friday 13 November
(though you should be aware that the
Lord Mayor's Banquet is the
following Monday).

As far as a meeting with Mr Thom
before the European Council is
concerned, there is a free slot
from 0930 to 1000 on Tuesday
24 November.

Agree to these times?

Yes No

WR

23/10



Foreign and Commonwealth Office

London SW1A 2AH

21 October 1981

Dear Michael,

ms.

Preparation for the European Council:
Visit by the President of the Commission

The Prime Minister will be aware that it is customary for the President of the Commission to call on the President of the Council shortly before a meeting of the European Council to go through the agenda. In addition, M. Thorn has suggested that it might be helpful if he were to come to London on 12 or 13 November shortly before the meeting of the Foreign Affairs Council on 16 November (which is exclusively to consider the Mandate). He has asked to see the Prime Minister. Such a visit would also fall immediately before a special meeting of the Commission to decide their line at the European Council.

Lord Carrington hopes that the Prime Minister will agree to see M. Thorn for a short while on 13 November, though his main talks on that occasion could be with Lord Carrington. The timing is far from convenient, but to rebuff M. Thorn would needlessly irritate him at a critical stage of the Mandate negotiations, while to receive him might give us positive advantage. The timing of this visit gives us an excellent opportunity to influence Commission thinking. It would be particularly useful if, just before his special Commission meeting and the Foreign Affairs Council, M. Thorn could have directly from the Prime Minister a statement of our aims in the Mandate negotiations and of the way in which she thinks the Mandate negotiations should develop before the European Council. This would ensure that there was no misapprehension as to our attitude. This would be also an occasion when the Prime Minister could raise the question of Commission powers arising from their action over fisheries about which the Lord Privy Seal is writing to you.

Lord Carrington also hopes that the Prime Minister will agree to see M. Thorn before the European Council as it is usual for the President to do. The morning of the Council itself will not be appropriate as it is a Cabinet day, so he suggests that M. Thorn be invited on 23 or 24 November. On this occasion the whole of the agenda for the European Council would need to be discussed, but it would also provide an opportunity to review the handling of the Mandate item in the light of the Foreign Affairs Council discussion.

For us con.
(F N Richards)
Private Secretary *Francis Richards*

M O'D B Alexander Esq
10 Downing St

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NM

10 DOWNING STREET

From the Private Secretary

26 June, 1981.

The President of the European Commission

I enclose a copy of a record of the conversation between the Prime Minister and Monsieur Thorn which took place here this morning.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food), John Rhodes (Department of Trade), and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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e/k Hartley

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRESIDENT OF THE EUROPEAN COMMISSION, MONSIEUR GASTON THORN,
AT NO. 10 DOWNING STREET ON 26 JUNE AT 1035.

Present

Prime Minister	M. Thorn
Mr. M.D.M. Franklin, CB, CMG	M. Spaak
Mr. M.O'D.B. Alexander	

The 30 May Mandate

M. Thorn said that on the visits to capitals which he had so far made, he had only encountered one serious opponent of the Commission's proposals. This was Denmark. The Dutch, like the Danes, knew that they would have to pay more - or receive less - if the Commission's proposals were implemented. But whereas the Dutch accepted the Commission's proposals in principle, the Danes were inclined to regard them as a "betrayal" of the CAP. The Commission regarded their proposals as being the most that could be done while maintaining the principles of the CAP - as they were enjoined to do in the 30 May Mandate. The main point made by Chancellor Schmidt had been that it was necessary to handle the budget and the CAP together. Even if they could not be dealt with "on the same day" the package approach should be maintained. The Commission's approach did this.

As regards the timing, the Commission were ready to start detailed work at once. But some Member Governments were not. President Mitterrand, for instance, would make it clear on Monday that he was not ready for a substantive discussion. Indeed, there had been signs that he might argue in favour of a postponement of such discussion until October. In order to maintain momentum, the Commission considered that the detailed work should be assigned to the Permanent Representatives in their personal capacity rather than to the Permreps as a body. The Commission would of course be available to assist the Permanent Representatives in their work. The group should report to the Foreign Affairs Council every second month.

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/The Prime Minister

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The Prime Minister said that it was vital for the Community as a whole that momentum should be maintained. The Commission would have to give firm leadership in order to ensure that the matter was "driven through". M. Thorn said he entirely agreed with the Prime Minister. He hoped that on Monday, once President Mitterrand had made his position clear, the Dutch would propose the procedure he had outlined to the Prime Minister. The Prime Minister said that she recognised that to some extent the meeting in Luxembourg would be an occasion for new Heads of Government to get to know each other. None-the-less it was particularly important that at a time when so many changes had occurred in Member countries, the Community as a whole should demonstrate its purpose and resolve. The way to do this would be to get the procedure for the implementation of the 30 May Mandate sorted out. Mr. Franklin commented that we were open-minded on the procedures to be adopted.

Sheepmeat Clawback

The Prime Minister said that she was anxious to avoid a situation arising where there was a meeting of the Agricultural Council going on in parallel with a meeting of the European Council. The question of sheepmeat clawback was one for M. Thorn to sort out. It was on his plate and should not have to come back to Ministers. She felt very strongly that there was an agreement which had to be implemented. M. Thorn said that the difficulty he faced was that the present French Minister of Agriculture, Madame Cresson, denied that her predecessor, M. Mehaignerie, had entered into the agreement attributed to him. It was a fact that there was nothing in writing. The Agricultural Commissioner, M. Dalsager, accepted that there had been an agreement but denied that the agreement was a detailed one or included prices. He believed that the proposal currently being advocated by the Commission was entirely in line with the agreement he had entered into with Mr. Walker and M. Mehaignerie. The Commission would of course be prepared to proceed through the Management Committee but the French were not prepared to do this because in their view there was a disagreement on an issue of principle. M. Thorn claimed that he had told M. Cheysson that the new Government should not start its time in the Community with a row about an agreement that had undoubtedly been entered

CONFIDENTIAL /into by

CONFIDENTIAL

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into by their predecessors. M. Cheysson professed to accept this argument but said that it would be impossible for the French Government in all the circumstances to go through the Management Committee. The Council of Ministers should meet to confirm that there had been an agreement. Such a meeting need only take a few minutes.

M. Thorn then said that a meeting of the Management Committee was due to take place this afternoon and that the Commission would be seeking approval from it for its proposals. If there was a formal objection of principle in the Management Committee, the Commission would have no option but to opt for a meeting of the Council of Ministers early next week. Such a meeting would take place late on Tuesday afternoon after the European Council had finished. Mr. Franklin said that the Commission had undertaken to find a solution and that he could see no legal objection to a decision by the Commission to push the issue through the Management Committee. M. Thorn said that this would of course be right if Ministers agreed but that he did not see how the Management Committee could have expected to confirm an agreement made between Messrs. Walker, Mehaignerie and Dalsager. Mr. Franklin said he did not see how taking the matter to the Council would help. The Prime Minister observed that to do so would risk calling the entire package in question. In reply to a question from M. Thorn, Mr. Franklin said that there had been no bilateral talks with the French. We had talked to the Commission because this was the ^{correct} way to approach the matter. It was the Commission's responsibility. The Prime Minister said that she had hoped that the advent of a new Government in France would make it possible to start the Anglo/French relationship in these areas on a new and sound basis, marked by an absence of personal animosity. She would be deeply upset to be disappointed. M. Thorn said that in the light of his discussion with the Prime Minister, he would telephone to Brussels later in the morning. The question was, as he had already pointed out, on the agenda to a meeting of the Management Committee this afternoon.

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In a brief reference to the present arrangement for the financing of the Community, the Prime Minister commented that the Federal Republic was being treated very inequitably. If this were to continue for long, Europe as a whole would regret it. M. Thorn said this was a point he had made repeatedly to his Benelux and Danish colleagues. The Prime Minister also commented that an agreement on fish was now needed very urgently.

Other Issues

M. Thorn said that he thought President Mitterrand would probably wish to talk in Luxembourg about the 35-hour week. The Prime Minister said that she herself thought a 35-hour week was ridiculous, but if President Mitterrand wanted it, he should of course have it. However, he should not attempt to persuade the other Members of the Community of its merits. The French would simply have to take the risk that other Members of the Community would become more competitive than they were. M. Thorn said that he had told M. Cheysson that he should try to persuade President Mitterrand that while he might have to speak about the 35-hour week for domestic political reasons, he should not insist on any reaction from his colleagues or on having any reference to it in the Communique. The Prime Minister agreed with this. She would be in favour of having a short a Communique as possible. M. Thorn thought President Mitterrand might be receptive to this approach.

The Prime Minister said that she thought that no attempt should be made in Luxembourg to reach hard and fast positions on North/South questions - though she recognised that President Mitterrand would be keenly interested in these. She did not wish to give the impression that the Ten were getting their positions "all fixed up" well in advance of Mexico. M. Thorn said that he believed the Ten should try to push the Americans a little on these issues. The Americans were too inclined to believe that automatic market mechanisms would take care of all the problems. He hoped that it would be possible to go some way towards meeting the Third World countries on the question of global negotiations. He wondered whether it would not be

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/possible

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- 5 -

possible to accept one round of global negotiations before individual subjects or commodities were assigned to smaller groups. The Prime Minister said she thought it important that the meeting in Cancun should avoid getting into that kind of detail. If it did, the participants would all be at each others throats. When the Mexican Foreign Minister had been here he had spoken in terms of a general exchange of views. This had been right. Others were now trying to get into more detail. As far as she was concerned, there should be no negotiation in Cancun. M. Thorn said that he had always considered the Summit in Mexico to be a mistake. He thought that it would "add frustration to frustration".

The Prime Minister said that the Brandt Report was "full of holes", but unfortunately its rhetoric had caught hold. The real cause of the present crisis had been the redistribution of income to the OPEC countries. Commodity arrangements were no answer. The fact was that one could not frustrate the market. As for aid, the British Government's record was a good one, better than that of many of our critics - including Austria. M. Thorn agreed.

The discussion ended at 1115.

Thorn

CONFIDENTIAL

26 June 1981

Euro Pol



Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's
Private Office

William Rickett Esq
Private Secretary
10 Downing Street
LONDON SW1

25 June 1981

Dear Willie

-- I enclose a brief on sheep meat, which my Minsiter intended to leave with the Prime Minister when he saw her this evening, for use at tomorrow's meeting with Mr Thorn. Copies have gone to Michael Franklin, Cabinet Office and to Francis Richards at the Foreign Office.

Yours sincerely

David Jones

D E JONES
Assistant Private Secretary

PRIME MINISTER'S MEETING WITH M. THORN: 26 JUNE 1981

OBJECTIVE

To insist that Thorn put an acceptable proposal for the resolution of this problem to a Management Committee on 29 June.

POINTS TO MAKE

1. Despite all the Commission's promises you have still not put a proposal on abatement of clawback to the Management Committee.
2. Would remind you that when regime was introduced Commission made a declaration that the clawback was not intended to hinder the development of the UK's export trade. April and May exports to EC only 40 per cent of last year when French market was closed to us.
3. In the price fixing this April, Mr Dalsager made a commitment that clawback would be calculated to take account of the price of export quality lamb.
4. At the June Council you undertook to Peter Walker that the Commission would deal with this problem under its own competence.
5. Only on Wednesday, I understand you indicated in response to the Lord Privy Seal's message that you would table a proposal in the Management Committee.
6. I cannot accept the way in which the Commission have failed to fulfil these undertakings to us and, in particular, the commitment at the price fixing which was an integral part of that deal.
7. We are not particularly attracted to the average market price route, but we are ready to accept a suitable solution on this basis provided the terms are right. This is a considerable compromise on our part. I expect you to put a proposal that meets our requirements to the Management Committee without further delay.
8. I want to leave you in no doubt that if you do not call a Management Committee and secure an acceptable solution, the Commission will be entirely responsible for the consequences. The Council is not the forum in which to resolve this issue.

PRIME MINISTER'S MEETING WITH M. THORN: 26 JUNE 1981

BACKGROUND

1. The Prime Minister might take advantage of this meeting to express our extreme dissatisfaction with the way Thorn has handled the sheepmeat clawback problem. She should also insist that Thorn produces an acceptable solution to this problem in line with the undertakings given and puts this to a Management Committee Meeting on Monday 29 June.

2. Under the sheepmeat regime, UK producers' returns are supported in two forms; the weekly variable premium and an annual premium. The former is forfeited (clawed back) on exports of lamb to other Member States. This mechanism, exacerbated by the strength of sterling, has caused UK exports to the continent to drop significantly (as much as 60% in May).

3. The Commission's obligations to us originate in a declaration made when the regime was negotiated. At the Price Fixing Agriculture Council on 30 March/1 April, Mr Dalsager gave an undertaking that the clawback would be abated by taking into account the higher quality of lamb for export and that the proposal would be put to the Management Committee (which operates by qualified majority whereas Council decisions have to be unanimous). At a subsequent Council, the French indicated that they were opposed to any decision being taken through the Management Committee. Under this pressure, Thorn raised the subject in the Agriculture Council on 15 June. However, he declared at that Council that he intended to put forward a balanced proposal to the Management Committee. He had to leave the Council early and, after his departure, the French gained agreement that any Commission proposal to the Management Committee should also be discussed in the Special Committee for Agriculture. A meeting of the Special Committee for Agriculture was held on 23 June when the Commission aired two ideas (not formal proposals):-

a) Regionalisation of clawback. This method would have maintained clawback in respect of exports to France but abated it for other destinations. It was acceptable to us, but received no support from other Member States;

b) a change in the method of calculating the average UK market price from which the level of premium and clawback are derived. A number of Member States seemed ready to acquiesce in this method of finding a solution and there is probably enough support for it to enable it to get through the Management Committee.

4. However, the Commission decided on 23 June that they would ask the Presidency to convene a Special meeting of the Agriculture Council rather than put a proposal to the Management Committee. The average market price approach is not our preferred solution, because it means reducing the amount of variable premium that all producers (ie those selling on the domestic market as well as exporting) receive. But it is the only idea now running. We are ready to agree to such a solution provided the terms are right and in particular:-

a) It gives a reduction in the clawback of between 10-15 p/kg each week and -

b) that the supplement to the variable premium to compensate producers for the reduction is that premium which they would otherwise incur would be paid not more than 3 months in arrears.

Thorn was informed of this through a personal message from the Lord Privy Seal with which Lord Carrington associated himself on 24 June. Mr Buchanan-Smith gave the same message orally to Mr Braks, the Dutch Agriculture Minister. The latter helpfully told Thorn that he was not prepared to call on Agriculture Council until the Commission had put a proposal to the Management Committee. He has, however, now called a meeting of the Council for 1500 hours on Tuesday 30 June. It is not yet clear when, or even whether, the Commission plan to hold a Management Committee, although Thorn told the official who delivered the Lord Privy Seal's message that he planned to hold one.

5. We have since the beginning of June had a waiting reserve on a number of 'A' points connected with the decisions taken at the price fixing. Some of these, on sugar, rape, peas and beans are due to come into effect on 1 July. Continuation of our reserve beyond 30 June would provoke a substantial legal crisis in the Community and would cause serious disruption of trade, particularly in sugar and rape seed.

Some UK trade interests would suffer losses. If the maintenance of the 'A' points resulted in the rolling forward of the old sugar regime for a further year this would prevent any possibility of negotiating membership of the International Sugar Agreement. Our agreement to the new sugar regime was given in exchange for Council agreement on New Zealand butter. The French and others might be tempted to seek to reopen this issue if our reserve was maintained, though it would be open to us to press to reopen other aspects of the price fixing package because of the damage resulting from the non-implementation of the Commission's commitments.

6. For all these reasons, it is important that we make every effort to resolve the clawback issue on a basis acceptable to us before a decision has to be taken about the maintenance of our reserves after 30 June.

25 June 1981



Foreign and Commonwealth Office

London SW1A 2AH

25 June 1981

Dear Michael,

Call by M. Thorn on the Prime Minister:

26 June

As you know, M. Thorn will be calling on the Prime Minister at 10.30 am on 26 June for half an hour to deliver the Commission's report on the 30 May Mandate. I enclose a suggested line to take for the Prime Minister's talk with M. Thorn; it has not yet been seen by Lord Carrington, but I shall pass you any comments he may have separately. The background is described in the brief on budget restructuring for the European Council (EHG(LX)(81)3) and the subject will be discussed at the Prime Minister's briefing meeting for the European Council this afternoon. You will have received a copy of the Commission's paper and we are circulating separately a summary of the main points in it.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robert Armstrong.

Yours ever,

F N Richards
(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing St

M. THORN'S CALLS ON THE PRIME MINISTER AND LORD CARRINGTON
26 JUNE

LINE TO TAKE


General

1. Thanks for coming personally to convey report. Recognition of crucial importance in future development of Community.
2. Time short so will not attempt to comment comprehensively on report, which have not yet had time to study in depth. Concentrate on one or two essential points.
3. UK Presidency will want to work very closely with Commission on this in months ahead. Very much rely on Commission for clarificatory work in July and proposals at appropriate moment.

Timing and Procedure

4. Hope June European Council will give firm impetus to work and make clear Heads of Government will take close interest. No intention of trying to rush French or others without governments. Will reflect on your idea of select group of trusted individuals reporting to Foreign Affairs Council. Lot of hard work certainly needed.
5. However we are not attracted by suggestions in your letter about timing. 30 May mandate sets clear objective of agreement this year and we believe this in best interest of Community. As Presidency we will do our best to stick to it. Long divisive wrangle will benefit no-one. Note that Commission will propose arrangements for third year of refunds under 30 May Agreement but must not let discussion of this obscure main issue.

/Substance



Substance

6. Welcome clear recognition in paper that UK has continuing problem which must be righted. Commission paper rightly avoids silly arguments about problem being caused by transitional trade problems, inadequate adaptation to membership etc. Hope we can continue to avoid these at next stage.

7. Glad you have not proposed immediate increase in 1% ceiling. Not practical politics. You know our view.

8. Doubt however whether Commission has cast net wide enough in search for best solution. Conscious Community decisions about distributional impact of budget, with flows being directed from more prosperous to less prosperous on basis of objective criteria such as Member States' size and relative prosperity, seems to us best way ahead for Community as a whole, including new members. Will be arguing for that.

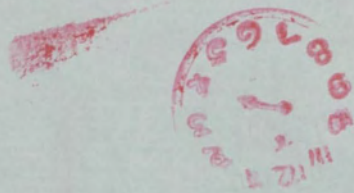
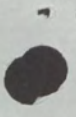
9. Not for us to describe or prescribe for German problem. Up to them in first instance. But you cannot expect us to be insensitive to difficulties they have over open-ended commitment. Not wise to say 'there is no German problem'. Community needs whole-hearted German support for its future development.

10. Most important thing of all, however, is to find lasting solution to budget problem which will avoid it coming back again and again to divide Member States and damage UK attitude towards Community. Temporary solutions a false road which we will not accept.

11. CAP reform important in its own right, whatever done on budget. Must seize this opportunity to put policy on healthy basis. Commission have put forward some interesting and constructive ideas. Heads of Government will have to set some firm guidelines; and Commission must then help to make them stick in their annual price proposals.



12. Can see good case for some expansion of non-agricultural spending (regional, social, etc). Key is cutting back increases on agricultural expenditure. Problem about making progress in this field is that Member States are obsessed with who gains what from each policy. If we get agreement on conscious decisions about distributional impact of the budget it will be easier to make progress and have genuinely communitaire policies.



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10 DOWNING STREET

From the Private Secretary

24 June 1981

The 30 May Mandate

I enclose a copy of a letter which the Prime Minister has received from the President of the European Commission, M. Thorn, covering a copy of the Commission Report on the 30 May Mandate. I understand that you, and the copy recipients of this letter, already have copies of the Commission Report.

I should be grateful if M. Thorn's letter could be taken into account in whatever briefing is being prepared for the Prime Minister's meeting with M. Thorn on Friday morning and if you could let me have in due course a draft reply which the Prime Minister might send to M. Thorn.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER.

Francis Richards, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

The President *Prime Minister*

②
SG (81) D/ 8372

You will want to be aware that the
Commissioner report on restructuring is now in. 24 June 1981
I have not attached it since it is rather bulky.
A summary & briefing is being prepared

My dear Prime Minister,

Ant. 24/6

The paper I enclose is the report being sent to the European Council today in line with the mandate given the Commission on 30 May 1980. This mandate called for a review of the operation and funding of Community policies. The agricultural policy, and more specifically the United Kingdom's contribution to the Community budget, was singled out for special mention.

The Commission has come up with a number of reforms which, in its view, should help to deal with the problems it was asked to consider. As you will see, the reforms are far-reaching. This is inevitable. Reforms cannot be effective and lasting unless they get to the root of our present difficulties, which the mandate itself recognized as being structural. Our recommendations relate to the structures which can be changed using instruments provided by the Treaty. An intrinsic feature of the Community is that it is capable of changing from within.

In the course of our review we were brought face to face, again and again, with the Community's fundamental equilibria, which are based on the principle of solidarity and combine to attain the general objectives enshrined in the Treaty of Rome, namely, to provide the men and women of Europe with better living and working conditions against a background of economic and social progress. We kept these objectives constantly before us. We also considered the danger of

the same situation arising elsewhere in the Community, affecting an increasing proportion of our working population, and the younger generation in particular, if we fail to take a broader, more idealistic view of our common task.

We need to consider not only the Community's immediate problems but also the problems beginning to take shape within our frontiers and in the world around us. We cannot bring matters under permanent control unless we allow for the changes transforming our society and the vast movements reshaping our planet. We know from experience that no limits can be set to interdependence: it is this law of human dynamics that carries the Community forward. But there comes a time when attitudes must be changed and adapted to the new dimension.

We must mobilize all the forces of the Community to take a stand against the dangers that are mounting every day, dangers that are already threatening the fabric of solidarity. The reforms we are proposing will be carried through in the years when we should be preparing European society for the 21st century. Clearly, we cannot hope to forecast all the problems we will have to tackle. But the Community was, after all, created to manage the change its founders saw coming and initiate the change they felt desirable.

Indeed, each time the Community has acted in unison it has proved capable of facing up to unprecedented situations which none of our countries could have coped with singlehanded. We can take up one of the challenges that Europe will have to face before the end of the century here and now. I am thinking, of course, of the challenge presented by the visible explosion in the world's population and the relative decline in ours. Nothing will ever be the same again in a world where a disturbed demographic balance, a new industrial revolution, the restructuring of traditional industries and the geographical imbalance between rich and poor regions in terms of raw materials, will act as sources of tension. We must do something to transform this phenomenon from a threat of confrontation into a shared opportunity for our children and the children of the world.

I know that you are fully aware of these issues. Indeed I only mention them because Europe's stake in all this is the main justification for the existence and the efforts of the Commission of which I am President. This is why I feel bound to suggest that the Community needs a special procedure, geared to the scale and the urgency of the problems facing us, to implement the arrangements and mechanisms discussed in the Commission's report. I am convinced that our recommendations call for a specific approach. Cohesion is vital if the measures proposed are to be introduced and applied in a balanced fashion. And I doubt if cohesion would survive the complexity of normal procedures, involving time-consuming consultations and discussions within one or more specialist Councils whose agendas are already full.

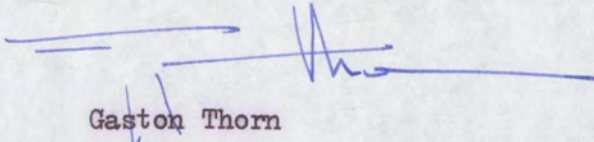
A better solution, to my mind, would be for the European Council to refer the report now in your hands through the General Affairs Council to a select group of trusted individuals chaired by a member of the Council. The group would report back by, say, the end of 1981. Because its findings emanated from a single high-level team, in which the Commission played the role assigned to it by the Treaty, they could be examined in detail at an extraordinary extended meeting of the General Affairs Council with an eye to the first European Council in 1982. Your Council could then draw the necessary conclusions as quickly as possible.

In any event, the Commission will be making appropriate proposals in the course of 1981 to adjust the United Kingdom's contribution to the Community's budget in 1982.

My purpose in suggesting this procedure- which is not unlike that followed to launch a number of important stages in the development of the Community - is to give new impetus to the common policies which give concrete expression to the solidarity between our countries and are the guarantee of their independence. If we advance resolutely in this direction - and the decision to advance is ours - we will have gone a long way towards regaining control of the destiny we took in hand 25 years ago when we set up the Community. The

.../...

good work has continued day by day in the interval with the instruments we were given then. The instruments are still there. All we need to do is harness them to new options which will enable our ten countries to converge their efforts to develop their shared heritage.



Gaston Thorn

The Right Hon. Mrs Margaret Thatcher
Prime Minister
10 Downing Street
LONDON SW1

COM(81) 300/3

22 June 1981

COMMISSION REPORT ON THE MANDATE

OF 30 MAY 1980

COM(81) 300/3

1. At the end of the war the lessons of history led the countries of Europe to choose interdependence as the basis for reconstruction. Thus the construction of Europe has come about in a way which means that a shared inheritance already exists.

Today the Community's institutions owe it to the people of Europe, and to history, to defend and develop this inheritance. The Commission has been given responsibility for directing this development: it has a constant duty to preserve what has been achieved and act in such a way that the people of Europe come to regard the Community as the surest way of shaping and influencing the future.

It is in this spirit that the Commission submits its replies to the Council on the mandate it was given on 30 May 1980 (1).

2. In a period of world crisis this organized Europe must use its strength to loosen the external constraints that bind it. Its size

(1) For 1982, the Community is pledged to resolve the problem by means of structural changes (Commission mandate, to be fulfilled by the end of June 1981: the examination will concern the development of Community policies, without calling into question the common financial responsibility for these policies which are financed from the Community's own resources, or the basic principles of the common agricultural policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them). If this is not achieved, the Commission will make proposals along the lines of the 1980 to 1981 solution and the Council will act accordingly.

places it in a better position to get to grips with the problems affecting it, whether these be energy, international competition, inflation and employment. The degree of integration which has been achieved but which has yet to be exploited to the full, has increased the means available for confronting these problems.

3. Aside from the use which can be made of such Community measures, the scale of the present problems calls for a joint strategy based on a strengthened internal solidarity and the adoption of a more vigorous stand towards the outside world. If this were generally accepted, if the strategy were made sufficiently broad and credible, this potential force could be harnessed to generating internal change, guaranteeing the success of the third enlargement and giving renewed confidence and hope to a young generation concerned about the future.

The Community, soon to be enlarged to twelve, can set an example to the world by adopting a constructive approach to the problems facing mankind. This is a formidable task, but the challenge of having to extend this approach beyond our own frontiers and of fulfilling the expectations of those who refuse to give in to fear and egotism is an exciting one.

4. If they are to tackle this ambitious task, the institutions must resolve without hesitation to fulfil the political alliance entered into by each Member State when it signed the original Treaties or the Treaties of Accession.

In this way the Community will finally take its rightful place in the world

and become a catalyst for peace and development as it already is for its Member States.

5. The Commission is of the firm view that a return to the institutional balance provided for in the Treaties would help to re-establish the unity of purpose which prevailed when the Community was created. Without a process of decision-making based on a better balance between the contributions made by all the institutions, the Community will never regain its dynamism or live up to the expectations of the people of Europe.

Finally, the Commission considers that there can be no development of Community activities as long as the Community budget remains artificially limited by the current ceiling on its resources. It will take the necessary steps to overcome this constraint.

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6. The construction of the Community, founded on solidarity and economic integration, and with the constant improvement of living and working conditions as its declared goal, has developed on a twofold basis:

- . a single internal market governed by jointly-devised competition rules which guarantee the free movement of goods and allow Community industry to reap the benefits of an extensive market;
- . a common agricultural policy which allows the free movement of agricultural products, thus raising the standard of living of Europe's agricultural community - traditionally the less favoured section of the population - and guaranteeing our food supplies.

These two achievements need to be completed by a monetary system, which is essential for balanced economic development and progress towards the free movement of people, services and capital. The common commercial policy and the Community's development policy should enable the Community to fulfil its appropriate role in the world. Additional policies should be established to cope with specific situations which market rules alone cannot regulate satisfactorily.

7. It has to be said that up to now action has not been taken at the same rate in all areas. This is doubtless one of the factors underlying the crisis currently facing the Community and the consequent lack of confidence.

Furthermore, the changes in the world economy over the last ten years and the upheavals that have occurred in international relations have shown that existing policies will have to be developed or revised.

8. At present, the budget reflects the imbalance between Community policies, but the Commission considers that the budgetary aspect alone gives only a partial idea of the nature of the Community: in particular, it affords no picture as to those policies which do not affect the budget, such as competition policy, or which have hitherto affected it too little to signify, such as industrial and energy policy. The Community policies moreover have economic implications far transcending the budget aspect. Indeed, while the budget increasingly reflects the scope of Community activity, it does not permit an assessment of policies which have no budgetary dimension. Nor does it allow for the impetus that Community policies can give to economic development in general.

This is why the Commission has chosen not to confine itself to a purely budgetary view in implementing its mandate.

9. An effort must be made in all areas to make up for lost time. This is the only way of ensuring that unacceptable situations do not recur and ensuring that consideration is given to the interests of all present or future Member States.

It is unrealistic to talk in terms of large-scale industrial restructuring or more balanced agricultural development if no progress is made towards economic and monetary union, or to talk in terms of full freedom of movement for workers in the absence of an employment policy capable of affording a coherent Community-level answer to the unemployment problem. The increasingly important role which the Community should be playing in the world will be illusory if it is seen to be at the expense of the weakest regions and sectors of activity.

The Commission believes that if an overall Community strategy were to be evolved, based on a general approach and guiding principles to which all could subscribe without hesitation, then the greater discipline and solidarity that this would entail would open up new prospects for stable, and therefore lasting growth and fuller employment.

10. The Commission accordingly proposes that as regards monetary and economic questions the Community should build on a foundation of genuine - and much tighter - internal coordination between the Member States, coupled with a clearly-defined common stance towards the outside world, so as to enhance the effects of national policies, consolidate the zone of monetary stability which it is endeavouring to construct, and take responsibility for defending European interests vis-à-vis our trading partners.

Expansion of the European Monetary System could be a powerful force in making such a policy succeed, once all the Member States were participating in it and the commitment to place the ECU at the centre of the system had been realized. The needs of the Community's economy and the state of the international monetary system are such that decisive and rapid progress must be made towards a fully institutionalized European Monetary System.

11. Equal priority attaches to systematic exploitation of the opportunities provided by the European market. If we are to develop a modern and dynamic industrial sector in Europe, it is essential that we have a single integrated market as this allows firms to benefit from outlets on a continental scale and to invest with the same degree of security as their American or Japanese competitors. Community firms must fully exploit the stock of confidence which flows from a genuine internal market defined in both economic and legal terms.

The customs union was one of the Community's first real achievements. If it is to be completed, the variety of remaining barriers which are still preventing the completion of the single market must as a priority be eliminated. The Commission will take the specific initiatives in this respect. It is quite legitimate for public authorities - and Community authorities whenever their powers permit - to maintain their contribution to the creation of a better economic environment to promoting and to raising productivity.

12. Nevertheless, the opportunities provided by a genuine internal market are no longer sufficient in themselves to enable the Community to complete the process of economic change, given the crippling uncertainties which beset it. A new dynamism is required, which can transform actions and attitudes and thus help to overcome the upheavals provoked by the energy crisis, as well as to catch up on the growing delays in the research field and to get industrial innovation off the ground at last.

The failure to pursue a number of quite reasonable objectives -- such as substituting Community cooperation for fragmented and isolated national policies, choosing the path of initiative rather than accepting the existing situation, combining financial resources rather than dispersing them, reaping the benefits in external relations of positions agreed in advance -- has prevented the Community from benefiting from its size. A new strategy must be proposed for facing up to the challenges of the eighties.

13. Energy production, particularly the new forms of energy and the industries involved in developing them, offers considerable potential in terms of growth and hence growth and employment. Furthermore, by helping to ease pressures on the balance of payments, a successful energy policy will create the conditions for an economic upturn.

The Commission intends to propose that precise targets be set, firstly to achieve essential savings and secondly to expand the means of energy production, build the necessary infrastructure, diversify sources of supply and encourage the use of new forms of energy. It will help to finance

these activities by coordinating national resources and making greater use of Community instruments. Small and medium size enterprises will be closely involved.

Community solidarity should also be expressed through joint machinery for responding to supply crises and through a coherent policy on prices. The Commission will be making proposals on these matters.

On this basis the Community, acting in its own best interests, will be able to develop cooperation with the other industrialized nations, launch a constructive debate with the oil producers and help find a solution to the problems of the developing countries both through the transfer of technology and by assisting them to develop their own energy resources.

14. It is not possible to devise a new model for society, to secure the Community's political and economic autonomy or to guarantee competitiveness without a complete mastery of the most sophisticated technologies. Accumulated delays, rising costs and the fact that the necessary effort is too great for any Member State to make individually are all compromising the Community's ability to compete in science and technology. The

need for a proper response is all the more urgent: the Community dimension makes it possible to provide this response efficiently and at minimum cost.

Apart from identifying delays and coordinating new action, the Commission will support priority research programmes in energy, the agri-food industry, environmental protection, nuclear safety and biotechnology. These Community programmes will promote the formation of the multi-disciplinary European research teams without which the quality and integration of research, crucial to success, cannot be attained.

15. The development of these new technologies - particularly regarding data transmission systems - and of the industries launching them, is revolutionizing the whole outlook. New goods and services, in great and growing demand, are coming on to the market. Production conditions are changing, affecting the basic factors of international competition. This process is of particular importance to small and medium sized enterprises, whose environment is in a state of flux with which not all of them are financially and technically equipped to cope.

Here the Community is falling behind the other major industrial powers. It can catch up if, realizing that this pattern of development, with all it entails in terms of new forms of industrial and social relationships, is both inevitable and desirable, it then draws the right conclusions and rapidly embarks on a suitably dynamic programme.

By adding to the efforts made by European firms and the Member States, the Community can make an original and probably unique contribution to the development of new techniques and industries. To this end it must not only devise and implement the coherent R & D programme referred to above but also deal with wholly new problems of information and training. Moreover it must set common standards and exploit all the possibilities offered by public procurement in the Member States so as to tap the full potential of this vast market.

16. Finally an active competition policy, particularly as applied to state aids, is also essential.

This policy must ensure that competition between Member States is not distorted. It must offer Community industry a positive incentive to adapt and at the same time serve as a source of coordination and economic convergence. For this purpose, regions' needs must be better defined and the rules of competition must be applied more coherently to national aids to enterprises; the application of these rules as part of the process of industrial adjustment will assist the drive to modernize the production apparatus.

The powers assigned to the Commission by the Treaties give it only partial control over some other policy areas which affect the competitiveness of industry. The Community will have to make a fresh attempt at identifying those areas and taking action, particularly with regard to transport subsidies, differentiated energy prices and certain tax measures.

17. Yet it is hard to see how the Community can hope to advance in a balanced, decisive fashion on these various points unless it puts its budgetary affairs in order.

The Commission's reflections, and its resulting proposals, concern essentially the common agricultural policy, regional policy and social policy, given the proportion of the budget which they represent. The Commission objective has been to see that within a limited budgetary framework, Community financial solidarity should be both more effective and more equally distributed.

The Commission has also taken into account the fact that the Community dimension will be further enhanced as the result of the accession of two new Member States whose economic and social situation will tend to aggravate a number of existing problems.

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18. The major effort concerns the common agricultural policy.

Taken as a whole, the result of twenty years of the application of the C.A.P. is positive.

The objectives set by the Treaty of Rome - be it security of food supplies, satisfaction of consumers' requirements, increased productivity or higher farm incomes - have been achieved.

Set against the objectives and the results achieved, the total cost of the common agricultural policy, which corresponds to 0.5% of the Community's GDP, is not excessive. Renationalization would cost Member States more. Every country needs an agricultural policy and it is worth remembering that the policies pursued by the Community's main competitors are just as costly.

19. The Commission considers - indeed this was emphasized in the terms of the mandate - that the three interrelated principles on which the common agricultural policy is based - market unity, Community preference and financial solidarity - remain essential. It is neither possible nor desirable to jettison the mechanisms of the common agricultural policy but on the other hand adjustments are both possible and necessary.

Technological progress and the play of the market organizations mean that the Community is now more than self-sufficient for most major products. The imperatives of sound market management, combined with budgetary constraints, therefore call for improved control of the unwelcome effects of the operation of market organizations.

20. The Commission has accordingly come to the following conclusions:

- farm income considerations, important though they may be, cannot be the sole point of reference for fixing guaranteed prices;
- it is neither economically sensible nor financially possible to give producers a full guarantee for products in structural surplus;

-- given the Community's degree of self-sufficiency for most agricultural products and bearing consumers' interests in mind, prices must reflect market realities more than they have in the past.

21. Having considered all the alternatives, the Commission recommends that future decisions in respect of the common agricultural policy should be based on the guidelines set out below, which should be combined to achieve the objectives set by the Treaty at as low a cost as possible:

- a price policy based on a narrowing of the gap between Community prices and prices applied by its main competitors in the interests of competitiveness and a hierarchy of prices designed to improve the balance of production;
- an active export policy which would honour the Community's international commitments;
- modulation of guarantees in line with Community production targets;
- an active structures policy tailored to the needs of individual agricultural regions;
- the possibility of income support subsidies to certain producers in specific circumstances;
- improved quality control at Community level and tighter financial control by the Community in the management of EAGGF expenditure;
- stricter discipline in relation to national aids to avoid undermining Community policies.

22. The policy of common prices remains a central instrument of a common agricultural policy. But this policy presupposes the smooth operation of the European Monetary System and a significant alignment of inflation rates. National and Community policies promoting this alignment must serve to ensure that price decisions do not have to allow for widely differing national situations.

Price policy must reflect trends on the world market more than it has in the past. The Commission is well aware that world prices can develop erratically. This is why the practical implementation of such a price policy will vary from product to product. The Community's objective should be the gradual alignment of guaranteed prices on prices ruling on a better organized world market. This would make it possible to take advantage of increases in productivity and avoid unjustified situation returns.

To this end the Community should pursue a rigorous policy with regard to prices within its frontiers and adopt a more active export policy designed to stabilize world prices by means of cooperation agreements with other major exporters. These could be supplemented by long-term export contracts.

A trade strategy of this kind would encourage the emergence of a strong, well-organized agri-food industry. At the same time it would not damage the interests of developing countries.

The Commission should also monitor imports that might cause market imbalances and see to it that its commercial and agricultural policies are mutually consistent.

23. Producers must be made more aware of market realities than they have been in the past. To this end production targets in terms of volume must be set for every sector at Community level. Once these are reached producers would be required to contribute or the intervention guarantee could be reduced.

These targets would, of necessity, integrate projected market trends and the degree of self-sufficiency desired. They would also allow for imports flowing from the Community's international commitments and its concern to take its place as a structural supplier on a world market which is persistently in deficit for a number of essential commodities.

24. Production targets and intervention arrangements would vary from product to product.

For sugar, an effective system is already in operation. For cereals, where the Community's most efficient farms can compete at world level, payment of a lower intervention price for tonnages above a production target, corresponding roughly to domestic consumption, would give a boost to the most competitive farms and cut the cost of intervention.

For milk products, the Commission considers that the objective of controlling production can only be achieved if the principle of co-responsibility is extended. If this is not done, other measures will be inevitable.

25. The Commission considers that these changes should be accompanied by a rigorous quality control policy.

Moreover the Commission should be given its own powers of control in managing the agricultural funds for which it is responsible.

26. The Commission's guidelines on prices and production cannot be applied in a vacuum, ignoring the income problems of certain producers. This is why it is proposing the introduction, in certain specific cases, of direct income subsidies which, given the cost, would be confined to small producers. A decision on the grant of such subsidies would be taken by the Community in line with Community criteria. On this basis a Community contribution to their financing could be envisaged.

27. The problems of producers in regions with a natural handicap must be seen in a different context. The Community has already taken action on those of the mountain and peripheral areas.

But the problems of the Mediterranean area merit special consideration given the importance of agriculture in its economy. The market and structural components of the common agricultural policy should help to improve the situation. But they cannot take the place of other policies or deal alone with a series of questions which reflect a particular economic context.

28. Any solution to current difficulties in Mediterranean agriculture must be based on changes in depth in the attitudes of producers and in production structures. While recognising that results will take time, the Commission intends to propose that there should be a number of medium-term Community programmes covering an integrated policy for incomes, markets, production and structures.

29. In making its contribution to a solution of the difficulties facing agriculture the Community must keep two principles in mind: equivalence and equity. Equivalence means that, in line with the basic principles of the Treaties, the common agricultural policy must apply without discrimination to Mediterranean products. Equity means that change cannot be allowed to lead to a drop in living standards for those involved.

30. The Community programmes for the Mediterranean to be prepared by the Commission will involve both the Community's financial and agricultural instruments. They will be devised in close collaboration with the Member States concerned so as to incorporate the objectives of national and regional plans. They will be presented to the Council and Parliament before the end of 1982.

31. These guidelines for reform of the common agricultural policy leave the principles on which it is based intact. They introduce the adjustments which must be made to market management if perverse effects of gains in productivity for consumers and the Community's budget are to be avoided. If the guidelines are agreed, their application will mean that agricultural spending in the years ahead will grow less rapidly than the Community's own resources, making it possible to release additional resources to reinforce Community solidarity in other sectors.

32. The regional and social policies are an expression of this solidarity, which takes on a new urgency in the present economic and social climate.

All the instruments available to these policies have expanded rapidly in recent years: in 1981 the budget is providing some 3 000 million ECU for regional and social activities. This amount, severely limited in comparison with national budgets, leaves little room for flexibility in attaining the objectives of the Funds. Admittedly, to this should be added around 4 000 million ECU by way of Community borrowing and lending operations.

33. That these instruments have proved their worth is shown by their rate of expansion and the heavy demand within the Community for the facilities which they provide. But there is considerable room for improvement in their efficiency. This need can be met by concentrating efforts on the areas of gravest difficulty, by combining the targets and interventions of the various Community instruments, and finally by coordinating them with national measures to ensure that Community aids are additional to national ones.

34. The regulations and procedures governing the Regional and Social Funds provide for their revision by the end of 1981 and in 1982 respectively. The Commission sets out here a framework for these revisions which will be elaborated in detail at the appropriate time. It also presents some guidelines for the future of the borrowing and lending mechanisms.

35. The reduction of regional imbalances remains a priority Community objective. Responsibility in this field lying largely with national and local authorities, the Community has to base its actions on a wide range of instruments not exclusively of a financial nature. The coordination of national regional policies and regional aid systems with the intervention of the Community's Regional Fund are particularly important, as is the significance attached to regional impact in the definition of other Community policies.

36. As far as the Regional Fund itself is concerned, the Commission believes that major changes should be made to enhance the effectiveness of its interventions and increase its impact. There is a strong case for greater concentration of the Fund's budgetary resources, which are and are likely to remain inadequate to cope with the development problems that will increasingly face the Community as it continues to enlarge.

The section of the Regional Fund at present divided into national quotas should be adjusted to focus even more on regions suffering severely from structural underdevelopment¹.

The proportion of the Fund's resources allocated to the section which is not divided into national quotas (the non-quota section) should be substantially expanded. Intervention will be directed more selectively to the regions of the Community currently suffering most from serious problems of industrial decline or from the effects of certain Community policies.

¹Including Greenland and the French overseas departments.

Changes in the working and operating criteria of the Fund should include replacing support for isolated projects by a new system of co-financing with Member States of regional infrastructure programmes and regional investment aid schemes, which would incorporate the individual, Community-aided projects.

37. Community solidarity must also be expressed in the social sphere, in line with economic and social policy objectives. Priority should henceforth be given to job creation; the traditional role of the Social Fund, which is to increase the geographical and occupational mobility of workers, will be of greater importance in the future.

The Community will need to make a special effort in regions where traditional industries are concentrated, with the aim of developing a more imaginative approach to the labour market. Moreover the Social Fund must be given the necessary resources to ensure that the Community's workforce can adapt adequately and in good time to the jobs which will be created by exploiting new areas of growth and local economic potential.

The Social Fund will therefore have to promote integrated training and employment programmes, specifically adapted to local and regional economic conditions. With this in view, the current administratively complex range of interventions should be reviewed. New emphasis should be given to job creation, including aids to essential support services in the field of information, guidance and technical assistance and in preparing young people for working life. In addition, the use of integrated programmes would enable a much closer relationship to be established with other Community Funds and with national sources of assistance.

If it is to act as an effective driving force, the Social Fund must be allocated sufficient resources to produce a real increase in employment measures, and particularly in the volume of training. To ensure that the Fund's operations can be concentrated on essentials and its efforts coordinated, it should be freed from the constraints which have hitherto limited its effectiveness. With this in mind, the Commission intends to present proposals for injecting greater flexibility into the Fund's formal operating procedures.

38. In the Commission's view appropriations for the two Funds will have to grow faster than the general budget as a whole if they are to attain their objectives.

Here, as elsewhere, the Commission excludes the presentation of illusory budgetary balances via the introduction of artificial Community policies.

39. While the Community can continue to increase the volume of its borrowing and lending instruments, the Commission considers that they must be used to greater effect. In particular it recommends:

- an increased emphasis on small firms and the use of interest subsidies in certain priority regions for major programmes not linked to productive investment projects;
- the combined use of borrowing and lending instruments and the structural funds, notably the Regional Fund, which is already in a position to finance some of the interest subsidies mentioned above.

40. The options and guidelines which the Commission has proposed are inevitably dependent on the Community's financial resources. The most effective use of available funds must be seen as a permanent priority. The Commission cannot accept that an artificial ceiling be put on own resources, and will propose that they be increased when this becomes necessary to achieve agreed objectives.

41. The Commission has studied the likely consequences of its recommendations for the development of the Community budget. It is clear that their implementation could not have a significant impact for some time to come. The Commission has therefore proceeded to examine the budgetary position.

Scrutiny of the structure of expenditure¹, divided into six main categories, namely:

- administrative expenditure;
- reimbursements;
- support expenditure on certain common projects (industry, energy, research, etc.);
- structural expenditure (ERDF, ESF, EAGGF Guidance Section, etc.);
- aid to non-member countries;
- EAGGF Guarantee Section,

shows that utilization of appropriations in the first five categories presents no particular problem for any Member State.

By contrast, an analysis of the destination of appropriations from the EAGGF Guarantee Section, which forms the bulk of the budget, shows that under present circumstances, the United Kingdom obtains a much smaller financial benefit from the CAP than the other Member States on account of the special features of its agriculture. Community solidarity demands that a remedy be found to this inequitable situation.

¹As identified in the reference paper presented by the Commission in 1979 (COM(79)462 of 12 September 1979).

42. The size of the imbalance to be corrected could, in the Commission's view, be assessed by comparing the United Kingdom's share of the Community's gross national product with the proportion it obtains of EAGGF Guarantee Section expenditure. On the basis of this data the amount of compensation could then be established following simple rules, using a reference period extending over several years, and with a view to a fairly high level of compensation.

43. As this compensation would be provided by the Community itself, it should be financed from the budget on the basis of the own resources system.

44. However, should this be rendered impracticable either by a delay in taking the decisions needed to create new own resources (exceeding the 1% limit on VAT) or by the current trend in budget expenditure, the Commission would envisage that consideration be given to a subsidiary measure by which the Member States which benefit more from the CAP than their British partner would demonstrate their solidarity. In practice, the compensation could be financed by Member States other than the United Kingdom via abatements on their receipts from the Community, based on the payments they receive under the EAGGF Guarantee Section. In establishing the abatement percentages, account should be taken of the proposals put forward by the Commission in this report, to the effect that Community policies must put emphasis on solidarity between the more prosperous Member States and the less prosperous (particularly Ireland, Greece and Italy).

45. The Commission considers that the new measure should apply for a limited period, but long enough for the effects of the new guidelines it proposes to be felt. The position would be reviewed before the compensation system expires, notably when a decision is taken on creating the additional own resources needed to implement common policies.

The Commission could also propose amendments to the system if this was justified by the development of the common agricultural policy or other policies, or if practical difficulties emerged.

46. The funds made available to the United Kingdom should be used to finance activities in that country which accord with Community policies and are designed to increase convergence of the economies.

47. With regard to the existing financial mechanism¹ based on the Council Regulation of May 1976, as adapted by the 1980 Regulation, the Commission will make a report by the end of this year, in order that this mechanism continues in being if it is needed.

48. The guidelines which the Commission has just set out in response to the mandate given to it on 30 May 1980 form a coherent package of measures which both correspond to the framework which was given and can be applied in a relatively short space of time. The impetus given by the adoption of these priority measures will be a key element in relaunching the whole development of the Community.

49. By its very nature, this report cannot hope to cover the complete spectrum of Community activity. Many areas have scarcely been touched upon, such as the Community's external relations, and in particular what the Community is doing, and would like to do more, in the field of development aid.

¹Financial mechanism set up by the Council Regulation of 17 May 1976, adapted by the Regulation of 27 October 1980.

Because of its history, its geography, through its power and its economic needs, the Community faces the world, where the role it plays and the responsibilities it bears are highly regarded as a source of hope and confidence, especially in the developing countries. A fulfilment of the political alliance entered into by each Member State will not only strengthen the Community's internal solidarity but also endow the Community with the means to play more effectively the role its partners expect of it. By strengthening its position on the international economic stage, the Community will be able to make a contribution to solving world problems.

*

*

*

50. A political decision is needed if the Community is to be relaunched. This means working together to find solutions which correspond to the general interest. The Treaties have provided a method and procedures for advancing in this way. The Commission has started the process by outlining the way forward. It is now for the other institutions to commit themselves.

Ewo Pd.

h...
P...
—Mr Spreckley, ECD(I)Thorn's visit to UK: 26 June

FCO Telno 524 to UKREP.

Brian Crowe (UKREP) telephoned me yesterday afternoon to say that Thorn proposed arriving in the UK at 9.00 am on 26 June and wondered if he could call on the Secretary of State at 10.00 (not 10.15) and on the Prime Minister at 10.30 (not 10.45). The new time is convenient for the Secretary of State and Michael Alexander (No 10) said that the Prime Minister would also be content with the new proposed time but that there was still only half an hour available (ie 10.30-11.00). I passed this on to Brian Crowe.

LJM.

18 June 1981

(C Jebb)
Assistant Private Secretarycopies to:

PS
PS/LPS
PS/PUS
Lord Bridges
Mr Bullard
Mr Hannay
WED
SED
News Dept
Mr Franklin (Cabinet Office)
Miss Caroline Stephens (No 10)

GRS 50

UNCLASSIFIED
FM UKREP BRUSSELS 181045Z JUN 81
TO ROUTINE FCO
TELEGRAM NUMBER 2242 OF 18 JUNE

PRESIDENT THORN'S VISIT TO LONDON
CONFIRMED THAT M. THORN WILL CALL ON YOU AT 1000 HRS
ON 26 JUNE AND ON THE PRIME MINISTER FOR HALF AN
HOUR AT 1100 HRS.

BUTLER

*I have let FCO
this is wrong.*

Ant

*LIMITED
ECD
PS
PS/PS
PS/PS
MI BULLARD
MI FERGUSON
MI HANNAY*

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No. 10 DOWNING STREET

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JS

Euro Pal

15 June 1981

M. THORN

The Prime Minister has seen your letter to me of 12 June. She has agreed, reluctantly, that she will have to receive M. Thorn on the morning of 26 June. The only time available to the Prime Minister is 1045 - 1115.

B/F
brief?

MODBA

Francis Richards, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

①

Thorn's visit seems to me
entirely futile & it is a very
bad day for you. But I fear there's
little choice but to see him for 30 minutes
if he comes. Agree?

12 June 1981

Dear Michael,

And 12/6

Richard [unclear]

mt

(attached)

You will have seen UKREP telno 2091, reporting the Commission's intended timetable for publication of their report on restructuring and Thorn's proposal to visit London on 26 June to present it personally to the Prime Minister.

Lord Carrington hopes that the Prime Minister will be prepared to see Thorn. The proposed timetable for publication of the report is not very satisfactory and it would have been preferable to allow for discussion of the report at the Foreign Affairs Council on 22/23 June. Its availability only a few days before the June European Council will obviously inhibit, still further, discussion of substance there. But it should not interfere with our main objective of ensuring that the European Council should give impetus to the work on the mandate by agreeing on the kind of procedural guidelines which the Prime Minister recently approved and which we have since submitted to the Dutch. In any case, now that the Commission have announced the timetable publicly we see little chance of getting it changed.

In conveying the Prime Minister's agreement to see M. Thorn to the Commission we would emphasise the need for the report to be received as far as possible in advance, if there is to be a useful discussion.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M O'D B Alexander
10 Downing Street

PP ROME

PP DUBLIN

PP PARIS

ADVANCE COPY

PP BONN

IMMEDIATE

Hd/ECDC(1) (2)

PP LUXEMBOURG

PS

PP ATHENS

Mr Hannay
Mr Franklin (Cab. Off.)
Mr Alexander (10 by St.)

GRS 380

[limited]

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FM UKREP BRUSSELS 121425Z JUN 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 2143 OF 12 JUNE

INFO IMMEDIATE THE HAGUE PRIORITY ALL OTHER EC POSTS

X5

MY TELNO 2123: 30 MAY MANDATE

1. KASEL (THORN CABINET) HAS PHONED BACK TO SAY THAT THE PRESIDENT, WHILE UNDERSTANDING YOUR VIEWS ON TIMING, WILL NONETHELESS STICK TO HIS ORIGINAL TIMETABLE. KASEL MADE THE FOLLOWING POINTS IN EXPLANATION:

- (A) THE PRESIDENT'S VISIT TO CAPITALS WAS IN THE TRADITION OF HIS PREDECESSOR'S VISITS ON THE EVE OF EUROPEAN COUNCILS. HE WOULD WISH TO DISCUSS THE WHOLE AGENDA FOR THE EUROPEAN COUNCIL WITH MRS THATCHER IN LONDON;
- (B) DISTRIBUTING THE MANDATE REPORT AT THE FOREIGN AFFAIRS COUNCIL WOULD NOT BE POSSIBLE BECAUSE IT WOULD ONLY BE FINALISED BY THE COMMISSION ON 24 JUNE;
- (C) THORN WOULD BRING THE REPORT HIMSELF TO HEADS OF GOVERNMENT. ROME, ATHENS AND PERHAPS LUXEMBOURG WOULD RECEIVE IT AFTER LONDON. THE ITALIAN AND GREEK PERMANENT REPRESENTATIVES HAD CONFIRMED THIS MORNING THAT THEY HAD "FULL UNDERSTANDING" OF THE NEED FOR THE REPORT TO BE PRESENTED TO THEIR GOVERNMENTS SO LATE BEFORE THE EUROPEAN COUNCIL;
- (D) THE PRESIDENT WOULD BE MAKING A FULL ORAL PRESENTATION TO THE FOREIGN AFFAIRS COUNCIL. HE EXPECTED THE DISCUSSION AT THE EUROPEAN COUNCIL TO BE SHORT BUT TO LEAD TO PROCEDURAL DECISIONS.

FCO ADVANCE TO:



10 DOWNING STREET

Prime Minister -

A. Thom is handling the Commission paper in a perfectly informing way. He has so arranged matters (see attached tel) that the paper will not be available for the Foreign Ministers' meeting on 22/23 June. However he wants to come to London to present it to you on 26 June i.e. 2 days (a weekend) before the European Council meets in Luxembourg. We have sent an unsympathetic response to his proposals (also attached)

Ambs

C O N F I D E N T I A L

14241 - 2

CONFIDENTIAL
DESKBY 111330Z
FM FCO 111245Z JUN 81
TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 510 OF 11 JUNE
AND TO IMMEDIATE THE HAGUE
INFO PRIORITY ALL OTHER EC CAPITALS

YOUR TELNOS 2091 AND 2068 : 30 MAY MANDATE

1. THORN INDICATED AT THE BEGINNING OF THE YEAR THAT HE MIGHT WANT TO TOUR CAPITALS BUT WE ASSUMED THEN THAT WHAT HE HAD IN MIND WAS A SERIES OF CONTACTS IN THE FINAL STAGES OF THE DRAFTING PROCESS. THAT MIGHT HAVE BEEN USEFUL BUT WE FIND IT A LITTLE DIFFICULT TO SEE WHAT USE IS LIKELY TO BE SERVED BY A LIGHTNING TOUR IMMEDIATELY AFTER COMPLETION OF THE REPORT AND BEFORE HIS PROPOSED INTERLOCUTEURS HAVE HAD AN OPPORTUNITY TO STUDY IT.
2. MOREOVER, THE REST OF THE TIMETABLE ANNOUNCED YESTERDAY BY THE COMMISSION IS EQUALLY TIRESOME. THE FACT THAT THE REPORT WILL NOT BE AVAILABLE TO THE FOREIGN AFFAIRS COUNCIL IS UNWELCOME. IT IS NOT CLEAR WHEN WE WILL RECEIVE THE FULL TEXT. THERE WILL BE VERY LITTLE TIME FOR MEMBER STATES TO PREPARE PROPER BRIEFING FOR HEADS OF STATE AND GOVERNMENT FOR THE EUROPEAN COUNCIL ITSELF, AND THIS COULD WELL BE USED AS AN EXCUSE BY ANY WHO WISHED TO AVOID EVEN A FIRST DISCUSSION THERE AND THE DRAWING OF CERTAIN PROCEDURAL CONCLUSIONS.
3. WHILE WE ACCEPT THAT IN THE LAST RESORT WE CANNOT IMPOSE ARRANGEMENTS ON THE COMMISSION, YOU SHOULD DO WHAT YOU CAN DISCREETLY AND WITHOUT GETTING TOO EXPOSED TO INFLUENCE THEM IN THE FOLLOWING WAY. YOU SHOULD TELL THORN'S CABINET THAT WE ARE CONSULTING NO 10 URGENTLY ABOUT HIS PROPOSED CALL. BUT YOU SHOULD POINT OUT THAT, IN OUR VIEW, THE TOUR AND THE SUBSEQUENT EUROPEAN COUNCIL DISCUSSION WOULD BE LIKELY TO BE MORE PRODUCTIVE IF THE REPORT WERE MADE AVAILABLE ON 22/23 JUNE.

/4.

1

C O N F I D E N T I A L

C O N F I D E N T I A L

14241 - 2

4. (FOR THE HAGUE). WE SHOULD LIKE TO KNOW HOW THE DUTCH ARE REACTING. YOU SHOULD EXPLAIN OUR VIEWS TO THEM AND ENCOURAGE THEM TO APPROACH THE COMMISSION IN THE SAME SENSE.

5. WE ARE SEIZED OF THE RISKS REGARDING SCHMIDT'S APPROACH TO THE EUROPEAN COUNCIL (PARA 5 OF YOUR TELNO 2063). FRANKLIN IS PLANNING TO SEE HEICH IN BONN IMMEDIATELY AFTER THE FOREIGN AFFAIRS COUNCIL.

6. OTHER EC POSTS NEED NOT TAKE ACTION TO LOBBY BUT SHOULD GIVE AN INDICATIONS OF OUR VIEWS IF THEY ARE SOUGHT.

CARRINGTON

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NNNN

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PS

PS/LPS

PS/PUS

LORD BRIDGES

COPIES TO :

MR FRANKLIN, CABINET OFFICE

MR HANCOCK, TREASURY

C O N F I D E N T I A L

GRS 250

UNCLASSIFIED

DESKBY 101400Z

FM UKREP BRUSSELS 101333Z JAN 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 2091 OF 10 JUNE

30 MAY MANDATE

1. AT THE NOON PRESS CONFERENCE TODAY, THE COMMISSION ANNOUNCED THEIR PLANS AS FOLLOWS:

20/21 JUNE DISCUSSION AT INFORMAL MEETING IN KNOCKE (BELGIAN NORTH SEA COAST)

24 JUNE FINALISATION OF COMMISSION REPORT AT MEETING IN LUXEMBOURG

24 - 28 JUNE THORN MAKES LIGHTNING TOUR OF CAPITALS TO PRESENT THE DOCUMENT TO GOVERNMENTS

29/30 JUNE EUROPEAN COUNCIL IN LUXEMBOURG

2. THORN'S CABINET HAVE SAID TO US THAT HE WOULD LIKE TO COME TO LONDON ON THE MORNING OF 26 JUNE TO HAND THE DOCUMENT PERSONALLY TO THE PRIME MINISTER AND POSSIBLY CALL ON YOU AFTERWARDS. HIS PRESENT FLIGHT PLANS WOULD ENABLE HIM TO BE IN CENTRAL LONDON FROM 0945 UNTIL NOON (ETA NORTHOLT 0900: THE COMMISSION OFFICE IN LONDON APPARENTLY INTEND TO ASK FOR A MOTOR CYCLE ESCORT TO GET HIM THROUGH THE TRAFFIC). THEY WOULD BE GRATEFUL FOR A VERY EARLY REPLY.

3. IT HAS NOT ESCAPED THE NOTICE OF JOURNALISTS THAT THE TIMETABLE APPEARS TO EXCLUDE ANY DISCUSSION OF THE SUBJECT BY FOREIGN MINISTERS AT THE COUNCIL ON 22/23 JUNE.

FCO ADVANCE TO:-

FCO - PS/S OF S, BRIDGES, HANNAY, SPRECKLEY

CAB - FRANKLIN

TSY - HANCOCK

NO. 10 - ALEXANDER

(ADVANCED - UNCLASSIFIED)

BUTLER

LIMITED
EC2 (E)
WED
SE2
NEWS 2
PS
PS/LPS
TI BULLARD

LOAD BRIDGES
TI FERGLASSON
TI HANNAY

COPIES TO:
TI FRANKLIN CABINET OFFICE
TI ALEXANDER No 10 Downing
ST.

2/10

Euro 80

28 April 1981

You may like to have the enclosed copy of the thank-you letter which M. Thorn wrote to the Prime Minister after his recent visit to this country.

MA

Francis Richards, Esq.,
Foreign and Commonwealth Office.

k

Le Président

Bruxelles, le 9 avril 1981

Madame le Premier Ministre,

Qu'il me soit permis de vous remercier de l'accueil que vous m'avez réservé à l'occasion de ma première visite en ma qualité de Président de la Commission des Communautés Européennes et de vous dire combien j'ai apprécié notre échange de vues.

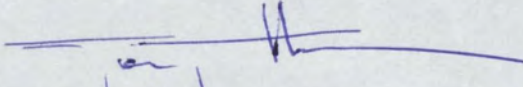
Je suis convaincu qu'avec votre concours, et à travers les contacts personnels que nous pourrions avoir dans les semaines et les mois à venir, nous arriverons à trouver ensemble les solutions appropriées aux grands problèmes qui se posent à l'heure actuelle à la Communauté.

Je ne ménagerai, quant à moi, aucun effort dans la recherche des solutions dont dépend l'avenir même de notre Communauté.

Je saisis cette occasion pour vous renouveler, Madame le Premier

Ministre, *l'honneur de un sentiment de plus
diver de son président un plus sincère
hommage*

Votre dévoué


Gaston E. Thorn

Son Excellence
Madame M. Thatcher
Premier Ministre
10, Downing Street
L o n d o n SW1

SECRET

CONFIDENTIAL

encl. 1/2



10 DOWNING STREET

From the Private Secretary

23 February 1981

Visit of M. Thorn

As you will know from the record enclosed with my letter to you of 20 February, the Prime Minister did not raise the question of the staffing of senior posts in the Commission with M. Thorn during their formal talk. However she did put the point to him during lunch.

The Prime Minister told M. Thorn that she regarded it as important that the UK should have a fair share of senior posts in the Commission. M. Thorn did not give the Prime Minister any firm undertaking but indicated that he had taken careful note of what she said. He added that it was clear that the French and Germans had too many of the senior posts. It would certainly be necessary to find something for the Greeks.

I am copying this letter to David Wright (Cabinet Office).

CS

M. G. ALEXANDER

F.J. Richards, Esq.,
Foreign and Commonwealth Office.

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JS

10 DOWNING STREET

From the Private Secretary

20 February 1981

Dear Francis,

CALL BY MONSIEUR THORN

As you know, the President of the European Commission, M. Gaston Thorn, called on the Prime Minister this morning. I enclose a record of their discussion.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Kate Timms (MAFF), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Francis Richards, Esq.,
Foreign and Commonwealth Office.

Subject

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE EUROPEAN COMMISSION, M. GASTON THORN, AT 10 DOWNING STREET ON 20 FEBRUARY 1981 AT 1145

Present

The Prime Minister
Mr. M.O'D.B. Alexander

M. Gaston Thorn
M. Spaak

* * * * *

Fish

After an exchange of courtesies, the Prime Minister said that she was very anxious to see an early agreement reached on the Common Fisheries Policy. Our industry needed a settlement. So, she imagined, did the industries in France, Germany and Denmark. (The Prime Minister mentioned that she had just received a letter from the Danish Prime Minister about the Faroes Agreement.) A settlement had seemed to be imminent just before Christmas but unfortunately it had not materialised. The difficulty was that, while both the British and French Governments were keenly aware of their responsibilities to their respective industries, the French Government could fulfil those responsibilities without an agreement.

M. Thorn said that he understood the linkage which had been established between the various fishing issues under discussion. But the differences between France and the United Kingdom lay at the heart of the problem. He hoped that both Governments would be able to move a bit in order to make agreement possible. The closer the French came to an election, the more difficult it was going to be to reach an agreement. The Commission would be happy to play their part: they were at present seeking additional information about the fishing boxes of Scotland.

/ The Budget

The Budget

The Prime Minister said she hoped that the Commission would be able to keep to the timetable for the tabling of their paper on restructuring. She did not think there should be any discussion of restructuring in Maastricht. It was the Commission's remit to bring forward proposals. It seemed to her that the options were relatively clear. Although we had various ideas for the way ahead, the only point she wished to make to M. Thorn was that the reform of the CAP would not suffice to solve the budgetary problem. The budgetary issue was becoming increasingly serious for Europe, particularly because of the German dimension. The Federal Republic was going through a difficult period. It was of great importance not to put undue burden on the Germans or to expect them to go on financing Europe. It followed that a fundamental look at the way Europe was paid for was necessary. It was no longer good enough for the Community to pursue a miscellaneous set of policies in the hope that the sums would come out more or less right. An overall policy with a consciously distributive function was required. Steps must be taken to prevent any Member feeling that it was being treated unfairly. This was the only way to hold Europe together without resentment building up. The importance of avoiding any weakening of Germany's links with the Community had to be constantly borne in mind.

M. Thorn said that it was not easy to conceive of policies which would secure general agreement in a Community of ten. It was reasonable, however, to try to find policies which gave the poorer Members something. The Prime Minister said that it would be even more difficult when there were twelve Members. Tinkering with the present arrangements would not suffice. M. Thorn said that he thought it was generally accepted that reshaping the CAP would not of itself be enough. Nonetheless, the cost of the CAP had to be reduced. The Prime Minister agreed.

/ Confirming

Confirming that the Commission would certainly have its proposals on restructuring on the table in June, M. Thorn said that he was glad to hear that the Prime Minister did not want any discussion of the subject in Maastricht. The Dutch Presidency had been inclined to favour a progress report, but had agreed the previous day that there should be no paper. However, it was of course the case that if Heads of Government wanted to comment on restructuring, or on the way the subject should be handled at Luxembourg in June, they would be free to do so. As regards the progress being made by the Commission, M. Thorn said that they had not inherited much from their predecessors. There was at present a tendency for each Commissioner to watch what the others were doing and to contribute little. However, the deadline had to be respected.

M. Thorn said that he assumed that officials in London were busy elaborating their own ideas on how the budget problem should be tackled. He wondered whether it would be a good idea for the Commission to set up a small working group which could contact the capitals bilaterally and hear about their ideas in confidence. It would be essential to do this bilaterally since a premature multilateral discussion would rapidly kill off any new thoughts. The Prime Minister agreed about the need to avoid any multilateral discussion but did not respond to M. Thorn's suggestion for bilateral working parties. M. Thorn did not revert to the idea. The Prime Minister said that she assumed there would be a discussion of the world economic situation in Maastricht. She hoped that such a discussion would lead on to a discussion of the problems of our trading relations with the United States and Japan. There would, no doubt, have to be some discussion of the overall political situation. M. Thorn agreed. The Prime Minister observed that the growth of non-tariff barriers - inside Europe as well as outside - was a source of concern. She also thought the increasing scale of national aids to agriculture in some Member countries was

/ very

very worrying. M. Thorn said that the Commission had taken both Italy and France to court, but this did not seem to help very much. The Prime Minister agreed.

M. Thorn said the Commission had done its best on agricultural prices. A number of Governments had already made it clear that they wanted to see a considerably larger increase. The French wanted something in double figures and the Irish wanted 15 per cent. He would be warning Governments of the need to show responsibility. A decision by Ministers to override the Commission's proposals would cause great difficulties in the future. The Prime Minister said that the British Government would be backing the Commission in its effort to hold down the price rises.

The discussion ended at 1220.

Am

20 February 1981

PRIME MINISTERS MEETINGS WITH MR TUGENDHAT ON 19 FEBRUARY
AND M. THORN ON 20 FEBRUARY

Background Notes (for use at both meetings) on the following topics are included in the brief below:-

<u>Subject</u>	<u>Paragraphs</u>
European Council	1-2
Restructuring, CAP Reform and 1981 Prices	3-9
EC/Japan	10
EC/USA	11-13
1980/81 Budgets	14-16
Fisheries	17
N.Z. Butter	18
A I Posts in the Commission	19
Seat of the European Parliament	20
Insurance	21-23
Banking and Financial Services (other than insurance)	24-25
Steel Industry	26
Enlargement	27-30
Energy	31-35
Civil Aviation	36-40
Telematics	41
Common Format Passport	42
Company Law	43-45

EUROPEAN COUNCIL

1. Subjects that are likely to be on the agenda are:

Economic and Social Situation, including unemployment
(a standard item)

Budget Restructuring (a brief look at progress)

Fish (if not already solved)

Seat of the Institutions (for us a defensive item only)

Energy (another standard item, probably including US energy
pricing and oil supply problems)

North/South (preparation for the N/S Summit in June and progress
in the global negotiations)

Industrial Problems (steel, Japan)

Telematics (progress on Commission initiative)

Political Co-operation (East/West, US, Iran, Middle East)

2. Other possible subjects include:

New Zealand Butter

1981 Budget

EMS

Enlargement

BUDGET RESTRUCTURING AND CAP REFORM

3. M Thorn is visiting a number of European capitals in order to sound out Member States' views on restructuring to aid the Commission in the preparation of their paper by June. He has also said that he would like to raise the subject in the European Council in March. Whilst a progress report from the Commission then would be useful, we think that a full discussion at such an early stage and particularly before the French elections would not get far and could well lead to the taking up of rigid positions which would tend to tie the Commission's hands. In explaining our position to him it would be useful to emphasise the point that CAP reform and new policies will not in themselves solve our contribution problem on a permanent basis. Something more is needed and we hope the Commission will not come up with proposals which fail to deal with the problem. It would be better not to go into too much detail about our thinking with Thorn.

4. Mr Tugendhat may be able to provide more information on current thinking in the Commission. We know that the Commission discussed the mandate on 22 January and that Thorn took the line that they should not rule out any options at this stage. Detailed work on certain aspects of the Commission mandate has been continuing although progress appears to be slow. Mr Tugendhat is familiar with our general line on restructuring and it will be useful to take him into our confidence on our ideas for a ^{more}conscious Community decision about net budgetary flows to replace the present system under which these are determined as the random result of other policies. At the same time, we should make clear the importance of not having our ideas labelled as "the British" proposals, and that we are still considering a number of proposals.

5. Officials have touched on the idea of a budget adjustment mechanism in discussion with the Secretary General of the Commission, M. Noel, on 20 January. He himself believes that partial national financing of the CAP is a possible way forward, despite the Commission's criticism of it in their paper "Reflections on the CAP". He has not yet formally launched his ideas within the Commission and we should not attribute these ideas to Noel. A large degree of national financing would need to be coupled with other measures to have a major impact. But the fact that ideas of this kind, which are totally at variance with Community orthodoxy, are circulating in the Commission is encouraging. We hope the Commission will develop their ideas on this, but not to the exclusion of other ideas, for example on budgetary mechanisms.

1981 CAP Prices

6. The death of Mr Gundelach has delayed Commission proposals. We have been urging the Commission to keep the price increases they propose down to 4%-5%.

7. As far as we know, the main elements of the price proposals will be:-

- (a) price increases in range of 6-12%, with an average of 7½% or somewhat more;
- (b) measures involving greater financial responsibility for /producers

producers in some of the main sectors;

- (c) revaluation of 4%-6% for the green currencies of the FRG and UK and elimination of positive MCAs for the Benelux.

Having started with proposed increases higher than we want, we would wish the Commission to resist pressures for further upward revision during negotiations in the Council. It would be useful to have Mr Tugendhat's assessment. The move towards greater producer responsibility for surpluses implements the ideas first outlined in the Commission's paper of last December "Reflections on the CAP".

8. Mr Tugendhat and M. Thom may also want to know how we intend to react to the proposal for revaluation of the green pound. Ministers have not yet reached a view on this, but we shall certainly come under heavy pressure to make some adjustment. We should not in any case want to reveal our position at this stage. Even if we were to decide to revalue the green pound and thus to reduce the impact of the price settlement on UK inflation, this would not be an alternative to a tough common price settlement for the Community as a whole. It is the latter which influences the size of the Community surpluses and the level of budget expenditure.

Financial Guidelines

9. We are also pressing for Finance Ministers to consider the financial and budgetary background to the price fixing in order to enable them to impose a greater financial discipline on Agricultural Ministers. At our instigation, a preliminary discussion has been held in the ECOFIN Council on 16 February. It will hold a more substantive discussion in March in the light of the Commission's CAP price proposals.

EC/JAPAN

10. At the high level consultations in Tokyo on 26/28 January the Japanese made an unsatisfactory, temporising response to the Community which consisted essentially of vague indications of intent to moderate growth of exports of cars and television sets to Benelux and Germany. The Commission reacted by putting forward three main recommendations:

/(i)

- (i) Community surveillance on imports of cars, colour televisions and tubes and some advanced machine tools from Japan;
- (ii) given its worldwide implications, the subject of trade and economic relations with Japan should be placed on the agenda for the Ottawa Summit;
- (iii) Member State's Ambassadors in Tokyo should make joint representations with the Commission to the Japanese. We hope something on these lines is going to be accepted at the 17 February Foreign Affairs Council, without too much of the kind of dissension of previous occasions which has left the Japanese with a strong impression of a divided Community. There is a good chance that this approach will succeed unless the French indulge in wrecking tactics or the Germans try to block agreement because of their doctrinaire opposition to trade restraint of any sort.

IMPORTS OF US TEXTILES AND CHEMICALS/US ENERGY PRICE CONTROLS

11. Acting on a proposal by the UK the December 1980 Foreign Affairs Council agreed a new and stronger EC initiative was required. The Commission were accordingly instructed to explore with the new US Administration the whole range of problems and possible solutions. The first meeting took place in Washington on 9/10 February. On gas de-regulation the Americans restated their aim of abolishing price controls without saying how or when. On textile exports they agreed to discuss the situation with their industry but argued that exports to the Community had peaked last year and were now likely to decline because of the strengthening dollar, the recession in the Community and the expected recovery in the US.

12. In fact UK imports of American bedlinen showed a rising trend throughout 1980. Our imports of both bedlinen and tufted carpets from the US were over 100% higher last year than in 1979.

13. We have made clear that we should much prefer an agreed solution to these problems. But in the meantime it is important that the EC should keep all options open (eg recourse to a GATT panel or Article 3 of the Multi-Fibre Arrangement (MFA)).

1980/81 BUDGETS

14. France, Germany and Belgium have withheld part of their contributions to the 1980 Supplementary Budget. France and Germany are also withholding part of their contributions to the 1981 Budget, but Belgium is paying in full.

15. In the last few weeks there have been several attempts to reach a compromise, both in Coreper and through bi-lateral contacts by the Presidency. Whilst the Belgians are clearly uneasy about the position which they are taking, there is no sign that the French or Germans are inclined towards a compromise solution. The Presidency has now abandoned its attempts to mediate.

/16.

16. The Commission decided on 4 February to begin the procedure for referring the issue to the European Court. The Member States have been invited to submit their observations. The Commission will then deliver a reasoned opinion, and if the States do not comply with the opinion, they will bring the matter before the Court. We have no interest in trying to speed up this procedure: the Commission are implementing the budget, including payment of our refunds, and the chances of a solution are likely to be better after the French election.

FISHERIES

17. No agreement at 9-12 February Fisheries Council on a revised CFP. Outstanding problem remains access. Discussion at next Council on 9-10 March will be based on Commission or Presidency proposals which will be presented after they have received from Member States information on current fishing patterns in disputed areas.

NEW ZEALAND BUTTER

18. Agriculture Council on 18 December failed to agree, due to French intransigence, on satisfactory long-term arrangements for access. Since 1 January, therefore, access based on roll forward of existing 1980 arrangements on pro rata basis, but this expires on 24 February. The French have some support from the Irish but are otherwise isolated. Nevertheless, they may continue to block the agreement we want. Presidency are seeking a package deal involving manufacturing beef and sugar, which may provide way out.

STAFFING AND A1 POSTS IN THE COMMISSION

19. Of the UK's four Directors-General in the Commission two, Mr le Goy (Transport) and Mr Williams (Energy) will shortly be leaving. We have put forward candidates to succeed them and M. Thorn should be left under no illusion of the importance we attach to retaining the posts. We hope that Mr Tugendhat who has now lost responsibility for personnel questions will continue to take an interest in UK staff.

SEAT OF EUROPEAN PARLIAMENT

20. The Conference of Member States discussing this question has met twice; on 28 October 1980 and 6 February. France continues to press for the Parliament's seat and activities to be in Strasbourg and Luxembourg for the status quo. Our preference, for reasons of efficiency, would be to see the Parliament in Brussels but we have not said so openly and have no interest in taking a lead on this subject. In the conference we are supporting a Dutch suggestion that the Parliament should be consulted before a decision is taken. This will delay an early decision, which would be more likely to be for Strasbourg, and allow time for pressure in favour of Brussels to build up.

INSURANCE

21. Since 1962 the EC has had a programme for establishing a common market in services, including insurance, but it has gone very slowly and so far only applies to small areas of insurance. The British insurance industry estimate they would gain substantially from freedom to provide insurance of industrial, commercial and professional risks throughout the Community (over £55 million net in a first year). A draft directive which would free such insurance services (the "Services directive") has been before the Council since 1975, but progress has been very slow.

22. The Prime Minister raised this problem at the last European Council and with Mr van Agt on 6 February. We have agreed with the Dutch to do all we can through our successive Presidencies to conclude the negotiations by the end of 1981. In December 1980, Commissioner Tugendhat urged COREPER to submit a first batch of questions on the directive to Ministers; the Presidency intend that this should be done at the March Financial Council. Tugendhat has indicated that he wishes to raise financial services, including insurance, with the Prime Minister and to discuss how best advantage be taken of the favourable succession of Dutch/UK Presidencies.

/23.

23. Several other Member States, particularly the French, Germans and Italians, have done their best to make the directive as restrictive as possible. The Commission are as anxious as we that it should be liberal and we have worked in harmony with the Commission officials. But in an effort to get at least something agreed, they have already unwillingly conceded one or two points of principle - notably a requirement for separate authorisation to do services business, which we have still not conceded - which we regret. If the measure is still to be a worthwhile liberalisation, there are few things we can still afford to concede. We will stand by the Commission in resisting attempts to whittle down Treaty freedoms.

BANKING AND FINANCIAL SERVICES (OTHER THAN INSURANCE)

24. The UK does not have a strong interest in promoting EC activity as regards banking and financial services other than insurance. Markets are in general open to British business, and London already enjoys the advantages of being a long-established financial centre. The danger is that EC harmonisation may impose a new inflexibility with no obvious compensating advantage.

25. The Commission have given publicity in the last few days to their plans for Directives on the accounts of banks and other financial institutions and on consolidated supervision of banks within the Community; and ultimately for a common system of deposit insurance. There are, however, no formal Commission proposals before the Council on any of these points at present.

STEEL INDUSTRY

26. Large excess of production over demand and falling prices led to Council assent on 30 October 1980 to Article 58 production quotas. These expire on 30 June 1981. Measures are intended to provide time for restructuring, ie reduction in capacity and modernisation of remainder. In short term success of BSC plan /inevitably

inevitably dependent on continuation of a disciplined community market. Otherwise increased price competition and German exports to other Member States will destroy the industry. Community accepts that aids must be linked to restructuring. The UK steel industry prefers a continuation of Article 58 production quotas to voluntary restraints which broke down last year and doubts whether new voluntary arrangements can be agreed in time. Measures must be agreed by April when orders for July will be placed.

ENLARGEMENT

27. Recent gaffe by Thorn implying, perhaps unintentionally, that accession could slip until 1985 was ill-received in Madrid and Lisbon. Best if Commission keep out of this sensitive area.

28. UKREP Brussels believe that M. Thorn has been extensively lobbied by French or Italians about the changes in acquis for Mediterranean agriculture, which the Community is planning in advance of Spanish accession. The French and Italians want to protect the incomes of their Mediterranean producers. We and other Northern producers want to reduce the burden on the Community budget of financing the surpluses which Spanish accession will create. Commission are shortly to make proposals; so important that M. Thorn should remain neutral.

29. British business worried that poor Spanish implementation of 1970 trade agreement bodes ill for willingness to implement terms of accession.

30. M. Thorn is known to be concerned about the effect which enlargement will have on third countries. We share M. Thorn's concern but want to discourage him from exaggerating.

ENERGY

Crisis Measures

/31.

31. The Italians (in the IEA), the French (in the context of the preparation for the Ottawa Summit) and the European Commission have all floated ideas for the development of some form of international oil reserve, created either by pooling a proportion of currently-held stocks or by building up additional stocks. A country affected by a supply disruption would have the right to draw on the reserve and would have a subsequent obligation to replace the quantity drawn. Such a scheme could be beneficial from the UK point of view, and we favour further discussion and elaboration of these ideas.

Coal

32. In October 1979 Mr Howell put forward proposals to the Commission for Community support for investment in coal production involving a fund of 250mecu per annum, initially for 3 years. This remains on the table. We attach importance to securing support for coal production, either as part of any wider Community coal package, or as a specific contribution to budget restructuring and increasing non-agricultural spending.

Oil Levy

33. Commission proposals for a common energy policy, put forward in March 1980, included the suggestion of some form of oil import levy as a means of funding increased Community expenditure on energy. At OD on 13 October 1980, Ministers agreed that HMG should not advocate an oil levy, but internal studies of its feasibility should continue.

/Energy Pricing

Energy Pricing

34. May 1980 Energy Council recognised the importance of energy pricing. UK attaches importance to ensuring the greatest possible degree of energy price transparency in Europe, and the reduction/elimination of pricing subsidies. Commission are under instructions to discuss all energy price problems with US Government in context of textiles and petrochemicals. The Prime Minister will be raising energy prices with President Reagan.

35. The next Energy Council has been brought forward to 3 March. No agenda has yet been fixed, though oil supply and stocks (see paragraph 1) will feature, and we will wish to support our coal initiative.

CIVIL AVIATION

36. The UK has been pressing for liberalisation in the tightly regulated system for air transport in Europe, which is contrary to the whole intention of the Treaty of Rome to establish free trade in services. Within the Community there has been a great deal of common ground between ourselves and the Commission on current issues. But apart from the Dutch, Community states are reluctant to agree to a more liberal regime, because they are concerned to protect their national airlines.

37. The Commission presented to the Council in December 1980 a Draft Regulation on inter-regional air services. We support the broad objectives of this proposal, but will be seeking some widening of its scope.

38. On air fares, the Commission has been carrying out detailed consultations with national experts and interested bodies with a remit to report back to the Council. We hope that they will be able to give at least an interim report by the middle of this year and if possible attach to it a draft measure on air fares. There is public pressure in the UK for action on fares.

39. The Commissioners have asked the Commission Legal Services and the Competition Directorate to give an opinion by the end of May on the implications of applying the Competition Articles to air transport. We have sought to persuade the Commission that they should complete their study on the Competition Articles as quickly as possible, but that rather than attempt an immediate application of them to a highly regulated and complex area, this should be used as a lever to persuade other States to agree to sensible measures in the Council which would provide a smooth changeover to a more liberal regime. Since the Commission Transport Directorate share our objectives in air transport, our main aim is to persuade them to work to produce results as soon as possible.

40. The Dutch will be holding an informal meeting of Transport Ministers in Amsterdam on 16 February, at which air fares may well be discussed.

TELEMATICS

41. Telematics is the shorthand for the increasing convergence of computer and telecommunications technology (Information Technology). Following an initiative by M. Davignon, the Dublin European Council in 1979 endorsed the strategy and called for detailed proposals to implement it. Commission have since brought forward proposals on micro-electronics and telecommunications. Early adoption of the recommendations on telecommunications would be particularly helpful and would be consistent with UK objectives on telecommunications monopoly.

EUROPEAN COMMON FORMAT PASSPORT

42. In 1974, EC Heads of Government agreed in principle that Member States should adopt a common format for their national passports, but progress on implementation was slow. The question has recently been revived by the Italian and Luxembourg Presidencies. The UK has insisted that Member States should have the option of introducing a passport with a machine-readable page in the format recommended by ICAO. There is now considerable pressure from the Commission and other Member States for agreement on a compromise formula and the subject will be on the agenda of the March Foreign Affairs Council.

/Our

Our position is under review.

COMPANY LAW

43. The Company Law harmonisation programme's directives impose on us excessive burdens, for inadequate return. Specific points substantiating our general complaint are:-

- (a) the draft Directive on the content of prospectuses for unlisted securities would involve additional Government control which investors do not need;
- (b) the Commission's proposals on insider dealing attempt to create Community law on a matter best left to individual Governments because of widely varying legal systems and investment practices;
- (c) we are opposed to the provisions of the draft Fifth Directive about employee participation which is best left to voluntary evolution;
- (d) the draft Directive on Scissions (the division of public companies) which is designed to complement the Third Directive on mergers, has provoked strong opposition from the professions, trade and industry. This opposition has been endorsed by Lord Plowden's House of Lords sub-committee.

44. Mr Tugendhat is in charge of DGXV which deals with the harmonisation of law governing stock exchanges and unit trusts. The remaining work on company law is handled by DGIII, now under Herr Narjes's supervision. Mr Tugendhat therefore deals with points (a) and (b) above; Herr Narjes with points (c) and (d).

45. The Secretary of State for Trade wrote to Mr Tugendhat on 11 February to introduce himself and to confirm his predecessor's criticisms of EC harmonisation. Mr Biffen also criticised the programme in a speech to the Society of Conservative Accountants on 11 February.

PRIME MINISTER'S MEETING WITH M THORN: 20 FEBRUARY 1981

INTRODUCTION

1. The main objectives with M Thorn are:

- a) to point the Commission in the right direction on budget restructuring and in particular encourage ideas for a more conscious policy on net budgetary flows while avoiding any suggestion that we are wedded to one particular solution;
- b) to emphasise the importance we attach to CAP price restraint.

2. These points are treated under A below. B - G contain further points the Prime Minister will wish to make. H - M contain points which the Prime Minister may wish to make if time permits, or if the subject is raised by M Thorn.

3. The Prime Minister may wish to open with a reference to Thorn's recent presentation of the Commission's programme for 1981 to the European Parliament in which he reaffirmed the Commission's ^{determination to} present its conclusion on restructuring "before July".

POINTS TO RAISE

A. BUDGET RESTRUCTURING, CAP REFORM AND 1981 CAP PRICES

4. What is Commission's timetable for preparation of report by June? We support Dutch proposal for first discussion at June European Council. Hope report will be ready in good time for this.

5. Note that you wish to raise at March European Council. Progress Report on Commission's work so far would be useful, but inclined to feel too soon then for substantive discussion, which will tend to tie Commission's hands.

6. 1% ceiling must be taken as given, as a matter of practical politics. Problems cannot be solved by spending more money.

② Non-agricultural state doesn't get much back. 37.

①

③ Financing proposal. plus don't buy crops for Comm. and.

7. Reform of CAP essential in its own right. Continuation of surpluses not acceptable to public opinion. It will also help with restructuring, as will development of non-agricultural expenditure policies. Note your statement to Parliament that CAP at heart of Commission's review of policies. It is increasingly clear, however, that reforming CAP and new expenditure policies will not be enough to ensure continuing avoidance of unacceptable situations, particularly bearing in mind additional financial problems of enlargement. Present system in which distributive effects of budget are the random result of decisions about other policies, is not satisfactory; should be subject to conscious Community decisions. Report must identify approaches which genuinely solve the problem.

④ Aids

Fi. subsidy on turnover.

8. (If raised). Know Commission have been thinking about introducing an element of national financing into the CAP. Hope Commission will explore this further as an option for their paper, but could not provide a complete solution on its own.

1981 CAP Prices / Subject to Commission Proposals having been produced/

9. As you know we hoped you would propose a 4 - 5% increase. Your proposals disappointingly high. Commission could have been more selective, eg by holding down cereals increase. No way round need for severe price restraint, particularly for products in surplus. Some sectors of our own industry face serious income problems, but we will argue for price restraint in Council. Hope Commission will maintain its proposals in face of Council pressure for higher increases.

10. Support the idea of greater producer responsibility for surpluses. But should apply to those who increase production. Not in favour of linear co-responsibility levies. Co-responsibility no substitute for sensible policies on price.

11. Have not yet decided position on green pound. In any case green pound revaluation by UK no substitute for rigorous policy on common prices.

12. Welcome discussion in the ECOFIN Council on the financial framework. Must be right for Finance Ministers to provide financial guidelines to Agricultural Ministers, bearing in mind the need to reduce proportion of the Budget spent on agriculture and to keep within 1% ceiling.

B. NEXT EUROPEAN COUNCIL

13. European Council in Maastricht on 23/24 March will be too soon for detailed discussion on restructuring. We see some danger that a detailed discussion at this stage before French elections and before we have the Commission proposals will result in some Member States taking up hard positions which will tend to tie the Commission's hands in preparing their proposals.

14. In addition to the usual run of other Community internal problems, we might also discuss political questions (East/West, including Afghanistan and Poland; new Administration in the US; and possibly Iran and the Middle East) and external trade problems (Japan, US energy pricing).

C. EC/JAPAN

15. UK strongly supports united Community approach. We have made this plain to the Japanese.

16. Initial Japanese response inadequate.

17. Commission proposals for immediate EC reaction were in our view on the right sort of lines, as we made clear at 17 February Foreign Affairs Council. Need to raise the level of political pressure on Japan. Right for Community to put the subject on the agenda for Ottawa Summit.



18. We look to Commission to keep up momentum.

19. (If necessary) UK has already made clear that in present economic circumstances we could not accept Community wide restraint arrangements (eg on cars, television sets) if they were less effective than our existing industry-to-industry arrangements.

D. IMPORTS OF US TEXTILES AND CHEMICALS/US ENERGY PRICE CONTROLS

20. Decision by UK not to seek extension of quotas on synthetic fibres at the end of last year was a difficult one for us to take.

21. Welcome President Reagan's decision to decontrol oil. But serious problems remain.

22. US gas prices are still controlled. And sheer volume of imports from US of certain textiles and chemicals products is causing real difficulty.

23. Commission must pursue with vigour. Obviously better to find agreed solutions if we can. But important not to exclude any options.

E. FISHERIES

24. Regret Fisheries Council on 9 - 12 February did not settle CFP. We tried our best. Hope Commission proposals on access will take fully into account the effort already made by UK on this politically highly sensitive item. UK intends to continue to work constructively for settlement.

F. NEW ZEALAND BUTTER

25. At the Agriculture Council on 23/24 February we shall be prepared to facilitate a package deal on New Zealand butter, manufacturing beef and sugar as floated at the December Agriculture Council. However on New Zealand butter, we must have firm three-year commitment on acceptable quantities, as already



proposed by Commission, with agreement on review clause enabling continuing arrangements thereafter. Failing that, essential to have further roll forward at the 1980 rate to avoid a legal void.

G. A1 POSTS IN THE COMMISSION

26. Important that UK candidates should succeed British Directors-General for Energy and Transport. Both important portfolios we wish to retain so as to maintain the national balance. Have put forward good UK candidates for both jobs. Concerned about heavy weighting against UK at lower levels in the Commission.

POINTS TO RAISE IF TIME PERMITS

H. 1980/81 BUDGETS

27. We are paying our full contributions to both budgets.

28. We would like to see a solution to this problem but fear it will take time.

29. We have no wish to see it develop into a major crisis and hope it will continue to be handled in a low-key way.

I. SEAT OF EUROPEAN PARLIAMENT

30. Decision is for Member States to take by common accord but Parliament should be consulted at an appropriate moment before decision is taken.

31. UK aim is to eliminate waste of time, money and energy caused by present arrangements.

J. INSURANCE

32. Free market for services is major UK priority. Hope it is for the Commission too.

33. Have agreed with Dutch that insurance services directive must go through this year. But some Member States clearly out to restrict effect and delay entry into force.



34. Welcome Commissioner Tugendhat's close interest. Discussed the directive yesterday.

K. CIVIL AVIATION

35. We want liberalisation of tightly-regulated air transport system in the Community. We, the Dutch, and the Commission need to persuade Member States that early action is needed to ease controls on route entry and air fares. Want progress during 1981.

L. TELEMATICS

36. Community must make early progress on concrete proposals to implement "telematics" strategy. Important to create conditions where this key European sector can compete internationally.

M. STEEL INDUSTRY

37. Crisis in Community steel industry continues. Mandatory production quotas expired on 30 June. Effective measures must continue in force from that date. Disciplined market must be maintained if restructuring is to be achieved. Decisions are needed quickly.

38. Early progress on restructuring essential. Any state aid must be linked to net capacity reduction.

39. Glad Commission have brought forward proposals on restructuring and state aids. Hope there can be agreement at the 3 March Council.

N. ENLARGEMENT

40. Timing of enlargement sensitive for both Spain and Portugal. Portuguese have never accepted delay until 1984 and Spanish against delay beyond then. So need for care in public statements; no need to tie ourselves to precise timetable. Enlargement and restructuring to proceed in parallel,

41. Changes in acquis for Mediterranean agriculture important. Otherwise Spanish accession would create expensive surpluses. Important to avoid new burdens on existing members: substantial

aid already granted in 1978 to help Mediterranean agriculture in the Community prepare for enlargement. Trouble ahead if Commission proposals not seen to be equitable.

42. Support enlargement, but increasing pressure on UK Ministers from British business about ominously defective Spanish performance under 1970 agreements. Hope Commission will help impress this on Madrid once present crisis is over.

43. (If raised). Share your concern about effects of enlargement on third countries. But had to keep in perspective and avoid prejudging issues. Too early to reach conclusions.

O. ENERGY (If raised)

44. Balance to be struck between action at Community and national level. Community has valuable role in setting guidelines and developing policies complementary to national programmes. During Presidency UK will bring out positive aspects of Community energy policy and encourage greater transparency on pricing.

45. Concerned about effect of unfair US energy policy on European chemical and textile industry. US deregulation of oil price welcome. Must keep up pressure for gas deregulation.

46. Crisis Measures (Defensive - if raised)

UK committed to existing EC and IEA arrangements for dealing with serious oil supply shortage. Studying with interest recent ideas for additional measures on oil stocks. Effective arrangements must involve the US and Japan.

P. EUROPEAN COMMON FORMAT PASSPORT (If raised)

47. We are still considering the latest proposals.

48. The British public are strongly attached to the traditional passport. It is essential that any changes to a new format

/can



can be shown to have clear practical advantages, such as quicker handling at ports and protection against forgery. We therefore wish to associated any changes with recent international moves towards machine-readable passports. [REDACTED]

Q. GENSCHER SPEECH - TREATY ON EUROPEAN UNION (if raised)

49. Not entirely clear what he was proposing. German Government do not seem to have followed up. Would of course consider any ideas but our priority is to make a success of Community as it is. What does Thorn think?

Euro. POL.

(1)

PRIME MINISTER

Lunch for Monsieur Gaston Thorn
Friday, 20 February 1981

I attach the list of guests attending
your lunch tomorrow for M. Gaston Thorn
together with a draft seating plan.

Do you agree the seating plan please?

Sue Goodchild

—

19 February 1981

LIST OF GUESTS ATTENDING THE LUNCHEON TO BE GIVEN BY THE PRIME MINISTER
IN HONOUR OF HIS EXCELLENCY MONSIEUR GASTON THORN, PRESIDENT OF THE
EUROPEAN COMMISSION ON FRIDAY, 20 FEBRUARY 1981 AT 1.00 PM FOR 1.15 PM

The Prime Minister

His Excellency Monsieur Gaston Thorn

Monsieur Fernand Spaak

Chef de Cabinet

HM Government

The Rt. Hon. Sir Ian Gilmour, MP

The Rt. Hon. Nigel Lawson, MP

Mr. Barney Hayhoe, MP

Secretary, European Movement

Mr. Norman Tebbit, MP

Conservative Party

The Rt. Hon. Lord Thorneycroft

The Rt. Hon. The Lord Home of the Hirsel

President, European Movement

The Rt. Hon. Lord Harlech

President, European Movement

Mr. Hugh Dykes, MP

Member, European Legislation
Select Committee

Mr. Ray Whitney, MP

Labour Party

The Rt. Hon. Edmund Dell

Member of Three Wise Men
Committee

Liberal Party

The Lord Gladwyn

President, European Movement

MEPs

Sir James Scott-Hopkins, MEP

Leader, European Democratic
Group

European Commission

Mr. George E. Scott

Head of Commission Office,
Commission of the European
Communities

Press

The Lord Hartwell

Chairman, Daily Telegraph
and Sunday Telegraph

Mr. Andrew Knight

The Economist

Mr. David Wood

The Times

Confederation of British Industry

Sir Terence Beckett

Director-General, CBI

Diplomatic Corps

His Excellency the Netherlands Ambassador

His Excellency the Luxembourg Ambassador

Others

Mr. David Watt

Director, Royal Institute of
International Affairs

Officials

Sir Robert Armstrong

Sir Michael Palliser

Sir Donald Maitland

Sir Michael Butler

Mr. David Elliott

Cabinet Office

Mr. Clive Whitmore

Mr. Michael Alexander

DRAFT SEATING PLAN FOR LUNCH ON FRIDAY, 20 FEBRUARY 1981

Mr. Clive Whitmore

Mr. David Elliott

Mr. David Watt

Sir Donald Maitland

Sir Robert Armstrong

Mr. Barney Hayhoe

Mr. George Scott

The Rt. Hon. Edmund Dell

The Lord Gladwyn

HE The Ambassador of the
Grand Duchy of Luxembourg

The Rt. Hon. Lord Thorneycroft

The Rt. Hon. Lord Home of the Hirsell

HE The Ambassador of the
Kingdom of the Netherlands

THE PRIME MINISTER

The Rt. Hon. Sir Ian Gilmour

HIS EXCELLENCY MONSIEUR GASTON THORN

Monsieur Fernand Spaak

The Rt. Hon. Nigel Lawson

The Rt. Hon. Lord Harlech

The Lord Hartwell

Sir Terence Beckett

Sir James Scott-Hopkins

Mr. Norman Tebbit

Mr. Hugh Dykes

Sir Michael Butler

Sir Michael Palliser

Mr. Andrew Knight

Mr. David Wood

Mr. Ray Whitney

Mr. Michael Alexander

ENTRANCE

RESTRICTED

*cc Sue Goodchild
Growth*



Foreign and Commonwealth Office

London SW1A 2AH

*La
Richards*

12 February 1981

R12

Dear Michael,

Visit of the President of the
European Commission

/ As requested in your letter of 2 February, I enclose a suggested guest list for the Prime Minister's lunch for M Thorn on 20 February.

The Queen has agreed to receive M Thorn at 12.40 pm on 20 February. This means that it will not be possible for the talks at No 10 to precede the lunch immediately as the Prime Minister has suggested. The Foreign and Commonwealth Secretary recommends that the talks should therefore take place at 11.30 am so as to allow time for a 45 minute discussion.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

RESTRICTED

12 FEB 1961



Proposed Guest list for the Prime Minister's Lunch for
M. Gaston Thorn, President of the European Commission:
Friday 20 February

M Thorn.

/2Members^S of M Thorn's Cabinet: to be notified/

Ministers

Rt Hon the Lord Soames CH GCMG GCVO CBE	Lord President of the Council Civil Service Department Whitehall SW1 (01 273 4400)
Rt Hon Sir Geoffrey Howe QC MP	Chancellor of the Exchequer HM Treasury Parliament Street SW1 (01 233 5418)
Rt Hon Peter Walker MBE MP	Minister of Agriculture, Fisheries and Food MAFF Whitehall Place SW1 (839 7711)
Rt Hon Sir Ian Gilmour Bt MP	Lord Priyvy Seal FCO King Charles Street SW1 (01 233 4755)

Conservative Party

Rt Hon the Lord Thorneycroft	Chairman House of Lords SW1 (01 219 4093)
Rt Hon the Lord Home of the Hirsell KT	President, European Movement House of Lords SW1 (01 219 3125)
Sir Anthony Meyer MP	Member, European Legislative Select Committee House of Commons (01 219 5015) OR 9 Cottage Place, Broughton Square, SW3 (01 589 7416)

Labour Party

Rt Hon Denis Healey CH MBE MP	Spokesman on Foreign and Commonwealth Affairs House of Commons SW1 (01 219 3000)
/Rt Hon Edmund Dell	

Rt Hon Edmund Dell

Member of Three Wise Men
Committee, 4 Reynolds
Close, London NW11
(01 455 7197)

Rt Hon Roy Hattersley MP

Former FCO Minister
House of Commons, SW1
(01 219 3000)

Liberal Party

Rt Hon David Steel MP

Leader
House of Commons SW1
(01 219 3373)

The Lord Gladwyn
GCMG, GCVO

President, European Movement
House of Lords SW1
(London Home telno
01 930 3160)

MEPs

Sir James Scott-Hopkins
MEP

Leader, European Democratic
Group
(Home telno 01 828 6682)

Rt Hon Barbara Castle
MEP

Leader, Labour Delegation
to the European Parliament
(Home telno 01 839 3784)

Mr John M Taylor MEP

Newly elected Deputy
Chairman, European
Democratic Group
(Home telno 021 704 9212)

)c/o European
)Parliament
)Office, 2
)Queen Anne's
)Gate, London
)Tel no 01 839
)3784
)
)

European Commission

Mr George E Scott

Head of Commission Office
Commission of the European
Communities, 20 Kensington
Palace Gardens, LONDON W8 4QQ
(01 727 8090)

Confederation of British Industry

Sir Terence Beckett CBE

President
c/o Confederation of British
Industry, Centre Point
103 New Oxford Street,
LONDON WC1 (01 379 7400)

/TUC

Rt Hon Jo Grimond TD MP

Spokesman on Foreign and
Commonwealth Affairs
House of Commons SW1
(01 219 4580)MEPs

Sir Fred Catherwood MEP

EDG Chambers
(Chairman, External Economic
Relations Committee)
OR 25 Woodville Gardens
LONDON W5
(01 997 4117)

Rt Hon Baroness Elles MEP

former Deputy Chairman, EDG
(Home telno 01 828 0175)

Mr Basil de Ferranti, MEP

Vice-President, European
Parliament
(Office: Ferranti Ltd,
Millbank Tower, SW1P 4QS
Tel 834 6611/9)European Commission

Mr Stanley Budd

Head, Edinburgh Office
7 Alva Street
Edinburgh EH2 4PH
(031 225 2058)

Mr R Morgan

Head, Cardiff Office
4 Cathedral Road
Cardiff CF1 9SG
(Cardiff 371 631)Press

Mr Donald Trelford

Editor, Observer
8, St Andrew's Hill,
EC4V 5JA
(01 236 0202)

Sir Larry Lamb

Editor, the Sun
30, Bowene St,
London EC4
(01-553-3030)Others

Mr Ernest Wistrich CBE

Director, European Movement
(British Council), Europe
House, 1A Whitehall Place,
London SW1A 2HA
(01 839 6622)

/Mr David Watt

(
(
(
c/o European
Parliament
Office, 2
Queen Anne's
Gate, SW1
(01 222 0411)
(
(
(
(
(
(

Mr David Watt

Director, Royal Institute of
International Affairs,
Charlton House
10 St James Square SW1
(01 930 2233)

Mr Michael J Shanks

Chairman, National Commerce
Council, 18 Queen Anne's
Gate, LONDON SW1
(01 930 5752)

Mr R Broad

Head, European Parliament
Office, 2 Queen Anne's Gate
London SW1
(01 222 0411)

Officials

Sir Donald Maitland
GCMG OBE

PUS
Dept of Energy
Thames House South
Millbank, SW1
(01 211 5391)

The Lord Bridges CMG

DUSS
Foreign & Commonwealth Office
SW1
(01 233 5923)

Mr D H A Hannay CMG

AUSS
FCO
King Charles Street
(01 233 6016)

TUC

Rt Hon Lionel Murray OBE

General Secretary
Trades Union Congress
22-23 Great Russel Street
WC1 (01 636 4030)Press

Hon Alan Hare MC

Chairman, Financial Times,
Bracken House, Cannon St. EC4
(01 248 8000)

The Lord Hartwell MBE TD

Chairman, Daily Telegraph
and Sunday Telegraph,
135 Fleet Street, EC1
(01 353 4242)Others

Rt Hon Roy Jenkins

Former President of the
European Commission
2 Kensington Park Gardens, W11
(01 727 5262)Rt Hon the Lord Thomson
of MonifiethPresident, European Movement
Flat 15, 102 Rochester Row,
London SW1
(01 834 1047)

Sir John Sainsbury

President, European Movement
c/o J Sainsbury Ltd
Stamford House
Stamford Street, SE1
(01 921 6000)Diplomatic Corps

HE the Netherlands Ambassador

Netherlands Embassy
38 Hyde Park Gate SW7
(01 584 5040)

HE the Luxembourg Ambassador

27 Wilton Crescent
SW1X 85D
(01 235 6961)Officials

Sir Robert Armstrong KCB CVO

Secretary to the Cabinet
Cabinet Office, SW1
(01 233 8408)Mr M Franklin
CB CMGDUS Cabinet Office
(01 233 7211)

/Sir Michael Palliser

Sir Michael Palliser GCMG

PUS, FCO
(01 233 4740)

Sir Michael Butler
KCMG

HM Ambassador to the
European Communities.

Mr M Alexander

No 10

Reserves

Ministers

The Rt Hon Nigel Lawson MP

Financial Secretary to
the Treasury, SW1

Mr Barney Hayhoe, MP

Minister of State, Civil
Service Department,
(Secretary European Movement)

Conservative Party

Rt Hon the Lord Harlech KCMG

President, European Movement
House of Lords, SW1
OR 14A Ladbroke Road,
London W11 (01 229 6701)

Mr Hugh Dykes MP

Member, European Legislation
Select Committee,
House of Commons
(01 219 5046) OR
West Lodge,
Barnsbury Square, N1
(01 607 8003)

Labour Party

The Rt Hon Lord George-Brown

President European Movement
House of Lords OR
30A St James Square,
London SW1

Rt Hon James Callaghan MP

House of Commons
LONDON SW1

Rt Hon David Evans MP

[Rt Hon Shirley Williams]

*8, St Anne's Close, W6 or House of Commons
(01-219-3000)*
Former Minister
c/o Policy Services Institute
Castle Lane, SW1
(01 828 7055)

Rt Hon Roy Mason MP

[Mr Robert MacLennan MP]

*12, Victoria Avenue, Barnsley, Yorks or House of
Commons (01-219-3000)*
Spokesman on F&C Affairs
c/o House of Commons SW1
(01 219 9000)

Liberal Party

/Rt Hon Jo Grimond TD MP

GR 240
UNCLASSIFIED
FM UKREP BRUSSELS 121600Z FEB 81
TO PRIORITY F C O
TELEGRAM NUMBER 465 OF 12 FEBRUARY.

kg
Am

TELECONS GUEST/CROWE : VISIT OF M. THORN

1. WE HAVE PASSED TO THE THORN CABINET THE FOLLOWING PROGRAMME :

11.30 NUMBER 10 (PRIME MINISTER AND LORD PRIVY SEAL)
12.40 AUDIENCE WITH HM THE QUEEN
1.15 LUNCH AT NUMBER 10.

2. WITH THORN AND THE SENIOR MEMBERS OF HIS CABINET STILL IN LUXEMBOURG, FINAL DISPOSITIONS HAVE STILL NOT BEEN MADE. WE HAVE HOWEVER, NOW BEEN TOLD THAT THORN AND HIS PARTY WILL NOT AFTER ALL OVERNIGHT ON THURSDAY, BUT WILL ARRIVE ON THE MORNING OF 20 FEBRUARY AND LEAVE THE SAME AFTERNOON (FROM HEATHROW AT 1645). THE PARTY WILL CONSIST OF THORN, SPAAK (CHEF DE CABINET), NOEL OR AUDLAND (SECRETARIAT-GENERAL), VASEY (SPOKESMAN) AND A -SECRETARY. THE LUNCH AT NUMBER 10 SHOULD OF COURSE INCLUDE NOEL/AUDLAND (PROBABLY THE LATTER) AS WELL AS SPAAK.

3. SINCE I SHALL IN ANY CASE BE IN LONDON ON 20 FEBRUARY IT WOULD BE HELPFUL TO ME TO BE IN ON THIS VISIT TO THE EXTENT POSSIBLE. I SHOULD BE GRATEFUL IF THIS COULD BE ARRANGED.

FCO COPY TO:-
FCO - HANNAY, SPRECKLEY
CAB - FRANKLIN
NO 10 - ALEXANDER

BUTLER
LIMITED
ECD (I)
MR HANNAY

COPIES TO:
PS/NO 10 DOWNING ST
MR FRANKLIN CABINET OFFICE
[NOT ADVANCED]



10 DOWNING STREET

From the Private Secretary

2 February 1981

Visit of the President of the
European Commission

The Prime Minister has seen your letter to me of 29 January about M. Thorn's visit on 20 February. She would be prepared to offer M. Thorn lunch that day preceded by, say, a 45 minute talk. The Prime Minister envisages a lunch for 32 guests without spouses. I should be grateful if you could let me have a guest list as soon as possible.

It would be helpful if the briefs for the talk could reach me by close of play on Thursday 19 February.

CS

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

RECEIVED

①

This is ridiculous - we shall all see him in March. Tell him London looks better in Summer!



Prime Minister

I have been resisting the idea that you should entertain Thorn since you did so less than three months ago.

Foreign and Commonwealth Office

London SW1A 2AH

However I fear it is now unavoidable. Given that it has to be done, I would favour a

*Dear Michael, large lunch (32 without spouses) rather than a small working meal. Agree? *Phil attached**

Visit of President of the European Commission

You will have seen UKREP telegram no 212 of 23 January about the proposal for a visit by the President of the Commission, M. Thorn, on 2 March.

The Foreign and Commonwealth Secretary recommends that M. Thorn should be invited as the guest of HMG, and that he should be received by the Prime Minister.

These visits to capitals by a new President soon after taking office have become traditional; Mr Jenkins paid a similar visit in July 1977 as the guest of HMG. However, M. Thorn indicated earlier this month his intention to engage in a round of bilateral discussions with Member States on the question of budget restructuring, on which the Commission are working on proposals. There will therefore be substantive business to discuss.

There are problems over timing. An audience with The Queen, on which M. Thorn is very keen, is not possible on 2 March. On the only alternative date acceptable to M. Thorn, 20 February, Lord Carrington will himself be out of the country. On balance, Lord Carrington thinks it would be better to lead M. Thorn in the direction of 20 February: it would be easier for him to find another opportunity to entertain M. Thorn than to find another occasion for an audience with The Queen.

While the Lord Privy Seal would be able to receive him in Lord Carrington's absence, M. Thorn, who is very status-conscious and will no doubt be on the lookout for any sign of less good treatment than that accorded to Mr Jenkins, may think that an offer of hospitality by the Prime Minister in Lord Carrington's absence would be appropriate. Such an offer might then help to smooth any ruffled feathers left by the problem over Mr Tugendhat's Commission portfolio at the beginning of the year. Mr Jenkins himself in fact nearly postponed his 1977 visit when he learned that the then Prime Minister could not offer him a meal at No 10.

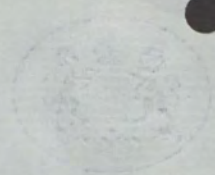
*Yours ever,
Francis Richards*

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

THE NATIONAL ARCHIVES
COLLEGE PARK, MARYLAND

30 JAN 1953



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IMMEDIATE

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GR 120

RESTRICTED

FM UKREP BRUSSELS 231617Z JAN 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 212 OF 23 JANUARY.

PS
PS/LPS
PS/PUS
LD BRIDGES
MR HANNAY
HD/ECD (1)
MR FRANKLIN } CABINET
MR ELLIOTT } OFFICE
MR ALEXANDER, NO 10 D.S.

RC

VISIT OF PRESIDENT OF THE COMMISSION TO LONDON

1. THORN'S CABINET HAVE ASKED US TO ENQUIRE WHETHER A VISIT BY THORN TO LONDON ON 2 MARCH WOULD BE CONVENIENT AS PART OF HIS TOUR HE IS PLANNING OF COMMUNITY CAPITALS BETWEEN THE END OF FEBRUARY AND 20 MARCH. HE WOULD LIKE TO CALL ON THE QUEEN, THE PRIME MINISTER AND YOURSELF.

2. GRATEFUL FOR EARLY REPLY.

FCO ADVANCE TO:-

- FCO - PS/SOFS, BRIDGES, HANNAY, SPRECKLEY
- CAB - FRANKLIN, ELLIOTT
- NO 10 - ALEXANDER

BUTLER

NNNN

