

PREM 19/1753

Confidential Filing

Visits of M. Thorn, President
of the European Commission,
to London.

EUROPEAN POLICY

M. Deon's tour of European Capitals

Part 1: February 1981

Part 2: February 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
24.2.83		29.12.86					
17.3.83		31.12.86					
18.3.83		PART					
17.11.83		ENDS					
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PREM 19/1753

PART 2 ends:-

D. WILLIAMSON TO CDP 31.12.86
~~FCO to CDP 29.12.86~~

PART 3 begins:-

CDP to FCO 2.1.87

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Commission of the European Communities

Programme of the Commission for 1984

Brussels, Luxembourg, 1984

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Signed



Date

23/09/2014

PREM Records Team



PERSONAL

Qz.05550

MR POWELL (10 Downing Street)

Visit of Monsieur Delors

Perhaps you would let me know in due course how you expect to handle Monsieur Delors' meeting with the Prime Minister at 1700 hours on 5 February about the ex novo review. I assume that, as there is to be a fuller meeting between Monsieur Delors (probably accompanied by at least Mr Christophersen) and our Ministers, the Prime Minister will want to keep the meeting with Delors as small as possible. I should like to be present if it does not overload the boat.

D F Williamson

D F WILLIAMSON

31 December 1986

510

ccfg



Foreign and Commonwealth Office

London SW1A 2AH

29 December 1986

CDP or.

This is in the diary

30/12

Dear Charles,

European Community: M. Delors' Visit to London: 5 February

M. Delors has suggested that he should visit London on Thursday 5 February to discuss his plans for the Commission's ex novo review of Community finance. The Foreign Secretary is arranging a meeting at which he, the Chancellor of the Exchequer and other Ministers directly involved in the subject matter of the review can go over the ground with M. Delors in some detail. The Foreign Secretary recommends that, after that meeting, M. Delors should call on the Prime Minister for about 45 minutes. I understand that the Prime Minister might be free to see him at 1700 hours on 5 February.

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

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street



10 DOWNING STREET

MR. POWELL

Handwritten signature

The Foreign Office rang.

They are anxious that the Prime Minister should see M. Delors. They are writing but I have pencilled him in the diary for the afternoon of 4 February.

BF

Handwritten signature

(CAROLINE RYDER)

23 December 1986

GRS 150

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FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 4698
OF 230956Z DECEMBER 86
INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME GENERAL

DELORS' TOUR OF CAPITALS.

1. I SPOKE TO DELORS' CHEF DE CABINET ON 23 DECEMBER. LAMY SAID THAT DELORS WAS THINKING OF VISITING LONDON IN THE FIRST WEEK OF FEBRUARY. I SAID THIS MET OUR TENTATIVE PREFERENCE FOR A SLOT TOWARDS THE END OF THE TOUR. WE THEN HAD SOME DISCUSSION OF DATES, LAMY HAVING IDENTIFIED 5 FEBRUARY. I POINTED OUT THAT CABINET MET THAT DAY OF THE WEEK AND THAT THERE WOULD ALSO BE THE COMPLICATION OF PRIME MINISTER'S QUESTIONS. HE THEN OFFERED 6 FEBRUARY AS AN ALTERNATIVE. WE CAN HAVE EITHER, BUT WILL NEED TO REVERT QUICKLY IF WE HAVE A CLEAR PREFERENCE.

2. LAMY REACTED VERY POSITIVELY TO THE POSSIBILITY OF A ROUND TABLE DISCUSSION WITH THE MINISTERS PRINCIPALLY INTERESTED, IN ADDITION TO MEETINGS WITH THE PRIME MINISTER AND YOURSELF. WE AGREED TO BE IN TOUCH ABOUT THE PROGRAMME AFTER THE HOLIDAYS. GRATEFUL FOR INSTRUCTIONS.

HANNAY

YYYY
ADVANCE:
PS FCO
PS/MRS CHALKER FCO
BRAITHWAITE FCO
RENWICK FCO
WALL FCO
FORD FCO
WILLIAMSON CAB
JAY CAB
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Think the same as Delors said at the European Council. But an appalling prospect nonetheless.

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FM UKREP BRUSSELS
TO IMMEDIATE FCO
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OF 191905Z DECEMBER 86
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FRAME ECONOMIC
SECTION 1 OF 2
EX NOVO : COREPER BRAINSTORMING : 19 DECEMBER 1986

SUMMARY

1. NO SURPRISES. DELORS' TOUR OF CAPITALS TO START 9 JANUARY, END 13 FEBRUARY. GYMNICH' MEETING IN BRUSSELS 22 FEBRUARY. DELORS CONFIRMS WISH FOR DISCUSSION TO RANGE WIDE: 'GDP BOX' FOR COMMUNITY FINANCING, CAP REFORM, INTERNAL MARKET AND COHESION. PREFERENCE AMONG AMBASSADORS FOR NEGOTIATION DIRECTED TO INCREASE TO 1.6 PERCENT IN VAT CEILING. NO DISCUSSION OF BUDGET IMBALANCES.

*COO
21/12*

DETAIL

2. AMBASSADORS TODAY HELD THEIR 'BRAINSTORMING' SESSION WITH DELORS, WHO WAS IN CONFIDENT AND AT TIMES VISIONARY MOOD.

PROCEDURE

3. DELORS ANNOUNCED THAT HE INTENDED TO BEGIN HIS TOUR OF CAPITALS ON 9 JANUARY AND END ON 13 FEBRUARY. THE COMMISSION WOULD CONSIDER THE RESULTS ON 14 OR 15 FEBRUARY, AND HE WOULD DESCRIBE THE COMMISSION'S PLANS TO THE EP ON 17 AND 18 FEBRUARY. HE WOULD START WITH BELGIUM (OUT OF RESPECT FOR THE PRESIDENCY) AND END WITH GERMANY (TO ALLOW THE DUST TO SETTLE AFTER THE ELECTION). LAMY (DELORS CABINET WOULD ARRANGE DATES WITH FOREIGN MINISTRIES OR PRS. HIS INTENTION WAS TO SEEK THE VIEWS OF GOVERNMENTS NOT TO DO DEALS. HE WANTED TO ROLL UP HIS SLEEVES AND GET DOWN TO SERIOUS WORK WITH THE MINISTERS CONCERNED: HE WAS NOT BOTHERED ABOUT PROTOCOL. IF IT WAS APPROPRIATE FOR HIM TO SEE A NUMBER OF MINISTERS AT ONCE, HE MIGHT TAKE OTHER COMMISSIONERS WITH HIM.

4. THERE WAS SOME DISCUSSION OF WHETHER ARRANGEMENTS SHOULD BE MADE FOR DELORS TO PRESENT THE RESULTS OF HIS TOUR TO FOREIGN MINISTERS ON SUNDAY 15 FEBRUARY, BEFORE HE SPOKE TO THE EP. THE CONSENSUS WAS HOWEVER THAT SO LONG AS NO MAJOR SURPRISES WERE SPRUNG BEFORE THE EP IT WOULD BE MORE SATISFACTORY TO DELAY PRESENTATION TO MINISTERS UNTIL THE FOLLOWING WEEKEND. NATERDAEME (BELGIUM) INDICATED THAT A 'GYMNICH'' STYLE MEETING WOULD BE ORGANISED FOR THIS PURPOSE IN BRUSSELS ON THE AFTERNOON ON 22 FEBRUARY.

5. ERSBOELL (COUNCIL SECRETARIAT) PLEADED THAT THERE SHOULD BE NO REPEAT OF THE JUMBO SPECIAL COUNCILS OF 1983. DISCUSSION SHOULD TO THE GREATEST EXTENT POSSIBLE TAKE PLACE IN A SINGLE FORUM. SINCE NOTERDAEME WAS NOT PRESENT AT THIS STAGE WE DID NOT HEAR WHETHER THIS IS THE BELGIANS INTENTION.

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6. DELORS, (WHO WAS ACCOMPANIED ONLY BY LAMY AND KRENZLER (COMMISSION SECRETARIAT GENERAL), FREELY ADMITTED THAT HIS DECISION TO VISIT CAPITALS HAD MET WITH MUCH CRITICISM IN THE COMMISSION. BUT HE THOUGHT THE COMMUNITY'S INTERESTS WOULD BE BEST SERVED, THE BALANCE AMONG INSTITUTIONS IN NO WAY ENDANGERED, IF THE COMMISSION'S PROPOSALS TOOK ACCOUNT OF GOVERNMENTS' VIEWS AND EXPECTATIONS. ALL AMBASSADORS APPLAUDED HIS INITIATION, THOUGH SCHEER (FRANCE) WARNED THAT THE COMMISSION WOULD NEED TO DISPLAY POLITICAL COURAGE IF, AS DELOR'S PRESENTATION SUGGESTED, IT WAS TO SUGGEST SIGNIFICANT CHANGES IN THE CAP.

DELORS'S PRESENTATION

7. DELORS SAID THAT THERE WAS A NEED TO TAKE AN OVERALL VIEW OF THE WORKING OF THE COMMUNITY WHICH WENT BEYOND THE PRECISE AGENDA LAID DOWN BY THE FONTAINEBLEAU CONCLUSIONS AND ARTICLE 130 OF THE SINGLE EUROPEAN ACT. HE PROCEEDED TO REVIEW IN TURN COMMUNITY FINANCES: THE CAP: COHESION AND THE INTERNAL MARKET: AND THE CONDUCT OF MACRO-ECONOMIC POLICY IN THE EC.

8. DELORS REPEATED HIS FAMILIAR ANALYSIS OF THE COMMUNITY'S FINANCIAL PROBLEMS. THE COMMUNITY BUDGET HAD IN FACT BEEN IN DEFICIT FOR SEVERAL YEARS. A VAT RATE OF SLIGHTLY MORE THAN 1.6 PERCENT WOULD BE NEEDED TO FINANCE THE 1987 BUDGET ON A REALISTIC BASIS. THE COMMUNITY HAD PUT OFF THE DAY OF RECKONING BY EXPEDIENTS SUCH AS BUILDING UP AGRICULTURAL STOCKS AND UNLIQUIDATED COMMITMENT APPROPRIATIONS AND BY CARRYING OVER THE 1986 BUDGET DEFICIT. THE COMMUNITY COULD NOT GO ON LIKE THIS. A FINANCIAL SYSTEM MUST BE FOUND WHICH PROVIDED SUFFICIENT FINANCE, WHICH WAS STABLE, AND WHICH GAVE A GUARANTEE TO MEMBER STATES THAT THEY WOULD NOT NEED REPEATEDLY TO GO BACK TO NATIONAL PARLIAMENTS WITH A REQUEST TO AGREE FURTHER INCREASES IN OWN RESOURCES. THE COMMUNITY NEEDED REVENUE EQUIVALENT TO 1.4 PERCENT OF GDP TO MEET FORESEEABLE NEEDS UP UNTIL 1992. THE OWN RESOURCE CEILING SHOULD MOREOVER BE EXPRESSED IN THIS WAY: AS A CEILING ON TOTAL OWN RESOURCES AS A PERCENTAGE OF GDP. VAT, OR PERHAPS A NEW FORM OF OWN RESOURCES, COULD THEN BE INCREASED TO TAKE ACCOUNT OF THE DOWNWARD SECULAR TREND IN CUSTOMS DUTIES AND AGRICULTURAL LEVIES AND THE DECLINE IN THE PROPORTION WHICH THE HARMONISED VAT BASE BORE TO NATIONAL INCOME. IF MEMBER STATES COULD AGREE TO INCREASE OWN RESOURCES TO THIS LEVEL THE COMMISSION COULD GUARANTEE NOT TO MAKE ANY ADDITIONAL DEMAND FOR REVENUE FOR MORE THAN HALF A DECADE. THE COUNCIL MUST MAKE A STRATEGIC CHOICE. DID IT WISH MERELY TO BUY A COUPLE OF YEARS' TIME BY INCREASING THE VAT CEILING TO 1.6 PERCENT, AS HAD BEEN ENVISAGED AT FONTAINEBLEAU: OR WAS IT PREPARED TO UNDERTAKE A LARGER AND MORE FAR REACHING REFORM OF COMMUNITY FINANCE WHICH WOULD SEE THE COMMUNITY THROUGH UNTIL 1992?

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9. SERIOUS STEPS HAD BEEN TAKEN TO REFORM THE CAP SINCE 1984. BUT MUCH REMAINED TO BE DONE BOTH FOR BUDGETARY REASONS AND BECAUSE OF THE NEED TO ADAPT EUROPEAN AGRICULTURE TO WORLD ECONOMIC REALITIES AND THE WORLD'S EXPECTATIONS OF EUROPE. IT WAS NOT POSSIBLE SUBSTANTIALLY TO INCREASE THE EC'S SHARE OF WORLD MARKETS FOR AGRICULTURAL PRODUCE: NOR WAS A SUBSIDY WAR WITH THE UNITED STATES AND OTHER DEVELOPED AGRICULTURAL PRODUCERS CONSISTENT WITH THE COMMUNITY'S RESPONSIBILITIES TOWARDS THE DEVELOPING WORLD. THE COMMUNITY MUST:

- (A) GET RID OF EXCESSIVE STOCKS:
- (B) PURSUE A REALISTIC PRICING POLICY (AGRICULTURAL MARKETS COULD NOT BE TREATED IN THE SAME WAY AS THE MARKET FOR INDUSTRIAL PRODUCTS, BUT PRICE SUPPORT REGIMES IN WHICH MARKET SIGNALS COULD PLAY NO PART WERE AN ABSURDITY):
- (C) DEVELOP POLICIES TO MAINTAIN THE INCOMES OF SMALL FARMERS OTHER THAN THROUGH PRICE SUPPORT (MAINTAINING THE FABRIC OF RURAL SOCIETY WAS ESSENTIAL FOR EUROPE):
- (D) MAINTAIN A FIRM POLICY TOWARDS THE OUTSIDE WORLD. (ASKED WHAT THIS MEANT AND HOW IT WAS TO BE RECONCILED WITH PUNTA DEL ESTE, DELORS REPLIED THAT OTHERS MUST ALSO SWEEP OUT THE STABLES OF THEIR AGRICULTURAL POLICY: AND QUESTIONED WHETHER IT MADE SENSE FOR A COMMUNITY AWASH WITH SURPLUS GRAIN TO IMPORT LIVESTOCK FEED FROM ACROSS THE ATLANTIC).

10. TURNING TO THE INTERNAL MARKET AND COHESION. DELORS SUGGESTED THAT EUROPE MIGHT TAKE ONE OF THREE FORMS AS THE DEVELOPMENTS ENVISAGED IN THE SINGLE EUROPEAN ACT CAME INTO EFFECT.

- (A) A 'FALSE INTERNAL MARKET', IN WHICH MUCH COVERT PROTECTIONISM REMAINED.
- (B) A 'TRUE INTERNAL MARKET' WHERE GOODS AND FACTORS OF PRODUCTION MOVED FREELY AND IN WHICH THERE WAS SOME BUDGETARY COMPENSATION TO DISADVANTAGED REGIONS. BUT THIS DEGREE OF DEVELOPMENT OF THE COMMUNITY WOULD NOT MARK A SUBSTANTIAL STEP TOWARDS THE GOAL OF EUROPEAN UNION, AND WOULD DO LITTLE TO REDUCE DISPARITIES AMONG REGIONS OR TO SOLVE THE PARTICULAR DIFFICULTIES FACED BY GREECE, SPAIN AND PORTUGAL.
- (C) AN 'ESPACE ECONOMIQUE COMMUN' CHARACTERISED BY THE COMPLETION OF THE INTERNAL MARKET: THE SPREAD OF TECHNICAL ADVANCES: ACTION TO STIMULATE INNOVATION, PARTICULARLY INNOVATION BY SMES IN AREAS WITH A WEAK ECONOMIC STRUCTURE: A CAP DESIGNED TO MAINTAIN THE STRUCTURE OF RURAL SOCIETY: INTEGRATED PROGRAMMES TO DEVELOP THOSE REGIONS WHERE INCOME PER HEAD WAS LESS THAN 50 PERCENT OF THE COMMUNITY AVERAGE: AND SIMILAR ACTION FOR AREAS OF INDUSTRIAL DECLINE.

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11. COMPLETING HIS ANALYSIS, DELORS OBSERVED THAT FOR THE FORESEEABLE FUTURE DECISION MAKING ON ECONOMIC POLICY WOULD REMAIN PRINCIPALLY WITH THE MEMBER STATES. BUT THE COMMUNITY HAD A SIGNIFICANT CONTRIBUTION TO MAKE TO THE ACHIEVEMENT OF THE GOALS OF STABILISATION, EFFICIENT RESOURCE ALLOCATION AND APPROPRIATE DISTRIBUTION THROUGH THE EUROPEAN MONETARY SYSTEM, BUDGETARY TRANSFERS, THE PROVISION OF EIB FINANCE FOR LARGE SCALE INVESTMENT PROJECTS, INTEGRATED DEVELOPMENT PROGRAMMES, AND AN IMAGINATIVE USE OF COMMUNITY LENDING INSTRUMENTS.

COMMENTS BY AMBASSADORS

12. THERE WAS A CERTAIN AMOUNT OF LOGROLLING IN THE TABLE ROUND WHICH FOLLOWED. CALAMIA (ITALY) RESPONDED TO DELORS'S COMMENTS ON THE SOCIAL PROBLEMS OF GREECE, SPAIN AND PORTUGAL WITH A REMINDER OF THE DIFFICULTIES OF THE MEZZOGIONIO, AND CLAIMED THAT MEDITERRANEAN PRODUCTS HAD NOT BEEN ISOLATED FROM MARKET REALITIES IN THE SAME WAY AS HAD NORTHERN PRODUCTS: SUPPORT WAS OPERATED FLEXIBLY, CONSUMERS BROUGHT AT WORLD PRICES. LYBEROPOULOS (GREECE) MADE THE USUAL SPEECH ABOUT COHESION. CAMPBELL (IRELAND) REFERRED TO THE ROLE OF AGRICULTURE IN THE IRISH ECONOMY AND THE PROBLEMS OF PERIPHERAL AREAS.

13. A NUMBER OF MY COLLEAGUES EXPRESSED POLITE INTEREST IN DELORS'S IDEA OF INCREASING THE OR CEILING TO 1.4 PERCENT OF GDP: BUT ONLY LYBEROPOULOS EXPRESSED ANY PREFERENCE FOR THIS APPROACH. NIEMAN (NETHERLANDS), ESPER LARSEN (DENMARK) AND CALAMIA ARGUED THAT A SOLUTION TO THE COMMUNITY'S URGENT PROBLEMS COULD MORE EASILY BE FOUND IF DISCUSSION FOCUSED ON AN INCREASE IN THE VAT CEILING TO 1.6 PERCENT AS FORESEEN AT FONTAINEBLEAU. THERE WAS A GENERAL WISH TO KNOW WHAT THE POSSIBLE NEW OWN RESOURCE WAS TO WHICH DELORS HAD REFERRED. SCHEER ASKED WHETHER THE COMMISSION ENVISAGED SEPARATE BUDGETS FOR THE CAP AND THE REST, AS RECOMMENDED IN THE RECENT CEPS REPORT.

HANNAY

FRAME ECONOMIC

FINAL SECTION OF 2

14. UNGERER (GERMANY) ENDORSED DELORS'S VIEW THAT THE COMMUNITY BUDGET WAS NOT BASED ON REALITY, BUT ARGUED THAT THIS UNDERLINED THE NEED FOR BUDGETARY DISCIPLINE. RELATING COMMUNITY REVENUE TO GDP RATHER THAN THE VT BASE WOULD EVOLVE RELYING HEAVILY ON DUBIOUS STATISTICS AND PENALISE COUNTRIES WHICH WERE NET EXPORTERS. ON THE CAP, THE DISTINCTION DELORS DREW BETWEEN SMALL AND LARGE FARMERS WAS NOT REFLECTED IN FARMERS' OWN NATIONAL ASSOCIATIONS.

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15. SPEAKING ON BEHALF OF THE UK, I SAID THAT NOONE COULD DENY THE COMMISSION'S RIGHT TO ADD TO THE AGENDA SET OUT IN THE FONTAINEBLEAU CONCLUSIONS AND THE SCA. BUT THAT AGENDA MUST BE COVERED. BUDGET DISCIPLINE WAS A POINT OF MAJOR IMPORTANCE. THE TERMS INTERPRETED IN WIDELY DIFFERING WAYS IN DIFFERENT MEMBER STATES. BUT ALMOST ALL MEMBER STATES WERE ONE IN TRYING TO RESTRICT THE LEVEL OF THEIR DOMESTIC PUBLIC EXPENDITURE. SUCH DISCIPLINE MUST ALSO BE ENFORCED AT COMMUNITY LEVEL. MOST OF THE LAST INCREASE IN OWN RESOURCES HAD BEEN SWALLOWED UP BY THE CAP. WHAT PROPOSALS COULD WE EXPECT FROM THE COMMISSION TO AVOID FURTHER AGRICULTURAL OVERRUNS? THERE MUST BE SOME MECHANISM TO ENSURE THAT IF EXPENDITURE OR PRODUCTION EXCEEDED A PRE-DETERMINED LIMIT THERE WOULD BE AN AUTOMATIC REDUCTION IN THE SUPPORT PROVIDED. MEASURES TO REFORM MARKET REGIMES MUST ACCOMPANY EFFORTS TO REDUCE STOCKS. NIEMAN ECHOED MY REMARKS ABOUT THE PRIMACY OF REFORMING THE CAP.

16. WESTENDORP (SPAIN) EXPRESSED CONCERN THAT THE PRESENT NORTH/SOUTH SPLIT IN THE COMMUNITY ON THE CAP STRUCTURAL FUNDS AND COHESION SHOULD NOT CONTINUE. DELORS'S IDEAS FOR A 'COMMON ECONOMIC SPACE' MIGHT PROVIDE SOME HELP IN THIS CONTEXT. HE ACCEPTED THE CASE FOR TRYING TO SEEK A SETTLEMENT WITHIN THE SPIRIT OF THE FONTAINEBLEAU AGREEMENT: BUT IT WAS APPROPRIATE ALSO TO LOOK FORWARD TO 1992. CALAMIA WAS RIGHT TO STRESS THE DIFFERENCE BETWEEN MEDITERRANEAN AND NORTHERN PRODUCT REGIMES IN THE CAP: BUT THE CORRECT POLICY WAS TO INTRODUCE SOME OF THE FLEXIBILITY OF THE FORMER INTO THE LATTER, NOT TO INCREASE THE DEGREE OF MARKET SUPPORT UNDER SOUTHERN PRODUCT REGIMES.

DELORS'S REPLY

17. DELORS REPLIED AS FOLLOWS:

- (A) SIMPLY TO INCREASE THE VAT CEILING TO 1.6 PERCENT WOULD NOT DO.
- (B) THE CHOICE OF ANY NEW FORM OF OWN RESOURCES DEPENDED ON ONE'S VIEW OF NATURE OF THE COMMUNITY. ONE COULD CONCEIVE OF PROGRESSIVE IN TAXES RELATED TO GDP OR NATURAL INCOME TAX, OR TO PROPORTIONATE TAXES ON TRANSFER OF CAPITAL OR BUSINESS PROFITS.
- (C) HE WAS AGAINST THE BUDGET SEGMENTATION ADVOCATED BY THE CEPS. IT WAS POLITICALLY IMPOSSIBLE THUS TO ISOLATE THE CAP.
- (D) BUDGET DISCIPLINE COULD NOT BE ACCOMPLISHED IN THE COMMUNITY UNLESS THE EP WERE INVOLVED AND A WAY FOUND TO RECONCILE AND ARBITRATE BETWEEN THE DECISIONS OF DIFFERENT COUNCILS.
- (E) IT WAS NOT REASONABLE TO APPLY THE BUDGETARY POLICY APPROPRIATE TO MATURE MEMBER STATES TO A COMMUNITY WHOSE FUNCTIONS WERE DEVELOPING.

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BUDGET IMBALANCES

18. THIS DOG DID NOT BARK. THE ONLY REFERENCE TO THE SUBJECT WAS A COMMENT BY DELORS THAT HE WAS PERSONALLY OPPOSED TO THE CONCEPT OF NET BALANCES.

HANNAY

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ADVANCE

RENWICK FCO

WALL FCO

BLOOMFIELD FCO

WILLIAMSON CAB

JAY CAB

HADLEY MAFF

HOLLIS MAFF

PERRINS MAFF

EDWARDS TSY

MORTIMER TSY

CRABBIE TSY

BONNEY TSY

MAIN

FRAME ECONOMIC

UCLNAN 6091

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TELNO 4540
OF 152105Z DECEMBER 86
INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME GENERAL

FOREIGN AFFAIRS COUNCIL, 15/16 DECEMBER: EX NOVO REVIEW

SUMMARY

1. LUNCH DISCUSSION ON WHETHER THE COMMISSION SHOULD TABLE PROPOSALS BEFORE DELORS' TOUR. DISCRETION PREVAILED: PROCEDURE IS COREPER BRAINSTORMING ON 19 DECEMBER; COMMISSION ON 22 DECEMBER; TOUR BY DELORS: PROPOSALS OUT BY ABOUT 15 FEBRUARY: 'GYMNICH' MEETING OF FOREIGN MINISTERS IN MARCH. ALL AGREED THAT ABSENCE OF COMMISSION PROPOSALS BY THE END OF THIS YEAR WOULD NOT PREJUDICE THE UNDERTAKING TO TAKE DECISIONS ON EX NOVO BY 1 JANUARY 1988.

DETAIL

2. DELORS RAISED THE SUBJECT OVER LUNCH AS A FOLLOW-UP TO THE EUROPEAN COUNCIL, WHICH HAD ENDORSED THE IDEA OF HIS TOUR OF CAPITALS. THIS POSED INSTITUTIONAL AND PRACTICAL QUESTIONS. THE EUROPEAN COUNCIL HAD NO FORMAL STATUS: SO WAS THIS DECISION BACKED BY THE COUNCIL OF MINISTERS? OTHER COMMISSIONERS WERE NOT HAPPY, PREFERRING THE COMMISSION TO MAKE PROPOSALS BEFORE DELORS SET OFF. HE HAD PERSUADED THEM WITH DIFFICULTY THAT HIS COURSE WAS PREFERABLE. IF PROPOSALS APPEARED ONLY, SAY, ON 15 FEBRUARY 1987, NO-ONE SHOULD ALLEGE THAT A DECISION ON 1 JANUARY 1988 WAS RENDERED IMPOSSIBLE THEREBY. HE OBTAINED REASSURANCE THAT THE COMMISSION WOULD NOT BE ACCUSED OF BREAKING THE FONTAINEBLEAU UNDERTAKING TO PRODUCE PROPOSALS ONE YEAR BEFORE 1 JANUARY 1988. HE ASKED WHETHER THE TOUR WOULD BE OF PRACTICAL USE WITHOUT ANY PREPARATION, AND WONDERED WHETHER IT MIGHT BE BETTER TO HAVE A KIND OF TECHNICAL GYMNICH FIRST - LIKE THE STRESA MEETING BEFORE MILAN. HE LOOKED FORWARD TO SEEING COREPER AMBASSADORS ON 19 DECEMBER. WOULD THAT BE ENOUGH? COULD FOREIGN MINISTERS SET ASIDE A DAY TO MEET HIM BEFORE HE SET OFF? HE LIKED THE STRESA CONCEPT.

3. YOU SAID THAT NO-ONE UNDERESTIMATED THE SCALE OF THE COMMISSION'S TASK, AS HEADS OF GOVERNMENT HAD STRESSED. THE TOUR OF CAPITALS WAS VALUABLE: SO WAS THE FORTHCOMING PRESENTATION TO COREPER. THE IDEA OF A TECHNICAL PRESENTATION TO FOREIGN MINISTERS COULD COME IN USEFUL LATER.

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4. ELLEMANN JENSEN WANTED COMMISSION PROPOSALS BEFORE THE END OF 1986, DISLIKED THE PROSPECT OF DELAY UNTIL 15 FEBRUARY OR A LEAKY TOUR OF CAPITALS, AND WAS WORRIED ABOUT THE PROBLEMS WHICH COULD FALL TO THE DANISH PRESIDENCY IN THE SECOND HALF OF NEXT YEAR.

5. TINDEMANS SUGGESTED THAT THE PRESENTATION SHOULD BE DONE AFTER THE TOUR OF CAPITALS, ALTHOUGH HE COULD ACCEPT A MINISTERIAL MEETING BEFOREHAND. DELORS' JOB WOULD BE TO EXPLAIN THE WORK OF THE COMMISSION, NOT TO PUT OPTIONS, WHICH WAS NOT THE COMMISSION'S ROLE. ANDREOTTI AGREED TO THE IDEA OF THE TOUR OF CAPITALS WHILE EXPRESSING ANXIETY ABOUT THE RESEARCH COUNCIL AND MEDITERRANEAN PRODUCTS BEING SQUEEZED AS A RESULT OF THE BUDGET CRISIS. STAVENHAGEN (FRG) STRESSED THE CONFIDENTIAL NATURE OF THE TOUR, WHICH WOULD BE DESIGNED TO ASSIST CONSIDERATION OF PROPOSALS WHEN THEY CAME.

6. YOU SUGGESTED THAT THE SEQUENCE SHOULD BE

- (A) PRESENTATION TO COREPER
- (B) TOUR OF CAPITALS IN THE NEW YEAR
- (C) GYMNICH-TYPE MEETING OF FOREIGN MINISTERS.

THIS WOULD MAKE DEMANDS ON DELORS BUT WOULD BE IMPORTANT TO CARRY THROUGH. VAN DEN BROEK (NETHERLANDS) SAID THAT THE COREPER PRESENTATION SHOULD ALLOW TIME TO BRIEF CAPITALS BEFORE DELORS' TOUR, WHICH WOULD MEAN PRESENTING PROPOSALS BEFORE THE END OF DECEMBER. MARTINS (PORTUGAL) AGREED ON THE NEED FOR AN EARLY INDICATION OF COMMISSION WORK: BUT STAVENHAGEN SAID THAT DELORS' TOUR MUST PRECEDE PROPOSALS, AND SUPPORTED YOUR PROCEDURAL SUGGESTIONS.

7. DELORS AGREED TO BRIEF COREPER BEFORE THE COMMISSION MEETING ON 22 DECEMBER. THERE WAS NO CONSENSUS ON THE IDEA OF A GYMNIICH BEFORE HIS TRIP. SO HE WOULD TAKE SOUNDINGS IN CAPITALS WITH A VIEW TO FORMAL PROPOSALS THEREAFTER. HE WOULD NOT PRESENT COMPROMISES. THAT WOULD BE THE BELGIAN PRESIDENCY'S JOB.

8. ANDREOTTI WONDERED ON WHAT BASIS DELORS' CONTACTS WOULD TAKE PLACE. HE WAS NOT SURE WHAT PURPOSE THE COREPER BRAINSTORMING WOULD SERVE: IT WOULD ONLY BE A WAY OF TRANSMITTING INFORMATION TO CAPITALS. HOW DID COREPER FIT WITH COMMISSION DECISIONS ON 21/22 DECEMBER? DELORS CONFIRMED THAT NO DOCUMENT WOULD BE ADOPTED AND TRANSMITTED ON THE 22ND. HE QUESTIONED THE USEFULNESS OF CIRCULATING A PREPARATORY ANALYTICAL DOCUMENT BEFORE THE TOUR: IT WOULD BE SURE TO LEAK. THE GREATER THE PUBLIC DRAMATISATION, THE SMALLER THE RESULT. DELORS WAS CONTENT TO SPEND UP TO ONE DAY IN EACH CAPITAL, THE PROGRAMME TO BE ORGANISED BY THE FOREIGN MINISTRY, WHICH WOULD DETERMINE WHOM HE SAW. HE OBTAINED CONFIRMATION (AGAIN)

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LTMAT

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THAT THERE WOULD BE NO CRITICISM FROM MEMBER STATES THAT DECISIONS BY 1 JANUARY 1988 WOULD BE IMPOSSIBLE ON THIS BASIS. HIS FIRST PORT OF CALL WOULD BE BRUSSELS: THE BELGIAN GOVERNMENT. HE SUGGESTED A GYMNICH MEETING IN MARCH. YOU CONCLUDED THAT THIS WAS AGREED.

HANNAY

YYYY

ADVANCE

PS FCO

PS MRS CHALKER FCO

PS/PUS FCO

BRAITHWAITE FCO

RENWICK FCO

WALL FCO

SHEPHERD FCO

RICHARDSON ECD(P) FCO

WILLIAMSON CAB

HOLROYD CAB

JAY CAB

WILLIAMS DTI

MOGG DTI

LOUGHEAD DTI

WINKETT DTI

HADLEY MAFF

EDWARDS MAFF

LAVELLE TSY

MORTIMER TSY

CRABBIE TSY

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From the Private Secretary

26 November 1986

**PRIME MINISTER'S MEETING WITH THE PRESIDENT OF THE COMMISSION
OF THE EUROPEAN COMMUNITIES**

The Prime Minister saw the President of the Commission of the European Communities this morning to discuss the forthcoming European Council. M. Delors was accompanied by M. Lamy. Sir David Hannay was also present.

European Council

Economic\$ and Social Situation

The Prime Minister said that she hoped to avoid a discussion of the economic situation in each member state. She would be grateful if M. Delors would make a brief introductory statement, focussing in particular on employment, and the need to stimulate more small business and enterprise. She would steer the Council towards positive conclusions on the employment initiative. She was disappointed by the lack of progress on the internal market and, depending on what happened at the Internal Market Council on 1 December, might need to extract a commitment from the European Council to agree the outstanding measures by the end of the year. There might have to be a special Council to deal with this. She was also disappointed at the lack of progress on access to cheaper air fares and intended to raise this issue. It would be helpful if the Commission could speak in support.

M. Delors said that he would certainly be prepared to introduce the discussion. He would have circulated his papers in advance and would need to comment only briefly. He agreed with the aim of avoiding a general palaver on the world economy and focussing discussion as tightly as possible on employment. He had a number of ideas which he might mention for radical changes in the use of the Social Fund to deal with unemployment. M. Delors noted that the German economy had room for expansion, which if used would benefit the Community as a whole. But it was difficult to raise this with Chancellor Kohl before the elections in Germany.

JB

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The Prime Minister said that she always found Commission papers on the economic situation in the Community very instructive. She was also grateful to the Commission for some of the positive steps which they had taken to help small businesses, for instance by increasing the VAT threshold for them. The Prime Minister commented that she remained very concerned about Japan's failure to take effective action to correct its massive trade surplus. It might be helpful if the European Council's conclusions contained a clear hint of likely further Community action against Japan, unless there was a satisfactory response to the GATT complaint on alcoholic drinks. M. Delors thought that this would be useful, although there might be difficulties in securing German acquiescence.

Sir David Hannay referred to the likelihood that the Southern-tier Member States might try to link progress on the internal market with cohesion. The Prime Minister observed that they viewed the European Community as a mechanism for redistributing income. Life was not like that and she would say so.

Terrorism, immigration, drugs

The Prime Minister said that she would also aim to discuss the issues of terrorism, immigration and drugs on the first afternoon. It seemed that there was still scope for closer co-operation against terrorism, although there were constraints about sharing intelligence with some Member States. She had been very satisfied with the united front shown by the Twelve over Syria. Her aim would be to achieve very firm conclusions from the Council on terrorism. On the question of internal barriers, a balance had to be found between freer movement within the Community and the need to protect our societies against terrorism and drugs. Chancellor Kohl wished to raise his problem over asylum seekers. She also intended to deal, in this session, with co-operation over AIDS; and would propose agreement to a European Cancer Information Year.

M. Delors spoke with appreciation of the two meetings organised by the Home Secretary to deal with terrorism. On cancer and AIDS, the problem was to break the wall of silence.

The Prime Minister handed over to M. Delors a copy of the message which she will be sending to heads of government, together with copies of the Presidency's discussion papers.

Discussion over Dinner

The Prime Minister said that she intended that the main theme for Heads of Government over dinner should be East/West relations and arms control. It was important to keep the Community together on these issues. She would report on her visit to Washington. Other political co-operation subjects would be dealt with by Foreign Ministers. She understood that one or two Heads of Governments might want to raise South Africa. This would put Chancellor Kohl in an embarrassing

position and she would not co-operate with that. She did not envisage any conclusions on South Africa.

The Prime Minister continued that she would be grateful if M. Delors would give Heads of Government a short account of the Commission's intentions in relation to the ex novo review of Community finances over drinks before dinner. This would ensure that any discussion was time limited. M. Delors agreed to do so. He would describe the main lines of the papers which the Commission would table on financial perspectives, the structural funds and agricultural policy. The Prime Minister stressed the need to tackle these problems radically. The Community had taken a considerable step forward on financial discipline and equity at Fontainebleau and subsequently towards completing the internal market. But there had been some slippage, particularly over financial discipline and in the failure to tackle agricultural surpluses. Unless steps were taken to bring agricultural spending under effective control, there would be no money to spend on more desirable objectives like research and development. M. Delors confirmed that the Commission's proposals would deal with these issues. It was important, in particular, that the European Parliament should be fully involved in budgetary discipline. They could not be left outside the procedure, with discretion to propose increases in spending.

The Prime Minister said that she might mention informally over dinner the problems posed for European Governments by ever heavier social security spending. This was an issue which affected all Member States. It might be less difficult to tackle the problems collectively. But she did not envisage a discussion on this occasion.

CAP

The Prime Minister said that the European Council should urge Agriculture Ministers to reach conclusions rapidly on the Commission's proposals for reform of the milk and beef régimes. She did not envisage a detailed discussion. But the Community was going to have to look very seriously at the CAP over the next two years, even though there would be difficulties in agreeing radical reforms until elections in the main Community countries were out of the way. The present system simply could not carry on unchanged. There was no question of providing additional funds. Indeed, strict cash limits might be the only way to achieve reform. There had to be radical changes to the intervention system, and steps to dispose of existing surplus stocks, possibly putting the onus for financing disposal on the individual member States holding the stocks. Other sectors of Europe's economy, such as steel and coal had been forced into radical restructuring. Agriculture could not be exempt.

M. Delors said that the Commission had made tough proposals for reducing dairy and beef surpluses. The problem lay with Agriculture Ministers who were unwilling to face up to difficult decisions. He agreed that it would be helpful

for the European Council to give a strong steer. If the immediate problems were not solved, there would be an explosion in costs next year. The Commission would be proposing a radical re-orientation of the CAP, in the papers which they would present at the end of the year, including a weakening of the intervention system.

Structural Funds

The Prime Minister referred to problems which the United Kingdom had experienced over the ERDF. We wanted our full allocation but must be able to have a say in which projects should be financed. She was very concerned generally about the amount which we had to pay to Europe across the exchanges, both for the Community and for our forces in Germany. M. Delors said that the Commission would be proposing reforms in the Structural Funds.

Sex Discrimination

The Prime Minister mentioned the difficulties for women's colleges at Oxford which would arise if the Commission pursued infraction proceedings against the United Kingdom over the Equal Treatment Directive. Although the Commission's objective might be laudable, their action would have the perverse effect of making it harder to find posts for women. Our purpose was to protect the interests of women. She would fight the Commission hard on this.

It was agreed that Sir David Hannay would let M. Delors have a note, which he undertook to study.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, Secretary of State for Trade and Industry, Paymaster General, Home Secretary, Minister of Agriculture and Sir Robert Armstrong.

CHARLES POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER

MEETING WITH M. DELORS

You are to have a meeting with M. Delors tomorrow to discuss the European Council. The Foreign Secretary will already have been through the detail with him.

You could begin by thanking M. Delors for the excellent cooperation with us during our Presidency.

Turning to the European Council, you could invite him to open the discussion on the economic and social situation. You want to focus as far as possible on the specific issues of creation of jobs, the role of small business and deregulation. You don't want everyone to talk at length about their national economic situation. You want to steer the Council towards positive conclusions on the employment initiative.

On the internal market, you want the European Council to instruct the Internal Market Council to reach agreement on outstanding measures by the end of the year.

You also want to get progress in the Transport Council on access to cheaper air fares. It will help enormously if Delors is ready to say that the Commission will apply the competition rules, ie. go to the Court, if there is no progress.

Thereafter you propose to deal with terrorism, drugs, AIDs, etc. You will also propose agreement to a European Cancer Year.

Over dinner, you will report on your visit to Washington as an introduction to a discussion on East/West relations. It would be helpful if Delors could give a brief account of the Commission's plans for the ex novo review of Community finances. It would also be helpful if he could mention the

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urgency of decisions on beef and milk, though you do not envisage a full-scale discussion of the CAP.

The most tricky issue of all with Delors is research. He feels passionately about it. If you reveal to him the figure you have in mind, he is quite likely to raise the subject at the European Council, and we risk losing his cooperation. It would be best if you could simply say that:

- Community research must be industrially relevant;
- the cost must be acceptable, bearing in mind the other additional calls on the Community budget next year, particularly from agriculture;
- some of the figures you have heard quoted are far too high;
- but it is for the Research Council (not the European Council) to settle the figure;
- our views and those of the French and Germans are very close.

That leaves all to fight for in the Research Council.

Finally you will want to mention to him David Williamson's claim to succeed Noel as Secretary-General. You are determined on this.

C.D.P.

C D POWELL

25 November 1986

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CCPC/
B/UT



Foreign and Commonwealth Office

London SW1A 2AH

25 November 1986

CDP 26/11

Dear Charles,

Prime Minister's Meeting with M. Delors:

26 November

I enclose a brief for the Prime Minister's meeting with M. Delors on 26 November.

The main purpose of the meeting will be to discuss arrangements for the European Council. Cooperation with M. Delors so far has been good throughout our Presidency. He has given support to our initiative on employment and strongly supports also the initiative the Prime Minister has taken on the internal market. He has agreed on the desirability of limiting discussion on Community financing. He will give heads of government an account outside the formal sessions, of the time-table for putting forward the Commission's ex-novo review of Community finance at the end of the year. The Prime Minister will wish to ask M. Delors to do this when heads of government meet for drinks or dinner on 5 December. We hope that he will mention the need to take decisions in the Agriculture Council. Delors is nervous that in-depth discussion of agricultural issues at the European Council would be counter-productive before the German elections. The Prime Minister will wish to tell him that this is not our intention. We shall be aiming for a conclusion that the Agriculture Council should take the necessary decisions.

/M. Delors

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M. Delors may raise research. He feels strongly that an increased effort in this area is of great importance. He spoke on these lines at this week's Foreign Affairs Council. The Foreign Secretary was able to avoid substantive discussion by concluding that all members of the Council stood by the previous conclusions of European Councils, that Research Ministers were actively engaged in working out a programme which met Europe's industrial needs and was compatible with available resources, that Mr Pattie was visiting European capitals and that decisions must be for Research Ministers to take. They meet again on 9 December.

M. Delors does not know that the French and German government may be able to settle for a higher figure for the framework programme than the United Kingdom. The Foreign Secretary recommends that the Prime Minister should not be drawn into discussing figures with M. Delors. We do not want to trigger discussion at the European Council. This must be dealt with at the Research Council.

I am writing separately about senior appointments in the Commission.

Yours ever,
Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
No 10 Downing St

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CALL ON THE PRIME MINISTER BY M. DELORS, 26 NOVEMBER

POINTS TO MAKE

- Glad of excellent cooperation between us throughout the Presidency.
- Saw reports of your address to CBI National Conference.
- Geoffrey Howe has already discussed handling of European Council with you. Some points I want to underline.

Afternoon session, 5 December

- Will ask you to introduce discussion of economic and social situation.
- Want to steer Council to positive conclusions on employment initiative. Grateful for helpful role you have played. We have taken account of your views.
- Get heads of government to back your initiatives on lifting the burdens on business (creation of task force

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to focus on problems of SMEs; assessment of impact of new proposals on business).

- Internal market. You have seen my letter to other Heads of Government urging agreement on a package of 13 measures at 1 December Internal Market Council.

- Will follow up in European Council by pointing out that a number of measures still held up will be adopted by qualified majority as soon as Single European Act enters into force.

- Heads of Government should agree, as Lubbers and I proposed at Dublin, not to hold up such measures. They should instruct Councils to adopt them by end of year.

- Helpful if you would intervene in support.

- Have to get progress in Transport Council in December on access to cheaper air fares. Helpful if you would stress Commission determination to apply competition rules of Treaty if no progress in the Council.

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- Will move on to discussion of ways to achieve our objective of simplifying frontier procedures without lowering our defences against terrorists, drug traffickers, illegal immigrants, asylum abusers.
- Heads of Government should call for further progress in carrying out the programme of cooperation agreed by Interior Ministers in consultation with Commission.
- Will propose Council agrees to European Cancer Information Year, following on from President Mitterrand's initiative at Milan.
- Will also propose concerted campaign on prevention of AIDS.

Discussion over dinner

- Grateful for your agreement to let colleagues have brief account of your plans for ex-novo review of Community finance. Cannot have substantive discussion until we have your report. Helpful if you could mention also urgency of decisions on milk and beef. Not for heads of government to negotiate on these

matters. But need to tell Agriculture Council to take the necessary decisions.

- Will discuss East/West. Lubbers, Schluter may raise South Africa. No point in prolonged discussion.

Saturday morning 6 December

- Will circulate draft Presidency conclusions as main theme at beginning of second formal session.

Message to Heads of Government

The Prime Minister will wish to hand over her message to heads of government and the Presidency discussion papers.

[If raised]

R&D

- UK remains committed to European Council conclusions to increase proportion of funds going to R&D.

- Useful progress in identifying the most worthwhile programmes in consultations between Research Ministers. Glad to note greater emphasis on pre-competitive research and ESPRIT type programmes with part industry funding.

- We will be aiming for decisions at the Research Council on 9 December.

[as necessary]

- Have to take account of available resources. Half the total EC budget spent on storage and disposal of agricultural surpluses. Know that you are just as concerned about this as we are. Does crowd out other expenditure. Will have to deal with this in ex novo review.

People's Europe

- Not included as separate item because subsumed under other headings (safeguarding open societies, easing of air transport restrictions, Cancer Information Year, AIDS initiative).

[If Delors mentions possibility of two European Councils to discuss ex novo under Belgian Presidency

- Decision for M. Martens but doubt whether early discussion at European Council will lead to agreement.
- Substantive discussion by Heads of Government of ex-novo issues will need careful preparation.

BACKGROUND

1. M. Delors visited UK provinces in early November. In Bradford he opened the Alhambra entertainment centre. In Birmingham he laid the Foundation Stone of the International Conference Centre. Both visits usefully drew attention to UK receipts from EC Regional Funds (with 62% of the 1986 ERDF Budget allocated, the UK only awarded 4.2%; UK hopes to make up shortfall in remaining awards). He also visited Glasgow to receive an honorary directorate. He addressed the CBI Annual meeting on 10 November.

Employment Initiative

2. The UK initiative on employment growth in the 1990s is making good progress. But there is still some opposition in parts of the Commission. The Commission paper on employment for the European Council is however helpful and it will be useful to confirm M Delors' continuing support for the initiative.

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President and Vice-President of Commission

3. [As of 24 November] All except Lubbers and Kohl have confirmed their agreement to re-appoint Delors: both are expected to reply positively.

4. Background on Vice-Presidents in Mr Williamson's minute of 21 November to Mr Powell.

This is a summary of
the Commission's papers
for the European Council
CAP

EUROPEAN COUNCIL: COMMISSION PAPERS

The Commission paper on Short-term economic perspective examines the prospects for growth in the European economy. It attaches somewhat exaggerated importance to the agreement between the United States and Japan on interest rates and the level of the yen. It refers in vague terms to a cooperative growth strategy - a phrase which was included in the European Council conclusions at The Hague. The paper is unlikely to attract much attention in the European Council discussion.

The Commission paper on Community action on employment is very helpful from our point of view. It concentrates on creating the right environment for small and medium enterprises (including deregulation and the simplification of VAT on small business). It gives support to the specific ideas on employment launched by the United Kingdom in the Social Affairs Council.

The Commission paper on the Internal Market ("completing an area without frontiers") expresses concern at the slow rate of progress despite signature of the Single European Act.

The term "area without frontiers" was defined in the Single European Act as applying for the purposes of the EC Treaty. It was explicitly agreed that nothing in this could affect the ability of Member States to take the action necessary to deal with terrorism, immigration, drugs, etc. The paper gives strong support to the initiative taken by the Prime Minister to get agreement on a package of measures at the ~~International~~ Market Council on 1 December. It refers also to the need to make progress with internal market measures in other Councils (Transport, Agriculture and ECOFIN).

Internal

7
It urges that attention should be paid to measures in the fiscal area in 1987 (including the approximation of VAT: but handling of this matter in ECOFIN has shown that few Member States are prepared to take action in this sense at the present time).

The Commission paper on Europe Against Cancer draws attention to the action already taken following the conclusions reached at the Milan European Council and draws attention to the Commission's proposals for a concerted campaign on the prevention of cancer. This is in line with the proposal the Prime Minister will be making in her letter to the Heads of Government before the European Council.



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CC PC
BUP

Qz.05472

26/11/85

MR POWELL (10 Downing Street)

Prime Minister's meeting with Monsieur Delors, 26 November

The Foreign and Commonwealth Office has submitted a brief for the Prime Minister's meeting with Monsieur Delors on 26 November. There are two points which I would underline:

(i) you have already received the two draft discussion documents for the European Council which, subject to the Prime Minister's approval, would be circulated by the Presidency. The Prime Minister should also be aware that the Commission proposes to circulate documents to the European Council on:

- economic prospects in the short term
- internal market (described by the Commission "completing an area without frontiers")
- action on employment and
- a European programme on cancer.

These cause no significant difficulties for us. The paper on employment, in particular, should be helpful in furthering our own ideas;

(ii) Monsieur Delors has strong views on research and development and is very sensitive on this point. He attaches great importance to the undertaking by the European Council, most recently in March 1985, that there should be an increase in the Community resources

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earmarked for research and development and frequently refers to this as a test case for Europe. The Commission maintains - contrary to the view of some member states - that a simple continuation of existing schemes would amount to a programme for the next five years of about 5 becu and its own proposal is for a programme of 7.7 becu. We continue to attach very great importance to maintaining, as far as possible, common ground with the French and Germans. In particular, we want to avoid a situation in which any difference between our position (4.2 becu plus the 750 mecu payments under schemes or contracts already agreed) and that of France and Germany which is around 5 becu (plus the already agreed 750 mecu) would be exploited against us. Elements of the negotiation are not yet fully clear and the framework programme may yet turn out to be considerably modified. For example, it might be advantageous for the tight finance countries - France, Germany and the United Kingdom - to go for a shorter programme, since there is no requirement that it should be for five years. For all these reasons I hope that, if Monsieur Delors raises this point, the Prime Minister will make clear the importance of acceptable cost and of industrially relevant research but will not quote our five year figure.

D F Williamson

D F WILLIAMSON

25 November 1986

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CCPS



CD
2/A

Qz.05346

MR POWELL

Meeting with President of the European Commission

I confirm that the time (Wednesday 26 November, 11 am) suggested in your minute of 30 September is possible for Monsieur Delors and he accepts the Prime Minister's invitation to this meeting.

I am sending copies to Colin Budd (FCO) and Michael Stark.

D F Williamson

D F WILLIAMSON

2 October 1986



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

MR WILLIAMSON
CABINET OFFICE

PRESIDENT OF THE EC COMMISSION

BF | You asked me to find a time when the Prime Minister could see M. Delors, President of the EC Commission. The Prime Minister could manage Wednesday 26 November at 11 a.m. for one hour. I should be grateful if you would propose this to M. Delors.

I am copying this minute to Mr Budd (Foreign and Commonwealth Office).

Charles Powell

30 September 1986

ECL

MR. POWELL

U.K. 21/9.
Thank you: most kind
CSP 29/9.

M. DELORS, PRESIDENT OF THE EUROPEAN COMMISSION

BT | Could you please offer him 11 a.m. on Wednesday
26 November for one hour.

CR

CAROLINE RYDER

29 September 1986

VISIT BY M. DELORS : 24/25 MAY 1985

24 May

12.45 ETA BA377 Heathrow (from Brussels)

M. Delors
M. Lamy (Chef de Cabinet)
M. Charles (Bodyguard)

Greeted by Special Representative of the Secretary of State and Mr Scott, Head of Commission's London Office.

[Light refreshment will be available]

13.15 Depart Hounslow Suite.

[Commission cars

Car 1

M. Delors
Mr Scott

Car 2

M. Lamy
M. Charles]

[14.00 FCO car to collect Mr Renwick from home address for journey to Chevening.

Sir Michael Butler leaves central London for Chevening using own transport.]

14.15 M. Delors' party arrives 10 Downing Street for talks with Prime Minister.

[Prime Minister
Secretary of State
Mr Williamson
PS/PM

M. Delors
M. Lamy

Luggage to Commission office

[14.20 FCO van to collect luggage from Commission office and transport to Chevening.]

15.00 Departure from No 10 for Trigg Lane Heliport (near Blackfriars).

[Car 1

(Secretary of State's car)

Secretary of State
M. Delors
Secretary of State's detective

Car 2

(Commission's car)

M. Lamy
Mr Williamson
M. Charles]

15.20 Depart Trigg Lane Heliport by 6-seater helicopter.

15.35 Helicopter arrives Chevening
approx

16.00 Talks at Chevening
(to 18.00 approx)

[Secretary of State M. Delors
Sir Michael Butler M. Lamy
Mr Williamson
Mr Renwick

18.45 Mr Braithwaite arrives Chevening by private car].
approx

19.00 Drinks

19.30 Dinner

[Secretary of State M. Delors
Lady Howe M. Lamy]
Sir Michael Butler
Mr Braithwaite
Mr Williamson
Mr Renwick

25 May

08.00 Breakfast

08.40 M. Delors departs Chevening with Mr Renwick and
M. Charles [official car]

09.10 Arrive Gatwick North Suite

09.30 ETD BR 884 Gatwick for Paris (ETA 11.30). Mr Renwick
will bid farewell and return to London by official
car.

08.55 M. Lamy leaves Chevening by second official car:

Mr Williamson to Saint Anthony's, Manor Park,
Chislehurst, Kent [own car]

M. Lamy to Newhall, Romney Marsh, Lydd, Kent

Mr Braithwaite leaves Chevening by private car.

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10 DOWNING STREET

From the Private Secretary

24 May, 1985

Dear Colin,

PRIME MINISTER'S MEETING WITH THE PRESIDENT OF THE
COMMISSION OF THE EUROPEAN COMMUNITIES ON 24 MAY 1985

The Prime Minister had a talk this afternoon with the President of the Commission of the European Communities. M. Delors was accompanied by M. Lamy. The Foreign and Commonwealth Secretary and Mr. Williamson were also present.

PREPARATIONS FOR THE MILAN EUROPEAN COUNCIL

The Prime Minister enquired how preparations for the Milan European Council were progressing. M. Delors said that the Commission were in the fog. They did not know what the Italian Presidency had in mind. They were therefore working on the basis of the decisions of the last European Council and preparing papers on the completion of the Common Market and the scope for improved technological co-operation. The papers would pose both operational and institutional questions for the Heads of Government to answer. They would be 'open' papers not hard and fast recommendations.

INSTITUTIONAL QUESTIONS

The Prime Minister said that she had the impression that differences between the Member States on institutional questions were narrowing. When she had discussed them with Chancellor Kohl last weekend, the only substantial point of disagreement had been over the powers of the European Assembly. M. Delors agreed with the Prime Minister's analysis. Over the past few months, several Heads of Government had talked in grandiose terms of making major proposals on institutional questions. In the event, nothing had emerged. He thought there were two main problems to be dealt with: whether to enlarge the scope of the Community to bring in new areas of co-operation; and whether it was necessary to change the Treaty to improve decision-making. The Prime Minister said that there was no need to change the Treaty. Much of it had still not been implemented, and decision-making could be improved by applying its existing provisions more fully. If the Community consumed its energies in trying to amend the Treaty, no practical work would get done. M. Delors observed that 32 articles of the Treaty required unanimity. The Prime Minister said that

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there were good reasons for this. M. Delors suggested that it would be easier to complete the internal market if majority voting were introduced for two or three of the articles concerned. But he admitted that there would be a problem in getting the necessary Treaty amendments through national Parliaments.

EUROPEAN PARLIAMENT

M. Delors said that he had no enthusiasm for co-decision making with the European Parliament. There was a tendency on the part of some Member States to make concessions to the Parliament without taking account of the consequences. But he thought this would be a very difficult issue at the Milan Council. The Prime Minister made clear that she was not in favour of any additional powers for the Parliament.

INTER-GOVERNMENTAL CONFERENCE

The Prime Minister said that she had the clear impression that neither Chancellor Kohl nor President Mitterrand was enthusiastic about an inter-governmental conference. M. Delors said that he also did not think it would be useful. The Foreign Secretary observed that the Italians seemed wedded to the idea of such a conference. The Prime Minister said that some Member States seemed to take the view that they must always be pressing for something new, even when they did not know what it was they wanted. Their attitude seemed to be: have a meeting and something will come up. This was not an efficient way to conduct business and would be against the recent trend in the Community. She thought more practical work had been accomplished in the last 18 months than in the preceding four years.

SIZE OF THE COMMISSION

The Prime Minister asked how M. Delors now assessed the possibilities of reducing the size of the Commission at the time of enlargement. M. Delors said that he would be happy with one Commissioner per country and thought that a Commission of 17 would be too big. But Germany remained the main obstacle to a smaller Commission.

FREQUENCY OF EUROPEAN COUNCILS

The Prime Minister suggested that, once the current debate on institutional questions and the Dooge Committee was completed, it would be a good moment to renew her suggestion of reducing the number of European Councils to two each year. M. Delors agreed.

TECHNOLOGICAL CO-OPERATION

M. Delors said that the Commission did not see technological co-operation as an answer to the SDI. Their approach was to conduct an analysis of the strengths and weaknesses of European technology and pose a choice between

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a national and a European approach. If a national project could not achieve the critical mass necessary for success, there should be the opportunity to pursue it on a European scale. The Prime Minister saw scope for increased co-operation between companies but not for a new agency.

AGRICULTURAL PRICES

The Prime Minister congratulated M. Delors and the Commission for standing firm on their general price proposals and in particular on cereals prices. M. Delors said that it had been his duty to do so. He was not happy with the Italian Presidency's proposal to reduce cereals prices by only 1.8 per cent but saw no realistic prospect of getting back to the Commission's original proposal of a 3.6 per cent reduction. The Prime Minister said that the Italian Presidency had behaved badly on this in the hope of securing preferential treatment for Mediterranean products.

DEREGULATION

M. Delors said that he understood the importance which the Prime Minister attached to her initiative on deregulation. But it was a complex subject and the Commission would not be able to make sensible proposals in time for the Milan European Council. They needed nine months for this. The Prime Minister expressed understanding.

VAT THRESHOLD

The Prime Minister said the current VAT threshold was too low and imposed an unnecessary burden on small businesses. There should be flexibility to set the level in the light of the economic circumstances of each Member State. At the least, the exemption limit should be set much higher. M. Delors said that the Foreign Secretary had written to him about this.

VAT HARMONISATION

M. Delors said that the Commission intended to propose harmonisation of VAT as part of the measures necessary to complete the internal market. The Prime Minister said that this would cause not only the UK but many other Member States great difficulty. It should not be made a pre-condition for completion of the internal market. M. Delors said that harmonisation was a logical step. The Prime Minister replied that the world worked on commonsense, not logic.

POLITICAL CO-OPERATION

The Prime Minister said that the United Kingdom would propose at the European Council that the existing political co-operation arrangements should be formalised and extended to cover security policy. We envisaged a new agreement between governments. This would be a manifestation of external unity. M. Delors asked whether we envisaged a

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secretariat. The Prime Minister confirmed that we would propose the creation of a small secretariat. The Presidency of the Community would, as at present, ensure continuity.

MIDDLE EAST

The Prime Minister said that she thought there would probably need to be a statement on the Middle East at the Milan European Council. M. Delors agreed.

ECONOMIC AND SOCIAL SITUATION

The Prime Minister said that she had had an interesting discussion of the causes of unemployment with Chancellor Kohl. They had contrasted what happened in Europe with the United States experience. M. Delors said that it would be very difficult to achieve change in this area. But once the current round of discussions on institutional questions were complete, he intended to engage himself much more fully on economic matters and would be making proposals to the December European Council. These would be based in part on a study on what the Community could learn from the American and Japanese models. He thought that, following the significant increases in productivity of recent years in Europe, the best way to combat unemployment was to "open new windows for growth".

MONETARY CO-OPERATION

The Prime Minister commented that she kept the question of UK participation in the Exchange Rate Mechanism under review from time to time. M. Delors said that the Exchange Rate Mechanism was working well and was being studied with interest by many other countries. It would shortly be possible for non-member countries of the European Community to hold écu. He thought that the deutschmark was currently under-valued within the snake.

FAMINE RELIEF

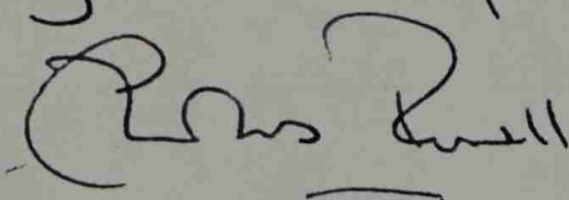
The Prime Minister commented that food aid from the European Community was reaching Ethiopia and other countries experiencing famine too slowly. M. Delors said that the Commission were already working on a report on the European Community's relief programme which would be useful for the study of this problem commissioned at the Bonn Economic Summit.

JAPAN

During a brief tête-à-tête the Prime Minister raised with M. Delors need for the Community to take a firmer line with Japan. M. Delors did not seem averse to this.

CONFIDENTIAL

I am copying this letter to Rachel Lomax (Treasury), John Mogg (Department of Trade and Industry), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and David Williamson (Cabinet Office).

Yours sincerely


C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL



cc MASTER SET

10 DOWNING STREET

From the Private Secretary

24 May 1985

SECRETARY-GENERAL OF THE COMMISSION

The Prime Minister had a private word today with M. Delors about our hopes of securing the post of Secretary-General of the Commission for a British candidate when M. Noel retired. She confirmed that we had an excellent candidate in the person of Mr. David Williamson. M. Delors recalled the Prime Minister had raised the matter with him before and went on to say that Mr. Williamson was his preferred candidate. However, it might be up to two years before M. Noel retired; and Chancellor Kohl had been in touch to press the claims of a German candidate. The Prime Minister thinks that the name he mentioned was Herr Krenzler, but is not at all sure.

I am copying this letter to Sir Robert Armstrong.

(Charles Powell)

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

24/5

PRIME MINISTER

MEETING WITH M. DELORS

You are seeing him for 45 minutes immediately after lunch tomorrow. He will be accompanied by his chef de cabinet M. Lamy. The Foreign Secretary and Mr. Williamson will also be present. After his meeting with you, M. Delors is going off to stay with the Foreign Secretary at Chevening.

You might begin by complimenting him on the firm line taken by the Commission on agricultural prices. It is essential that they keep up the pressure for a settlement on cereals prices which respects guarantee thresholds.

You could also thank him for the Commission's helpful attitude on your initiative towards deregulation. You hope that the Milan European Council will keep up the impetus.

You could also welcome the Commission's general approach to completion of the internal market. We look forward to seeing the Commission's white paper and have already given them our own ideas on a timetable. But you hope very much that the Commission will not make harmonization or approximation of taxation a precondition for completion of the market: it would cause difficulties to all member states. Simply not realistic to speak of removing fiscal frontiers by 1992.

While on this general subject, you could mention our intention to seek agreement in ECOFIN to raising the VAT Threshold.

You might go on to describe our approach to the development of the Community, which will be the main subject at Milan. One aspect and the most immediate is completion of the

internal market. Another is the strengthening of political cooperation - though you will not want to be as specific with Delors as with Kohl about our ideas, since it is not primarily the Commission's responsibility. You will want to touch on our ideas for improved decision-taking: no point in going down the road of Treaty amendment: make greater use of existing majority voting provisions and abstention, while maintaining the Luxembourg compromise (he's against the veto). You see no scope for increasing the powers of the European Assembly (he's sound on this). You will not agree at Milan to an Inter-Governmental Conference, and did not find Mitterrand or even Kohl enthusiastic about it.

He will certainly want to raise technological cooperation. You will want to explain our position: no new agency or massive new injection of public funds: need is for cooperation between firms and opening up of markets above all public procurement.

There is a final point which you might raise with him alone at the end: the succession to Noel as Secretary-General of the Commission (our candidate is David Williamson). You have mentioned this to him before, but it is very important to remind him of your personal interest in this. The key points are: we have a strong claim to this post and a commitment from President Mitterrand of French support: we also have an excellent candidate with experience of working in the Commission: we look to Delors for help over this.

I attach a card and the brief.

C.D.P.

(C.D. Powell)

23 May 1985



Foreign and Commonwealth Office

London SW1A 2AH

22 May 1985

Dear Charles,

Visit of the President of the Commission: 24 May

/ I enclose a brief for the Prime Minister's meeting with
/ M. Jacques Delors at 14.15 on Friday 24 May, together with a
/ copy of his programme.

The Foreign Secretary suggests that the Prime Minister might describe our ideas on the future development of the Community and how the Milan European Council should take the necessary decisions on this; urge Delors to keep up the momentum of deregulation; and encourage him to keep up the pressure for a price reduction for cereals in this year's CAP price fixing.

Delors' approach since he took over at the Commission has been to lead from the front. He dominates the Commission, which has otherwise produced no star performer, and has made clear that he would prefer to withdraw proposals altogether rather than have them diluted by the Council. His main tests so far have been over IMPs, on which we were able to work closely with him at the March European Council, and the 1985 price fixing. In the price fixing Delors, supported by Lord Cockfield and Christophersen (the Budget Commissioner) held firm in insisting on a restrictive price package at a time when other Commissioners were ready to give more away.

Delors told the Foreign Affairs Council this week that the Commission were now working on three priority areas:

- (i) the internal market (on which their proposals are expected to be ready by mid-June);
- (ii) technological cooperation (on which proposals would be submitted by 14 June);
- (iii) EMS, in particular the future role of the ecu and possible extension of membership of the ERM, though Delors made clear that the latter was a matter for Finance Ministers and central bankers and not a subject to be brought to the European Council.

/ Separately, ...



Separately, Delors has sent the Foreign Secretary privately, as a basis for discussion, a note about completion of the common market (summary enclosed). We understand Delors does not intend, at least at this stage, to send it to other EC Foreign Ministers. Taken with his remarks at the Foreign Affairs Council, it indicates that Delors has little enthusiasm for increasing the powers of the European Parliament (nowhere mentioned in the paper), or for Treaty amendment to increase majority voting (the paper points out that qualified majority voting under the existing provisions 'does not work, owing to the right of veto'). Delors also shows (paras 1.2 and 1.3) realisation that practical considerations such as the need to control terrorism, drug trafficking and immigration, will stand in the way of some aspects of the free movement of people for the foreseeable future.

We shall need to explore further Delors' view that the Commission should be given greater responsibility for implementing Council decisions, as well as his implication that this might be done by amendments to Articles 100 and 101. However, as Delors himself points out, Article 155 of the Treaty already enables the Council to confer implementing powers on the Commission. We shall want to emphasise that the right course is not to go for juridical amendments but to proceed on the basis of our ideas on decision-taking (draft European Council conclusions attached), namely:

- (i) there should be more majority voting where the Treaties provide;
- (ii) any Member State asking for discussion to continue until unanimous agreement is reached should be required to explain fully and formally, through a special procedure of the Council, why his government considers such interests to be at stake;
- (iii) where it is agreed that a specific objective should be achieved, it may also be agreed that Member States will not obstruct progress by invoking the unanimity rule, eg the Prime Minister's proposal for standards in the new technologies under Article 100.

Delors' ideas on tax harmonisation are in line with the Commission's thinking as outlined to the Prime Minister by Lord Cockfield recently. We shall continue to argue against action by the Commission in this area which could impede progress towards completing the common market and would pose considerable difficulties for all Member States, eg France, where harmonisation

/ of tax ...

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of tax rates for cigarettes would require an 80% increase (36% reduction for the UK). On wine, France would have to impose a 300% tax increase. Harmonisation would also imply major changes in the French tax structure. 43% of her total tax revenue comes from social security contributions, compared with a Community average of 29% (UK 17%). Indeed, if all excise and VAT rates were harmonised, France could lose up to 2% of GNP in revenue.

The Foreign Secretary will go into the issues raised in his aide memoire in more detail with Delors. He also intends to raise with Delors the question of the succession to M. Noel on the lines set out in the attached note.

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

Yours ever,
Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

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VISIT OF M. DELORS (24/25 MAY) :
MEETING WITH THE PRIME MINISTER

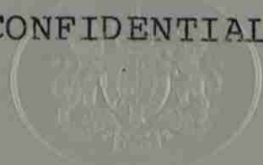
FUTURE OF THE COMMUNITY

Our Objectives

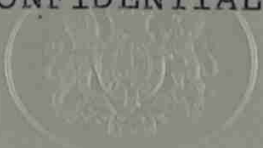
1. To persuade M. Delors of the merits of our approach to the future development of the Community.
2. To encourage the Commission's work on the internal market and deregulation.

Arguments to Use

- Approach of new Commission has helped to inject new life into Community.
- Welcome Commission recent emphasis on determined and practical approach, eg good deal of common ground on completing Common Market; on Agriculture, Commission must continue pressure for cereals settlement which respects guarantee thresholds.



- Community has shown capacity for decision-taking over the last year (Fontainebleau, enlargement).
- Central issue now in Community must be creation of wealth and jobs.
- Best way of achieving this is by creation of a single large market and improvement of Community's competitiveness vis-à-vis third countries.
- Look forward to Commission White Paper on completion of Common Market and welcome timetable approach.
- UK has given Commission our own ideas on timetable covering:
 - i) action on obstacles to free movement of goods within the Community;
 - ii) free market in financial services;
 - iii) full freedom of establishment;
 - iv) liberalised, freely competitive transport market;
 - v) making European business more competitive.

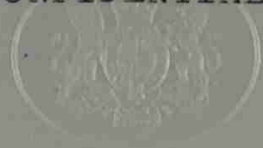


- Hope focus of Commission White Paper will be on those areas I have identified where early progress is possible. Do not want to have progress retarded by preconditions, eg on tax harmonisation which would cause difficulties for all Member States, eg harmonisation of taxation on tobacco would require French to increase tax by 87%; wine by 300%. It is possible to make real progress in completion of Common Market. But mistake to try to do so by hardest route. Should concentrate on areas where real progress possible. Proposal that fiscal frontiers be removed by 1992 unrealistic.

- Initiative taken at the European Council on deregulation has important role to play.

- Glad that this has been taken up positively by Commission with a view to progress at Milan.

- Main task must be to identify regulations which already impose a heavy burden and to examine new proposals so as to avoid creating new ones.



Future Development of the Community

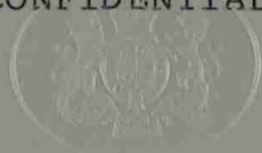
- Strongly agree with point you made to European Parliament in January, namely, that we must not engage in a theological debate about the institutions, which will simply be divisive and not lead to real reform.

- We are in favour of strengthening European unity in practical ways - internally through completion of a genuine common market and improved decision taking; externally through the strengthening of political cooperation.

- This means action to implement those Treaty articles which remain to be fulfilled, in particular:
Article 3 (Right of any company to operate or establish subsidiaries anywhere in Community);
Article 59 (Freedom of Services);
Article 67 (Capital Movements);
Articles 75 and 84 (Transport)

Decision Taking

- Despite the position taken up in the Dooge Committee, the political reality is that no government is prepared to be voted down when very important interests really at stake.

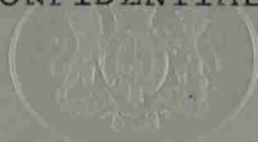


- Also political reality that Treaty amendment is not a road to real progress. No member state has yet been able to indicate which Treaty article it would be prepared to amend. (Article 100 has been mentioned but this covers vast area of standardisation, ranging from the relatively unimportant to very important issues.)

- How could it make sense to switch to majority voting on the seat of the institutions (Article 216); new accessions (Article 237); Own Resources (Article 201); capital movements (Article 70(1)); harmonisation of indirect taxation (Article 99); common economic policy (Article 102-3); etc.

- Any conference on Treaty amendment would end up having to go through the Treaty article by article and concluding that virtually all of them were too difficult to change.

- Right approach is to:
- (a) make greater use of existing majority voting provisions. This should be handled by Presidency in a way that builds confidence in majority voting;
 - (b) greater use of existing abstention



provision (Article 148(3));

- (c) steps to discourage abuse of Luxembourg compromise;
- (d) possibility that, where the Council agrees that specific objectives should be achieved, it could also be agreed that member states would endeavour not to impede progress by invoking the unanimity rule in relation to the measures necessary for its implementation.

- Decisions of substance should be taken at Milan European Council. No need for long-drawn-out and inconclusive conference.



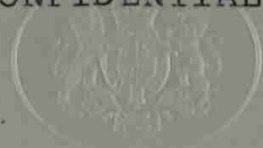
Powers of the European Parliament

[For use as necessary]

- Treaty provided for direct elections but did not envisage this would lead to change in balance of power.

- Parliament's powers have already been increased, eg 1975 Budget Treaty. This has not led to improved decision-taking or less conflict with the Council, rather the reverse.

- Will not agree to Treaty amendment to increase Parliament's powers. But willing to look at ways of improving Council/Parliament relations:
 - (a) Parliament should make greater use of its right to put forward proposals for Community action on which the Council can decide (as Delors himself suggested in his speech to the European Parliament in January);
 - (b) there should be proper use of the conciliation procedure so that there is more genuine consultation.



European Technological Cooperation [If necessary]

- Need to find ways of bridging technological gap between Europe, US and Japan.

- Believe what is needed is better exploration of research through opening up European market for high technology goods and services.

- This means pressing on with breaking down barriers to trade within Europe, progress on standards, opening up public procurement.

- Need flexible framework. Should not institutionalise. Must recognise that bulk of expertise and resources lies with companies.

A I D E - M E M O I R E

The Great Market

To have a single large internal market in being by 1992 is one of the prime aims of the European Economic Community. This aim, stated by the Commission in its 1985 Programme, was approved by the European Council session in Brussels in March of this year. In the coming weeks the Commission will be submitting to the Council a detailed programme and timetable for implementing it.

1. Establishing a single internal market comparable to the American or the Japanese one involves doing away with all impediments to free movement of persons, goods, services and capital: it must be possible for all these to move within the Community just as they do between London and Liverpool, or between Paris and Bordeaux.

1.1. In a great many cases doing away with these impediments is undoubtedly a Community responsibility.

E.g. elimination of technical obstacles;

elimination of fiscal obstacles, in particular by harmonization of rates of VAT;

elimination of obstacles to freedom of establishment and free movement of services and capital.

.../...

1.2. In a certain number of cases, on the other hand, the Community's responsibility is, and will continue to be, disputed. These concern for the most part frontier checks and some aspects of free movement of persons quâ citizens and not quâ production factors.

E.g. immigration, visas, passports, status of aliens; terrorism, drugs.

1.3. Given the queries or disputes as to the Community's responsibility in these areas, could the Court of Justice be called upon to settle the matter?

Quite apart from the fact that the Court cannot fairly be expected to rule on all issues which the Institutions or the Member States cannot or will not deal with themselves, the Treaties make no provision for this: the Court can only in this connection be asked to deliver an opinion, and neither proceedings against the Council for dereliction of duty nor against Member States for infringement can clarify issues of responsibility in the event of failure to act.

2. The single internal market will be achieved on the basis of three provisions of the EEC Treaty:

- (i) Article 99, on the harmonization of indirect taxes;
- (ii) Article 100, on the harmonization of such provisions as directly affect the establishment or functioning of the common market;
- (iii) Article 235, authorizing the taking of measures necessary to attain one of the objectives of the Community.

.../...

These require Council unanimity.

2.1. It is indisputable that in a Community of Twelve unanimity will be even more of a blocking factor than it is now.

As to this it need only be noted that there are currently something like 80 proposals awaiting Council agreement. In the internal-market field alone several important proposals are being held up by one or two Member States: were qualified-majority voting in force they could be adopted.

2.2. The proposal has been made repeatedly—the Paris Summit in 1974, the Stuttgart Declaration, the minority submissions in the Dooce Report—that the Member States should make more use of abstention in order not to prevent decisions' being taken.

Experience has shown that they have never fulfilled this pledge. How could they voluntarily forgo an entitlement under the Treaty, anyway, when proceeding by qualified majority, which is likewise in the Treaty, does not work, owing to the right of veto?

.../...

3. For the single internal market to be established quickly it is necessary that the Council concentrate on the basic decisions and that the implementing rules and management be left to the Commission.

3.1. By the terms of the Treaty (Article 155, fourth indent) the Council has wide discretionary power to decide whether and under what conditions it will assign functions of implementation and management to the Commission.

3.2. It has several times been proposed—the 1974 Paris Summit, the Tindemans Report, the Dooge Report—that the Council should delegate management and implementation to the Commission more.

3.3. The fact remains that in the last ten years it has been reluctant to do so. Consequently it now needs a Council decision to revise the technical annexes to some Directives: in practice this decision is forthcoming after four to six years.

To have the single internal market established and running by 1992 the Community must have the tools to do the job.

That means it must be accorded the necessary powers, equipped with an effective decision-making process and enabled to manage the measures thereby decided on.

The present Treaties do not provide it with these tools. That is the main reason for seeking, with the object of establishing the single market, changes in the existing provisions, particularly Articles 100 and 101.

Draft European Council Conclusions: Decision-Taking

The European Council agreed that, if real progress is to be made towards European unity, the Community must improve its capacity to take decisions.

The European Council concluded that the following measures, which could be implemented without delay, would make a radical improvement to the Community's ability to take decisions of practical benefit to its citizens. It called on all the institutions of the Community to co-operate in taking these steps.

Each year the European Council will adopt a brief statement of the Community's major priorities for action with, where appropriate, specific timings and targets as the basis for the Council's activities over the following twelve months.

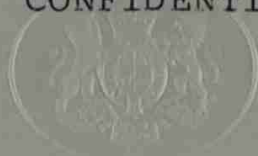
In the enlarged Community more use will need to be made of the majority voting provisions of the Treaties.

Where the Treaties require decisions to be taken by unanimity, Member States agree to make greater use of abstention as provided for in Article 148(3) of the EC Treaty. In particular, where the Council agrees that a specific objective should be achieved, it may also be agreed that Member States will endeavour not to impede progress by invoking the unanimity rule in relation to the measures necessary for its implementation.

If the Community machinery is to work effectively, decisions must be taken at the most appropriate level. The Council of Ministers must not abdicate its responsibilities by referring issues to the European Council, which must be left free to play its strategic role of giving direction and political impetus to the Community. Similarly, the Council must ensure that issues are resolved to the fullest extent possible in COREPER.

Member Governments can make a significant contribution to effective decision-taking by giving their Ministers and representatives a mandate to negotiate which not only reflects their national interest in the issue but takes account of the need to make the Community itself work more successfully.

To help the Community achieve its priority objectives the Council invites the Commission to weed out each year any proposals which are hopelessly blocked. At the same time, the Commission should draw the Council's attention to cases where progress has been unnecessarily delayed.



VISIT OF M. DELORS (24/25 MAY):

THE NOEL SUCCESSION

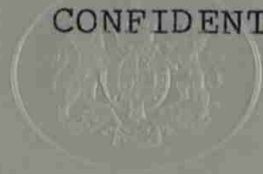
Objective

To remind M. Delors that we shall wish to propose a well qualified British candidate to succeed M. Noel as Secretary-General of the Commission; that President Mitterrand said that he would support a British candidate at the time of M. Delors' own appointment; and to ask M. Delors to keep in close touch with us about the matter.

Points to Make

- As discussed at our meeting in October, President Mitterrand assured us that he would look favourably on a well qualified British candidate when the time came to find a successor to M. Noel.
- Prime Minister and I attach importance to this.
- Reaffirm that we will put forward a very good candidate.

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- Hope M. Delors will let us know in good time when M. Noel seems likely to retire.

- [For use as necessary]: We would not propose a candidate who did not have long service in senior posts in the Commission. UK supported French outside candidate, Guy Legras, as Director-General for Agriculture.

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Background

1. In July 1984 when UK agreed to support M. Delors, President Mitterrand communicated to Secretary of State through Dumas "assurance of his personal commitment to support the British candidate when the time came to find a successor for Noel". M. Delors confirmed to Secretary of State on 15 October 1984 that he knew of this and said that he would be ready to discuss it when the time came, but pointed out that UK would have to come up with suitable candidate. The Prime Minister also mentioned it to him.

2. No firm intelligence as to M. Noel's intentions. Must retire by late 1987; could be earlier. Desirable to remind M. Delors. If he seems disposed to argue against external candidate, we should point to recent parachuting of Legras to succeed Villain in charge of DG VI (Agriculture).

European Community Department (External)

22 May 1985

MEETING WITH M. DELORS

1. Agricultural prices: keep up pressure on cereals.
2. Deregulation: welcome Commission's activity.
3. Internal Market: again welcome Commission's timetable approach, but no to tax harmonization.
4. VAT thresholds.
5. Development of the Community: internal market, political cooperation, improved decision-taking. No to more powers for European Parliament and to Inter-Governmental Conference.
6. Technological Cooperation: cooperation between firms and opening up of Community market including public procurement the key.
7. [With Delors alone] Secretary-General of the Commission post.



10 DOWNING STREET

From the Private Secretary

4 April 1985

Dear Alan

X Ref

Visit to London by the President of
the Commission

Thank you for your letter of 3 April asking whether the Prime Minister could see M. Delors.

The Prime Minister would be content to see him at 1015 on 14 May.

Yours sincerely
Charles Powell

Charles Powell

Colin Budd Esq
Foreign and Commonwealth Office

10-15-1000
RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

3 April, 1985

Dear Charles,

Visit to London by the President of the Commission

The Foreign Secretary has been trying for some time to arrange a visit by Delors to enable us to discuss with him in some detail the practical implementation of the Commission's formal programme for the remainder of its time in office.

Delors has now accepted an invitation to come to Chevening for talks followed by dinner on the evening of 13 May. He will also stay the night.

He has said that he would welcome a chance to call on the Prime Minister. As I believe you know, this possibility was discussed in the margins of the European Council. A possible time looks like the morning of Tuesday 14 May. I gather that the Prime Minister might be free to receive Delors at 10 am. I should be grateful if you could let me know whether that would be possible.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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FCSE BM/SH

Subject a master

bcc: SIR P. CRADOCK



10 DOWNING STREET

From the Private Secretary

15 June, 1984

Dear Roger,

Prime Minister's Meeting with M. Thorn

I enclose a record of the Prime Minister's meeting today with M. Thorn.

The meeting started with a discussion between the Prime Minister and M. Thorn alone. I understand that most of the points raised in it were repeated in the subsequent meeting. However, M. Thorn did in addition say to the Prime Minister that he thought that 1100 million ecu could be agreed by other Member States at Fontainebleau as the notional figure for the system.

I am sending copies of this letter to David Peretz (H.M. Treasury) and David Williamson (Cabinet Office).

yours sincerely
C. D. Powell

C. D. POWELL

LST

R. B. Bone, Esq.,
Foreign and Commonwealth Office

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND MONSIEUR
GASTON THORN, PRESIDENT OF THE COMMISSION OF THE EUROPEAN
COMMUNITIES ON 15 JUNE 1984 AT 1700 HOURS

Present:

Prime Minister	M. Gaston Thorn
Foreign and Commonwealth Secretary	M. Noel
Mr. Williamson	M. Schaub
Mr. Powell	

The Prime Minister and M. Thorn began with the
tete-a-tete discussion lasting some 30 minutes.

British Budget problem: prospects for European Council

The Prime Minister then reported that M. Thorn had
told her that he believed several Member States wanted to
see progress on the British Budget problem at the Foreign
Affairs Council on 18/19 June. She had made clear to
M. Thorn that the starting point must be the system as set
out in the draft Presidency conclusions of the Brussels
European Council with one ad hoc year. There must also be a

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guaranteed financial guideline, again as set out in the draft conclusions of the last European Council. The negotiations would be about the notional figure for the system. This would have to be high to take account of the fact that the UK had already made a concession on the size of the gap to be measured. The UK would have little room for manoeuvre. In any case, the sums in question did not amount to a great deal when divided among nine other Member States. She had made clear to M. Thorn that there must be substantial progress before Fontainebleau if there was to be any realistic chance of reaching agreement there.

M. Thorn agreed that at the least there must be an effort to close the gap before Fontainebleau. The timetable there would be very tight if the Presidency adhered to their current intentions on the agenda. The French were taking the line that progress could best be made in bilateral negotiations between them and HMG, on the grounds that the other eight agreed with them. He doubted this. Several other Member States were frustrated and mistrustful of behind-the-scenes manoeuvring. Sir Geoffrey Howe said that he had got the impression from M. Tindemans and others that they were anxious to see progress. M. Thorn stressed the importance of taking the opportunity offered by the Foreign Affairs Council. He thought that it should be possible to get to 1050 mecu as the notional figure at Luxembourg with a higher figure at Fontainebleau.

Sir Geoffrey Howe said that M. Thorn should be clear that the UK wanted to see the problem solved. This would open up the future development of the Community. But the Government had very limited room for manoeuvre. They would have to live with the consequences of a settlement for many years ahead. We sometimes had the impression that others did not fully appreciate all that the UK contributed to Europe. We accepted the notion of swings and roundabouts but people asked where were the roundabouts? When discussion of

the Budget problem had started he had in his own speeches spoken of seeking a broad balance in what we contributed and what we gained. From there the Government had moved to talking of the UK being a modest net contributor to the Community. We were now willing to envisage a contribution which was far from modest, indeed generous. Our case for a fair settlement of the Budget inequity was a very strong one.

M. Thorn replied that he wanted to find a settlement rapidly and before leaving office as President of the Commission. He was not fond of the British problem but it must be solved and the solution must be durable. He wished to make a further point. If the UK got its system, it would be to its advantage to agree to increase the own resources ceiling to 1.5%. If necessary this could be in two steps, with the second step requiring a unanimous decision of the Council. The Community was already virtually at 1.2% and enlargement would cost an additional 0.1%. If the decision taken at Fontainebleau was to increase own resources to only 1.4%, then further negotiations for a higher ceiling would have to start within a very short time. This would mean reopening the system agreed for the UK.

The Prime Minister disagreed. Sound financial management was needed. Those Member States who were net contributors could not go on paying out indefinitely. 1.4% would represent a major increase. If enlargement was responsible for only 0.1% the rest presumably had to be put down to extravagance. M. Thorn said that some Member States including the UK had said that economies could be found. It was up to them to demonstrate where they could be found. The Prime Minister observed that the Commission ought to know best. As regards the period before the system would come into operation, the 1% ceiling would apply. There would be no legal basis for expenditure beyond that.

M. Thorn asked whether the Prime Minister would be content to leave discussion of the Budget problem until the end at Fontainebleau. The Prime Minister said that it must be taken first. If it was not settled, it was hard to see how there could be useful discussion of other subjects. It was no use running away from the problem. M. Thorn said that Heads of government should avoid getting into the technical details. The Prime Minister observed that nothing could be regarded as agreed until everything was agreed in detail.

M. Thorn pointed to the risks that the German problem could be an obstacle to agreement at Fontainebleau. The Nine might agree on a solution to the British problem but not on the German problem. He saw a risk that the Germans would raise the matter at the last moment and dig in. Mr. Williamson thought that the Germans would contribute normally. They would want a limit, though would probably accept a high one. He assumed that the French Presidency would suggest what the German limit would be. M. Thorn commented that the Germans would probably think in terms of a limit which would be reached at the time of their next Elections.

M. Thorn asked how the Prime Minister saw the discussions at Fontainebleau on the longer term issues raised by President Mitterrand. The Prime Minister said that she envisaged only a preliminary discussion. Mr. Williamson added that any conclusions could only be procedural.

M. Thorn asked about the Prime Minister's views on the Spinelli proposals. The Prime Minister said that the UK had not received them formally. From what she had heard, she was not enthusiastic. She could not envisage any change in the veto.

Enlargement

M. Thorn asked whether the Prime Minister could envisage accession of Portugal to the Community without Spain. The Prime Minister said that she had a great admiration for Portugal. But it was hard to see how one could join without the other. She doubted whether Portugal would want to come in alone. If Spain did not after all come into the Community, it would be necessary to renegotiate the Community's 1971 trade agreement with Spain very quickly. It was far too one-sided in Spain's favour.

Presidency of the Commission

M. Thorn recalled that the European Council was due to decide on his successor. The Prime Minister said that she assumed that Chancellor Kohl would be putting forward a candidate. M. Thorn agreed, but there might be different views.

C D P

C.D. Powell
15 June 1984

PRIME MINISTER

Meeting with M. Thorn

Gaston Thorn comes at 5 p.m.
He will have Emile Noel (Commission
Secretary-General) and Alex Schaub
(Private Secretary). Suggest meet in
the White Drawing Room.

Sir Geoffrey Howe and David
Williamson will advise.

Brief is attached.

M. Thorn wants to start with
15 minutes strictly tête-à-tête (see
Robert Armstrong's note below).

CAP

14 June 1984

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Ref. A084/1741

MR POWELL

I received a telephone call from Monsieur Durieux, the Chef de Cabinet to Monsieur Thorn (who is also my European Commission colleague as a Personal Representative).

2. He was ringing on behalf of Monsieur Thorn to say that Monsieur Thorn would very much like the first part of his conversation with the Prime Minister tomorrow to be strictly tete-a-tete and unter vier Augen: ie no note-takers present. He envisaged this phase of the talk lasting from a quarter to half an hour, before the meeting was enlarged.

3. I promised to convey this message to the Prime Minister.

R

Approved by
ROBERT ARMSTRONG
and signed in his absence.

14 June 1984

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Foreign and Commonwealth Office

London SW1A 2AH

14 June 1984

John Charles.

Visit of the President of the European Commission

As requested by John Coles in his letter of 11 June, we have looked at the brief for the Prime Minister's use with M. Thorn at the London Economic Summit. I submit a slightly revised version for the Prime Minister's use at their meeting on Friday. This has been seen by Cabinet Office and Treasury and incorporates their suggestions.

As the Secretary of State suggested in his minute of 7 June to the Prime Minister, we think it would be right for the Prime Minister to begin by referring to our paper on the future development of the Community and to move on from there to the budget question.

A handwritten signature in dark ink, appearing to read 'R B Bone'.

(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

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CALL BY PRESIDENT OF THE EC COMMISSION ON THE PRIME MINISTER:
15 JUNE 1984

OBJECTIVES

To make clear:

- (a) that we wish to reach agreement by the time of the June European Council provided this is on a satisfactory basis;
- (b) that we attach value to the role the Commission can play in reaching an agreement.

POINTS TO MAKE

1. Hope Thorn has had a chance to look at paper on "Europe - the Future" which Sir C Tickell gave him during the Economic Summit. Look forward to discussing these and other ideas for the development of the Community, including those in Thorn's speech in Florence on 24 May, at Fontainebleau and afterwards.
2. As I made clear to President Mitterrand and Chancellor Kohl, we wish to see the relaunch of the European Community take place at Fontainebleau in June. For this to happen we need to reach agreement on the one outstanding issue in the negotiations: budget imbalances.
3. Considerable progress has been made. If we are to reach an agreement it must be by building on that progress, a point which you (M. Thorn) have also been making.
4. This means that we would accept one more year of ad hoc reliefs at 1000 mecu to be followed by the system from 1985 onwards. UK could not accept more than one further ad hoc year. Nor could we accept 1000 mecu on 1983 figures as the basis for the system. This arrangement would not be good enough. It would not give equitable results over a period of time and would contradict the principle now agreed that all Member States should make a

/contribution

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contribution in accordance with their ability to pay.

5. The gap between ourselves and other Member States is not insurmountable provided others do not try to widen it. What is needed is a final effort by all Member States. Should make clear however, that UK has only limited room for manoeuvre. We could not make a further move unless it was to clinch a settlement. UK could not put forward a figure which would simply be taken as a bargaining counter. We have also been ready to look at the problem in different ways eg by trying to set the threshold and rates of compensation. We would still be happy to approach the problem in this way if others were to find it helpful. But the negotiations so far have centred on the notional figure and it may be simpler to stick to that concept.

6. What role does the Commission see for itself in helping to bring matters to the point of agreement?

7. Even under the system UK will continue to make substantial contribution to Community budget. Our readiness to do so reflects our commitment to the Community. But our contribution must be an equitable one which we can justify to UK Parliament and public which believes that we make a very substantial contribution (fishing opportunities, agricultural market, market for manufactures, defence) to prosperity and security of Europe. Some ideas being put forward by our partners far from equitable.

8. Have always made clear that would not be prepared to increase own resources unless there is a satisfactory settlement on budgetary imbalances. No question of providing supplementary finance for 1984 budget overrun and we shall expect 1985 budget to be brought within 1% VAT ceiling.

New Commission

9. UK believes that Member States should agree on one Commissioner per Member State in enlarged Community. A Commission of 17 - the natural progression on enlargement from present 14 -

/would

would be too large. Not enough proper jobs for ambitious and capable Commissioners, so chance of recruiting a top calibre team would be reduced. We shall press for this when European Council is discussing next President at Fontainebleau.

[If Thorn mentions possibility of present Commission staying on.]
10. Understand that normal procedure would be for Commission to change at end of year. Community should not put itself in position of circumventing clear Treaty intentions.

Budget Overrun [If raised]

11. UK recognises effort the Commission have made to find savings. We realise this is a matter not just for the Commission but for the Council: hence our suggestion, adopted at the last Foreign Affairs Council, that other Councils should be asked to find savings also. Only in the light of that investigation will it be possible to judge to what extent the Community faces a real problem.

EMS [If raised]

12. No immediate plans to join. But we have always made it clear that we have no objection in principle to joining the ERM, and the matter is kept under review. In the interests of the system as a whole, and of our domestic policy, UK must be particularly careful about timing. Joining at wrong time would benefit no-one, but ready to consider entering when conditions are right.

Innovation Loans [If raised]

13. We are always ready to examine new, cost effective ways of stimulating innovation in Europe. But did not believe that a Community scheme on the lines proposed by Commission was the right approach. The specific needs of small innovative firms and the availability of different kinds of finance vary in each Member State, and we take the view that the needs of these firms are met more effectively and with more beneficial results to the Community as a whole by national initiatives tailored to particular national circumstances.

/Draft

Draft Recommendation on Reduction and Reorganisation of Working Time [If Raised]

14. Believe that for Council to approve this recommendation would send the wrong signal to social partners. Despite wording in recommendation about maintaining competitiveness and avoiding increase in unit production costs, little sign that trade unions are prepared in practice to accept reduction in real wages in line with reduction in working week. But recognise importance which Presidency and other Member States attach to this recommendation. Ready to discuss at Fontainebleau if Presidency so decide.

ESSENTIAL FACTS

1. President Thorn is keen to reach an early solution to the problem of budget imbalances. But he is nervous of making a Commission proposal which would not be accepted by others. The work being undertaken by M Davignon on the threshold and rates of compensation is blocked for the time being by the French.
2. At his meeting with Sir Geoffrey Howe on 13 May, M Thorn said that he had made it clear to President Mitterrand when they met at the end of April, that Britain would not accept more than one ad hoc year. He warned Sir Geoffrey Howe, however, that the French wanted to go back on 1000 mecu and that it would be very difficult to persuade either them or others to move.
3. We want to keep open a possibility that the Commission's work on the threshold and rate of compensation might help unblock the negotiations and that they might come forward with a compromise proposal which would provide the basis of an agreement at the European Council. We should therefore let M Thorn understand that we think he has a valuable role to play. At the same time we should leave him in no doubt that we will not accept one more ad hoc year or 1000 mecu in the system and that if others were to go back on the progress made so far then they must accept the consequences ie no increase in own resources, no consideration of the problem of the budget overrun etc.

Innovation Loans

4. The Commission tabled a proposal last autumn to promote investment by small innovative firms in the EC by providing subsidised loans under the New Community Instrument to help them overcome the problem of raising risk capital. We (and others) opposed the proposal on the grounds that action of this kind was more effectively taken at national rather than Community level; and that in any case the budget cost of the scheme (arising from bad debts and interest rate subsidies) was unacceptably high. At ECOFIN in June the Presidency abandoned the effort to get the

/proposal

proposal adopted. But the Commission may wish to return to the charge.

Development of the Community

5. Thorn should have had time to look at the paper on "Europe - the Future" which was given to him in the margins of the Economic Summit last weekend. The Prime Minister will wish to make clear that we are ready to discuss these and other ideas (eg those of President Mitterrand as set out in his 24 May speech to the European Parliament) at Fontainebleau. Thorn may refer to his speech of the same date to the European University Institute in Florence. He was not complimentary to the UK on some points in his speech (he implied for example that we were using the Community's financial crisis as a negotiating lever) but he did say that the Community must agree quickly a more equitable budget system.

New Commission

6. There is no chance of the FRG and France agreeing to give up their second Commissioner. But we should give our ideas for a smaller Commission another airing at Fontainebleau; they cost nothing and gain us credit with the smaller Member States.

7. We would not wish to see the present Commission extended. it is not particularly competent; nor is M. Thorn an effective President. We have doubts whether it would be legally possible to extend the present Commission's mandate and, if the idea looked like attracting support, we should mention this, re-stating at the same time our view that the Commission should change in accordance with the normal procedures.

MRS. RYDER

Visit by President of European Commission

As I told you the Prime Minister wants to see M. Thorn at 1700 hours on Friday, 15 June. His office are aware of this but I promised to confirm on Tuesday. Could you kindly ring Mr. Alex Schaub and confirm the appointment.

A.S.C.

Confirmed.

CR

12/6

11 June 1984

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10 DOWNING STREET

From the Private Secretary

11 June 1984

Visit of the President of the
European Commission

BF | As things turned out, the Prime Minister was not able to have a bilateral meeting with Mr. Thorn during the Economic Summit. We have accordingly arranged for him to call on the Prime Minister at 1700 hours on Friday, 15 June. I should be grateful if you would let Charles Powell know soon whether the briefing supplied for the Economic Summit is still adequate or whether you wish to submit supplementary briefing.

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

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office

Community Issues

Want settlement of budget problems at Fontainebleau, to open way for relaunch of Community. Will be circulating some ideas on future of Community before Fontainebleau.

Agreement must come from building on what already achieved. UK could not accept more than one further ad hoc year or 1,000 mecu on 1983 figures as basis for system. UK prepared to make limited move but only to clinch agreement.

What role does Commission see for itself?

Budget overrun (if raised)

UK recognises efforts made to find savings, but thinks more possible. Recognise that Councils must help Commission.

EMS (if raised)

No immediate plans to join. Keep under review but UK's joining at wrong time would benefit no-one.

Innovation loans (if raised)

Do not favour Community scheme. Believe needs met more effectively by national schemes. Interested in exploring ways of orienting existing lending mechanisms towards innovation.

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BRIEFING FOR THE LONDON ECONOMIC SUMMIT

EUROPEAN COMMUNITY: PRIME MINISTER'S MEETING WITH PRESIDENT THORN/
VICE PRESIDENT ORTOLI

OBJECTIVES

(i) To make clear that we wish to reach agreement by the time of the June European Council provided this is on a satisfactory basis.

(ii) To make clear that we attach value to the role the Commission can play in reaching an agreement.

POINTS TO MAKE

1. Our position remains as I have described to President Mitterrand and Chancellor Kohl: we wish to see the relaunch of the European Community take place at Fontainebleau in June. For this to happen we need to reach agreement on the one outstanding issue in the negotiations: budget imbalances.

2. Considerable progress has been made. If we are to reach an agreement it must be by building on that progress, a point which you (M Thorn) have also been making.

3. This means that we would accept one more year of ad hoc reliefs at 1000 mecu to be followed by the system from 1985 onwards. UK could not accept more than one further ad hoc year. Nor could we accept 1000 mecu on 1983 figures as the basis for the system. This would not give equitable results over a period of time and would contradict the principle now agreed that all Member States should make a contribution in accordance with their ability to pay.

4. The gap between ourselves and other Member States is not insurmountable provided others do not try to widen it. What is needed is a final effort by all Member States ie a move by all to a final figure to clinch a settlement. This cannot be done on the basis of the UK putting forward a figure which would simply be

/taken

taken as a bargaining counter. We have also been ready to look at the problem in different ways eg by trying to set the threshold and rates of compensation. We would still be happy to approach the problem in this way if others were to find it helpful, though we recognise that the negotiations so far have centred on the notional figure and it may be easier to stick with that concept alone.

5. What role does the Commission see for itself in helping to bring matters to the point of agreement?

Budget Overrun [If raised]

6. UK recognises effort the Commission have made to find savings. Do not however accept that further savings cannot be found. We realise this is a matter not just for the Commission but for the Council: hence our suggestion, adopted at the last Foreign Affairs Council, that other Councils should be asked to find savings also. Only in the light of that investigation will it be possible to judge to what extent the Community faces a real problem.

EMS [If raised]

7. No immediate plans to join. But we have always made it clear that we have no objection in principle to joining the ERM, and the matter is kept under review. In the interests of the system as whole, and of our domestic policy, UK must be particularly careful about timing. Joining at wrong time would benefit no-one, but ready to consider entering when conditions are right.

Innovation Loans [If raised]

8. We are always ready to examine new, cost effective ways of stimulating innovation in Europe. But we do not believe that a Community scheme on the lines currently under discussion is the right approach. The specific needs of small innovative firms and the availability of different kinds of finance vary in each Member State, and we take the view that the needs of these firms are met more effectively and with more beneficial results to the Community as a whole by national initiatives tailored to particular national /circumstances

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circumstances. We are nevertheless interested in exploring ways in which the existing activities of the EIB or NIC (a new Community loan facility) could be orientated towards promotion of innovation.

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ESSENTIAL FACTS

1. President Thorn is keen to reach an early solution to the problem of budget imbalances. But he is nervous of making a Commission proposal which would not be accepted by others. The work being undertaken by M Davignon on the threshold and rates of compensation is blocked for the time being by the French.

2. At his meeting with Sir Geoffrey Howe on 13 May M Thorn said that he had made it clear to President Mitterrand when they met at the end of April that Britain would not accept more than one ad hoc year. Nor would he accept, instead of implementation of the system from 1985, a review of how the system might operate from enlargement. He warned Sir Geoffrey Howe, however, that the French wanted to go back on 1000 mecu and that it would be very difficult to persuade either them or others to move. When he had tried in the margins of the 27 March Foreign Affairs Council to suggest 1100 mecu he had encountered very strong resistance.

3. We want to keep open a possibility that the Commission's work on the threshold and rate of compensation might help unblock the negotiations and that they might come forward with a compromise proposal which would provide the basis of an agreement at the European Council. We should therefore let M Thorn understand that we think he has a valuable role to play. At the same time we should leave him in no doubt that we will not accept one more ad hoc year or 1000 mecu in the system and that if others were to go back on the progress made so far then they must accept the consequences ie no increase in own resources, no consideration of the problem of the budget overrun etc. This would also be the message to get across to M Ortoli, particularly since anything said to him is likely to get back to the French.

Innovation Loans

4. The Commission tabled a proposal last autumn to promote investment by small innovative firms in the EC by providing subsidised loans under the New Community Instrument to help them

/overcome

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overcome the problem of raising risk capital. We (and others) opposed the proposal on the grounds that action of this kind was more effectively taken at national rather than Community level; and than in any case the budget cost of the scheme (arising from bad debts and interest rate subsidies) was unacceptably high. The Commission are now working on a revised scheme which aims to meet these objections by establishing a guarantee fund and removing interest rate subsidies. However we remain unconvinced and at ECOFIN in June our objective will be to persuade our partners that the whole idea should be shelved. (The Germans and to some extent the Dutch and Danes share our doubts, whilst the Belgians and Greeks oppose the new proposal on the grounds that the incentive element has been almost entirely removed.)

Foreign and Commonwealth Office
24 May 1984

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10 DOWNING STREET

From the Private Secretary

16 March 1984

Dear Sir,

Visit of M. Thorn

The President of the European Commission called on the Prime Minister today. I enclose a summary record of the conversation which took place at a working lunch.

I am copying this letter and enclosure to John Kerr (HM Treasury), Ivor Llewelyn (MAFF) and Richard Hatfield (Cabinet Office).

Yours ever

R.B. Bone

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

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R.B.

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SUBJECT
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SUMMARY RECORD OF A DISCUSSION AT A WORKING LUNCH GIVEN BY THE PRIME MINISTER FOR THE PRESIDENT OF THE EUROPEAN COMMISSION ON FRIDAY 16 MARCH 1984 AT 10 DOWNING STREET

Present:

Prime Minister	H.E. M. Gaston Thorn
Foreign and Commonwealth Secretary	M. Emile Noel
Sir Michael Butler	M. Alexander Schaub
Mr. Williamson	M. C. Pirzio-Biroli
Mr. Coles	

* * * * *

After a brief discussion of the state of documentation for the European Council, and of progress in the Agricultural Council, the Prime Minister said that it appeared that the financial guideline which other Member States were now envisaging was not as strict as she would have liked. M. Thorn confirmed this. With regard to agriculture, he, unlike some other members of the Commission, agreed that it should grow at a rate less than that of own resources. The French Presidency seemed to accept this. The Prime Minister commented that the rate of growth in agricultural expenditure ought to be significantly less than the rate of growth of own resources. The Foreign and Commonwealth Secretary commented that it was fairly widely accepted that the agricultural growth rate should be less than that of own resources. Sir Michael Butler observed that unless the guidelines were formally incorporated in the budgetary procedures they would be ineffective. The Foreign and Commonwealth Secretary said that the conclusions of the European Council should not exclude the possibility of achieving this by Treaty amendment.

M. Thorn suggested that for the United Kingdom it was more important to have a strict guideline on agricultural spending than on other spending. The Prime Minister doubted this. Sir Michael Butler pointed out that the practice by which the Council sought to impose limits each year but then entered into an argument with the European Parliament was bad for the Community. The Foreign and

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E. B. R.

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Commonwealth Secretary stressed the need for a strict overall financial limit which was binding on all the three Community institutions.

With regard to own resources, the Prime Minister said that she would only contemplate an increase in the 1% VAT rate if her well known conditions were met. M. Thorn said that the Community was already spending at the rate of 1.1%. The conclusions of the Agricultural Council on milk and MCAs would take expenditure beyond 1.1%. Once spending reached 1.3%, the Commission would have to ask for a fresh increase because of the time necessary for ratification of the Council's decision. At present he thought the 1.3% limit would be reached in 1987. Did Member States really want to have another argument at that time?

The Prime Minister said that if it was true that the Community was already spending at the rate of 1.1%, the need for a strict financial guideline was even clearer.

She then stressed the need for guaranteed thresholds on all agricultural products. M. Thorn said that Chancellor Kohl had told him yesterday that he would not accept an agreement at the Council unless such thresholds were established.

On MCAs, the Germans had made it plain that they wished the Community to contribute to the cost of the scheme which they had advanced. The Commission had spoken in terms of a temporary and degressive contribution. Chancellor Kohl had stressed that a system which might come to an end in 1987 would be politically unacceptable. The Germans were seeking 150 million ecus in the first year, 100 million ecus in the second and a further amount thereafter which would be subject to discussion. The Commission had replied to the effect that the Council might offer a certain sum in the first two years following which the Commission would make a report. Chancellor Kohl had said that he could not discuss these matters openly in the European Council; for political reasons, he must avoid any public admission that he had accepted degressivity or a review after three years. He had further stressed that unless he could

/ get

get satisfactory terms he would simply tell the French that there would be no change in the existing MCAs.

In response to a remark by the Foreign and Commonwealth Secretary, M. Thorn confirmed that the French had conceded the idea of a Community contribution to the German MCA scheme.

The Prime Minister then raised the problem of Budget imbalances. She agreed with President Mitterrand at Chequers that this was not an Anglo-French problem. The own resources system established in 1970 had become inequitable. Everybody wished to change it. We wished that change to embody an equitable system of financing the Community. There must be a limit on net contributions related to ability to pay. It was wrong to think in terms of a refund to Britain. We had to pay £120 million monthly mainly to finance other Member States. If there was not a reasonable limit on net contributions, there would be no increase in own resources. We were idealists and wanted to make the Community influential in the world. We sought an agreement at the Brussels Council but it had to be a long term agreement.

M. Thorn said that he understood the British problem. He recalled that M. Barre had once said that if he was the British Prime Minister he would want a radical change in the CAP and the method of financing the Community. But it had to be said that the original members of the Six took a different view of the benefits of the Community. It was noteworthy that, even if the figures advanced by other Member States were not what was desired, they were now all thinking in terms of a systematic solution to the British problem. Six months ago they tended to oppose any refund. They were now talking in terms of a refund of 1,000 million ecus. The Prime Minister said that she still found it impossible to believe that the response of other Member States to the problem was so inadequate. The Foreign and Commonwealth Secretary said that it was not a question of dealing with a British problem. The system now under discussion would apply across the board, would cover all net contributors, including Portugal if she reached that position after accession. Having described the necessary

/ features

features of a satisfactory system, he said that the outcome would be judged in Britain by the effect of the system on the £120 million which we at present paid into the Community's account every month. The system would be judged further on how durable it was. With regard to the amount, the Prime Minister had said at Athens that we were prepared to contribute between 400 and 500 million ecus. If that offer were compared with the French offer of a 750 million ecu rebate, the size of the gap would be apparent. But it was important to realise that a satisfactory result for Britain would mean only a modest shift in the net benefits of each Member State while it would make a crucial difference to us.

M. Thorn said that he accepted the case for a systematic solution. The French had claimed that the Germans would not seek a limit for their net contribution. The Commission had thought this judgement mistaken and so it had proved. M. Dumas was now trying to settle this matter with the Germans.

Discussion then turned to a paper circulated by M. Thorn entitled "Correction of the British Budget Imbalance".

Sir Michael Butler said that the paper contained a number of points which we could not accept. It would be necessary on Monday to discuss the problem on the basis of the papers put forward by M. Thorn, the Presidency and Germany and synthesize these on Monday night for discussion on Tuesday.

The Prime Minister then invited Sir Michael Butler to give M. Thorn our comments on his paper.

Sir Michael Butler said that the title was not apt since nothing in the text suggested that the problem was exclusively British. M. Thorn said that he was ready to change this. The system would apply to all Member States.

With regard to paragraph 1, Sir Michael Butler said that we did not understand the description of the VAT share. Did it

/ mean

mean that the British share of the Community's VAT receipts was about 21% and that levies would be treated as though they were VAT (thus leaving us with a gap of 350 million ecus)?

M. Thorn confirmed that that was the meaning of his text.

Sir Michael Butler commented that in that case the English version, at any rate, would need to be changed to make it clear that levies were being treated as VAT. Perhaps a note should be attached specifying a percentage for each Member State.

M. Thorn said that he would produce a revised version of the paper for circulation in Brussels.

The Prime Minister said that the reference to allocated expenditure in paragraph 1 was unacceptable. Sir Michael Butler explained that this part of the paper arbitrarily removed 75 million ecus from our contribution - we could not justify this to Parliament.

Paragraph 2 of the paper was acceptable.

With regard to paragraph 3, Sir Michael Butler suggested that it should be revised to read "above the threshold a Member State benefiting from the arrangement would bear a percentage of the excess in proportion to its relative prosperity". The word "fraction" was particularly unfortunate since it implied a low level of compensation.

Paragraph 4 was satisfactory.

With regard to paragraph 5, the Prime Minister said that we could accept the text provided the word "decision" was added to the second sentence. M. Schaub appeared to accept this.

The Prime Minister said that paragraph 6 should be deleted. It was unclear and, insofar as it was comprehensible, it was unacceptable.

Sir Michael Butler then explained that we were prepared to accept that our contribution should be fixed on the basis of

/ relative

relative prosperity in a Community of Twelve. We were prepared to pay out rather more in 1984 and 1985. If contributions were fixed on the basis of a Community of Ten, the problems of moving later to a Community of Twelve would be very large.

On a separate point, the French were still basing their arguments on a refund related to the 1982 figures. This was not a sensible approach. Such a system had been forced on us in 1980 with the well known results in the next two years. The only sensible approach was to calculate what contributions would be in the first year of the system. The "refund approach" would turn the discussion into a trial of strength. But an approach based on thresholds, perhaps accompanied by a ticket-moderateur, would be expressed in terms of percentages and would not suggest victory or defeat so starkly.

The Prime Minister said that the paper produced by M. Thorn was probably a better basis for discussion than the paper which we expected to receive from the Presidency. M. Thorn said that the Commission would do more work on it.

In conclusion Sir Michael Butler asked M. Thorn to attempt to persuade President Mitterrand to promote a discussion of the problem of budgetary imbalances early on Monday so that a revised text could be distributed later that day.

A. S. C.

16 March 1984



Foreign and Commonwealth Office

London SW1A 2AH

16 March 1984

Dear John

AR 15/3.

Visit of M Thorn: Commission Paper on Budget Imbalances

When he sees the Prime Minister at lunchtime, M Thorn may give the Prime Minister a copy of the enclosed Commission paper on budget imbalances. I enclose a note on which the Prime Minister may wish to draw in reply.

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

Yours sincerely
Chris Brannel

PP (R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

COMMISSION PAPER ON BUDGET IMBALANCES

BACKGROUND

1. The main points in the Commission paper are as follows:

Good points

- (a) Establishment of a limit (which the paper calls a threshold) related to relative prosperity. This limit is adjusted each year on the basis of linear growth as a function of relative prosperity.
- (b) Financing on the revenue side.

Bad points

- (a) Takes as measurement of the imbalances the VAT share/- expenditure share gap and thus excludes our "excess" levies and duties. Appears to redefine the VAT share in damaging way.
- (b) Duration ("the same as that of the new own resources") is obscure and unsatisfactory.
- (c) Compensation above the limit is of only a part of the excess burden.
- (d) The financing arrangements appear to imply that the UK might have to contribute to other people's refunds (eg German refunds, if they were to qualify). This is not acceptable.
- (e) Redefinition of administrative expenditure to exclude a part of it from the allocated budget (thereby reducing the UK's apparent burden).
- (f) An obscure reference to transitional arrangements during enlargement but which again implies some attempt to reduce the real burden and hence our compensation.

POINTS TO MAKE

2. Have seen the Commission text. Glad to note that it approaches the problem in the way we have been discussing it for almost a year ie establishment of a threshold based on relative

prosperity and with an upper limit on a Member States' contribution expressed as a percentage of GDP.

2. Also pleased to note proposal for financing on revenue side of the budget.

3. Commission text therefore provides a basis for negotiation but there are a number of aspects which would need to be changed.

(a) Treats levies and duties as if they were VAT and therefore, leaves uncovered an element in our true budget burden averaging 330 mecu over the last 5 years. Must have a system which covers the full burden. Recognise that it is possible to draw parameters of a VAT share/expenditure share scheme tightly so that, in the first year (1982 figures/relative prosperity in the enlarged Community), it could leave UK with a net contribution in the region of the 400-500 mecu of which I spoke at Athens. But there will be no guarantee that this could be sustained given possible fluctuations in levies and duties element. Must have system which leaves us with net contribution of the order of which I spoke in year one and provides sustainable, predictable results.

(b) Once we have a system which defines what the limit of a Member State's net contribution should be, in relation to its relative prosperity, there is no reason why compensation above the limit should not be 100%. Text as drafted suggests a surcharge or ticket modérateur and thus catches the UK twice, first in its initial definition of its burden and the second time by not providing full compensation above the limit.

(c) Definition of VAT share is difficult to follow. Grateful for explanation and for figure which your definition would give on 1982 figures. [If Thorn gives a figure less than 1680 mecus (which is the correct definition of the VAT share/expenditure share gap for 1982)]: Commission appear to have made an arbitrary redefinition of the VAT share which is quite unacceptable.

(d) Commission proposal to change allocation of

administrative expenditure quite arbitrary and unacceptable. This is simply a device for reducing our apparent burden.

(e) Period of validity as defined in the Commission paper is unsatisfactory. The scheme must form part of the revised own resources decision and should at the very least last as long as that decision. The presumption is that the scheme should continue unless there is unanimous agreement to change it. Commission text implies that if a new ceiling was reached then the system would expire. This is not acceptable.

(f) Reference to transitional arrangements during enlargement. If, as we think, this passage is designed to make the UK pay extra for the costs of enlargement. At Athens, I said UK would be prepared to pay 4-500 mecu net contribution (based on 1982 figures). This was on the assumption of an enlarged Community. UK would not be prepared to pay on top of this.

(g) Long way to go before Commission text could be made satisfactory. Provides a basis for negotiation.

DEFINITION OF VAT SHARE

The meaning of the definition of the VAT share is extremely obscure, but we have reason to believe that it may be another Commission/French device to reduce the apparent size of the UK budgetary problem by 'distorting mirrors', as explained below.

Previous versions of the VAT share/expenditure share scheme (including recent German proposal) had envisaged applying the UK's percentage share of Community VAT (about 20%) to the allocated budget and subtracting from this our expenditure receipts in order to calculate the measured gap.

For 1982, this produces a figure of 1680 mecus compared with our actual net contribution of 2036 mecus (which includes our excess levies and duties). This method can be described as treating our levies and duties as if they were VAT.

Commission officials consulted by UKRep (confidences to be respected) believe the definition in Thorn's paper means that the UK contribution would be calculated simply as the VAT payments it actually made in each year up to the 1% level. In other words customs duties and levies would be excluded from the calculation altogether - not even embodied as if they were VAT. The effect of this approval is to reduce our measured gap for 1982 to 300 mecus as follows:-

	<u>mecu</u>
- UK's actual VAT payments	2,900
- UK's expenditure receipts	2,600

We suggest that PM simply asks M Thorn what his para one formula means and what measured gap it would give on the 82 figures. If it turns out to be around 300 mecus as suggested above, the PM will want to make clear to M Thorn that he will not want to circulate a text including such a self-evidently preposterous slight of hand

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No. 10 D St*

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TO FLASH FCO

TELEGRAM NUMBER 983 OF 16 MARCH 1984

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LUXEMBOURG ATHENS

INFO SAVING LISBON MADRID STRASBOURG

MIPT: EUROPEAN COUNCIL - BUDGETARY IMBALANCES

1. FOLLOWING IS TEXT OF THORN'S PAPER
BEGINS

CORRECTION OF THE BRITISH BUDGET IMBALANCE

- 1. MEASURE OF THE IMBALANCE: GAP BETWEEN VAT RECEIPTS SHARE AND SHARE IN ALLOCATED EXPENDITURE:
 - VAT SHARE : DEFINED ON THE BASIS OF TAX RECEIPTS RECEIVED CORRESPONDING TO ONE POINT OF VAT IN THE YEAR UNDER CONSIDERATION
 - ALLOCATED EXPENDITURE : ADMINISTRATIVE EXPENDITURE NOT INCLUDED EXCEPT FOR A FIXED AMOUNT ATTRIBUTED TO THE TWO COUNTRIES WHERE THE INSTITUTIONS ARE SITED.

2. DEFINITION OF THRESHOLD
A 'REFERENCE AMOUNT' IS CALCULATED ON THE BASIS OF THE GAP MENTIONED IN POINT 1, APPLIED TO ALLOCATED BUDGET EXPENDITURE. THIS IS AFTERWARDS EXPRESSED AS A PERCENTAGE OF GDP.

THE IMBALANCE ONLY GIVES RISE TO COMPENSATION IF IT EXCEEDS A THRESHOLD EXPRESSED AS A PERCENTAGE OF GDP. THIS THRESHOLD IS ADJUSTED EACH YEAR (LINEAR GROWTH AS A FUNCTION OF RELATIVE PROSPERITY).

3. CALCULATION OF THE COMPENSATION

3. CALCULATION OF THE COMPENSATION
THE COMPENSATION IS A FRACTION OF THE PART OF THE REFERENCE
AMOUNT WHICH EXCEEDS THE THRESHOLD. ITS LEVEL IS FIXED EACH YEAR
(DECREASING LINEARLY AS A FUNCTION OF RELATIVE PROSPERITY).

4. FINANCING

THE COMPENSATION IS MADE BY REDUCING THE VAT CONTRIBUTION IN THE
FOLLOWING YEAR, THE COST BEING MET BY THE OTHER MEMBER STATES
ACCORDING TO THEIR VAT SHARES.

5. PERIOD OF VALIDITY

REFERENCE WILL BE MADE TO THE ABOVE COMPENSATION MECHANISM IN THE
DECISION ON NEW OWN RESOURCES. AS A CONSEQUENCE, THE VALIDITY OF
THESE MECHANISMS WILL BE THE SAME AS THAT OF THE NEW OWN RESOURCES.

6. TRANSITIONAL ARRANGEMENT DURING ENLARGEMENT

IN THE LIGHT OF THE PERIOD AND MEASURES APPLIED IN THE TRANSITIONAL
PERIOD, THE POSSIBILITY MAY BE ENVISAGED OF NEUTRALISING, AT THE
BEGINNING OF THE TRANSITIONAL PERIOD, THE ELEMENTS LINKED TO
ENLARGEMENT IN THE CALCULATION OF VAT AND ALLOCATED EXPENDITURE
SHARES.

ENDS

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TSY - UNWIN MORTIMER

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*Mr Coles
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TELEGRAM NUMBER 982 OF 16 MARCH

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BONN LUXEMBOURG ATHENS

INFO SAVING LISBON MADRID STRASBOURG

EUROPEAN COUNCIL: BUDGETARY IMBALANCES

1. THORN AGREED LATE YESTERDAY EVENING TO RELEASE TO US THE PAPER HE HAD PREPARED TO DISTRIBUTE AT VAL DUCHESSE ON 12 MARCH (WHEN CHEYSSON ASKED HIM NOT TO DO SO). HE WOULD PROBABLY HAVE GIVEN IT TO THE PRIME MINISTER AT LUNCH TODAY BUT AGREED THAT IT MADE MORE SENSE TO GIVE US THE PAPER IN ADVANCE OF HIS ARRIVAL. IT IS NOT CLEAR WHETHER HE HAS GIVEN THE PAPER TO OTHER HEADS OF GOVERNMENT HE HAS BEEN VISITING. HIS STAFF THINK HE DID NOT GIVE IT TO CRAXI BUT MAY HAVE GIVEN IT TO KOHL. TEXT IN MIFT.

2. THORN'S CABINET TELL US THAT WHEN THORN TAXED THE GERMANS YESTERDAY WITH THE ILL-JUDGED CIRCULATION OF THE COMMENTARY TO THEIR DRAFT CONCLUSIONS (MY TELNO 962) KOHL ADVISED HIM NOT TO TAKE IT TOO SERIOUSLY. GENSCHER ACKNOWLEDGED THAT THE REFERENCE TO THE FRENCH KEY WAS PARTICULARLY UNHELPFUL BUT CLAIMED THAT STOLTENBERG HAD INSISTED ON ITS INCLUSION.

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PRIME MINISTER'S MEETING WITH MONSIEUR THORN, 16 MARCH

The Foreign and Commonwealth Secretary suggested that the Prime Minister might wish to refer to her approach to the negotiation as a whole, before dealing in more detail with the paper on fair sharing of the budget burden which Monsieur Thorn is likely to give to her. I attach a short points to make. A specific brief on the Commission paper is being submitted to you separately.

I am sending a copy to Roger Bone (FCO) and Sir Robert Armstrong.

D F Williamson
D F WILLIAMSON

16 March 1984

PRIME MINISTER'S MEETING WITH MONSIEUR THORN, 16 MARCH

POINTS TO MAKE

State of the negotiation

1. Disappointing that we have not made more progress on the reformed financing system. Nonetheless, remain convinced that a settlement at this European Council would be good for the Community.

2. I have sought - and agreed with President Mitterrand - that we ought to avoid presenting problems as Anglo/French disagreements. I had hoped that we would already have the Presidency paper, which should be based on a Community solution. Regret the delay. These are important issues which need to be looked at carefully. We shall do that and be ready to negotiate firmly but constructively on Monday/Tuesday.

3. Understand that you too have a paper on the reformed financing system. Believe that there is a good deal of common ground between us on the system. If this is so, would welcome having your paper under discussion in Brussels as well as original United Kingdom, German and Presidency papers.

4. I intend to take a very firm line on the need for a lasting reform of Community financing and on the figure for the United Kingdom's contribution. The United Kingdom
/has been playing

has been playing a positive role in the negotiation and in associated matters: we have agreed to ESPRIT; we have gone a long way on agriculture, despite our own real difficulties with proposed solutions on milk; we have been negotiating across the whole range of the Stuttgart package. I am not inflexible on everything. I am determined, however, that the settlement has to be acceptable for the United Kingdom on the major issues of budget discipline and fair sharing of the budget burden. I still object to the presentation of our post-Stuttgart agenda in terms of "the British problem" or "compensation to Britain". We must see this in terms of the contributions of all member states to Community financing and the limits to be put on those contributions.



Foreign and Commonwealth Office

London SW1A 2AH

15 March, 1984

Dear John,

European Community: Prime Minister's Meeting with M. Thorn

/ 1. I enclose four sets of briefing for the Prime Minister's meeting tomorrow with President Thorn.

Yours ever

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

M THORN'S VISIT TO LONDON (16 MARCH) : EUROPEAN COMMUNITY

INTRODUCTION

M Thorn will be in London following a working breakfast with Mr Lubbers in Amsterdam. This week he will also have seen the Italian Prime Minister and the German Chancellor. He addressed the European Parliament on 14 March. He will be accompanied by M Emile Noel, the Secretary General of the Commission, Alexander Schaub (M Thorn's deputy Chef de Cabinet) and M Pirzio Biroli, another member of the Cabinet.

OBJECTIVES

1. To impress on M Thorn that we are working for agreement next week but that seriousness of Community's financial situation requires far reaching remedial steps.
2. To emphasise that what is at stake for us over budget imbalances is so important that we shall not be deflected by any amount of talk of nine versus one etc: we want a far reaching solution; we are not intransigent but we will insist that there must be a lasting and equitable settlement before we can consider any increase in own resources.
3. To stress that the budget overrun about which M Thorn spoke to the European Parliament this week reinforces the case for rigorous budget discipline and that this must be achieved before there can be any talk of finding short term ways of dealing with the problem.

POINTS TO MAKE

4. UK has as much interest as in other Member Staes in relaunch of Community and in taking decisions in Brussels next week.

5. Have had to take hard decisions at home which are now paying off. We are not about to stand by and allow the

/Community

Community to take half baked decisions which will merely exacerbate its problems, in the short term as well as the long term.

6. Need for the EC to apply at Community level the same kind of discipline that Member States apply at national level is increasingly accepted in Community, though many Member States still unwilling to face the real consequences. UK perhaps more ready to face up to reality because of its enormous budget burden. Other Member States dispute the extent of it. But all fight hard to try to avoid being in the same position.

7. UK has no desire to thwart development of the Community, on the contrary. But given serious underlying causes of Community's financial state, and given our position as a major net contributor would be folly for us to consider an increase in own resources until our two essential conditions are met.

Budget Discipline

8. Much progress since Stuttgart, reflected in the Commission's own proposals, in Commission approach to the agricultural price fixing and in attitude of other Member States. Virtually all now accept that finance must determine expenditure. Tribute to your role in reminding Member States of uncomfortable realities.

9. Our difficulties with the Commission text on budget discipline are borne of experience of last few years and difficulty of holding European Parliament to its commitments. This is why, for overall budget discipline, we want mechanism to be incorporated in budget procedures so that it binds the three institutions. This does not necessarily mean Treaty amendment. But latter should not be ruled out.

10. Crucial, however, is control of agricultural /expenditure

expenditure. To avoid kind of problems we are currently facing we must have a strict financial guideline which binds Council and Commission throughout price fixing and which holds rate of growth of agricultural expenditure markedly below that of own resources base. If commitment is simply to holding rate of growth to no greater than that of the own resources base this will mean that CAP continues to take up a disproportionate amount of the budget and that in practice proportion is actually likely to grow.

Budget Overrun

11. Noted your speech to the European Parliament and reference to need for national contributions to finance expected overrun. Understand problems which the Commission face. But no question of our considering the problem in this way at this time. We are only three months into EC financial year. There must be further scope for savings. We should not be looking for short term palliatives but for the necessary decisions which will reform the basis of the Community's finances and ensure that we avoid these problems in future. If, after the Community has taken the necessary decisions on budget discipline and after all possible savings have been found, there is still a problem later in the year then the Community will need to consider it. But not now.

CAP

12. Grateful for efforts by the Commission to point out the extreme gravity of the financial situation of the CAP.

13. Agriculture Ministers must redouble their efforts to find savings: They will need to act courageously, and beyond the Commission's various price and reform proposals, particularly in that:

(a) The emerging deal on MCAs, which Britain will only be able to agree in the context of a tough CAP package as a whole, will be inflationary and expensive: (we note that M Rocard reported to the European Parliament on

/14 March

14 March that it might cost 400 mecu in 1984).

(b) Carry-overs from 1983 are much higher than expected, and claims on EAGGF this year are well up on projections.

(c) Some of the Commission's proposed "savings", such as the oils and fats tax, were in fact nothing of the sort. The Council is rightly rejecting this idea.

14. The Commission estimate of a 1.5 - 2.0 becu overrun of the FEOGA budget on current trends seems to us, if anything, conservative.

15. Your suggestion to the European Parliament of "complementary payments" by Member States, to balance the 1984 budget, has not helped the situation. The need is to secure tough agricultural decisions. There will be no manna from heaven. If necessary the Commission may have to take additional decisions within its own competence to reduce support for some products.

16. The agreement on milk at the last Agriculture Council is encouraging as far as it goes - but it shows up the lack of progress on other CAP dossiers. Tough decisions are needed, for example, on cereals prices and on price restraint and gurantee thresholds wherever economic outlets for CAP production are limited: (ie including Mediterranean products).

Budget Imbalances

17. Can be no question at Brussels of horse trading over a figure and then finding a system to fit it. The figure for the UK's adjusted net contribution in the first year of a new system, based on relative prosperity for Community of 12, is clearly very important. Hence my reference to 400-500 mecu at Athens. But problem we are seeking to resolve derives from the system operated within the Community and requires a system to correct it.

18. Number of elements, now generally accepted in the Community, would go to help make an acceptable system.

(a) Duration: we could accept that system should last as long as revised own resources decision. This would have to be on presumption of continuity unless there were unanimous agreement to the contrary.

(b) System of reliefs to be related to relative prosperity in an enlarged Community with upper limit expressed as proportion of GDP.

(c) Correction on revenue side of the budget ie reduction of VAT payment in following year.

(d) Operation in respect of 1984 and subsequent years.

19. Both France and FRG favour scheme based on VAT share/expenditure share gap. Realise the nature of our partners' objection to net contributions but cannot ignore that levies and duties represents real burden on Member States which is reflected in net transfers across the exchanges. Realise that it is possible to draw parameters of a VAT share/expenditure share scheme tightly enough to give UK an adjusted net contribution in year one on a par with a figure which would be produced by a scheme based on full measurement of the burden. But there would be high risks for future years given possible fluctuation of levies and duties element. Must therefore have system which fully covers us on a sustainable basis.

20. As regards figure given by a system, know that many Member States are talking about giving UK relief similar to 1983 refund of 750 mecu. No need to remind you that we accepted figure for 1983 because of alleged overpayment in 1980/81. Average of our refunds from 1980-83 was two-thirds. 750 mecu represented only a 40% refund of our 1983 net contribution. Clearly quite unacceptable therefore as basis for a lasting settlement, particularly a settlement in return for which UK has been asked to agree to increase in own
/resources

resources.

21. This was why I said at Athens that we believed the system should leave UK with an adjusted net contribution in first year of its operation, based on 1982 figures and on relative prosperity in Community of 12, of between 400-500 mecu.

[22. If M Thorn says that we are seeking to protect ourselves totally against the costs of enlargement: Not so. Under UK proposal level of contribution would depend upon relative prosperity. If UK's relative prosperity rose in enlarged Community, so would our contribution. Moreover, if system were based on relative prosperity in Community of 12 we would be paying more than our due share in years prior to enlargement.]

[23. If M Thorn argues that system should be based on relative prosperity in Community of 10: We are talking about a scheme which will apply particularly in enlargement and on a lasting basis. Must therefore be based on relative prosperity in Community of 12. As already indicated, UK is willing to make its net contribution in 1984/85 on that basis ie paying more than would be due on basis of relative prosperity in Community of 10. This will itself represent a considerable contribution to costs of enlargement.]

1983 Refunds

24. Much regret linkage made by France and Italy; Stuttgart agreement was freestanding. No justification for linking adoption of Regulations to outcome of European Council. Important if Community is to avoid serious consequences for Regulations to be adopted on 20 March. Hope FAC will then give its opinion immediately on Commission proposal for a transfer to the line so that there is no further Council obstacle in the way of payment of the bulk of our refunds by the end of March. Hope Commission will, as

requested by FAC, now take all necessary measures so that there is no further delay once Regulations are adopted.

New Policies

25. Welcome Presidency decision to have passage on new policies for European Council including reference to key priorities on development of internal market and need for liberalisation on transport policy. UK has demonstrated its determination to play key role in development of Community eg agreement to ESPRIT and participation in A 320.

26. Must bear in mind that many new policies can actually save money. Community devotes much time to declarations of future intent. Its credibility as a viable, meaningful organisation would be much more apparent to ordinary people if it dealt decisively with the obvious and simple problems which nonetheless have proved intractable. Our failure to solve them, as witnessed by recent lorry troubles in France, merely brings Community into disrepute.

M THORN'S VISIT TO LONDON (16 MARCH): EUROPEAN COMMUNITY

ESSENTIAL FACTS

1983 Refunds

1. The Commission have hitherto refused to come forward with a proposal before the formal adoption of the Regulations for fear of falling foul of the Parliament.
2. At the 12/13 March Foreign Affairs Council, the Refund Regulations were agreed in substance but formal action was blocked by France and Italy, who insisted that the payment of the refund was conditional on a satisfactory outcome to the post-Stuttgart negotiations. However, the Commission was invited to come forward with a transfer proposal as soon as possible (without waiting for formal adoption of the Regulations) and to prepare decisions and arrange for management committees to meet so that all the arrangements would be ready for payment. We must leave M Thorn in no doubt that urgent action is essential.
3. If the special meeting of the Foreign Affairs Council on 20 March adopts the Regulations and gives its opinion on the transfer proposal, the Parliament is expected to vote on the transfer at its plenary session in the week beginning 26 March.

1982 Refunds

4. M Thorn's letter of 8 February to Sir G Howe on our 1982 risk-sharing refunds is not too bad, given the fact that the Commission were never likely to accept our case fully or to seek to involve themselves directly in resolving it. The main positive elements from our point of view are:
 - (i) The Commission shared our view that the issue needs to find a satisfactory solution in the context of the current negotiations.

/(ii)

(ii) The Commission confirmed the basis used for its original calculation of the amount due to us, ie the payments basis, even though we do not accept the figure that they put forward - because of its failure to compensate the UK for its share of German risk-sharing refunds.

(iii) The Commission took the view that the figure for UK risk-sharing refunds adopted by the Budget Council was a political figure which did not itself correspond to any precise formula of calculation.

5. On 13 March, Sir G Howe wrote to M Cheysson, drawing his attention to M Thorn's letter and asking him, in his capacity as President of the Council, to consider how the matter can now be taken forward and resolved in the Council. Our aim is to keep the issue under active review until the March European Council and either to dispose of it there as part of an overall settlement, or to take decisions thereafter on how to pursue our claims (ie to initiate legal proceedings in the ECJ or to withhold).

BUDGET IMBALANCES

Recent Developments

6. The Germans have just tabled a new text for the European Council conclusions which is very similar to the text they tabled at Athens (measurement of the VAT/expenditure share gap, threshold to be determined as a percentage of GDP which varies with relative prosperity, partial compensation above the limit with the amount of compensation declining in inverse relation to relative prosperity) with the exception that:

(i) the parameters would be determined with reference to the figure for UK compensation for the first year agreed at the European Council;

(ii) the reliefs would be financed according to the

/special

special key proposed by the French in September 1983;
(iii) review clause after 5 years.

NOT FOR USE

7. We have now seen the draft French Presidency conclusions on budget imbalances which include the following provisions:

- (i) levies and duties not to be taken into account (ie measurement of VAT/expenditure share gap);
- (ii) threshold limit and degree of compensation above the limit to be determined as a function of relative prosperity;
- (iii) Member States benefitting from reliefs must contribute to cost of enlargement;
- (iv) reallocation of administrative expenditure;
- (v) implementation of reliefs by deduction of VAT in the following year;
- (vi) mechanism to be incorporated in the revised own resources decision;
- (vii) UK refund for 1984 to be calculated on basis of EC 12 prosperity index.

Commission's Position

8. The Commission have not yet tabled a proposal on budget imbalances. They are expected to propose a corrective mechanism based on the VAT/expenditure share gap. But because of uncertainty as to whether the Germans will contribute a substantial share of UK refunds they are still hesitating about the nature and timing of their contribution. The Commission are divided between those who argue that the rising line which will determine the percentage of GDP which a Member State would have as the threshold should flatten out above 120% of Community relative prosperity, ie that the Germans should have no limit at all on their contribution; and those who think that the Germans will have to have a limit of some kind but could be persuaded to accept a limit which would be above the likely level of their VAT/expenditure share gap in 1984 and a very low percentage /refund

refund once the limit was reached.

9. We should point out to M Thorn the deficiencies of the VAT/expenditure share gap while indicating that we would be ready to explore ways in which the scheme could be worked so as to give us adjusted net contribution of between 400-500 mecu. But even if this were conceded, we would also want to have protection against further increases in our excessive customs duties and agricultural levies.

10. Discussion in Coreper suggests that the Commission may be colluding with the French in whittling down the measurement of the UK budget problem by proposing:

- (a) arbitrary changes to the present system of allocating administrative expenditure;
- (b) postponement of a decision on how to take account of enlargement until the arrangements for the transitional period are better known. This proposal may be intended to leave the way open for neutralising the costs of enlargement (ie that it should be removed from the scope of the corrective mechanism and financed by a special key). Our contribution to the cost of enlargement is provided for by the fact that we have calculated the relative prosperity index (GDP per head) on a Community of 12 index.
- (c) definition of VAT "in economic and statistical terms without reference to the definition used in the annual budget procedure". The meaning of this proposal is obscure. It is not clear whether it is referring to the calculation of VAT on an assiette basis with some adjustment for exchange rate factors or to something more sinister. If this subject comes up we should resist any attempts to change the definition used hitherto, ie the payments basis.

/Budget

Budget Discipline

11. The Commission's proposal for a guideline for agricultural expenditure is likely to be incorporated in the draft Presidency conclusions for the European Council. The Commission propose a guideline which would keep the 3 year moving average growth rate of expenditure below that of the Own Resources base. The Commission proposal could serve as a basis for a satisfactory guideline but it would need to be strengthened in the following prospects:

- (a) must be binding, ie the Commission's proposals and Councils decision on price fixing and the budget must be consistent with the guideline (not merely drawn up "in the light of the guideline"
- (b) should include the "markedly lower than" formula
- (c) Any overshoot to be clawed back over two succeeding years.

12. The weak Commission proposal on overall budgetary control is likely to be replaced by a shorter Presidency text as the basis of discussion at the European Council. The Commission proposal expressly rules out Treaty amendment and appears to leave open the possibility that the Parliament could increase the budget without the Council's agreement. To make them effective, we would need a provision that the Council should decide on upper limit or envelope for the budget each year, to be binding on all 3 institutions throughout the budgetary procedures. A margin for the Parliament could still be allowed but they and the Commission would lose the power to propose increases in expenditure beyond the overall ceiling.

New Own Resources

13. The new Commission paper (1 March) does not provide any detailed analysis of what new own resources would be needed. It cites the following reasons for an increase in the VAT ceiling to 2%:

- (i) Since they are dropping the idea of further tranches /of

of VAT to be approved by the Council and the European Parliament with ratification by national parliaments, they want to avoid the need for a further process of national ratification for a considerable time. Hence they need the proposed increase in own resources to last much longer.

(ii) Since the increase in own resources would be accompanied by measures to impose budget discipline, Member States would have no reason to insist on a low ceiling.

(iii) Enlargement is the only factor singled out in justification of the proposed ceiling. The Commission estimates enlargement is likely to cost between 0.1 and 0.2 per cent of VAT.

(iv) Levies and duties are on a declining real trend. The Commission considers that an increase of 0.2 per cent in the VAT rate is necessary simply to offset this real decline.

(v) The Commission considers that at least 2 years is necessary to ratify an increase in own resources. This adds to the case for making the increase last longer and also implies that there will be a substantial overhang of expenditure before the present increase is agreed. The Commission envisages a "temporary increase" in the budget during this phase.

14. At the informal Foreign Ministers meeting on 12 March, M Thorn said that Community expenditure was already running at 1.1%. If the EC could agree on budgetary discipline, that was a bonus - but that was no reason to be restrained on new own resources. As for savings, so far the Agriculture Council has come up with no savings whatsoever.

CAP

... 15. The texts on milk and MCAs agreed at the Agriculture Council on 11 - 13 March are attached.

16. The Commission's proposals for reform of the CAP (COM(83)500) were claimed to yield nearly 900 mecu net "savings" in 1984 to match a similar prospective overspending compared with the 16.5 billion ecu in the budget. These particular savings will not be achieved (the supplementary levy on milk will not come in by 1 April, we are rejecting the oils and fats tax; and the Germans are not accepting the proposal on the green DM). Meanwhile forecasts of spending for January-April point to an overspill of 2-2.5 billion ecu this year before allowing for the price settlement.

17. M Thorn suggested, in the European Parliament on 14 March, that the agricultural overspread might be of the order of 1.5 - 2 becu: "in these circumstances it will be the responsibility of Member States to ensure a balanced 1984 budget by complementary payments." This could mean:

- (a) national contributions based on Article 200 of the Treaty of Rome;
- (b) national contributions based on Article 235;
- (c) a period of national financing reimbursed by the Community after Own Resources have been increased.

18. Any proposal to make extra money available for agriculture this year is deeply objectionable on policy grounds - whatever its legal form. It would be a backdoor way of increasing the Community's revenue; it would be quite inconsistent with our emphasis on budgetary discipline; and it would make a mockery of any agreement on a strict financial guideline.

New Policies

19. Our priorities are:

Internal Market

- . removal of barriers to trade in goods and services (eg by securing early agreement to the 15 draft standards harmonisation directing currently on the table; by adoption of a Single Administrative Document for customs /clearance

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clearance; liberalisation of insurance).

. liberalisation of transport (particularly road haulage and air transport).

. a solid fuels policy to encourage the economic production and consumption of coal.

. environment: a date for the introduction of unleaded petrol (no later than 1990).

Foreign and Commonwealth Office
15 March 1984

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MILK

Brussels, 13 March 1984

INTRODUCTORY NOTE

Subject: Main points of the Agreement on the control of production in the milk sector

1. The main points of the agreement worked out by the Agriculture Council concerning milk are contained in Annex I.

At the close of proceedings, the President noted that the delegations' agreement was subject to the condition that broader agreement be reached

- on the one hand, on all the measures relating to the adjustment of the common agricultural policy and agricultural prices;
- on the other hand, on the questions submitted to the European Council, particularly regarding financing.

2. Without prejudice to the agreement reached, two questions are still unresolved:

- the Irish delegation's request for exceptional treatment ⁽¹⁾: the Council noted the special political nature of this question;
- the question relating to the application of a tax on vegetable fats and oils: the Council noted that, political questions exceeding the sphere of agriculture arose in this case also.

⁽¹⁾ The United Kingdom delegation stated its opposition to any exception and therefore to the idea of a Community reserve of 0,6 million tonnes.

MAIN POINTS OF THE AGREEMENT ON MILK

1. The duration of the control arrangements will be five years.
A report will be drawn up by the Commission after three years.
2. The definitive overall guaranteed quantity will be 97,2 million tonnes plus 0,6 million tonnes (Community reserve). Allocation among Member States will be on the basis of 1981 + 1%.
3. For the 1984/1985 marketing year the guaranteed quantity will be 98,2 + 0,6 (reserve).

This flexibility will be financed by an additional linear co-responsibility point for the 1984/1985 marketing year.

4. The quantities corresponding to the references for each Member State will be allocated either among producers or among dairies by regions defined according to Community criteria and a Community procedure. The penalty for overshoots will be a levy of
 - 75% of the milk target price for milk for individual quotas
 - 100% of the milk target price for collective quotas.
5. The system will be extended to direct deliveries.
6. Flexibility will follow the criteria outlined in the working document (VI/1513/84)⁽¹⁾. The necessary adjustments will be made for the regions where the guaranteed quantities are applied at the level of dairies.

⁽¹⁾ See appended hereto the amendment made to point 6 of the working document

7. After the Community criteria for allocation have been defined, the aid of 120 million ECU will be maintained for two marketing years (extension of Regulation 1210/83).
 8. Under conditions to be determined, restructuring aid for milk production may be granted under the structural policy for the period of application of the production control arrangements.
 9. The special levy on milk from intensive holdings will not be maintained.
 10. Butter consumption aid will be reduced by 75% to 10 ECU/100 kg.
-

AMENDMENT TO BE MADE TO WORKING DOCUMENT

VI/1513/84

.....

6. A producer who has undertaken a milk production development plan under Directive 72/159/EEC, approved by the Member States concerned before 1 January 1984 may, subject to the decision of the Member State:

- if the plan is in the process of realization on that date, obtain a specific reference quantity which takes into account the quantities of milk and milk products provided for by the development plan;

- if the plan was realized after 1 January 1981, obtain a specific reference quantity which takes into account the quantities of milk and milk products supplied in the year during which the plan was completed.

If the Member State in question has sufficient information at its disposal, account may also be taken of investments effected without development plans.

STATEMENTS IN THE MINUTES

1. by the Luxembourg delegation

"It is understood that the Commission, having taken note of the Luxembourg position, will ensure, throughout the period of application of the arrangements for controlling milk production, that the specific problem concerning Luxembourg is resolved through the allocation of the Community reserve of 0,6 million tonnes of milk";

2. by the Italian delegation

"It is understood that the Commission, having taken note of the Italian position, will ensure, throughout the period of application of the arrangements for controlling milk production, that the specific problem concerning Italy is resolved through the allocation of the Community reserve of 0,6 million tonnes of milk".

MCA_s

PROCEEDINGS OF THE AGRICULTURE COUNCIL
on the dismantling of monetary compensatory amounts

NB: All the delegations entered general reservations on this text linked to the discussion of the overall problem of the adjustment of the common agricultural policy and of its financing.

1. Positive MCAs

1.1. As regards the future MCAs, the Council will adopt the necessary provisions to ensure that until the beginning of the 1987/1988 milk year no changes in monetary parities may under any circumstances entail the creation of fixed positive MCAs.

The foregoing should be effected by application of a corrective weighting to the central rates used in the context of the ECU.

The Commission will take the necessary measures to prevent the negative MCAs thus created from leading to distortions at export refunds level.

The negative MCAs thus created will be dismantled on a proposal from the Commission in the light of the Member States' economic situation. ⁽¹⁾

⁽¹⁾ The United Kingdom proposed that this subparagraph be replaced by the following:

"That part of the negative MCAs created at an EMS realignment which results from the application of the first and second subparagraphs of this paragraph shall be phased out for the commodities concerned in three equal stages at the beginning of the next three marketing years after the realignment. Other negative MCAs created at an EMS realignment shall be dismantled on a proposal from the Commission in the light of the Member States' economic situation".

2. Before 31 December 1986, the Commission will submit to the Council a report on the application of these arrangements and will make proposals having regard to the Community's economic and monetary situation and the trend in farm incomes and in the light of experience acquired.

Should the Council not adopt decisions before the beginning of the 1987/1988 milk marketing year intended, in the light of the above report, either to extend the system in force or to set up another, the arrangements applicable prior to the 1984/1985 marketing year will be re-introduced.

1.3. As regards the existing positive MCAs:

- (a) At the beginning of the 1984/1985 marketing year for each product, part of the positive MCAs of all the Member States concerned will be dismantled by applying a corrective weighting enabling them to be converted into negative MCAs; the weighting shall be calculated in such a way as to reduce the German MCAs by 3 points.
The negative MCAs thus created will be eliminated ⁽¹⁾ at the beginning of the 1984/1985 marketing year for each product. ⁽²⁾
- (b) The German positive MCAs will be dismantled by 5 points on 1 January 1985. In return the Federal Republic of Germany will be authorized by the Community to grant special aid by means of a payment mentioned in the VAT invoice and/or declaration. The amount of such aid shall be equal to 3% of the price exclusive of VAT paid by the purchaser of the agricultural product.

The Community will make a contribution towards the financing of this aid on a decreasing scale amounting to [x] MECU in 1985 and [x-y] MECU in 1986. A contribution from the Community may be decided on in 1987 in the light of the trends in the national compensation which the Federal Republic of Germany will have effected.

⁽¹⁾ The United Kingdom proposed that the sentence end as follows:
"In three equal stages at the beginning of the next three marketing years."

⁽²⁾ The Commission will be authorized to take appropriate transitional measures.

- (c) As regards the Netherlands, on 1 January 1985 0,6 points of MCA on milk, 0,7 points on cereals and 0,8 points on the other products will be dismantled in such a way that Dutch MCAs are equal to German MCAs. If at their request the Netherlands are authorized to take national measures similar to those taken by the Federal Republic of Germany, they will be able to benefit from Community measures similar to those to be decided for the Federal Republic of Germany.
- (d) Positive German and Netherlands MCAs existing after 1 January 1985 shall be eliminated at the latest by the beginning of the 1987/1988 marketing year for each product.
- (e) In the case of the United Kingdom, the status of the pound sterling will not allow any positive MCAs to be dismantled under any other schedule than that provided for in (a). Provision for dismantling will therefore be made beyond that provided for in (a) if necessary at the time of the Community's annual price proposals.

2. Negative MCAs

Existing negative MCAs will be eliminated following a proposal from the Commission.

This document refers exclusively to the proceedings of the Agriculture Council on the dismantling of MCAs; the United Kingdom nonetheless requested that the following paragraph be added:

"The Commission and the Council agree that the proposals for changing the rules governing the calculation of MCAs mentioned in COM(83) 586 will not be adopted."

The Council has not yet taken a decision on this matter which has still to be discussed.

ADP

visit of M. Thorn : 16/3.

In your letter of 9/3 you asked the FCO for the names of the two officials who will be accompanying M. Thorn.

I chased for an answer;

they will be;

M. Biroli

M. Shamb.

Details will be given in the brief.

Navl.

Thank you.

ADP $\frac{14.}{3}$

Mal
14/3.

John Coles

Commission of the European Communities

8 Storey's Gate, London SW1P 3AT

Telephone: 01-222 8122 Telex: 23208 EURUK.G.

Head of UK Offices: George Scott

se 15

12 March 1984

102 $\frac{15}{4}$
h.a.

I am enclosing for your information a copy of the address by the President of the Commission to the European Parliament, setting out the Commission's Programme for 1984.

George Scott

Cardiff Office:
4 Cathedral Road
Cardiff CF1 9SG
Telephone: 0222-371631

Belfast Office:
Windsor House
9/15 Bedford Street
Belfast N. Ireland
Telephone: 0232-240708

Edinburgh Office:
7 Alva Street
Edinburgh EH2 4PH
Telephone: 031-225 2058



flk

10 DOWNING STREET

From the Private Secretary

12 March 1984

M. Thorn's Meeting with the Prime
Minister

Thank you for your letter of 9 March.
I agree with the telegram of instructions
which you propose to send to UKREP Brussels
today.

A. J. COLES

Roger Bone Esq
Foreign and Commonwealth Office

rw

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CCPC



Foreign and Commonwealth Office

London SW1A 2AH

9 March 1984

Jan Thorn

M. Thorn's Meeting with the Prime Minister: 16 March

UKRep Brussels have told us that M. Thorn's Cabinet would like to make a press announcement at 1200 hours on Wednesday 14 March in Strasbourg, about M. Thorn's visit to London on Friday, 16 March. The announcement will say that M. Thorn will visit Rome, Bonn, The Hague and London between 14 and 16 March for Community discussions prior to the European Council. The Thorn Cabinet have suggested that a simultaneous announcement should be made in London.

I understand that no prior announcement was made of the similar visit of Thorn before Athens and that your press office would prefer to follow this precedent and simply brief lobby correspondents on the morning of the visit.

Given that M. Thorn would like to announce his visit, we suggest that, once that announcement has been made, you and we should simply confirm, if asked, that he will be coming to London on 16 March. I enclose a draft telegram to UKRep which, if you agree, we would propose to despatch on Monday.

Lawson
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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IMMEDIATE

ZCZC 1 ZCZC
 GRS 2 GRS
 CLASS 3 RESTRICTED
 CAVEATS 4
 DESKBY 5
 FM FCO 6 FM FCO
 PRE/ADD 7 TO IMMEDIATE UKREP BRUSSELS
 TEL NO 8 TELEGRAM NUMBER
 9 AND TO IMMEDIATE UKDEL STRASBOURG (FOR MR PHILIPPE LEWE, M. THORN'S
 10 CABINET)
 11 M. THORN'S VISIT TO LONDON: PRESS ANNOUNCEMENT
 12 1. No 10 do not intend to make a formal announcement in advance
 13 but they and we will confirm if asked that M. Thorn will have a
 14 working lunch with the Prime Minister on 16 March, adding if
 15 appropriate that M. Thorn's visit will be part of his tour of
 16 Community capitals for discussions prior to the European Council
 17 in Brussels on 19 and 20 March.
 18
 19 2. Please inform M. Thorn's Cabinet.
 20
 21 HOWE
 /// 22 NNNN
 // 23
 / 24
 25

NNNN ends telegram	BLANK	Catchword
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cc Sve Goodchild

10 DOWNING STREET

From the Private Secretary

9 March 1984

Visit of President of EC Commission

I understand that M. Thorn wishes to be accompanied by two officials at his working lunch with the Prime Minister next Friday, 16 March. I should be grateful if you could let me have their names in due course.

You told me that the Foreign and Commonwealth Secretary would not be able to attend. The Prime Minister would be grateful if Sir Michael Butler and Mr. Williamson could be present.

I am copying this letter to Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office

6

①

PRIME MINISTER

Lunch for President of EC Commission

You are giving M. Thorn a working lunch next Friday (16 March). He will be accompanied by two officials. The Foreign Secretary cannot be present. May I ask David Williamson and Michael Butler to be there?

Yes

A & C

8 March 1984



1) Mrs Ryder
for diary

2) Mr Giles
5/3
2ms

3) Mrs Goodell 5/3

With the compliments of Thank you
noted

THE PRIVATE SECRETARY 5/3 .

FOREIGN AND COMMONWEALTH OFFICE

SW1A 2AH

GRS 150

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Com to No 10

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FROM UKREP BRUSSELS 021745Z MAR 84

TO PRIORITY FCO

TELEGRAM NUMBER 773 OF 2 MARCH 1984

INFO ROUTINE THE HAGUE ROME BONN

INFO SAVING BRUSSELS COPENHAGEN DUBLIN PARIS LUXEMBOURG ATHENS

THORN'S VISIT TO LONDON 16 MARCH

1. THORN HAS ACCEPTED WITH PLEASURE THE PRIME MINISTER'S INVITATION TO A WORKING LUNCH AT NO 10 DOWNING ST AT 1245 ON FRIDAY 16 MARCH (TELECONS SHEPHERD/FAIRWEATHER AND BONE).

2. THORN WILL BE ACCOMPANIED BY TWO OFFICIALS AND A PA. OFFICIALS WILL BE NOEL OR LACROIX AND DURIEUX OR SCHAUB.

3. ON PRESENT PLANS THORN WILL ARRIVE FROM AMSTERDAM (AFTER A WORKING BREAKFAST WITH LUBBERS) AT 1100 ON BA 407. HE WILL FILL THE INTERVAL BEFORE LUNCH BY VISITING THE COMMISSION OFFICE.

4. THORN WILL HAVE BEEN IN ROME ON THE EVENING OF 14 MARCH AND IN BONN FOR LUNCH WITH KOHL ON 15 MARCH.

FCO PASS SAVING TO COPENHAGEN DUBLIN PARIS LUXEMBOURG ATHENS

BUTLER

[REPEATED AS REQUESTED]

LIMITED

ECD (1)

WED

PS

SIR J BULLARD

SIR C TICKELL

MR JENKINS

MR HANNAY

RESTRICTED

①

PRIME MINISTER

President of the European Commission

M. Thorn wishes to pay his usual round of visits to capitals before the European Council. He wants to come here last. You could give him a working lunch on Friday, 16 March. Agree?

BT

Yes

A. S. C .

1 March 1984

MR COLES

dinner.

M 1/3.

You asked about a meal for M. Thorn on or around 15 March. I can do a lunch on Friday, 16 March, or a dinner (if absolutely necessary).

The Prime Minister is also free for dinner on Thursday, 15 March but she will be giving a big reception for the Commonwealth Parliamentary Association that evening so this is obviously not an ideal date unless it was going to be a working dinner.

I could also do lunch or dinner on Wednesday, 14 March.

CR.

28 February, 1984



10 DOWNING STREET

No. Lyder.

The President of the EC

Commission (THORN) wants

to come on or about

15 Nov. The P. R. is likely

to want to give him a

working meal. What can you

manage?

A. J. C. $\frac{25}{2}$.

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10 DOWNING STREET

From the Private Secretary

2 December 1983

Dear Roger,

Call on the Prime Minister by the President of
the European Commission

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

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

Yours ever

RL Blair

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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RL

SUBJECT McCMASTER

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRESIDENT OF THE EUROPEAN COMMISSION AT 1115 ON FRIDAY 2 DECEMBER
AT 10 DOWNING STREET

Present: Prime Minister M. Thorn
Foreign and Commonwealth Secretary (for part of
the conversation) M. Noel
Mr. Williamson Mr. Meadows
Mr. Coles

* * * * *

The Prime Minister thanked M. Thorn for visiting London. She was sorry that she could not on this occasion offer him hospitality owing to the constraints of her programme. Athens would be a difficult Council. She was concerned about the order of items on the agenda and had written to Mr. Papandreou about this matter. M. Thorn said that he had seen the Prime Minister's letter. Effectively, there would be only some three hours for discussion on the first day and some of that would inevitably be devoted to discussion of the agenda. So it would be hard to get down to substance. The Prime Minister said that she thought it essential that the fundamental issues were put forward in discussion on the first day. Was it really necessary for Heads of Government to try to settle the detailed agricultural issues? If highly technical issues were discussed, she thought that each Head of Government should have an expert present in the room. M. Thorn said that he thought that this would be desirable when technical matters were being discussed. But during the more political exchanges, he thought the usual format should be observed.

Sir Michael Butler stressed the need to concentrate on the principal issues. It was important that Heads of Government should make progress on these on the first day so that drafting could take place overnight. The draft conclusions at present available were not an adequate basis for discussion.

The Prime Minister said that the two principal questions, the budget and control of expenditure, including CAP expenditure, / should

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should be discussed first. As regards the budget, we would stick absolutely to our requirement for a safety net. It was the key to resolution of other issues. How did Mr. Papandreou see these matters? M. Thorn said that this was not clear. As of earlier this week, the Presidency had been of the view that by late on the second day Heads of Government should proceed to discuss political co-operation and other matters. M. Noel commented that Mr. Varsis of the Presidency had wished to commence with the detailed agricultural questions. Sir Michael Butler said that he understood that President Mitterrand had asked Papandreou to leave the budget discussion until the end. This was misguided because this would not leave sufficient time for resolution of the matter. The Prime Minister said that she was not prepared to discuss detailed questions until agreement had been reached on the main issues. We should require that the subjects of interest to us were discussed pari passu with those matters of interest to others. With regard to control of Community expenditure, France, Germany and the United Kingdom now had similar interests. M. Thorn said that he himself had no particular preference with regard to the order of items. But the majority of governments, at Greek suggestion, wished to commence with the agricultural matters. Their aim was to establish whether there was a disposition to envisage cuts in the CAP. But the Prime Minister had told Mr. Papandreou that we wished to begin with the budget. His own thought was that the first discussion should embrace both the budget and the CAP. Sir Michael Butler said that two hours could profitably be devoted to each. The Foreign and Commonwealth Secretary commented that everyone was agreed that the issue of own resources should be left to the end.

M. Thorn said that if we wished to avoid failure at Athens, we would have to take precise decisions on particular issues. The Prime Minister said that she was not willing to agree to decisions piecemeal. Unless a whole package could be agreed, there would be a British reserve on everything. M. Thorn suggested that the Prime Minister should make that clear at the outset of the discussion.

/ Sir Michael Butler

CONFIDENTIAL

- 3 -

Sir Michael Butler observed that France had tabled draft conclusions relating to the control of EC expenditure. These had not yet been discussed. We should be able to take these conclusions as a basis for discussion, though we ourselves would have points to add. We did not think that the Presidency text on this matter was a valid basis for discussion. The Foreign and Commonwealth Secretary said that the Presidency text was satisfactory on certain points but was inadequate on the key issues.

The most Heads of Government could do at Athens was to arrive at Heads of Agreement. The Prime Minister said that she understood that the new French proposals would require amendment to the Treaty of Rome. M. Thorn confirmed that that was the Commission's view. The Prime Minister asked whether President Mitterrand would be likely to accept that the discussion should first concentrate on the two principal issues. M. Thorn said that French views were not clear but he thought this suggestion should be ventilated at the outset. The Prime Minister said that it was desirable that the Germans, the French and perhaps others should now be consulted about this point. If Heads of Government got down to these matters straight away, this would give the impression of impetus. The press could be briefed that fundamental problems had been addressed at the outset.

The Prime Minister repeated that the critical question for us was the safety net with respect to the budget. It was also essential that there should be effective control of EC expenditure generally and CAP expenditure in particular.

Sir Michael Butler said that a great deal would depend on the progress of the discussion on the budget. There had been some advance. It was agreed that corrections should be made on the revenue side by means of VAT reductions. The Commission had made the helpful proposal that a threshold should be established beyond which Member States would acquire a refund on the revenue side. This idea was gaining ground. But there was still the problem that a number of Member States

/ maintained

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- 4 -

maintained that only a part of the problem could be dealt with. They based themselves on a concept of gaps which were artificial. The Prime Minister said that there was only one genuine gap, that between expenditure and income.

Sir Michael Butler said that it was not essential that the budget problem should be solved by a single mechanism provided that the whole problem was effectively dealt with. Had the Commission any new ideas? The Prime Minister said that it was essential to cover both the receipts and the expenditure side. M. Thorn agreed. President Mitterrand had told him that he could not accept "penalisation" of the CAP. Any modulation must cover all Community policies. The Foreign and Commonwealth Secretary asked whether the Commission had thought of an alternative to VAT modulation based on agricultural spending. It was this basis which was the objectionable feature.

Sir Michael Butler said that we had recently been examining a new idea. The "Dublin mechanism" had been based on the difference between a country's share of GDP and its share of own resources. If a revised version of this could be put forward then the whole problem could be dealt with by two different mechanisms. We had discussed this approach informally with the French, the Germans and the Greeks but it was not yet clear whether the idea would run. M. Thorn said that we should be realistic. This was not a new proposal. It had been discussed in 1981. Judging by conversations he had had, if we put it forward now, we should simply revive the arguments advanced against it in 1981. Sir Michael Butler said that we were in no doubt that our safety net proposal had enormous merits. But since others had taken up rigid positions against it, we might have to devise new means of achieving the same end.

At this point the Foreign and Commonwealth Secretary left for another engagement. M. Thorn said that he believed the Commission's own proposal was the second best solution for us. Sir Michael Butler said that we had to achieve a mechanism which was certain to work fairly for us and for others.

/ Confirming

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- 5 -

Confirming this, the Prime Minister said that we would of course be prepared to contribute more to the Community if our share of Community GDP rose. It was clear that there was a great danger of Heads of Government being overwhelmed by technical detail at Athens. M. Thorn said that was precisely why he was so worried about the meeting.

Sir Michael Butler said that if the questions were wrongly posed, Heads of Government would just read out the stock briefs. It was perhaps desirable to direct discussion to the question of what the budgetary outcome should be in the first year of any new system. It was clear that whatever was agreed for us and the Germans, seven Member States would continue to be net beneficiaries. This left France which was bound to become a net contributor, because of a number of factors. What kind of arrangements would be fair for Britain, France and Germany? Objectively speaking, France would contribute twice as much as us. But that was not a realistic approach. Agreeing, the Prime Minister said that perhaps France and Britain should contribute about the same amount. That was a rather generous attitude on our part. M. Thorn said that a major difficulty would arise here. Most Member States accepted that there was a British problem. But they did not agree that something had to be done for Germany. And they knew that France would be the next in line. The Prime Minister commented that we had to think about the attitude towards the Community of the next generation of Germans. It was reasonable that there should be a limit on the German contribution. M. Thorn said that it might be possible to guarantee to Germany that the trend of increasing German contributions would not continue indefinitely into the future. Mr. Williamson said that that idea was not inconsistent with a scheme whereby France and Britain paid roughly the same amount and the Germans paid roughly what they already paid.

Sir Michael Butler asked whether it was clear that the Commission proposal for thresholds envisaged a threshold for

/ Germany.

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Germany. M. Thorn confirmed that this was the case. Sir Michael Butler commented that it was important for the success of any system on these lines that Germany should not reach its limit in the first year. This requirement should be helped by the fact that the net German contribution in 1983 should be several million ecus less than in 1982. So Germany should be able to contribute adequately to the United Kingdom refund and that would help with the other countries.

The Commission would need in Athens to be able to respond if Heads of Government asked for the 1983 position on net contributions. Figures would be required, even if there was a margin of error. Our own experts believed that the net German contribution for 1983 was considerably down. He repeated that we needed to move the discussion away from the stock basis. M. Noel commented that it was more-or-less accepted that there was a British problem. It was more difficult if the German problem was linked to the British problem. And if France was also involved, the situation became even more difficult. The Prime Minister commented that the idea that there should be a limit to the increase in the German contribution was not a very substantial concession for Germany. M. Thorn said that the growth of CAP expenditure was largely due to the fact that prices were calculated on the cost of agricultural production in Germany. That was why France made so much money out of the CAP.

Sir Michael Butler said that Germany would have to make concessions to France with regard to MCAs. With regard to the idea of producing a system under which France and Britain could contribute equally, this could be done by the way refunds were financed - thus countries who were net contributors would be progressively excused the more they contributed. There would also be a provision that the smallest countries should not bear too much of the burden. The Danes and the Benelux countries would not like this approach. M. Thorn commented that he feared that the Danish Government would not accept any decision for, following their experience with the INF question, they feared that they would not be able to secure a Parliamentary majority. Sir Michael Butler pointed out that in that case

CONFIDENTIAL

- 7 -

Danish farmers would go very hungry in the second half of 1984.

M. Thorn said that we should not worry too much about German attitudes. The Germans would give in on MCAs and simply wanted a financial limit for the future. The discussion should concentrate on the British problem. M. Thorn again recommended the Commission's proposal. The Prime Minister said that a safety net was essential. Sir Michael Butler commented that M. Thorn had recently said publicly that the Commission's proposal was a "real safety net". The fact was that the Commission's safety net was too close to the ground. The Prime Minister said that it was our safety net that was necessary - and that was a sticking point.

M. Thorn said that unless there was a clear orientation on the CAP, then the future was bleak. The Community was in bad shape. If agricultural production continued on its present trend, the Community would be bankrupt long before there was a ratification of the own resources decision. Agricultural policy was out of control. Price cuts and cuts in production were needed. The Prime Minister said that for us any revised CAP regime must be non-discriminatory; our farmers could not be penalised to subsidise inefficient farmers. Sir Michael Butler said that the Commission had proposed that there should be a limit on milk production of 97,000 tonnes. There was no way in which a higher figure could be financed. M. Thorn said that some Member States were now talking, absurdly, of borrowing money to finance higher production.

With regard to the structural funds, Athens should decide how much more money to allocate. The Commission had proposed a doubling of current provision. Mr. Williamson said that we stood on the Lancaster House text.

M. Thorn said that with regard to new policies, a clear decision should be taken on Esprit. A figure would be needed. In the initial stages Esprit could be financed from existing resources. The Prime Minister said that the Community needed

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/ to

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- 8 -

to make a choice, just as individual Member States had to. Some projects might have to be abandoned in order to finance Esprit. M. Thorn said that that depended on the decisions of the Council. Sir Michael Butler said that the Research Council would have to examine the priorities.

On enlargement, M. Thorn said that the prospects were still not good. Sir Michael Butler said that he thought that there had been evolution in the French approach. President Mitterrand was now prepared to set a date for completion of the enlargement process. Mr. Williamson commented that we believed that the French would accept the Presidency text on enlargement.

The discussion ended at 1220.

A. J. C.

2 December 1983

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TO IMMEDIATE FCO

TELEGRAM NUMBER 4293 OF 1 DECEMBER 1983

INFO IMMEDIATE ATHENS

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN

LUXEMBOURG

INFO SAVING STRASBOURG LISBON

ATHENS EUROPEAN COUNCIL: THORN'S CALL ON THE PRIME MINISTER
2 DECEMBER

SUMMARY

1. THORN COMES TO LONDON VERY WORRIED THAT THE EUROPEAN COUNCIL WILL EITHER PRODUCE A BAD AGREEMENT WHICH DOES NOT TACKLE THE REAL ISSUES OR BREAK UP IN DISORDER, MAKING INEVITABLE A MAJOR FINANCIAL CRISIS. HE IS NO DOUBT AFRAID THAT HE WILL END HIS TERM AS PRESIDENT WITH THE COMMUNITY BANKRUPT. HE JUDGES THE PROBLEM OF BUDGETARY IMBALANCES TO BE OF CARDINAL IMPORTANCE BUT NOT THE MOST DIFFICULT TO RESOLVE. HE WILL PROBABLY BE HOPING TO WORK WITH THE PRIME MINISTER (A) TO BRING PRESSURE ON THOSE WHO, LIKE THE ITALIANS, SEEM DETERMINED TO EVADE THE NEED FOR SERIOUS REFORM OF THE CAP WITHOUT WHICH BREAKDOWN SEEMS TO HIM LIKELY, AND (B) TO ENSURE THAT THE EUROPEAN COUNCIL WILL NOT GET BOGGED DOWN IN THE CONFUSION HE DISCERNS IN THE PRESIDENCY'S APPROACH.

DETAIL

2. THORN REPORTED GLOOMILY TO COMMISSION ON 30 NOVEMBER. THE SPECIAL COUNCIL AND HIS BILATERALS SHOWED A REAL DANGER OF



~~DETAIL~~

~~2. THORN REPORTED GLOOMILY TO COMMISSION ON 30 NOVEMBER. THE SPECIAL COUNCIL AND HIS BILATERALS SHOWED A REAL DANGER OF FAILURE AT ATHENS. ACCORDING TO LEVER (TUGENDHAT CABINET) THERE WAS NO DISPOSITION TO DO MORE WORK ON ALTERNATIVE FORMS OF MODULATED VAT, INDEED CONSIDERABLE DOUBT WHETHER THE NEGOTIATION AT ATHENS WOULD GET INTO SUCH DETAIL. EQUALLY THE COMMISSION APPEARED TO HAVE DECIDED SIMPLY TO LET THE FRENCH AND GERMANS TRY TO COME TO TERMS ON MCAS AND SHOWED NO SIGNS OF WANTING TO HELP BY TAKING NEW IDEAS TO ATHENS. THE ONLY SUBJECT WHICH GAVE RISE TO ANY REAL DISCUSSION WAS THE FRENCH PAPER ON BUDGETARY DISCIPLINE. AS WAS TO BE EXPECTED THERE WERE SOME EXPRESSIONS OF OUTRAGE, BUT MORE REALISTIC ATTITUDES PREVAILED, AND IT WAS AGREED THAT THE COMMISSION WOULD HAVE TO BE WATCHFUL FOR UNDESIRABLE INSTITUTIONAL CONSEQUENCES IN WHATEVER TEXTS THE EUROPEAN COUNCIL DISCUSSES.~~

3. LACROIX (CENTRAL ADVISORY GROUP), WHO IS THE MAIN SOURCE OF DETAILED BRIEFING FOR THORN, TELLS US THAT THORN FEARS THAT THE FRENCH INITIATIVE ON FINANCIAL DISCIPLINE IS AN ATTEMPT TO EVADE A REAL REFORM OF THE CAP. HE IS QUITE UNSURE OF MITTERRAND'S LIKELY POSITION, HAVING HEARD SEVERAL DIFFERENT TUNES FROM PARIS. IN THORN'S VIEW A CRISIS IN 1984 AND 1985 WILL BE UNAVOIDABLE IF THE MINIMUM REFORM OF THE CAP (AS IN THE COMMISSION'S PROPOSAL) AND THE CONSEQUENT SAVINGS ARE NOT VERY RAPIDLY ACHIEVED. THIS IS REFLECTED IN THE ADDITION OF POINT 1.7 OF THE PRESIDENCY'S "POLITICAL" PAPER (10978/83), AT THE INSISTENCE OF ORTILI AND DAVIGNON. THORN IS CONVINCED THAT THE ITALIANS, IRISH AND POSSIBLY THE FRENCH WILL TRY VERY HARD TO RENDER THE REFORM INEFFECTIVE AND WANTS PAPANDREOU TO SEE THAT THE ISSUE CANNOT BE FUDGED. HE FEARS CRAXI, CONVINCED THAT THERE IS NOTHING IN THE PACKAGE FOR ITALY AND SULKING AT WHAT HE SEES AS GROWING CONNIVANCE BETWEEN FRANCE UK AND FRG, MAY PREFER TO CAUSE BREAKDOWN RATHER THAN AGREE TO SERIOUS REFORM. THORN MAY WELL THEREFORE WISH TO SPEAK FIRST AT THE EUROPEAN COUNCIL TO STRESS THE DIRE CONSEQUENCES OF FAILURE TO FACE UP TO REALITY ON THE NEED FOR REFORM.

4. A FURTHER SOURCE OF WORRY IS THE PRESIDENCY'S APPARENT CONFUSION OVER WHAT IT IS TRYING TO ACHIEVE. ORTOLI AND DAVIGNON, WORKING FAR INTO LAST NIGHT WITH VARFIS ON THE PRESIDENCY TEXTS, WERE UNABLE TO DISCERN WHETHER THE PRESIDENCY WILL BE AIMING FOR GENERALITIES OR OPERATIONAL AGREEMENTS. THORN FEARS THAT PAPANDREOU WILL NOT HAVE A CLEAR OBJECTIVE AND THAT IN THE FOG NO REAL NEGOTIATIONS WILL BE POSSIBLE. BECUASE HE THINKS AGRICULTURE IS THE KEY ISSUE HE HAS BEEN PRESSING THE PRESIDENCY TO START WITH IT. (WE HAVE POINTED OUT THE POSSIBLE CONTRARY DESIRABILITY OF STARTING WITH A FIRST DISCUSSION OF BUDGETARY IMBALANCES).

5. THORN IS UNDER NO ILLUSION ABOUT THE NEED FOR A SATISFACTORY SETTLEMENT ON BUDGETARY IMBALANCES. HIS BILATERAL CONTACTS HAVE PERSUADED HIM THAT THE REAL DIFFICULTY WILL NOT BE THE SYSTEM OR THE SCALE OF RELIEF BUT THE QUESTION OF FINANCING. THE GERMAN INSISTENCE ON NOT CONTRIBUTING MAKES THORN DOUBT WHETHER FULL AGREEMENT CAN BE REACHED. (THE QUESTION IS DIRECTLY PUT AT V2C

OR THE SCALE OF RELIEF BUT THE QUESTION OF FINANCING. THE GERMAN INSISTENCE ON NOT CONTRIBUTING MAKES THORN DOUBT WHETHER FULL AGREEMENT CAN BE REACHED. (THE QUESTION IS DIRECTLY PUT AT V2C OF 10978/83 AT COMMISSION REQUEST). THORN BELIEVES THAT THE FRENCH MAY CYNICALLY HAVE STOKED THE GERMANS UP ON THIS (EG THROUGH THEIR AD HOC KEY AMENDMENT TO THE DANISH PROPOSAL). HE BELIEVES THE POINT MUST BE TACKLED CALMLY, EARLY IN THE DISCUSSION. AS FOR THE SYSTEM ITSELF, THORN WILL STRONGLY ADVISE THAT THE UK SHOULD NOT INSIST ON THE CONCEPT OF NET CONTRIBUTION, BECAUSE THE ITALIANS WILL INSTANTLY RAISE THE NEED TO REDEFINE EXPENDITURE AS RUGGIERO MADE CLEAR IN THE PREPARATORY GROUP ON 22 NOVEMBER. BUT HE ACCEPTS THE NEED FOR MORE THAN AN EXPENDITURE GAP CORRECTION, PARTLY BECAUSE HE SEES SOMETHING LIKE MODULATED VAT AS A MEANS OF DEALING WITH THE GERMAN NEED NOT TO CONTRIBUTE TO UK RELIEF. HE THINKS THAT THE COMMISSION'S MODULATED VAT MIGHT STILL PROVE ACCEPTABLE AS A LAST RESORT, BUT IF IT IS NOT HE IS PREPARED TO CO-OPERATE IN WORKING OUT AN AD HOC MODULATION, EVEN THOUGH THAT WOULD MAKE THE GERMAN RELIEF MORE APPARENT.

FCO ADVANCE TO:-

FCO - PS HANNAY WALL
CAB - WILLIAMSON STAPLETON DURIE
MAFF - FRANKLIN ANDREWS
TSY - UNWIN FITCHEW EDWARDS
NO 10 - COLES

FCO COPY SAYING TO STRASBOURG LISBON

CCN PARA THREE LINE 11 ORTOLI AND DAVIGNON ETC

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NNNN

B/4
COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

1 December 1983

John Thorn

RR 1/2
f.a.

Call by the President of the European Commission on the
Prime Minister: 2 December

I enclose a brief for M. Thorn's call on the Prime Minister at 11.15 am on 2 December. He will be accompanied by:

M. Emile Noel - Secretary-General to the Commission
~~M. Jean Durlieux - Chef de Cabinet~~
~~M. Lacroix - M. Thorn's Cabinet~~
Mr Graham Meadows - M. Thorn's Cabinet

If the Prime Minister agrees, the Secretary of State would like to attend; he will however have to leave shortly before noon to host talks with the South African Foreign Minister

The Prime Minister will recall that she had wished to offer M. Thorn a meal during his visit to London but this was impossible to fit into the programme.

Yours

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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10 DOWNING STREET

Prime Minister.

M. Thom will have with him

M. Noel (Secretary - General of
the Commission) and Dr. Meadows.

On our side, if you agree, the
Foreign Secretary, Sir Michael J. Hill
and Dr. Williamson will attend.

A.S.C. 4/12.

CONFIDENTIAL

BRIEF

CALL BY THE PRESIDENT OF THE COMMISSION ON THE PRIME MINISTER :
2 DECEMBER 1983.

Objective

1. To ensure that Thorn and the Commission understand the UK's requirements for the European Council at Athens and are under no illusions that we shall be prepared to agree to an increase in own resources without the conditions set out by the Prime Minister at Stuttgart in June.

Points to Make

2. Welcome M. Thorn to London. Delighted that Commission has now agreed draft regulation for our 1983 refunds. Value the opportunity to see him immediately before the vital European Council in Athens. Appreciate the hard work which the Commission have put into the Special Council negotiations. We have not agreed with all their ideas - and indeed frankly dislike the proposed redefinition of Community expenditure which would have had the effect of reducing the apparent budgetary burden on the UK - but convinced that without the Commission's endeavours we should not have got so far as we have. Also convinced that the Commission's role will be of great importance if we are to achieve a result at Athens.

3. We are dedicated to achieving a solution in Athens. Convinced that this is in the interests of the United Kingdom and the Community as a whole. Surprised to see that some continental press has suggested that we are not interested in an agreement. Fear that unless real progress is made next week the Community could be in for a period of turbulence. Must avoid if at all possible. Can assure Thorn that we for our part will do all we can to ensure a satisfactory outcome.

4. Reasonably satisfied at the way the Special Council negotiations have gone on other policies and structural funds. As we said in our paper on 'Other Policies' for UK

the completion of the internal market is among our priorities. Europe's industry and consumers are penalised by continuing barriers to trade within the Community. Unjustified that 25 years after Treaty of Rome British insurers, for example, cannot take advantage of a Common Market in services. We attach great importance to the ideas which are around for the encouragement of industrial co-operation in the Community. Accent for the future must be wealth creation. Not least of the reasons for hoping for a solution on future financing and the control of Community expenditure at Athens is that this will clear the way for proper consideration of the future development of the Community and the challenges we face in the years to come. We must put the budget issue behind us.

5. But the two most immediate issues for Athens are the control of agricultural and other spending and the budget. Made it clear at Stuttgart that we should not be able to agree to an increase in own resources unless we are satisfied on these two points. This remains our firm position. M. Thorn may have noticed that there is a current of opinion in Parliament, including among Conservative back benchers against an increase in own resources. Government could not present a proposal to the House with any chance of success if we did not achieve satisfaction on these points.

Control of Community and Particularly Agricultural Expenditure

6. The debate on this issue has come a long way. But the agricultural dossier is in a mess. This only reinforces the case for a strict financial guideline to require the essential decisions to be taken. We are therefore glad that the Commission has firmed up its ideas on the guideline. Unfortunately they still do not go far enough. We must have the assurance that a guideline for the CAP would be built in a legally binding way into the Community's budgetary procedures. And there must be a few loopholes as possible in the arrangements for applying the guideline, or it will fail in its object.

7. Pleased that the French have now tabled a paper on a guideline for overall Community expenditure. Seems to us that this proposal strengthens the case for a CAP guideline and for courageous decisions on the various commodity régimes. If CAP spending is not controlled, then under the French ideas other spending would inevitably be squeezed out. This would be contrary to the general desire of Member States, the European Parliament etc.

8. See no reason why agreement cannot be reached on this issue.

Budget

9. As Geoffrey Howe said at the Special Council early this week there is now a considerable measure of agreement on the budget problem. It is now accepted that a problem exists; that a lasting solution is needed; that new arrangements should reflect the ability to pay; and that arrangements should operate on the revenue side of the Community budget. What we need to do now is to reach agreement on the measurement of the budgetary burden on the UK and on the extent of the relief to apply to the measured burden. Also that any agreement should operate in respect of 1984 and subsequent years.

10. Must make it clear that we cannot agree to the redefinition of the budgetary burden proposed by the Commission. The extent of the problem cannot be wished away. For four years the Community has used the net contribution yardstick. It should continue to do so. Concept well understood and measures something tangible - the flow of resources across the exchanges from UK to net beneficiary Member States.

11. We remain convinced that our safety net proposal represents the best method for tackling the problem. It would involve minimal changes in the existing resources system, and would provide a durable solution and one applicable to all Member States in an enlarged Community.

12. Unreasonable that it should be described as smacking of the juste retour. Frankly do not understand this charge. We should remain net contributors to the budget under the safety net although UK is one of less prosperous Member States. Our proposal is in fact highly Community minded since it would permit Member States to consider spending programmes on the basis of their merits rather than in terms of the budgetary impact on them.

13. Not saying that we are wedded to every word of the safety net proposal. Would be ready to consider other ways of dealing with problem as long as whole of it is covered.

14. But let me be plain. We should not be satisfied with an outcome which gave us less than the safety net or which was liable to move in unpredictable ways as would, for example, the Danish Convergence Fund proposal.

Own Resources

15. Glad to see that Thorn accepted that this will be the last issue to be decided at Athens. Repeat that we will be prepared to consider an increase in own resources provided there is agreement on an effective control of agricultural and other expenditure and provided it is accompanied by an arrangement to ensure a fair sharing of the financial burden so that no country has to pay a share disproportionate to its relative national wealth.

Institutions and Enlargement

16. We have been thinking about ways to improve efficiency of Community institutions after enlargement. Particularly concerned by prospect of Commission of 17 members, as it would be on present basis of large Member States having two Commissioners. Answer is surely a smaller Commission of 12

/Members...

CONFIDENTIAL

Members. UK would be prepared to make the sacrifice of one of its Commissioners to achieve this. What are Thorn's views on our idea, has he any suggestions as to how best to proceed to attain our objective.

CONFIDENTIAL

CALL BY THE PRESIDENT OF THE COMMISSION ON THE PRIME MINISTER :
2 DECEMBER 1983

BACKGROUND

1. The Prime Minister will have seen all the papers in preparation for her meeting on 1 December to prepare for the Athens European Council.
2. No additional background is required on the post-Stuttgart negotiations.
3. On institutions and enlargement, the Prime Minister will recall that she has already spoken to Chancellor Kohl about our ideas for a leaner more efficient Commission. To raise the matter with Thorn in the manner proposed would do something to convince him that we have the better interests of the Community at heart.

EUROPEAN COMMUNITY DEPARTMENT (INTERNAL)
FOREIGN AND COMMONWEALTH OFFICE

30 November 1983



With the compliments of

EUROPEAN COMMUNITY DEPARTMENT

(INTERNAL)

FOREIGN AND COMMONWEALTH OFFICE

LONDON, SW1A 2AH

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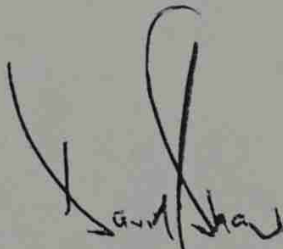
Miss Bannerman
Protocol Dept
OAB SG/104

cc: Mr Wall
Mrs Walters, W52
~~Mr Jose, No 10 Downing Street~~

RA
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VISIT OF M GASTON THORN, PRESIDENT OF THE EUROPEAN COMMISSION,
FRIDAY 2 DECEMBER 1983

1. Further to our telecon I enclose some background material for the benefit of the Special Representative who will greet M Thorn on arrival.
2. The arrival details are still not firm but, at this juncture it seems likely that M Thorn and his party will arrive by air taxi at Northolt at 0930 on Friday 2 December from The Hague. They will then travel to the Commission's London office and subsequently to No 10 for a meeting with the Prime Minister at 1115. The meeting is scheduled to last one hour, and will probably be attended by the Foreign Secretary.
3. The Commission's London office will be responsible for transport arrangements and booking the VIP lounge.
4. I have no timings for M Thorn's departure but there is a possibility that he will travel on to Dublin in the afternoon for a meeting with the Irish Prime Minister.
5. M Thorn will call on the Prime Minister as part of the Commission's preparations for the European Council which will take place in Athens from 4 to 6 December. He is calling in turn on all the Heads of Government of member states who will attend the European Council.



D R Shaw
European Community Dept
(Internal) E121 233 4947

29 November 1983

VISIT OF M GASTON THORN, FRIDAY 2 DECEMBER 1983

President's Party

His Excellency Monsieur Gaston Thorn GCVO GCMG
- President of the Commission of the European Communities

✓ Monsieur Emile Noel
- Secretary General to the Commission

X Monsieur ~~Jean~~ Durieux
- Chef de Cabinet

✓ Mr Graham Meadows
- Monsieur Thorn's Cabinet

X Monsieur ~~Jean Louis~~ Lacroix
- Secretariat General

Madame Heide Hofman
- Secretary

Monsieur PIRZIO BIROLI

Mr Scott - Head of Commission Office in London.

Contact at the EC's London Office:

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Commission of the European Communities
Information Office
8 Storey's Gate
London SW1P 3AT

Tel: 222 8122

Cars. 901 X 406

— GYE 134N

A 330 TGO

Motor Cycle Escort.

THORN, GASTON, GCVO (1976), GCMG, (1972) (LUXEMBOURG)

President of the Commission since January 1981.

Born 1928. Deported briefly as a schoolboy to Germany during the Nazi occupation. Educated Luxembourg, Montpellier (where his father was employed as a railway engineer), Lausanne and Paris. Doctor of Law. Practised at the Luxembourg Bar, and was active in Luxembourg and international student activities. 1959 elected Deputy and Member of the European Assembly; subsequently Secretary General of its Liberal Group; 1961-4 Luxembourg Municipal Council; 1961-9 President of the Democratic Party. 1969-74 Minister of Foreign Affairs. 1974 Prime Minister of the Country's first Socialist-Liberal coalition. President since 1970 of the Liberal International and President of the Federation of Liberal Parties of the EEC. President of the General Assembly of the United Nations 1975/76. He took over responsibility for Economic Affairs and the Middle Classes in September 1977, having dropped his Ministerial responsibility for Sport and having appointed a Deputy Minister of Foreign Affairs, M Hamilius to assist him.

After the 1979 elections he stood unsuccessfully for election as Liberal candidate for the Presidency of the European Parliament, and returned to Government with six portfolios; Deputy Prime Minister, Minister for Foreign Affairs, External Trade, the National Economy, the Middle Classes and Justice.

He speaks excellent English.

His wife Liliane is a free-lance journalist who holds particularly strong views on women's rights. Good English. One son born in 1963.



✓

pc DB

10 DOWNING STREET

From the Private Secretary

17 November 1983

Possible Visit of the President of the
Commission

Thank you for your letter of 10 November.

I can now confirm that the Prime Minister will be prepared to see the President of the Commission at 1115 on Friday 2 December.

In conveying this information to M. Thorn, I should be grateful if you could say that the Prime Minister would have much liked to give M. Thorn a meal during his visit to London; but she will only have two full working days between her return from CHOGM and the beginning of the Athens Council and she is unfortunately fully committed on both those days.

A. J. COLES

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER

M. THORN

You commented on the attached letter that you wanted to give him lunch. But the only days when you can see him before Athens are Thursday, 1 December and Friday, 2 December. On Thursday you have Questions. On Friday you are lunching with Channel 4.

I honestly do not think he will mind if we explain to him that you only have two full working days between your return from Delhi and the beginning of the Athens Council, that you would have liked to give him lunch but unfortunately are committed on both those days.

Agree that we may arrange a talk for 11.15 on the Friday?

Yes
ms

A.S.C.

16 November 1983

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①



Prime Minister.

Foreign and Commonwealth Office

London SW1A 2AH

Would you be prepared to
see M. Thorn at 11.15
on Friday, 2 December?

10 November, 1983

A.S.C. $\frac{14}{11}$

Dear John,

Last time he
complained that he
didn't give him

Possible Visit of the President of the Commission

branch.
So we will have

You told me this afternoon that Mr Schaub had telephoned you about Mr Thorn's desire to call on the Prime Minister on 24 or 25 November. Since these dates are impossible, you asked for advice on whether the Prime Minister should see Thorn on another date.

meeting

when I
can give
him lunch
not

We have consulted the Foreign Secretary in Athens. He believes that there are strong arguments in favour of the Prime Minister seeing Thorn if it can be fitted in. Although the Commission have been less than helpful recently in coming out with their redefinition of the UK's budgetary burden, they may nevertheless have a key role to play in Athens, either in putting forward compromises which enable a settlement to be reached, or in helping to avert a breakdown which could lead to a serious crisis within the Community. There is every advantage in ensuring that Thorn knows before he goes to Athens what our position is on the major issues.

The Foreign Secretary therefore hopes that a meeting can be arranged. We understand from Schaub that Thorn could make either the morning of 1 December or the late morning or afternoon of 2 December.

If either of these dates would be convenient for the Prime Minister, we will confirm arrangements with Schaub.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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10 DOWNING STREET

From the Private Secretary

18 March 1983

PRIME MINISTER'S MEETING WITH M. THORN

Thank you for your letter of 17 March about the question of an agricultural development programme for the Highlands and Islands. This is simply to confirm that there was no time for the Prime Minister to raise this particular issue with the President of the European Council when she saw him on 17 March. But she did make the general point that Commissioner Tugendhat did not seem to be taking a helpful attitude on certain questions in which we had a particular interest (M. Thorn contested this, saying that Tugendhat was indeed fighting for us on the Budget).

I am sending copies of this letter to Muir Russell (Scottish Office), John Kerr (HM Treasury) and Robert Lowson (Ministry of Agriculture, Fisheries and Food).

A. J. COLES

R. B. Bone, Esq.,
Foreign and Commonwealth Office.

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CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

17 March 1983

New Thorn

Prime Minister's Meeting with M Thorn

I understand that the suggestion by Mrs Ewing MEP for an agricultural development programme for the Highlands and Islands was discussed in Cabinet this morning: and that the Prime Minister has suggested she might raise the issue with M Thorn this evening. The Scottish Office will be writing to you with the background and suggesting the line the Prime Minister might take on the substance of the issue. We agree that the Prime Minister could usefully assure M Thorn that HMG would of course welcome practical and cost-effective proposals which would be of benefit to a disadvantaged area of the UK without, of course, endorsing the particular ideas in the European Parliament's report.

/ As regards Mr Tugendhat's role, I attach extracts from the European Parliament's 'Hansard' showing that he made clear the Commission's support for such a programme and went on to say that as far as he knew, HMG would not be keen. It was indeed unfortunate that Tugendhat chose to speculate about HMG's views in this ill-informed way. While the Commission were no doubt aware of our doubts about the realism of the ideas in the report they should certainly not have spoken in this way to the European Parliament. The one slightly mitigating factor is that Tugendhat was standing in for his agricultural colleague Mr Dalsager and speaking to the latter's brief, so the responsibility was not Tugendhat's alone.

I am copying this letter to the Private Secretaries to the Secretary of State for Scotland, the Chancellor of the Exchequer, and the Minister for Agriculture, Fisheries and Food.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

vision is not and need not be an insoluble problem. I believe the two can live together very happily. Farming and the needs of conservation are not mutually exclusive. They can live together if they must live together. The problem at the present time is that under the EAGGF there is no special allocation to take care of the environmental provisions that should perhaps be available. I would therefore advocate that a special report be drawn up by Parliament to look into these problems, and I think a debate is needed on it.

This afternoon, Mr President, I urge Parliament to adopt this report that will, I hope, put new heart into the Highland area and give the Community a human face in those difficult, albeit beautiful, areas.

VORSITZ: BOON KLEPSCH

Vizepräsident

Mr Tugendhat, Vice-President of the Commission. - Mr President, as Mr Provan knows, I am speaking in place of Mr Dalsager but I would like to say to him that I and my cabinet have studied the report's observations and suggestions with a keen interest because, clearly, it is of importance to the region from which he comes.

The report is also particularly relevant, coming at a time when the Commission is working on adjustments to the policy on the structure of agriculture which it hopes to lay before Parliament and Council by the end of the year. I note that the report deals not only with the Scottish Highlands and Islands, but also with the Community's other problem regions. Things are undoubtedly extremely tough for them, not just for the Highlands and Islands but for the others as well. I feel that the report will be of assistance to us in working out ways and means of tackling their problems. We have some experience in this connection, thanks to the hard work put in around 1974 when the Commission submitted the proposal for the directive on hill farming and agriculture in certain less favoured areas and to the specific programmes since then for the worst-off regions in Ireland, Italy and Greece.

Given that the report's approach and the Commission's are the same in this respect, probably the best course is not to aim at special arrangements for the Highlands and Islands but to tackle the problems of the poorer farming regions on a comprehensive basis in the context of the intended recasting of the policy on agricultural structures.

There is, however, one other consideration that must not be overlooked. This concerns the degree of interest in the United Kingdom for a programme of the type suggested by Mr Provan. We have not found that there has been a great interest in such a programme in the United Kingdom, and I think it is important to bear that in mind. On the basis of the information available to the Commission, such a programme would not be considered as warranting priority, and a proposal launched under these conditions would probably lead to much wasted time rather than to policy improvements.

I hope, Mr President, that I have made clear the Commission's views on this matter. I think the evidence of a lack of interest is something which needs to be borne in mind, but no doubt Mr Provan, representing as he does a constituency in the United Kingdom, will be able to take up those matters with the appropriate authorities.

Ms Quin (S). - Mr President, I have been asked to say just a few words on behalf of the Socialist Group in support of the report by Mr Provan.

We welcome it as showing a very useful way in which the European agricultural structural funds can be employed. All too often in the past these funds seem to have been used indiscriminately without paying attention to the needs of particular regions. We feel that there is a very great need to identify areas such as this with real agricultural problems, define the nature of those problems and then seek to provide effective help for them. It is important to inject such money as we have where it is needed.

I am glad that the report, although it refers to an agricultural development programme, also lays great stress on the links with other aspects of the economy, whether it is tourism, forestry or fishing. I hope that the British Government, for its part, will back up the scheme with some enthusiasm and that the money made available will be of clear and extra benefit to the area concerned.

I am glad, too, that the environment aspects have not been overlooked and I welcome the opinion given by the Committee on the Environment, Public Health and Consumer Protection. We are talking about areas of great natural beauty, and they do need to be kept in such a way that they are attractive both for the inhabitants and for those who will go there as tourists. In the report there is some talk of forestry schemes, but fortunately there seems to be an emphasis on smaller schemes and schemes that will fit in with the existing landscape, rather than the huge mono-

MRS EWING

and we have too little; they have too little and we have too much - but added to our inclement weather is this depopulation. Within 50 years, the population of northern Scotland has halved. That is a human tragedy. The population of northern Norway, with various things like road equivalent tariff and equalised freight charges and a university in the Arctic Circle, has doubled. So if you get the policies right you can keep the people, or even increase their desire to go to these beautiful and so-called romantic places.

I have just come from the Shetlands - one of the furthest away places. They were here lobbying all the groups in February, you may remember, along with a big delegation. The wind was blowing at 176 miles an hour, which is almost hurricane force. In the midst of all this, animals have to be kept inside, and the cost of feed, the cost of transport, everything is at a disadvantage. They are not complaining about that; it is we, the politicians, who are complaining: we say, unless you are prepared to sit and wait for the death of my area you will have to pass this excellent programme, for which there are precedents. There is a precedent in Western Ireland and there is a precedent now in the Mediterranean. Anyway, I suggest it is a good experiment, perhaps for Greece and similar places.

Secondly, I would like to say this to Mr Muntingh, whose amendment I agree with, except that I think the word 'equally' must be scored from the first part and I cannot agree with recital B. I agree, that is to say, with Mr Muntingh, and all the bodies who have supported this programme - the government quango of the Highlands and Islands Development Board and all the elected councils of the Orkneys, the Shetlands, the Highland and Strathclyde regions - they have all agreed to accept Mr Muntingh's point of view.

In all Europe, there is no place with a record like ours for wildlife; that is why we have so much of it. We do not shoot our birds; we keep them and watch them to make sure they are always going to be there for tomorrow - the fish in the river and so on. We do, however, suffer from coastal erosion.

Lastly, I must say this. (My group will give me extra speaking-time if I need it.) Mr Tugendhat's words absolutely shocked me. He said an extraordinary thing today - the opposite of what Mr Dalsager said to my delegation here in February. Mr Dalsager said to my delegation: 'We have done the homework. We can put forward proposals within a few weeks. We are in favour of it.' So someone in the Commission has either changed

his mind or is not talking to his fellow Commissioner - and it just will not do.

The Conservatives voted against a line in the budget, and so did other groups. That was a pity, because we need this programme now and the failure to vote for that budgetary line for my second attempt was foiled.

I cannot understand the position of the British Government. Is it just that the Commission is deferring now to the British Government? Is it acting as though it were a British Commission? I have a briefing here from the British Government which says: 'In the absence of a proposal from the Commission, the government cannot comment on what the UK's position on an ADP will be.' So who is blaming who? The British Government blames the Commission and the Commission blames the British Government. I think at some point this question has to be answered.

Could my colleagues from other countries please come and see this land - and not necessarily in the summer weather, as Mr Clinton. If they do, they will see a proud people who deserve the right to continue living where they want to live, in the Highlands and Islands of Scotland.

Mr Tugendhat, Vice-President of the Commission. - Mrs Ewing, could you perhaps listen to what I have to say? You did not hear what I said. It really would be advisable for you to listen as you quite clearly failed to do so the first time. I made it absolutely clear that the Commission is in favour of this. I am operating off Mr Dalsager's brief. You really must not make accusations of that sort. I drew attention to the fact that there are difficulties in the United Kingdom but let me restate so that you cannot possibly misunderstand me, the Commission is in favour - very simple English words.

Mr Paisley (NI) - Mr President, I congratulate Mrs Ewing on her motion for a resolution and Mr Provan on his report.

It is all very well to have excellent reports, and this is an excellent report. However, if it is not going to be implemented, and implemented with the help of Her Majesty's Government, then all our deliberations and all our investigations will be in vain. I stand here today with some bitterness, because a Member of this House, Mrs Martin, prepared an excellent report on Northern Ireland, which was accepted by the Commission and adopted unanimously in this House. Yet for two years nothing has been done about it. I trust that this excellent report will have instant action taken



10 DOWNING STREET

From the Private Secretary

17 March 1983

Visit of the President of the EC Commission

M. Thorn attended a working dinner given by the Prime Minister here this evening. There was a good deal of general conversation before dinner, mostly about the prospects for the European Council. The substantive part of the discussion during dinner concerned the UK budget problem. I enclose a record of the discussion on this question.

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

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

no VC
Ruvv Ad

UP

CONFIDENTIAL

✓ Minister

RECORD OF A DISCUSSION AT A WORKING DINNER GIVEN BY THE PRIME MINISTER FOR THE PRESIDENT OF THE EUROPEAN COMMISSION AT 2030 HOURS ON THURSDAY 17 MARCH 1983 AT 10 DOWNING STREET

Present:

The Prime Minister	HE M. Gaston Thorn
The Foreign and Commonwealth Secretary	M. Emile Noel
Sir Michael Butler	M. Alexander Schaub
Mr. D. Hancock	
Mr. D. Hannay	
Mr. B. Unwin	
Mr. A.J. Coles	

The Prime Minister said that she had initiated a discussion of our budget problem in 1980 and had secured an agreement lasting for three years. The Community had then agreed to a three chapter mandate, all chapters of which would be implemented simultaneously. Some progress had been made last year on changes to the CAP and to economic and social policy but no progress had been made on reform of the budget. She had said in Dublin that the budgetary arrangements were inequitable. No progress had been made on a long term solution. We had been promised an arrangement for this year by last November. There had then been great controversy over the arrangement for the third year of the three year solution. This should never have occurred and she had been greatly upset by the proceedings. It was even more worrying that we were now in the third month of 1983 without any assurance as to a solution for this year. The assurances we had been given previously were worthless. We were now back to the situation we were in in 1980. She felt that she had been badly let down by all our partners. Germany and the United Kingdom were financing everybody else. We should have to turn this into a major issue. It was not our wish that it should become one but we had no choice. Both the long term and the interim problems must be solved and both must be discussed together. We could not wait beyond June. We did not wish to have to take the obvious step then.

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/ There was no

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- 2 -

There was no difficulty about a long term solution based on a limit to net contributions. This was a simple and equitable concept. Nor was there any difficulty about an interim solution. The existing formula, based on a two-third net refund and a risk sharing formula could be extended. But it must last until a long term solution was achieved. It was up to the Commission to raise this matter and put forward proposals at the European Council next week. We would then expect a proposal for the long term and a proposal that the existing formula should be maintained for the interim period. Foreign Ministers must discuss the matter in April. There was great feeling about this question in the United Kingdom. We did not want it to become an election issue. The achievement of the Common Fisheries Policy, in which our own negotiators had played a large role, had removed one irritation. The remaining irritation - the budget problem - must be solved in the next two to three months. We should not be put in the false position of asking for money. We just could not afford to give what we were giving at present.

M. Thorn said that he would do all he could to avoid discussion of the kind that had occurred last year. But the decision of the European Parliament had changed the situation. We now had to find a long term solution. The Foreign and Commonwealth Secretary said that no-one other than ourselves talked about a long term solution before Parliament had taken this decision. Now they were beginning to do so.

M. Thorn said that it was necessary to discuss in the first place a long term solution. Before that discussion took place he could not achieve an interim solution. It must be recognised that the interim solution was designed for three years only. No other Government appeared prepared to follow that course now. The Prime Minister said that in that case they would have to take the consequences. M. Thorn advised the Prime Minister to make that plain to her colleagues at the European Council. The important question was whether there was a political readiness to discuss the matter. The Prime Minister commented that her partners had promised a solution by last November. There was little basis of trust between the members of the Community.

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/ M. Thorn

CONFIDENTIAL

- 3 -

M. Thorn said that on his recent round of capitals he had told everyone that something must be done for Britain. The Foreign and Commonwealth Secretary said that it was not a matter of doing something for Britain. The Prime Minister observed that the Commission was not showing sufficient seriousness about the problem. We should not pay too much attention to the European Parliament. M. Thorn said that he had raised the matter with President Mitterrand and had found an inadequate response. The Italians had been equally negative. M. Noel said that most Member States were prepared to take action in the long term with regard to the British problem. Mr. Pym said that they had signally failed to do so before the European Parliament decision. Now we were being asked to wait for a long term solution before we could have an interim one. But the politics of the British situation dictated that we could not wait. We had helped other Member States when they were in political difficulty and we expected others to help us. There must be an interim solution by June.

Sir Michael Butler said that there must be a thorough discussion at the Foreign Affairs Council in April. But Member States would say that they could not embark upon a discussion unless there was a Commission initiative. When the President of the Commission reported to the European Council on the discussion of the Green Paper he should make it quite clear that there was no prospect of a long term solution in 1983 or 1984 and say that there must therefore be an interim solution. If the Prime Minister were forced to make these points, then the reaction from President Mitterrand and others would be negative. The Commission and Chancellor Kohl should take the lead.

The Prime Minister said that we had been patient and reasonable but these tactics had not produced success. M. Thorn said that he would help us but our best ally would be Chancellor Kohl. He was the only Head of Government who had said, during the recent tour of capitals, that something must be done for Britain. The Prime Minister commented that that was because we had shown similar understanding to Chancellor Kohl in recent elections. The paper had to be put to the Foreign Affairs Council in April

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/ and it was

CONFIDENTIAL

- 4 -

and it was for the Commission to do this. M. Thorn said that he must make his long term proposal first. The Prime Minister disagreed. The long term and the interim should be dealt with simultaneously. M. Thorn said that that meant action in May. He could not make a long term proposal until May. But he was ready to tell the European Council next week that no long term solution was available immediately and that therefore they should begin discussing the interim solution. He was bound by his promise to Parliament to put forward a paper on the long term solution in May.

The Foreign and Commonwealth Secretary asked what figure would be inserted in the Commission's budget for 1984. Nothing would be gained by postponing the discussion. The Prime Minister said that it was clear that the aim was to avoid giving us a refund this year. M. Thorn said that the United Kingdom would obtain its refund though at the moment he could not see how.

Mr. Hancock said that it was not likely that the European Parliament would reject the 1984 budget just because it contained one item for Britain. M. Schaub said that there was a danger of the Parliament dismissing the Commission. Sir Michael Butler said that the Parliament's decision was to be explained by the fact that they wished to assert themselves and insist on a long term solution. In a sense they were right to do so. But it was essential to arrive at an interim solution by May so that a figure could appear in the 1984 budget as a routine item. Mr. Unwin said that there could surely be no objection to the Commission putting forward a proposal before May. Parliament wanted accelerated action. Mr. Hancock observed that M. Thorn had said that every government wanted a lasting solution. The Council's discussions should reveal this next week and that should be an encouragement to Parliament. M. Thorn said that at a meeting of the Commission next week there would be some discussion of an interim solution. But it was not at all clear when he would have a majority in the Commission for endorsement of a proposal.

/ Sir Michael Butler

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CONFIDENTIAL

- 5 -

Sir Michael Butler said that the aim at the European Council should be a conclusion envisaging a settlement of the interim problem at the May Foreign Affairs Council. It would be necessary for the Commission to put forward a reference figure and a suggestion for a risk sharing formula after the April Council.

The Foreign and Commonwealth Secretary said that he was surprised by M. Thorn's reference to the absence of a majority in the Commission for a solution for the British problem. M. Thorn said that there would be no majority before a long term solution was in evidence. The Prime Minister commented that it was extraordinary that even Commissioner Tugendhat did not seem to be supporting our cause. M. Thorn said that Mr. Tugendhat was indeed fighting for the United Kingdom.

The Foreign and Commonwealth Secretary asked why the Commission could not put forward a paper on the long term solution now. Sir Michael Butler asked whether the Commission could not accelerate its timetable and produce a long term proposal by April. The Prime Minister said that in spite of the difficulties there had to be a solution by June. Otherwise she would have to take action and she did not wish to do this. By June we would be half way through the year. We had to be assured that a refund would be available this year. M. Noel said that there was no chance of a decision in June and the action threatened would not help to produce a solution. The Prime Minister said that we had been reasonable for too long. Following the 1980 agreement there should have been no problem about the 1982 refund and it was disgraceful that the Commission was not more critical of the proceedings during that year. Sir Michael Butler said that the Commission would find it no easier to obtain a solution later. They might as well work for one in May. If we missed the opportunity to incorporate a solution in the 1984 EC budget, the situation would deteriorate. M. Thorn said that there was sufficient provision in the budget to cover the British problem. The Prime Minister said that she now saw the situation more vividly. No-one was even thinking of inserting a reasonable figure in the budget. M. Thorn said that in at least half of the capitals of Member States people were questioning the overpayment which we had received.

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/ Sir Michael Butler

CONFIDENTIAL

- 6 -

Sir Michael Butler said that it was essential for M. Thorn to give a lead in the Council discussions on Monday. He should stress the need for an interim solution until a long term solution was agreed. He should point out that there was a possibility of settlement in June. If Chancellor Kohl took up this theme, it could be reflected in the conclusions of the Council. M. Thorn commented that this would depend on other governments being willing to make firm commitments. Then it would be necessary to work on the Parliament to demonstrate the need for an interim solution. Sir Michael Butler said that anxiety about the Parliament attitude could be exaggerated. Provided the discussion of the long term solution had been launched, there should not be great difficulty.

M. Thorn said he accepted that it was his duty to point to the UK budget problem. But he hoped that others would not remain silent. The Prime Minister said that if the Commission inserted in the budget a figure for our unadjusted net contribution, that contribution would not reach Brussels and it would be unreasonable for anyone to expect it to.

The discussion ended at 1030.

17 March 1983

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VISIT OF M THORN: 17 MARCH 1983

EC BUDGET

Objectives

1. To ensure that President Thorn agrees to introduce separate discussions at the March European Council on the Green Paper and the solution for 1983 and later.
2. To persuade him to accept an obligation to make proposals on both to Foreign Ministers before the April Foreign Affairs Council.
3. To get his thinking on the nature of the solution for 1983 and later as close as possible to that of the United Kingdom.

Points to Make

4. Must get serious negotiation started as rapidly as possible on Community finances. You said to me last September that long negotiations do not always produce better agreements. 30 May Mandate discussion went on too long and fizzled out. We now have a narrow window between major elections in the Community and we must make the most of our chance.

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5. Problem has two aspects - reform of the financial system and an interim solution while that is being agreed and implemented. Both are extremely important. You should not think that, because we are calling for an interim solution, we are not interested in achieving a lasting reform. On the contrary, we want a reform of the system very badly, and always have done. We must get away from these repeated haggles. But we need also to deal with the immediate problem for Britain.

6. First step is a structured and serious discussion at next week's European Council of both aspects. Glad that you have agreed to introduce each item.

7. European Council should set clear timetable. We have been drifting, ever since November deadline for a settlement was missed. Now it is March, and we cannot go on waiting much longer. The Commission has produced discussion papers, but time has now come for you to make your proposals.

8. Hope therefore that you will agree to accept remit from European Council to produce proposals on both aspects in good time before April Foreign Affairs Council. If we are to stand any chance of getting

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agreement by June - and you know how important that is politically - then we need a serious discussion at the April Council and decisive progress at the May one. Clear that April Council will not get down to business unless Commission proposals have already appeared and been digested in capitals.

9. [If Thorn says that it cannot be done].

If Foreign Ministers do not start work in April, only chance of agreement before June lies in their May Council. Surely you cannot expect them to reach agreement in only one meeting? I do not need to explain to you how sensitive the budget issue is in the UK debate about Community membership and how crucial politically it will be to have an agreement by June; I know from Sir Robert Armstrong that you understand that and will do your best to help get such an agreement. But is there any other realistic way of doing so than what I have suggested?

10. Own Resources. I mentioned in my letter to you how important it is to ensure that we make most effective use of resources we have. The Community is not doing so now. Tugendhat has warned of alarming trends of rising CAP expenditure. That must be brought

under control. Under present arrangements new money would be likely to be used to finance disposal of even more surpluses, and to make British burden heavier, not lighter. And the present own resources are rising by 8-10% a year.

11. Green Paper. Identifies some ideas which could be developed into a solution to problem of imbalances:-

a) new policies can make a contribution to solving the problem, but as you recognise only a small and gradual one. (Improving balance of spending policies desirable in its own right).

b) tax based on agriculture indicators could also help, but I am sure it could only be at best a partial solution to the problem.

c) Financial equalisation system no help if just a way of helping least prosperous, but is that Commission's intention? Such a system could be designed as a safety net to correct the imbalances. Would need however to have an equitable way of measuring imbalances.

12. Discussion at the Foreign Affairs Council showed that several other Member States had difficulties with the agricultural tax. Would it not be simpler to take

up Chancellor of the Exchequer's recent suggestion and
reduce VAT liability of any member state bearing an
excessive budget burden? Our feeling is that this
could be more negotiable. The idea would provide
safety net, which would be effective for as long as
budget arrangements produced an inequitable result.
The safety net could be determined by such factors as a
country's GDP and relative prosperity. Reducing VAT
rates would remove need for CAP related source of
revenue and remove current political problems over
special expenditure for Britain and Germany. Our
impression is that the French and Germans are not
entirely unsympathetic to this idea.

13. Solution for 1983 and later.

We agree with the suggestion in the November paper that
the solution should be on similar lines to those for
1980-1982. There would then be three components: the
basic refund; the risk-sharing arrangement; and the
duration.

(i) Basic Refund. The refunds would have to be
calculated as a percentage of the Commission's
estimate of the United Kingdom's unadjusted net
contribution in each year, with a risk-sharing
formula upwards and downwards. The key question

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Community does indeed pose a problem. Now that their election is over, they must be persuaded to change their view. I hope that you will take the matter up with Chancellor Kohl personally.

~~_____~~

(ii) Risk-sharing. The risk-sharing formula for 1982 was regarded in London as very unsatisfactory and would not have been agreed but for the Falklands war and the unexpectedly good results for the United Kingdom in 1980 and 1981. We must now go back to the formulae in the 30th May 1980 agreement.

(iii) Duration. I have said that the solution ought to last as long as the problem: I hope that the Commission would undertake to propose that the system agreed for 1983 and 1984 be extended if the reform of the financial system agreed as a result of the Green paper proposals were not in place by 1985.

14. Overpayments. The Commission have acknowledged that the 1980 agreement was carried out strictly in accordance with its terms. There is therefore no legal obligation on the United Kingdom to make any restitution. But we acknowledge the political case and

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is what basic percentage would be fair to both sides (leaving aside for the moment the alleged over payments). The 30 May Agreement was constructed on a 66% refund. The out-turn was higher and the arrangement has been criticised for that reason. The percentage for the top slice of the risk-sharing formulae was 75%. There is, therefore, no reason to expect other member states to agree to a higher percentage than 75%. Equally, there is no reason for the United Kingdom to accept a lower percentage than 66%. We would expect the negotiations to take place within that bracket.

[If Thorn then says that 66% would be too high.]

Then I must warn you that there is no chance of an agreement. Given what the Community accepted as fair in 1980, and given the results of the 30 May Agreement, we would regard it as extremely provocative if the Commission were to propose a basic percentage (ie ignoring over-payments) which was lower than 66%.

[If Thorn protests that this is not achievable, particularly in light of the German position.]

The current German insistence that they will only pay 25% of their normal contribution to the



have already conceded around 200 mecu in the agreement for 1982 after risk-sharing has been taken into account. The "overpayment problem" must be dealt with at the same time as the solution for 1983 and later because the United Kingdom's attitude will be determined by the attitude of other member states to the solution of the underlying problem.

15. [Defensive - Withholding.] I have told the House of Commons on 27 January that I hope that a lasting solution for 1983 onwards will be found by negotiation so that there will be no question of withholding. But for political reasons the need to find a solution soon is increasingly urgent. The United Kingdom is moving towards an election in which membership of the Community is an issue; the Opposition will fight for withdrawal. It would be almost impossible for the government to win the argument if Labour could say that we had to pay so much in 1983.

MR. COLES

WORKING DINNER FOR MONSIEUR GASTON THORN,
THURSDAY 17 MARCH 1983 AT 8.00 p.m. FOR
8.30 p.m. LOUNGE SUIT

I attach the final list of
guests for this dinner, together with
a draft seating plan.

Lillian

16 March 1983

WORKING DINNER IN HONOUR OF HIS EXCELLENCY MONSIEUR GASTON THORN
THURSDAY 17 MARCH 1983 AT 8.00 p.m. FOR 8.30 p.m. LOUNGE SUIT

His Excellency Monsieur Gaston Thorn

Monsieur Emile Noël

Secretary-General

Monsieur Alexander Schaub

Deputy Chef du Cabinet

The Rt. Hon. Francis Pym, M.C. M.P.

His Excellency Sir Michael Butler

Mr. D. H. A. Hannay

Mr. D. J. S. Hancock

Mr. Brian Unwin

Mr. John Coles

J.M.C. LEEK

DINNER IN HONOUR OF HIS EXCELLENCY MONSIEUR GASTON THORN

THURSDAY 17 MARCH 1983

8.00 for 8.30 p.m.

ALPHABETICAL LIST

His Excellency Sir Michael BUTLER

Mr. John COLES

Mr. D. H. S. HANCOCK

Mr. D. H. A. HANNAY

Monsieur Emile NOEL

The Rt. Hon. Francis PYM

Monsieur Alexander SCHAUB

His Excellency Monsieur Gaston THORN

Mr. Brian UNWIN

DRAFT SEATING PLAN

WINDOW

Mr. D. Hancock

M. Emile
Noël

The Prime
Minister

M. Alexander
Schaub

Mr. John Coles

Mr. D. Hannay

HE Sir
Michael
Butler

HE M. Gaston
Thorn

The Rt. Hon.
Francis Pym

Mr. Brian Unwin

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Foreign and Commonwealth Office

London SW1A 2AH

16 March 1983

New York

17/3

h.e.

Visit of M. Thorn: 17 March

All the subjects which M. Thorn is likely to raise over dinner at No 10 on 17 March are covered by the briefing which has already been supplied for the European Council and which will be discussed at the Prime Minister's meeting tomorrow afternoon. On the budget, however, she may wish to take a rather different line at this private meeting with M. Thorn. I enclose a brief for that purpose, prepared in consultation with the Departments concerned.

I am sending copies of this letter (without the enclosure) to John Kerr (Treasury), Robert Lawson (MAFF), Sir K Couzens (Department of Energy) and R Gray (Department of Trade).

John Kerr

R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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Euro Pol
cc Mrs. Goodchild

Mr. Coles

MR. TAYLOR

Visit of M. Thorn : President of the European Commission

We are in great difficulties with the above. The Prime Minister is insisting on entertaining him and he wishes to come during Budget week, which apart from many other things is not the best week of the year. But in addition M. Thorn is unable to come on the days the Prime Minister can manage. The only possibility appears to be dinner on Thursday 17 March. The Prime Minister is well aware that it is extremely difficult to do dinners on the same evenings as receptions. But she has asked whether you could make special arrangements to lay on a cold supper in the Small Dining Room. Mrs. Thatcher will entertain the Commonwealth Parliamentary Association until 8.00: have tete-a-tete talks in the study between 8.00 and 8.30 followed by a working dinner in the Small Dining Room. I know this is difficult but I do hope the problem is not insurmountable.



24 February 1983

PRIME MINISTER

Visit by M. Thorn

You kindly agreed earlier to have talks with M. Thorn and give him lunch on Friday 18 March. Now that the Arab League Delegation is said to be coming that day, we need to make an alternative arrangement.

The purpose of seeing M. Thorn is to persuade him, before the European Council on 21 March, that that Council must set in train a procedure for solving the UK budget problem by June. Thus you would need to see him in the week ending 18 March. It is a very busy week and you cannot give him a meal. The only possibility is to restrict our usual briefing meeting for the European Council to one hour and see M. Thorn between 5.00 and 6.00 p.m. on Thursday 17 March. Mr. Pym would give M. Thorn either lunch or dinner.

Agree to receive M. Thorn at 5.00 p.m. on 17 March?

*We shall have to
calculate him. We cannot
waste so much
criticism last
time for not doing
so
out*


A.S.C.

*Barrack (L1).
Dining Room -
-
-
admiralty -
cold buffet*

20.15 p.m. 20.30.

23 February 1983

010



Foreign and Commonwealth Office

London SW1A 2AH

23 February 1983

John Thorn

Visit by M. Thorn

David Hancock told me last evening that he had discussed with you the possibility of inviting Thorn to London on the afternoon and evening of Thursday 17 March instead of the following day. He told me that you were thinking in terms of a session of talks with the Prime Minister between 5 and 6 pm and I was asked whether Mr Pym would be prepared to offer him dinner thereafter.

I had a word with the Secretary of State this morning. He is quite prepared to offer dinner, but would, if possible, prefer to offer lunch.

If you can now confirm the appointment at No 10 at 5pm, we will ask Sir M Butler to put these ideas to Thorn.

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

You are
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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10 DOWNING STREET

From the Private Secretary

16 February 1983

*Re B Euro Pd
be Mrs Goodwin
Carlisle Stephen*

Visit of Monsieur Thorn

Would you please ignore my earlier letter of today's date. Sir Michael Butler has since rung to say that it was not the case, as I had been led to believe, that M. Thorn was free to visit London on 14 March. On the contrary, he would need to attend the Foreign Affairs Council in Brussels that day since that Council would be preparing for the European Council later in March.

Following discussion with you, I have now told Sir Michael Butler that the best we can do is to offer a call by M. Thorn on the Prime Minister at 1130 on 18 March (this could last until about 1245) following which the Foreign and Commonwealth Secretary, may, subject to further confirmation from you, be able to give him lunch. The Prime Minister is already giving a lunch that day.

I told Sir Michael Butler that the difficulty about this arrangement was that 18 March was one of the days which we have kept in reserve in case the Arab League Delegation pays its postponed visit to London. I suggested that he should brief M. Thorn confidentially on this possible obstacle so that, if we were in the end obliged to cancel the arrangements for his own visit to London, he would understand.

I am copying this letter to David Hancock.

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

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FILE

b/c: Mrs Goodchild

R07

10 DOWNING STREET

From the Private Secretary

16 February, 1983

VISIT BY THE PRESIDENT OF THE EC COMMISSION

I heard yesterday from David Hancock that Sir Michael Butler had suggested that the President of the European Commission should call on the Prime Minister in the week beginning 14 March.

The Prime Minister would be glad to have talks with M. Thorn at 1200 hrs on Monday, 14 March, after which she would offer a working lunch.

I should be grateful if these suggestions could be put to M. Thorn. I should also be grateful if you would let me have as soon as possible a suggested guest list for a total of 12 people.

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

A. J. COLES

R. Bone, Esq.,
Foreign and Commonwealth Office



FOREIGN AND COMMONWEALTH OFFICE,
S.W.1

Roger Bone

*The Private Secretary presents his compliments
and would be grateful if the attached letter / s could
be forwarded to the addressee / s.*



*ce under cover
Mr. P. Lee, No 10.*

return to me

VISIT OF M THORN : 17/18 MARCH

PROGRAMME

17 March

1840 Arrives in private plane at Northolt (from Rotterdam).
Greeted by Sir David Muirhead, Special Representative of the Secretary of State.
Goes with police escort to Commission Office, 20 Kensington Palace Gardens, London W8.
After brief stop goes on to No 10 Downing Street.

2000 for Working dinner with the Prime Minister,
2030 Secretary of State and officials.

Overnight Staying at the Stafford Hotel, St James's Place, SW1 (tel no 493 0111).

18 March

0800 Leaves hotel with police escort.
0900 Leaves Northolt for Copenhagen.
Sir David Muirhead will bid farewell.

M Thorn will be accompanied by:

- M Emile Noel, Secretary General of the Commission
- Mr W Schaub, Deputy Head of M Thorn's Cabinet
- Mlle Hoffman, Secretary

Cars to be provided by Commission Office

PRIME MINISTER

POSSIBLE VISIT BY PRESIDENT OF EC COMMISSION

The European Council is on 21/22 March.

There was some discussion at today's meeting on the Budget of M. Thorn coming here in the week beginning 14 March.

Would you wish to give him:

- ✓ (a) Lunch on Monday, 14 March, preceded by talks lasting for 45 minutes;
or,
- (b) an hour of your time in the course of the day (then some one else like the Foreign and Commonwealth Secretary would have to give him a lunch)?

A.P.C.

15 February 1983

PART 1 ends:-

ASC to FCO 14/9/82

PART 2 begins:-

ASC to PM 15/2/83

